

Rother District Council

Report to:	Audit and Standards
Date:	26 September 2022
Title:	Treasury Management Update
Report of:	Antony Baden – Chief Finance Officer
Purpose of Report:	To note the Council's treasury activities for the second financial quarter ending 30 September 2022
Officer	
Recommendation(s):	It be RESOLVED : That the report be noted

Introduction

1. The Council's Investment Strategy requires regular reports to be presented to this Committee on its treasury management activities. In managing these, the Council has implemented the Department of Levelling Up, Housing and Communities investment guidance and followed the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management.
2. The investment activity to date conforms to the approved strategy and the Council has had no liquidity difficulties. Members are reminded that investment activity is also reported through the Members' Bulletin. This report focuses on the financial period ending the 30 September 2022 and is based on the latest available data.

Financial Investments review

3. As at 30 September 2022, the Council's estimated total investments were about £38 million with £10 million invested in short term call accounts, £6 million in a fixed term deposit with a local authority and £8 million in Property Funds. The remaining £14 million is held the General account, but Members will note that a significant element of this balance relates to cash owed to public bodies, e.g. council tax precepts, shares of business rates.
4. The Council's investments are currently predicted to yield interest income of about £600,000 in 2022/23, but this may be affected by subsequent interest rate changes. As in previous years, its Property Funds are predicted to yield a good return, with income currently predicted to be about £342,000, which would yield returns of between 3.06% and 3.68%. Also, due to the recent increases in interest rates, higher than expected returns (£190,000) are also predicted to be gained from its call accounts with a further £68,000 due on the maturity of a loan to a local authority in February 2023. The investment portfolio and Property Fund values are detailed in Appendix A.

Borrowing

- The Council's Capital Financing Requirement (CFR) shows how much of its capital expenditure is financed by borrowing and is summarized in Appendix B. The pandemic again slowed the pace of programme delivery in 2021/22 however, it has already accelerated in the first half of 2022/23 and is expected to continue doing so throughout the year. Members will also note that the capital programme will again be reviewed for affordability as part of the Medium-Term Financial Planning process.
- The value of outstanding loans as at 30 September 2022 is £32.152 million and the borrowing portfolio is also shown in Appendix B. This is now well below the Council's forecast CFR of £85.657 million as shown in Appendix A, although the difference will decrease as the programme delivery accelerates and the Council's borrowing requirement increases.
- Officers will continue to keep borrowing policy under review and use internal balances where possible to minimize borrowing costs.

Treasury and Prudential Indicators

- The Council's Authorised and Operational external borrowing limits are shown in Appendix C and were approved by Cabinet on 7 February 2022 as part of the Council's Capital Strategy. Members will note that the current borrowing levels shown in Appendix B remain comfortably within both limits.
- The ratio of Net Financing Costs (NFC) to the Net Revenue Stream is predicted to be 5.55% by the end of the financial year, which is 5.83% lower than the original budget. This is due to the delays referred to in paragraph 5 and the additional investment income referred to in paragraph 4, which reduces the NFC. The Prudential Indicators are shown in Appendix C.

Non-Treasury Investments

- The table below shows property rental income for the year against the approved budget and is split between existing assets and those purchased through the Property Investment Strategy (PIS):

Property Type	Budget 2022/23	Q1 Forecast Income	Variance	Return on Investment
	£	£	£	%
Non-PIS	864,615	918,815	(54,200)	6.36
PIS	1,104,550	1,651,050	(546,500)	2.84
Total	1,969,165	2,602,626	(633,461)	

- The additional Non-PIS rent income is due to the rental income from the 2nd floor of Amherst Road. The additional PIS rent income is due to the purchase of Buckhurst Place. Both leases were agreed after Council had approved its budget. Appendix D gives more detail on those properties purchased as part of the PIS.

Economic Update and Outlook

12. At the time of writing there have been no significant developments since the draft 2021/22 treasury management update reported to this Committee on 20 June 2022. However, Members will be aware that the economic outlook remains extremely uncertain and difficult to predict, because the same issues that were dominating the economic scene last time very much remain in place. Officers will continue to monitor closely all economic activity and will report any major changes to Members at the earliest opportunity.

Other issues

13. There is currently a Government consultation being held regarding the future of IFRS9 statutory override. The current 5-year override, which expires on 31 March 2023, allows councils to override fair value movements on pooled investments (like this Council's CCLA and Hermes) in order to protect themselves from market volatility. Such movements are currently reversed from the General Fund and into unusable reserves and as such, they do not have an impact on budget setting. Without the override, negative movements in their value would cause a budget deficit and require more funds to be withdrawn from Usable reserves. Treasurer Societies in recent publications have indicated their preference for the override to become permanent. The consultation closes on 6 October 2022.

This Council currently enjoys a positive value on the Pooled Investment Funds Adjustment Account of £1.25 million which means that their value is higher by that amount than what was originally invested (See Appendix A).

