Arun District Council

REPORT TO:	**Audit and Governance Committee – 30 November 2023**
SUBJECT:	**Treasury Management – Mid Year 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 supports the Annual Treasury Management Strategy Statement (TMSS).

It is the mid year (Qtr2) update and reviews the report considered by Audit and Governance Committee on 28 February 2023 and presented to Full Council on 15 March 2023.

The report updates Members on the:

- 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. The purpose of this report is to present the Council's Treasury Management activities for the year to date as at 30 September 2023. Also, it enables the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

2. RECOMMENDATIONS

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

2.1. note the mid year treasury management report for 2023/24;

2.2. note the treasury mid-year activity for the period ended 30 September 2023, which has generated interest receipts of £1,068,012 (4.65%). Budget £1,540,000 (3.20%);

2.3. approve the actual prudential and treasury indicators for 2023/24 contained in the report; and

2.4. approve the addition of a further Money Market Fund (MMF) – State Street Global Advisors (details of which can be seen in 2.4 of appendix 1).

3. EXECUTIVE SUMMARY

3.1. This mid-year report has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management and covers the activities to 30 September 2023. It enables the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

3.2. During the period to 30 September 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.

6.2. The Treasury Management Strategy is a mandatory requirement under the Local Government act 2003.

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 the implementing of poor practices, diminished interest returns, loss of capital invested and poor liquidity (funds available when required). The Council's strategies mitigate 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 tCO_2e 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 will be explored and considered in due course.

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:
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Job Title: Senior Accountant (Treasury)
Contact Number: 01903 737861

BACKGROUND DOCUMENTS*:*

- Strategy Statement and Annual Investment Strategy 2023/24

Arun District Council

Appendix 1

Arun District Council
Treasury Management Mid-Year Report (Q2) 2023/24

1. Introduction

1.1. Treasury management is defined as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.2. This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021) and covers the first 6 months of the year to 30 September 2023.

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

1.4. 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 September 2023 and is based on the data available at the time of writing.

2. Amendments to 2023/24 Treasury Management Strategy Statement

2.1. The Treasury Management Strategy Statement, (TMSS), for 2023/24 was approved by this Council on 15 March 2023. The Annual Investment strategy (part of the 2023-24 TMSS), defines the Investment policy, creditworthiness policy and Country and sector limits.

2.2. The Council's investment policy has regard to the DLUHC 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").

2.3. The Councils TMSS has one further proposed change, and that is to introduce one new Money Market Fund (MMF) to the current lending list – State Street Global Advisors. This MMF is highly rated (AAA) and is achieving a return of around 5.20%. (This is recommendation 2.4 above).

2.4. The Fund seeks to promote the following environmental and social characteristics:

- investment of the Fund's net assets in sustainable investments using an ESG scoring system and a third party ESG rating and

- avoidance of investments in areas which are deemed to be in violation of UN Global Compact Principles or involved in controversial weapons, thermal coal, arctic drilling, oil, and tar sands, and other ESG controversies.

3. Strategy and Investment review

3.1. The Treasury Management Strategy Statement (TMSS) in accordance with the CIPFA Treasury Management Code of Practice, sets out the Council's investment priorities as being (SLY):

- Security of capital
- Liquidity
- Yield

3.2. 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.

3.3. The table below shows the £50m investment portfolio and percentage in each sector.

INVESTMENT PORTFOLIO	31.3.23 Actual £000	31.3.23 Actual %	**30.9.23 Actual £000**	**30.9.23 Actual %**
Treasury investments				
Banks	32,740	75%	**30,253**	**60%**
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%	**12,010**	**24%**
Total managed in house	**36,930**	**84%**	**43,263**	**86%**
Property funds	5,000	11%	**5,000**	**10%**
Diversified funds	2,000	5%	**2,000**	**4%**
TOTAL TREASURY INVESTMENTS	**43,930**	**100%**	**50,263**	**100%**

