

# **Cherwell District Council**

## **Accounts, Audit and Risk Committee**

**26 July 2023**

### **Treasury Management Report – Annual Performance Report 2022/23 (March 2023)**

#### **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.
- 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 2022/23 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 During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure, in order to reduce risk and borrowing costs.
- 3.2 The Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%. In anticipation of rapid interest rate rises a decision was taken to borrow £66m in advance of need, over a period of between 5 and 10 years, at an average rate of 2.83% in July 2022, which has provided interest rate certainty for 2023/24 when interest rates are forecast to be at their peak as demonstrated in Table 1 below. This was a prudent approach resulting in sound financial management of the Council's Treasury Management activities, resulting in the Council paying approximately £0.569m per annum less in interest than if it had waited to borrow in 4<sup>th</sup> quarter of 22/23.

Table 1: Link Forecast Rates published on 31<sup>st</sup> March 2023

Interest Rate Forecasts								
Bank Rate	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Link	4.50%	4.50%	4.25%	4.00%	3.50%	3.25%	3.00%	2.75%
Cap Econ	4.50%	4.50%	4.50%	4.25%	4.00%	3.50%	3.00%	-
<b>5Y PWLB RATE</b>								
Link	4.10%	4.10%	3.90%	3.80%	3.70%	3.60%	3.50%	3.40%
Cap Econ	3.90%	3.70%	3.50%	3.40%	3.30%	3.30%	3.20%	-
<b>10Y PWLB RATE</b>								
Link	4.20%	4.20%	4.00%	3.90%	3.80%	3.70%	3.50%	3.50%
Cap Econ	4.00%	3.80%	3.60%	3.50%	3.40%	3.40%	3.30%	-
<b>25Y PWLB RATE</b>								
Link	4.60%	4.50%	4.40%	4.20%	4.10%	4.00%	3.80%	3.70%
Cap Econ	4.40%	4.10%	3.80%	3.80%	3.70%	3.60%	3.60%	-
<b>50Y PWLB RATE</b>								
Link	4.30%	4.20%	4.10%	3.90%	3.80%	3.70%	3.50%	3.50%
Cap Econ	4.20%	4.00%	3.80%	3.70%	3.60%	3.60%	3.50%	-

Note: **Capital Economics** is an independent economic research business based in London to which Link are comparing their forecasts to demonstrate the market view

- 3.3 As at the end of March 2023 the Council had borrowing of £188m and investments of £44m – a net borrowing position of £144m (31/12/22: £127m).
- 3.4 All treasury management activities undertaken during the financial year 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 7 at point 3.11 and Table 12 at point 3.18 below).

### Borrowing performance for year ended 31 March 2023

- 3.5 The Council requires external borrowing to fund its capital programme and had a total debt of £188m 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 88/12 on the 31<sup>st</sup> March 2023.

- 3.6 Table 2 below represents prudential indicator relating to the maturity structure of borrowing. This indicator is set to control the council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be as per Table 2.

Table 2: Maturity structure of borrowing:

Refinancing rate risk indicator	Upper limit	Lower limit	Actual structure
Under 12 months	80%	10%	11.70%
12 months and within 24 months	80%	0%	11.17%
24 months and within 5 years	80%	0%	11.70%
5 years and within 10 years	80%	0%	41.49%
10 years and above	80%	0%	23.94%

- 3.7 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 3 below shows the borrowing position during and at the end of the reporting period. The borrowing amount has decreased as loans have matured and been seamlessly replaced by the borrowing ahead of need that was done in July 22 to secure interest rates. Note that as this has happened the investment balances have also reduced.

Table 3: Borrowing Position for year ended 31 March 2023

	Borrowing Amount £m	Average Interest Rate	Interest Paid Budget £m	Interest Paid Actual £m	Variance to Date £m
Apr 22 - Mar 23	212 (average)	1.64%	2.056	3.347	1.291
As at 31/03/23	188	2.02%	-	-	-

\* Interest payable relates to external loans only, excluding finance lease and other interest

- 3.8 Interest payable for the full year is £1.291m over budget (negative variance). This has been offset by higher than budgeted interest receivable from investing.

