REPORT TO:	**Audit and Governance Committee – 28 September 2023**
SUBJECT:	**Treasury Management – Quarter 1 report 2023-24**
LEAD OFFICER:	**Sian Southerton, Senior Accountant (Treasury)**
LEAD MEMBER:	Cllr Dr Walsh
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT/CORPORATE VISION:

The Treasury Management function is required by regulation and has an effect on all Directorates of the Council.

DIRECTORATE POLICY CONTEXT:

This report is the Treasury Management update report for Quarter 1 (Q1) 2023-24.

This report summarises:

- Investment position
- Borrowing position and
- Prudential Indicators

FINANCIAL SUMMARY:

There are no direct financial implications arising from this report.

1. PURPOSE OF REPORT

1.1. To note the Treasury Management activities for the first financial quarter ending 30th June 2023.

2. RECOMMENDATIONS

The Audit and Governance Committee is asked to recommend the following to Full Council:

2.1. note the quarter 1 treasury management report for 2023/24;

2.2. note the treasury activity for the quarter ended 30 June 2023, which has generated interest receipts of £460,918 (4.27%). Budget £1,540,000 (3.20%); and

2.3. note the quarter 1 actual prudential and treasury indicators for 2023/24 contained in the report.

3. EXECUTIVE SUMMARY

3.1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that Members be updated on treasury management activities at least quarterly. The 2023/24 Treasury Management Strategy states this report will go to the Audit and Governance Committee in September. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

3.2. During the first quarter to 30th June 2023, the Council complied with its legislative and regulatory requirements, including confirmation that the authorised limit was not breached.

4. DETAIL

4.1. This can be found in appendix 1.

5. CONSULTATION

5.1. Consultation has been undertaken with the Council's Treasury Advisors – Link Group, Link Treasury Services Limited.

6. OPTIONS / ALTERNATIVES CONSIDERED

6.1. As the CIPFA Code of Practice for Treasury Management 2021 recommends that Members be updated on treasury management activities at least quarterly, the only option available is to request that Full Council note the recommendations (2.1, 2.2, 2.3).

7. COMMENTS BY THE GROUP HEAD OF FINANCE SUPPORT/SECTION 151 OFFICER

7.1. The financial implications arising from Treasury Management are outlined throughout the report.

8. RISK ASSESSMENT CONSIDERATIONS

8.1. The main risks in treasury management are financial ones. These are identified in the Council's Treasury Management Practices and the main risks in these activities are:

- liquidity;
- markets or investment;
- inflation;
- credit and counterparty;
- legal and regulatory

8.2. The consequences of ignoring these are poor practices implemented, diminished interest returns, loss of capital invested, poor liquidity (funds available when required). The Council's strategies guard against most of these risks.

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1. Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority including securing effective arrangements for treasury management. There are no specific legal implications arising from this report.

10. HUMAN RESOURCES IMPACT

10.1. None direct

11. HEALTH & SAFETY IMPACT

11.1. None direct

12. PROPERTY & ESTATES IMPACT

12.1. None direct

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

13.1. None

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

14.1. To support the Council's 2030 carbon neutral target there should be consideration to transitioning current (and future) investments into more sustainable investment options. Currently this makes up 2.32% of the Council's total emissions, resulting in roughly 628.96 tCO2e being produced as per the carbon emissions audit 2021-2022.

14.2. Current Investments with CCLA (diversified fund and property fund and Standard Chartered (Sustainable deposits) have positive ESG factors.

14.3. Further options with be explored and considered.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1. None

16. HUMAN RIGHTS IMPACT

16.1. None

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1. None

CONTACT OFFICER:
Name: Sian Southerton
Job Title: Senior Accountant (Treasury)
Contact Number: 01903 737861

BACKGROUND DOCUMENTS*:*

- Strategy Statement and Annual Investment Strategy 2023/24

Appendix 1

Arun District Council
Treasury Management Update Report (Q1) 2023/24

1. Introduction

1.1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that Members be updated on treasury management activities at least quarterly. The 2023/24 treasury management strategy states this report will go to the Audit and Governance Committee in September. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

1.2. The Council has also implemented the Department of Levelling Up, Housing and Communities (DLUHC) investment guidance in producing these regular reports.

