Southend-on-Sea City Council

Agenda
Item No.

Report of Deputy Chief Executive and Executive Director (Finance & Resources)
To

Cabinet

on

21 February 2023

Report prepared by: Caroline Fozzard
Senior Finance Lead (Strategy, Sustainability and Governance)

Quarter Three Treasury Management Report – 2022/23
Policy and Resources Scrutiny Committee
Cabinet Member: Councillor Paul Collins
Part 1 Public Agenda Item

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1. Purpose of Report

1.1. The Quarter Three Treasury Management Report covers the treasury management activity and compliance with the treasury management strategy for both quarter three and the period from April to December 2022.

2. Recommendations

That the following is approved:

2.1. **The Quarter Three Treasury Management Report for 2022/23.**

That the following is noted:

2.2. **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 December 2022.**

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

2.4. **£2.395m of interest and income distributions for all investments were earned during this nine-month period at an average rate of 1.92%. This is 0.18% over the average SONIA rate (Sterling Overnight Index Average) and 0.12% over the average bank rate. Also, the value of the externally managed funds decreased by a net of £6.983m due to changes in the unit price, giving a combined overall return of -3.67%. (Section 8).**

2.5. **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 (Housing Revenue Account (HRA): £74.2m, General Fund: £273.1m) during the period from April to December 2022 at an average rate of 3.46%.

2.6. **The level of financing for 'invest to save' capital schemes decreased from £8.39m to £8.30m during the period from April to December 2022.**

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 2022/23 set out that reports would be submitted to Cabinet quarterly on the activities of the treasury management operation. This is the third quarter report for the financial year 2022/23, covering both quarter three and the period from April to December 2022.

3.3. Appendix 1 shows the in-house investment position at the end of quarter three of 2022/23.

3.4. Appendix 2 shows the treasury management performance specifically for quarter three of 2022/23.

4. National Context

4.1 Given the ongoing economic and fiscal challenges UK gross domestic product (GDP) is estimated to have decreased by 0.3% in the quarter from July to September 2022, downwardly revised from a first estimate of a fall of 0.2%. The level of real GDP is now estimated to be 0.8% below where it was pre-coronavirus at Quarter 4 (October to December) 2019.

4.2 The unemployment rate for the quarter from September to November 2022 was 3.7%, an increase of 0.2% on the previous quarter. The number of people unemployed for up to six months increased, driven by those aged 16 to 24 years. The economic inactivity rate decreased by 0.1% on the previous quarter to 21.5%. This was driven by those aged 16 to 24 years and those aged 50 to 64 years, because they are students, long-term sick or retired.

4.3 The Consumer Prices Index including owner occupiers' housing costs (CPIH) was at 9.6% in October, at 9.3% in November and 9.2% in December. (The Consumer Prices Index excluding owner occupiers' housing costs (CPI) rose by 10.5% in the 12 months to December 2022.) The largest upward contributions to the annual CPIH inflation rate in December came from housing and household services (principally from electricity, gas and other fuels), food and non-alcoholic beverages.

4.4 During the quarter the Bank of England increased the bank base rate from 2.25% to 3% on 3rd November and further increased the rate to 3.5% on 15th December.

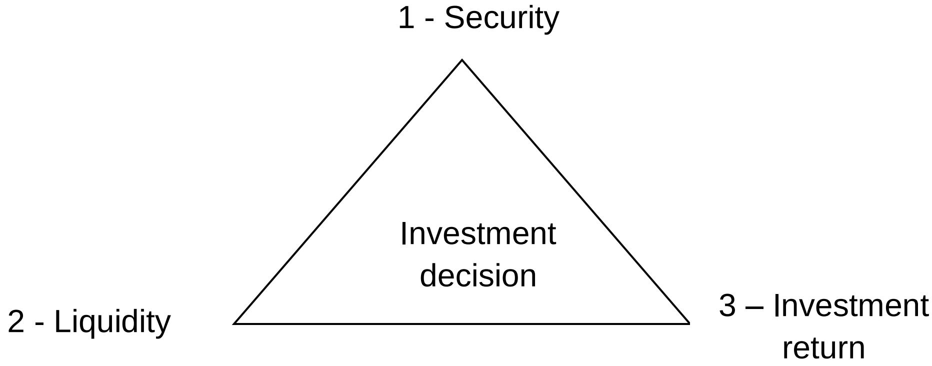
4.5 The economic situation together with the financial market conditions prevailing throughout the quarter provided opportunities for in-house treasury management activities. Variable rate instant access accounts benefited from the increasing interest rates although that effect did not feed through in the same way for notice accounts. As notice accounts and fixed term deposits mature, advantage can be taken of the increased rates when reinvesting those monies.

