

Cherwell District Council

Accounts, Audit and Risk Committee

26 July 2023

Treasury Management Report – Q1 2023/24 (June 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 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 forecast underspend of £0.376m.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the contents of this Treasury Management Report.
- 1.2 To note the strategy for future borrowing requirements at Appendix 1.

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 2023-24 was approved by full Council on 27 February 2023. 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 27 February 2023.

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 June 2023 the Council had borrowing of £173m and investments of £26m – a net borrowing position of £147m (31/03/23: £144m).
- 3.3 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 (see Table 4 and Table 5 at point 3.9 and Table 9 at point 3.16 below).

Borrowing performance for year ended 31 March 2023

- 3.4 The Council requires external borrowing to fund its capital programme and had a total debt of £173m 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.
- 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 1: Borrowing Position for quarter ended 30 June 2023

	Borrowing Amount £m	Average Interest Rate	Interest Paid Budget £m	Interest Paid Actual £m	Variance to Date £m
Apr – Jun 23	176 (average)	2.08%	0.977	0.919	(0.058)
As at 30/06/23	173	2.11%	-	-	-

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

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

Table 2: High / Low / Average PWLB Rates for Q1 2023/24

FINANCIAL YEAR TO QUARTER ENDED 30/06/2023							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	5.00	4.93	4.93	4.57	4.38	4.10	3.14
High Date	22/06/2023	30/06/2023	30/06/2023	30/06/2023	30/06/2023	30/06/2023	30/06/2023
Low	4.25	4.18	4.18	4.02	3.81	3.32	2.27
Low Date	03/04/2023	04/04/2023	11/04/2023	03/04/2023	03/04/2023	03/04/2023	03/04/2023
Average	4.44	4.37	4.34	4.27	4.11	3.74	2.70
Spread	0.75	0.75	0.75	0.55	0.57	0.78	0.87

Source: Link

3.7 Interest payable for the full year is forecast to be in line with the budget however this is forecast to be offset by higher than budgeted interest receivable resulting in an overall positive variance.

3.8 A full list of current borrowing at 30 June 2023 is shown below:

Table 3: Borrowing

Lender	Principal Borrowed £m	Maturity Date
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	173	

- 3.9 The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit. Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table below:

Table 4: Operational boundary and Authorised limit for external debt

	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied?
Total debt	290	310	Yes

- 3.10 The Council monitors its exposure to refinancing risk with the maturity structure of borrowing indicator. While it is important to have flexibility to navigate changing market conditions is it critical that loan repayments are spread appropriately. 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.

Table 5: Maturity structure of borrowing

Refinancing rate risk indicator	Upper limit	Lower limit	Actual structure
Under 12 months	50%	0%	4.05%
12 months and within 24 months	50%	0%	12.14%
24 months and within 5 years	60%	0%	12.72%
5 years and within 10 years	70%	0%	45.09%
10 years and above	80%	0%	26.00%

Investment performance for year ended 30 June 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. The short-dated money market investments have performed better than budgeted throughout this first quarter. 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 – Jun 23	28 (average)	4.47%	(0.126)	(0.173)	(0.047)
As at 01/03/23	26	4.61%	-	-	-

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

Table 7: Average Investment Rates for the reporting period

FINANCIAL YEAR TO QUARTER ENDED 30/6/2023						
	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	5.00	4.93	4.94	5.27	5.67	6.06
High Date	22/06/2023	30/06/2023	29/06/2023	30/06/2023	30/06/2023	30/06/2023
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	4.44	4.37	4.46	4.66	4.90	5.08
Spread	0.75	0.75	0.77	0.96	1.21	1.59

*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 amongst counterparties approved by the Council's Treasury Advisors, Link.

The Council continues to invest in Standard Chartered Bank's sustainable fixed deposit (aligned to the United Nations' Sustainable Development Goals) and Northern Trust Asset Sterling Money Market fund meets the criteria pursuant to Article 8 of the Sustainable Finance Disclosure Regulation (Regulation EU/2019/2088) to qualify as a financial product which promotes, among other characteristics, environmental or social characteristics.