1.3. The investment activity to date conforms to the approved strategy and the Council has had no liquidity difficulties. This report focuses on the 2023/24 financial period ending 30 June 2023 and is based on the data available at the time of writing.

2. Investment and Strategy review

2.1. The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on **15 March 2023**. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being (SLY):

- Security of capital
- Liquidity
- Yield

2.2. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 2 years with high credit rated financial institutions to achieve the best yield possible but with SLY at the forefront.

2.3. A full list of investments held as at 30 June 2023 are shown in the table below:

Reference no.	Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate
842	First Abu Dhabi Bank	21/07/2022	21/07/2023	£1,000,000.00	2.800
868	DBS Bank Ltd	27/04/2023	27/07/2023	£1,000,000.00	3.010
840	Close Brothers Limited	10/08/2022	10/08/2023	£1,000,000.00	3.470
848	Santander UK Plc	25/08/2022	25/08/2023	£2,000,000.00	4.420
850	ndard Chartered Bank - Sustainable Depo	26/09/2022	26/09/2023	£1,000,000.00	5.250
851	ndard Chartered Bank - Sustainable Depo	28/09/2022	28/09/2023	£2,000,000.00	5.450
852	Goldman Sachs International	28/09/2022	28/09/2023	£1,000,000.00	5.250
854	Santander UK Plc	28/09/2022	28/09/2023	£2,000,000.00	4.350
875	Goldman Sachs International	14/06/2023	16/10/2023	£1,000,000.00	4.500
869	Close Brothers Limited	04/05/2023	06/11/2023	£1,000,000.00	4.450
870	DBS Bank Ltd	15/05/2023	15/11/2023	£1,000,000.00	4.530
858	NatWest Bank	23/11/2022	23/11/2023	£1,000,000.00	4.645
860	Development Bank of Singapore (DBS)	15/12/2022	15/12/2023	£1,000,000.00	5.000
861	Development Bank of Singapore (DBS)	22/12/2022	22/12/2023	£1,000,000.00	5.020
863	ndard Chartered Bank - Sustainable Depo	05/01/2023	05/01/2024	£1,000,000.00	4.650
867	Goldman Sachs International	27/04/2023	26/01/2024	£1,000,000.00	4.900
874	National Westminster Bank PLC (RFB)	14/06/2023	14/02/2024	£1,000,000.00	4.970
871	Goldman Sachs International	15/05/2023	05/03/2024	£2,000,000.00	5.030
873	Goldman Sachs International	07/06/2023	07/03/2024	£1,000,000.00	5.200
866	Close Brothers Limited	14/04/2023	17/04/2024	£4,000,000.00	5.300
872	Close Brothers Limited	19/05/2023	17/05/2024	£1,000,000.00	5.540
876	Nationwide Building Society	15/06/2023	14/06/2024	£1,000,000.00	5.120
865	Goldman Sachs International	05/01/2023	06/01/2025	£1,000,000.00	5.310
44447	Lloyds Bank			£6,588,000.00	4.160
100500	CCLA (Churches, Charities and LA's)			£880,000.00	4.7823
110000	Federated Investors LLP			£10,000.00	4.7285
99999	Fidelity Fund Management Ltd			£10,000.00	4.6725
120000	Aberdeen Standard			£4,000,000.00	4.8331
140000	CCLA (Churches, Charities and LA's)			£5,000,000.00	*4.44
140500	CCLA (Churches, Charities and LA's)			£2,000,000.00	*3.17
				£48,488,000.00	