4.6 The continuation of the difficult economic conditions has had an impact on the monies invested by our Fund Managers for the property funds, with the unit price of those funds decreasing during the quarter. The market turmoil in quarter two has meant that the until price of all the externally managed funds decreased over the period from April to December 2022. However, as noted throughout this report, 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 and therefore there will be no impact from these changes on the revenue budget. These investments are for the medium or long term and the markets are cyclical so the unit price can go up and down, but during the timescale over which they are invested they provide better returns than the in-house investments are able to.

5. Investments – quarter three (October to December)

5.1. A prime objective of our investment activities is the security of the principal sums invested. To ensure this security before a deposit is made an organisation is tested against a matrix of credit criteria and then other relevant information is considered. During the period from October to December 2022 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:



Security:

5.3. 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 monies invested is minimised through the Annual Treasury Management Investment Strategy.

5.4. Pie chart 1 of Appendix 1 shows that at the end of quarter three; 20% of our in-house investments were placed with financial institutions with a long-term rating of AAA, 46% with a long-term rating of A+, 34% with a long-term rating of A.

5.5. As shown in pie chart 2 of Appendix 1, these monies were placed with various counterparties, 80% being placed directly with banks and 20% placed with a range of counterparties via money market funds.

5.6. Pie chart 3 of Appendix 1 shows the 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. The cumulative balance of funds held with any one institution was kept within agreed limits.

Liquidity:

5.7 At the end of quarter three £46.5m of our in-house monies were available on an instant access basis, £12.5m were held in notice accounts and £27.5m were held in fixed term deposits. The table below shows the fixed term deposits during the period October to December 2022.

Table 1: Fixed Term Deposits

Counterparty	Date of Deposit	Return Date	Number of days	Interest rate (%)	Amount (£m)
Santander UK plc	21/10/2022	23/10/2023	367	5.00%	5.0
Santander UK plc	14/11/2022	14/11/2023	365	4.95%	10.0
Lloyds Bank Corporate Markets (NRFB)*	29/06/2022	29/12/2022	183	2.16%	12.5
Goldman Sachs International	29/06/2022	29/12/2022	183	2.19%	7.5
Lloyds Bank Corporate Markets (NRFB)*	29/12/2022	29/06/2023	182	4.33%	2.5
Lloyds Bank Corporate Markets (NRFB)*	29/12/2022	29/09/2023	274	4.71%	10.0

* NRFB – Non Ring-Fenced Bank

5.8. The maturity profile of our investments is shown in pie chart 4 of Appendix 1.

Investment return:

5.9. During the quarter the Council used the enhanced cash fund manager Payden & Rygel to manage monies on our behalf. An average balance of £4.9m 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 3	**£m**	**Investment return (%)**
Value of fund at start of quarter	4.896	
Increase in fund due to value of unit price	0.054	4.30
Value of fund at end of quarter	4.950	
Income distributions	0.028	2.31
Combined investment income (income distribution plus change in fund value due to unit price)	0.082	6.61

5.10. The Council had an average of £100.866m of investments managed in-house over the period from October to December, and these earned an average interest rate of 2.50%. Of the in-house managed funds:

- an average of £26.012m was held in the Council's main bank account earning an average of 2.65% over the quarter.
- an average of £30.207m was held in money market funds earning an average of 2.78% 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 £15.761m was held in notice accounts earning an average of 0.61% over the quarter.
- an average of £28.886m was held in fixed term deposits and earned an average return of 3.09% over the quarter.

