

## Rother District Council

<b>Report to:</b>	Audit and Standards
<b>Date:</b>	20 March 2023
<b>Title:</b>	Treasury Management Update
<b>Report of:</b>	Duncan Ellis – Interim Chief Finance Officer
<b>Purpose of Report:</b>	To note the Council's treasury activities for the third financial quarter ending the 31 December 2022
<b>Officer</b>	
<b>Recommendation(s):</b>	It be <b>RESOLVED:</b> 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 31 December 2022 and is based on the latest available data.

### Financial Investments review

3. As at the 31 December 2022, the Council's estimated total investments were just under £43m with £10m invested in short term call accounts (£38m and £10m qtr 2), £6m in a fixed term deposit with a local authority and £8m in Property Funds (£6m and £8m qtr 2). The remaining £19m (£14m qtr 2) 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 currently predicted to yield interest income of over £0.8m in 2022/23 but this may be affected by subsequent interest rate changes. As in previous years the Property Funds are predicted to yield a good return, with income currently predicted to be about £0.3m, which would yield returns of between 3% and 4%. Also, due to the recent increases in interest rates, higher than expected returns are also predicted to be gained from call accounts totalling an estimated £0.5m with a further £0.07m received following 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 summarised in Appendix B. The pandemic continued to impact on the pace of programme delivery in 2021/22 however, it has accelerated again during 2022/23 although not to the extent that was originally forecast due to the complexity of several the proposed schemes and the rapidly changing financial landscape in terms of inflationary pressures, interest and borrowing rate changes. Members will also note that the Capital Programme continues to be reviewed for affordability as part of ongoing monitoring of the Capital Programme.
6. The value of outstanding loans as at the 31 December 2022 is £32.0m (£32.2m qtr 2) and the borrowing portfolio is also shown in Appendix B. This is now well below the Council's forecast CFR of £41.8m as shown in Appendix A although the difference will decrease as the programme delivery accelerates and the Council's borrowing requirement increases in future years.
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 2.05% (5.55% qtr 2) by the end of the financial year, which is 9.33% (5.83% qtr 2) lower than the original budget. This is due to the delays referred to above and the additional investment income received, 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	Q3 Forecast Income	Variance	Return on Investment
	£000	£000	£000	%
Non-PIS	865	810	55	6.05
PIS	1,105	1,655	(550)	6.49
<b>Total</b>	<b>1,970</b>	<b>2,464</b>	<b>495</b>	

11. The additional PIS rent income is due to the purchase of Buckhurst Place, the lease for which was 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. The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, continue to impact on current treasury management activities.
13. Inflation is significantly eroding the Council's spending power, the Bank of England's Monetary Policy Committee (MPC) has updated projections which show Consumer Price Index (CPI) inflation falling back sharply from its current very elevated level, of 10.5% in December, in large part owing to past increases in energy and other goods prices falling out of the calculation of the annual rate.
14. At the meeting of the Bank of England's Monetary Policy Committee (MPC) in February, it was agreed to increase the bank base rate by a further 0.5% to 4.0% to help control inflation.
15. Annual CPI inflation is expected to fall to around 4% towards the end of this year, alongside a much shallower projected decline in output than in the November Report forecast. In the latest forecast, the Bank Rate is projected to rise to around 4.5% in mid-2023, falling back to just over 3.25% in three years' time.
16. The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.
17. The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them to negative from stable.
18. The expectation is that 2023/24 will see a return to some sort of stability in the investment environment following the turbulences resulting from the post-pandemic economic climate, the ongoing war in Ukraine and the effects of the mini-budget.

## **Other issues**

19. It was reported in the quarter 2 report that there was an ongoing government consultation being held regarding the future of IFRS9 statutory override. The current 5-year override was due to expire on 31 March 2023 and allowed 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 were 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. The consultation closed on the 6 October 2022 and it has subsequently been agreed to continue with the override for a further two years until 31 March 2025 and

while a permanent override would have been preferred this is still a beneficial position for the Council.

20. Although not strictly part of the quarter 3 figures Members will be reassured to note that the £6m loan to Thurrock contained within appendix A was returned on the maturity date of 16 February 2023 without any issues.

### Corporate Management Team Comments

21. Audit and Standards Committee is recommended to note the report.

### Conclusion

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

### Financial Implications

23. As detailed in the report.

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 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	18,550,782	3.4%	43.55%
Bank of Scotland (RFB)	Call	N/A	16	0.01%	0.00%
Barclays - Call Account (NRFB)	Call	N/A	5,046,272	3.20%	11.85%
Santander - Call Account	Call	N/A	2,999,214	2.38%	7.04%
Santander - 31 Day Notice Account	31 Day's Notice	N/A	2,000,000	2.65%	4.70%
Thurrock BC (LA)	Term deposit	16/02/2023	6,000,000	2.30%	14.09%
CCLA Local Authority Property Fund	Long Term	N/A	5,000,000	4.01%	11.74%
HERMES Property Fund	Long Term	N/A	2,999,998	3.1%	7.04%
<b>Total</b>			<b>42,596,282</b>		<b>100.00%</b>
Total managed in-house			34,596,284		
Total managed externally			7,999,998		
<b>Total Treasury Investments</b>			<b>42,596,282</b>		

