



SOUTH
KESTEVEN
DISTRICT
COUNCIL



Governance & Audit Committee

Date 14 June 2023

Report of Councillor Ashley Baxter,
Deputy Leader of the Council

2022-2023 Treasury Management Annual Report

Report Author

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Purpose of Report

This report provides Governance and Audit Committee with the details of the Council's treasury management activity for the financial year 2022-2023

Recommendations

The Governance & Audit Committee is asked to:

- **approve the content of the annual report on the Treasury Management activity for 2022/2023.**

Decision Information

Does the report contain any exempt or confidential information not for publication?	No
What are the relevant corporate priorities?	Growth and our economy High performing Council
Which wards are impacted?	All wards

1. Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance and Procurement

1.1 The financial implications are included in the report.

Completed by: Richard Wyles, Chief Finance Officer

Legal and Governance

1.2 The Council is under a duty to manage its resources prudently and therefore due consideration must always be given to its borrowing and lending strategy. A wide range of local authority finance activities, including borrowing, lending, financial management and the approval of types of investment vehicle are governed by legislation and various regulations.

1.3 This report provides details of the Council's performance in respect of Treasury Management against policy set out as part of the Budget and Policy Framework. Members should note the performance and scrutinise any elements to assist the role of the Governance and Audit Committee in its review of the Treasury Management Strategy.

Completed by: Graham Watts, Assistant Director (Monitoring Officer)

2. Background to the Report

- 2.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022-2023. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).
- 2.2 For the financial year 2022-2023 the Council adhered to the suggested minimum reporting requirements and members received the following reports:
- An annual treasury management strategy in advance of the year which was approved by Council on 3 March 2022
 - A mid-year treasury update report which was approved by Governance and Audit Committee on 30 November 2022
 - An annual review following the end of the year describing the activity compared to the strategy (this report)
- 2.3 Governance and Audit Committee has delegated powers to deal with matters relating to the Council's treasury management activities. Specifically, it has the responsibility to monitor review and amend as appropriate the Council approved Treasury management Strategy during the financial year. The regulatory environment places a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

Treasury Position at 31 March 2023

- 2.4 The Strategy for 2022/23 was approved by Council on 3 March 2022. A key element of daily operations focuses on comparing current market conditions in conjunction with the Link (the Council's treasury advisors) credit rating list, using this as a tool for guidance, with the option to deviate from this guidance only when there are clear alternative options available to the Council. Any decision of this nature is clearly documented for audit purposes. The aim of the Strategy is to generate a list of highly creditworthy counterparties which enables diversification of investments and thus avoidance of risk whilst providing security. A summary of the Council's treasury position at 31 March 2023 is as follows:

Actual Debt Management Activity During 2022/23

Actual Borrowing Position	31 March 2022		31 March 2023	
	Principal	Average Rate	Principal	Average Rate

Fixed Interest Rate Debt	£89.435m	2.64%	£86.213m	2.46%
Capital Financing Requirement	£107.101m		£104.145m	
Over/(Under) Borrowing	(£17.666m)		(£17.932m)	
Investment Position	31 March 2022		31 March 2023	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Investments	£65.000m	1.42%	£48.000m	4.051%
Variable Interest Investments	£24.558m	0.85%	£21.629m	4.128%
Total Investments	£89.558m	1.26%	£69.629m	4.070%
Net Borrowing Position	(£0.123m)		£16.584m	

- 2.5 The £86.213m is split between short term and long-term borrowing as follows:
- Short-term - £3.221m which is repayable within the next 12 months
 - Long-term - £82.992m

