

Cherwell District Council

Accounts, Audit and Risk Committee

16 November 2022

Treasury Management Report – Q2 2022/23 (September 2022)

Report of 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 At the start of the year the Council had £100m long term and £99m short term borrowing with a significant amount of refinancing due from January 2023. The Council recognised that interest rates were increasing and subject to significant volatility. By replacing short-term with medium-term borrowing the Council has achieved greater interest rate certainty.

Due to various factors the interest rates have increased to higher levels than previous forecast. When the change in borrowing strategy was implemented in July 2022 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 rate forecast for the third quarter of 22/23 is 4.10%.

Table 1: Link Forecast Rates September 2022 with the published forecast from August as a comparison

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

Link Group Interest Rate View	09.08.22												
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	2.25	2.50	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.00
3 month ave earnings	2.50	2.80	3.00	2.90	2.80	2.50	2.40	2.30	2.30	2.30	2.20	2.20	2.20
6 month ave earnings	2.90	3.10	3.10	3.00	2.90	2.80	2.70	2.60	2.50	2.50	2.40	2.30	2.30
12 month ave earnings	3.20	3.30	3.20	3.10	3.00	2.90	2.80	2.70	2.40	2.40	2.40	2.40	2.40
5 yr PWLB	2.80	3.00	3.10	3.10	3.00	3.00	2.90	2.90	2.80	2.80	2.80	2.70	2.70
10 yr PWLB	3.00	3.20	3.30	3.30	3.20	3.10	3.10	3.00	3.00	3.00	2.90	2.90	2.80
25 yr PWLB	3.40	3.50	3.50	3.50	3.50	3.40	3.40	3.30	3.30	3.20	3.20	3.20	3.10
50 yr PWLB	3.10	3.20	3.20	3.20	3.20	3.10	3.10	3.00	3.00	2.90	2.90	2.90	2.80

Taking out this fixed borrowing at higher than budgeted interest rates has created 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 September 2022 the Council had borrowing of £230m and investments of £101m – a net borrowing position of £129m (31/08/22: £140m).
- 3.3 All treasury management activities undertaken during the first 6 months of 2022-23 complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy, and all Prudential Indicators were met during, and at the end of, the reporting period (see Table 5 at point 3.9 and Table 9 at point 3.15 below).

Borrowing performance for 6 months ended 30 September 2022

- 3.4 The Council requires external borrowing to fund its capital programme and had a total debt of £230m 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 72/28 on the 30th September 2022.
- 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 for 6 months ended 30 September 2022

	Borrowing Amount £m	Average Interest Rate	Interest Paid Budget £m	Interest Paid Actual £m	Variance to Date £m
Apr-Sept 2022	218 (average)	1.40%	1.028	1.674	0.646
As at 30/09/22	230	1.72%	-	-	-

* Interest payable relates to external loans only, excluding finance lease and other interest of £0.127m

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

Table 3: Average PWLB Rates for the reporting period

HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.22 – 30.09.22

	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	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

Source: Link

This comparison demonstrates that the rates at which the PWLB loans were secured at in July 2022, 5 years at 2.67% and 10 years at 2.99%, were below average and considerably below the highs.

- 3.7 Interest payable for the full year is forecast to be £1.293m over budget (negative variance). This is expected to partly offset by higher than budgeted interest receivable from investing.

3.8 A full list of current borrowing at 30th September 2022 is shown below:

Table 4: Borrowing

Lender	Principal Borrowed £m	Maturity Date
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
Oxfordshire County Council	5	27/04/2023
Derbyshire County Council	5	16/06/2023
Guildford Borough Council	5	13/07/2023
Craven District Council	2	15/11/2023
PWLB 7-year maturity	21	19/10/2024
PWLB 6-year maturity	6	25/09/2025
PWLB 7-year maturity	6	19/09/2026
PWLB 5-year maturity	10	26/07/2027
PWLB 10-year maturity	10	31/05/2028
PWLB 6-year maturity	5	26/07/2028
PWLB 7-year maturity	10	26/07/2029
PWLB 10-year maturity	6	25/09/2029
PWLB 8-year maturity	10	26/07/2030
PWLB 11-year maturity	6	19/09/2030
PWLB 9-year maturity	16	26/07/2031
PWLB 10-year maturity	15	26/07/2032
PWLB 15-year maturity	5	31/05/2033
PWLB 15-year maturity	5	25/09/2034
PWLB 16-year maturity	5	19/09/2035
PWLB 30-year maturity	5	31/05/2048
PWLB 50-year maturity	25	10/11/2071
TOTAL	230	

3.9 Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table below:

Table 5: Prudential Indicators

	2022/23 Forecast £m	30/9/22 Actual £m	2022/23 Operational Boundary	2022/23 Authorised Limit	Complied?
Borrowing / Total debt	266	230	290	310	Yes

Investment performance for 6 months ended 30 September 2022

- 3.10 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.
- 3.11 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 and the trend is set to continue throughout this financial year. Table 6 below shows the investment position during and at the end of the reporting period.

Table 6: Investment Position for 6 months ended 30 September 2022

	Investment Amount £m	Average Interest Rate	Interest Earned Budget £m	Interest Earned Actual £m	Variance to Date £m
Apr-Sept 22	76.5 (average)	0.99%	(0.010)	(0.524)	(0.514)
As at 31/09/22	101	1.97%	-	-	-

- 3.12 As a comparison Table 7 below shows average money-market rates.

