

# Treasury and Prudential Indicator Management: Quarter 3 (to 31 December 2021)

For Cabinet on 17 March 2022

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## Summary

**Lead Member:** Councillor Tom Dawlings, Leader of the Council (Portfolio Holder for Finance & Governance)

**Lead Director:** Lee Colyer, Director of Finance, Policy & Development

**Head of Service:** Jane Fineman, Head of Finance, Procurement & Parking

**Report Author:** Clare Hazard, Accountancy Manager

**Classification:** Public document (non-exempt)

**Wards Affected:** All

Approval Timetable	Date
Management Board	16 February 2022
Portfolio Holder	28 February 2022
Finance & Governance Cabinet Advisory Board	1 March 2022
Cabinet	17 March 2022

## Recommendations

Officer / Committee recommendations as supported by the Portfolio Holder:

1. That Cabinet note the Treasury Management and Prudential Indicator position for 2021/22.
2. That Cabinet note the forecast for investment and bank interest is £462,000, an increase of £100,000 from the approved budget of £362,000, and a further improvement of £30,000 from the Quarter 2 projection.

# 1. Introduction and Background

- 1.1 This report monitors compliance with the Treasury Management Policy & Strategy 2021/22 for the period 1 April 2021 to 31 December 2021.
- 1.2 The report updates Members on investments held by the Council and informs that interest from investments and bank interest for 2021/22 is forecast to be £462,000, an increase of £100,000, on the approved budget of £362,000, and a further improvement of £30,000 from the Quarter 2 projection.

# 2. Treasury Management and Prudential Indicator Management

- 2.1 Under its Financial Procedure Rules, the Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet.
- 2.2 This report monitors, for the period 1 April 2021 to 31 December 2021, compliance with the Treasury Management Policy and Strategy 2021/22 recommended by Cabinet at its meeting 4 February 2021 (CAB92/20) and approved by Full Council at its meeting of 24 February 2021 (FC61/20).

## Current Investments

- 2.3 The 2021/22 approved limits on the amount of money and the time period the Council can invest with any given counterparty is shown in **Appendix A**.
- 2.4 As at 31 December 2021 the Council had £68.6 million of investments and bank account money. The institution categories and the maturity profile of these are shown in **Appendix B**.

## Interest Rate Forecast

- 2.5 The bank interest rate was cut to 0.10% in March 2020 when it became clear that the coronavirus outbreak would pose a huge threat to the economy. At subsequent meetings it remained unchanged until the meeting held on 15 December 2021 where it was increased by 0.15% to 0.25%. The rate was increased again at the meeting held on 2 February 2022 by 0.25% to 0.50%.
- 2.6 Link Asset Services, who are the Council's treasury advisors, regularly review interest rates and produce a forecast of the rate over future years. They currently

forecast that the rate will increase again during 2022/23 to 0.75% by March 2023.

## Cash Flow Management

- 2.7 The Council prioritised its cash flow management in response to the coronavirus crisis and the position continues to be carefully monitored.
- 2.8 Currently monies are being kept short term, or in the Council's current account, as there is little benefit in investing longer term. This enables the Council to have funds available should cash flow not meet current projections or worsen in the future.

## Cash Balances

- 2.9 The 2021/22 budget was set based on average funds expected to be available for investments during the year of £26.8 million.
- 2.10 The opening cash balance position was much higher than forecast at budget setting due to several reasons including:
- The administration of business grants schemes provided by the Government, to support businesses during the pandemic. The funding for these schemes had been provided up front and at year end the Council held a balance of £7.998 million for these grants until the sums are able to be passed onto businesses or back to the Government.
  - Capital projects being rescheduled during 2020/21. Projects totalling £4.226 million were rescheduled into 2021/22 at Quarter 4 of 2020/21.
  - £2.118 million was held in the Capital Receipts Reserve at 31 March 2021, which had been received from the sale of assets. This will be used for the 2021/22 capital programme.
  - The Council was able to close the 2020/21 financial year with a small surplus of £211,000 being returned to the general fund. At budget setting time it had been expected that reserves would be needed to balance the budget, but this was not required due to additional government support, along with mitigating some of the income losses with expenditure savings.
- 2.11 The funds available for investment throughout 2021/22 are also expected to be higher than forecast due to several reasons including:
- The Council has received a fifth tranche of Covid-19 support grant of £486,000 and additional new burdens grants of £410,000, which is further support from the government to meet the challenges of the pandemic.
  - The Council continues to administer business grants schemes, provided by government, to support businesses during the pandemic. The funding for these schemes is provided up front and therefore the Council is

holding funds until they can be passed onto business or need to be repaid to Government. The average amount held for these grants, to the end of December 2021, was £6.379 million.