5.11. In accordance with the Treasury Management Strategy the in-house performance during the quarter is compared to the SONIA rate. Overall, average in-house investment performance was 0.25% lower than the average SONIA rate (Sterling Overnight Index Average). This was due to the interest rates on notice accounts not increasing in line with the SONIA rate. Notice was given on all these accounts in July and some monies were returned in quarter three with the rest due to be returned in quarter four. The monies will be re-invested at higher rates.

5.12. The SONIA rate fluctuated between 2.184% and 3.428% during the quarter. The bank base started the quarter at 2.25%, increased to 3% on 3rd November and increased to 3.5% on 15th December. 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 – quarter three (October to December)

6.1. Throughout the quarter medium term funds were invested in two short-dated bond 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 value of the corporate bonds in the fund. So, these investments would be 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 and therefore there will be no impact from these changes on the revenue budget. 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 £7.1m 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 3	**£m**	**Investment return (%)**
Value of fund at start of quarter	6.989	
Increase in fund due to value of unit price	0.226	12.62
Value of fund at end of quarter	7.215	
Income distributions*	0.036	2.03
Combined investment income (income distribution plus change in fund value due to unit price)	0.262	14.65

* This income distribution is an estimate and will be confirmed and distributed in quarter 4.

6.5. An average of £6.8m 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 3	**£m**	**Investment return (%)**
Value of fund at start of quarter	6.672	
Increase in fund due to value of unit price	0.243	14.12
Value of fund at end of quarter	6.915	
Income distributions	0.051	2.99
Combined investment income (income distribution plus change in fund value due to unit price)	0.294	17.11

7. Property Funds – quarter three (October to December)

7.1. Throughout the quarter long term funds were invested in two property funds: Patrizia Hanover Property Unit Trust and Lothbury Property 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 and therefore there will be no impact from these changes on the revenue budget. 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 £22.3m 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 3	**£m**	**Investment return (%)**
Value of fund at start of quarter	22.324	
Decrease in fund due to value of unit price	(2.880)	(51.18)
Value of fund at end of quarter	19.444	
Income distributions*	0.166	2.94
Combined investment income (income distribution plus change in fund value due to unit price)	(2.714)	(48.24)

* This income distribution is an estimate and will be confirmed and distributed in quarter 4.

7.5. An average of £13.4m was managed by Lothbury Investment Management 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 1 of Appendix 2.

Table 6: Lothbury Property Trust

Quarter 3	**£m**	**Investment return (%)**
Value of fund at start of quarter	14.495	
Decrease in fund due to value of unit price	(2.940)	(87.31)
Value of fund at end of quarter	11.555	
Income distributions	0.074	2.19
Combined investment income (income distribution plus change in fund value due to unit price)	(2.866)	(85.12)

8. Investments – quarter three cumulative position

8.1. During the period from April to December 2022 the Council complied with all the relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. Its adoption and implementation of the Code of Practice for Treasury Management means its treasury practices demonstrate a low-risk approach.

8.2. The Council is aware of the risks of passive management of the treasury portfolio and has proactively managed levels of debt and investments over the nine-month period with the support of its treasury management advisers.

8.3. The table below summarises the Council's investment position for the period from April to December 2022:

Table 7: Investment position

	At 31 March 2022	At 31 December 2022	April to December 2022	
	Actual Balance (£000s)	Actual Balance (£000s)	Average Balance (£000s)	Average Rate (%)*
Call accounts#	19,922	29,478	22,477	1.72
Money market funds	30,000	17,000	42,175	1.60
Notice accounts	27,500	12,500	23,573	0.71
Fixed term deposits	32,500	27,500	21,245	2.18
Total investments managed in-house	**109,922**	**86,478**	**109,470**	**1.54**
Enhanced Cash Funds	5,032	4,950	4,984	1.65
Short Dated Bond Funds	14,972	14,130	14,403	2.29
Property Funds	37,059	31,000	37,084	2.90
Total investments managed externally	**57,063**	**50,080**	**56,471**	**2.63**
Total investments	**166,985**	**136,558**	**165,941**	**1.92**

This includes the council's main current account.