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

Arun District Council

Reference no.	Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate
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	Standard Chartered Bank - Sustainable Deposits	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
879	Development Bank of Singapore (DBS)	12/07/2023	05/02/2024	£1,000,000.00	6.010
880	Development Bank of Singapore (DBS)	07/08/2023	07/02/2024	£1,000,000.00	5.750
881	Close Brothers Limited	10/08/2023	12/02/2024	£1,000,000.00	5.800
883	National Westminster Bank PLC	07/09/2023	12/02/2024	£1,000,000.00	5.690
874	National Westminster Bank PLC (RFB)	14/06/2023	14/02/2024	£1,000,000.00	4.970
886	Goldman Sachs International	28/09/2023	28/02/2024	£1,000,000.00	5.560
887	Standard Chartered Bank - Sustainable Deposits	28/09/2023	28/02/2024	£2,000,000.00	5.440
882	Goldman Sachs International	01/09/2023	05/03/2024	£1,000,000.00	5.850
885	Standard Chartered Bank - Sustainable Deposits	27/09/2023	05/03/2024	£1,000,000.00	5.450
871	Goldman Sachs International	15/05/2023	05/03/2024	£2,000,000.00	5.030
877	Standard Chartered Bank - Sustainable Deposits	10/07/2023	06/03/2024	£1,000,000.00	6.150
873	Goldman Sachs International	07/06/2023	07/03/2024	£1,000,000.00	5.200
878	Standard Chartered Bank - Sustainable Deposits	10/07/2023	05/04/2024	£1,000,000.00	6.260
884	Goldman Sachs International	15/09/2023	05/04/2024	£1,000,000.00	5.780
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			£253,000.00	5.140
100500	CCLA (Churches, Charities and LA's)			£10,000.00	5.1842
110000	Federated Investors LLP			£4,000,000.00	5.3450
99999	Fidelity Fund Management Ltd			£4,000,000.00	5.2609
120000	Aberdeen Standard			£4,000,000.00	5.2821
140000	CCLA (Churches, Charities and LA's)			£5,000,000.00	*4.66
140500	CCLA (Churches, Charities and LA's)			£2,000,000.00	*3.39
				£50,263,000.00	

* rates at 30-9-23

3.5. Investment rates have improved dramatically during the first half of 2023/24 providing the Council with enhanced returns, but no further increases are expected for the second half of the year. Rates are then expected to reduce over the next few years.

3.6. 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.

3.7. Investment counterparty criteria - The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function but as in 2.3 and 2.4 above, a further MMF is recommended to be added for diversification and further ESG considerations.

3.8. Investment balances - The average level of funds available for investment purposes during the first half of the financial year was £46m. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

3.9. **Investment performance for quarter ended 30 September 2023**

Benchmark	Benchmark Return	Budgeted Return	Council Performance	Investment Interest Earned
Average O/N Sonia	4.73%	3.20%	4.65%	£1,068,000

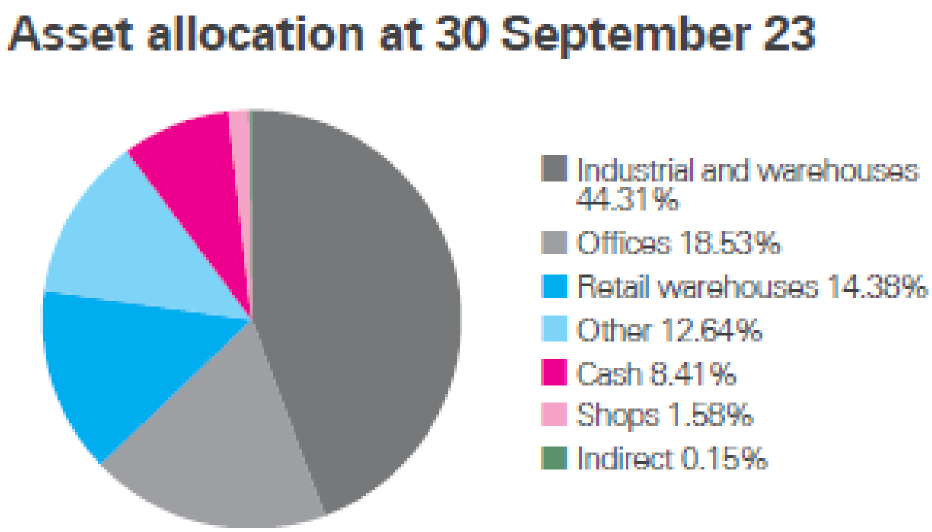
3.10. As illustrated, the authority is outperforming the budgeted interest return and is close to the benchmark rate. The Council's budgeted investment return for 2023/24 is £1,540,000 and performance for the year to date is above budget based on a straight line profile.

3.11. The estimated outturn for 2023/2024 is over £2m (4.8%) showing an over achievement of over £460k. This enhanced return is largely due to the improved rates applied to investments.

3.12. Currently £5M is invested in the CCLA (Churches, Charities and Local Authorities) property fund achieving an average rate of return of approx. 4.43% (rate at September was 4.66%), and £2m is invested in the CCLA diversified fund with an average rate of return of approx. 3.58% (rate at September was 3.39%).

3.13. The property fund continues to increase the returns the Council is achieving on its investments, however the Capital value is down 5.9% (at 30 September 2023). This is a long term investment and values will rise and fall over the years. See also paragraph 3.16 & 3.17.

3.14. Asset allocation chart



3.15. Within the CCLA property fund portfolio (above), it is expected to maintain the existing bias towards Industrial Assets. The Funds remains well positioned and has had no exposure to shopping centres for many years and very little exposure to traditional retail. The fund has returned good performance against a challenging economic backdrop.

3.16. The Council had the following valuations at 30 September 2023:

- CCLA property fund - £4,704,947 (£5m invested)
- CCLA diversified fund - £1,863,538 (£2m invested)

This would have had an adverse impact of £431.5k on the Council's revenue budget if IFRS 9 was not in place.