- The government provided eligible retail, hospitality and leisure properties with 100% business rates relief during 2020/21. The Council was compensated for this loss of income through Section 31 grants paid throughout last year. As it is the billing authority the Council suffered the full loss of business rates income, in terms of cashflow, rather than just its 40% share and was compensated for this by receiving 100% of the Section 31 grants. It needs to repay government the 60% that is due to the other preceptors, which is a sum of £16.562 million, but this will not be paid until March 2022, therefore increasing the average funds throughout the year.
- Capital projects have been rescheduled during 2021/22. Projects totalling £7.373 million have been rescheduled into 2022/23, a further £5.566 million this quarter as detailed in the Quarter 3 2021/22 Capital Monitoring Report.

2.12 Overall, despite the continuing challenges from the Covid-19 pandemic, the amount the Council forecasts it will have to invest, is significantly higher than estimated when setting the budget. Most of the additional funds will only be held temporarily, and repaid by year end, but whilst held will earn interest and increase the annual average funds.

## Investment and Bank Interest

2.13 The target interest rate to be earned from funds was set at 1.35%. Applying this to the budgeted funds available resulted in an interest budget of £362,000.

2.14 The amount of interest to be received from investments and bank balances is forecast to be £462,000, an increase of £100,000 on the approved budget and a further improvement of £30,000 from the Quarter 2 projection. The increase is mainly due to increasing the forecast interest from the Property Fund, as explained in Note 2.19. Also, there have been more funds available to invest and since the interest rate increase in December 2021 the Council has received an additional 0.10% on the balances held in its bank account.

2.15 A summary of the forecast position is shown below:

	<b>Budget 2021/22</b>	<b>Quarter 2</b>	<b>Quarter 3</b>
Equated Investments	£26,800,000	£48,400,000	£57,700,000
Average Interest Rate	1.35%	0.89%	0.80%
Total Interest	£362,000	£432,000	£462,000

- 2.16 Although it is forecast that there will be additional funds available to invest, they will mainly be invested short term and will earn less than the average for the rest of the portfolio. The average rate of the entire portfolio is estimated to decrease from 1.35% to 0.80%, despite the forecast increase in overall income received.

## Treasury Management Strategy Prudential Indicators and Targets

- 2.17 Details of the Prudential Indicators and Treasury Management Targets compared to the position as at 31 December 2021 are set out in **Appendix C**.
- 2.18 None of the Prudential Indicators were breached during the quarter. As explained in Note 2.16 the interest rate for the year is not forecast to be met but the amount of interest will be £100,000 above budget.

## Local Authorities Property Fund

- 2.19 The Council purchased £9 million worth of units in The Local Authorities' Property Fund between 2013 and 2014. The Fund pays a dividend to the Council on a quarterly basis. The dividend paid for April to December was 5.19% although a management fee of 0.78% was paid back to the Fund resulting in a net interest rate of 4.41%. The budget assumed an average return of 3.60% from the Property Fund for the year and therefore this increase has been reflected in the interest forecast, as explained in Note 2.14.
- 2.20 The value of the investment is calculated at year end to be included in the Council's Financial Statements at its fair value or market price. The value of the Council's £9 million investment was £10,413,051 as at 31 March 2021. The value of the £9 million invested as at 31 December 2021 is £11,701,073, an increase of £1,288,022 in 2021/22 thus far.
- 2.21 The difference in value at year end is held in an unusable reserve, set up specifically for this purpose, called the Financial Instrument Revaluation Reserve. This reserve will hold the £2,701,073 cumulative gain from the investment. The increase during 2021/22 has no impact on the overall cost of services.

