CABINET

21 JULY 2023

REPORT OF THE LEADER OF THE COUNCIL & PORTFOLIO HOLDER FOR CORPORATE FINANCE AND GOVERNANCE

A.2 TREASURY MANAGEMENT PERFORMANCE 2022/23

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To report on the Council's treasury management activities and Prudential Indicators for 2022/23.

EXECUTIVE SUMMARY

- Borrowing and investments have been undertaken in accordance with the 2022/23 Annual Capital and Treasury Strategy that was approved by full Council on 29 March 2022.

- ***Summary of the Council's Borrowing Position:***

Amount Outstanding at the end of March 2023	Average Interest Rate Paid in 2022/23	Total Interest paid in 2022/23
£0.136m (General Fund)	7.082%	£0.010m
£34.563m (HRA)	3.555%	£1.262m

No external borrowing was undertaken in 2022/23 for either the General Fund (GF) or Housing Revenue Account (HRA).

- ***Summary of the Council's Investment Position:***

Value of Investments held at the end of March 2023	Average Interest rate on Investments 2022/23	Interest Earned on Investments 2022/23
£79.211m	1.774%	£1.630m

The amount of interest earned from investments increased greatly during the year due to the successive bank base rate rises of either 0.25% or 0.50% from 0.75% at the start of 2022/23 to 4.25% at the end of the year. As most investments are fixed for 6 months at a time, the increases did not feed immediately through to the investments held but did allow for a 'laddering' of deposits to lock in the increase. Estimated income was increased through the quarterly financial performance and budget reports during the year - from **£0.087 million** at the start of the year to £**1.150 million** at the end of the year, with the outturn figure being **£1.630 million** as set out in the table above.

- The Council continues to hold one property within its Commercial Investment Portfolio, which had a balance sheet value at 1 April 2022 of **£2.108 million**. This ‘book value’ was increased by the Council’s appointed valuers to **£2.364 million** at the end of 2022/23. However, this is an ‘accounting’ valuation and not a direct value that would be achieved on the market if it was sold. In-line with the budget, rental income of **£0.224 million** was earned on the property in 2022/23, in line with estimates.

- As reported to Cabinet in November 2022, during 2022/23 the Treasury Management limit of **£1.000 million** that can be held across the Council’s various current accounts on any one day was exceeded on 24 June 2022, when a total of **£1.074 million** was held across the various current accounts. This was due to the unexpected receipt late in the day on 24 June of **£0.130 million** which was expected on 27 June and there was insufficient time to move the money to an alternative bank account/investment. On 2 August 2022, the limit for the bank current accounts was again exceeded with **£1.007 million** held, due to the unexpected receipt late in the day of a payment from a developer of Section 106 monies of **£0.177 million**. Although Planning inform Finance of when they bill for Section 106 payments, in practice they are rarely paid to us on the day expected, which was the case in this instance. As no prior notification of this payment was received, no alternative arrangements could be made in time. In response to these two issues, additional ‘headroom’ is now provided against the relevant current accounts held with Lloyds Bank to enable more money to be received into the accounts without the risk of exceeding the limit.

- In addition to the above, an adjustment / intervention was also required in respect of the amount held within Money Market Funds during the year, with further details set out later on in this report.

- Treasury performance figures for the year are set out in **Appendix A** with Prudential Indicators attached as **Appendix B.**

- The impact of inflation is continuing in 2023/24, with further interest rate rises in May and June 2023, such that the bank base rate is now 5% and the latest interest rate forecast from the Council’s treasury management advisers suggests a further increase to 5.5% in autumn 2023 and then steady reductions in the rate during 2024/25 and 2025/26. Investment income budgets will be reviewed as part of the quarterly Financial Performance Reports and long-term financial planning processes.

RECOMMENDATION(S)

That Cabinet:

a) **notes the Treasury Management performance position for 2022/23; and**

b) **approves the Prudential and Treasury Indicators for 2022/23.**

REASON(S) FOR THE RECOMMENDATION(S)

To provide timely / key financial information to Members and to demonstrate compliance with the Treasury Management and Prudential Codes.

ALTERNATIVE OPTIONS CONSIDERED
Not applicable given the requirements set out elsewhere in this report.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES
Good and effective Treasury Management supports the Council in delivery against its corporate goals and objectives.

