Rother District Council

Report to:	Cabinet
Date:	6 November 2023
Title:	Treasury Management Update Report
Report of:	Aleksandra Janowicz – Interim Chief Finance Officer
Cabinet Member:	Cllr Jeeawon
Wards:	All
Purpose of Report:	To note the Council's treasury activities for the second financial quarter ending the 30 September 2023.
Officer Recommendation(s):	It be **RESOLVED:** That the report be noted.
Reasons for Recommendation:	To keep Members informed of treasury management activities.

Introduction

1. The Council's Investment Strategy requires regular reports to be presented to Cabinet on its treasury management activities. In managing these, the Council has implemented the Department of Levelling Up, Housing and Communities (DLUHC) investment guidance and followed the Chartered Institute of Public Finance and Accountancy's (CIPFA) 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 2023 and is based on the latest available data.

3. Members will note that the figures quoted within the report are either actuals or estimates as stated and the outturn position at year end is draft subject to change following completion of the audit of 2022/23 accounts.

Financial Investments review

4. At 30 September 2023 the Council's total investments were around £28.6m with £20.6m invested in short term call accounts (£22.5m and £14.5m respectively at Quarter 1 2023/24) and £8 million in Property Funds (no change from Quarter 1). Funds managed internally are mainly in call accounts, but we are regularly reviewing rates available on the market to invest in fixed short term deposits to benefit from higher rates. We have engaged with the market via an online platform to open MMF (liquidity) funds and we are looking to start using them shortly. Members will note that a significant element of the £20.6m balance

relates to cash owed to public bodies, e.g. council tax precepts, shares of business rates.

5. The Council's investments are currently predicted to have yielded interest income of £555,000 in total in the first half of this financial year including income generated by the property funds (CCLA and Hermes). The budget for the year is £586,000 so we already achieved 94% of it. This is mainly due to an increased focus on treasury management activities and the incremental Bank of England (BoE) interest rates increases in previous months.

6. Forecasting into the future to arrive at the annual outturn figure is difficult as it depends on a variety of factors and assumptions. In terms of interest cash receipts, we are expecting a £530,000 surplus which is a significant positive contribution to our revenue budget monitoring position. We look to diversify our treasury deposits using available cash balances and invest excess cash daily keeping it liquid and we consider fixed term deposits when cashflows show we are able to put deposits away for a bit longer in exchange for additional yield. We are exploring and preparing for other products where we might place funds after assessment of the balance of risks and rewards associated with them.

7. The possible outcomes for the variance could change as they are dependant, among others, on:

   - any further movement in BoE rate and its impact on what banks are prepared to offer as a result. After many consecutive gradual rises in the Bank rate at the last MPC meeting in September 2023 the rate was kept at 5.25%. Until recently it was widely expected that the rate was going to go up by another 25 basis points, but our treasury advisers forecast that it has now reached its peak and will stay at this level until Qtr 3 2024.

