

# **Cherwell District Council**

## **Council**

**18 December 2023**

## **Treasury Management Mid-Year Review Report 2023/24**

### **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 2023-24 as required by the Treasury Management Code of Practice.

All treasury management activities undertaken to date during the financial year 2023-24 complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy, and all Prudential Indicators were met during the reporting period.

Over the course of the year, there is an overall Treasury Management forecast underspend of £1.214m compared to the approved budget.

### **1.0 Recommendations**

The meeting is recommended:

- 1.1 To note the contents of this Treasury Management Mid-Year Review Report.

### **2.0 Introduction**

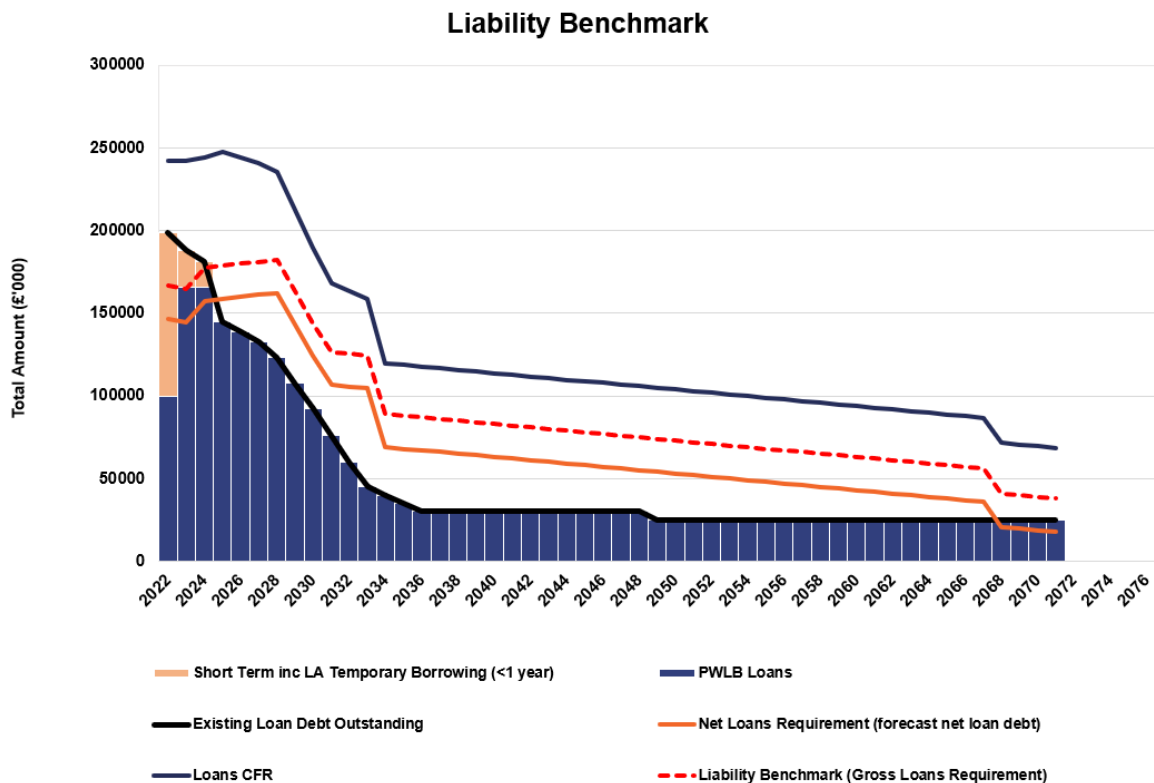
- 2.1 In 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve Treasury Management semi-annual and annual reports.
- 2.2 The Council's Treasury Management strategy for 2023-24 was approved by full Council on 27 February 2023. The Treasury indicators have been included in this report as per the 2021 CIPFA Treasury Management in the Public Services Code of Practice.
- 2.3 The Council's Capital Strategy covering capital expenditure and non-treasury investments, complying with CIPFA's requirement, was approved by full Council on 27 February 2023. As per 2021 CIPFA Prudential Code for Capital Finance in Local Authorities the Prudential indicators have been attached in Appendix 1.

### 3.0 Report Details

#### Summary position and strategy

- 3.1 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.
- 3.2 As at the end of September 23 the Council had borrowing of £168m and investments of £18m – a net borrowing position of £150m (30/06/23: £147m). This change is due to a £3m increase in loans to subsidiaries within their agreed loan facilities.
- 3.3 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30<sup>th</sup> September 2023, the Council has operated within the treasury and prudential indicators set out in the Council’s Treasury Management Strategy Statement for 2023/24. The Assistant Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.
- 3.4 The Liability benchmark is a prudential indicator which shows the Capital Financing Requirement, loan requirements and committed loans in a 50-year forecast.