OUTCOME OF CONSULTATION AND ENGAGEMENT
The treasury strategy for 2022/23 was consulted on with Resources and Services Overview and Scrutiny Committee before it was adopted by full Council on 29 March 2023 and this report sets out the outcome against the strategy.

<table>
<tr><th colspan="4">LEGAL REQUIREMENTS (including legislation & constitutional powers)</th></tr>
<tr><td rowspan="2">Is the recommendation a Key Decision (see the criteria stated here)</td><td rowspan="2">Yes</td><td>If Yes, indicate which by which criteria it is a Key Decision</td><td>X Significant effect on two or more wards
X Involves £100,000 expenditure/income
☐ Is otherwise significant for the service budget</td></tr>
<tr><td>And when was the proposed decision published in the Notice of forthcoming decisions for the Council (must be 28 days at the latest prior to the meeting date)</td><td>This item has been included within the Forward Plan for a period in excess of 28 days.</td></tr>
<tr><td colspan="4">This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

The Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 include the requirement for local authorities to have regard to CIPFA guidance which this Council has adopted.</td></tr>
<tr><td>YES</td><td colspan="3">The Monitoring Officer confirms they have been made aware of the above and any additional comments from them are below:</td></tr>
<tr><td colspan="4">The recent Best Value Inspection Report for Thurrock Council highlights the importance of not only ensuring the Council acts in accordance with its Treasury Management Strategy but also that there is Member oversight of the transactions, with clear information on the implications of the decisions providing maximum openness and transparency. This is an annual process for Tendring District Council and accords with best practice.</td></tr>
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FINANCE AND OTHER RESOURCE IMPLICATIONS
Treasury and Capital Management Strategies and procedures ensure that the Council's

investments and borrowing are undertaken in such a way as to minimise the Council's exposure to risk. At the same time, they seek to maximise income from investments and minimise the costs of borrowing within the Council's accepted level of risk.	
YES	**The Section 151 Officer confirms they have been made aware of the above and any additional comments from them are below:**
The S151 Officer is the author of this report.	
USE OF RESOURCES AND VALUE FOR MONEY	
The following are submitted in respect of the indicated use of resources and value for money indicators:	
A) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;	This is addressed in the body of the report.
B) Governance: how the body ensures that it makes informed decisions and properly manages its risks, including; and	
C) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.	
MILESTONES AND DELIVERY	
This has been highlighted elsewhere within this report.	
ASSOCIATED RISKS AND MITIGATION	
The placing of investments involves a number of risks. These risks and how the Council will manage them are set out in the Council's Treasury Management Practices. Investments are undertaken within an overall risk-averse approach, which is reflected in Treasury Management Practices. With this in mind, a significant level of investment is undertaken with other Local Authorities and with the Government. As with the recent case with lending money to Thurrock Council, money lent to other Local Authorities is not at risk of not being repaid, as ultimately the Government would take the necessary steps to ensure liabilities are met as part of any intervention (such as the one at Thurrock). The risk of lending money to another Local Authority is therefore not the same as lending money to a commercial / private organisation, which is one of the reasons why Councils lending to other Councils is common practice nationally. All money lent to Thurrock Council was fully repaid during the year and therefore no money remains invested with them. As reported previously, the performance of the investment property in Clacton, is performing satisfactorily against the financial target set out within the original decision to purchase the property, with budgeted investment income continuing to be achieved each year. It is important to highlight that the rental payments can be seen as paying back the original investment made in purchasing the property. The overall performance of the investment therefore needs to take into account such considerations over the life of the Council's ownership of the property rather any shorter-term position in isolation. It is also worth highlighting that the Council's Commercial Property Investment Policy is underpinned by robust risk management actions, which will respond to any changes to the	

situation. With the latter point in mind and as set out within the Commercial Property Investment Policy, the Council's wider treasury management activities are designed to ensure that the Council is not faced with a position of having to sell the property for cash flow purposes. This in turn ensures that the Council remains in control of when the property is ever exposed to the market rather than potentially having to sell the property during a period where there may be a downturn in commercial property prices.

EQUALITY IMPLICATIONS

There are no direct implications.

SOCIAL VALUE CONSIDERATIONS

There are no direct implications.

IMPLICATIONS FOR THE COUNCIL'S AIM TO BE NET ZERO BY 2030

There are no direct implications.

