

Cherwell District Council

Accounts, Audit and Risk Committee

16 March 2022

Treasury Management Report – Q3 2021-22

Report of the Assistant Director of Finance

This report is public

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2021-22 as required by the Treasury Management Code of Practice.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the contents of the Quarter 3 2021-22 Treasury Management Report.

2.0 Introduction

- 2.1 In 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports. This quarterly report provides an additional update.
- 2.2 The Council's Treasury Management strategy for 2021-22 was approved at a meeting on 22 February 2021. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's treasury management strategy.
- 2.3 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 22 February 2021.

3.0 Report Details

Summary position and strategy

- 3.1 As at the end of December 2021 the Council had borrowing of £181m and investments of £67,4m – a net borrowing position of £113.6m (30/09/21: £122.9m).
- 3.2 In anticipation of an interest rate rise a decision was taken to borrow £25m for 50 years at 1.69% in November 2021. The Council has continued to pursue its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and borrowing costs.

All treasury management activities undertaken during the first 9 months of 2021-22 complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. All of the Prudential Indicators were met during the reporting period.

Borrowing performance for 9 months ended 31 December 2021

- 3.3 The Council requires external borrowing to fund its capital programme and had total debt of £181m at the report date. £100m (55%) of the current debt is at fixed rate for the medium-long term from the Public Works Loan Board (PWLB), with the remainder borrowed short term from other local authorities (at fixed rates, but on a rolling basis with various durations, therefore effectively variable rate).
- 3.4 The Council's chief objective when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required,
- 3.5 The table below shows the borrowing position during and at the end of the reporting period:

	Borrowing Amount	Interest Rate	Interest Paid Budget*	Interest Paid Actual*	Variance
Apr-Dec 2021	£174m (average)	1.12% (annualised)	£1.644m	£1.459m	(£0.185m)
As at 31/12/21	£181m	1.17%	-	-	-

* Interest payable relates to external loans only, excluding finance lease and other interest of £63k

- 3.6 The table below shows average borrowing rates for the reporting period:

Borrowing Benchmarking	1 year	5 year	10 year	25 year	50 year
PWLB Maturity rate	0.99%	1.31%	1.63%	1.94%	1.68%

* as per Link's Treasury Management report for Q3 21/22

- 3.7 Interest payable for the full year is forecast to be £399k under budget (positive variance.)

3.8 A full list of current borrowing at 31 December 2021 is shown below:

Lender	Principal Borrowed £	Maturity Date
South Derbyshire DC	5,000,000	20/01/2022
West Midlands Combined Auth	10,000,000	14/02/2022
Cheshire West & Chester Council	7,000,000	01/03/2022
Wandsworth BC	5,000,000	23/05/2022
Oxfordshire County Council	5,000,000	15/07/2022
Crawley BC	5,000,000	16/08/2022
East Sussex County Council	5,000,000	16/08/2022
Derbyshire County Council	5,000,000	19/08/2022
North of Tyne Combined Authority	10,000,000	29/09/2022
Portsmouth City Council	5,000,000	28/10/2022
South Northamptonshire / West Northamptonshire	2,000,000	15/12/2022
North Tyneside Council	5,000,000	16/12/2022
East Sussex County Council	5,000,000	13/01/2023
Derbyshire County Council	5,000,000	16/06/2023
Craven DC	2,000,000	15/11/2023
PWLB - ref 506477	21,000,000	19/10/2024
PWLB - ref 116158	6,000,000	25/09/2025
PWLB - ref 114322	6,000,000	19/09/2026
PWLB - ref 507455	10,000,000	31/05/2028
PWLB - ref 116160	6,000,000	25/09/2029
PWLB - ref 114324	6,000,000	19/09/2030
PWLB - ref 507456	5,000,000	31/05/2033
PWLB - ref 116162	5,000,000	25/09/2034
PWLB - ref 114326	5,000,000	19/09/2035
PWLB - ref 507457	5,000,000	31/05/2048
PWLB - ref 435439	25,000,000	10/11/2071
TOTAL	181,000,000	

Investment performance for 9 months ended 31 December 2021

3.9 Funds available for investment are on a temporary basis, and the level of funds available is mainly dependent on the timing of precept payments, receipt of grants and funding of the Capital Programme.

3.10 In 2021-22 the Council received lower income from its cash and short-dated money market investments than it did in previous years due to the low interest rate environment. However, with interest rates on the rise in Q4, investment interest is forecast to improve slightly too.