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>		
Development bank of Singapore	3.00	13/07/2023
Reigate and Banstead Borough Council	3.00	13/07/2023
Wakefield Council	2.00	13/07/2023
National bank of Kuwait (International)	3.00	02/11/2023
Standard Chartered Bank	3.00	09/11/2023
<u>Money Market Funds</u>		
CCLA Investment Management Limited	5.00	Same day
Legal & General Investment Management	0.05	Same day
Northern Trust Asset Managements	4.40	Same day
Federated Investors UK	2.20	Same day
Goldman Sachs Asset Management	0.70	Same day
TOTAL	26.35	

3.16 Compliance with investment limits is shown 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 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

- 3.17 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.
- 3.18 As of the 30th June 2023, the Council holds £107.8m of investments in the form of shares (£35.6m) and loans (£72.2m) to subsidiary companies and other organisations, primarily Graven Hill and Crown House.
- 3.19 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 10 below shows the investment position for this reporting period.

Table 10: Non-treasury Investment Position

	Investment Amount £m	Average Interest Rate	Budget £m	Actual £m	Variance to Date £m
Apr – Jun 23	72.2	6.78%	(1.155)	(1.207)	(0.052)

Overall performance

3.20 The overall performance for the 3 months to 30 June 2023 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	0.977	0.919	(0.058)
Finance lease and other interest	0.063	0.058	(0.005)
Treasury income	(0.126)	(0.173)	(0.047)
Non-treasury income	(1.155)	(1.207)	(0.052)
Total cost/(income)	(0.241)	(0.403)	(0.162)

3.21 The full year forecast is expected to show an overall positive variance against budget of (£0.376m) as detailed in Table 12 below.

Table 12: 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	0.310	0.057
Treasury income	(0.506)	(0.673)	(0.167)
Non-treasury income	(4.622)	(4.830)	(0.208)
Total cost/(income)	(0.966)	(1.342)	(0.376)

Interest rate forecast

The Bank of England's MPC acted for a thirteenth consecutive meeting in June. It surprised the market by raising the Bank Rate by 0.50% to 5.00%. Although Link continues to increase its rates forecast (Table 13 below), the pattern remains unchanged with interest rates peaking in Q4 23/24 and then slowly reducing from Q2 24/25. The Council's future strategy for borrowing needs are summarised in Appendix 1.

Table 13: Link Forecast Rates published on 30th June 2023

Interest Rate Forecasts								
Bank Rate	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Link	5.00%	5.50%	5.50%	5.50%	5.25%	4.75%	4.25%	3.75%
Cap Econ	5.00%	5.25%	5.25%	5.25%	5.25%	4.75%	4.50%	4.00%
5Y PWLB RATE								
Link	5.50%	5.60%	5.30%	5.10%	4.80%	4.50%	4.20%	3.90%
Cap Econ	5.40%	5.10%	4.80%	4.60%	4.40%	4.20%	4.00%	4.00%
10Y PWLB RATE								
Link	5.10%	5.20%	5.00%	4.90%	4.70%	4.40%	4.20%	3.90%
Cap Econ	5.20%	5.00%	4.80%	4.60%	4.50%	4.30%	4.10%	4.00%
25Y PWLB RATE								
Link	5.30%	5.40%	5.20%	5.10%	4.90%	4.70%	4.50%	4.20%
Cap Econ	5.30%	5.20%	5.10%	4.90%	4.70%	4.50%	4.30%	4.30%
50Y PWLB RATE								
Link	5.00%	5.10%	5.00%	4.90%	4.70%	4.50%	4.30%	4.00%
Cap Econ	4.90%	4.90%	4.90%	4.80%	4.60%	4.40%	4.30%	4.20%

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 30th June 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 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

Appendix 1 - Planned Borrowing

Background papers

None

Report Author and contact details

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