

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

REPORT OF: Darren Collins – Strategic Director, Resources & 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. The mid-year performance of the Treasury Management Service is reported in line with CIPFA's Code of Practice on Treasury Management and the Council's Treasury Policy Statement and Treasury Strategy which was approved by Council on 24 March 2022.
3. The Council operates a balanced approach, and this means broadly that cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing security and adequate liquidity initially before considering optimising investment return.
4. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations.
5. Accordingly, treasury management is defined as:

"The management of the Council's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
6. The primary objective of the investment strategy is to safeguard the Council's assets with a secondary objective of obtaining an optimum rate of return on investments and minimising the costs of borrowing.

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.

Investment Performance

8. 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.
9. 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.

The Economy

10. 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.

Rate of Return

11. 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%.
12. 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.
13. 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.
14. 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 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.

Borrowing

14. 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.
15. 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.
16. 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.

Compliance with Treasury and Prudential Limits

17. 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

Summary of Mid-Year Performance

18. 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

19. 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.
20. 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.

Recommendation

The Committee is requested to note the Treasury Management Performance to 30 September 2022, prior to submission to Cabinet.