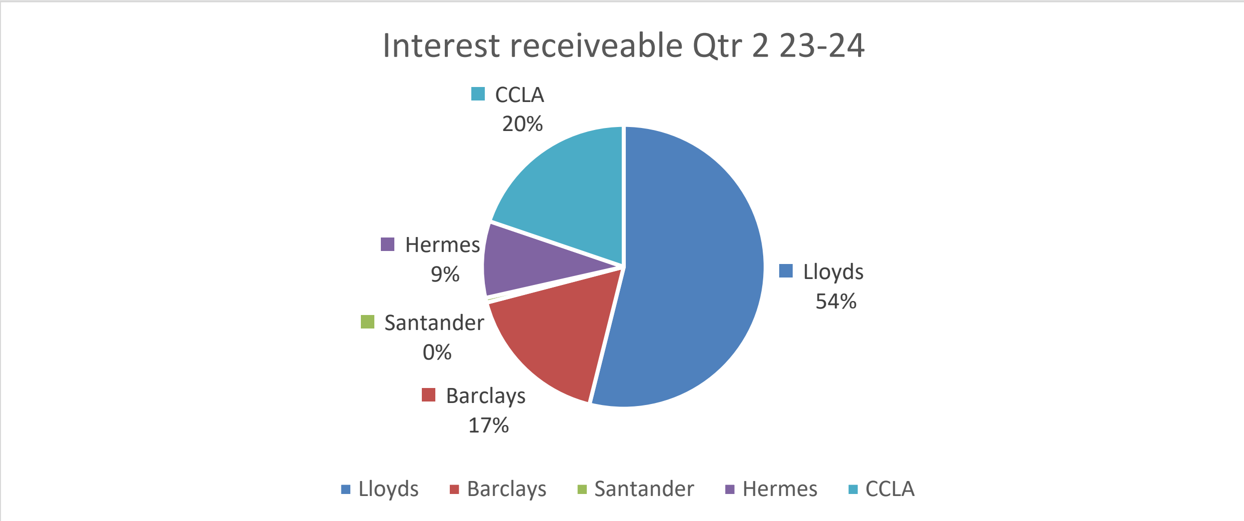
   - the level of funds available to invest which will in turn be heavily dependent on cashflows relating to capital expenditure. As the capital programme is being reviewed and borrowing rates from Public Works Loan Board are at very elevated levels (5.64% interest rate for a new 50 year annuity loan as at September 2023) there is a high level of uncertainty around this. Due to high interest rates payable on loans we have been internally borrowing for the last two years for capital purposes. That is consistent with Link Treasury Services advice which continued to be to 'reappraise any capital expenditure plans/profiles and internally/temporarily borrow for any financing and re-financing'. However, as a result of this our cash balances are predicted to fall considerably by the end of the year. It means that we may need to temporarily borrow for operational purposes. It may not be necessary if Government capital grant funding flows into the authority at around the same time.

8. The total variance (surplus) estimated in the Revenue and Capital Monitoring report for Quarter 2 is £730,000 as it includes interest accruing on the Housing Company loan (estimated to be around £200,000 for the year). There is, however, a risk associated with it as the final draft of the loan agreement with the Housing Company has yet to be finalised and actuals cashflows resulting from this income may not be realised in the short term.

9. Officers will apply the principles of security, liquidity and yield in their treasury decisions both when continuing with the current products and exploring others. Advice will be sought from Link Treasury Services as appropriate.

10. The investment portfolio and Property Fund values as at Quarter 2 are detailed in Appendix A.

11. Estimated Quarter 2 interest receivable breakdown is depicted in the graph below:



Borrowing

12. 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 capital programme budget has been reviewed during the first half of the financial year in view of the complexity of several of the proposed schemes and the rapidly changing financial landscape in terms of inflationary pressures, interest and borrowing rate changes. The CFR position compared to the budget has changed as a result. The forecast outturn for the year is £49.5m. Members will also note that the capital programme continues to be reviewed for affordability as part of ongoing monitoring of the capital programme and a revised budget for the CFR will be developed as part of this work.

13. The value of outstanding loans as at the 30 September 2023 was £31.8m and the borrowing portfolio is also shown in Appendix B. This is £11.6m 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.

14. Officers will continue to keep borrowing policy under review and use internal balances where possible to minimise borrowing costs.

Treasury and Prudential Indicators

15. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury

Management Strategy. During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

16. The current prudential and treasury indicators such as the Council's Authorised and Operational external borrowing limits were approved by Cabinet on the 27 February 2023 as part of the Council's Treasury Management Strategy and are shown in Appendix C. Members will note that the current borrowing levels shown in Appendix B are comfortably within both limits. No amendments to the Treasury Management Strategy are proposed as a result of this report.