OTHER RELEVANT CONSIDERATIONS OR IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder	Please see comments above
Health Inequalities	
Area or Ward affected	

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION

The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Services. The main reporting elements to comply with this code include the following:

- **An Annual Capital and Treasury Strategy approved by Cabinet after consultation with the relevant overview and scrutiny committee for recommending to Full Council.**

- **Regular monitoring reports that form part of the Council's Corporate Financial Performance Monitoring arrangements during the year.**

- **An annual treasury performance or outturn report for the preceding year that is presented to Cabinet.**

In terms of the second bullet point above, the following were reported during 2022/23.

There were two occasions where the limits that can be held in total across the current accounts were exceeded – these were reported to Cabinet on 4 November 2022.

1. The first issue occurred on 24 June 2022, when a total of **£1.074 million** was held across all the current accounts compared to the limit of **£1.000 million**. This arose as an expected payment of just over **£0.130 million** was received

too late in the day for the money to be moved to another investment or account.

2. The second issue occurred on 2 August 2022, when the total held across all current accounts totalled **£1.007 million,** which therefore exceeded the limit of **£1.000 million**. Although Planning inform Finance when they invoice a developer for Section 106 money, in practice this is never usually paid to the Council on the due date. Similarly to the above, a payment of just under **£0.177 million** was received too late in the day for the money to be moved to another investment or account.

To resolve both of the above issues, additional ‘headroom’ has been provided against the relevant current accounts held with Lloyds Bank to enable money to be received into the accounts without the risk of exceeding the treasury limit of **£1.000m**.

In addition to the above, due to human error, when two Money Market Funds were set up in December 2020, because they were both AAA rated the limit on each was taken to be £4 million, so a total of £8 million. However, it has now been established that the Council’s treasury management policies have a separate category for Money Market Funds with the limit set at £2 million per Fund, so a total of £4 million. As soon as this was established in August, the amount held in each Fund was reduced to not more than £2 million. The Money Market Funds were set up initially to allow for greater liquidity due to the uncertainties around the Covid pandemic, grant payments received and the need to repay overpaid sums at unknown times. The Council’s cash flow is now more certain and predictable.

In terms of the issues set out above, at no time was the Council’s money at any greater risk given the relatively low risk tolerance taken to treasury management activities that is reflected within the treasury management practices.

This report sets out the necessary information in response to the third bullet point above and provides a summary of the treasury activities undertaken in 2022/23 **(Appendix A)** and final Prudential and Treasury Indicators at the end of 2022/23 **(Appendix B),** with revised figures for 2023/24 where relevant.

During 2022/23 the Council complied with its legislative and regulatory requirements and associated treasury management activity remained in accordance with the Treasury Strategy and Treasury Management Practices with further details in respect of specific borrowing and investment considerations set out in the next section of the report.

BORROWING AND INVESTMENTS 2022/23

Borrowing

The Base Rate set by the Bank of England rose throughout 2022/23 and has continued to rise in 2023/24, as set out in the table below.

Date of meeting	New rate	Increase
17 March 2022	0.75%	0.25%
5 May 2022	1.00%	0.25%
16 June 2022	1.25%	0.25%
4 August 2022	1.75%	0.50%
22 September 2022	2.25%	0.50%
3 November 2022	3.00%	0.75%
15 December 2022	3.50%	0.50%

2 February 2023	4.00%	0.50%
23 March 2023	4.25%	0.25%
11 May 2023	4.50%	0.25%
22 June 2023	5.00%	0.50%

The latest forecast from the Council's treasury advisors indicates that the base rate is expected to rise to 5.5% in September 2023 and to remain at that level until March 2024, with a drop back to 5.25%% in June 2024, and then fall progressively each quarter to reach 2.5% in March 2026.

Public Works Loan Board (PWLB) rates have also risen alongside the base rate with the rates currently at 5.28% for 25 years and 4.97% for 50 years. These rates are all above the target rates set by the treasury advisors and have been since autumn 2022. As a result of this, an HRA maturity loan of **£0.800 million** that was repaid on 15 September 2022 has not been replaced by PWLB debt but has instead been replaced with internal borrowing. No external borrowing has therefore, been undertaken during the year. In respect of the General Fund, the Council is also currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loans, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. While interest rates remain elevated and the Council has sufficient cashflow to allow for internal borrowing, this remains the preferred strategy, with new borrowing only being considered once interest rates fall back to what the treasury advisors view as the 'long term normal level' of around 3%. The Council's current investment property was not financed by loan.

