Rother District Council

Report to:	Audit and Standards Committee
Date:	25 March 2024
Title:	Treasury Management Update Report Quarter 3
Report of:	Aleksandra Janowicz – Interim Chief Finance Officer
Purpose of Report:	To note the Council's treasury activities for the third financial quarter ending 31 December 2023.
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 (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, although temporary borrowing is likely to be required in the second half of March 2024 for cash flow purposes. Members are reminded that investment activity is also reported through the Members' Bulletin. This report focuses on the financial period ending the 31 December 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 availability of final data for the year and the final Rother DC Housing Company Ltd loan agreement.

Financial Investments review

4. At 31 December 2023, the Council's total investments were around £29.8m, with £21.8m invested in short term call accounts (£28.6m and £20.6m respectively at Quarter 2 2023/24) and £8m in Property Funds (no change from Quarter 2). 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 also engaged with the market via an online platform to open MMF (liquidity) funds, which are now being used. Members will note that a significant element of the £21.8m balance relates to cash owed to public bodies, e.g. council tax precepts and shares of business rates.

5. The Council’s investments are currently predicted to have yielded interest income of £925,000 in total in the first three quarters 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 157% of it. This is mainly due to an increased focus on treasury management activities, the pause and review of the capital programme, which has resulted in more cash being available for investment, and the incremental Bank of England interest rates increases earlier in the year.

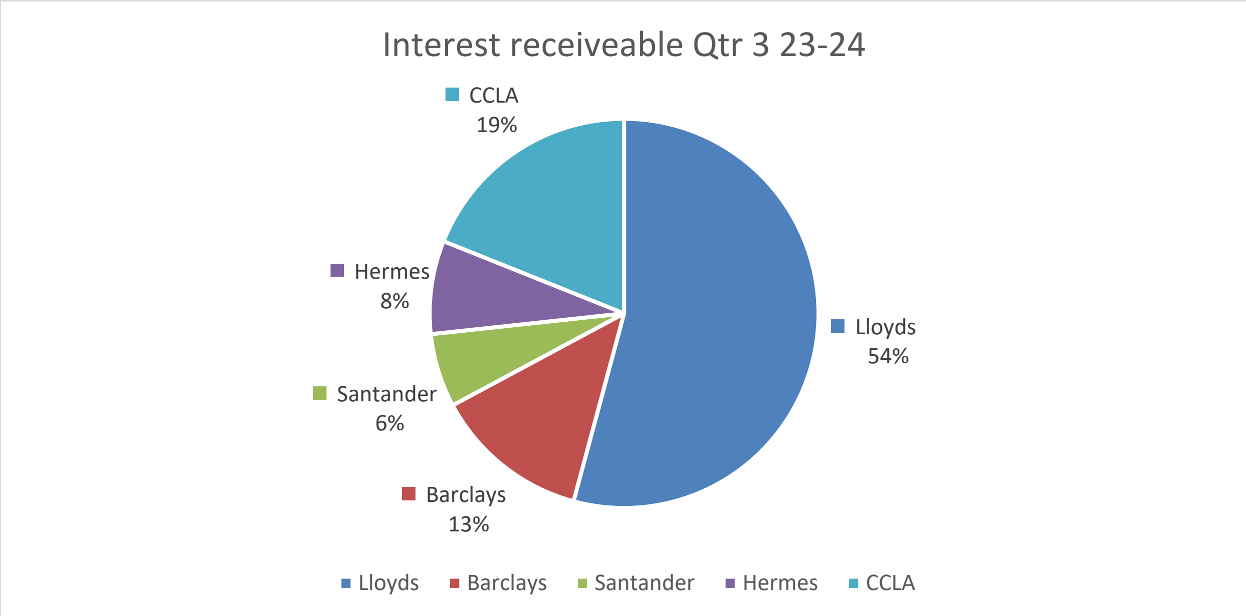
6. Forecasting into the future to arrive at the annual outturn figure is difficult, as it depends on a variety of factors and assumptions. In terms of interest cash receipts, we are expecting a £534,000 surplus which is a significant positive contribution to our revenue budget position. We always look 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. However, in the climate of uncertain profile of capital payments, potentially falling interest rates and falling overall available balances, we have kept funds liquid as they represented the best option.

7. Cash levels have been falling over the last year as the Council refrained from borrowing for capital programme purposes and used its cash balances instead. Some borrowing for cashflow purposes will be required in Quarter 4. The exact timing and values will depend on the forecast of availability and timing of substantial external government grants expected to be received early in 2024/2025.