*rates at 30-6-23

2.4. The table below shows the £48m investment portfolio and percentage in each sector.

INVESTMENT PORTFOLIO	31.3.23 Actual £000	31.3.23 Actual %	**30.6.23 Actual £000**	**30.6.23 Actual %**
Treasury investments				
Banks	32,740	75%	**35,588**	**74%**
Building Societies - rated	0	0%	**0**	**0%**
Building Societies - unrated	2,000	4%	**1,000**	**2%**
Local authorities	0	0%	**0**	**0%**
Money Market Funds	2,190	5%	**4,900**	**10%**
Total managed in house	**36,930**	**84%**	**41,488**	**86%**
Property funds	5,000	11%	**5,000**	**10%**
Diversified funds	2,000	5%	**2,000**	**4%**
TOTAL TREASURY INVESTMENTS	**43,930**	**100%**	**48,488**	**100%**

2.5. Investment rates have improved dramatically during the first quarter of 2023/24 and are expected to improve further as Bank Rate continues to increase over the next few months.

2.6. Creditworthiness - There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

2.7. Investment counterparty criteria - The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

2.8. Investment balances - The average level of funds available for investment purposes during the quarter was £43m. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

2.9. The table below shows the total useable reserves compared to the investment balances at 31 March 2023.

Usable Reserves at 31 March 2023	£m
Earmarked Reserves	20.793
Housing Revenue Account Balance	1.523
General Fund Revenue Balance	5.000
Usable Capital Receipts	1.704
Housing Major Repairs Reserve	3.884
Capital Grants Unapplied	1.673
Total	**34.578**
S106 / CIL	9.314
ADC acting as Agents for grants	1.476
Reserves + S106/CIL + Grants to repay	**45.367**
Investments at 31-3-23	*43.930*
Lloyds Bank current account	*0.573*
Investments & Bank at 31-3-23	***44.503***

2.10. **Investment performance for quarter ended 30 June 2023**

Benchmark	Benchmark Return	Budgeted Return	Council Performance	Investment Interest Earned
Average O/N Sonia	4.37%	3.20%	4.27%	£460,919

2.11. As illustrated, the authority is outperforming the budgeted interest return and is close to the benchmark rate. The Council's budgeted investment return for 2023/24 is £1,540,000 and performance for the year to date is above budget based on a straight line profile.
The estimated outturn is currently around £1.9m showing an over achievement of around £400k. This enhanced return is largely due to improved rates applied to investments.

2.12. The CCLA property fund continues to increase the returns the Council is achieving on its investments and currently £5M is invested in this fund achieving an average rate of return of approx. 4.45%, however the Capital value is down around 4.8% (at 30 June 2023). This is a long term investment and values will rise and fall over the years.

2.13. The Council had the following valuations at 30 June 2023:

- CCLA property fund - £4,760,679 (£5m invested)
- CCLA diversified fund - £1,882,984(£2m invested)

This would have had an adverse impact of £356,337 on the Council's revenue budget if IFRS 9 was not in place.

2.14. IFRS 9 - following the consultation undertaken by the Department of Levelling Up, Housing and Communities [DLUHC], the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

2.15. Approved limits - Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 June 2023.

3. Amendments to 2023/24 Annual Investment Strategy

3.1. The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

3.2. The Annual Investment strategy (part of the 2023-24 TMSS), as approved by full Council on 15th March 2023, defines the Investment policy, creditworthiness policy and Country and sector limits.

3.3. This has had the following revisions as part of the Annual report taken to Audit & Governance committee on 25 July 2023 (if approved by Full Council on 8 November 2023).

3.4. Additions to the counterparty lending list in the way of:

- Handelsbanken Plc and
- Natwest Markets Plc (NRFB)

These both adhere to the minimum credit criteria in category 1 and 2 and have been added for diversification and to offer further options due to the withdrawal of Qatar National Bank and First Abu Dhabi Bank.

4. Borrowing

4.1. No borrowing was undertaken during the quarter ended 30th June 2023.

4.2. The Council has no immediate plans to borrow externally for capital expenditure in the current financial year, although funding will need to be arranged for schemes recently approved, and we will look to borrowing internally for these in the first instance.

