

TITLE OF REPORT: Treasury Management – Performance to 30 September 2022

REPORT OF: Darren Collins – Strategic Director, Resources and Digital

Purpose of the Report

1. The purpose of this report is to review Treasury Management performance for the six months to 30 September 2022, covering investments and borrowing. This is consistent with approved performance management arrangements.

Background

2. Cabinet will receive half yearly performance reports on the agreed Treasury Management budget identifying any variances. This report sets out the monitoring position at 30 September 2022.
3. Council agreed the Treasury Policy Statement and Treasury Strategy 2022/23 to 2026/27 which provided a framework for the Strategic Director, Resources and Digital to exercise his delegated powers on 24 March 2022.
4. Council also agreed the original Treasury Management 2021/22 budgets on 23 February 2021 of £23.245m, split £11.296m for General Fund and £11.949m for the Housing Revenue Account.

Proposals

5. The projected outturn for 2022/23 at 30 September 2022 for the General Fund is £10.329m compared to the budget of £11.296m, an underspend of £0.967m. The HRA projection is £12.034m compared to the budget of £11.949m, an overspend of £0.085m.
6. The Audit and Standards Committee reviewed the Treasury Management performance to 30 September 2021 on 25 October 2022 and raised no comments for submission to Council.
7. It is important that effective budget monitoring and action planning is in place to ensure that spending in 2022/23 is contained within approved budgets as this will contribute to a sustainable financial position for the Council.

Recommendation

8. Cabinet is asked to recommend that Council note the Treasury Management Performance to 30 September 2022.

For the following reason:

To contribute to sound financial management and the long-term financial sustainability of the Council.

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Policy Context

1. The proposals in this report are consistent with Council priorities and in particular they ensure that effective use is made of the Council's resources to ensure a sustainable financial position and support of the framework for achieving the Council's strategic approach 'Making Gateshead a Place Where Everyone Thrives'. The Council recognises there are huge financial pressures on not just Council resources, but those of partners, local businesses and residents. This requires the Council's decision-making to be policy and priority led and driven.

Background

2. The Prudential Code plays a key role in capital finance in local authorities. Local authorities determine their own programmes for capital investment that are central to the delivery of quality public services. The Prudential Code was developed by CIPFA, the Chartered Institute of Public Finance and Accountancy, as a professional code of practice to support local authorities in taking their decisions. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.
3. In December 2017 CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code (the Code) which represent best practice. The Council fully complies with the Code and this contributes towards achieving good practice.
4. Part 1 of the Local Government Act 2003 specifies the powers of a local authority to borrow for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. Borrowing is linked to the CIPFA Prudential Code for Capital which sets out a range of prudential and treasury indicators that must be calculated to ensure borrowing is affordable, prudent and sustainable. The Prudential Code refers to the need for a clear and integrated treasury strategy.
5. In addition, under Section 15 of the Local Government Act 2003, authorities are required to have regard to the government's guidance on Local Government Investments. This document stipulates the requirement for an annual investment strategy to be integrated into the Council's Treasury Strategy.
6. Under Part 4 of the Council's Constitution the Strategic Director, Resources and Digital will produce a Treasury Policy Statement annually, setting out the general policies and objectives of the Council's treasury management function.

Treasury Management Strategy Statement

7. The Treasury Management Strategy Statement (TMSS) for 2022/23 was approved by Council on 24 March 2022. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Mid-Year Performance to 30 September 2022

8. This report sets out the latest position on the 2022/23 Treasury Management budget as at 30 September 2022 and projects interest on borrowing and investment income to the end of the financial year.
9. The combined General Fund and HRA projected outturn for 2022/23 at 30 September 2022 is £22.363m compared to the estimate of £23.245m, a projected under spend of £0.882m. The underspend relates to two main areas:
 - a) Borrowing costs are lower than budget. Due to the council holding high levels of cash reserves and reduced projected capital financial requirements borrowing has been delayed until later in the financial year
 - b) Investment interest achieved is higher than budgeted estimates. Due to changes in the market conditions and higher levels of interest available the council has received a higher return on investments placed during the financial year.
10. Appendix 2 details the budget for 2022/23 compared to an assessment of the projected outturn for the year.

Consultation

11. The Leader of the Council has been consulted on this report.

Alternative Options

12. There are no alternative options, as the Treasury Management mid-year performance report recommended for approval is required to comply with the policy on delegation, review requirements and reporting arrangements as outlined in the Treasury Policy Statement and Treasury Strategy.

Implications of Recommended Options

13. **Resources:**
 - a) **Financial Implications** - The Strategic Director, Resources and Digital confirms that the financial implications are set out in this report. There are no additional financial implications associated with the report itself.
 - b) **Human Resources Implications** - There are no human resources implications arising from this report.
 - c) **Property Implications** – There are no property implications arising from this report.
14. **Risk Management Implications**

The Treasury Policy and Treasury Strategy which informs activity in this area were prepared with the primary aim of minimising risk to ensure that the Council's principal sums are safeguarded. Maximising income is considered secondary to this main aim.
15. **Equality and Diversity Implications**

There are no equality and diversity implications arising from this report.