8. The total variance (surplus) estimated in the Revenue and Capital Monitoring report for Quarter 3 was £734,000 as it included interest accruing on the Housing Company loan (estimated to be around £200,000 for the year). There is, however, a level of uncertainty associated with it, as the final draft of the loan agreement with the company has yet to be finalised. Also, while it may increase the amount receivable over and above the currently estimated amount, the actual 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. The investment portfolio and Property Fund values as at Quarter 3 are detailed in Appendix A.

10. Estimated Quarter 3 interest receivable breakdown is depicted in the graph overleaf:



Borrowing

11. 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 is being reviewed in view of the complexity of several of the proposed schemes and their affordability, due to the recent and ongoing financial landscape in terms of inflationary pressures, construction costs and significant borrowing rate increases. The CFR position compared to the budget has changed as a result. The forecast outturn for the year is £50.243m. 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.

12. The value of outstanding loans as at 31 December 2023 was £31.7m and the borrowing portfolio is also shown in Appendix B. This is £11.7m 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.

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

Treasury and Prudential Indicators

14. 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.

15. The current prudential and treasury indicators, such as the Council's Authorised and Operational external borrowing limits, were approved by Cabinet on 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.

16. 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 is predicted to be -1.42%. 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 through the increased focus on treasury management, which reduces the NFC. The Prudential Indicators are shown in Appendix C.

Non-Treasury Investments

17. 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 3 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	(814)	(724)	90	5.73	n/a	5.73
PIS	(1,536)	(1,612)	(76)	6.51	586	3.46
Total	**(2,350)**	**(2,336)**	**14**	**6.12 (ave)**	**586**	**4.59 (ave)**

18. 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

19. Following months of high increases in prices (the steepest for the last 40 years), which have significantly eroded the Council's spending power, twelve-month CPI inflation fell to 4% in December 2023. Wholesale energy prices have fallen significantly along with prices of core goods and services, however domestic inflationary pressures persist with wage growth slightly easing, but still very elevated. CPI is expected to fall temporarily to 2% target in 2024 Quarter 2 only to increase again in Quarter 3 and Quarter 4 and to be around 2% in 2-3 years' time.

20. The global economic outlook is uncertain in light of the possible adverse impacts of continuing conflicts in Ukraine and the Middle East. The second half

of the year will see presidential elections in the United States and parliamentary ones in the UK, which might also affect it.

21. At the recent meeting of the Bank of England's (BoE) Monetary Policy Committee (MPC) in January 2024, it was agreed to keep the bank base rate at 5.25% to help control inflation. The BoE rate is currently predicted to have peaked at 5.25%, with the first decreases likely earlier than previously projected, maybe even within Quarter 1 of 2024. The BoE itself forecasts a possibility of a cut to 5.1%, with Quarter 1 results of 3.9% and 3.3% in the equivalent periods for the next two years, although as outlined above there several factors which could impact on these forecasts.

22. Forecasting economic activity in the current climate is fraught with difficulties, but best data and forecasts available have been used in the updated Medium Term Financial Strategy report and 2024/25 budget presented to Members in February.

Other issues

23. The value of investments in Property Funds has decreased by £207,000 since the end of the last financial year and is £7.26m. It is currently £720,682 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.

24. 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

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

Implications

Financial Implications

26. As detailed in the report.

Legal Implications

27. None arising from this report.

Human Resources Implications

28. None arising from this report.

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, 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 31 December 2023	Share %
Lloyds - General (RFB)	Call	N/A	1,488,987	2.10	5.00%
Lloyds - Treasury Call Account	Call	N/A	13,144,333	5.14	44.17%
Lloyds Deposit	Term deposit	22/01/2024	1,000,000	5.60	3.36%
Lloyds Deposit	Term deposit	N/A	0	5.35	0.00%
Bank of Scotland (RFB)	Call	N/A	16	2.10	0.00%
Barclays - Call Account (NRFB)	Call	N/A	1,127,371	3.85	3.79%
Barclays Fixed Term	Term deposit	N/A	0	4.82	0.00%
Santander - Call Account	Call	N/A	214	3.43	0.00%
Santander - 31 Day Notice Account	31 Days' Notice	N/A	5,000,000	5.60	16.80%
CCLA Local Authority Property Fund	Long Term	N/A	5,000,000	0.00	16.80%
HERMES Property Fund	Long Term	N/A	2,999,998	0.00	10.08%
Total			**29,760,919**		**100.00%**
Total managed in-house			21,760,922		
Total managed externally			7,999,998		
Total Treasury Investments			**29,760,919**		

