

Cherwell District Council

Accounts, Audit and Risk Committee

28 September 2022

Treasury Management Report – April to August 2022

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 2022-23 as required by the Treasury Management Code of Practice.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the contents of this 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 2022-23 was approved by full Council on 28 February 2022. 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 28 February 2022.

3.0 Report Details

Summary position and strategy

3.1 The Council has, since it began borrowing in 2017, successfully managed interest rate costs by using a strategy of taking out borrowing over both the short and longer term. This strategy was endorsed by Link Asset Management Services (the Council's treasury advisors) when interest rates were stable and gave the Council the flexibility to search out the best rates on part of the portfolio but also retain a degree of cost certainty that the longer terms provide. Due to the rapidly changing economic circumstances and external factors such as the ongoing war in the Ukraine, interest rates are increasing significantly above the levels assumed in the Council's budget.

The Council had held a significant amount of its borrowing as short-term loans due to interest rates being very low. However, given the instability and uncertainty surrounding interest rates the Council has worked closely with its external treasury management advisers to understand forecasts of where the Bank of England base rate and hence short-term borrowing rates could lead to. Link's Bank of England Base Rate forecast for the next two years is shown in Table 1 below:

Table 1: Forecast Rates (published 02/09/2022)

| Interest Rate Forecasts | | | | | | | | |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Bank Rate | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 |
| Link | 2.25% | 2.50% | 2.75% | 2.75% | 2.75% | 2.50% | 2.50% | 2.25% |
| Cap Econ | 2.00% | 2.50% | 2.75% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| 5Y PWLB RATE | | | | | | | | |
| Link | 2.80% | 3.00% | 3.10% | 3.10% | 3.00% | 3.00% | 2.90% | 2.90% |
| Cap Econ | 3.70% | 3.40% | 3.30% | 3.30% | 3.20% | 3.20% | 3.10% | 3.10% |
| 10Y PWLB RATE | | | | | | | | |
| Link | 3.00% | 3.20% | 3.30% | 3.30% | 3.20% | 3.10% | 3.10% | 3.00% |
| Cap Econ | 3.70% | 3.30% | 3.30% | 3.20% | 3.10% | 3.10% | 3.10% | 3.10% |
| 25Y PWLB RATE | | | | | | | | |
| Link | 3.40% | 3.50% | 3.50% | 3.50% | 3.50% | 3.40% | 3.40% | 3.30% |
| Cap Econ | 4.00% | 3.50% | 3.40% | 3.40% | 3.40% | 3.30% | 3.30% | 3.30% |

Officers, in consultation with Link, and the Lead Member for Finance, have adapted the Council's borrowing strategy to mitigate as much interest rate risk, as can reasonably be achieved in the current economic climate, by replacing short-term borrowing with borrowing over medium terms of between 5 and 10 years. In July the interest rate forecast for a 10 year PWLB loan, in the third quarter of 22/23 when we needed to refinance short term loans, was 3.5%. The current 10 year PWLB rates is 4.02%. Locking in PWLB loans ahead of need, at rates between 2.67% and 2.99%, could result in an annual savings of approximately £0.737m. The Council can begin to return to a proportion of short-term borrowing to refinance the PWLB loans maturing in 2025/26 and beyond.

The intention of this strategy is to:

- Take advantage of PWLB rates in July, which were still historically low, before the next anticipated interest rate increase
- Mitigate the refinancing risk associated with short-term borrowing and the maturing PWLB loans when rates could be even higher – ref table 1
- Provide cost certainty over the medium term

Taking out this fixed borrowing at higher than budgeted interest rates creates a budget pressure. The Council is mitigating this by investing the surplus cash it holds in line with its Treasury Investment Strategy. This allows the Council to take advantage of increasing interest rates to reduce the impact of borrowing in 2022/23.

- 3.2 As at the end of August 2022 the Council had borrowing of £240m and investments of £100m – a net borrowing position of £140m (31/3/22: £147.8m).
- 3.3 With interest rates increasing the Council has seen an increase in the average rate of interest payable from 1.12% in March to 1.66% at the end of August 2022. Similarly, the investment returns have increased from 0.28% in March to 1.39% at the end of August 2022.