4.3. Currently Arun's only borrowing relates to the HRA Self-Financing settlement (£35.46m), also summarised in the table below:

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£8.870m		3.21%	28/3/2030
PWLB	£8.870m	Maturity	3.40%	28/3/2035
PWLB	£8.860m	Maturity	3.53%	28/3/2050
PWLB	£8.860m	Maturity	3.48%	28/3/2062
	£35.46m			

4.4. Officers will continue to keep borrowing policy under review and use internal balances where possible to minimise borrowing costs.

5. Treasury and Prudential Indicators

5.1. As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following Treasury Management Prudential Indicators.

5.2. The borrowing activity is controlled by prudential indicators for net borrowing, the Capital Financing Requirement (CFR), and by the authorised limit which is summarised in the table below and in 5.6.

Prudential Indicators	**31 March 2023 Actual £000**	**2023/24 Original Estimate £000**	**June 2023 Position £000**
Capital Expenditure:			
Non - HRA	7,411	5,944	12,108
HRA	6,436	8,998	10,100
TOTAL	**13,847**	**14,941**	**22,209**
Capital Financing Requirement (CFR):			
Total opening CFR	48,089	49,810	52,858
Closing CFR			
Non - HRA	(19)	(314)	(71)
HRA	52,876	55,666	58,308
TOTAL	**52,858**	**55,352**	**58,236**
Annual change in CFR:			
Non – HRA	4,423	3,457	5,431
HRA	345	2,085	(52)
TOTAL	**4,768**	**5,543**	**5,379**
Ratio of financing costs to net revenue stream:			
Non - HRA	(5.45)%	(6.51)%	(8.33)%
HRA	16.60%	18.19%	18.75%
Unfinanced capital expenditure	2,088	7,083	**8,440**

5.3. The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need: or

- If insufficient financing is available, or a decision is taken not to apply internal resources, the capital expenditure will give rise to a borrowing need

5.4. In the table in 5.2, all “unfinanced capital expenditure” results in a financing or borrowing need which will come from either internal or external borrowing.

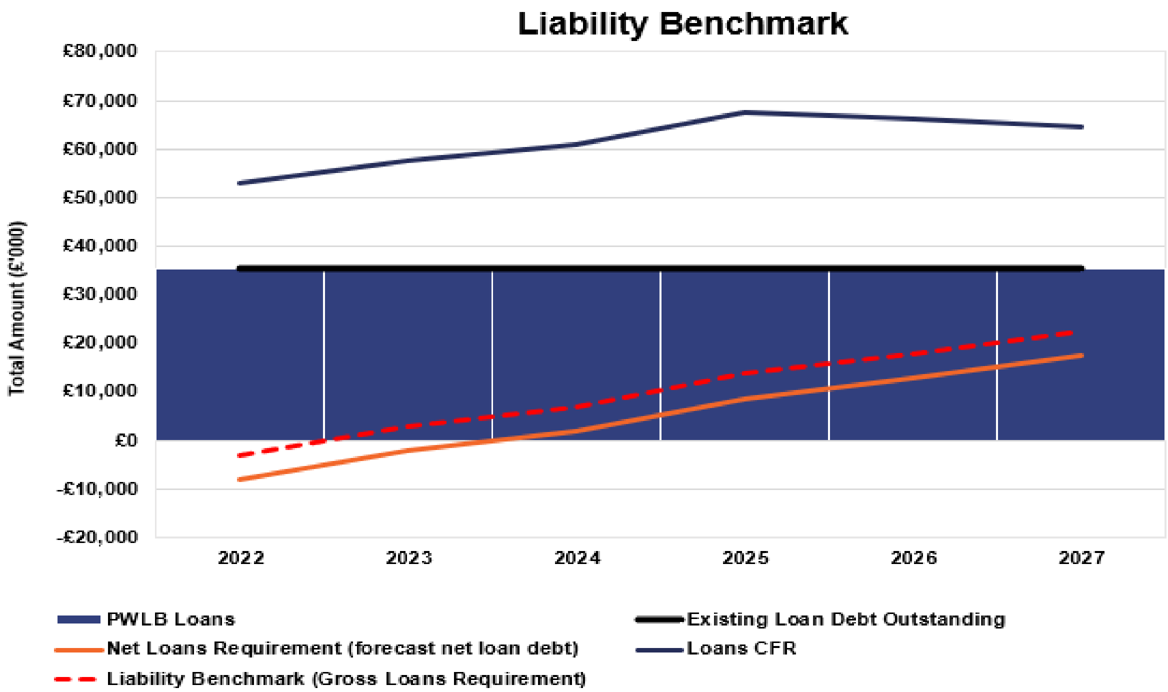
5.5. The ratio of Net Financing Costs (NFC) to the Net Revenue Stream is estimated to be (8.33)% by the end of the financial year which is a change of (1.82)%. This is largely due to an increase in interest rates.

