

Rother District Council

Report to:	Audit and Standards Committee
Date:	21 March 2022
Title:	Treasury Management Update
Report of:	Antony Baden – Chief Finance Officer
Purpose of Report:	To note the Council's treasury activities for the third financial quarter ending the 31 December 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, 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 31 December 2021 and is based on the latest available data.

Financial Investments review

3. As at 31 December 2021, the Council's total investments are estimated to be about £53 million with £18 million invested in short term call accounts and Property Funds. The remaining £35 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. Income from investments is forecast at £280,000 and is mainly achieved from the Property Funds, which are currently yielding returns of between 3.31% and 3.77%. The investment portfolio and Property Fund values are detailed in Appendix A.

Capital Programme and Borrowing

5. The pandemic has continued to slow the pace of the Council's capital programme delivery (see Appendix B) and expenditure is forecast to be £15.348 million in 2021/22.

6. As a result of the increase in capital expenditure referred to in paragraph 6, the Council's Capital Financing Requirement (CFR) is forecast to increase to £26.167 million by the 31 March 2022. The CFR shows how much of the Council's capital expenditure is to be financed by borrowing and a summary is shown in Appendix B.
7. The value of outstanding loans will be £27.312 million, (the borrowing portfolio is also shown in Appendix B). This means the Council now has an 'over-borrowed' position of £1.145 million but this will only be for a short period of time, until further expenditure is incurred in 2022/23. The reason for this is because since the quarter 2 report, further borrowing of £9.3 million has been taken out at an interest rate of 1.65%. This is in addition to the £6.3 million of new borrowing taken out at 1.78% in the previous quarter.
8. The Treasury Management Strategy was approved by Cabinet on the 28 February 2022 and it included a forecast of Public Works Loans Board (PWLB) borrowing rates. The 50-year rate is forecast to rise to 2.4% by March 2025. If that happens, the Council could expect to save approximately £2.9 million in interest payments over a 50-year period as a result of taking out the new borrowing. This figure would increase to about £4.3 million should rates increase by 1%.
9. Officers will continue to keep borrowing policy under review and use internal balances where possible to minimize borrowing costs, but also take out new borrowing when required at the lowest rates possible.

Treasury and Prudential Indicators

10. The updated Authorised and Operational external borrowing limits were approved by Cabinet on 7 February 2022 as part of the Council's Capital Strategy – please see Appendix C. The Council's current borrowing levels shown in Appendix B are comfortably within both limits.
11. The ratio of Net Financing Costs to the Net Revenue Stream is expected to be 2.03% based on current forecasts, which is 6.40% lower than the original budget of 8.43%. This is due to the delay in the capital programme delivery referred to in paragraph 5 above. The Prudential Indicators are shown in Appendix C.

Non-Treasury Investments

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

Property Type	Budget 2021/22	Forecast Rent	Variance	Return on Investment
	£	£	£	
Non-PIS	851,480	869,447	(17,967)	5.42%
PIS	966,300	1,046,488	(80,188)	7.16%
Total	1,817,780	1,915,936	(98,155)	6.24%

13. The PIS rental income exceeds the budget due to a lower than anticipated level of voids on the 16, Beeching Road site.

Economic Update and Outlook

14. Whilst economic activity continues its recovery to pre-lockdown levels, the overall situation remains very uncertain. The cost of energy for domestic customers and commercial entities is set to increase significantly from April 2022 and the price of fuel at the pumps has already begun to rise. Employers and employees will also experience an additional 'hit' from April in the form of an increase of 1.25% percentage points on national insurance. However, the financial impact of the above has been partially alleviated for many council taxpayers as they will receive a £150 rebate on their 2022/23 bills as well as some limited support in relation to scheduled energy bill payments.
15. The Bank of England have increased the base rate to 0.50% since the last quarter update and further increases are predicted soon. Further information on interest rate forecasts is available in the Treasury Management Strategy report approved by Cabinet on 28 February 2022.
16. The current economic uncertainty has been exacerbated by the Russian invasion of Ukraine and whilst there has been worldwide condemnation and sanctions imposed on Russia, the war may be in its early days and its longer lasting impact on the global economic situation is still unclear.
17. The Audit and Standards Committee is recommended to note the report.