Borrowing performance for the first 5 months of 2022/23

- 3.4 The Council requires external borrowing to fund its capital programme and had a total debt of £240m at the report date. With the change in borrowing strategy the ratio of medium-long term loans from the Public Works Loan Board (PWLB) to short term loans from other local authorities has moved from 50/50 at the beginning of the financial year to 69/31 on the 31st August 2022. The ratio is forecast to be 88/12 at the end of this financial year.
- 3.5 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.

Table 2 below shows the borrowing position during and at the end of the reporting period.

Table 2: Borrowing Position

| | Borrowing Amount £m | Average Interest Rate | Interest Paid Budget for Apr-Aug 22 £m | Interest Paid Actual Apr-Aug 22 £m | Variance to Date £m |
|---------------|--------------------------------|------------------------------|---|---|--------------------------------|
| Apr-Aug 2022 | 215 (average) | 1.33% | 0.933 | 1.472 | 0.539 |
| As at 31/8/22 | 240 | 1.66% | - | - | - |

- 3.6 As a comparison, the table below shows average borrowing rates.

Table 3: Average PWLB Rates for the first quarter

HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.22 – 30.06.22

| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|----------------|------------|------------|------------|------------|------------|
| Low | 1.95% | 2.18% | 2.36% | 2.52% | 2.25% |
| Date | 01/04/2022 | 13/05/2022 | 04/04/2022 | 04/04/2022 | 04/04/2022 |
| High | 3.03% | 3.18% | 3.41% | 3.70% | 3.48% |
| Date | 21/06/2022 | 21/06/2022 | 21/06/2022 | 21/06/2022 | 21/06/2022 |
| Average | 2.32% | 2.58% | 2.84% | 3.08% | 2.81% |
| Spread | 1.08% | 1.00% | 1.05% | 1.18% | 1.23% |

Source: Link

3.7 A full list of current borrowing on 31st August 2022 is shown below:

Table 4: Borrowing

| Lender | Principal Borrowed £m | Maturity Date |
|-----------------------------------|----------------------------------|----------------------|
| North of Tyne Combined Authority | 10 | 29/09/2022 |
| Portsmouth City Council | 5 | 28/10/2022 |
| North of Tyne Combined Authority | 5 | 14/11/2022 |
| West Northamptonshire Council | 2 | 15/12/2022 |
| North Tyneside Council | 5 | 16/12/2022 |
| East Sussex County Council | 5 | 13/01/2023 |
| West Yorkshire Combined Authority | 10 | 17/01/2023 |
| North Northamptonshire Council | 10 | 31/01/2023 |
| Portsmouth City Council | 5 | 13/02/2023 |
| Derbyshire County Council | 5 | 16/06/2023 |
| Guildford Borough Council | 5 | 13/07/2023 |
| Craven District Council | 2 | 15/11/2023 |
| PWLB - ref 506477 | 21 | 19/10/2024 |
| PWLB - ref 116158 | 6 | 25/09/2025 |
| PWLB - ref 114322 | 6 | 19/09/2026 |
| PWLB - ref 534182 | 10 | 26/07/2027 |
| PWLB - ref 507455 | 10 | 31/05/2028 |
| PWLB - ref 534193 | 5 | 26/07/2028 |
| PWLB - ref 534184 | 10 | 26/07/2029 |
| PWLB - ref 116160 | 6 | 25/09/2029 |
| PWLB - ref 534186 | 10 | 26/07/2030 |
| PWLB - ref 114324 | 6 | 19/09/2030 |
| PWLB - ref 534188 | 16 | 26/07/2031 |
| PWLB - ref 534190 | 15 | 26/07/2032 |
| PWLB - ref 507456 | 5 | 31/05/2033 |
| PWLB - ref 116162 | 5 | 25/09/2034 |
| PWLB - ref 114326 | 5 | 19/09/2035 |
| PWLB - ref 507457 | 5 | 31/05/2048 |
| PWLB - ref 435439 | 25 | 10/11/2071 |
| TOTAL | 240 | |

Investment performance for the first 5 months of 2022/23

- 3.8 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. The PWLB loans taken ahead of need have been invested to reduce the cost of carry.
- 3.9 The Council has seen an increase in interest income in line with rises in the Bank of England base rate. The short-dated money market investments have performed better than budgeted for and the trend is set to continue throughout this Financial year. Table 5 below shows the investment position during and at the end of the reporting period.