* For interest and income distributions only, excludes any changes in value of the externally manged funds.

8.4. In summary the key factors to note are:

- An average of £109.470m of investments were managed in-house. These earned £1.274m of interest during this nine-month period at an average rate of 1.54%. This is 0.19% below the average SONIA rate and 0.25% below the average bank base rate.

- An average of £4.984m was managed by an enhanced cash fund manager. During this nine-month period this earned £0.062m from income distributions at an average rate of 1.65% and the value of the fund decreased by £0.082m giving a combined overall return of -0.53%.

- An average of £14.403m was managed by two short-dated bond fund managers. During this nine-month period these earned £0.249m from income distributions at an average rate of 2.29% and the value of the funds decreased by £0.842m giving a combined overall return of -5.47%.

- An average of £37.084m was managed by two property fund managers. During this nine-month period these earned £0.810m from income distributions at an average rate of 2.90% and the value of the funds decreased by £6.059m giving a combined overall return of -18.79%.

8.5. The total for interest and income distributions in paragraph 8.4 above is £2.395m. The total change in external fund values due to the unit price is a net decrease of £6.983m, which is set out in the table below. 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 and therefore there will be no impact from these changes on the revenue budget.

Table 8: Externally managed funds – changes in unit price

Fund	**Table Number**	**Amount (£m)**
Payden Sterling Reserve Fund	Paragraph 8.4	(0.082)
AXA Sterling Credit Short Duration Bond Fund	11	(0.303)
Royal London Investment Grade Short Dated Credit Fund	12	(0.539)
Patrizia Hanover Property Unit Trust	13	(2.863)
Lothbury Property Trust	14	(3.196)
Total net decrease due to changes in unit price		**(6.983)**

8.6. Some cash balances managed in-house are required to meet short term cash flow requirements and therefore throughout the nine-month period monies were placed 5 times for periods of one year or less. The table below shows the most used counterparties overall and the countries in which they are based. All deals are in sterling despite the country the counterparties are based in.

Table 9: Counterparties used

Counterparty	Country	No. of Deals	Value of Deals (£m)
BlackRock	Money Market Fund (Various Counterparties)	2	19
Goldman Sachs	Money Market Fund (Various Counterparties)	2	17
Aberdeen Liquidity Fund	Money Market Fund (Various Counterparties)	1	8
Total		**5**	**44**

8.7. In addition to the above, use was also made of call accounts during the year because they provide instant access to funds. This meant that funds were available for cash flow movements to avoid having to pay higher rates to borrow from the market. During the period from April to December 2022 an average of £22.5m was held in such accounts.

8.8. For cash balances that are not needed to meet immediate or very short-term cash flow requirements, monies were invested in:

- a 95-day notice account with Barclays Bank plc.
- a 95-day notice account with Santander UK plc.
- a 185-day notice account with Goldman Sachs International.

Notice was given on all these accounts in July and some monies were returned in quarter three with the rest due to be returned in quarter four. The monies will be re-invested at higher rates.

8.9. Monies were also invested in fixed term deposits of up to one year, depending on the liquidity requirements. The table on the next page shows the fixed term deposits held during the period from April to December 2022.

Table 10: Fixed Term Deposits

Counterparty	Date of Deposit	Return Date	Number of days	Interest rate (%)	Amount (£m)
Santander UK plc	12/07/2021	12/04/2022	274	0.250%	5.0
Goldman Sachs International	09/07/2021	08/04/2022	273	0.225%	2.5
Standard Chartered	19/11/2021	19/05/2022	181	0.290%	10.0
National Bank of Kuwait (International) plc	19/11/2021	19/05/2022	181	0.340%	15.0
Santander UK plc	21/10/2022	23/10/2023	367	5.00%	5.0
Santander UK plc	14/11/2022	14/11/2023	365	4.95%	10.0
Lloyds Bank Corporate Markets (NRFB)*	29/06/2022	29/12/2022	183	2.16%	12.5
Goldman Sachs International	29/06/2022	29/12/2022	183	2.19%	7.5
Lloyds Bank Corporate Markets (NRFB)*	29/12/2022	29/06/2023	182	4.33%	2.5
Lloyds Bank Corporate Markets (NRFB)*	29/12/2022	29/09/2023	274	4.71%	10.0