No new borrowing or restructuring of existing debt was undertaken for GF or HRA purposes in 2022/23. Principal on HRA debt continues to be repaid each year in line with the 30-year business plan. Debt rescheduling opportunities are limited in the current economic climate with no debt rescheduling taking place in 2022/23.

As reported / agreed during the year, the cost of the redevelopment of the Honeycroft site is now being met from capital receipts, as an alternative to borrowing the money, which was an initial option considered within earlier treasury reports.

No temporary borrowing from the markets was required during the year.

One of the key prudential indicators relates to the Council's Authorised Borrowing Limit. It is therefore worth highlighting that borrowing has been maintained within the Council's Authorised limit as set out below:

Key Indicator	Limit 2022/23	Amount Borrowed (Internal and External)
Authorised Limit – borrowing	£76.333m	£40.183m

Investments

The year saw continual growth over the period in cumulative investment returns compared to estimates, as set out in the table below.

Date	Estimated Amount £m	Actual amount £m
30/4/22	£0.015	£0.032

31/5/22	£0.023	£0.091
30/6/22	£0.032	£0.158
31/7/22	£0.040	£0.233
31/8/22	£0.048	£0.329
30/9/22	£0.055	£0.441
31/10/22	£0.420	£0.577
30/11/22	£0.478	£0.750
31/12/22	£0.536	£0.951
31/1/23	£0.967	£1.170
28/2/23	£1.061	£1.376
31/3/23	£1.150	£1.630

The weighted average length of investments made during 2022/23 was 44 days. This reflects the fact that most deals are placed with the DMO for short periods (total of **£587 million** over the year). The average investment interest rate for the year was **1.774**% and this has been benchmarked against average SONIA benchmarks for 2022/23 in **Appendix A**, where SONIA is the Sterling Overnight Index Average. The average rates for a range of maturities are shown in the table below, with the Council's own investment returns broadly reflecting these comparisons.

Measure	Bank Rate	SONIA 30 day	SONIA 90 day	SONIA 180 day	Tendring DC
Average rate	2.30	2.09	1.81	1.42	1.77

The Council manages its investments in-house and invests in accordance with the approved strategy. The Council invests for periods of time dependent on the Council's cash flows, the view as to future interest rate movements and the interest rates offered by counterparties whilst balancing various risks such as interest rate risk and counterparty risk.

The Council's investments continued across the following investment types:

- Deposits at fixed rates and for fixed terms with other local authorities and the Government's Debt Management Office (DMO)
- Deposits at fixed rates and for fixed terms with UK-based banks and building societies meeting the counterparty risk criteria
- Treasury bills, which are tradeable but if held to maturity are at fixed rates
- Certificates of deposit, which are tradeable but if held to maturity are at fixed rates
- Use of deposit accounts with UK banks and the two Money Market Funds for liquidity

Further details on how the investment types changed over the year is set out below.

A significant proportion of the Council's investments were still made with other local authorities. Money also continued to be placed with the Bank of England's Debt Management Facility (DMO) throughout the year and treasury bills were also purchased during the year. A total of £**700.347 million** was placed with UK government during the year (with £**688.547 million** repaid). Over the year **£16.000 million** of Certificates of deposit with banks meeting the Council's criteria were purchased, along with some fixed deposits with Building Societies and the call accounts and Money Market Funds, leading to a total of **£60.280 million** placed with UK financial institutions over the year. Both government and local authority investments fit well with the Council's low appetite for risk with the security and liquidity of the investment the prime concern.

The total invested in local authorities at 31 March 2023 was **£58.500 million** out of a total investment of **£79.337 million**, with a further **£10.300 million** invested short term with the Debt Management Office and **£3.442 million** invested in two Money Market Funds. A total of **£2.094 million** was placed in call accounts, **£2.000 million** with a Building Society and the remaining **£3.000 million** was invested in Certificates of deposit.

With lower levels of Covid grant funding, although this repeatedly went out and came back through the DMO through the year, aggregated investments reached just over **£760 million** for the year as set out in **Appendix A**.

The Council receives regular credit rating updates during the year following which the appropriate action is taken as soon as practical where the credit rating falls below the minimum ratings, which form part of the Council's Treasury Management Practices.

The UK holds an AA rating with one rating agency, AA- with a second and Aa3 with the third, with the lower grades not having a specific adverse impact on the Council's treasury activities at the present time.