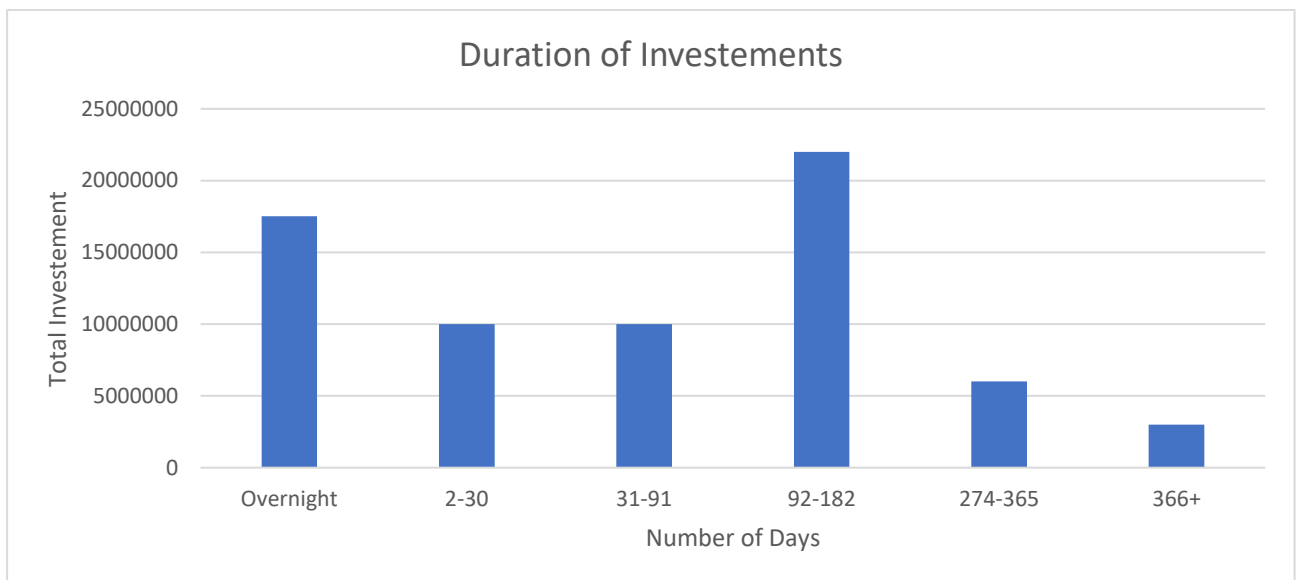
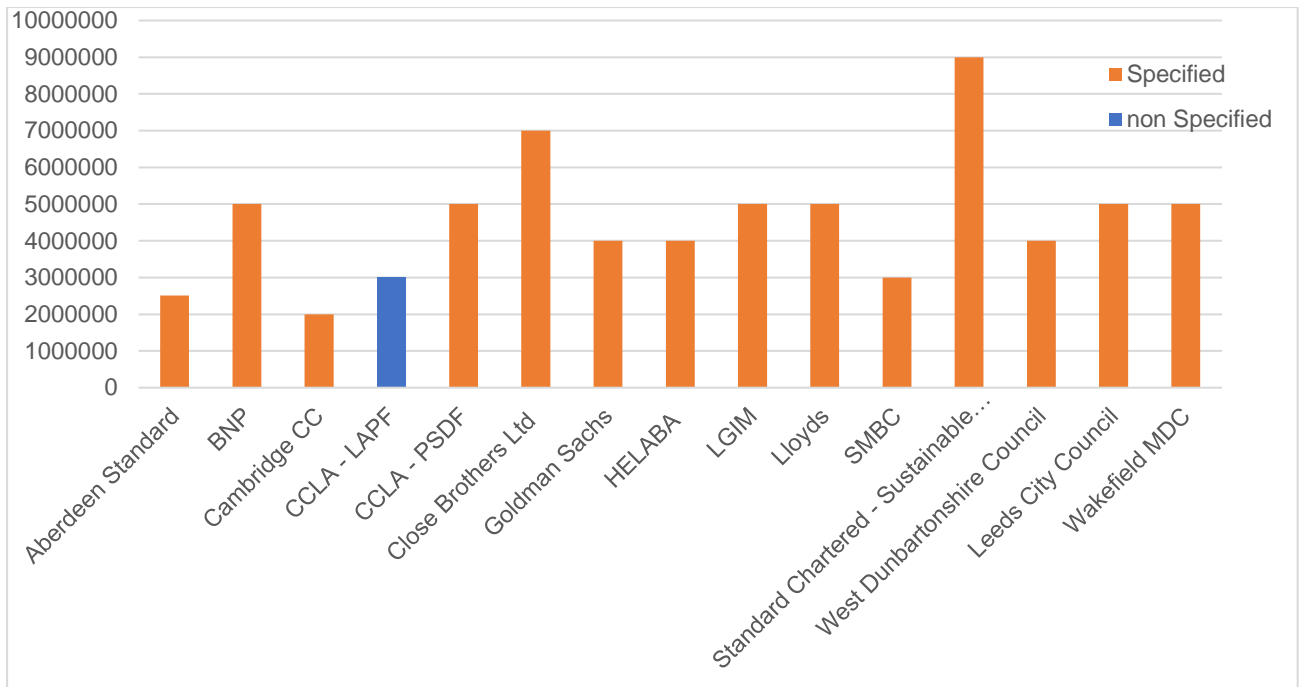
Actual Investment Activity During 2022/23