* NRFB – Non Ring-Fenced Bank

9. Short Dated Bond Funds – quarter three cumulative position

9.1. An average of £7.3m was managed by AXA Investment Managers UK Limited. The table below shows the movement in the fund value over the period from April to December, the income distributions for that period, the returns both for each element and the combined return.

Table 11: AXA Sterling Credit Short Duration Bond Fund

April to December 2022	**£m**	**Investment return (%)**
Value of fund at start of financial year	7.518	
Decrease in fund due to value of unit price	(0.303)	(5.52)
Value of fund at end of quarter 3	7.215	
Income distributions*	0.102	1.86
Combined investment income (income distribution plus change in fund value due to unit price)	(0.201)	(3.66)

* Q3 of this income distribution is an estimate and will be confirmed and distributed in quarter 4.

9.2. An average of £7.1m was managed by Royal London Asset Management. The table on the next page shows the movement in the fund value over the period from April to December, the income distributions for that period, the returns both for each element and the combined return.

Table 12: Royal London Investment Grade Short Dated Credit Fund

April to December 2022	£m	Investment return (%)
Value of fund at start of financial year	7.454	
Decrease in fund due to value of unit price	(0.539)	(10.05)
Value of fund at end of quarter 3	6.915	
Income distributions*	0.147	2.74
Combined investment income (income distribution plus change in fund value due to unit price)	(0.392)	(7.31)

10. Property Funds – quarter three cumulative position

10.1. An average of £22.6m was managed by Patrizia Property Investment Managers LLP. The table below shows the movement in the fund value over the period from April to December, the income distributions for that period, the returns both for each element and the combined return.

Table 13: Patrizia Hanover Property Unit Trust

April to December 2022	£m	Investment return (%)
Value of fund at start of financial year	22.308	
Decrease in fund due to value of unit price	(2.863)	(16.78)
Value of fund at end of quarter 3	19.445	
Income distributions*	0.541	3.17
Combined investment income (income distribution plus change in fund value due to unit price)	(2.322)	(13.61)

* Income distribution for Q3 is an estimate and will be confirmed and distributed in Q4.

10.2. An average of £14.4m was managed by Lothbury Investment Management Limited. The table below shows the movement in the fund value over the period from April to December, the income distributions for that period, the returns both for each element and the combined return.

Table 14: Lothbury Property Trust

April to December 2022	£m	Investment return (%)
Value of fund at start of financial year	14.752	
Decrease in fund due to value of unit price	(3.196)	(29.37)
Value of fund at end of quarter 3	11.556	
Income distributions	0.269	2.47
Combined investment income (income distribution plus change in fund value due to unit price)	(2.927)	(26.90)

11. Borrowing – quarter three

11.1. 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).

11.2. The Council began quarter three in the second of the above scenarios, with actual borrowing below CFR.

11.3. This, together with the Council's cash flow, the prevailing Public Works Loans Board (PWLB) interest rates and the future requirements of the capital 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.

11.4. 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 the quarter. The average rate of borrowing over all the PWLB loans at the end of the quarter was 3.46%. A profile of the PWLB loan repayment dates is shown in Graph 2 of Appendix 2.

11.5. 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.

11.6. Interest rates from the PWLB fluctuated throughout the quarter in response to economic events: 10-year PWLB rates between 3.91% and 5.47%; 25-year PWLB rates between 4.10% and 5.88% and 50-year PWLB rates between 3.57% and 5.32%. These rates are after the PWLB 'certainty rate' discount of 0.20%.

11.7. During quarter three no short-term loans were taken out for cash flow purposes. This is shown in Table 4 of Appendix 2.