5.6. The treasury Indicators are shown in the tables below:

Treasury indicators	**31 March 2023 Actual £000**	**2023/24 Original £000**	**June 2023 Position £000**
Authorised Limit for External Debt:			
Borrowing	53,000	59,000	56,000
Other long term liabilities	5,000	4,000	7,000
TOTAL	**58,000**	**63,000**	**63,000**
Operational Boundary for External Debt:			
Borrowing	49,000	55,000	52,000
Other long term liabilities	1,000	4,000	7,000
TOTAL	**50,000**	**59,000**	**59,000**
Gross External Debt (Actual)			
Non – HRA	0	0	0
HRA	35,460	35,460	35,460
TOTAL	**35,460**	**35,460**	**35,460**
Remaining Authorised Limit for External debt:	**22,540**	**27,540**	**27,540**
Total Investments	43,930	44,000	48,488
Net borrowing (Net debt)	8,470	8,540	**13,028**

Maturity structure of fixed rate borrowing – upper & lower limits:	**Actual at 30 June 23**	**lower limit**	**upper limit**
Under 12 months	0%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	25%	0%	60%
10 years and above	75%	0%	100%

5.7. The Liability Benchmark compares the Council's actual existing borrowing against a Liability Benchmark that has been calculated to show the lowest risk level of borrowing. The Liability Benchmark is an important tool to help establish whether the Council is likely to be a long-term Borrower or long-term Investor in the future, and so shape its strategic focus and decision making.



An explanation of what this is showing is highlighted below:

- The Blue line (at the top) represents the Loans CFR. The gap between this and the liability benchmark line represents in part the treasury management investments held by the Council which are required for management of liquidity and cashflow.
- The Black line represents the existing load debt outstanding and tracks the existing debt balance.
- Comparing the Red dashed line (liability benchmark) with the black line / blue bars (current borrowing portfolio) shows how the existing portfolio matches the current commitments of the Council.

A liability benchmark below the current maturity portfolio, indicates no additional borrowing need, and signifies surplus cash in excess of liquidity requirements as in the Councils current position.

5.8. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 30th June 2023, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2023/24. The Group Head of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

5.9. All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

6. Economic update – Link Group

6.1. Interest rates rose by a further 75bps over the quarter, taking Bank Rate from 4.25% to 5.00%;

6.2. The economy has weathered the drag from higher inflation better than was widely expected. The 0.2% m/m rise in real GDP in April, following March's 0.3% m/m contraction will further raise hopes that the economy will escape a recession this year.

6.3. The recent resilience of the economy has been due to a confluence of factors including the continued rebound in activity after the pandemic, households spending some of their pandemic savings, and the tight labour market and government handouts both supporting household incomes. That said, as government support fades, real household incomes are unlikely to grow rapidly. Furthermore, higher interest rates will mean GDP is likely to contract later this year.

6.4. Link Group's latest forecast, made on 26th June, sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, against a backdrop of a stubbornly robust economy and a tight labour market.

Link Group Interest Rate View	26.06.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50