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

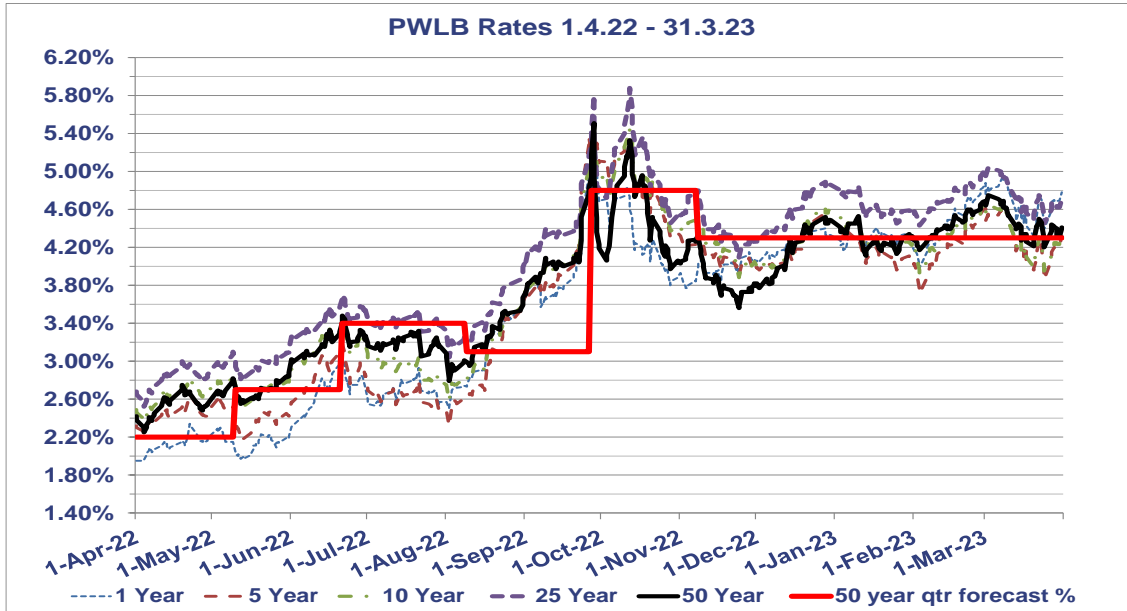
Table 4: High / Low / Average PWLB Rates for 2022/23

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	1.95%	2.18%	2.36%	2.52%	2.25%
<b>Date</b>	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
<b>High</b>	5.11%	5.44%	5.45%	5.88%	5.51%
<b>Date</b>	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
<b>Average</b>	3.57%	3.62%	3.76%	4.07%	3.74%
<b>Spread</b>	3.16%	3.26%	3.09%	3.36%	3.26%

Source: Link

Table 5: PWLB rates graph

This graph 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 well timed.



3.10 A full list of current borrowing at 31 March 2023 is shown in Table 6 below. The remaining short-term borrowing from other Local Authorities will be repaid by November 2023 using the sums borrowed from the PWLB in July 2022, which we currently have invested.

Table 6: Borrowing

Lender	Principal Borrowed £m	Maturity Date
West Midlands Combined Authority	5	13/04/2023
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
<b>Lender</b>	<b>Principal Borrowed £m</b>	<b>Maturity Date</b>
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
<b>TOTAL</b>	<b>188</b>	

- 3.11 Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table 7 below:

Table 7: Prudential Indicators

	<b>2022/23 Peak Borrowing Position £m</b>	<b>2022/23 Final Borrowing Position £m</b>	<b>2022/23 Operational Boundary</b>	<b>2022/23 Authorised Limit</b>	<b>Complied?</b>
Total debt	274	188	290	310	Yes

### Investment performance for year ended 31 March 2023

- 3.12 Funds available for investment are on a temporary basis as the majority of the balance is earmarked to refinance maturing short-term borrowing. The PWLB loans taken ahead of need have been invested to reduce the cost of carry. The level of funds available to invest is mainly dependent on the timing of precept payments, receipt of grants and funding of the Capital Programme.
- 3.13 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 throughout this financial year. Table 7 below shows the investment position during and at the end of the reporting period. Investments balances, which were inflated by borrowing ahead of need, have reduced as loans have matured and been repaid.

