Southend-on-Sea City Council

Agenda Item No.

Title:	**Treasury Management Report – Quarter One 2024/25**
Meeting:	Cabinet
Date:	16 September 2024
Classification:	Part 1
Policy Context:	
Key Decision:	No
Report Authors:	Caroline Fozzard, Senior Finance Lead (Strategy, Sustainability and Governance),
Executive Councillor:	Councillor Collins - Cabinet Member for Finance, Assets and Investments

1. Executive Summary

1.1. The Treasury Management Report for Quarter One covers the treasury management activity for the period from April to June 2024 and compliance with the treasury management strategy for that period.

2. Recommendations

That Cabinet:

2.1. Approves the Treasury Management Report for Quarter One 2024/25.

That Cabinet:

2.2. Notes that treasury management activities were carried out in accordance with the CIPFA (The Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management in the Public Sector during the period from April to June 2024; and

2.3. That the loan and investment portfolios were actively managed to minimise cost and maximise interest earned, whilst maintaining a low level of risk; and

2.4. That £1.578m of interest and income distributions for all investments were earned during this three-month period at an average rate of 4.92%. Also, the value of the externally managed funds decreased by a net of £0.183m due to changes in the unit price, giving a combined overall return of 4.35%. (Section 8); and

2.5. That the level of borrowing from the Public Works Loan Board (PWLB) (excluding debt relating to services transferred from Essex County Council on 1st April 1998) remained at £347.3m (HRA: £74.2m, GF: £273.1m) during the period from April to June 2024; and

2.6. That during the quarter the level of financing for 'invest to save' schemes remained the same at £8.03m.

3. Background

3.1. This Council has adopted the 'CIPFA Code of Practice for Treasury Management in the Public Sector' and operates its treasury management service in compliance with this code. The code recommends that local authorities submit reports regularly as part of its Governance arrangements.

3.2. Current guidance is that authorities should report formally at least twice a year and preferably quarterly. The Treasury Management Policy Statement for 2024/25 set out that reports would be submitted to Cabinet quarterly on the activities of the treasury management operation. This is the first quarterly report for the financial year 2024/25.

3.3. Appendix 1 shows the in-house investment position at the end of quarter one of 2024/25.

3.4. Appendix 2 shows the treasury management performance specifically for quarter one of 2024/25.

4. National Context

4.1. Despite the ongoing economic and fiscal challenges UK gross domestic product (GDP) is estimated to have risen by 0.6% in the quarter from April to June 2024. The services sector grew by 0.8% on the quarter with widespread growth across the sector. This offset falls of 0.1% in both the production and construction sectors.

4.2. The latest unemployment rate for the quarter from April to June 2024 was 4.2%. This figure is below estimates of a year ago and decreased in the latest quarter. The number of vacancies is still falling, and the unemployment rate is slightly below that of a year ago. There has been a slight slowing in the annual growth in regular earnings in the quarter, although this remains relatively strong.

4.3. The Consumer Prices Index including owner occupiers' housing costs (CPIH) was at 3.0% in April, at 2.8% in May and 2.8% in June. The largest upward contributors to the CPIH inflation rate in June came from restaurants and hotels, and the largest downward contributors came from clothing and footwear.

4.4. During the quarter the Bank of England maintained the bank base rate at 5.25%. Although CPIH was at 2.8% in June, the Consumer Prices Index (CPI) was at 2%, which the Monetary Policy Committee have indicated is their target for inflation. Since the end of the quarter the Bank of England have reduced the bank base rate from 5.25% to 5%. The Committee will continue to closely monitor indications of inflationary pressures in the economy as a whole and may take a cautious approach to future cuts in the bank base rate.

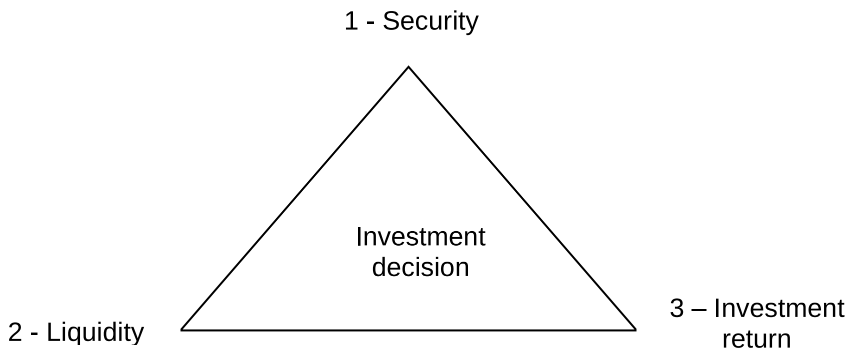
4.5. The economic situation together with the financial market conditions prevailing throughout the quarter provided opportunities for in-house treasury management activities. Variable rate instant access accounts benefited from the prevailing interest rates and as fixed term deposits matured, advantage could be taken of the prevailing rates when reinvesting those monies.