17. The ratio of Net Financing Costs (NFC) to the Net Revenue Stream in the original budget was to be 5.06% but is now predicted to be -1.15%. This is a welcome change as our investment income has exceeded financing cost. This is both due to the review of and subsequent 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

18. 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	Net Budget 2023/24 (Rent income and expense)	Qtr 2 Estimate for annual Net Rent Income and expense	Variance	Return on Investment	Notional interest	Return on Investment after notional interest applied
	£000	**£000**	**£000**	**%**	**£000**	**%**
Non-PIS	(669)	(676)	(7)	5.34	n/a	5.34
PIS	(1,536)	(1,589)	(53)	5.36	586	3.38
Total	**(2,205)**	**(2,265)**	**(60)**	**5.35 (ave)**	**586**	**4.36 (ave)**

19. The above table shows the return on investment on all PIS properties, including notional borrowing costs. Appendix D shows detail including the total cost of purchase as well as net income predicted to be achieved by year end.

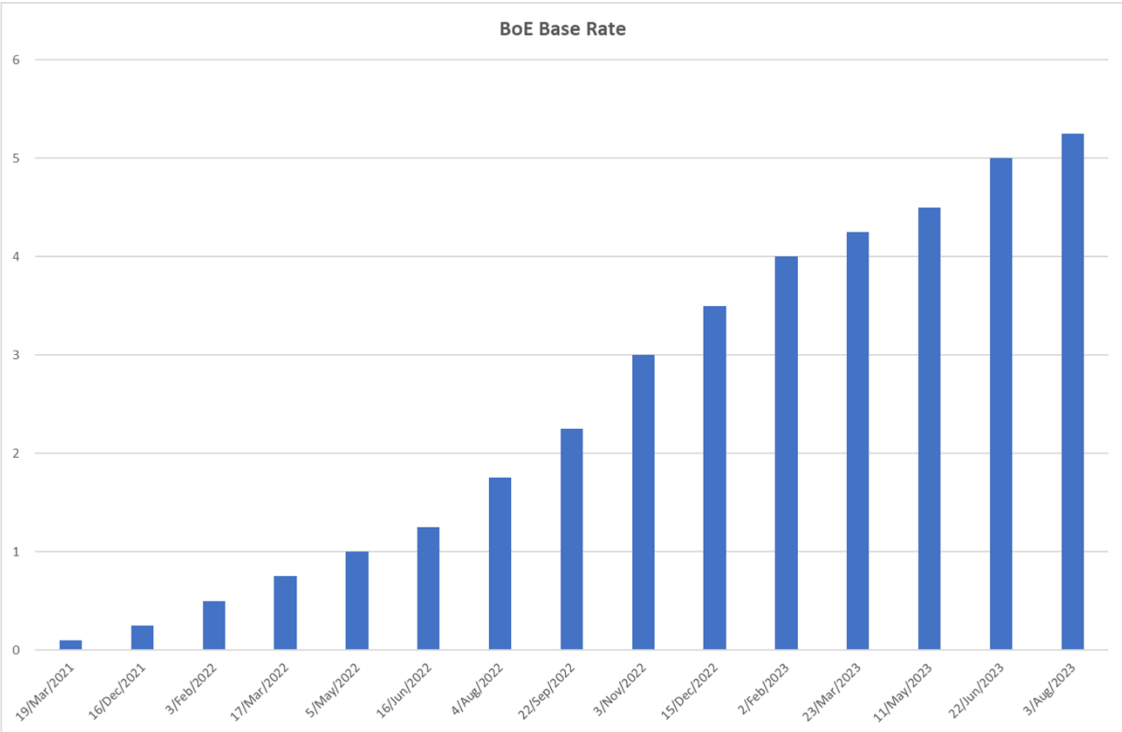
Economic Update and Outlook

20. 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. There may also be adverse impacts from the recently reignited conflict in the Middle East.

21. Inflation is significantly eroding the Council's spending power. At its 20 September 2023 meeting 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 7.9% in June, then 6.7% in August but the fall was not as sharp as previously hoped for. It is expected to fall significantly further in the near term thanks to lower annual energy inflation and further declines in food and core goods price inflation despite still elevated service price inflation. It is thought inflation held steady at 6.7% in September.

22. At the recent meeting of the Bank of England's Monetary Policy Committee (MPC) in September 2023, it was agreed to keep the bank base rate at 5.25% to help control inflation. It was kept at this level after previously seeing 14 consecutive increases to it since December 2021 (see graph below).