3.17. 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.

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

4. Borrowing

4.1. No new borrowing was undertaken during the first half of the year to 30 September 2023.

4.2. The CFR (Capital Financing Requirement) denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

4.3. 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.

4.4. Currently Arun's only external 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			

4.5. 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	September 2023 Position £000
Capital Expenditure:			
Non - HRA	7,411	5,944	13,870
HRA	6,436	8,998	13,880
TOTAL	**13,847**	**14,941**	**27,751**
Capital Financing Requirement (CFR):			
Total opening CFR	48,089	49,810	52,858
Closing CFR			
Non - HRA	(19)	(314)	605
HRA	52,876	55,666	59,941
TOTAL	**52,858**	**55,352**	**60,545**
Annual change in CFR:			
Non – HRA	4,423	3,457	7,064
HRA	345	2,085	624
TOTAL	**4,768**	**5,543**	**7,688**
Ratio of financing costs to net revenue stream:			
Non - HRA	(5.45)%	(6.51)%	(8.88)%
HRA	16.60%	18.19%	19.06%
Unfinanced capital expenditure	2,088	7,083	**10,780**

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.

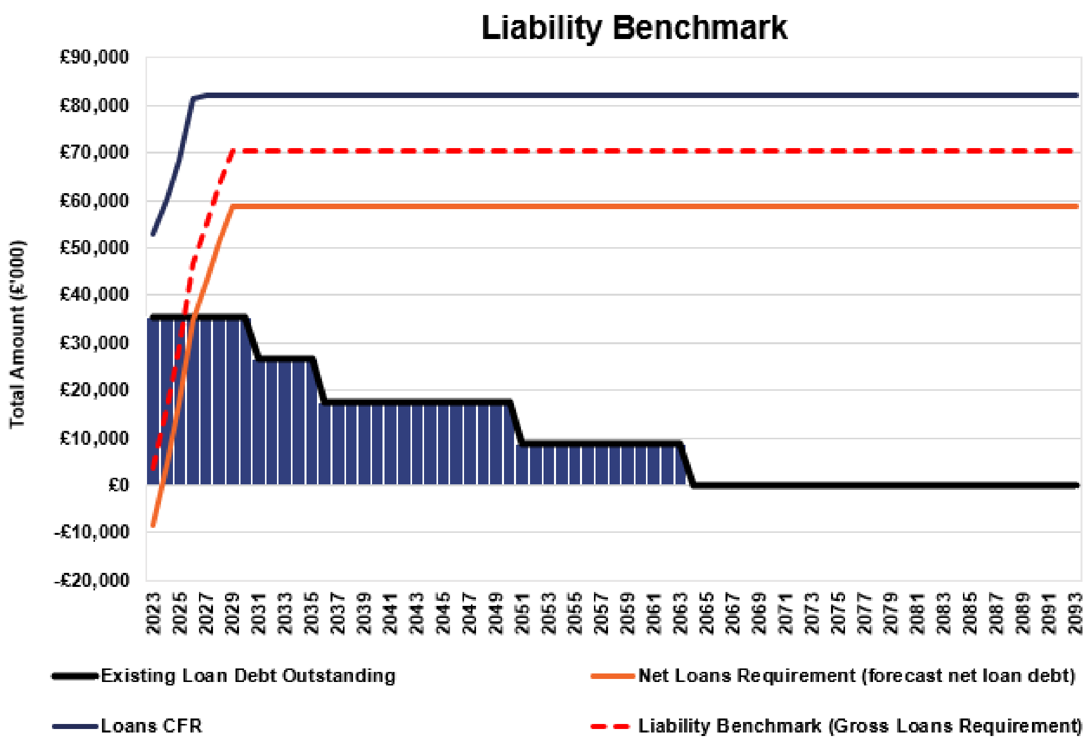
5.5. The ratio of Net Financing Costs (NFC) to the Net Revenue Stream measures the amount of the Council’s income that is needed to fund non-HRA financing costs. The Council currently has no General Fund loan debt but it does receive a healthy investment income return as outlined in paragraphs 3.9 to 3.12 above. Therefore, this ratio is estimated to be -8.88% by the end of the financial year which is a change of -2.37% as a result of the 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**	**September 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	50,263
Net borrowing (Net debt)	8,470	8,540	**14,803**

Maturity structure of fixed rate borrowing – upper & lower limits:	**Actual at 30 September 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 good because it’s lower than the CFR line.



5.8. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 30 September 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. <u>Economic update – Link Group</u>

6.1. The first half of 2023/24 saw:

- Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- A 0.5% m/m decline in real GDP in July, mainly due to more strikes.
- CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).

6.2. Link Group's latest forecast, produced on 25th September (below), sets out a view that short, medium, 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.

6.3. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60