Table 7: Average Investment Rates for the reporting period

QUARTER ENDED 30/9/2022						
	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	2.25	2.19	2.86	3.67	4.49	5.41
High Date	22/09/2022	30/09/2022	26/09/2022	26/09/2022	29/09/2022	29/09/2022
Low	0.75	0.69	0.69	0.92	1.20	1.62
Low Date	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022	04/04/2022
Average	1.28	1.22	1.39	1.70	2.12	2.62
Spread	1.50	1.50	2.17	2.75	3.29	3.79

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

- 3.13 While maintaining a balance between security, liquidity and yield the Council has also been looking for ways to invest sustainably (or green investment). This must be done within the criteria laid out in the approved Treasury Management Strategy amongst counterparties approved by the Council's Treasury Advisors, Link.

There is currently a lack of comparability of Environmental, Social and Governance (ESG) metrics, ratings, and investing approaches meaning there are very few investment opportunities that are clearly sustainable and on our counterparty list. The Council has taken the opportunity to invest in Standard Chartered Bank's sustainable fixed deposit (aligned to the United Nations' Sustainable Development Goals) and will highlight any future sustainable investments in this report.

3.14 A full list of current investments is shown in Table 8 below:

Table 8: Investments

Counterparty	Principal Deposited £m	Maturity Date / Notice period
<u>Fixed Term Deposits</u>		
Debt Management Agency Deposit Facility	5	10/10/2022
National bank of Canada	3	10/10/2022
Debt Management Agency Deposit Facility	1.200	11/10/2022
Thurrock Borough Council	2	13/10/2022
Debt Management Agency Deposit Facility	2.500	13/10/2022
Thurrock Borough Council	3	14/10/2022
Debt Management Agency Deposit Facility	5	19/10/2022
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
SMBC Bank International Plc	3	09/11/2022
Qatar National Bank	3	09/11/2022
Lloyds Bank Corporate	3	09/11/2022
National bank of Kuwait (International)	3	09/11/2022
Natwest Markets	3	16/11/2022
Slough Borough Council	3	17/11/2022
DZ Bank AG (Deutsche Zentral)	3	17/11/2022
Santander UK	3	21/11/2022
Debt Management Agency Deposit Facility	1.950	21/11/2022
Craven Borough Council	1	01/12/2022
Landesbank Hessen-Thuringen	3	09/12/2022
Nationwide Building Society	3	09/12/2022
Lloyds Bank Plc (RFB)	2	16/12/2022
Credit Agricole	3	19/12/2022
Credit Suisse	3	19/12/2022
Debt Management Agency Deposit Facility	1	06/01/2023
Debt Management Agency Deposit Facility	10	31/01/2023
Yorkshire Building Society	3	13/02/2023
Toronto-Dominion Bank	3	20/02/2023
Derbyshire County Council	3	03/04/2023
<u>Money Market Funds</u>		
Goldman Sachs Asset Management	0.025	Same day
Federated Investors UK	5	Same day
Northern Trust Asset Managements	1.055	Same day
CCLA Investment Management Limited	0.500	Same day
TOTAL	101.230	

3.15 Compliance with investment limits is shown in Table 9 below:

Table 9: Investment Limits

	2022/23 Maximum £m	30/9/22 Actual £m	2022/23 Limit £m	Complied?
UK Central Government	57	27	Unlimited	Yes
Any group of organisations under the same ownership	5	5	5 per group	Yes
Approved counterparties – Banks and Building Societies	3	3	3 each	Yes
Any group of pooled funds under the same management	0	0	5 per manager	Yes
Money Market Funds total	15 in total	6.6	15 in total	Yes

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 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.
- 3.17 As of the 30th September 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.
- 3.18 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 6 months to 30 September 2022 these loans have earned interest of £2.360m, a positive variance of (£0.027m) against budgeted income of £2.333m. The full year forecast is expected to show a positive variance of (£0.55m).

Table 10: Non-Treasury Investment Position

	Budget to date £m	Actual to date £m	Variance to date £m
Total non-treasury investment income	(2.333)	(2.360)	(0.027)

Overall performance for the Period

3.20 The overall performance for the 6 months to 30 September 2022 is as follows:

Table 11: Overall Treasury Position for the Period

	Budget to date £m	Actual to date £m	Variance to date £m
Borrowing costs	1.028	1.674	0.646
Finance lease and other interest	0.127	0.127	0
Treasury income	(0.010)	(0.524)	(0.514)
Non-treasury income	(2.333)	(2.360)	(0.027)
Total cost/(income)	(1.188)	(1.083)	0.105

Year End Forecast

- 3.21 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.
- 3.22 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 (no change from previous reporting period) for the financial year, an increase of £1.144m as a result of the change in strategy.
- 3.23 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 expected on investments. With the increase in interest rates, as well as investing the surplus funds borrowed from the PWLB, the year-end forecast is now (£1.047m) (positive variance) compared to (£0.952m) at period 5. This is an increase of (£0.977m) (positive variance) as a result of the change in strategy.
- 3.24 The full year forecast is expected to show an overall adverse variance against budget of £0.209m (31/08/22: £0.304m) as shown in Table 12 below.

Table 12: 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)	(1.047)	(1.028)
Non-treasury income	(4.666)	(4.721)	(0.055)
Total cost/(income)	(2.376)	(2.167)	0.209

4.0 Conclusion and Reasons for Recommendations

- 4.1 This report details the Treasury Performance for the Council for the period ending 30 September 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 The presentation of the Report is required by regulations issued under the Local Government Act 2003 to review the treasury management activities, the actual prudential indicators and the treasury related indicators.

Comments checked by:

Shiraz Sheikh, Assistant Director Law & Governance | Monitoring Officer
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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. This and any other risks related to this report will be managed through the service operational risk and escalated to the leadership risk register as and when necessary.

Comments checked by:

Celia Prado-Teeling, Performance and Insight Team Leader
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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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