

Rother District Council

Report to: Audit and Standards Committee

Date: 28 July 2021

Title: Treasury Management Update report

Report of: Antony Baden – Finance Manager

Purpose of Report: to note the Council’s treasury activities for the first financial quarter ending 30 June 2021

Officer

Recommendation(s): It be **RESOLVED**: That the report be noted.

Introduction

1. Cabinet approved the Council’s Investment Strategy for 2021/22 on 8 February 2021 (Minute CB20/99 refers). The strategy requires regular reports to be presented to this Committee on the Council’s treasury management activities. In managing these activities, the Council has implemented the Ministry of Housing, Communities and Local Governments’ investment guidance and followed the Chartered Institute of Public Finance and Accountancy’s (CIPFA) 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 reported through the Members’ Bulletin. This report focuses on the financial period ending on 30 June 2021.

Financial Investments review

3. As at 30 June 2021, the Council’s total investments were £32.3 million. About £10 million is invested with several banking institutions in short term call accounts returning very low rates of interest. However, the Council continues to hold investments totalling £8 million in Property Funds, which deliver much healthier returns of between 3.64% and 4.14%. The remaining £14.3 million is held in the General account to make large payments such as precepts and capital expenditure, (see paragraph 6 for further information).
4. The total income from investments is currently forecast at £350,000, which is £26,000 higher than the budget and as mentioned in paragraph 3 above, the largest returns are from the Council’s Property Funds. Members should note though that the ongoing pandemic crisis could still adversely affect future returns.

5. The investment portfolio and capital values of the Property Funds as at 30 June 2021 are detailed in Appendix A.

Borrowing

6. The Council's underlying need to borrow is termed the Capital Financing Requirement (CFR). This is managed by ensuring there is enough cash available to meet capital and day-to-day expenditure, in the cheapest and most efficient way. It is not allowed to rise indefinitely, so the Council must make a statutory annual revenue charge, called the Minimum Revenue Provision (MRP), which is effectively a repayment of borrowing. The Council's expected CFR requirement in 2021/22 is £66.419 million.
7. The Council has not taken out any new borrowing for several months, although it will need to do so should capital investment accelerate as intended. The current balance of outstanding loans is £11.810 million.
8. The pandemic severely disrupted the Council's capital programme last year and although capital investment is planned to increase in 2021/22, it may well continue to influence the pace of project delivery. The Capital Programme approved by Cabinet on 8 February 2021 anticipates expenditure to be £62,569 million in this financial year, of which £48.76 million will be funded from additional borrowing.
9. The Council's current capital programme (as approved by Cabinet 8 February 2021), estimated CFR requirement for 2021/22 and borrowing portfolio are shown in Appendix B. Please note, the Capital Programme is in the process of being updated to reflect the 2020/21 outturn and other changes.

Prudential Indicators

10. The Council manages its borrowing activities in accordance with the CIPFA Prudential Code for Capital Finance by maintaining a set of prudential indicators, which are designed to support decision making at a local level. They are described in paragraphs 11 to 14 below.
11. The Operational boundary for external debt is the Council's maximum borrowing limit and the Authorised limit allows some headroom in case of unusual/unexpected cash outflows. Both limits must be approved by Members.
12. The CFR is explained in paragraph 6 and is estimated to change by £48.25 million in 2021/22. It is not fully funded by loan debt because the Council has been able to temporarily use reserves and balances instead, which is cheaper all the while investment returns remain low, (as explained in paragraph 3).
13. The in-year borrowing requirement is explained in paragraph 8 and is estimated to increase by £48.76 million in 2021/22.
14. The Net Financing Costs, as a proportion of the Net Revenue Stream, measures the proportion of the Council's income taken up by the net financing of debt. The

ratio is expected to decrease by 0.78% to 7.27% in 2021/22 due to slightly better than anticipated returns on investments, as explained in paragraph 4 above.

15. The current indicators are summarised in Appendix C.

Non-Treasury Investments

16. The budget for rental income from all investment properties is £1,766,780, which is made up of £800,480 for the existing assets and £966,300 for properties purchased through the Council's Property Investment Strategy, (PIS). This equates to a gross return of 6.25%. Rent arrears arising as a result of the pandemic have so far been minimal, but economic conditions remain challenging and further write-offs cannot be ruled out.

Economic Update and Outlook

17. Lockdown restrictions continue to be eased across the country as it returns to economic normality. However, various support packages announced in the budget statement on 3 March 2021 have either finished or are due to finish by October 2021. This could have an adverse impact on the Council's cash position in terms of reduced Council Tax and Business Rates income and increased Housing Benefit claims. The main packages that remain in place for this financial year are as follows:
 - a. Business Rates relief scheme – ended 30 June 2021
 - b. Job furlough scheme - ends 30 September 2021
 - c. Universal Credit uplift – ends 30 September 2021
18. The budget statement also included a cut of £4 billion on public service expenditure, which could have serious implications for the Council's future financial position.
19. The Bank of England base rate remains unchanged at 0.10% and Public Works Loan Board rates have also reduced in recent weeks. For example, the 50-year repayment loan rate has recently been as low as 1.64% (it was around 1.95% at 31 March 2021), so rates are still extremely attractive should the Council need to borrow to finance capital expenditure in the near term.
20. The Audit and Standards Committee is recommended to note the report.

Conclusion

21. The investment activity conforms to the approved strategy and the Council has no liquidity difficulties.
22. The investment environment for treasury activities remains difficult and is likely to remain so for the foreseeable future. Absolute returns are expected to remain low. The diversification into Property Funds increases the overall return but is less liquid and carries greater capital risk than other investments.