Conclusion

14. The investment activity conforms to the approved strategy and the Council has no liquidity difficulties.

Financial Implications

15. As detailed in the report.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	External Consultation	No
Environmental	No	Access to Information	No
Risk Management	No	Exempt from publication	No

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Appendices:	Appendix A – Investments Portfolio Appendix B – Capital Financing Requirement & Borrowing Portfolio Appendix C – Prudential Indicators

	Appendix D – Performance of PIS properties
Relevant Previous Minutes:	None
Background Papers:	Capital Strategy Report to Cabinet, 7 February 2022
	Treasury Management and Annual Investment Strategies Report to Cabinet, 28 February 2022
Reference Documents:	None

Investments Portfolio

Deposit	Type of account	Maturity Date	Amount £	Interest Rate	Share %
Lloyds - General (RFB)	Call	N/A	13,874,218	1.65%	36.63%
Bank of Scotland (RFB)	Call	N/A	16	0.01%	0.00%
Barclays - Call Account (NRFB)	Call	N/A	5,004,262	0.95%	13.21%
Santander - Call Account	Call	N/A	2,999,214	0.67%	7.92%
Santander - 31 Day Notice Account	31 Days' Notice	N/A	2,000,000	1.00%	5.28%
Thurrock BC (LA)	Term deposit	16/02/2023	6,000,000	2.30%	15.84%
CCLA Local Authority Property Fund	Long Term	N/A	5,000,000	3.68%	13.20%
HERMES Property Fund	Long Term	N/A	2,999,998	3.06%	7.92%
Total			37,877,708		100.00%
Total managed in-house			29,877,711		
Total managed externally			7,999,998		
Total Treasury Investments			37,877,708		

Property Funds

Name of Property Fund	Original Investment Value	Value as at 30 th June 2022	Most up to date 31 August 2022	Change
	£	£	£	£
CCLA Local Authority Property Fund	5,000,000	5,963,636	5,817,504	(146,132)
HERMES Property Fund	2,999,998	3,396,850	3,287,205	(109,645)
Total	7,999,998	9,360,486	9,104,709	(255,777)

Capital Financing Requirement

Capital Financing Requirement (CFR)	2022/23 Original Budget £ (000)	2022/23 Quarter 1 Forecast £ (000)
Opening Balance	25,551	25,551
Add unfinanced capital expenditure	75,876	60,758
Less Minimum Revenue Provision (MRP)	(1,053)	(652)
Closing Balance	100,375	85,657

Current Borrowing Portfolio

Borrowing position as at 30th September 2022					
Properties	Amount o/s	Interest Rate	Term	Type	Full Year Repayments
14, Terminus Road	£431,384	2.59%	50	Annuity	£16,102
14, Terminus Road	£431,332	2.58%	50	Annuity	£16,070
Beeching Road	£1,596,542	2.39%	50	Annuity	£56,729
Various	£1,000,000	2.24%	50	Maturity	£22,400
Glovers House & Barnhorn Road	£8,231,481	2.48%	50	Annuity	£297,572
Various	£6,220,986	1.78%	50	Annuity	£190,804
Various	£9,239,784	1.65%	50	Annuity	£273,881
Caerphilly County Borough Council	£5,000,000	1.70%	2	Maturity	£85,349
Total Borrowing	£32,151,509				£958,907

Treasury Indicators (Borrowing Limits)

Treasury Indicators	30th September 2022 £ (000)
Authorised Limit for External Debt	98,629
Operational boundary for External Debt	93,629
Gross External Debt (actual)	32,152
Remaining Authorised Limit for External Debt	66,477

Prudential Indicators

Prudential Indicators	2022/23 Original Budget £ (000)	2022/23 Quarter 1 Forecast £ (000)
Capital Financing Requirement (CFR)	100,375	85,657
Annual Change in CFR	74,823	60,106
In-Year Borrowing Requirements	75,876	60,758
	2022/23 Original Budget	2022/23 Quarter 1 Forecast
Ratio of Financing costs to Net Revenue Stream (%)	11.38%	5.55%

Properties purchased through the Property Investment Strategy

2022/23 Draft Property Investment Performance						
Property	Purchase Price	Acquisition Costs	Total Cost of Purchase	Annual Rent Income	Annual Running Costs	Net Surplus
	£	£	£	£	£	£
14 Terminus Road	850,000	37,485	887,485	(106,000)	2,050	(103,950)
16 Beeching Road	825,000	45,133	870,133	(92,750)	950	(91,800)
18-40 Beeching Road	825,000	60,638	885,638	(90,300)	11,105	(79,195)
1-7, Wainwright Road	1	358,129	358,130	0	0	0
Glovers House, Bexhill	7,450,000	393,952	7,843,952	(475,000)	6,316	(468,684)
Land at Barnhorn Green, Bexhill	600,000	12,387	612,387	0	0	0
Market Square, Battle	3,075,000	181,184	3,256,184	(195,000)	1,623	(193,377)
35, Beeching Road, Bexhill (headlease)	675,000	0	675,000	(100,000)	999	(99,001)
64, Ninfield Road, Sidley	100,000	0	100,000	(9,000)	143	(8,857)
Buckhurst Place	9,650,000	539,500	10,189,500	(583,000)	143	(582,857)
Land at Mount View Street	4,250,000		4,250,000	0	1,880	1,880
16 & 18 Beeching Park Estate	435,000	19,950	454,950	(36,500)	1,750	(34,750)
Total	28,735,001	1,648,358	30,383,359	(1,687,550)	26,957	(1,660,593)