Rother District Council

Report to:	Audit and Standards Committee
Date:	26 July 2023
Title:	Treasury Management Update Report
Report of:	Duncan Ellis – Interim Deputy Chief Executive
Purpose of Report:	To note the Council's treasury activities for the fourth financial quarter ending the 31 March 2023
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 the 31 March 2023 and is based on the latest available data.

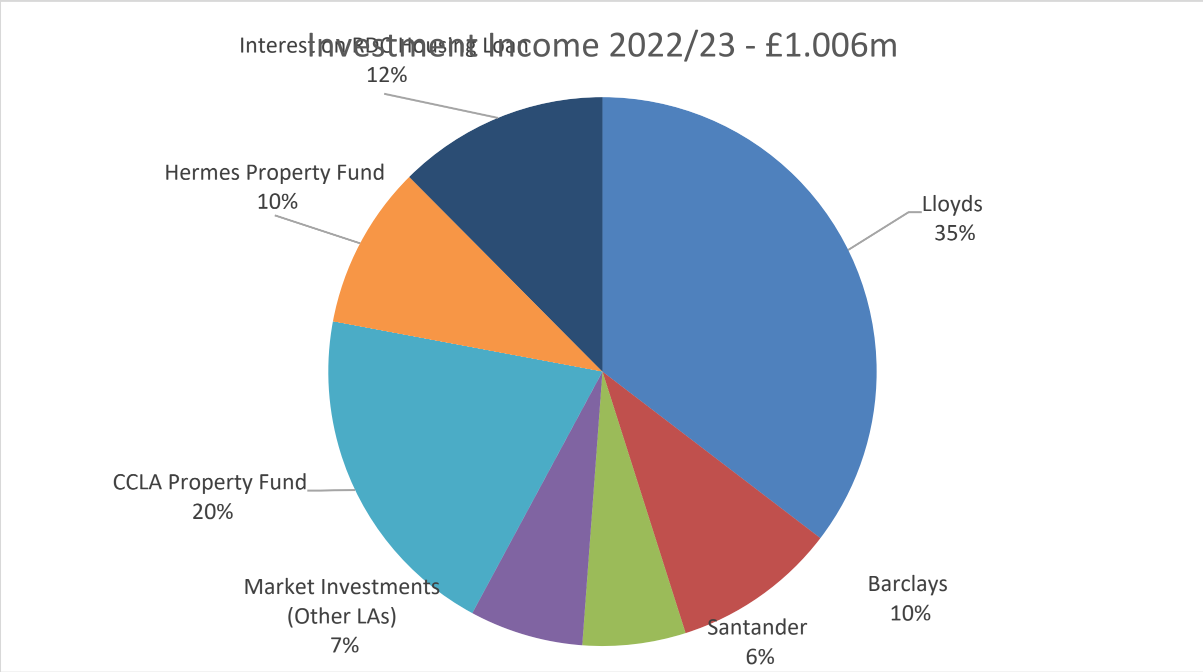
3. Members will note that the 2022/23 outturn figures are draft and also subject to audit although no material changes are anticipated at this point in time.

Financial Investments review

3. As at the 31 March 2023 the Council's estimated total investments were around £20.6 million with £12.6 million invested in short term call accounts (£43m and £10m, at Quarter 3) and £8m in Property Funds (no change from Quarter 3). The fixed term deposit we held with a local authority at £6m in Quarter 3 has since matured and we received the principal and interest back. We also repaid to the government some of the residual Covid 19 grants. Members will note that a significant element of the £12.6m 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 have yielded interest income of £1,006m in 2022/23 (prediction at Quarter 3 was £0.8m) which is higher than predicted partly due to incremental Bank of England interest rates increases. Also, around 12% of that annual income (£125,000) resulted from an accrued interest on the loan instalments to the Rother District Council Housing Company Ltd (not previously reported) while Property Funds, which yielded returns of 3.24% and 4.04% (3.41% and 3.68%. in 2021-22) contributed

£298,500. The investment portfolio and Property Fund values are detailed in Appendix A and the interest received depicted in the graph below:



Borrowing

5. 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 capital programme delivery in 2022/23 accelerated compared to 2021/22, 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. As a result the CFR only increased by £17.6 million against a budget of £74.8 million. Members will also note that the capital programme continues to be reviewed for affordability as part of ongoing monitoring.