## Other Interest and Investment Income Received

- 2.22 The Council receives interest and investment income in addition to investment interest from a variety of sources as shown below:

	Budget 2021/22
Investment Property Income	£22,500

Fusion Loan	£6,670
Mortgages	£2,920
<b>Total</b>	<b>£32,090</b>

- 2.23 The Council purchased a commercial property in 2016/17, held on the balance sheet as an investment property. The property was occupied by a restaurant which following lockdown went into administration. It has however now been re-let and the investment interest budget of £22,500 is expected to be achieved.
- 2.24 The Council provided a loan to Fusion Lifestyle, who manage the Council's sports centres, to fund sports centre improvements. The final three instalments were due during in 2021/22 with total interest of £6,670 being charged. The payments have all now all been made therefore concluding the loan.

### 3. Options Considered

- 3.1 This report is essentially for information.

### 4. Preferred Option and Reason

- 4.1 That Members acknowledge the 2021/22 Treasury Management and Prudential Indicator position and note that investment and bank interest is forecast to be £432,000, an increase of £100,000 on the approved budget of £362,000, and a further improvement of £30,000 from the Quarter 2 projection.

### 5. Consultation on Options

- 5.1 The Council takes advice from Link Asset Services on all treasury management activities. The decision will be published on the Council's website.

### Recommendation from Cabinet Advisory Board

- 5.2 The Finance & Governance Cabinet Advisory Board were consulted on 1 March 2022 and agreed the following:

*Insert text from Cabinet Advisory Board minute, or request text from Democratic Services Officer.*

## 6. Implementation

- 6.1 The investment income and borrowing costs are also included within the Quarter 3 Revenue Management report which is an accompanying report on this agenda.

## 7. Appendices and Background Documents

Appendices:

- Appendix A: Treasury Management Investment Limits
- Appendix B: Current Investments
- Appendix C: Prudential Indicators and Treasury Management Targets

Background Papers:

- Treasury Management Policy and Strategy 2021/22 – CAB92/20  
<https://democracy.tunbridgewells.gov.uk/documents/s53266/9%20Treasury%20Strategy%20202122.pdf>
- Treasury & Prudential Indicator Management: Quarter 1 (to 30 June 2021) – CAB63/21  
<https://democracy.tunbridgewells.gov.uk/documents/s57338/Quarter%201%20Treasury%20Management%20202122.pdf>
- Treasury & Prudential Indicator Management: Quarter 2 (to 30 September 2021) – CAB103/21  
<https://democracy.tunbridgewells.gov.uk/documents/s58538/13%20Quarter%202%20Treasury%20Management%20202122.pdf>

## **8. Cross Cutting Issues**

### **A. Legal (including the Human Rights Act)**

Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.

Claudette Valmond, Interim Head of Legal Partnership

### **B. Finance and Other Resources**

The net investment interest is an important source of income for the Council's revenue budget.

Jane Fineman, Head of Finance, Procurement & Parking

### **C. Staffing**

There are no specific implications that arise from the process of Treasury Management over the fact that the income is part of the budget which supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking

### **D. Risk Management**

The Treasury Management Policy and Strategy sets out how the Council aims to control the risks associated with treasury management. The security of the Council's investments is the top priority when making investments and is always considered before yield

Jane Fineman, Head of Finance, Procurement & Parking

### **E. Environment and Sustainability**

There are no specific implications that arise from the process of Treasury Management over the fact that the income is part of the budget which supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking



## **F. Community Safety**

There are no specific implications that arise from the process of Treasury Management over the fact that the income is part of the budget which supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking

## **G. Equalities**

There are no specific implications that arise from the process of Treasury Management over the fact that the income is part of the budget which supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking

## **H. Data Protection**

There are no specific implications that arise from the process of Treasury Management over the fact that the income is part of the budget which supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking

## **I. Health and Safety**

There are no specific implications that arise from the process of Treasury Management over the fact that the income is part of the budget which supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking

## **J. Health and Wellbeing**

There are no specific implications that arise from the process of Treasury Management over the fact that the income is part of the budget which supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking