

REPORT TO EXECUTIVE

Date of Meeting: 29 November 2022

REPORT TO COUNCIL

Date of Meeting: 13 December 2022

Report of: Director Finance

Title: Treasury Management 2022/23 Half Year Update

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

1.1 To report on the current Treasury Management performance for the 2022/23 financial year and the position regarding investments and borrowings at 30 September 2022. The report is a statutory requirement and is for information only with no key decisions required.

2. Recommendations:

2.1 That Members of the Executive and Council note the Treasury Management report in respect of the first six months of the 2022/23 financial year.

3. Reasons for the recommendation:

3.1 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

4.1 The report is an update on the overall performance in respect of Treasury Management for the first six months of the 2022/23 financial year. Therefore, there are no financial or non-financial resource implications.

5. Section 151 Officer comments:

5.1 Net interest paid is looking to be on track against the budget set, although this does somewhat mask significant variances in individual lines as set out in the table in 8.3. As interest rates are rising, it is vital that the Council minimises borrowing as much as possible to protect against significant financial pressures being built into the long term financial position of the Council.

6. What are the legal aspects?

6.1 In February 2012 the Council adopted the updated CIPFA Treasury Management in the Public Services: Code of Practice, which requires the Council to report on its performance at the end of each financial year. Adoption of the Code is required by regulations laid under the Local Government Act 2003.

7. Monitoring Officer's comments:

This report is for Members information and as such raises no issues for the Monitoring officer.

8. Report details:

8.1 Economic Context and Interest Rate Prospects

Interest rate forecasts, provided by our Advisors at the end of September, are set out below.

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

The latest forecast sets out a view that both short 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, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

8.2 Treasury Management Strategy Statement

The Council approved the 2022/23 Treasury Management Strategy Statement at its meeting on 22 February 2022. 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 in-line with 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 may 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 are low and to mitigate exposure to counterparty risk.

8.3 Net Interest Position

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

	Estimate	Actual to 30 September 2022	Estimated Outturn	Variation
	£	£	£	£
Interest paid	2,490,000	947,202	1,894,404	(595,596)
Interest earned				
Temporary investment interest	(339,700)	(363,019)	(726,038)	(386,338)
ECL Loan	(1,178,000)	(224,335)	(448,669)	729,331
Other interest earned	(9,300)	(4,743)	(9,485)	(185)
Science Park Loan	(25,780)	(12,890)	(25,779)	1
CVS Loan	(4,220)	(2,147)	(4,293)	(73)
Less				
Interest to HRA	250,000	239,173	478,346	228,346
Interest to S106 agreements	95,000	33,875	67,751	(27,249)
Interest to deposits held	0	745	1,490	1,490
Interest to Trust Funds	4,900	1,756	3,511	(1,389)
Lord Mayors Charity	100	13	26	(74)
GF interest (received) / paid out	(1,207,000)	(331,570)	(663,140)	543,860
Net Interest	1,283,000	615,632	1,231,264	(51,736)
CCLA – LAPF Dividend	(200,000)	(110,180)	(220,360)	(20,360)
Investment Loss – General Fund	0	0	0	0
Net Interest after dividends	1,083,000	505,452	1,010,904	(72,096)

9. Investments

9.1 The Council can utilise the Government's Debt Management Office (DMO) account and a reserve account with Barclays, these accounts have not been utilised during the period.

Appendix A sets out the institutions that the Council can use for deposits, this is known as our Counterparty list.

9.2 The Council had access to four Money Market Funds during the period. The money market funds 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.

9.3 The Council made investments in the CCLA's LAMIT Property Fund in 2016. It should be noted that investments in property funds are a long term commitment which means that there can be fluctuations on the return from the investment.

9.4 The Council's investments held at 30 September 2022 were:

Money Market Funds

Amount	Investment	Interest rate*
£10,000,000	Federated Investors	1.23%
£0	CCLA - The Public Sector Deposit Fund	1.10%
£6,000,000	Black Rock Asset Management	1.17%
£10,000,000	Aberdeen Standard Investments	1.16%

* Interest rate is variable (therefore rates quoted were as at 30 September 2022)

