

Cherwell District Council

Accounts, Audit and Risk Committee

22 September 2021

Treasury Management Report – Q1 2021-22

Report of the 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 1 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 June 2021 the Council had borrowing of £179m and investments of £43.3m – a net borrowing position of £135.7m (31/3/21: £145.4m).
- 3.2 Lower interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk.

Borrowing performance for 3 months ended 30 June 2021

- 3.3 The Council requires external borrowing to fund its capital programme, and had total debt of £179m at the report date. £75m (42%) 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-Jun 2021	£180m (average)	1.12% (annualised)	£0.548m	£0.505m	(£0.043m)
As at 30/6/21	£179m	1.10%	-	-	-

* 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	3 year	5 year	10 year	20 year	50 year
PWLB Maturity rate	1.01%	1.22%	1.43%	1.92%	2.31%	2.14%

- 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 30 June 2021 is shown below:

Lender	Principal Borrowed £	Maturity Date
Rugby Borough Council	5,000,000	08/07/2021
Derbyshire Pension Fund	7,000,000	16/08/2021
Warwickshire County	5,000,000	13/09/2021
North of Tyne Combined Authority	10,000,000	29/09/2021
West Yorkshire Fire & Rescue	5,000,000	12/10/2021

Lincolnshire County Council	5,000,000	15/10/2021
Derbyshire Pension Fund	10,000,000	29/10/2021
West Yorkshire Fire & Rescue	5,000,000	29/10/2021
Wandsworth BC	5,000,000	15/11/2021
Wandsworth BC	5,000,000	10/12/2021
South Derbyshire DC	5,000,000	20/01/2022
West Midlands Combined Auth	10,000,000	14/02/2022
Wandsworth BC	5,000,000	23/05/2022
Oxfordshire County Council	5,000,000	15/07/2022
East Sussex County Council	5,000,000	16/08/2022
Derbyshire County Council	5,000,000	19/08/2022
South Northamptonshire / West Northamptonshire	2,000,000	15/12/2022
East Sussex County Council	5,000,000	13/01/2023
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
TOTAL	179,000,000	

Investment performance for 3 months ended 30 June 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 expects to continue to receive lower income from its cash and short-dated money market investments than it did in previous years due to the ongoing low interest rate environment.
- 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-Jun 2021	£45.2m (average)	0.11% (annualised)	(£25k)	(£12k)	£13k
As at 30/6/21	£43.3m	0.09%	-	-	-

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

Investment Benchmarking	Overnight	7-day	1-month	3-month
LIBOR	0.04%	0.04%	0.05%	0.08%

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>		
DMADF	4,510,000	05/07/2021
Merseyside Police	2,000,000	01/07/2021
North Lanarkshire Council	4,000,000	15/07/2021
Stoke on Trent City Council	3,000,000	23/07/2021
Aberdeen City Council	3,000,000	23/08/2021
Surrey Heath BC	1,000,000	23/08/2021
Thurrock BC	2,000,000	14/10/2021
Lancashire County Council	2,000,000	01/11/2021
Slough BC	5,000,000	16/11/2021
Eastleigh BC	5,000,000	22/11/2021
Redcar & Cleveland BC	2,000,000	02/12/2021
South Cambridgeshire DC	2,000,000	16/12/2021
<u>Money Market Funds</u>		
Goldman Sachs Asset Management	5,000,000	Same day
Federated Investors UK	4,991,000	Same day
<u>Call Account</u>		
Handelsbanken	47,309	Same day
TOTAL	43,340,251	

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 30 June 2021, the Council held £94.3m of investments in the form of shares (£33.1m) and loans (£61.2m) 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 3 months to 30 June 2021 these loans have earned interest of £1.093m, a positive variance of £19k against budget income of £1.074m. The full year forecast is expected to show a positive variance of £103k.

Overall performance

- 3.20 The overall performance for the 3 months to 30 June 2021 is as follows:

	Budget £k	Actual £k	Variance £k
Borrowing costs*	611	568	(43)
Treasury income	(25)	(12)	13
Non-treasury income	(1,074)	(1,093)	(19)
Total cost/(income)	(488)	(537)	(49)

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

- 3.21 The full year forecast is expected to show an overall adverse variance against budget of £88k:

	Budget £k	Actual £k	Variance £k
Borrowing costs	2,445	2,047	(399)
Treasury income	(101)	(35)	66
Non-treasury income	(4,296)	(4,399)	(103)
Total cost/(income)	(1,952)	(2,388)	(436)

Interest rate forecast

- 3.22 Our Treasury advisers, Link, are forecasting the Bank of England base rate to increase in quarter 2 of 2023 to 0.25% and in quarter 1 of 2024 to 0.50%.

4.0 Conclusion and Reasons for Recommendations

- 4.1 This report details the Treasury Performance for the Council for the period ending 30 June 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 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. 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.

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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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