16. **Crime and Disorder Implications**

There are no crime and disorder implications arising from this report.

17. **Health Implications**

There are no health implications arising from this report.

18. **Climate Emergency and Sustainability Implications**

There are no climate emergency or sustainability implications arising from this report.

19. **Human Rights Implications**

There are no human rights implications arising from this report.

20. **Ward Implications**

There are no direct ward implications arising from this report.

Mid-Year Report - Performance to 30 September 2022

1. Investment Performance

- 1.1 The latest projection of gross investment income for 2022/23 based on interest earned to date and expected interest to March 2023 is £1.459m, compared to an original estimate of £0.704m.
- 1.2 This gross investment interest is adjusted to account for £0.196m interest payable to third parties and interest receivable of £1.178m from various third parties. This gives a projected net interest to the General Fund 2022/23 of £2.441m compared to the budget of £2.080m. The variance to budget is mainly as a result of higher levels of interest received on loans to third parties than was anticipated when the 2022/23 budget was set.

2. The Economy

- 2.1 Following from the historically low bank base interest rates have been on an upward curve in 2022. The Bank of England's Monetary Policy Committee have agreed the following increases so far in 2022/23:

Date	Base Rate
01 April 2022	0.75%
05 May 2022	1.00%
16 June 2022	1.25%
04 August 2022	1.75%
22 September 2022	2.25%

It is anticipated that further base rate increases will follow in the current financial year, rising to an estimated peak of 5% by February 2023.

3. Rate of Return

- 3.1 The average rate of return is monitored for each investment type the Council enters into and these are used to calculate an average rate of return for the year to date. The current rate of return is 1.15%, which is an improvement on the original estimate of 0.59%.
- 3.2 The quarterly LINK Asset Services Investment Benchmarking report assesses both the rate of return and the risk of the counterparty to calculate a weighted average rate of return, which is used for comparison across Local Authorities. In the most recent report received at June 2022 the Council achieved a weighted average rate of return of 1.21% on its investments for Quarter 1 2022/23 which is above the risk adjusted expectations (0.85% to 1.11%) defined in the Benchmarking Report for our Group.
- 3.3 The rate of return would be expected to increase during the remainder of the financial year, with investment balances projected to remain consistent and deposits are placed with higher yielding returns.
- 3.4 In the current economic conditions the investment market is expected to improve and the Council will exceed levels of interest rates achieved in recent financial years. The majority of available interest rates up to 12 months duration are at or around 4.90% compared to the bank base rate of 2.25% (at 30 September 2022).

Significant increases in Bank Rate are forecast until the end of the current financial year 31st March 2023, with investment returns expected to improve in the short and medium term.

4 Borrowing

- 4.1 The total borrowing for the Council and HRA as at 30 September 2022 was £664.966m, which was within the operational borrowing limit of £865.000m. This borrowing is made up of £616.966m Public Works Loans Board (PWLB) loans and £48.000m market loans.
- 4.2 The Treasury Strategy estimates for the 2022/23 financial year were based on a borrowing requirement of £125.392m with £114.519m relating to the GF and £10.873m the HRA. Due to the council holding high levels of cash reserves the actual borrowing in the year to date is £20.000m. The timing of further borrowing will depend on a combination of cash flow requirements to support the capital programme and achieving preferential borrowing rates.
- 4.3 The current forecast for interest payable on borrowing is allocated to the General Fund and the Housing Revenue Account (HRA) as shown in the following table:

	General Fund	HRA
Interest Payable	£12.248m	£12.094m
Average rate of interest	3.703%	3.872%

This represents a gross saving of £0.521m on the original estimate, of which £0.606m is a saving for the General Fund and £0.085m additional cost to the HRA.

5 Compliance with Treasury and Prudential Limits

- 5.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2022, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2022/23

6 Summary of Mid-Year Performance

- 6.1 The projected net impact of investment and borrowing activity on the revenue budget in 2022/23 is an underspend of £0.882m, comprising £0.967m General Fund underspend and £0.085m HRA overspend.

	General Fund			HRA		
	Estimate	Projected Outturn	Variance	Estimate	Projected Outturn	Variance
	£m	£m	£m	£m	£m	£m
Investments	(2,020)	(2,381)	(0.361)	(0.060)	(0.060)	0.000
Borrowing	12.854	12.248	(0.606)	12.009	12.094	0.085
Premia	0.462	0.462	0.000	0.000	0.000	0.000
Net Position	11,296	10,329	(0.967)	11,949	12,034	0.085

- 6.2 Current interest rates for investments are around 5.0% for 12 months and 4.5% for 6 months, allowing the Council to increase income from investing cash balances. PWLB rates are currently higher than budgeted and will be monitored to ensure borrowing is taken at the optimum time to minimise the number of long term loans entered into at the current higher level of interest rates.

- 6.3 The balance of external and internal borrowing is generally driven by market conditions. The council will continue to monitor the market to identify any opportunity to repay borrowing earlier than planned, subject to any discounts received.