



APPENDIX C TREASURY MANAGEMENT QUARTER 3 UPDATE

Introduction

- 1.1 Treasury Management is the management of the council's borrowing, investments and cash flows, including 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 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. This report, therefore, ensures the council is implementing best practice in accordance with the Code.

Economic Context

- 2.1 The third quarter of 2023/24 saw:
 - A 0.3% month on month decline in real Gross Domestic Product (GDP) in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30 September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
 - A sharp fall in wage growth, with the headline rate declining from 8.0% in September to 7.2% in October, although the Office for National Statistics (ONS) "experimental" rate of unemployment has remained low at 4.2%;
 - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
 - Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022;
 - The Bank of England holding rates at 5.25% in November and December;
 - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.
- 2.2 On 2 November, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14 December reiterated that view. Both decisions reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.

Investments

3.1 At 31 December 2023 the council held investments as shown in table 1.

Table 1 Investment Portfolio

Treasury investments	Term	Maturity date	Interest rate	Amount invested £m
Instant Access Money Market Funds:				
Federated	N/A	N/A	5.38%	10.00
Aberdeen Standard	N/A	N/A	5.30%	10.00
Insight	N/A	N/A	5.25%	3.70
Morgan Stanley	N/A	N/A	5.29%	10.00
Invesco	N/A	N/A	5.35%	7.00
CCLA	N/A	N/A	5.29%	4.00
95 Day Notice Bank Accounts:				
Barclays (ESG green deposits)	N/A	N/A	5.30%	5.00
Fixed Term Deposits:				
Suffolk County Council	94 days	08/01/24	5.40%	5.00
Lloyds	183 days	09/02/24	5.77%	5.00
Standard Chartered (ESG green deposits)	183 days	04/04/24	5.52%	5.00
Goldman Sachs	182 days	10/05/24	5.51%	5.00
Total treasury investments			Average 5.38%	69.70

3.2 The council applies the credit worthiness service provided by Link Group. This service employs a modelling approach utilising credit ratings from three main credit rating agencies (Fitch, Moody's and Standard and Poor's). This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system to which Link Group allocate a series of colour coded bands with suggested maximum durations for investments. These are detailed in the Treasury Management Strategy for 2023/24 as approved by Council in February 2023.

3.3 The council has earned interest on its investments as shown in table 2. This is not included in the revenue budget for 2023/24, and therefore represents an underspend position within the Central budget line.

Table 2: Interest earned

Month	Average amount invested £m	Average rate of interest earned	Amount of interest earned £m
Apr 23	71.8	4.15%	0.245
May 23	78.6	4.34%	0.290
Jun 23	76.2	4.51%	0.282
Jul 23	86.6	4.84%	0.356
Aug 23	85.6	5.10%	0.371
Sep 23	85.5	5.18%	0.381
Oct 23	83.0	5.30%	0.374
Nov 23	86.3	5.35%	0.379
Dec 23	78.8	5.37%	0.359
Jan 24			
Feb 24			
Mar 24			
Total			3.037

- 3.4 In addition to the investment income, the council earns interest on the provision of loan finance to the waste disposal PFI provider. This is expected to generate loan interest of £1.9 million in 2023/24 and will be credited to the waste reserve.

Borrowing

- 4.1 The council can only borrow up to its Authorised Borrowing Limit which represents the affordable limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements. The Authorised Borrowing Limit for external borrowing for 2023/24 is £350m which was approved in the Treasury Management Strategy.
- 4.2 At 31 December 2023 the council held long-term borrowing of £120.9m, no new long-term borrowing has been secured during the financial year. The council's Capital Financing Requirement at 1st April 2023 is £304.4m, which demonstrates that the Council has significant internal borrowing when compared to the actual long-term borrowing (excluding PFI liabilities) of £120.9m.
- 4.3 The current capital financing budget position is shown in table 3.

Table 3: Summary of borrowing budget

	Budget £m	Forecast £m	(Surplus)/deficit £m
Minimum Revenue Position (MRP)	9.9	8.7	(1.2)
Interest Payable on loans	5.6	4.8	(0.8)
Total	15.5	13.5	(2.0)

Compliance with Treasury and Prudential Limits

- 5.1 During the quarter ended 31 December 2023, the council has operated within the treasury and prudential indicators set out in the Treasury Management Strategy for 2023/24. Actual values for quarter 3 are shown in table 4.
- 5.2 Treasury indicators for quarter 3 are shown as actual values as at 31 December 2023, e.g. for PI4 (authorised limit for external debt), the actual value of external debt as at 31 December 2023 of £160.9 million is shown against a Treasury Indicator limit of £420.0 million as approved in the Treasury Management Strategy. This means that actual debt is lower than the approved limit and the council is operating within agreed boundaries.
- 5.3 Prudential indicators for quarter 3 are shown as updated forecasts for the financial year 2023/24, e.g. for PI1 (capital expenditure), the forecast of spend for the financial year 2023/24 of £68.9 million is shown against a Prudential indicator value approved in the Treasury Management Strategy of £141.7 million. This means that capital expenditure for 2023/24 is now forecast to be lower than was budgeted for at the start of the year.

Table 4: Prudential and Treasury indicators for 2023/24 as at 31 December 2023

Ref	Treasury indicators	Description	2023/24 Budget/Limit £000	Actual as at 31 December 2023 £000	Compliance result
PI4	Authorised limit for external debt	To set an authorised limit for its gross external debt for the forthcoming financial year (includes PFI liabilities)	420,000	160,900	Within limit
PI5	Operational boundary for external debt	To set an operational boundary for its gross external debt for the forthcoming financial year (includes PFI liabilities)	400,000	160,900	Within limit
PI8	Upper limit for principal sums invested over 364 days	To set an upper limit for total principal sums invested over 364	5,000	NIL	Within limit
PI7	Maturity structure upper and lower limits:	To set upper and lower limits for the maturity structure of its borrowing			
	Under 12 months		0-10%	2%	Within limit
	12 months to 2 years		0-10%	6%	Within limit
	2 to 5 years		0-25%	15%	Within limit
	5 to 10 years		0-35%	20%	Within limit
	10 years and above		0-80%	57%	Within limit
	Prudential indicators	Description	2023/24 Budget £000	Forecast for 2023/24 at 31 December 2023 £000	Compliance result
PI1	Capital expenditure	A reasonable estimate of the total capital expenditure that it plans to incur during the forthcoming financial year	141,661	68,873	Under budget
PI2	Capital financing requirement (CFR)	A reasonable estimate of the total capital financing requirement at the end of the forthcoming financial year	366,582	310,723	Under budget
PI3	Gross debt and CFR	To ensure that the total gross debt does not, except in the short term, exceed the total of capital financing requirement	N/A	39%	Below 100%, within limit
PI6	Ratio of financing costs to net revenue stream	To estimate the proportion of financing costs to net revenue stream for the forthcoming financial year	8.1%	7%	Under budget
PI9	Ratio of net commercial and service investments income to net revenue stream	To estimate the proportion of net income from commercial and service investments to net revenue stream for the forthcoming financial year	N/A	1%	Low reliance on this income