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

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Appendices:	Appendix A – Investments Portfolio Appendix B – Capital Programme, Capital Financing Requirement & Borrowing Portfolio Appendix C – Prudential Indicators
Relevant Previous Minutes:	CB20/99
Background Papers:	None
Reference Documents:	None

Investments Portfolio

Deposit	Type of account	Maturity Date	Amount £	Interest Rate	Share %
Lloyds - General (RFB)	Call	N/A	14,308,818	0.00%	44.30%
Bank of Scotland (RFB)	Call	N/A	46	0.00%	0.00%
Barclays - Call Account (NRFB)	Call	N/A	4,996,066	0.05%	15.47%
Santander - Call Account	Call	N/A	2,995,000	0.12%	9.27%
Santander - 31 Day Notice Account	31 Days Notice	N/A	2,001,866	0.27%	6.20%
CCLA Local Authority Property Fund	Long Term	N/A	5,000,000	4.14%	15.48%
HERMES Property Fund	Long Term	N/A	2,999,998	3.64%	9.29%
Total			32,301,794		100.00%
Total managed in-house			24,301,797		
Total managed externally			7,999,998		
Total Treasury Investments			32,301,794		

Property Funds

Name of Property Fund	Original Investment Value	Value as at 30th June 2021	Value as at 31st Mar 2021	Change
	£	£	£	£
CCLA Local Authority Property Fund	5,000,000	4,909,027	4,746,477	162,550
HERMES Property Fund	2,999,998	2,861,330	2,779,774	81,556
Total	7,999,998	7,770,357	7,526,251	244,106

Capital Programme approved by Cabinet, 8 February 2021

Line	2021/22 Budget £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)
Acquisitions, Transformation and Regeneration					
Other Schemes					
1 Community Grants	130	130	130	130	130
2 Cemetery Entrance					
3 Rother Transformation ICT Investment					
4 Corporate Document Image Processing System					
5 1066 Pathways					
6 Ravenside Roundabout					
Property Investment Strategy					
7 Office Development NE Bexhill	15,737	19,496			
8 Mount View Street Development - Public/Commercial					
9 PIS - Beeching Road/Wainwright Road	900	2,000			
10 PIS - Barnhorn Road	3,345	6,102	403		
11 PIS - Beeching Road 18-40	392				
12 PIS - 35 Beeching Road					
Housing Development Schemes					
13 Community Led Housing Schemes	303				
14 Blackfriars Housing Development	10,350				
15 Mount View Street Development - Housing	3,657	3,657	3,482		
16 Alliance Homes (Rother) Ltd	25,000	37,000	18,000		
17 Former Bexhill High School site - Housing					
Housing and Community Services					
18 De La Warr Pavilion - Capital Grant	54	55	56	57	
19 Sidley Sports and Recreation	811				
20 Land Swap re Former High School Site					
21 Bexhill Leisure Centre - site development		193			
22 Bexhill Leisure Centre - refurbishment	140				
23 Disabled Facilities Grant	1,625	1,625	1,625	1,625	1,625
24 New bins	125	125	125	125	125
25 Bexhill Promenade - Outflow pipe					
26 Bexhill Promenade - Protective Barriers					
27 Fairlight Coastal Protection					
28 Housing (purchases - temp accomodation)					
Strategy & Planning					
29 Grants to Parishes - CIL					
Executive Directors & Corporate Core					
30 Accommodation Strategy					
Resources					
31 ICT Infrastructure – Ongoing Upgrade Programme					
Total Capital Programme	62,569	70,383	23,821	1,937	1,880
Funded By:					
Capital Receipts	0	0	0	0	0
Grants and contributions	12,993	1,625	1,625	1,625	1,625
CIL	193	0	0	0	0
Borrowing	48,764	68,380	22,010	125	125
Capital Expenditure Charged to Revenue	619	378	186	187	130
Total Funding	62,569	70,383	23,821	1,937	1,880

Capital Financing Requirement

Capital Financing Requirement	2021/22 Original Budget £ (000)	2021/22 Estimated Outturn £ (000)
Opening Balance	18,168	18,168
Add unfinanced capital expenditure	48,764	48,764
Less Minimum Revenue Provision (MRP)	(513)	(513)
Closing Balance	66,419	66,419

Current Borrowing Portfolio

Borrowing position as at 30th June 2021					
Properties	Amount o/s	Interest Rate	Term	Type	Full Year Repayments
14, Terminus Road	£436,219	2.59%	50	Annuity	£16,102
14, Terminus Road	£436,180	2.58%	50	Annuity	£16,070
Beeching Road	£1,614,787	2.39%	50	Annuity	£56,729
Various	£1,000,000	2.24%	50	Maturity	£22,400
Glovers House & Barnhorn Road	£8,323,202	2.48%	50	Annuity	£297,572
Total Borrowing	£11,810,388				£408,873

Treasury Indicators (Borrowing Limits)

Treasury Indicators	30 June 2021 £ (000)
Authorised Limit for External Debt	66,370
Operational boundary for External Debt	61,370
Gross External Debt (actual)	11,869
Remaining Authorised Limit for External Debt	54,501

Prudential Indicators

Prudential Indicators	2021/22 Original Budget £ (000)	2021/22 Estimate Outturn £ (000)
Capital Financing Requirement (CFR)	66,419	66,419
Annual Change in CFR	48,251	48,251
In-Year Borrowing Requirements	48,764	48,764
Ratio of Financing costs to Net Revenue Stream %	8.05%	4.30%