5. Investments

5.1. A prime objective of our investment activities is the security of the principal sums invested. To ensure this security before an in-house deposit is made an organisation is tested against a matrix of credit criteria and then other relevant information is considered. During the period from April to June 2024 investment deposits were limited to those who met the criteria in the Annual Treasury Management Investment Strategy when the deposit was placed.

5.2. Other investment objectives are to maintain liquidity (i.e. adequate cash resources to allow the council to operate) and to optimise the investment income generated by surplus cash in a way that is consistent with a prudent level of risk. Investment decisions are made with reference to these objectives, with security and liquidity being placed ahead of the investment return. This is shown in the diagram below:

5.3.



Security:

5.4. To maintain the security of sums invested, we seek to lower counterparty risk by investing in financial institutions with good credit ratings, across a range of sectors and countries. The risk of loss of principal of all monies is minimised through the Annual Treasury Management Investment Strategy.

5.5. Pie chart 1 of Appendix 1 shows that at the end of quarter one; 47% of our in-house investments were placed with financial institutions with a long term credit rating of AAA, 14% with a long term rating of A+ and 39% with a long term rating of A.

5.6. As shown in pie chart 2 of Appendix 1 these monies were with various counterparties, 53% being placed directly with banks and 47% placed with a range of counterparties via money market funds.

5.7. Pie chart 3 of Appendix 1 shows the range of countries where the parent company of the financial institution with which we have monies invested is registered. For money market funds there are various counterparties spread across many countries.

Liquidity:

5.8. At the end of quarter one £46.8m of our in-house monies were available on an instant access basis, £15.0m were held in notice accounts and £15.0m was invested in fixed term deposits. The table below shows the fixed term deposits during the period April to June 2024.

Table 1: Fixed Term Deposits

Counterparty	Date of Deposit	Return Date	Number of days	Interest rate (%)	Amount (£m)
National Bank of Kuwait (International) plc	17/05/2023	16/05/2024	365	5.27	12.5
National Bank of Kuwait (International) plc	11/06/2024	11/06/2025	365	5.34	5.0
Lloyds Bank Corporate Markets	29/09/2023	27/09/2024	364	5.87	10

5.9. The maturity profile of our in-house investments is shown in pie chart 4 of Appendix 1.

Investment return:

5.10. During the quarter the Council used the enhanced cash fund manager Payden & Rygel to manage monies on its behalf. An average balance of £5.0m was invested in these funds during the quarter. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 3 of Appendix 2.

Table 2: Payden Sterling Reserve Fund

Quarter 1	£m	Investment return (%)
Value of fund at start of quarter	5.034	
Increase in fund due to value of unit price (small amount and rounded to zero)	0.000	0.04
Value of fund at end of quarter	5.034	
Income distributions	0.059	4.72
Combined investment income (income distribution plus change in fund value due to unit price)	0.059	4.76

5.11. The Council had an average of £81.4m of investments managed in-house over the period from April to June 2024, and these earned an average interest rate of 5.25%. Of the in-house managed funds:

- an average of £19.0m was held in the Council's main bank account earning an average of 4.50% over the quarter. These monies were held in this account to ensure adequate cash resources to allow the council to operate.
- an average of £34.0m was held in money market funds earning an average of 5.32% over the quarter. These work in the same way as a deposit account but the money in the overall fund is invested in a number of counterparties, therefore spreading the counterparty risk.
- an average of £11.1m was held in notice accounts earning an average of 5.76% over the quarter.
- an average of £17.3m was held in fixed term deposits and earned an average return of 5.62% over the quarter.

5.12. In accordance with the Treasury Management Strategy the performance of investments managed in-house during the quarter is compared to the SONIA (Sterling Overnight Index Average) rate. At 5.25% the average interest rate earned is 0.05% above the average SONIA rate and the same as the average bank base rate. Throughout the quarter in-house performance was higher than the SONIA rate which fluctuated between 5.191% and 5.200%. The bank base rate remained at 5.25% throughout the quarter (although it has decreased to 5% so far in quarter two) . Performance is shown in Graph 1 of Appendix 2.

