## REPORT TO EXECUTIVE

Date of Meeting: 27 June 2023

## REPORT TO COUNCIL

Date of Meeting: 18th July 2023

Report of: Director Finance

Title: Treasury Management 2022/23

## 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 2022/23 financial year and the position regarding investments and borrowings at 31 March 2023. 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 2022/23 financial year. Therefore, there are no financial or non-financial resource implications.

## 5. Section 151 Officer comments:

Rising interest rates have had a positive impact on the Council's financial position, for both the General Fund and HRA. Moving forward however, this will present challenges as the Council has to borrow to finance its capital programme. Whilst the Council will use its own resources as far as possible to push out the requirement to borrow, the cashflow position means that it is likely that borrowing will be undertaken this year. The Council will utilise short term borrowing where possible to reduce the longer term impact of these high rates.

## 6. What are the legal aspects?

The CIPFA (Chartered Institute of Public Finance and Accountancy) Treasury Management Code of Practice 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.

Chapter 1 of the Act sets out capital finance and accounts requirements. Section 1 states that local authorities have the powers to borrow money for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. Sections 2 to 6 of the Act cover the duty to control borrowing and the duty to determine affordable borrowing limits. Section 12 covers the power to invest.

The Treasury Management Strategy is based on the requirements of DLUHC’s Guidance on Local Government Investments and the CIPFA Treasury Management code.

This report confirms that the section 151 Officer is satisfied that Council borrowing is affordable and in accordance with the provisions of the Local Government Act 2003, the DLUHC’s Guidance and CIPFA Code of Practice.

## 7. Monitoring Officer’s comments:

This report is for Members information and such the Monitoring Officer has no comment to make.

## 8. Report details:

### 8.1. Economic Context and Interest Rate forecast

Forecasts at the time of approval of the Treasury Management Strategy report for 2022/23 were as follows:

| Link Group Interest Rate View 20.12.21 | Dec-21 | Mar-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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BANK RATE | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 |
| 3 month ave earnings | 0.20 | 0.30 | 0.50 | 0.50 | 0.60 | 0.70 | 0.80 | 0.90 | 0.90 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| 6 month ave earnings | 0.40 | 0.50 | 0.60 | 0.60 | 0.70 | 0.80 | 0.90 | 1.00 | 1.00 | 1.10 | 1.10 | 1.10 | 1.10 | 1.10 |
| 12 month ave earnings | 0.70 | 0.70 | 0.70 | 0.70 | 0.80 | 0.90 | 1.00 | 1.10 | 1.10 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |
| 5 yr PWLB | 1.40 | 1.50 | 1.50 | 1.60 | 1.60 | 1.70 | 1.80 | 1.80 | 1.80 | 1.90 | 1.90 | 1.90 | 2.00 | 2.00 |
| 10 yr PWLB | 1.60 | 1.70 | 1.80 | 1.80 | 1.90 | 1.90 | 2.00 | 2.00 | 2.00 | 2.10 | 2.10 | 2.10 | 2.20 | 2.30 |
| 25 yr PWLB | 1.80 | 1.90 | 2.00 | 2.10 | 2.10 | 2.20 | 2.20 | 2.20 | 2.30 | 2.30 | 2.40 | 2.40 | 2.50 | 2.50 |
| 50 yr PWLB | 1.50 | 1.70 | 1.80 | 1.90 | 1.90 | 2.00 | 2.00 | 2.00 | 2.10 | 2.10 | 2.20 | 2.20 | 2.30 | 2.30 |

However by the end of the year our advisers were projecting the following:

| Link Group Interest Rate View 27.03.23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BANK RATE | 4.50 | 4.50 | 4.25 | 4.00 | 3.50 | 3.25 | 3.00 | 2.75 | 2.75 | 2.50 | 2.50 | 2.50 |
| 3 month ave earnings | 4.50 | 4.50 | 4.30 | 4.00 | 3.50 | 3.30 | 3.00 | 2.80 | 2.80 | 2.50 | 2.50 | 2.50 |
| 6 month ave earnings | 4.50 | 4.40 | 4.20 | 3.90 | 3.40 | 3.20 | 2.90 | 2.80 | 2.80 | 2.60 | 2.60 | 2.60 |
| 12 month ave earnings | 4.50 | 4.40 | 4.20 | 3.80 | 3.30 | 3.10 | 2.70 | 2.70 | 2.70 | 2.70 | 2.70 | 2.70 |
| 5 yr PWLB | 4.10 | 4.10 | 3.90 | 3.80 | 3.70 | 3.60 | 3.50 | 3.40 | 3.30 | 3.20 | 3.20 | 3.10 |
| 10 yr PWLB | 4.20 | 4.20 | 4.00 | 3.90 | 3.80 | 3.70 | 3.50 | 3.50 | 3.40 | 3.30 | 3.30 | 3.20 |
| 25 yr PWLB | 4.60 | 4.50 | 4.40 | 4.20 | 4.10 | 4.00 | 3.80 | 3.70 | 3.60 | 3.50 | 3.50 | 3.40 |
| 50 yr PWLB | 4.30 | 4.20 | 4.10 | 3.90 | 3.80 | 3.70 | 3.50 | 3.50 | 3.30 | 3.20 | 3.20 | 3.10 |

Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. Currently the CPI measure of inflation is still above 10% in the UK but is expected to fall back towards 4% by year end. Nonetheless, there remain significant risks to that central forecast.

Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24.

The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

With bond markets selling off, equity valuations struggling to make progress and, latterly, property funds enduring a wretched Q4 2022, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration) became more actively used.

Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

## 9. Treasury Management Strategy

The Council approved the 2022/23 Treasury Management Strategy at its meeting on 22nd 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 which are on the Council's counterparty list.

