



SOUTH  
KESTEVEN  
DISTRICT  
COUNCIL



## Governance & Audit Committee

19 June 2024

Report of Councillor Ashley Baxter,  
Leader of the Council and Cabinet  
Member for Finance and Economic  
Development

# 2023-2024 Treasury Management Annual Report

### Report Author

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### Purpose of Report

This report provides Governance & Audit Committee with the details of the Council's Treasury Management activity for the financial year 2023/2024.

### Recommendations

**The Governance & Audit Committee is requested to:**

- 1. Approve the annual report on Treasury Management activity for 2023/2024.**

### Decision Information

Does the report contain any exempt or confidential information not for publication?

N/A

What are the relevant corporate priorities?

Connecting communities  
Sustainable South Kesteven  
Enabling economic opportunities  
Housing  
Effective council

Which wards are impacted?

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 There are financial considerations and information throughout the report.

Completed by: Richard Wyles Deputy Chief Executive and Section 151 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 the 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. 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: James Welbourn, Democratic Services Manager and Deputy Monitoring Officer

## **2. Background to the Report**

2.1 The Local Government Act 2003 and associated regulations require the Council to produce:

- an annual treasury management review of activities
- and the actual prudential and treasury indicators for 2023/2024.

2.2 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).

## **3. Key Considerations**

3.1 For the financial year 2023/2024 the Council adhered to the recommended reporting requirements by providing the Governance and Audit Committee with the

following reports:

- An annual Treasury Management strategy in advance of the year which was approved by Council on 1 March 2023.
- Quarterly Treasury update reports which were approved by Governance and Audit Committee during the year.
- An annual review following the end of the year describing the activity compared to the strategy (this report).

- 3.2 Governance and Audit Committee has delegated powers to deal with matters relating to the Council's treasury management activities. It has the responsibility to monitor, review and amend the Council approved Treasury Management Strategy during the financial year.
- 3.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the policies previously approved and adopted by the Council.

#### **Treasury Position as at 31 March 2024**

- 3.4 The Strategy for 2023/24 was approved by Council on 1 March 2023.
- 3.5 A key element of daily operations focuses on comparing current market conditions with the Link credit rating list. The list is a tool for guidance, which would only be deviated from when clear better alternative options are available. Where such decisions are taken a clearly documented audit trail is maintained.
- 3.6 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.
- 3.7 A summary of the Council's treasury position at 31 March 2024 is as follows:

### Actual Debt Management Activity During 2023/24

Actual Borrowing Position	31 March 2023		31 March 2024	
	Principal	Average Rate	Principal	Average Rate
<b>Fixed Interest Rate Debt</b>	£86.213m	2.46%	£82.991m	2.48%
<b>Capital Financing Requirement</b>	£104.145m		£100.876m	
<b>Over/(Under) Borrowing</b>	(£17.932m)		(£17.885m)	

Investment Position	31 March 2023		31 March 2024	
	Principal	Average Rate	Principal	Average Rate
<b>Fixed Interest Investments</b>	£51.000m	4.05%	£55.000m	5.57%
<b>Variable Interest Investments</b>	£18.629m	4.13%	£18.420m	5.26%
<b>Total Investments</b>	£69.629m	4.07%	£73.420m	5.43%