6. The value of outstanding loans as at the 31 March 2023 is £32.0m (no significant change since Quarter 3) and the borrowing portfolio is also shown in Appendix B). This is £11.2m lower than the CFR, which means the Council has 'under-borrowed' and effectively borrowed internally using up its cash balances rather than borrowing when interest rates are high.

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 are comfortably within both limits.

9. The ratio of Net Financing Costs to the Net Revenue Stream is predicted to be 0.25% for the year, which is 11.13% lower than the original budget (the ratio was

reported as 2.05% in Quarter 3). This is due to the delay in the capital programme delivery 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	Draft Net Rent Income	Variance	Return on Investment
		£000	£	£	%
Non-PIS		(865)	(671)	194	5.01
PIS		(1,105)	(1,702)	(597)	6.68
Total		**(1,970)**	**(2,373)**	**(404)**	

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.

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

Economic Update and Outlook

13. The ongoing impact on the UK from the war in Ukraine, together with the highest inflation for the last 40 years, rising interest rates, uncertainties over government policy, and an uncertain economic outlook, continue to impact on current treasury management activities.

14. Inflation is significantly eroding the Council's spending power, the Bank of England's Monetary Policy Committee (MPC) has updated projections which show the annual CPI inflation rate falling back from its very high level, of around 10% since the summer of 2022 up to March 2023 to around 8.7% in May but the fall was not as sharp as previously hoped for. It is predicted to fall further by the end of this calendar year to around 3.1% next year and come back closer to the target of 2% only in three years' time. However, previous such projected falls have not materialised as inflation is proving stubborn in the UK even as it is in decline elsewhere in other major economies. Past increases in energy and other goods prices falling out of the calculation of the annual rate have not yet materially changed the situation and the country seems to be feeling the combined effect of still high energy and food prices as well as worker shortages which do not allow for the inflationary pressures to ease.
15. At the recent meeting of the Bank of England's Monetary Policy Committee (MPC) on 22 June 2023, it was agreed to increase the bank base rate by a further 0.5% to 5.0% to help control inflation. For comparison, in December 2021 it was 0.1%. It was the 13th rise in interest rates since then.

16. The UK economy grew by 0.1% between January and March 2023 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product

(GDP) will be nil in the second quarter of the calendar year (back in February it was predicted to record a 0.7% decline) due to the squeeze on household income from stubbornly high energy costs and especially food prices. Some growth is then expected with predictions of 0.9% for Quarter 2 of 2024, 0.7% in 2025 and reaching 1.1% at the equivalent time in 2026 according to Monetary Policy Report May 2023.

17. Credit rating agencies have reflected the difficult UK position by affirming it's AA- rating with a Negative Outlook as of 2 June 2023 citing rising government debt, weak growth and the risk of more persistent inflation, rising borrowing costs, pressures due to cost of living crisis and the proximity of general elections (Fitch).

18. 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 next update of the Medium-Term Financial Plan in due course.

19. The impact on the Council of all of the above is higher costs of providing services, higher potential borrowing costs (PWLB 50 year loan rate rose from under 2% at the end of 2021 to 5.3% at the end of June 2023) which may render some capital projects not viable any more and a possible negative impact on council tax collection rates as the cost of living crisis hits thousands of families across the district.

Other issues

20. The value of investments in Property Funds decreased by £1.45m in 2022-23 which is a further £100,000 decline since Quarter 3. The value is therefore currently £534,000 less than originally invested. However, Members will be reminded that any gains or losses on such long term investments will only be realised at the point of withdrawal from the fund. Also, as stated above, these still provide a healthy income stream in the form if quarterly interest and contributed £298,000 in the financial year to 31 March 2023.

21. It is also worth mentioning again that following a consultation on the IFRS9 statutory override the government announced an extension of the override for a further two years until 25 March 2025. This 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 still being 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 reserves.

