## REPORT TO EXECUTIVE

Date of Meeting: 5 July 2022

## REPORT TO COUNCIL

Date of Meeting: 19 July 2022

Report of: Director Finance

Title: Treasury Management 2021/22

## Is this a Key Decision?

No

## Is this an Executive or Council Function?

Council

## 1. What is the report about?

To report on the current Treasury Management performance for the 2021/22 financial year and the position regarding investments and borrowings at 31 March 2022. The report is a statutory requirement and is for information only with no key decisions required.

## 2. Recommendations:

It is recommended that the Executive and Council note the content of this report.

## 3. Reasons for the recommendation:

It is a statutory requirement for the Council to publish regular reports on Treasury Management to Council. This includes an annual Treasury Management Strategy and half yearly report and a year-end report as a minimum.

## 4. What are the resource implications including non financial resources?

The report is an update on the overall performance in respect of treasury management for the 2021/22 financial year. Therefore, there are no financial or non-financial resource implications.

## 5. Section 151 Officer comments:

The cost of borrowing is rising (and quickly). This will have a significant, negative impact on the affordability of our future capital programme, where borrowing has not yet been undertaken. Interest rates are a full 1% above where they sat at the turn of the year and as a reminder each 1% adds £10,000 per million borrowed, so as an example, the £37m condition survey works would cost an extra £370,000 a year in interest costs. Members need to be mindful of this when considering the capital programme and particularly any additions.

## 6. What are the legal aspects?

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice on Treasury Management recommends that members be updated on treasury management activities regularly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code. Adoption of the Code is required by regulations laid under the Local Government Act 2003.

## 7. Monitoring Officer's comments:

This is a treasury update for Members which is required by statute in order to provide an update on the overall performance of treasury management for the 2021/2022 financial year. Members must carefully consider the report and note the content.

(Simon Copper – Deputy Monitoring Officer)

## 8. Report details:

### 8.1. **Economic Context and Interest Rate forecast**

Interest rate forecasts, provided by our Advisors, are set out below

| Link Group Interest Rate View | 10.5.22 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 |
| BANK RATE | 1.25 | 1.50 | 1.75 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 |
| 3 month ave earnings | 1.20 | 1.50 | 1.70 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 1.70 | 1.70 | 1.70 | 1.70 | 1.70 |
| 6 month ave earnings | 1.60 | 1.90 | 2.10 | 2.20 | 2.20 | 2.20 | 2.20 | 2.10 | 2.00 | 1.90 | 1.90 | 1.90 | 1.90 |
| 12 month ave earnings | 2.00 | 2.20 | 2.30 | 2.40 | 2.40 | 2.30 | 2.30 | 2.20 | 2.20 | 2.10 | 2.10 | 2.10 | 2.10 |
| 5 yr PWLB | 2.50 | 2.50 | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| 10 yr PWLB | 2.80 | 2.80 | 2.90 | 2.90 | 2.90 | 2.90 | 2.90 | 2.90 | 2.80 | 2.80 | 2.80 | 2.80 | 2.80 |
| 25 yr PWLB | 3.00 | 3.10 | 3.10 | 3.20 | 3.20 | 3.20 | 3.10 | 3.10 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 50 yr PWLB | 2.70 | 2.80 | 2.80 | 2.90 | 2.90 | 2.90 | 2.80 | 2.80 | 2.70 | 2.70 | 2.70 | 2.70 | 2.70 |

Our advisors forecast that the Monetary Policy Committee (MPC) will reluctantly increase Bank Rate at a much faster pace through 2022 to try and keep inflation in check, with further rises of 0.25% in June, and then in each of the three subsequent quarters to peak at 2% by the close of the year. However, those increases in Bank Rate are likely to add to the considerable headwinds impacting the UK economy and, therefore, tentatively they anticipate a small reduction in Bank Rate in 2024. As 2022 proceeds they will be in a better position to judge the overall strength of those economic headwinds and will revise forecasts as appropriate.

With inflation set to keep rising, households are in for a prolonged period of negative real wage growth. The surge in CPI inflation to a new 30-year high of 6.2% in February means that it is now more than three times the Bank of England's 2% target.

CPI inflation is now forecast to rise to above 10% in Q4 2022. The 54% rise in utility prices on 1st April added an extra 1.4ppts to CPI inflation in April. And the surge in agricultural commodity prices triggered by the war in Ukraine means that food price inflation is expected to soon climb above 6%.

We are seeing an increase in the level of interest rates that can be earned on our investment portfolio.

PWLB borrowing interest rates have increased significantly in the early part of 2022. This will potentially make future capital plans more expensive and challenging to deliver.

## 9. Treasury Management Strategy

The Council approved the 2021/22 Treasury Management Strategy at its meeting on 23 February 2021. The Council's stated investment strategy was to continue to hold small surplus funds and to seek to utilise its Call Accounts, Money Market Funds, use the Government's Debt Management Office and use short dated deposits which would be placed with Local Authorities, Banks or Building Societies which are on the Council's counterparty list.