Non-treasury Investments					
Rother DC Housing Company loan			**4,510,300**	**TBA**	**100%**

Property Funds

Name of Property Fund	Original Investment Value	Value as at 31/03/2023	Value as at 31/12/2023	Change since start of financial year	Change since original investment made
	£			£	£
CCLA Local Authority Property Fund	5,000,000	4,733,177	4,630,316	-102,862	-369,684
HERMES Property Fund	2,999,998	2,732,630	2.628,513	-104,118	-350,998
Total	**7,999,998**	**7,465,808**	**7,258,828**	**-206,979**	**-720,682**

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)	2023/24 Quarter 3 Forecast £ (000)
Opening Balance	31,896	43,469	43,469	43,469
Add unfinanced capital expenditure	108,764	13,998	6,640	7,253
Less Minimum Revenue Provision (MRP)	(224)	(515)	(515)	(479)
Closing Balance	**140,436**	**56,952**	**49,594**	**50,243**

Capital programme – revised at Quarter 3

	2023/24	2024/25	2025/26	2026/27	2027/28	Total		23/24 spend forecast at Qtr 3
Capital Expenditure	20,143	85,981	23,888	8,925	28,163	**167,100**		20,143
Funded by:								
Capital Receipts	2,100	60	50	-	-	**2,210**		2,100
Grants and contributions	9,358	9,614	14,523	7,587	1,625	**42,707**		9,358
CIL	427	1,571	1,321	850	-	**4,169**		427
Borrowing	4,791	32,548	884	378	125	**38,726**		4,791
Capital Expenditure Charged to Revenue	1,002	453	110	110	110	**1,785**		1,002
Borrowing and Loan for RDC Housing Company Ltd	2,465	41,535	7,000	-	26,303	**77,303**		2,465
Section 106	-	200	-	-	-	**200**		-
Total	**20,143**	**85,981**	**23,888**	**8,925**	**28,163**	**167,100**		**20,143**

Current Borrowing Portfolio

Borrowing position as at 31st December 2023					
Properties	**Amount o/s**	**Interest Rate**	**Term**	**Type**	**Full Year Repayments (capital and interest)**
PWLB 507499	£423,894	2.59%	50	Annuity	£16,102
PWLB 507503	£423,823	2.58%	50	Annuity	£16,070
PWLB 509130	£1,568,350	2.39%	50	Annuity	£56,729
PWLB 509131	£1,000,000	2.24%	50	Maturity	£22,400
PWLB 509165	£8,089,589	2.48%	50	Annuity	£297,572
PWLB 387276	£6,140,560	1.78%	50	Annuity	£190,804
PWLB 455425	£9,056,140	1.65%	50	Annuity	£273,881
Market	£5,000,000	1.70%	2	Maturity	£85,349*
Total Borrowing	**£31,702,356**				**£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 3	31,702
Remaining Authorised Limit for External Debt	**161,131**

Prudential Indicators

Prudential Indicators	2023/24 Original Budget £ (000)	2023/24 Quarter 3Forecast £ (000)
Capital Financing Requirement (CFR)	140,436	20,243
Annual Change in CFR	108,540	6,774
In-Year Borrowing Requirements	108,764	7,253
Ratio of Financing costs to Net Revenue Stream (%)	5.06	-1.42%

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 3 £	Variance £
14 Terminus Road Petrol filling station	887,605	(30,000)	(16,179)	13,821
14 Terminus Road Garage and showroom		(49,800)	(42,753)	7,047
16A Beeching Road	868,050	(32,350)	(32,231)	119
16B Beeching Road	0	(56,350)	(59,980)	(3,630)
18-40 Beeching Road	872,000	(78,850)	(75,447)	3,403
1-7, Wainwright Road	369,732	0	(4,549)	(4,549)
Glovers House, Bexhill	7,818,452	(473,820)	(474,136)	(316)
Land at Barnhorn Green, Bexhill	1,839,708			0
Market Square, Battle	3,256,184	(194,980)	(193.792)	1,188
35, Beeching Road, Bexhill (headlease)	677,309	50	(98,832)	(98,882)
64, Ninfield Road, Sidley	121,946	(8,960)	(8,148)	812
Sainsburys, Buckhurst Place	10,182,055	577,900	(575,977)	1,923
Land at Mount View Street, Bexhill	4,535,099	1,000	244	(756)
16 Beeching park estate	427,875	(17,500)	(14,961)	2,539
18 Beeching park estate		(17,000)	(15,605)	1,395
Total	31,856,015	(1,536,460)	(1,612,346)	(75,886)