The Council's stated borrowing strategy was to defer long-term borrowing and to reduce the size of the Council's investment balance instead, however some targeted long term borrowing can 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 instead of borrowing at elevated levels. This strategy is prudent as investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered.

## 10. Net Interest Position

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

| | Estimate £ | Actual Outturn £ | Variation £ |
|---|---|---|---|
| **Interest paid** | 2,490,000 | 1,879,192 | (610,808) |
| **Interest earned** | | | |
| Temporary investment interest | (339,700) | (1,332,043) | (992,343) |
| ECL Loan | (1,178,000) | (438,105) | 739,895 |
| Other interest earned | (9,300) | (9,485) | (185) |
| Science Park Loan | (25,780) | (25,779) | 1 |
| CVS Loan | (4,220) | (4,651) | (431) |
| Guildhall | 0 | (£14,444) | (£14,444) |
| **Less** | | | |
| Interest to HRA | 250,000 | 713,571 | 463,571 |
| Interest to S106 agreements | 95,000 | 108,717 | 13,717 |
| Interest to deposits held | 0 | 4,811 | 4,811 |
| Interest to Trust Funds | 4,900 | 10,556 | 5,656 |
| Lord Mayors Charity | 100 | 176 | 76 |
| GF interest (received) / paid out | (1,207,000) | (986,675) | 220,325 |
| **Net Interest** | **1,283,000** | **892,517** | **(390,483)** |
| CCLA – LAPF Dividend | (200,000) | (232,710) | (32,710) |
| Investment Loss – General Fund | 0 | 0 | 0 |
| **Net Interest after dividends** | **1,083,000** | **659,808** | **(423,192)** |

Net interest for 2022/23 was £423k lower than budget. An expected underspend of £72k was reported in the Treasury Management half year update to Council at its meeting on 13th December 2022.

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

The budgeted interest payable for 2022/23 anticipated that the Council would take out additional borrowings in the year to finance a further £15.6m loan to the wholly owned property development company; ECL. The additional borrowings were not required during the year saving £611k of interest payable. However the budget also included interest from ECL on this loan and the saving is more than offset by the loss of interest of £740k.

The interest receivable for 2022/23 was £1,041k higher than budget as the Council received significantly higher than expected rates of interest on its investments during 2022/23, of which £488k more than budgeted was passed on to the HRA and other funds held.

10.2 The Housing Revenue Account (HRA) earned £713,571 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 housing development projects.

Interest of £2,180,779 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 23 the fund size was approximately £1,203.1 million, the dividend yield as at the end of March was 4.26%. 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 31st March 2023 are:

**Money Market Funds**

| Amount | Investment | Interest rate* |
|---|---|---|
| £nil | Federated Investors | 2.09% |
| £9,000,000 | Aberdeen Standard Investments | 2.20% |
| £6,000,000 | CCLA - The Public Sector Deposit Fund | 2.17% |
| £10,000,000 | Black Rock Asset Management | 2.05% |

* Interest rate is variable (therefore rates quoted are an average of 2022/23 rates)

**Fixed Term Deposits – Current**

| Amount | Investment | Interest rate | Date Invested | Maturity Date | No. of Days |
|---|---|---|---|---|---|
| £3,000,000 | Standard Chartered Sustainable deposit * | 4.32% | 14/10/2022 | 14/04/2023 | 182 |
| £3,000,000 | Goldman Sachs | 3.73% | 15/12/2022 | 15/06/2023 | 182 |
| £5,000,000 | Cheltenham Borough Council | 2.70% | 13/09/2022 | 13/07/2023 | 303 |
| £5,000,000 | Woking Borough Council | 3.75% | 21/12/2022 | 21/06/2023 | 182 |
| £2,000,000 | Barclays Green notice account | 1.60% | 19/07/22 | 65 days from notice date | Min: 65 |
| £1,000,000 | Barclays Standard notice account | 1.60% | 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).

**Property Funds**

| Amount | Investment | Dividend Yield |
|---|---|---|
| £5,000,000 | CCLA – LAMIT Property Fund | 4.65% |

The value of the investment as at 31 March 2023 was £4,594,359. 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 £166.277 million (£94.033 million General Fund and £72.244 HRA) and there is currently no short-term borrowing. 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

Due to investment concerns no additional borrowing was undertaken during the year. The section 151 Officer confirms that borrowing has only been undertaken for a capital purpose and that Council borrowing is affordable and in accordance with the provisions of the Local Government Act 2003 the DLUHC's Guidance and CIPFA Code of Practice.

| Amount as at 31/3/2023 | Lender | Interest rate | End date |
|---|---|---|---|
| £56,884,000 | PWLB maturity (HRA) | 3.48% | 28/03/2062 |
| £1,928,038 | PWLB 25 year annuity | 2.34% | 11/01/2044 |
| £1,911,646 | PWLB 25 year annuity | 2.08% | 04/04/2044 |
| £4,215,488 | PWLB 30 year annuity | 1.61% | 26/09/2049 |
| £8,136,761 | PWLB 35 year annuity | 1.71% | 26/09/2054 |
| £34,392,682 | PWLB 50 year annuity | 1.80% | 26/09/2069 |
| £15,360,000 | PWLB maturity (HRA) | 1.31% | 14/04/2070 |
| £43,448,157 | PWLB 50 year annuity | 1.78% | 24/12/2071 |

## 13. Future Position

13.1 The capital financing forecast includes a borrowing requirement of £34.736 million over the medium-term financial plan (£30.836 million General Fund and £3.9 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 4.06% to 4.12%, these rates are likely to reduce 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 4.1% and 4.4% per annum, these rates are likely to reduce 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)

17.1 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.

17.2 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.

17.3 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.

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

Background papers used in compiling this report:-

None

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