Table 5: Investment Position

| | Investment Amount £m | Average Interest Rate | Interest Earned Budget Apr – Aug 22 £m | Interest Earned Actual Apr – Aug 22 £m | Variance to Date £m |
|----------------|-------------------------|-----------------------|--|--|------------------------|
| Apr-Aug 22 | 71.6 (average) | 0.79% | (0.008) | (0.397) | (0.389) |
| As at 31/08/22 | 100 | 1.39% | - | - | - |

- 3.10 As a comparison Table 6 below shows average money-market rates.

Table 6: Average Investment Rates for the first quarter

| QUARTER ENDED 30/6/2022 | Bank Rate | SONIA | 7 day | 30 day | 90 day | 180 day | 365 day |
|-------------------------|------------|------------|------------|------------|------------|------------|------------|
| High | 1.25 | 1.19 | 1.19 | 1.06 | 0.89 | 0.64 | 0.35 |
| High Date | 16/06/2022 | 20/06/2022 | 24/06/2022 | 30/06/2022 | 30/06/2022 | 30/06/2022 | 30/06/2022 |
| Low | 0.75 | 0.69 | 0.69 | 0.57 | 0.39 | 0.23 | 0.14 |
| Low Date | 01/04/2022 | 28/04/2022 | 29/04/2022 | 01/04/2022 | 01/04/2022 | 01/04/2022 | 01/04/2022 |
| Average | 0.95 | 0.89 | 0.86 | 0.80 | 0.64 | 0.42 | 0.23 |
| Spread | 0.50 | 0.50 | 0.50 | 0.49 | 0.49 | 0.41 | 0.21 |

* SONIA (Sterling Overnight Index Average) is an interest rate benchmark published by the Bank of England.

Source: Link

- 3.11 In line with the new strategy to maximise interest income, while adhering to the Treasury Management Strategy's limits, investments have been made with banks with a credit rating of A- or higher. The portfolio of investments has moved away from primarily lending to other Local authorities and the UK Debt Management Office (part of HM Treasury), which is highly secure but earns a lower rate of interest compared to other instruments available on the market, to a more diverse array of counterparties. All counterparties have the required credit rating and are on Link's approved counterparty list.

To ensure that the Council is able to make the most of the increasing daily yields, three new money market accounts were opened with Northern Trust, Legal and General and CCLA. The Council is using the FIS Short-Term Cash Management Portal to effectively compare rates and invest in the most efficient manner.

A full list of current investments is shown below:

Table 7: Investments

| Counterparty | Principal Deposited £m | Maturity Date / Notice period |
|---|-----------------------------------|--|
| <u>Fixed Term Deposits</u> | | |
| Thurrock Borough Council | 3 | 14/10/2022 |
| Slough Borough Council | 3 | 17/11/2022 |
| Merthyr Tydfil County Borough Council | 3 | 21/09/2022 |
| Derbyshire County Council | 3 | 03/04/2023 |
| Thurrock Borough Council | 2 | 13/10/2022 |
| Debt Management Agency Deposit Facility | 1 | 06/01/2023 |
| Debt Management Agency Deposit Facility | 1.2 | 11/10/2022 |
| Standard Chartered Bank | 3 | 04/11/2022 |
| Development Bank of Singapore | 3 | 09/11/2022 |
| Bayerische Landesbank | 3 | 09/11/2022 |
| First Abu Dhabi Bank PJSC | 3 | 09/11/2022 |
| Landesbank Hessen-Thuringen | 3 | 09/09/2022 |
| SMBC Bank International Plc | 3 | 09/11/2022 |
| Debt Management Agency Deposit Facility | 5 | 10/10/2022 |
| Debt Management Agency Deposit Facility | 5 | 19/10/2022 |
| Qatar National Bank | 3 | 09/11/2022 |
| Lloyds Bank Corporate | 3 | 09/11/2022 |
| National bank of Canada | 3 | 10/10/2022 |
| National bank of Kuwait (International) | 3 | 09/11/2022 |
| Natwest Markets | 3 | 16/11/2022 |
| Yorkshire Building Society | 3 | 13/02/2023 |
| Debt Management Agency Deposit Facility | 2.5 | 13/10/2022 |
| DZ Bank AG (Deutsche Zentral-Genossenschaftsbank) | 3 | 17/11/2022 |
| Lloyds Bank Plc (RFB) | 2 | 16/12/2022 |
| Toronto-Dominion Bank | 3 | 20/02/2023 |
| Credit Agricole | 3 | 19/12/2022 |
| Santander UK | 3 | 21/11/2022 |
| Debt Management Agency Deposit Facility | 3.6 | 19/09/2022 |
| Credit Suisse | 3 | 19/12/2022 |
| <u>Money Market Funds</u> | | |
| Goldman Sachs Asset Management | 4.795 | Same day |
| Federated Investors UK | 5 | Same day |
| Northern Trust Asset Managements | 2.6 | Same day |
| CCLA Investment Management Limited | 2.4 | Same day |
| TOTAL | 100.095 | |

Non-treasury investment activity.