5.13. As investment balances fluctuate, all investment returns quoted in this report are calculated using the average balance over the period and are quoted as annualised returns.

6. Short Dated Bond Funds

6.1. During the quarter two short-dated bond funds were used for the investment of medium term funds: Royal London Investment Grade Short Dated Credit Fund and the AXA Sterling Credit Short Duration Bond Fund.

6.2. The monies are invested in units in the fund, the fund is then invested as a whole by the fund managers into corporate bonds in the one to five year range. An income distribution will be generated from the coupon on the bond and income distributions are paid to the Council. The price of units can rise and fall, depending on the price of bonds in the fund so these funds are invested over the medium term with the aim of realising higher yields than short term investments.

6.3. In line with the capital finance and accounting regulations the Council's Financial Instrument Revaluation Reserve will be used to capture all the changes in the unit value of the funds. Members should be aware that investment returns in some quarters will look very good and in other quarters there may be losses reported, but these will not impact the revenue account as only the distributions paid to the Council will impact that and not the change in the unit price.

6.4. An average of £7.4m was managed by AXA Investment Managers UK Limited. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 2 of Appendix 2.

Table 3: AXA Sterling Credit Short Duration Bond Fund

Quarter 1	**£m**	**Investment return (%)**
Value of fund at start of quarter	7.496	
Decrease in fund due to value of unit price	(0.015)	(0.80)
Value of fund at end of quarter	7.481	
Income distributions*	0.073	3.90
Combined investment income (income distribution plus change in fund value due to unit price)	0.058	3.10

* This income distribution is an estimate and will be confirmed and distributed in quarter 2.

6.5. An average of £7.2m was managed by Royal London Asset Management. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 2 of Appendix 2.

Table 4: Royal London Investment Grade Short Dated Credit Fund

Quarter 1	**£m**	**Investment return (%)**
Value of fund at start of quarter	7.202	
Decrease in fund due to value of unit price	(0.022)	(1.22)
Value of fund at end of quarter	7.180	
Income distributions	0.085	4.74
Combined investment income (income distribution plus change in fund value due to unit price)	0.063	3.52

7. Property Funds

7.1. Throughout the quarter long term funds were invested in three property funds: Patrizia Hanover Property Unit Trust, Lothbury Property Trust and UBS Triton Property Unit Trust.

7.2. The monies are invested in units in the fund, the fund is then invested as a whole by the fund managers into properties. An income distribution is generated from the rental income streams from the properties in the fund. Income distributions are paid to the Council. There are high entrance and exit fees and the price of the units can rise and fall, depending on the value of the properties in the fund, so these funds are invested over the long term with the aim of realising higher yields than other investments.

7.3. In line with the capital finance and accounting regulations the Council's Financial Instrument Revaluation Reserve will be used to capture all the changes in the unit value of the funds. Members should be aware that investment returns in some quarters will look very good and in other quarters there may be losses reported, but these will not impact the revenue account as only the distributions paid to the Council will impact that and not the change in unit price.

7.4. An average of £18.3m was managed by Patrizia Property Investment Managers LLP. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 1 of Appendix 2.

Table 5: Patrizia Hanover Property Unit Trust

Quarter 1	**£m**	**Investment return (%)**
Value of fund at start of quarter	18.329	
Decrease in fund due to value of unit price	(0.024)	(0.53)
Value of fund at end of quarter	18.305	
Income distributions*	0.209	4.58
Combined investment income (income distribution plus change in fund value due to unit price)	0.185	4.05

* This income distribution is an estimate and will be confirmed and distributed in quarter 2.

7.5. As the Lothbury Property Trust has now terminated there will be no further valuations undertaken. At the termination date of 30 May 2024 the redemption value of the units in the Lothbury Property Trust was notified as £9.968m. As the property disposal programme progresses it is the intention of the fund managers that distributions will be made in the first week of each month. The initial distribution of £4.373M was completed in the first week of June from the proceeds of the asset disposals that had taken place to that date.

7.6. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return.

Table 6: Lothbury Property Trust

Quarter 1	**£m**	**Investment return (%)**
Value of fund at start of quarter	10.016	
Redemption of units	(4.373)	
Decrease in fund due to value of unit price	(0.048)	(2.18)
Value of fund at end of quarter	5.595	
Income distributions*	0.052	2.36
Combined investment income (income distribution plus change in fund value due to unit price)	0.004	0.18

* This income distribution is an estimate and will be confirmed and distributed in quarter 2.