## PROPERTY FUNDS

Name of Property Fund	Original Investment Value	Value as at 31st Mar 2022	Current valuation	Change since start of financial year
	£	£	£	£
CCLA Local Authority Property Fund	5,000,000	5,667,433	4,826,439	(840,994)
HERMES Property Fund	2,999,998	3,250,474	2,737,270	(513,204)
<b>Total</b>	<b>7,999,998</b>	<b>8,917,907</b>	<b>7,563,709</b>	<b>(1,354,198)</b>

## CAPITAL FINANCING REQUIREMENT

Capital Financing Requirement (CFR)	2022/23 Original Budget £ (000)	2022/23 Quarter 2 Forecast £ (000)	2022/23 Quarter 3 Forecast £ (000)
Opening Balance	25,551	25,551	25,551
Add unfinanced capital expenditure	75,876	60,758	16,554
Less Minimum Revenue Provision (MRP)	(1,053)	(652)	(336)
<b>Closing Balance</b>	<b>100,375</b>	<b>85,657</b>	<b>41,769</b>

## CURRENT BORROWING PORTFOLIO

Borrowing Position as at 31 December 2022					
Properties	Amount o/s	Interest Rate	Term	Type	Full Year Repayments
14, Terminus Road	£428,919	2.59%	50	Annuity	£16,102
14, Terminus Road	£428,861	2.58%	50	Annuity	£16,070
Beeching Road	£1,587,256	2.39%	50	Annuity	£56,729
Various	£1,000,000	2.24%	50	Maturity	£22,400
Glovers House & Barnhorn Road	£8,184,765	2.48%	50	Annuity	£297,572
Various	£6,220,986	1.78%	50	Annuity	£190,804
Various	£9,147,755	1.65%	50	Annuity	£273,881
Blackfriars	£5,000,000	1.70%	2	Maturity	£85,349
<b>Total Borrowing</b>	<b>£31,998,543</b>				<b>£958,907</b>

## TREASURY INDICATORS (BORROWING LIMITS)

Treasury Indicators	31 December 2022 £ (000)
Authorised Limit for External Debt	169,012
Operational boundary for External Debt	160,012
Gross External Debt (actual)	31,999
<b>Remaining Authorised Limit for External Debt</b>	<b>137,013</b>

## PRUDENTIAL INDICATORS

Prudential Indicators	2022/23 Original Budget £ (000)	2022/23 Quarter 2 Forecast £ (000)	2022/23 Quarter 3 Forecast £ (000)
Capital Financing Requirement (CFR)	100,375	85,657	41,769
Annual Change in CFR	74,823	60,106	16,218
In-Year Borrowing Requirements	75,876	60,758	16,554
<b>Ratio of Financing costs to Net Revenue Stream (%)</b>	<b>11.38%</b>	<b>5.55%</b>	<b>2.05%</b>

## PROPERTIES PURCHASED THROUGH THE PROPERTY INVESTMENT STRATEGY

Property Investment strategy	Purchase Price £	Acquisition Costs £	Total cost of purchase £	Annual Rent Income (forecast for the year) £	Annual Net Running Costs (forecast for the year including cost recovery - Service charges) £	Net Surplus £
14 Terminus Road	850,000	37,485	887,485	(106,000)	2,050	(103,950)
16A Beeching Road	825,000	45,133	870,133	(32,750)	680	(32,070)
16B Beeching Road				(60,000)	(1,230)	(61,230)
18-40 Beeching Road	825,000	60,638	885,638	(90,300)	(585)	(90,885)
1-7, Wainwright Road	1	358,129	358,130		(170)	(170)
Glovers House, Bexhill	7,450,000	393,952	7,843,952	(475,000)	916	(474,084)
Land at Barnhorn Green, Bexhill	600,000	12,387	612,387			
Market Square, Battle	3,075,000	181,184	3,256,184	(195,000)	(237)	(195,237)
35, Beeching Road, Bexhill (headlease)	675,000		675,000	(100,000)	49	(99,951)
64, Ninfield Road, Sidley	100,000		100,000	(9,000)	43	(8,957)
Sainsburys, Buckhurst Place	9,650,000	539,500	10,189,500	(583,000)	143	(582,857)
Land at Mount View Street, Bexhill	4,250,000		4,250,000		1,880	1,880
16 Beeching park estate	435,000	19,950	454,950	(4,625)	875	(3,750)
18 Beeching park estate				(4,500)	875	(3,625)
<b>Total</b>	<b>28,735,001</b>	<b>1,648,358</b>	<b>30,383,359</b>	<b>(1,660,175)</b>	<b>5,287</b>	<b>(1,654,888)</b>