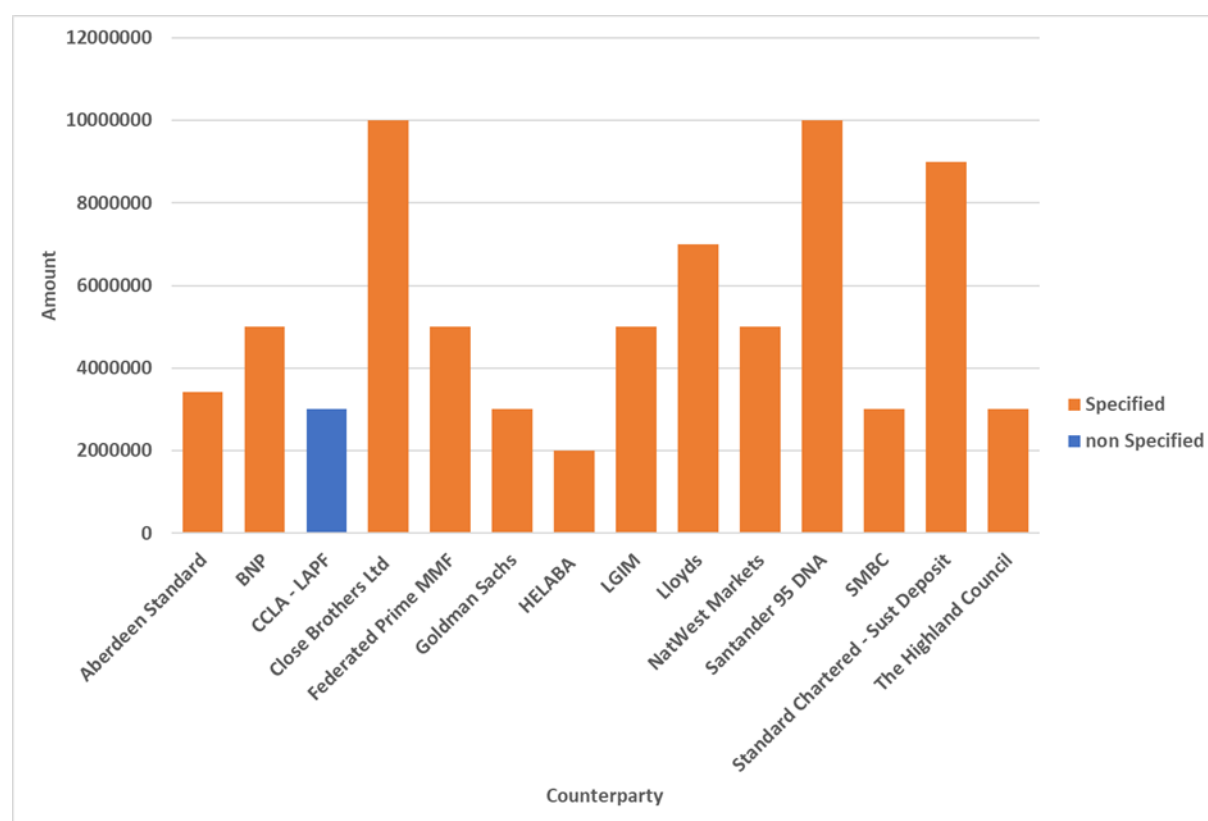
3.8 The £82.991m is split between short term and long-term borrowing as follows:

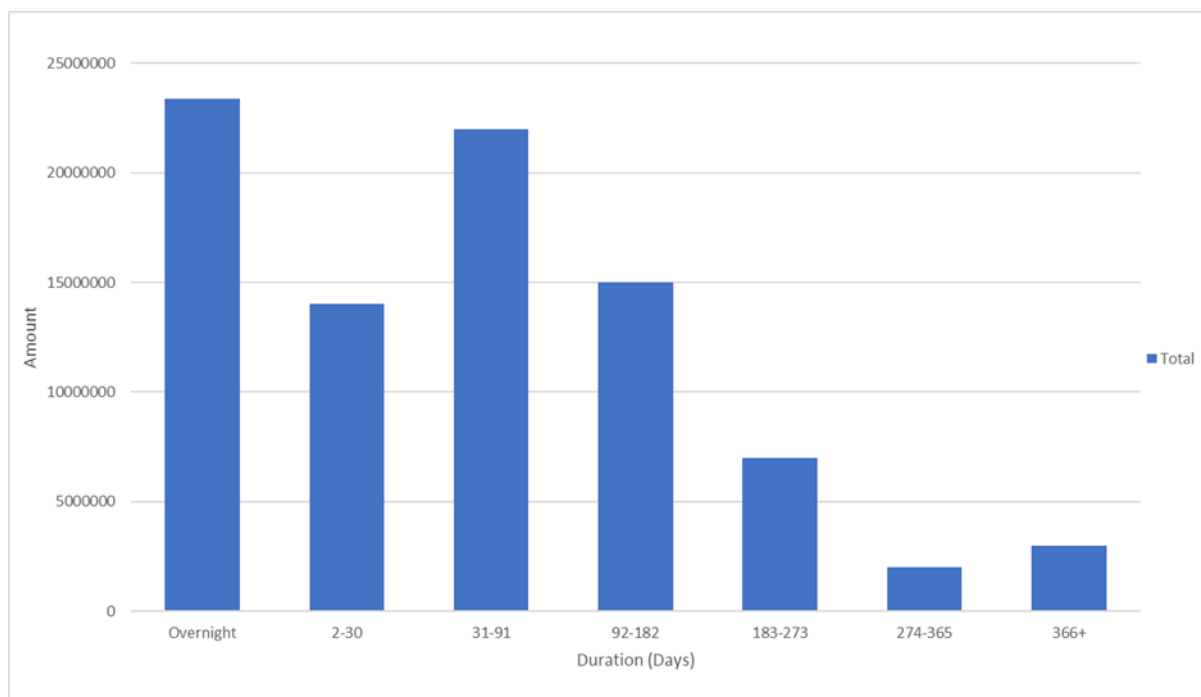
- Short-term - £3.221m (repayable within the next 12 months)
- Long-term - £79.770m.