The Council's Treasury advisers currently predict that the Bank rate is likely to have peaked at 5.25% with the first decreases likely in Qtr 3 of 2024.

23. The UK economy grew by 0.2% between January and June 2023 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will grow by only 0.1% in Qtr 3 2023 compared with 0.4% increase incorporated in MPC's August report. Apart from the impact of the tightening in monetary policy, the main factor behind the slowing in GDP was the lower levels of housing investment, falling house prices and a low level of property transactions. Also, although consumer confidence recovered in August and real labour incomes are now rising, corporate spending indicators have generally weakened over recent months. Market forecasts for 2024 are ranging between sluggish growth and possible moderate recession.

24. Forecasting economic activity in the current climate is fraught with difficulties, but best data and forecasts available have been used in the recent updated Medium Term Financial Strategy report presented to Overview and Scrutiny Committee Members on 16 October.

Other issues

25. The value of investments in Property Funds has decreased by £145,000 since the end of the last financial year and is £7.320m. It is currently £679,721 less than originally invested. 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. Property funds still provide a healthy income stream in the form of quarterly distributions and are expected to contribute around £300,000 in the financial year to 31 March 2024.

26. It is also worth remembering 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. Officers will look to create a reserve to smooth such movements in due course. The values of investments will continue to be monitored closely.

Conclusion

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

Financial Implications

28. As detailed in the report.

Legal Implications

29. None arising from this report.

Human Resources Implications

30. None arising from this 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		

Chief Executive:	Lorna Ford
Report Contact Officer:	Aleksandra Janowicz
e-mail address:	Aleksandra.Janowicz@rother.gov.uk
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, Investment and Treasury Management Strategy Report to Cabinet, 27 February 2023
Reference Documents:	None

Appendix A

Investments Portfolio

Deposit	Type of account	Maturity Date	Amount £	Interest Rate as at 30 September 2023	Share %
Lloyds - General (RFB)	Call	N/A	13,306	1.9	0.05%
Lloyds - Treasury Call Account	Call	N/A	13,433,492	5.14	46.91%
Lloyds Deposit	Term deposit	22/01/2024	1,000,000	5.60	3.49%
Lloyds Deposit	Term deposit	23/10/2023	1,000,000	5.35	3.49%
Bank of Scotland (RFB)	Call	N/A	46	1.90	0.00%
Barclays - Call Account (NRFB)	Call	N/A	187,940	3.85	0.66%
Barclays Fixed Term	Term deposit	09/10/2023	5,000,000	4.88	17.46%
Santander - Call Account	Call	N/A	214	3.43	0.00%
Santander - 31 Day Notice Account	31 Days Notice	N/A	0	4.55	0.00%
CCLA Local Authority Property Fund	Long Term	N/A	5,000,000	0	17.46%
HERMES Property Fund	Long Term	N/A	2,999,998	0	10.48%
Total			**28,634,995**		**100.00%**
Total managed in-house			20,634,998		
Total managed externally			7,999,998		
Total Treasury Investments			**28,634,995**		

Property Funds

Name of Property Fund	Original Investment Value	Value as at 31/03/2023	Value as at 30/09/2023	Change since start of financial year	Change since original investment made
	£			£	£
CCLA Local Authority Property Fund	5,000,000	4,733,177	4,671,277	-61,900	-328,723
HERMES Property Fund	2,999,998	2,732,630	2,649,000	-83,630	-350,998
Total	**7,999,998**	**7,465,808**	**7,320,277**	**-145,531**	**-679,721**

Appendix B

Capital Financing Requirement

Capital Financing Requirement (CFR)	2023/24 Original Budget £ (000)	2023/24 Quarter 1 Forecast £ (000)	2023/24 Quarter 2 Forecast £ (000)
Opening Balance	31,896	43,469	43,469
Add unfinanced capital expenditure	108,764	13,998	6,640
Less Minimum Revenue Provision (MRP)	(224)	(515)	(515)
Closing Balance	**140,436**	**56,952**	**49,594**