In accordance with the Council's Commercial Property Investment Policy, an annual update on the portfolio is set out below.

In August 2017 the Council purchased an investment property in the District. The purchase was financed partly from capital receipts and partly from revenue resources, so there was no increase in indebtedness arising from the purchase. The purchase price, including–stamp duty, was **£3.244 million**. At 31 March 2018 the property had been revalued t**o £3.100 million** (the purchase price less stamp duty tax). In each subsequent year the Council's appointed valuer has revalued the property for the purposes of the Council's Statement of Accounts and the fair value has changed as set out in the table below.

Date	**Comment**	**Value £ million**	**Impairment / Gain £ million**
August 2017	Purchase	3.244	0.000
March 2018	Revalued – exclude stamp duty	3.100	0.144
March 2019	Revalued	2.300	0.800
March 2020	Revalued	2.155	0.145
March 2021	Revalued	1.985	0.170
March 2022	Revalued	2.108	(0.123)
March 2023	Revalued	2.364	(0.256)

A gain of **£0.256 million** is recognised in the Council's 2022/23 statement of accounts, which is charged to revenue within the Comprehensive Income and Expenditure Statement and then reversed out through the Movement in Reserves Statement so that it does not affect the amount that needs to be financed. It is worth highlighting that the above adjustments reflect the necessary end of year accounting adjustments and therefore do not necessarily reflect the value of the property on the open market. This remains as the only property in the portfolio.

In terms of the performance of the property, during the year the rental income was **£0.224 million**. The annualised amount represents an annual rate of return of over 6% compared to the purchase price including stamp duty. The property is therefore performing satisfactorily against the financial target with the budgeted investment income achieved for the year. It is important to highlight that the rental payments can be seen as paying back the original investment made in purchasing the property. The overall performance of the investment therefore needs to take into account such considerations over the life of the Council's ownership of the property rather any shorter-term position in isolation.

The original leasehold occupier of the property ceased trading from the property in back in November 2018 with the property remaining sublet, a position expected to remain for the unexpired period of the lease (approximately 3 years). It is worth highlighting that the Council's Commercial Property Investment Policy is underpinned by robust risk management actions, which will respond to any changes to the situation. With the latter point in mind and as set out within the Commercial Property Investment Policy, the Council's wider treasury management activities are designed to ensure that the Council is not faced with a position of having to sell the property for cash flow purposes. This in turn ensures that the Council remains in control of when the property is ever exposed to the market rather than potentially having to sell the property during a period where there may be a downturn in commercial property prices.

Given the above, there are no current risks to the Council's long-term forecast or significant changes to the risk of holding commercial property, but this will be reviewed on an on-going basis with any changes required to be made to the forecast set out as part of the financial strategy process over the year.

Compliance with Treasury and Prudential Limits

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy. The outturn for the Prudential Indicators is shown in **Appendix B.**

PREVIOUS RELEVANT DECISIONS

Approval of the Annual Capital & Treasury Strategy 2022/23 – Item A.5 Full Council 29 March 2022.

Financial Performance Report 2022/23 and 2023/24 – General Update at the end of Q2 – Item A.5 Cabinet 4 November 2022.

Updated General Fund Financial Forecast Including Proposed Budget Changes in 2022/23 along with Budget Proposals for 2023/24 – Items A.3 Cabinet 16 December 2022.

Updated General Fund Financial Forecast Including Proposed Budget Changes in 2022/23 along with Budget Proposals for 2023/24 – Items A.4 Cabinet 27 January 2023.

Executive's Proposals – General Fund Budget and Council Tax 2023/24 – Item A.1 Full Council 14 February 2023.

Executive's Proposals – Housing Revenue Account Budget 2023/24 – Item A.2 Full Council 14 February 2023.

Financial Performance Report 2022/23 and 2023/24 – General Update at the end of Q3 – Item A.3 Cabinet 17 March 2023.

Financial Outturn 2022/23 Report – To provide an overview of the financial outturn for the year 2022/23 and to seek approval of the associated financial decisions related to the end of year accounting processes. Report agreed by to the Portfolio Holder for Finance and Governance under delegated Powers – 10 July 2023.

BACKGROUND PAPERS AND PUBLISHED REFERENCE MATERIAL
None

APPENDICES	
Appendix A	Treasury Performance figures 2022/23
Appendix B	Prudential and Treasury Indicators 2022/23

REPORT CONTACT OFFICER(S)	
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