Conclusion

22. 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 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

Appendix A

Investments Portfolio

Deposit	Type of account	Maturity Date	Amount £	Interest Rate as at 31 March 2023	Share %
Lloyds - General (RFB)	Call	N/A	5,572,352	4.15	26.97%
Bank of Scotland (RFB)	Call	N/A	46	0.01	0.00%
Barclays - Call Account (NRFB)	Call	N/A	5,086,124	3.95	24.62%
Santander - Call Account	Call	N/A	214	2.68	0.00%
Santander - 31 Day Notice Account	31 Days' Notice	N/A	2,000,000	3.35	9.68%
CCLA Local Authority Property Fund	Long Term	N/A	5,000,000	4.04	24.20%
HERMES Property Fund	Long Term	N/A	2,999,998	3.24	14.52%
Total			**20,658,733**		**100.00%**
Total managed in-house			12,658,736		
Total managed externally			7,999,998		
Total Treasury Investments			**20,658,733**		

Property Funds

Name of Property Fund	Original Investment Value	Value as at 31st Mar 2022	Value as at Quarter 3	Value as at 31/03/2023	Change since start of financial year
	£	£			£
CCLA Local Authority Property Fund	5,000,000	5,667,433	4,826,439	4,733,177	-934,255
HERMES Property Fund	2,999,998	3,250,474	2,744,734	2,732,630	-517,844
Total	**7,999,998**	**8,917,907**	**7,571,173**	**7,465,808**	**-1,452,099**

Appendix B

Capital Financing Requirement

Capital Financing Requirement (CFR)	2022/23 Original Budget £ (000)	2022/23 Draft Outturn £ (000)
Opening Balance (adjusted)	25,851	25,851
Add unfinanced capital expenditure	75,876	17,955
Less Minimum Revenue Provision (MRP)	(1,053)	(336)
Closing Balance	**100,674**	**43,470**

Current Borrowing Portfolio

Borrowing position as at 31st March 2023					
Properties	**Amount o/s**	**Interest Rate**	**Term**	**Type**	**Full Year Repayments (capital and interest)**
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	£6,180,951	1.78%	50	Annuity	£190,804
Various	£9,179,072	1.65%	50	Annuity	£273,881
Blackfriars	£5,000,000	1.70%	2	Maturity	£85,349*
Total Borrowing	**£31,989,825**				**£958,907**

*£85,349 is the annual interest amount payable. The principal of £5,000,000 is due to be repaid on maturity on 01/06/2024

Appendix C

Treasury Indicators (Borrowing Limits)

Treasury Indicators	31st March 2023 £ (000)
Authorised Limit for External Debt	169,012
Operational boundary for External Debt	160,012
Gross External Debt (actual)	31,990
Remaining Authorised Limit for External Debt	**137,022**

Prudential Indicators

Prudential Indicators	2022/23 Original Budget £ (000)	2022/23 Qtr 4 Forecast £ (000)
Capital Financing Requirement (CFR)	100,674	43,470
Annual Change in CFR	74,823	17,619
In-Year Borrowing Requirements	75,876	17,995
Ratio of Financing costs to Net Revenue Stream (%)	11.38%	0.25%

Appendix D

Properties purchased through the Property Investment Strategy

Property Investment strategy	Total cost of purchase £	Budgeted Net Surplus 2022/23 £	Draft Outturn Net Surplus 2022/23 £	Variance £
14 Terminus Road	887,485	(105,820)	(106,332)	(512)
16A Beeching Road	870,133	(31,630)	(32,336)	(706)
16B Beeching Road	-	(60,360)	(47,457)	12,903
18-40 Beeching Road	885,638	(99,320)	(98,051)	1,269
1-7, Wainwright Road	358,130		(13,439)	(13,439)
Glovers House, Bexhill	7,843,952	(473,190)	(475,395)	(2,205)
Land at Barnhorn Green, Bexhill	612,387			
Market Square, Battle	3,256,184	(195,060)	(194,630)	430
35, Beeching Road, Bexhill (headlease)	675,000	(99,840)	(92,408)	7,432
64, Ninfield Road, Sidley	100,000	(9,000)	(8,388)	612
Sainsbury's, Buckhurst Place	10,189,500	570	(549,669)	(550,239)
Land at Mount View Street, Bexhill	4,250,000		(271)	(271)
16 Beeching park estate	454,950	(18,330)	234	18,564
18 Beeching park estate	-	(17,830)	977	18,807
Total	30,383,359	(1,109,810)	(1,617,164)	(507,355)

NB. Sainsbury's Buckhurst Place income was not a budgeted for in 2022-23 as it was a new acquisition in the financial year