Table 1: Liability benchmark



The graph above demonstrates that the Council is expecting its loans to decrease in line with the Capital Financing Requirement and that it will not be in an overborrowed position in the future. The shortfall between the Capital Financing Requirement and net loan requirement is made up of internal borrowing from Reserves and working Capital.

## Borrowing performance for year as of 30 September 2023

- 3.5 The Council requires external borrowing to fund its capital programme and had a total debt of £168m at the report date. The increased cost of borrowing has resulted in the Council moving from an equal mix of short and long-term borrowing to predominantly medium to long term loans from the Public Works Loan Board (PWLB) to provide interest rate certainty. This move was made in July 2022 while rates were still comparatively low.
- 3.6 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: Borrowing Position for quarter ended 30 September 2023

	<b>Borrowing Amount £m</b>	<b>Average Interest Rate</b>	<b>Interest Paid Budget £m</b>	<b>Interest Paid Actual £m</b>	<b>Variance to Date £m</b>
Apr – Sep 23	172 (average)	2.12%	2.046	2.046	(0.000)
As at 30/09/23	168	2.16%	-	-	-

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

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

Table 3: High / Low / Average PWLB Rates for 01/04/2023 – 29/09/2023

	<b>1 Year</b>	<b>5 Year</b>	<b>10 Year</b>	<b>25 Year</b>	<b>50 Year</b>
<b>Low</b>	4.65%	4.14%	4.20%	4.58%	4.27%
<b>Date</b>	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
<b>High</b>	6.36%	5.93%	5.51%	5.73%	5.45%
<b>Date</b>	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
<b>Average</b>	5.62%	5.16%	5.01%	5.29%	5.00%
<b>Spread</b>	1.71%	1.79%	1.31%	1.15%	1.18%

Source: Link

- 3.8 Interest payable for the full year is forecast to be in line with the budget. With the rapid increase in interest rates over the last eighteen months, performing to budget is in itself an achievement, and highlights good planning and active treasury management. This is also forecast to be offset by higher than budgeted interest receivable resulting in an overall positive variance.

3.9 A full list of current borrowing at 30 September 2023 is shown below:

Table 4: Borrowing

<b>Lender</b>	<b>Principal Borrowed £m</b>	<b>Maturity Date</b>
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
<b>TOTAL</b>	<b>168</b>	

3.10 The Council monitors its exposure to refinancing risk with the maturity structure of borrowing indicator. The practice of setting a 'maturity structure of borrowing' aims to profile the maturity dates of borrowing so that loans don't all mature at once as this exposes the council to refinancing risk. As an example, if all of the Council's loans had matured in the last 6 months, the Council would have been forced to refinance at the highest rates the market had seen in years. Instead, the Council's loan maturity dates are spread out. Even if rates are still high when the Council needs to refinance some of the first loans in the portfolio to mature, at least the Council is only exposed to the higher interest rates on those loans, and not all loans.

The lower limit has been considered but kept at zero to ensure that the Council is not forced into taking borrowings in a particular category that would lock us into an unfavourable borrowing situation. The Council feels that having no set lower limit gives officers the best flexibility to react to the economic climate. For example, if a lower limit for 10-year borrowing was set it may force the Council to take out loans of that term when rates are high, rather than the Council's preferred strategy of borrowing for shorter periods (still spread out) until rates begin to settle at the level the Council's advisors believe will be the new "normal".

Table 5: Maturity structure of borrowing

Refinancing rate risk indicator	Upper limit	Lower limit	Actual structure
Under 12 months	50%	0%	1.19%
12 months and within 24 months	50%	0%	12.50%
24 months and within 5 years	60%	0%	22.02%
5 years and within 10 years	70%	0%	40.48%
10 years and above	80%	0%	23.81%

### Investment performance for year as of 30 September 2023

- 3.11 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.
- 3.12 The Council has seen an increase in interest income in line with rises in the Bank of England base rate. Exploring investment counterparties and analysing opportunities have enabled the Council to maximise the returns on its small investment portfolio. Table 6 below shows the investment position during and at the end of the reporting period.

Table 6: Investment Position

	Investment Amount £m	Average Interest Rate	Interest Earned Budget £m	Interest Earned Actual £m	Variance to Date £m
Apr – Sept 23	24 (average)	4.82%	(0.253)	(0.589)	(0.336)
As at 30/09/23	18	5.29%	-	-	-

- 3.13 As a comparison Table 7 below shows average money-market rates keeping in mind that the Council has an average investment period of 30 days.