Fixed Term Deposits - Current

Amount	Investment	Interest rate	Date Invested	Maturity Date	No. of Days
£5,000,000	Thurrock Council	1.2%	12/05/22	14/11/22	186
£5,000,000	Birmingham City Council	2.01%	28/07/22	30/01/23	186
£5,000,000	Slough Borough Council	1.5%	18/05/22	20/02/23	278
£5,000,000	West of England Combined Authority	1.65%	23/06/22	16/03/23	266
£4,000,000	Cheltenham Borough Council	2.7%	13/09/22	13/07/23	303
£3,000,000	Standard Chartered – Sustainable deposit	1.39%	14/04/22	14/10/22	183
£3,000,000	Goldman Sachs	2.115%	15/06/22	15/12/22	183
£2,000,000	Barclays Green notice account	1.25%	19/07/22	65 days from notice date	Min: 65
£1,000,000	Barclays Standard notice account	1.25%	19/07/22	65 days from notice date	Min: 65

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

The Barclays Green account is linked to projects in pursuit of the transition to a lower carbon economy and as such counts towards the Council's Green agenda and can be included in a sustainability clause in the audited accounts.

Property Funds

Amount	Investment	Dividend Yield
£5,000,000	CCLA – LAMIT Property Fund	3.96%

10. Borrowings

10.1 The Council's long term borrowing is currently £167.021 million (£94.777 million General Fund and £72.244 HRA) and there is no short-term borrowing. Details of loans are set out below.

10.2 Given the significant increases in interest rates over the last 9 months the General Fund capital programme as approved in February 2022 is now unaffordable. Work is being undertaken to reduce the borrowing requirement to around £10 million in addition to the approved funding for loans. The loans will generate a return to cover the costs of borrowing.

The current HRA capital programme as at Quarter 2 indicates further borrowing requirement of £1.5 million over the next 3 years.

10.3 The ongoing borrowing requirement will be monitored and a decision of whether to take further borrowing will be made in light of need and current and forecast interest rates. If additional borrowing is required advice will be sought from the treasury management advisors in order that the most cost effective form of borrowing can be secured.

10.4 Existing loans

Principal Amount outstanding as at 30 September 2022	Lender	Interest rate	Loan type	Date of repayment
£56,884,000	PWLB (HRA)	3.48%	Maturity	28/03/2062
£1,963,433	PWLB	2.34%	Annuity	11/01/2044
£1,946,762	PWLB	2.08%	Annuity	04/04/2044
£4,279,064	PWLB	1.61%	Annuity	26/09/2049
£8,233,947	PWLB	1.71%	Annuity	26/09/2054
£34,628,516	PWLB	1.80%	Annuity	26/09/2069
£15,360,000	PWLB (HRA)	1.31%	Maturity	14/04/2070
£43,725,301	PWLB	1.78%	Annuity	24/12/2071

11. Compliance with Treasury and Prudential Limits

During the half year ended 30th September 2022, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy

Statement for 2022/23. No difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

12. Future Position

12.1 The short-term cash surplus will be invested in line with the Council's Treasury Management Strategy and will ensure that funds are available to meet demands, whilst also maximising returns.

12.2 The Council's Money Market Funds which are AAA rated, currently offer rates between 1.1% and 1.23%, the rates are liable to fluctuation in the year. The short term investments that are made through the money market funds ensure cash can be accessed immediately. This has an impact on returns but ensures the liquidity of funds.

12.3 The Council will also lend, when possible, to institutions on the Council's counterparty list which includes other Local Authorities, UK and Foreign owned banks, building societies and the Debt Management Office. The rates received are gradually increasing as the base rate rises. Over the year it is estimated that the weighted average return will be in the region of 1.4%.

12.4 Officers have regular meetings with the Treasury Management advisors in order to seek advice on how to maximise investment returns and to minimise the need to borrow whilst taking into account investment risk.

12.5 Officers continually explore the possibility of widening the investment options available to the Council. If the options are proved to be of interest, and viable, they will be included in the Treasury Management Strategy which is presented to committee for approval in February 2023.

12.6 This will be closely reviewed and advice will be sought from our financial advisors to ensure our counterparty list is adequate and robust enough. Any adjustments to the list and the impact of this will be presented to committee for approval in the Treasury Management Strategy 2023/24.

13. 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.

14. 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.

The volatility of the world economy is being closely monitored and daily updates are provided by our financial advisors and investment brokers. This has somewhat eased in the past month and economic forecasts now show an improved position.

15. Equality Act 2010 (The Act)

15.1 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.

15.2 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.

15.3 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.

15.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because the report is for information only

16. Carbon Footprint (Environmental) Implications:

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

17. Are there any other options?

No.

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

Background papers used in compiling this report:-

None

Contact for enquires:
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