12. Borrowing – quarter three cumulative position

12.1. The Council's borrowing limits for 2022/23 are shown in the table below:

Table 15: Borrowing limits

	2022/23 Original (£m)
Authorised Limit	395
Operational Boundary	385

12.2. The Authorised Limit is the “Affordable Borrowing Limit” required by the Local Government Act 2003. This is the outer boundary of the Council’s borrowing based on a realistic assessment of the risks and allows sufficient headroom to take account of unusual cash movements.

12.3. The Operational Boundary is the expected total borrowing position of the Council during the year and reflects decisions on the amount of debt needed for the Capital Investment Programme. Periods where the actual position is either below or over the Boundary are acceptable subject to the Authorised Limit not being breached.

12.4. The Council’s outstanding borrowing as at 31st December 2022 was:

Southend-on-Sea Borough Council		£355.6m
PWLB:	£347.3m	
Invest to save:	£8.30m	
ECC transferred debt		£9.23m

12.5. Repayments in the first 9 months of 2022/2023 were:

Southend-on-Sea Borough Council		£0.09m
PWLB:	£0.0m	
Invest to save:	£0.09m	
ECC transferred debt		£0.41m

12.6. Outstanding debt relating to services transferred from Essex County Council (ECC) on 1st April 1998, remains under the management of ECC. Southend Borough Council reimburses the debt costs incurred by the County. The debt is recognised as a deferred liability on our balance sheet.

12.7. The interest payments for PWLB and excluding transferred debt, during the period from April to December 2022 were £8.1m which is the same as the original budget for the same period.

12.8. The table below summarises the PWLB borrowing activities over the period from April to December 2022:

Table 16: PWLB borrowing activities

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 2022	347.3	0	0	(0)	347.3
July to September 2022	347.3	0	0	(0)	347.3
October to December 2022	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

12.9. All PWLB debt held is repayable on maturity.

13. Funding for Invest to Save Schemes (included in Section 12)

13.1. 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 Westcliff Library 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.

13.2. To finance these projects 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 periods of five years with equal instalments to be repaid every six months. There are no 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. £0.017m of these loans were repaid during the period from April to December 2022.

13.3. 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 three was £8.276m. A repayment of £0.070m was made during the period from April to December 2022.

13.4. Funding of these invest to save schemes is shown in Table 5 of Appendix 2.

14. Compliance with Treasury Management Strategy – quarter three

14.1. 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 24 February 2022. The investment activity during the quarter conformed to the approved strategy, and the cash flow was successfully managed to maintain liquidity. This is shown in Table 7 of Appendix 2.

15. Other Options

15.1. 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.

16. Reasons for Recommendations

16.1. The CIPFA Code of Practice on Treasury Management recommends that Local Authorities should submit reports regularly. The Treasury Management Policy Statement for 2022/23 set out that reports would be submitted to Cabinet quarterly on the activities of the treasury management operation.

17. Corporate Implications

17.1. Contribution to the Southend City Council Corporate Plan (2022-2026) and the Southend 2050 Ambition

Treasury Management practices in accordance with statutory requirements, together with compliance with the prudential indicators acknowledge how effective treasury management provides support towards the achievement of the Council’s ambition and Corporate Plan priorities.

17.2. Financial Implications

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

17.3. Legal Implications

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.

17.4. People Implications

None.

17.5. Property Implications

None.

17.6. Consultation

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

17.7. Equalities Impact Assessment

None.

17.8. Risk Assessment

The Treasury Management Policy acknowledges that the successful identification, monitoring and management of risk are fundamental to the effectiveness of its activities.

17.9. Value for Money

Treasury Management activities include the pursuit of optimum performance consistent with effective control of the risks associated with those activities.

17.10. Community Safety Implications

None.

17.11. Environmental Impact

None.

18. Background Papers

CIPFA Code of Practice for Treasury Management in the Public Sector.

19. Appendices

Appendix 1 – In-House Investment Position as at 31 December 2022

Appendix 2 – Treasury Management Performance for Quarter Three – 2022/23