

## Rother District Council

<b>Report to:</b>	Cabinet
<b>Date:</b>	12 December 2022
<b>Title:</b>	Mid-Year Treasury Management Review
<b>Report of:</b>	Antony Baden – Chief Finance Officer
<b>Cabinet Member:</b>	Councillor Jeeawon
<b>Ward(s):</b>	-
<b>Purpose of Report:</b>	To note the Council's treasury and investment activities for the first half of the 2022/23 financial year
<b>Decision Type:</b>	Non-Key
<b>Officer Recommendation(s):</b>	It be <b>RESOLVED:</b> That the report be noted.

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### Introduction

1. Cabinet approved the Council's Treasury Management & Annual Investment Strategies at its meeting of the 28 February 2022 (Minute CB21/85 refers). In managing these, the Council follows both the Department of Levelling Up, Housing and Communities investment guidance and the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management.
2. The Treasury Management strategy requires that the following main reports are presented to the relevant committee each financial year:
  - a. Prudential & Treasury indicators and Treasury Strategy;
  - b. A mid-year Treasury Management report; and
  - c. An annual Treasury Management report.
3. The Audit & Standards Committee has delegated responsibility for overseeing the Treasury Management function and ensuring that performance is compliant with the strategy. To this end, it receives quarterly Treasury Management updates thus meeting the requirements of 2(a) and 2(c) above. The Treasury Management strategy requires that the mid-year update (see 2(b) above) should be reported to Cabinet therefore the Quarter 2 update, which was reported to Audit & Standards Committee on the 26 September 2022, is included at Appendix 1 in full. Further commentary is provided in paragraphs 4 to 8.

### Financial Investments

4. The Council's total investments fluctuate continuously because it holds its own reserves and significant sums of cash owed to other public bodies, e.g. council tax precepts, shares of business rates. The first two tables in Appendix 1 (Appendix A of the report) show its investments portfolio. As at the mid-year

these were predicted to yield about £600,000 in 2022/23, which is £250,00 higher than the budget.

## **Borrowing**

5. The Council's Capital Financing Requirement (CFR) shows how much of its capital expenditure is financed by borrowing. The CIPFA Code of Practice states that total borrowing should not exceed the CFR. Appendix 1 (Appendix B of the report) shows that the Council's total borrowing as at the 30 September 2022 is £32.152 million and well below the forecast CFR of £85.657 million.

## **Treasury and Prudential Indicators**

6. The Council's borrowing limits are shown in Appendix 1 (Appendix C of the report) and were approved as part of the Treasury Management strategy. Members will note that the Council's current borrowing levels are well within these limits. These will be reviewed for suitability as part of the 2023/24 Treasury Management strategy.
7. The ratio of Net Financing Costs to the Net Revenue Stream is also shown in Appendix 1 (Appendix C of the report) and the current forecast figure is much lower than the original budget due to the underspend on borrowing costs and additional investment income referred to in paragraph 4.

## **Non-Treasury Investments**

8. Appendix 1 (Appendix D of the report) details the properties purchased through the Property Investment Strategy (PIS) and the table in paragraph 10 of Appendix 1 summarises the Council's return on its non-treasury investments. Performance is predicted to exceed the 2022/23 budget and in respect of properties purchased through the PIS, it has exceeded the 2% target set within the strategy.

## **Other issues**

9. The economic outlook remains uncertain and difficult to predict. Inflation is still high and interest rates have risen significantly, although they have also stabilised somewhat over the last few weeks.
10. Members also need to be aware of the IFRS9 statutory override, which allows councils to disregard changes in the value of their pooled investments and protect council taxpayers from market volatility. The Council has two such investments (CCLA and Hermes) originally invested at £8 million. The override expires on the 31 March 2023 and if it was discontinued, any change in values would have to be reflected in the General Fund. This would impact on the Council's usable reserves. As can be seen from Appendix 1 (Appendix A of the report) the Council's investments held a value of £9.104 million at the 31 August 2022, which is £1.104 million more than its original investment.

## **Conclusion**

11. The Council's investment activities to date conform with the approved strategies and the Council has had no liquidity difficulties.

## Financial Implications

12. As detailed in the report.

## Legal Implications

13. None arising from this report.

## Human Resources Implications

14. None arising from this report.

## Other Implications

15. None.

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		

Chief Executive:	Mr Malcolm Johnston
Proper Officer:	
Report Contact Officer:	Antony Baden
e-mail address:	<a href="mailto:Antony.Baden@rother.gov.uk">Antony.Baden@rother.gov.uk</a>
Appendices:	Appendix 1 – Quarter 2 Treasury Management update to Audit & Standards Committee, 26 September 2022
Relevant Previous Minutes:	CB21/85
Background Papers:	Treasury Management and Annual Investment Strategies Report to Cabinet, 28 February 2022
Reference Documents:	None

### Rother District Council

<b>Report to:</b>	Audit and Standards
<b>Date:</b>	26 September 2022
<b>Title:</b>	Treasury Management Update Report
<b>Report of:</b>	Antony Baden – Chief Finance Officer
<b>Purpose of Report:</b>	To note the Council's treasury activities for the second financial quarter ending the 30 September 2022

### Officer

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

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### 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 the 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

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 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.
6. The value of outstanding loans as at the 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.
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 the 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 5.55% 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

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):

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

11. The additional Non-PIS rent income is due to the rental income from the 2<sup>nd</sup> 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 the 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 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 6th 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).

## **Corporate Management Team Comments**

14. Audit & Standards Committee is recommended to note the report.

## **Conclusion**

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

## **Implications**

### **Financial Implications**

16. As detailed in the report.

### **Legal Implications**

17. None arising from this report.

### **Human Resources Implications**

18. None arising from this report.

### **Other Implications**

19. None.

<b>Other Implications</b>	<b>Applies?</b>	<b>Other Implications</b>	<b>Applies?</b>
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		

Chief Executive:	Mr Malcolm Johnston
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e-mail address:	<a href="mailto:Antony.Baden@rother.gov.uk">Antony.Baden@rother.gov.uk</a>
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%
<b>Total</b>			<b>37,877,708</b>		<b>100.00%</b>
Total managed in-house			29,877,711		
Total managed externally			7,999,998		
<b>Total Treasury Investments</b>			<b>37,877,708</b>		

Property Funds

Name of Property Fund	Original Investment Value	Value as at 30 <sup>th</sup> 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)
<b>Total</b>	<b>7,999,998</b>	<b>9,360,486</b>	<b>9,104,709</b>	<b>(255,777)</b>



**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)
<b>Closing Balance</b>	<b>100,375</b>	<b>85,657</b>

**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
<b>Total Borrowing</b>	<b>£32,151,509</b>				<b>£958,907</b>

**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
<b>Remaining Authorised Limit for External Debt</b>	<b>66,477</b>

**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**

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