- 3.12 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council. This is replicated in the government's Statutory Guidance on Local Government Investments, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 3.13 As of the 31st August 2022, the Council holds £107.2m of investments in the form of shares (£35.6m) and loans (£71.6m) to subsidiary companies and other organisations, primarily Graven Hill and Crown House.
- 3.14 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.
- 3.15 For the 5 months to 31 August 2022 these loans have earned interest of £1.967m, a positive variance of (£0.022m) against budget income of £1.945m. The full year forecast is expected to show a positive variance of (£0.55m).

Table 8: Non-Treasury Investment Position

| | Budget to date £m | Actual to date £m | Variance to date £m |
|--------------------------------------|--------------------------|--------------------------|----------------------------|
| Total non-treasury investment income | (1.945) | (1.967) | (0.022) |

Overall performance for the Period

- 3.16 The overall performance for the 5 months to 31 August 2022 is as follows:

Table 9: Overall Treasury Position for the Period

| | Budget to date £m | Actual to date £m | Variance to date £m |
|----------------------------------|--------------------------|--------------------------|----------------------------|
| Borrowing costs | 0.856 | 1.395 | 0.539 |
| Finance lease and other interest | 0.106 | 0.106 | 0 |
| Treasury income | (0.08) | (0.397) | (0.389) |
| Non-treasury income | (1.945) | (1.967) | (0.022) |
| Total cost/(income) | (0.991) | (0.863) | 0.128 |

Year End Forecast

- 3.17 The treasury budget was approved in February 2022 using interest rate forecasts provided by Link in their November 2021 update. Since then, the worsening cost-of-living crisis and the war in Ukraine has altered the economic outlook.
- 3.18 Interest payable for the full year prior to the change in strategy was forecast to be £0.148m over budget (negative variance). The new borrowing strategy will result in a forecast overspend of £1.292m for the financial year, an increase of £1.144m as a result of the change in strategy.

- 3.19 Interest receivable for the full year before the change in strategy was forecast to be (£0.070m) over budget (positive variance) due to the increasing interest rates we can expect to receive on our investments. With the change in strategy and the resulting additional investments, the year end forecast is now (£0.952m) (positive variance). This is an increase of (£0.882m) (positive variance) as a result of the change in strategy.
- 3.20 The full year forecast is expected to show an overall adverse variance against budget of £0.304m as shown in Table 10 below. This deficit is being managed as part of monthly budget monitoring.

Table 10: Overall Treasury Position Forecast to Year End

| | Full Year Budget £m | Full Year Forecast £m | Full Year Variance £m |
|----------------------------------|--------------------------------|----------------------------------|----------------------------------|
| Borrowing costs | 2.056 | 3.348 | 1.292 |
| Finance lease and other interest | 0.253 | 0.253 | 0 |
| Treasury income | (0.019) | (0.952) | (0.933) |
| Non-treasury income | (4.666) | (4.721) | (0.055) |
| Total cost/(income) | (2.376) | (2.072) | 0.304 |

4.0 Conclusion and Reasons for Recommendations

- 4.1 This report details the Treasury Performance for the Council from the period April to August 2022. 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 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To request further information on the performance reported.

7.0 Implications

Financial and Resource Implications

- 7.1 There are no financial implications arising directly from any outcome of this report.

Comments checked by:

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Legal Implications

- 7.2 As the report is submitted to the Accounts, Audit and Risk Committee for information as required by the Treasury Management Code of Practice, there are no legal implications arising directly from 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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Equalities Implications

- 7.4 There are no equalities implications arising directly from this report.

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

N/A

Lead Councillor

Councillor Adam Nell, Portfolio Holder for Finance

Document Information

Appendix number and title

- None

Background papers

None

Report Author and contact details

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