- 2.6 The Council's investment policy is governed by Department for Levelling Up, Housing and Communities (DLUHC) guidance, which was implemented in the annual investment strategy approved by the Council on 3 March 2022. The investment activity during the year complied with the approved strategy throughout the whole year. During the year the Council had no liquidity difficulties.
- 2.7 At 31 March 2023 the Council held short and long-term investments of £69.629m and was compliant with the council's policy to hold not more than 35% of investments as long term. This includes a £1.12m investment in Gravitas and a £3m investment in the CCLA (Churches, Charities and Local Authorities) Local Authority Property Fund.
- 2.8 The CCLA Local Authority Property Fund invests in property so the value of any investment in the fund can fluctuate as the value of property fluctuates and a quarterly dividend payment is received. The Council views this as a long-term investment that it has entered into for a minimum of five years as this manages the risk of fluctuations in the value of the investment which was £2.674m at 31

March 2023. The second half of 2022 was a difficult time for the commercial property market in general as property prices fell sharply in response to rising interest rates and government bond yields which accounts for the fall in value. Income flows to property have remained strong and distributions from the fund are not affected by the movement in capital value. The dividend payable for the year was £113,960 which is a 3.80% return on investment on the initial £3m investment. The primary reason the Council invested in the fund was for the quarterly dividend payments which have historically been higher than the return on other investments. The table below shows the total dividends the Council has received each year since its initial investment in October 2019.

Year	Dividend Receivable	Average Return (based on £3m investment)	Average Rate of Return on investments
2019/20 (part year – 5 months)	£49,479	3.9%	0.99%
2020/21	£117,135	3.9%	0.40%
2021/22	£104,051	3.5%	1.26%
2022/23	£113,960	3.8%	4.07%
Total over Period	£384,625		

- 2.9 The total amount of variable rate investments has reduced between 31 March 2022 and 31 March 2023 from £24.558m to £21.629m respectively as the interest rates achievable on fixed rate investments were superior to those available for variable rate investments. The balance on fixed rate investments reduced from £65m on 31 March 2022 to £48m on 31 March 2023, this reduction primarily relates to the repayment of the balances of the COVID-19 business grants which the Council was responsible for distributing to eligible businesses and the payment of the Energy Rebate to eligible residents during 2022/23 which the Council received a grant of £8.2m for in March 2022. Decisions regarding the split between variable and fixed rate investments are made to ensure that the Council achieves a return on investments and is also able to meet its cashflow commitments. There were no cashflow issues during 2022/23.
- 2.10 The duration and counterparties of investments as at 31 March 2023 are shown in the following graphs. When investments are placed the duration is determined by taking into consideration the treasury advice received from Link and the cashflow for the Council. A number of counterparties are used as the Council has recommended investment limits that can be placed with each institution which assists with risk management.



2.11 As part of the role performed by our treasury advisers, we are also provided with benchmarking comparative information across all their clients which helps the Council understand how its investment portfolio is performing in relation to others.

2.12 The table below shows for each quarter analysis our average rate of return and average rate of risk when compared to other District Councils within the comparative group. By quarter 4 the Council's average risk was comparable to the other districts whilst receiving a higher return on investments.

Quarter Ending	SK WARoR*	District WARoR*	SK WARR**	District WARR**
Q1 June 2022	1.14%	0.97%	3.72%	2.83%
Q2 September 2022	2.17%	1.76%	3.67%	3.03%
Q3 December 2022	2.90%	2.98%	3.80%	3.20%
Q4 March 2023	4.03%	3.93%	2.89%	2.89%

* WARoR – weighted average rate of return

** WARR – weighted average rate of risk

2.13 As part of the prudential code the Council sets a number of prudential and treasury indicators as part of the treasury strategy, the estimated performance against these indicators was provided in the treasury strategy approved on 3 March 2022 and the actual performance against these indicators is detailed in Appendix A.

Summary

2.14 The Council's treasury management functions have operated effectively during 2022/23 and have successfully achieved the following:

- Repayment of principal has been secured in all deposits.
- The Council's cash liquidity requirement has been met throughout the financial year.
- Investment income levels have exceeded the amended budget by £1.39m as investment levels were higher than originally estimated.
- Robust management of the Council's debt position
- Performance indicators set for 2022/23 have been achieved.

3. Key Considerations

3.1 These are considered throughout the report.

4. Other Options Considered

4.1 There are no other no other options, the Council is required by regulations to produce this report.

5. Reasons for the Recommendations

5.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and performance against prudential and treasury indicators for 2022/23.

6. Background Papers

6.1 Treasury Management Strategy 2022/23

<http://moderngov.southkesteven.gov.uk/documents/s32638/Appendix%20G%20-%202022-23%20Treasury%20Management%20Strategy%20Statement.pdf>

6.2 Treasury Management Mid-Year review 2022/23

<http://moderngov.southkesteven.gov.uk/documents/s36222/Treasury%20Management%20Mid-Year%20Report%202022-23.pdf>

7. Appendices

7.1 Appendix A 2022/23 Prudential and Treasury Indicators