Table 8: Investment Position

	<b>Investment Amount £m</b>	<b>Average Interest Rate</b>	<b>Interest Earned Budget £m</b>	<b>Interest Earned Actual £m</b>	<b>Variance to Date £m</b>
Apr 22 – Mar 23 (average)	76	2.07%	(0.019)	(1.642)	(1.623)
As at 31/03/23	44	3.95%	-	-	-

3.14 As a comparison, Table 9 below shows average money-market rates over the period. The Council achieved average investment rates which was considerably higher than the rates anticipated when the budget was set resulting in more interest earned than budgeted for.

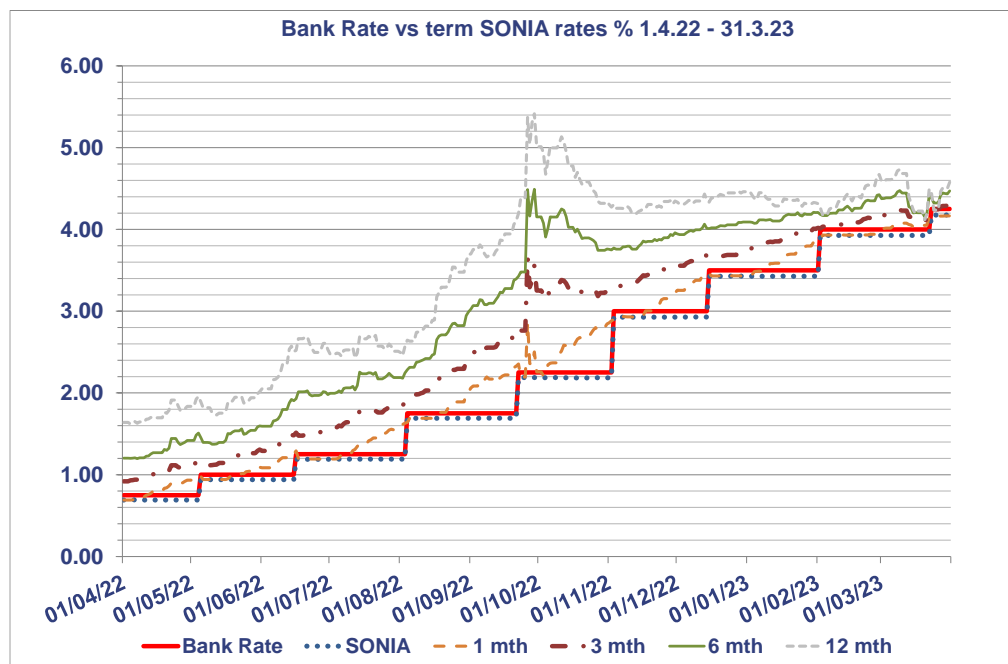
Table 9: Average Investment Rates for the reporting period

FINANCIAL YEAR TO QUARTER ENDED 31/3/2023						
	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
<b>High</b>	4.25	4.18	4.17	4.30	4.49	5.41
<b>High Date</b>	23/03/2023	31/03/2023	31/03/2023	31/03/2023	29/09/2022	29/09/2022
<b>Low</b>	0.75	0.69	0.69	0.92	1.20	1.62
<b>Low Date</b>	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022	04/04/2022
<b>Average</b>	2.30	2.24	2.41	2.72	3.11	3.53
<b>Spread</b>	3.50	3.49	3.48	3.38	3.29	3.79

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

Table 10: Investment Benchmarking Data 2022/23

This table demonstrates just how steep the rate of interest increases has been.



3.15 While maintaining a balance between security, liquidity and yield the Council has also been looking for ways to invest sustainably. 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.

3.16 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. The Treasury Management Practices (TMP1) address the growing importance of

Environmental, Social and Governance investing and outline the Council strategy on this matter.