The Council's stated borrowing strategy was to defer borrowing until later years, where possible, and to reduce the size of the Council's investment balance instead, however some targeted long term borrowing will be undertaken, where the costs will be offset against future income streams.

The Council is currently maintaining an under-borrowed position; so the actual borrowings of the Council are below the Council's borrowing requirement, as it has taken advantage of internal borrowings. This means that the Council's borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns were low and to mitigate exposure to counterparty risk.

## 10. Net Interest Position

10.1. The General Fund shows an improvement against the estimate for net interest payable, the position is:

| | Estimate<br>£ | Actual Outturn<br>£ | Variation<br>£ |
|---|---|---|---|
| **Interest paid** | 1,557,000 | 1,272,808 | (284,192) |
| **Interest earned** | | | |
| Temporary investment interest | (332,700) | (89,181) | 243,519 |
| ECL Loan | (1,205,000) | (448,669) | 756,331 |
| Other interest earned | (9,300) | (9,485) | (185) |
| Science Park Loan | (25,780) | (25,779) | 1 |
| CVS Loan | (4,220) | (4,293) | (73) |
| **Less** | | | |
| Interest to HRA | 250,000 | 253,427 | 3,427 |
| Interest to S106 agreements | 95,000 | 31,254 | (63,746) |
| Interest to deposits held | 0 | 1,490 | 1,490 |
| Interest to Trust Funds | 4,900 | 3,511 | (1,389) |
| Lord Mayors Charity | 100 | 26 | (74) |

| | | | |
|---|---|---|---|
| GF interest (received) / paid out | (1,227,000<br>) | (287,699) | 939,301 |
| **Net Interest** | **330,000** | **985,109** | **655,09** |
| CCLA – LAPF Dividend | (180,000) | (214,131) | (34,131) |
| Investment Loss – General Fund | 0 | 0 | 0 |
| **Net Interest after dividends** | **150,000** | **770,978** | **620,978** |

Net interest for 2021/22 was £621k higher than budget. An expected overspend of £609k was reported to Executive in the general fund revenue budget monitoring report on 19 April 2022.

The key reasons for the variance to budget are as follows:

The budgeted interest payable for 2021/22 anticipated that the Council would take out additional borrowings in the year to finance a further loan to the wholly owned property development company; ECL. The additional borrowings were not required in 2021/22, saving £490k of interest payable.

A loan was taken out in December 2021 to finance the purchase of the Guildhall shopping centre. The interest on this loan for 2021/22 of £210k was not factored in to the original budget.

The interest receivable for 2021/22 was £931k lower than budget. This is due to two key factors; the above mentioned loan to ECL will now not take place until 2022/23 and therefore the related expected interest was not receivable during the year; and the Council received significantly lower than expected rates of interest on investments during 2021/22, investment interest rates were at record lows throughout 2021/22 following the economic recession caused by the global pandemic.

10.2.Housing Revenue Account (HRA)

The HRA earned £253,427 interest on its balances. This is calculated on the following:

- HRA working balance;
- The balance of funds in the Major Repairs Reserve and Useable Capital Receipts

However it has also had to pay interest on borrowing. As members will be aware, the Council had to borrow £56,884,000 to buy itself out of the HRA subsidy scheme, since the borrowing cap was lifted in October 2018, the HRA has borrowed a further £15.36m towards new Council hosing development projects.

Interest of £2,181,363 has been charged to the HRA to cover the interest payment. Additionally £9,485 has been charged on the borrowing used to fund the Council's Own Build properties.

## 11. Investment Interest

A number of Money Market Funds have been set up by the Council, which also allow immediate access to our funds and spreads risk as it is pooled with investments by other organisations and invested across a wide range of financial institutions.

11.1 The council has made two investments, totalling £5m, in the CCLA – LAMIT property fund (April and November 2016). As at 31 March 22 the fund size was approximately £1,439.1 million, the dividend yield as at the end of March was 3.25%, which is significantly higher than the returns on other investment options available. The investment in the property fund is a long term commitment which will mean that there will be fluctuations in the return over the period of the investment. Details of the current value of the investment are provided later in the report.

11.2 The Council's investments as at 31 March 2022 are:

**Money Market Funds**

| Amount | Investment | Interest rate* |
|---|---|---|
| £10,000,000 | Federated Investors | 0.06% |
| £nil | Aberdeen Standard Investments | 0.07% |
| £10,000,000 | CCLA - The Public Sector Deposit Fund | 0.11% |
| £10,000,000 | Black Rock Asset Management | 0.04% |

* Interest rate is variable (therefore rates quoted are an average of 2021/22 rates)

