

Surrey Heath Borough Council
Performance and Finance Scrutiny Committee
9 November 2022

Treasury Management 2022/23
Half Yearly Report

Portfolio Holder: Councillor Robin Perry - Finance
Strategic Director: Bob Watson, Strategic Director: Finance and Customer Service
Report Author: Adrian Flynn, Chief Accountant
Key Decision: No
Wards Affected: All

Summary and purpose

This report advises members of the performance of the treasury management service for the first half of 2022/23 as at 30 September 2022 and confirms the compliance with the Treasury Management Indicators for 2022/23.

Recommendation

The Performance and Finance Scrutiny Committee is advised to RESOLVE that they

- (i) note the Treasury Management report for the period 1 April to 30 September 2022.
- (ii) make any comments or recommendations on the report to Executive when the report is considered on 15 November 2022.

1. Background and Supporting Information

- 1.1 This report sets out the performance of the Council's investments and borrowing for the first six months of the year. It is also confirms that the Council is complying with the Treasury Management Indicators set by Council as part of the Treasury Management Strategy.
- 1.2 As at the 30 September 2022, the service has not breached any of the Treasury Management Indicators set for 2022/23. These are:

Treasury Management Indicator 22/23	
Average Credit Rating	A or above
Liquidity Risk Indicator	£5 million (maximum per counterparty)
Interest Rate Exposure	£1 million (maximum per counterparty)
Maturity Structure of Borrowing	Upper 100%, Lower 0%
Principal Sums invested for periods in excess of twelve months.	£2.5 million (maximum per counterparty)

- 1.3 The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).
- 1.4 The Council's Treasury Management Strategy for 2022/23 was approved by Executive on 15 February 2022 and Council on 23 February 2022.
- 1.5 The Prudential Code 2021 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 Council on 23 February 2022.
- 1.6 Through investment, the Council is potentially exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The Council is also exposed to increases in revenue costs on its borrowing due to changes in interest rates. The Council seeks to moderate this impact by following the advice of its treasury advisers. This report covers treasury and borrowing activity and the associated monitoring and control of risk.

2. Local Context

- 2.1 At 31 March 2022, the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £174m (2020/21 - £176m), an reduction of £2m from 2020/21. The Council must not borrow in excess of its CFR requirement and indeed at the 30 September 2022 total borrowing was £167m

3. Borrowing Activity to the 30th September

- 3.1 At 30 September 2022 the Council held £167m of borrowing as part of its strategy for funding previous and current year's capital programmes.
- 3.2 The borrowing position is shown in the table below

	30.09.22 Balance £million
Public Works Loan Board	51
Phoenix	49
Local Authorities (Short Term)	67
	167

- 3.3 A full list of the counterparties lending to the Council including the maturity dates and interest rates is shown at **Appendix A**.
- 3.4 For the current financial year (2022/23) the Council has an upper operational limit of borrowing of £230 million.

4. Investment Activity to 30th September 2021

- 4.1 The Council's investment position at the half year is £19 million; a breakdown of this figure is shown below:

Investments held at the 30 September 2022

	<u>Balance</u>
	<u>£</u>
<u>Money Market Funds</u>	
Aberdeen Asset Management	3,000,000
Aviva	3,000,000
Federated Investors UK	3,000,000
Legal & General	3,000,000
<u>Property Funds</u>	
CCLA Property Fund	3,000,000
<u>UK Government</u>	
Debt Management Office	3,000,000
<u>Transactional Banking Service</u>	
Nat West Bank	1,118,000
Total Investments	<u>19,118,000</u>

5. Interest rate Update

- 5.1 The Council has appointed Link Asset Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates.
- 5.2 The latest forecast on 27 September this year sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.
- 5.3 Where possible the Council has mitigated the impact of the rising interest rates by taking advantage of forward dealing and releasing some of its core investment balances to repay debt.

6. Economic Update

- 6.1 Nationally the second quarter of 2022/23 saw:
- Gross Domestic Product revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
 - Signs of economic activity losing momentum as production fell due to rising energy prices;
 - Consumer price inflation: Inflation increases to 10.1% y/y in September, having been 9.0% in April, and domestic price pressures showing little sign of abating in the near-term;
 - The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
 - Bank Rate rise by 100bps over the last quarter, taking Bank Rate to 2.25% with further rises to come;
 - Gilt yields surge and sterling fall following the “fiscal event” of the new Prime Minister and Chancellor on 23 September. Increases in Gilt yield increase the Government’s cost of borrowing.

NB: Gilt yields have since reduced and sterling exchange rates have recovered to previous levels following the appointment of the new Prime Minister on 24 October 2022.

7. Reasons for Recommendation

- 7.1 CIPFA's treasury management code requires that authorities report on the performance of the Treasury management function at least twice a year to the Executive and the Performance and Finance Scrutiny Committee.

8. Proposal and Alternative Options

- 8.1 The Committee is asked to note the 22/23 half yearly treasury management report and make any comments or recommendations to be considered by the Executive when they review the report at their meeting on 15 November 2022.
- 8.2 Alternatively Committee may just note the report and not make any comments or recommendations to Executive.

9. Contribution to the Council's Five Year Strategy

- 9.1 The returns from Treasury Management investments support the approved five-year strategy.

10. Resource Implications

- 10.1 None directly as a result of this paper, but the investment income and borrowing costs do impact the revenue budget.

11. Section 151 Officer Comments

- 11.1 Robust treasury management forms part of the management of the Council's cash balances. All investments are made with regard to security of the funds, the timing of when funds are needed (liquidity) and the need to make a return with due considerations of the previous two points first.
- 11.2 The Council will always consider investing funds in the most ethical way wherever practicable.