3.17 A full list of current investments is shown in Table 11 below:

Table 11: Investments

Counterparty	Principal Deposited £m	Maturity Date / Notice period
<u>Fixed Term Deposits</u>		
Derbyshire County Council	3	03/04/2023
Development bank of Singapore	3	12/04/2023
Derby City Council	3	13/04/2023
National bank of Kuwait (International)	3	20/04/2023
SMBC Bank International Plc	3	20/04/2023
North Northamptonshire Council	5	27/04/2023
Leeds City Council	5	28/04/2023
Standard Chartered Bank	3	09/05/2023
Wakefield Council	2	12/05/2023
Ashford Borough Council	5	18/05/2023
<u>Money Market Funds</u>		
CCLA Investment Management Limited	4.80	Same day
Legal & General Investment Management	3.17	Same day
Northern Trust Asset Managements	0.45	Same day
Federated Investors UK	0.60	Same day
Goldman Sachs Asset Management	0.50	Same day
<b>TOTAL</b>	<b>43.52</b>	

3.18 Compliance with investment limits is demonstrated in Table 12 below:

Table 12: Investment Limits

	2022/23 Limit £m	Complied?
UK Central Government	Unlimited	Yes
Other Local Authorities	5 each	Yes
Any group of organisations under the same ownership	5 per group	Yes
Approved counterparties – Banks and Building Societies	3 each	Yes
Any group of pooled funds under the same management	5 per manager	Yes
Money Market Funds total	15 in total	Yes

## **Non-treasury investment activity**

- 3.19 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.
- 3.20 As of the 31<sup>st</sup> March 2023, 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.
- 3.21 The loan elements of these non-treasury investments generate a higher rate of return than can be earned on treasury investments, but this reflects the additional risks to the Council of holding such investments.
- 3.22 For the year ending 31<sup>st</sup> March 2023 these loans have earned interest of £4.927m, a positive variance of (£0.261m) against budgeted income of £4.666m. The additional interest was as a result of an approved revolving credit facility being utilised.

## **Overall performance**

- 3.23 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.
- 3.24 Interest payable for the full year prior to the change in strategy was forecast to be £0.148m over budget (negative variance) before loans were taken in advance of need to provide interest rate security and lower interest rate costs. The new borrowing strategy has resulted in an overspend of £1.291m (no change from previous reporting period) for the financial year, an increase of £1.143m because of the change in strategy.
- 3.25 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 position is now (£1.623m) (positive variance.) This is an increase of (£1.553m) (positive variance) as a result of the change in strategy.
- 3.26 There is an overall positive variance against budget of (£0.591m). This means that the Council has not only recovered the costs involved in providing interest payable certainty, which will benefit the Council greatly in future years, but also benefited from the rapidly rising interest rates by reinvesting loans taken ahead of need.



Table 13: Overall Treasury Position Forecast to Year End

	<b>Full Year Budget £m</b>	<b>Full Year Actual £m</b>	<b>Full Year Variance £m</b>
Borrowing costs	2.056	3.347	1.291
Finance lease and other interest	0.253	0.255	0.002
Treasury income	(0.019)	(1.642)	(1.623)
Non-treasury income	(4.666)	(4.927)	(0.261)
<b>Total cost/(income)</b>	<b>(2.376)</b>	<b>(2.967)</b>	<b>(0.591)</b>

## 4.0 Conclusion and Reasons for Recommendations

- 4.1 This report details the Treasury Performance for the Council for the period ending 31<sup>st</sup> March 2023. 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 this report.

Comments checked by:

Joanne Kaye, Head of Finance (D151)

01295 221545, [joanne.kaye@cherwell-dc.gov.uk](mailto:joanne.kaye@cherwell-dc.gov.uk)

### 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  
01295 221651, [shiraz.sheikh@cherwell-dc.gov.uk](mailto:shiraz.sheikh@cherwell-dc.gov.uk)

## **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  
01295 221556, [celia.prado-teeling@cherwell-dc.gov.uk](mailto:celia.prado-teeling@cherwell-dc.gov.uk)

## **Equalities Implications**

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

Comments checked by:  
Celia Prado-Teeling, Performance and Insight Team Leader  
01295 221556, [celia.prado-teeling@cherwell-dc.gov.uk](mailto:celia.prado-teeling@cherwell-dc.gov.uk)

## **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**

Janet du Preez – Finance Business Partner – Treasury and Insurance  
01295 221606, [janet.du-preez@cherwell-dc.gov.uk](mailto:janet.du-preez@cherwell-dc.gov.uk)