**Fixed Term Deposits – Current**

| Amount | Investment | Interest rate | Date Invested | Maturity Date | No. of Days |
|---|---|---|---|---|---|
| £5,000,000 | Plymouth City Council | 0.10% | 28/06/2021 | 28/06/2022 | 365 |
| £5,000,000 | Blackpool Council | 0.07% | 24/08/2021 | 24/05/2022 | 273 |
| £5,000,000 | London Borough of Croydon | 0.10% | 18/11/2021 | 18/05/2022 | 181 |
| £5,000,000 | Slough Borough Council | 0.08% | 12/11/2021 | 12/05/2022 | 181 |
| £5,000,000 | Royal Borough of Windsor & Maidenhead | 0.03% | 17/11/2021 | 17/05/2022 | 181 |
| £3,000,000 | Standard Chartered Sustainable deposit * | 0.29% | 15/10/2021 | 14/04/2022 | 181 |
| £3,000,000 | Goldman Sachs | 0.37% | 15/12/2021 | 15/06/2022 | 182 |
| £5,000,000 | Wrexham County Borough Council | 0.06% | 22/10/2021 | 22/04/2022 | 182 |
| £3,000,000 | Surrey Heath Borough Council | 0.10% | 14/12/2021 | 14/06/2022 | 182 |

| | | | | | |
|---|---|---|---|---|---|
| £30,000,000 | Debt Management Office | 0.54% | 31/03/2022 | 07/04/2022 | 7 |

*The Standard Chartered Sustainable deposit guarantees that investment is referenced against sustainable assets aligned to the United Nations' Sustainable Development Goals (SDGs).

**Property Funds**

| Amount | Investment | Dividend Yield |
|---|---|---|
| £5,000,000 | CCLA – LAMIT Property Fund | 4.28% |

The value of the investment as at 31 March 2022 was £5,501,251. At the end of the financial year the value of the investment in the Property Fund is adjusted to equal the number of units held multiplied by the published bid price, with the gain or loss taken to the Available for Sale Reserve. Movements in the unit price therefore have no impact on the General Fund until the investment is sold or impaired.

## 12. Borrowings

12.1. The Council's long term borrowing is currently £167.759 million (£95.515 million General Fund and £72.244 HRA) and there is currently no short-term borrowings. Details of loans are set out below.

12.2. The Council made a one-off payment on 28 March 2012, to buy itself out of the HRA subsidy system. The final settlement figure of £56.884 million was confirmed in February 2012. The amount was borrowed from the Public Works Loans Board over a 50 year period and in repayable on maturity at the end of the loan term. The interest rate was 3.48% fixed for the term of the loan.

Existing loans

| Amount | Lender | Interest rate | End date |
|---|---|---|---|
| £56,884,000 | PWLB maturity (HRA) | 3.48% | 28/03/2062 |
| £1,998,419 | PWLB 25 year annuity | 2.34% | 11/01/2044 |
| £1,981,517 | PWLB 25 year annuity | 2.08% | 04/04/2044 |
| £4,342,132 | PWLB 30 year annuity | 1.61% | 26/09/2049 |
| £8,330,308 | PWLB 35 year annuity | 1.71% | 26/09/2054 |
| £34,862,247 | PWLB 50 year annuity | 1.80% | 26/09/2069 |
| £15,360,000 | PWLB maturity (HRA) | 1.31% | 14/04/2070 |
| £44,000,000 | PWLB 50 year annuity | 1.78% | 24/12/2071 |

## 13. Future Position

13.1 The capital financing forecast includes a borrowing requirement of £113.336 million over the medium-term financial plan (£107.736 million General Fund and £5.6 million HRA). The decision of whether to take external long-term borrowing will be made in light of current and forecast interest rates and the decision is delegated to the section 151 Officer and Leader of the Council.

13.2 The Council's four Money Market Funds which are AAA rated, currently offer rates which vary from 0.87% to 0.94%, these rates are likely to improve throughout 2022/23.

13.3 The short term investments that are made through the call accounts and money market funds ensure cash can be accessed immediately. This has an ongoing impact on returns but increases the security of our cash.

13.4 We will also lend, when possible, to institutions on the Council's counterparty list which includes other Local Authorities, UK and Foreign owned banks and the Debt Management Office. The rates received for Local Authority deposits are currently between 1.5% and 2.2% per annum, these rates are likely to improve throughout 2022/23.

## 14. New Investment Opportunities

14.1 Officers meet with the Council's treasury advisors in order to explore alternative investment opportunities.

14.2 Officers will continue to liaise to treasury advisors in respect of new investment opportunities. Any decisions taken will comply with the code of practice that requires the council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

14.3 If an amendment to the current treasury management strategy is required, a report will be presented to committee requesting the necessary amendments.

## 15. How does the decision contribute to the Council's Corporate Plan?

Treasury Management supports the Council in generating additional funds for investing in Services, whilst minimising the amount of interest paid on borrowings. It does not in itself contribute to the Council's Corporate Plan.

## 16. What risks are there and how can they be reduced?

The council uses treasury management advisors who continually provide updates on the economic situation, interest rates and credit ratings of financial institutions. They also provide a counterparty list which details the financial institutions which meet the council's treasury management strategy.

## 17. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;

- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

17.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because there are no significant equality and diversity impacts associated with this decision.

## 18. Carbon Footprint (Environmental) Implications:

We are working towards the Council's commitment to carbon neutral by 2030. The impact of each new investment is considered prior to approval.

## 19. Are there any other options?

None

**Director Finance, David Hodgson**

Author: Kayleigh Searle

## Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

Contact for enquires:
Democratic Services (Committees)
Room 4.36
01392 265275