12. Legal and Governance Issues

- 12.1 The report demonstrates that the Council is complying with the Prudential Framework.

13. Monitoring Officer Comments:

- 13.1 The Committee's terms of reference includes the function to monitor, review and to report to the Leader/ Executive in relation to the performance of the Council's services.

14. Other Considerations and Impacts

Environment and Climate Change

14.1 Details of these are in the individual service areas that the budgets support

Equalities and Human Rights

14.2 Details of these are in the individual service areas that the budgets support

Risk Management

14.3 Weak returns on investments could lead to a reduction in income generated to support the revenue budget.

14.4 Increased uncertainty and increase in perceived risk in financial institutions and the economy. This will usually be at the cost of lower returns.

14.5 The Council has taken and acted on advice from its advisers in relation to increasing returns albeit at increased risk and its borrowing strategy. There are risks that interest rates can change and that any investment is not guaranteed.

14.6 The investments ratings provided by credit ratings agencies are only a guide and do not give 100% security. There is always a risk that an institution may be unable to repay its loans whatever the credit rating. However this can be mitigated by spreading investments amongst a number of institutions

Community Engagement

14.7 Where necessary engagement will be taken through individual service areas the budgets support

Annexes

Annex A – Summary of Council Borrowing

Background Papers

None

Summary of Council Borrowing as at 30 September 2022

	<u>Notional Asset</u>	<u>Start Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Type of loan</u>	<u>Total £'000</u>	
Long Term Borrowing							
PWLB - Loan No 504063	St Georges Ashwood	23 Apr 15	22 Apr 65	3.16%	Annuity	(7,857)	
PWLB - Loan No 504203	House	26 Jun 15	25 Jun 65	3.44%	Annuity	(5,641)	
PWLB - Loan Ref 507410	Trade City	24 May 18	24 May 33	2.65%	Maturity	(1,500)	
PWLB - Loan Ref 507411	Trade City	24 May 18	24 May 43	2.77%	Maturity	(2,500)	
PWLB - Loan Ref 507412	Trade City	24 May 18	24 May 53	2.65%	Maturity	(4,000)	
PWLB - Loan Ref 507413	Trade City	24 May 18	24 May 63	2.52%	Maturity	(5,000)	
PWLB - Loan No 508733	Theta House	12 Mar 19	12 Mar 39	2.03%	EIP	(4,950)	
PWLB - Loan No 508734	Theta House	12 Mar 19	12 Sep 41	2.52%	Maturity	(1,500)	
PWLB - Loan No 508735	Theta House	12 Mar 19	12 Sep 46	2.53%	Maturity	(1,500)	
PWLB - Loan No 508736	Theta House	12 Mar 19	12 Sep 51	2.48%	Maturity	(1,500)	
PWLB - Loan No 508737	Theta House	12 Mar 19	12 Sep 56	2.43%	Maturity	(1,500)	
PWLB - Loan No 508738	Theta House	12 Mar 19	12 Sep 61	2.40%	Maturity	(1,500)	
PWLB - Loan No 508739	Theta House	12 Mar 19	12 Sep 66	2.39%	Maturity	(1,500)	
PWLB - Loan No 508746	Vulcan Way	13 Mar 19	13 Mar 39	2.01%	EIP	(10,725)	
Phoenix Loan 1		22 Feb 21	22 Feb 61	2.85%	Annuity	(24,485)	
Phoenix Loan 2		22 Feb 22	22 Feb 62	2.91%	Annuity	(24,833)	
Total Long Term Borrowing						(100,490)	A
Short Term Borrowing							
West Midlands Combined Authority		15 Jun 22	15 Dec 22	0.75%	Fixed	(5,000)	
Barnsley Metropolitan Borough Council		20 Jun 22	20 Dec 22	0.75%	Fixed	(6,500)	
West Midlands Combined Authority		15 Jun 22	15 Dec 22	0.75%	Fixed	(5,000)	
Crawley Borough Council		16 Jun 22	16 Dec 22	0.75%	Fixed	(3,000)	
West of England Combined Authority		16 Jun 22	16 Dec 22	0.75%	Fixed	(5,000)	
West of England Combined Authority		23 Jun 22	23 Dec 22	0.75%	Fixed	(5,000)	
West Midlands Combined Authority		23 Jun 22	23 Dec 22	0.80%	Fixed	(5,000)	
North Somerset District Council		13 May 22	14 Nov 22	1.17%	Fixed	(5,000)	
West Yorkshire Combined Authority		25 Jul 22	7 Jun 23	1.30%	Fixed	(4,000)	
Barnsley Metropolitan Borough Council		30 Aug 22	29 Aug 23	1.90%	Fixed	(3,000)	
Salford City Council		17 Aug 22	19 Jun 23	1.80%	Fixed	(4,000)	
Basildon Borough Council		17 Aug 22	17 Feb 23	1.60%	Fixed	(3,000)	
Basildon Borough Council		3 Aug 22	3 Feb 23	1.60%	Fixed	(2,000)	
Hyndburn Borough Council		31 Aug 22	30 Aug 23	1.85%	Fixed	(2,000)	
Oxfordshire County Council		16 Sep 22	16 Jun 23	1.92%	Fixed	(6,000)	
Mid Sussex District Council		26 Sep 22	26 Sep 23	2.70%	Fixed	(3,000)	
Total Short Term Borrowing				1.32%		(66,500)	B
Total Borrowing						(166,990)	A+B

<u>PWLB Loans by type</u>	£
Equal Installments of Principal (EIP)	(15,675)
Maturity	(22,000)
Annuity	<u>(13,498)</u>
	(51,173)
Phoenix (annuity)	<u>(49,317)</u>
	<u><u>(100,490)</u></u>