Conclusion

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

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, CFR & Borrowing Portfolio Appendix C – Prudential Indicators
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	34,754,313	0.00%	65.89%
Bank of Scotland (RFB)	Call	N/A	46	0.00%	0.00%
Barclays - Call Account (NRFB)	Call	N/A	4,996,066	0.05%	9.47%
Santander - Call Account	Call	N/A	2,995,000	0.12%	5.68%
Santander - 31 Day Notice Account	31 Days Notice	N/A	2,001,868	0.27%	3.80%
CCLA Local Authority Property Fund	Long Term	N/A	5,000,000	3.68%	9.48%
HERMES Property Fund	Long Term	N/A	2,999,998	3.47%	5.69%
Total			52,747,291		100.00%
Total managed in-house			44,747,293		
Total managed externally			7,999,998		
Total Treasury Investments			52,747,291		

Property Funds

Name of Property Fund	Original Investment Value	Value as at 31st Dec 2021	Value as at 30th Sept 2021	Change
	£	£	£	£
CCLA Local Authority Property Fund	5,000,000	5,333,465	4,975,033	358,432
HERMES Property Fund	2,999,998	3,103,560	2,904,196	199,364
Total	7,999,998	8,437,025	7,879,229	557,796

Capital Programme updated, 31st December 2021

Line	2021/22 Revised Budget £ (000)	2021/22 Estimated Outturn £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)	2026/27 Budget £ (000)	Total Budget £ (000)
Acquisitions, Transformation and Regeneration								
Other Schemes								
1	130	110	130	130	130	130	130	760
2	172	89	83					172
3	384	231	153					384
4	435	36	399					435
5	66	65	0					65
6	200		200					200
7	460	445	15					460
Property Investment Strategy								
8	964	2,975						2,975
9	963	373	2,590					2,963
10	3,402	577	6,099	3,313				9,989
11	501	595	29					624
12	100	0						0
Housing Development Schemes								
13	600	434	166					600
14	10,728	2,900	7,450					10,350
15	6,940							0
16	25,000	1,508	60,492	18,000				80,000
17	100	101						101
Housing and Community Services								
18	54	56	55	56	57			224
19	811	710	101					811
20	1,085	185	900					1,085
21			189					189
22	140	50	90					140
23	1,625	1,250	1,625	1,625	1,625	1,625	1,625	9,375
24	125	114	125	125	125	125	125	739
25	100	20	80					100
26	47	46						46
27		5	55					60
28		19						19
29	7,300	2,255	4,000	1,500				7,755
Strategy & Planning								
30	88	40	48					88
Resources								
31	123	109	14					123
32	50	50	350	350				750
Total Capital Programme								
	62,693	15,348	85,438	25,099	1,937	1,880	1,880	131,582
Funded By:								
Capital Receipts	1,085	185	900	0	0	0	0	1,085
Grants and contributions	13,893	6,143	7,200	1,625	1,625	1,625	1,625	19,843
CIL	431	238	446	0	0	0	0	684
Borrowing	20,846	6,727	15,384	5,288	125	125	125	27,774
Capital Expenditure Charged to Revenue	1,438	547	1,016	186	187	130	130	2,196
Borrowing - Alliance Homes (Rother) Ltd	25,000	1,508	60,492	18,000	0	0	0	80,000
Total Funding								
	62,693	15,348	85,438	25,099	1,937	1,880	1,880	131,582

Capital Financing Requirement

Capital Financing Requirement (CFR)	2021/22 Original Budget £ (000)	2021/22 Estimated Outturn £ (000)
Opening Balance	18,168	18,168
Add unfinanced capital expenditure	48,764	8,235
Less Minimum Revenue Provision (MRP)	(513)	(235)
Closing Balance	66,419	26,167

Current Borrowing Portfolio

Borrowing position as at 31st December 2021					
Properties	Amount o/s	Interest Rate	Term	Type	Full Year Repayments
14, Terminus Road	£433,817	2.59%	50	Annuity	£16,102
14, Terminus Road	£433,771	2.58%	50	Annuity	£16,070
Beeching Road	£1,605,719	2.39%	50	Annuity	£56,729
Various	£1,000,000	2.24%	50	Maturity	£22,400
Glovers House & Barnhorn Road	£8,277,624	2.48%	50	Annuity	£297,572
Various	£6,260,668	1.78%	50	Annuity	£190,804
Various	£9,300,000	1.65%	50	Annuity	£136,940
Total Borrowing	£27,311,599				£736,617

Treasury Indicators (Borrowing Limits)

Treasury Indicators	31st Dec 2021 £ (000)
Authorised Limit for External Debt	98,629
Operational boundary for External Debt	93,629
Gross External Debt (actual)	27,312
Remaining Authorised Limit for External Debt	71,317

Prudential Indicators

Prudential Indicators	2021/22 Original Budget £ (000)	2021/22 Estimated Outturn £ (000)
Capital Financing Requirement (CFR)	66,419	26,167
Annual Change in CFR	48,251	8,000
In-Year Borrowing Requirements	48,764	8,235
Ratio of Financing costs to Net Revenue Stream (%)	8.43%	2.03%