

# **Cherwell District Council**

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

**17 January 2024**

### **Treasury Management Report – Q3 2023/24 (December 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 of the Treasury Management Prudential Indicators were met during the reporting period.

#### **1.0 Recommendations**

The meeting is recommended:

- 1.1 To note the contents of this Treasury Management report for Q3 2023/24.

#### **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.

## 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 December 2023 the council had borrowing of £166m and investments of £27m – a net borrowing position of £139m (30/09/23: £150m). This change is primarily due to a £9m decrease in loans extended to subsidiaries within their agreed loan facilities.
- 3.3 In the Mid-Year Review Report, presented in November 2023, the overall Treasury Management forecast underspend was (£1.214m) compared to the approved budget.

There is a gross forecast underspend at Q3 of (£1.204m) and Exec has subsequently approved that £1.075m be move to the Market Risk Reserve.

The revised forecast, after taking into account the approved movement to reserves, is that over the course of the year there will be an overall underspend of (£0.348m) compared to the approved budget.

### Borrowing performance for year as of 31 December 2023

- 3.4 The council requires external borrowing to fund its capital programme and had a total debt of £166m 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.
- 3.5 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 31 December 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 – Dec 23	170 (average)	2.14%	2.931	2.821	(0.110)
As at 31/12/23	166	2.18%	-	-	-

\* 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 01/04/2023 – 31/12/2023

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	4.65%	4.13%	4.20%	4.58%	4.27%
<b>Date</b>	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
<b>High</b>	6.36%	5.93%	5.53%	5.96%	5.74%
<b>Date</b>	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
<b>Average</b>	5.60%	5.09%	5.03%	5.35%	5.08%
<b>Spread</b>	1.71%	1.80%	1.33%	1.38%	1.47%

Source: Link

3.7 Interest payable for the full year is forecast to be just below budget. With the rapid increase in interest rates over the last eighteen months, performing to budget is in itself an achievement, and demonstrates good planning and active treasury management.

3.8 A full list of current borrowing is shown below. Planning regarding the refinancing of the £21m PWLB loan due to mature in October 2024 has already begun. A one-year loan for £15m has been put in place to avoid the need to refinance the whole amount. Refinancing will be done through short term loans to take advantage of the expected reductions in interest rates.

Table 3: Borrowing at 31 December 2023

<b>Lender</b>	<b>Principal Borrowed £m</b>	<b>Maturity Date</b>
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>166</b>	

- 3.9 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 councils 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 4: Maturity structure of borrowing

Refinancing rate risk indicator	Upper limit	Lower limit	Actual structure
Under 12 months	50%	0%	0.00%
12 months and within 24 months	50%	0%	12.65%
24 months and within 5 years	60%	0%	22.29%
5 years and within 10 years	70%	0%	40.96%
10 years and above	80%	0%	24.10%

### Investment performance for year as of 31 December 2023

- 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.
- 3.11 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 5 below shows the investment position during and at the end of the reporting period.

Table 5: Investment Position

	Investment Amount £m	Average Interest Rate	Interest Earned Budget £m	Interest Earned Actual £m	Variance to Date £m
Apr – Dec 23	23 (average)	5.04%	(0.379)	(0.884)	(0.505)
As at 31/12/23	27	5.58%	-	-	-

- 3.12 As a comparison Table 6 below shows average investment returns. The council has an average investment period of 1 month and has outperformed the average return rate of 4.96%.

Table 6: Average Investment Rates for the reporting period

FINANCIAL YEAR TO QUARTER ENDED 29/12/2023						
	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
<b>High</b>	5.25	5.19	5.39	5.48	5.78	6.25
<b>High Date</b>	03/08/2023	24/11/2023	19/09/2023	30/08/2023	07/07/2023	07/07/2023
<b>Low</b>	4.25	4.18	4.17	4.31	4.46	4.47
<b>Low Date</b>	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
<b>Average</b>	4.95	4.89	4.96	5.10	5.26	5.36
<b>Spread</b>	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

- 3.13 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 council's investment criteria.

The council continues to invest in three of the Money Market funds that meet the criteria pursuant to Article 8 of the Sustainable Finance Disclosure Regulation (Regulation EU/2019/2088). These are highlighted in green in Table 7.

