

Rother District Council

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| Report to: | Audit and Standards Committee |
| Date: | 20 June 2022 |
| Title: | Treasury Management Update – 2021/22 Outturn |
| Report of: | Antony Baden – Chief Finance Officer |
| Purpose of Report: | To note the Council’s treasury activities for the fourth financial quarter ending 31 March 2022 |
| Officer | |
| Recommendation(s): | It be RESOLVED: That the report be noted. |

Introduction

1. The Council’s Investment Strategy for 2021/22 requires regular reports to be presented to this Committee on 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 March 2022 and is based on the latest available data.
3. Members will note that the 2021/22 outturn figures are draft and also subject to audit although no material changes are anticipated at this point in time.

Financial Investments Review

4. As at 31 March 2022, the Council’s total investments were about £51m with £18m invested in short term call accounts and Property Funds. The remaining £33m 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.
5. The Council’s investments yielded interest income of £350,000 in 2021/22 mainly from its Property Funds, which yielded returns of between 3.41% and 3.68%. The investment portfolio and Property Fund values are detailed in Appendix A.

Borrowing

6. The Council’s Capital Financing Requirement (CFR) shows how much of its capital expenditure is financed by borrowing and it is summarised in Appendix B. The pandemic again slowed the pace of the capital programme delivery in 2021/22 so the CFR only increased by £7.492m against a budget of £48.764m.

7. The value of outstanding loans as at 31 March 2022 is £27.312m, (the borrowing portfolio is also shown in Appendix B). This is £1.864m higher than the CFR, which means the Council has ‘over-borrowed’ but this will only be for a short period of time, until further capital expenditure is incurred in 2022/23. The reason for this was reported to this Committee on 21 March 2022 in the quarterly update report and relates to new borrowing taken out during the last financial year.
8. Officers will continue to keep borrowing policy under review and use internal balances where possible to minimise borrowing costs.

Treasury and Prudential Indicators

9. The Council’s Authorised and Operational external borrowing limits are shown in Appendix C and were approved by Cabinet on the 7 February 2022 as part of the Council’s Capital Strategy. Members will note that the current borrowing levels shown in Appendix B are comfortably within both limits.
10. The ratio of Net Financing Costs to the Net Revenue Stream is 1.74%, which is 6.69% lower than the original budget. 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

11. 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 2021/22 | Draft Rent Income | Variance | Return on Investment |
|---------------|------------------|-------------------|-----------------|----------------------|
| | £ | £ | £ | % |
| Non-PIS | 851,480 | 848,639 | 2,841 | 5.05% |
| PIS | 966,300 | 1,046,237 | (79,937) | 3.17% |
| Total | 1,817,780 | 1,894,876 | (77,096) | |

12. The above table shows the overall return on investment on all PIS properties, including borrowing costs. Appendix D shows detail including the total cost of purchase as well as running costs.

Economic Update and Outlook

13. The main change since the previous treasury management update that affects the Council was the Bank of England announcement to increase the base rate to a 13 year high of 1%. The impact on the Council is that the increase has been mirrored by an increase in the Public Works Loans Board lending rates, which will make future borrowing more expensive.
14. Further increases are expected over the forthcoming months, although Members will appreciate that forecasting economic activity in the current climate is fraught with difficulties. Officers will continue to monitor closely any

future changes and will factor them into the Council's Medium-Term Financial Plan, which will be reported to Members later in the financial year.

15. There are other economic issues that will have a significant impact on the Council. For example, the Council has recently procured a new electricity supply contract and while this still has to be properly costed, an increase of over 60% can be expected. Also, the cost of living crisis will hit thousands of families across the district and that could in turn have an impact on council tax collection rates.
16. Global events may also affect the Council, especially the Russian invasion of Ukraine, which may have a long-lasting impact on things such as food and energy prices.

Conclusion

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

Financial Implications

18. 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 – Purchased 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 | 32,357,485 | 0.00% | 64.26% |
| Bank of Scotland (RFB) | Call | N/A | 16 | 0.00% | 0.00% |
| Barclays - Call Account (NRFB) | Call | N/A | 4,998,147 | 0.05% | 9.93% |
| Santander - Call Account | Call | N/A | 2,999,214 | 0.12% | 5.96% |
| Santander - 31 Day Notice Account | 31 Days Notice | N/A | 2,001,868 | 0.27% | 3.98% |
| CCLA Local Authority Property Fund | Long Term | N/A | 5,000,000 | 3.68% | 9.93% |
| HERMES Property Fund | Long Term | N/A | 2,999,998 | 3.41% | 5.96% |
| Total | | | 50,356,728 | | 100.00% |
| Total managed in-house | | | 42,356,731 | | |
| Total managed externally | | | 7,999,998 | | |
| Total Treasury Investments | | | 50,356,728 | | |

Property Funds

| Name of Property Fund | Original Investment Value | Value as at 31st Mar 2022 | Value as at 31st Dec 2021 | Change |
|------------------------------------|---------------------------|---------------------------|---------------------------|----------------|
| | £ | £ | £ | £ |
| CCLA Local Authority Property Fund | 5,000,000 | 5,579,590 | 5,333,465 | 246,125 |
| HERMES Property Fund | 2,999,998 | 3,250,474 | 3,103,560 | 146,914 |
| | | | | |
| Total | 7,999,998 | 8,830,064 | 8,437,025 | 393,039 |

Capital Financing Requirement

| Capital Financing Requirement (CFR) | 2021/22 Original Budget £ (000) | 2021/22 Draft Outturn £ (000) |
|--|--|--|
| Opening Balance | 18,168 | 18,168 |
| Add unfinanced capital expenditure | 48,764 | 7,492 |
| Less Minimum Revenue Provision (MRP) | (513) | (213) |
| Closing Balance | 66,419 | 25,447 |

Current Borrowing Portfolio

| Borrowing position as at 31st March 2022 | | | | | |
|---|--------------------|--------------------------|-------------|-------------|---------------------------------|
| 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 | £273,880 |
| Total Borrowing | £27,311,599 | | | | £873,557 |

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 Draft Outturn £ (000) |
|--|--|--|
| Capital Financing Requirement (CFR) | 66,419 | 25,447 |
| Annual Change in CFR | 48,251 | 7,279 |
| In-Year Borrowing Requirements | 48,764 | 7,492 |
| Ratio of Financing costs to Net Revenue Stream (%) | 8.43% | 1.74% |

Properties purchased through the Property Investment Strategy

| 2021/22 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 | (68,225) | 950 | (67,275) |
| 18-40 Beeching Road | 825,000 | 60,638 | 885,638 | (90,298) | 9,232 | (81,066) |
| 1-7, Wainwright Road | 1 | 358,129 | 358,130 | 0 | 0 | 0 |
| Glovers House, Bexhill | 7,450,000 | 393,952 | 7,843,952 | (479,369) | 542 | (478,827) |
| 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) | 162 | (194,838) |
| 35, Beeching Road, Bexhill (headlease) | 675,000 | 0 | 675,000 | (100,000) | 100 | (99,900) |
| 64, Ninfield Road, Sidley | 100,000 | 0 | 100,000 | (7,345) | 64 | (7,281) |
| Total | 14,400,001 | 1,088,908 | 15,488,909 | (1,046,237) | 13,100 | (1,033,137) |