Capital programme – revised at Quarter 2

	2023/24	2024/25	2025/26	2026/27	2027/28	Total	23/24 spend forecast at Qtr 2
Capital Expenditure	28,408	68,699	23,553	8,694	28,183	**157,523**	19,930
Funded by:							
Capital Receipts	2,100	60	50	-	-	**2,210**	-
Grants and contributions	10,370	7,209	14,927	7,589	1,625	**41,720**	12,614
CIL	513	1,484	1,321	850	-	**4,168**	390
Borrowing	8,997	20,699	125	125	125	**30,071**	4,060
Capital Expenditure Charged to Revenue	1,229	247	130	130	130	**1,851**	286
Borrowing and Loan for RDC Housing Company Ltd	5,000	39,000	7,000	-	26,303	**77,303**	2,580
Section 106	200	-	-	-	-	**200**	-
Total	**28,408**	**68,699**	**23,553**	**8,694**	**28,183**	**157,523**	**19,930**

Current Borrowing Portfolio

Borrowing position at 30 September 2023					
Properties	**Amount o/s**	**Interest Rate**	**Term**	**Type**	**Full Year Repayments (capital and interest)**
PWLB 507499	£426,423	2.59%	50	Annuity	£16,102
PWLB 507503	£426,358	2.58%	50	Annuity	£16,070
PWLB 509130	£1,577,860	2.39%	50	Annuity	£56,729
PWLB 509131	£1,000,000	2.24%	50	Maturity	£22,400
PWLB 509165	£8,137,470	2.48%	50	Annuity	£297,572
PWLB 387276	£6,140,560	1.78%	50	Annuity	£190,804
PWLB 455425	£9,117,859	1.65%	50	Annuity	£273,881
Market	£5,000,000	1.70%	2	Maturity	£85,349*
Total Borrowing	**£31,826,529**				**£958,907**

Appendix C

Treasury Indicators (Borrowing Limits)

Treasury Indicators	**2023/2024 £ (000)**
Authorised Limit for External Debt	192,833
Operational boundary for External Debt	183,833
Gross External Debt (actual) at Quarter 1	31,827
Remaining Authorised Limit for External Debt	**161,006**

Prudential Indicators

Prudential Indicators	**2023/24 Original Budget £ (000)**	**2023/24 Quarter 2 Forecast £ (000)**
Capital Financing Requirement (CFR)	140,436	49,594
Annual Change in CFR	108,540	6,125
In-Year Borrowing Requirements	108,764	6,640
Ratio of Financing costs to Net Revenue Stream (%)	5.06	-1.15

Appendix D

Properties purchased through the Property Investment Strategy

Property Investment strategy	Total Cost of Purchase £	Budgeted Net Surplus 2023/24 £	Forecast Net Surplus as at Qtr 2 £	Variance £
14 Terminus Road Petrol filling station	887,605	(79,800)	(66,000)	13,800
14 Terminus Road Garage and showroom				0
16A Beeching Road	861,000	(32,350)	(32,350)	0
16B Beeching Road	0	(56,350)	(56,350)	0
18-40 Beeching Road	861,000	(78,850)	(80,850)	(2,000)
1-7, Wainwright Road	407,305	0	(3,798)	(3,798)
Glovers House, Bexhill	7,843,952	(473,820)	(473,820)	0
Land at Barnhorn Green, Bexhill	1,640,309			0
Market Square, Battle	3,256,184	(194,980)	(194,980)	0
35, Beeching Road, Bexhill (headlease)	695,359	50	(66,614)	(66,664)
64, Ninfield Road, Sidley	121,945	(8,960)	(8,960)	0
Sainsburys, Buckhurst Place	10,182,055	577,900	(572,600)	5,300
Land at Mount View Street, Bexhill	4,492,599	1,000	1,000	0
16 Beeching park estate	427,875	(17,500)	(17,500)	0
18 Beeching park estate		(17,000)	(17,000)	0
Total	31,677,188	(1,536,460)	(1,589,822)	(53,362)