

Rother District Council

Report to: Audit and Standards Committee

Date: 27 July 2022

Title: Treasury Management Update Report

Report of: Antony Baden – Chief Finance Officer

Purpose of Report: To note the Council's treasury activities for the first financial quarter ending the 30 June 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 30 June 2022 and is based on the latest available data.

Financial Investments review

3. As at 30 June 2022, the Council's total investments were about £37m with £18m invested in short term call accounts and Property Funds. The remaining £19m is held in 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 predicted to yield interest income of £532,000 in 2022/23. 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 3.52% and 3.72%. 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. The investment portfolio and Property Fund values are detailed in Appendix A.

Borrowing

5. 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 quarter 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.

6. The value of outstanding loans as at 30 June 2022 is £27.152m and the borrowing portfolio is also shown in Appendix B. This is now well below the Council's forecast CFR of £85.657m as shown in Appendix A, although the difference will decrease as the programme delivery accelerates and the Council's borrowing requirement increases.
7. Officers will continue to keep borrowing policy under review and use internal balances where possible to minimize borrowing costs.

Treasury and Prudential Indicators

8. 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.
9. The ratio of Net Financing Costs (NFC) to the Net Revenue Stream is predicted to be 5.69% by the end of the financial year, which is 6.13% 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

10. 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)	3.03%
Total	1,969,165	2,569,865	(301,725)	

11. The additional Non-PIS rent income is due to the rental income from the second 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. 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.

Conclusion

13. 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	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
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	18,531,244	1.15%	50.72%
Bank of Scotland (RFB)	Call	N/A	16	0.00%	0.00%
Barclays - Call Account (NRFB)	Call	N/A	5,004,262	0.05%	13.70%
Santander - Call Account	Call	N/A	2,999,214	0.41%	8.21%
Santander - 31 Day Notice Account	31 Days Notice	N/A	2,000,000	0.32%	5.47%
CCLA Local Authority Property Fund	Long Term	N/A	5,000,000	3.72%	13.69%
HERMES Property Fund	Long Term	N/A	2,999,998	3.52%	8.21%
Total			36,534,733		100.00%
Total managed in-house			28,534,736		
Total managed externally			7,999,998		
Total Treasury Investments			36,534,733		

Property Funds

Name of Property Fund	Original Investment Value	Value as at 30th June 2022	Value as at 31st Mar 2022	Change
	£	£	£	£
CCLA Local Authority Property Fund	5,000,000	5,579,590	5,579,590	0
HERMES Property Fund	2,999,998	3,396,851	3,250,474	146,377
Total	7,999,998	8,976,441	8,830,064	146,377

- Note – The value of the CCLA fund will be updated once the quarterly customer statement has been received.

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 June 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
Total Borrowing	£27,151,509				£873,558

Treasury Indicators (Borrowing Limits)

Treasury Indicators	30th June 2022 £ (000)
Authorised Limit for External Debt	98,629
Operational boundary for External Debt	93,629
Gross External Debt (actual)	27,152
Remaining Authorised Limit for External Debt	71,477

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
Ratio of Financing costs to Net Revenue Stream (%)	11.82%	5.69%

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)	9,232	(81,068)
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)	542	(474,458)
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	(9,000)	64	(8,936)
Buckhurst Place	9,650,000	539,500	10,189,500	(583,000)	0	(583,000)
Total	24,050,001	1,628,408	25,678,409	(1,651,050)	13,100	(1,637,950)