- 3.14 A full list of current investments is shown in Table 7 below:

Table 7: Investments

Counterparty	Principal Deposited £m	Maturity Date / Notice period
<u>Fixed Term Deposits</u>		
Wakefield Council	2.00	05/01/2024
Development bank of Singapore	3.00	15/01/2024
Crawley Borough Council	5.00	19/01/2024
Cornwall District Council	5.00	22/01/2024
Eastleigh Borough Council	3.00	11/04/2024
<u>Money Market Funds</u>		
Federated Investors UK	3.52	Same day
Legal & General Investment Management	3.88	Same day
Northern Trust Asset Managements	0.31	Same day
CCLA Investment Management Limited	0.02	Same day
Goldman Sachs Asset Management	1.66	Same day
<b>TOTAL</b>	<b>27.39</b>	

3.15 Compliance with investment limits are detailed in Table 8 below:

Table 8: 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

### 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 also include all such assets held partially for financial return.
- 3.17 As of the 31<sup>st</sup> December 2023, the council holds £101.8m of investments in the form of shares (£35.6m) and loans (£66.2m) 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 is earned on treasury investments due to the commercial nature of the loans issued. Table 9 shows the investment position for this reporting period.

Table 9: Non-treasury Investment Position

	Investment Amount £m	Average Interest Rate	Interest Earned Budget £m	Interest Earned Actual £m	Variance to Date £m
Apr – Dec 23	72.55	7.31%	(3.466)	(4.024)	(0.558)

## Overall performance

3.19 The overall performance for the third quarter ending 31 December 2023 is:

Table 10: Overall Treasury Position for the Period

	<b>Budget to date £m</b>	<b>Actual to date £m</b>	<b>Variance to date £m</b>
Borrowing costs	2.931	2.821	(0.110)
Finance lease and other interest	0.190	0.158	(0.032)
Treasury income	(0.379)	(0.884)	(0.505)
Non-treasury income	(3.466)	(4.024)	(0.558)
Surplus to Risk Reserve	0.0	1.075	1.075
<b>Total cost/(income)</b>	<b>(0.724)</b>	<b>(0.853)</b>	<b>(0.129)</b>

3.20 The full year forecast is expected to show an overall positive variance against budget of (£0.348m) as detailed in Table 11 below.

Table 11: 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	3.909	3.762	(0.147)
Finance lease and other interest	0.253	0.175	(0.078)
Treasury income	(0.506)	(1.179)	(0.673)
Non-treasury income	(4.622)	(5.147)	(0.525)
Surplus to Market Risk Reserve	0.0	1.075	1.075
<b>Total cost/(income)</b>	<b>(0.966)</b>	<b>(1.314)</b>	<b>(0.348)</b>

## Interest rate forecast

3.21 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. Current market expectations are that the first interest rate cut will take place in May 24, with further 0.25% reduction in the interest rate expected in June, August, September and November before finishing at 3.75% at the December 24 meeting. Link will review their interest rate forecast on the 8 January 2024 and update the council once finalised.

Table 12: Link Forecast Rates published on the 7<sup>th</sup> November 2023:

Bank Rate	Interest Rate Forecasts							
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Link	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.25%	3.00%
Cap Econ	5.25%	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%	3.00%
<b>5Y PWLB RATE</b>								
Link	4.90%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%	3.70%
Cap Econ	4.50%	4.40%	4.30%	4.20%	4.10%	3.90%	3.80%	3.70%
<b>10Y PWLB RATE</b>								
Link	5.00%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%	3.70%
Cap Econ	4.60%	4.50%	4.40%	4.30%	4.30%	4.20%	4.10%	4.10%
<b>25Y PWLB RATE</b>								
Link	5.30%	5.10%	4.90%	4.70%	4.50%	4.30%	4.20%	4.10%
Cap Econ	4.90%	4.80%	4.60%	4.40%	4.40%	4.50%	4.50%	4.60%
<b>50Y PWLB RATE</b>								
Link	5.10%	4.90%	4.70%	4.50%	4.30%	4.10%	4.00%	3.90%
Cap Econ	4.60%	4.50%	4.50%	4.40%	4.40%	4.40%	4.40%	4.40%

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 31<sup>st</sup> December 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:

Joanne Kaye, Head of Finance, 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:

Shahin Ismail, Law & Governance | Interim Head of Legal Services

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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:

Julie Miles, Performance Analyst and Developer

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## Equalities Implications

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

Comments checked by:

Mark Miles, Policy Development Officer

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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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