Table 7: Average Investment Rates for the reporting period

	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	5.25	5.19	5.39	5.48	5.78	6.25
High Date	03/08/2023	29/09/2023	19/09/2023	30/08/2023	07/07/2023	07/07/2023
Low	4.25	4.18	4.17	4.31	4.46	4.47
Low Date	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
Average	4.81	4.74	4.83	5.03	5.26	5.45
Spread	1.00	1.01	1.22	1.17	1.33	1.77

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

- 3.14 While maintaining a balance between security, liquidity and yield the Council is always looking for ways to invest sustainably (or green investments). This must be done within the criteria laid out in the approved Treasury Management Strategy with counterparties that meet the Councils investment criteria.

The Council continues to invest in Standard Chartered Bank’s sustainable fixed deposit (aligned to the United Nations’ Sustainable Development Goals) while three of the Money Market funds meets the criteria pursuant to Article 8 of the Sustainable Finance Disclosure Regulation (Regulation EU/2019/2088). These are highlighted in green in Table 8.

3.15 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>		
National bank of Kuwait (International)	3.00	02/11/2023
Standard Chartered Bank	3.00	09/11/2023
Development bank of Singapore	3.00	15/01/2024
<u>Money Market Funds</u>		
CCLA Investment Management Limited	0.05	Same day
Legal & General Investment Management	3.12	Same day
Northern Trust Asset Managements	1.50	Same day
Federated Investors UK	4.13	Same day
Goldman Sachs Asset Management	0.04	Same day
<b>TOTAL</b>	<b>17.84</b>	

3.16 Compliance with investment limits are detailed in Table 9 below:

Table 9: Investment Limits

Counterparty	2023/24 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/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

3.17 The Council has set limits for long term Treasury Management Investments in its strategy. This Indicator seeks to support control of liquidity risk and reduce the potential need to have to make early exit from an investment in order to recover funds. The indicator relates solely to the Authority’s investments for treasury management purposes.

Table 10: Limits for Long Term Treasury Management Investments

	2023/24 Limit set £m	Complied?
Limit on principal invested beyond year end	5	Yes

### Non-treasury investment activity

- 3.18 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.
- 3.19 As of the 30<sup>th</sup> September 2023, the Council holds £110.8m of investments in the form of shares (£35.6m) and loans (£75.2m) to subsidiary companies and other organisations, primarily Graven Hill and Crown House.
- 3.20 The loan elements of these non-treasury investments generate a higher rate of return than earned on treasury investments due to the commercial nature of the loans issued. Table 11 shows the investment position for this reporting period.

Table 11: Non-treasury Investment Position

	Investment Amount £m	Average Interest Rate	Interest Earned Budget £m	Interest Earned Actual £m	Variance to Date £m
Apr – Sept 23	75.2	6.76%	(2.311)	(2.561)	(0.250)

### Overall performance

- 3.21 The overall performance for the mid-year review report:

Table 12: Overall Treasury Position for the Period

	Budget to date £m	Actual to date £m	Variance to date £m
Borrowing costs	1.954	1.926	(0.028)
Finance lease and other interest	0.127	0.155	0.028
Treasury income	(0.253)	(0.589)	(0.336)
Non-treasury income	(2.311)	(2.561)	(0.250)
<b>Total cost/(income)</b>	<b>(0.483)</b>	<b>(1.069)</b>	<b>(0.586)</b>

- 3.22 The full year forecast is expected to show an overall positive variance against budget of (£1.214m) as detailed in Table 13 below.

Table 13: Overall Treasury Position Forecast to Year End

	Full Year Budget £m	Full Year Actual £m	Full Year Variance £m
Borrowing costs	3.909	3.851	(0.058)
Finance lease and other interest	0.253	0.268	0.015
Treasury income	(0.506)	(1.178)	(0.672)
Non-treasury income	(4.622)	(5.121)	(0.499)
<b>Total cost/(income)</b>	<b>(0.966)</b>	<b>(2.180)</b>	<b>(1.214)</b>

### Interest rate forecast

3.23 The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The latest forecast sets out a view that short, medium and long-dated interest rates will be elevated for the next year, as the Bank of England seeks to squeeze inflation out of the economy.

Table 14: Link Forecast Rates published on 25 September 2023

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

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

## 4.0 Conclusion and Reasons for Recommendations

4.1 This report details the Treasury Performance for the Council for the period ending 30 September 2023. It is submitted to the Council 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:

Lynsey Parkinson, Strategic Finance Business Partner - Strategic Budget Setting  
01295 221739, [Lynsey.Parkinson@Cherwell-DC.gov.uk](mailto:Lynsey.Parkinson@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:

Shahin Ismail, Interim Head of Legal Services  
[shahin.ismail@cherwell-dc.gov.uk](mailto:shahin.ismail@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

- Appendix 1 - Capital Prudential Indicators

### 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)