### Actual Investment Activity During 2023/24

- 3.9 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 2023. The investment activity during the year complied with the approved strategy throughout the whole year. During the year the Council had no liquidity difficulties.
- 3.10 At 31 March 2024 the Council held short and long-term investments of £73.420m and was compliant with the council's policy to hold no more than 35% of investments as long term. This included a £1.12m investment in Gravitas and a £2.529m investment in the CCLA (Church, Charities, and Local Authorities) Local Authority Property Fund.
- 3.11 The CCLA Local Authority Property Fund invests in property, on behalf of the Council. The value of any investment in the fund will fluctuate in line with property market values. The Council considers this a long-term investment that it has entered into for a minimum of five years as this mitigates the risk of fluctuations in the value of the investment which was £2.529m at 31 March 2024.

- 3.12 The primary reason for investing in the fund was that the quarterly dividend payment provides a significantly higher return than other investments. The dividend payable for the year was £132,677.91 which equates to a 4.40% return on the initial £3m investment.
- 3.13 The total amount of variable rate investments has decreased slightly between 31 March 2023 and 31 March 2024 from £18.629m to £18.420m respectively. This was to ensure that the Council was able to achieve a return on investments and manage its cashflow commitments. There were no cashflow issues during 2023/24.
- 3.14 During 2023/24 the Council placed more emphasis on ESG (Environmental, Social and Governance) Investments. It is our aspiration to maintain at least 10% of the portfolio of this type of investment.
- 3.15 In 2023/24 the Council had budgeted investment returns of £760k. The provisional outturn is £1.6m an additional £832k in excess of budget. This was achieved through a combination of attaining higher interest rates and the placement of investments for longer durations.
- 3.16 The duration and counterparties of investments at 31 March 2024 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.





3.17 Our treasury advisers, Link, also provide benchmarking of comparative information across all their clients which helps the Council understand how its investment portfolio is performing in relation to others.

3.18 The table below shows for each quarter analysis our average rate of return was 5.51% when compared to other District Councils within the comparative group. This reflects the prudent approach to managing risk and return to maximise our investment returns whilst balancing our exposure to risk.

Quarter Ending	SK WARoR*	District WARoR*	SK WARR**	District WARR**
Q1 June 2023	4.47%	4.33%	3.07%	2.89%
Q2 September 2023	5.10%	5.07%	3.13%	2.78%
Q3 December 2023	5.33%	5.20%	3.67%	2.64%
Q4 March 2024	5.51%	5.24%	4.04%	2.52%

\* WARoR – weighted average rate of return

\*\* WARR – weighted average rate of risk

3.19 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 2023 and the actual performance against these indicators is detailed in Appendix A.

## **Outlook and Summary**

- 3.20 The outlook for 2024/25 remains uncertain due to stubborn inflationary pressure, the invasion of Ukraine, and war in the Middle East. UK interest rates have remained volatile across the curve from Bank Rate through to 50-year gilts throughout 2023/24. Bank Rate remains at 5.25% and is not expected to fall below this until September 2024.
- 3.21 The Council's treasury management functions have operated effectively during 2023/24 and have 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 as investment levels were higher than originally estimated.
  - Robust management of the Council's debt position
  - Performance indicators set for 2023/24.

## **4. Other Options Considered**

- 4.1 No other options were considered.

## **5. Reasons for the Recommendations**

- 5.1 To meet statutory obligations for treasury management.

## **6. Background Papers**

### **Treasury Management Strategy 2023/24**

<https://moderngov.southkesteven.gov.uk/documents/s37040/Appendix%20G%20-%202023-24%20Treasury%20Management%20Strategy%20Statement.pdf>

### **Treasury Management Mid-Year review 2023/24**

<https://moderngov.southkesteven.gov.uk/documents/s39789/Treasury%20Update%20Report.pdf>

## **7. Appendices**

- 7.1 Appendix A Capital Prudential and Treasury Indicators 2024/25 - 2026-27