3.11 The table below shows the investment position during and at the end of the reporting period:

	Investment Amount	Interest Rate	Interest Earned Budget	Interest Earned Actual	Variance £
Apr-Dec 2021	£47.4m (average)	0.09% (annualised)	(£76k)	(£32k)	£44k
As at 31/12/21	£67.4m	0.06%	-	-	-

3.12 The table below shows average money-market rates for the reporting period:

Investment Benchmarking	Overnight	7-day	1-month	3-month
LIBOR	0.06%	0.06%	0.08%	0.12%

* <https://www.statista.com/statistics/1214126/london-interbank-offered-rate-comparison-gbp/>

3.13 Interest receivable for the full year is forecast to be £66k below budget (adverse variance).

3.14 The Council's cash investments are held primarily for liquidity purposes and therefore are only available for relatively short-term deposits in a restricted selection of high-quality instruments, which often generate sub-LIBOR returns e.g. the UK Debt Management Office (part of HM Treasury) which is highly secure but earns only a low rate of interest.

3.15 A full list of current investments is shown below:

Counterparty	Principal Deposited £	Maturity Date / Notice period
<u>Fixed Term Deposits</u>		
Thurrock BC	2,000,000	13/01/2022
Thurrock BC	3,000,000	14/01/2022
Aberdeen City Council	3,000,000	16/02/2022
DMADF	10,000,000	21/02/2022
Surrey Heath BC	1,000,000	23/02/2022
DMADF	14,000,000	01/03/2022
Redcar & Cleveland BC	2,000,000	14/03/2022
DMADF	5,000,000	14/03/2022
Merthyr Tydfil CBC	2,000,000	14/03/2022
DMADF	9,000,000	10/05/2022
DMADF	1,500,000	16/05/2022
Merthyr Tydfil CBC	3,000,000	21/09/2022
Slough BC	3,000,000	17/11/2022
<u>Money Market Funds</u>		
Goldman Sachs Asset Management	5,000,000	Same day
Federated Investors UK	3,930,000	Same day
TOTAL	67,430,000	

Non-treasury investment activity.

- 3.16 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 3.17 As at 31 December 2021, the Council held £100.7m of investments in the form of shares (£35.6m) and loans (£65.1m) to subsidiary companies and other organisations, primarily Graven Hill and Crown House.
- 3.18 The loan elements of these non-treasury investments generate a higher rate of return than earned on treasury investments, but this reflects the additional risks to the Council of holding such investments.
- 3.19 For the 9 months to 31 December 2021 these loans have earned interest of £3.240m, a positive variance of £18k against budget income of £3.222m. The full year forecast is expected to show a positive variance of £39k.

Overall performance

- 3.20 The overall performance for the 9 months to 31 December 2021 is as follows:

	Budget £k	Actual £k	Variance £k
Borrowing costs*	1,834	1,649	(185)
Treasury income	(76)	(31)	45
Non-treasury income	(3,222)	(3,240)	(18)
Total cost/(income)	(1,464)	(1,622)	(158)

*Borrowing costs include finance lease and other interest of £63k.

- 3.21 The full year forecast is expected to show an overall positive variance against budget of £184k:

	Budget £k	Actual £k	Variance £k
Borrowing costs	2,445	2,243	(203)
Treasury income	(101)	(44)	58
Non-treasury income	(4,296)	(4,335)	(39)
Total cost/(income)	(1,952)	(2,136)	(184)

Interest rate forecast

- 3.22 The Monetary Policy Committee have increased UK Bank Rate to 0.50% and with inflation expected to rise further (currently CPI 5.4%) there is now a view that the Bank Rate could go to 1.25% by the end of 2022.

4.0 Conclusion and Reasons for Recommendations

- 4.1 This report details the Treasury Performance for the Council for the period ending 31 December 2021. It is submitted to the Accounts, Audit and Risk Committee for information as required by the Treasury Management Code of Practice.

5.0 Consultation

None.

6.0 Alternative Options and Reasons for Rejection

- 6.1 None. The report is presented for information.

7.0 Implications

Financial and Resource Implications

- 7.1 There are no financial implications arising directly from any outcome of this report. The variances to budget as noted above are included in the Monthly Performance, Finance and Risk Monitoring Report to Executive.

Comments checked by:

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Legal Implications

- 7.2 There are no legal implications arising directly from any outcome of this report.

Comments checked by:

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Risk Implications

- 7.3 It is essential that this report is considered by the Audit Committee as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided

Comments checked by:

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8.0 Decision Information

Key Decision:

N/A

Financial Threshold Met: N/A

Community Impact Threshold Met: N/A

Wards Affected:

All

Links to Corporate Plan and Policy Framework

Links to all areas of Corporate Plan.

Lead Councillor:

None

Document Information

Appendix number and title

- None

Background papers

- None

Report Author and contact details

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