7.7. The Council has opted to have its fund distributions re-directed to the UBS Triton Property Unit Trust and during June, following that fund's onboarding process,

£4.373M of units were purchased. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. It should be noted that the unit price for the purchase of the units includes the entrance fees to the fund, hence why there is an immediate decrease in fund value at the quarter end. See also Table 1 of Appendix 2.

Table 7: UBS Triton Property Unit Trust

Quarter 1	**£m**	**Investment return (%)**
Value of fund at start of quarter	0.000	
Purchase of units	4.373	
Cost of unit purchase	(0.067)	
Decrease in fund due to value of unit price	(0.007)	(5.03)
Value of fund at end of quarter	4.299	
Income distributions	0.035	3.18
Combined investment income (income distribution plus change in fund value due to unit price)	0.028	1.85

8. Overall Investment Position

8.1. An average of £81.4m of investments were managed in-house. These earned £1.066m of interest during this three-month period at an average rate of 5.25%. This is 0.05% above the SONIA rate and the same as the average bank base rate.

8.2. An average of £5.0m was managed by an enhanced cash fund manager. During this three-month period this earned £0.059m from income distributions at an average rate of 4.72% and the value of the fund increased by £0.0005m at an average rate of 0.04%, giving a combined return of 4.76%

8.3. An average of £14.6m was managed by two short-dated bond fund managers. During this three-month period these earned £0.157m from income distributions at an average rate of 4.31% and the value of the funds decreased by £0.037m at an average rate of -1.00%, giving a combined overall return of 3.31%.

8.4. An average of £27.7m was managed by three property fund managers. During this three-month period these earned £0.295m from income distributions at an average rate of 4.28% and the value of the funds decreased by £0.146m at an average rate of -2.12%, giving a combined overall return of 2.16%.

8.5. The total for interest and income distributions earned during this three-month period, in paragraphs 8.1 to 8.4 above, is £1.578m at an average rate of 4.92%. This is 0.28% below the SONIA rate and 0.33% below the average bank rate. The total change in external fund values due to the unit price is a net decrease of £0.183m, which is set out in the table on the next page:

Table 8: Externally managed funds – changes in unit price

Fund	Table Number	Amount (£m)
Payden Sterling Reserve Fund	2	0.000
AXA Sterling Credit Short Duration Bond Fund	3	(0.015)
Royal London Investment Grade Short Dated Credit Fund	4	(0.022)
Patrizia Hanover Property Unit Trust	5	(0.024)
Lothbury Property Trust	6	(0.048)
UBS Triton Property Unit Trust	7	(0.074)*
Total net decrease due to changes in unit price		**(0.183)**

* Of this amount, £0.067m relates to the cost of purchasing the new units and £0.007m relates to the decrease in the fund value due to the unit price.

9. Borrowing

PWLB and short term borrowing

9.1. The Capital Financing Requirement (CFR) is the Council's theoretical need to borrow but the Section 151 Officer can manage the Council's actual borrowing position by either:

1 - borrowing to the CFR;
2 - choosing to use temporary cash flow funds instead of borrowing (internal borrowing) or;
3 - borrowing for future increases in the CFR (borrowing in advance of need).

9.2. The Council began 2024/25 in the second of the above scenarios, with actual borrowing below CFR.

9.3. This, together with the Council's cash flows, the prevailing Public Works Loans Board (PWLB) interest rates and the future requirements of the capital investment programme, were taken into account when deciding the amount and timing of any loans. During the quarter no new PWLB loans were taken out, no loans matured and no debt restructuring was carried out.

9.4. The level of PWLB borrowing (excluding debt relating to services transferred from Essex County Council on 1st April 1998) remained the same at £347.3m during quarter one. The average rate of borrowing at the end of the quarter was 3.46%. A profile of the repayment dates is shown in Graph 2 of Appendix 2. The next maturity date of any PWLB debt redemption is March 2025 and is for a sum of £8m (General Fund: £5.8m, Housing Revenue Account (HRA): £2.2m).

9.5. The table below summarises the PWLB activities during the quarter:

Table 9: PWLB borrowing during quarter 1

Quarter	Borrowing at beginning of quarter (£m)	New Borrowing (£m)	Re-financing (£m)	Borrowing repaid (£m)	Borrowing at end of quarter (£m)
April to June 2024	347.3	0	0	(0)	347.3
Of which:					
General Fund	273.1	0	0	(0)	273.1
HRA	74.2	0	0	(0)	74.2

All PWLB loans held are at fixed rates and are repayable on maturity.

9.6. The level of PWLB borrowing at £347.3m is in line with the financing requirements of the capital investment programme and the revenue costs of this borrowing are fully accounted for in the revenue budget. The current level of borrowing is also in line with the Council's prudential indicators and is proportionate, prudent, affordable and sustainable.

9.7. These figures exclude debt held by Essex County Council of £8.8m relating to assets transferred on 1st April 1998, which this Council is responsible for servicing. The debt is recognised as a deferred liability on our balance sheet.

9.8. Interest rates from the PWLB fluctuated throughout the quarter in response to economic events: 10 year PWLB rates between 4.77% and 5.21%, 25 year PWLB rates between 5.22% and 5.61% and 50 year PWLB rates between 5.01% and 5.40%. These rates are after the PWLB 'certainty rate' discount of 0.20%.

9.9. No short term loans for cash flow purposes were taken out or repaid during the quarter. See Table 4 of Appendix 2.

Funding for Invest to Save Schemes

9.10. Capital projects have been completed on energy efficiency improvements at the new Beecroft Art Gallery, replacement lighting on Southend Pier, lighting replacements at University Square Car Park and LED lighting at the Priory Park workshop which will generate on-going energy savings. These are invest-to-save projects and the predicted revenue streams cover as a minimum the financing costs of the project.

9.11. To finance these projects in total the Council has taken out interest free loans of £0.161m with Salix Finance Ltd which is an independent, not for profit company, funded by the Department for Energy and Climate Change that delivers interest-free capital to the public sector to improve their energy efficiency and reduce their carbon emissions. The loans are for a period of four and five years with equal instalments to be repaid every six months. There are no net revenue budget implications of this funding as there are no interest payments to be made and the revenue savings generated are expected to exceed the amount needed for the repayments. £0.001m of these loans were repaid during the period from April to June 2024. At 30 June 2024 the loans regarding the lighting replacements at University Square Car Park and replacement lighting on Southend Pier have been fully repaid. The total loan amounts outstanding for the energy efficiency improvements at the new Beecroft Art Gallery and LED lighting at the Priory Park workshop is £0.002m and these are due to be repaid during Q3 of 2024/25 and Q1 of 2025/26 respectively.

9.12. At the meeting of Cabinet on 23rd June 2015 the LED Street Lighting and Illuminated Street Furniture Replacement Project was approved which was to be partly funded by 25 year reducing balance ‘invest to save’ finance from L1 Renewables Finance Limited. The balance outstanding at the end of quarter one was £8.029m. There were no repayments during the period from April to June 2024.

9.13. Funding of these invest to save schemes is shown in table 5 of Appendix 2.

10. Compliance with Treasury Management Strategy

10.1. The Council’s investment policy is governed by the CIPFA Code of Practice for Treasury Management in the Public Sector, which has been implemented in the Annual Treasury Management Investment Strategy approved by the Council on 22 February 2024[1]. The investment activity during the quarter conformed to the approved strategy and the cash flow was successfully managed to maintain liquidity. See Table 7 of Appendix 2.

11. Reasons for Decisions

11.1. The CIPFA Code of Practice on Treasury Management recommends that Local Authorities should submit reports regularly. The Treasury Management Policy Statement for 2024/25 set out that reports would be submitted to Cabinet quarterly on the activities of the treasury management operation.

12. Other Options

12.1. There are many options available for the operation of the Treasury Management function, with varying degrees of risk associated with them. The Treasury Management Policy aims to effectively control risk to within a prudent level, whilst providing optimum performance consistent with that level of risk.

13. Financial Implications

13.1. The financial implications of Treasury Management are dealt with throughout this report.

[1]https://democracy.southend.gov.uk/documents/s60792/Appendix%203%20-%20Annual%20Treasury%20Management%20Investment%20Strategy%20-%202024_2025.pdf

14. Legal Implications

14.1. The Council has adopted the 'CIPFA Code of Practice for Treasury Management in the Public Sector' and operates its treasury management service in compliance with this Code.

15. Carbon Impact

15.1. None arising from this report.

16. Equalities

16.1. None arising from this report.

17. Consultation

17.1. The key Treasury Management decisions are taken in consultation with our Treasury Management advisers.

18. Background Papers

None.

19. Appendices

Appendix 1 – In-house Investment Position as at 30 June 2024

Appendix 2 – Treasury Management Performance for Quarter One - 2024/25

Report Authorisation

This report has been approved for publication by:

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	Name:	Date:
S151 Officer	Joe Chesterton	08/08/2024
Monitoring Officer	Susan Zeiss	19/08/2024
Executive Director(s)	Joe Chesterton	08/08/2024
Relevant Cabinet Member(s)	Councillor Collins	09/08/2024