

# Treasury and Prudential Indicator Management: Quarter 4 (to 31 March 2022)

For Cabinet on 23 June 2022

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## Summary

**Lead Member:** Councillor Andrew Hickey (Portfolio Holder for Finance and Performance)

**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	19 May 2022
Portfolio Holder	TBC
Finance & Governance Cabinet Advisory Board	8 June 2022
Cabinet	23 June 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 actual for investment and bank interest is £487,000, an increase of £125,000 from the approved budget of £362,000, and a further improvement of £25,000 from the Quarter 3 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 March 2022.
- 1.2 The report updates Members on investments held by the Council and informs that interest from investments and bank interest for 2021/22 was £487,000, an increase of £125,000, on the approved budget of £362,000, and a further improvement of £25,000 from the Quarter 3 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 March 2022, 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 March 2022 the Council had £55.4 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. It remained unchanged until 16 December 2021 when it was increased by 0.15% to 0.25%. The rate was increased again on 3 February 2022 to 0.50%, again on 17 March 2022 to 0.75%, and again on 5 May 2022 to 1.00%.
- 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 at a faster pace through 2022/23 to try and keep inflation in check, with further rises of 0.25% in June, and then in each of the three subsequent quarters to peak at 2% by the close of the calendar year.

## Cash Balances

- 2.7 The 2021/22 budget was set based on average funds expected to be available for investments during the year of £26.8 million.
- 2.8 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 were able to be passed onto businesses or back to 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.
- 2.9 The funds available for investment throughout 2021/22 were also higher than forecast due to several reasons including:
- The Council received a fifth tranche of Covid-19 support grant of £486,000, additional new burdens grants from government of £430,000, to support the challenges of the pandemic, and £737,000 from the sales, fees and charges compensation scheme.
  - The Council continued to administer business grants schemes, provided by government, to support businesses during the pandemic. The funding for these schemes was provided up front and therefore the Council has held funds until they could be passed onto business or needed to be repaid to Government. The average amount held for these grants over the year was £5.538 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 repaid the government the 60% that was due to the other preceptors, which was a sum of £16.562 million, but this was not paid until March 2022, therefore increasing the average funds throughout the year.

- Capital projects have been rescheduled during 2021/22. Projects totalling £9.613 million have been rescheduled into 2022/23, a further £2.241 million this quarter as detailed in the Quarter 4 2021/22 Capital Monitoring Report.

2.10 Overall, the amount the Council has had available to invest, is significantly higher than estimated when setting the budget. Most of the additional funds were only held temporarily, or will be paid back during 2022/23, but whilst held earned interest and increased the annual average funds.

## Investment and Bank Interest

2.11 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.

2.12 The amount of interest received from investments and bank balances was £487,000, an increase of £125,000 on the approved budget and a further improvement of £25,000 from the Quarter 3 projection. The increase is mainly due to the interest from the Property Fund, as explained in Note 2.16. Also, there have been more funds available to invest and the interest rate increases during December to March have resulted in additional interest on the balances held in the Council's bank account.

2.13 A summary of the forecast position is shown below:

	<b>Budget 2021/22</b>	<b>Forecast 2021/22</b>	<b>Actual 2021/22</b>
Equated Investments	£26,800,000	£57,700,000	£59,400,000
Average Interest Rate	1.35%	0.80%	0.82%
Total Interest	£362,000	£462,000	£487,000

## Treasury Management Strategy Prudential Indicators and Targets

2.14 Details of the Prudential Indicators and Treasury Management Targets compared to the position as at 31 March 2022 are set out in **Appendix C**.

2.15 None of the Prudential Indicators were breached during the quarter. As explained in Note 2.12 the interest rate for the year was not achieved but the amount of interest was £125,000 above budget.

## Local Authorities Property Fund

2.16 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 2021/22 was 5.21% although a management fee of 0.79% was paid back to the Fund resulting in a net interest rate of 4.42%.

- 2.17 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 March 2022 is £12,240,822, a further increase of £1,827,771 in 2021/22.
- 2.18 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 holds the £3,240,822 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

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

	<b>Budget 2021/22</b>	<b>Actual 2021/22</b>
Investment Property Income	£22,500	£26,754
Fusion Loan	£6,670	£6,667
Mortgages	£2,920	£2,968
Other Interest	£0	£1,249
<b>Total</b>	<b>£32,090</b>	<b>£37,638</b>

- 2.20 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 charged for 2021/22 was £26,754.
- 2.21 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 £6,667 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 was £487,000, an increase of £125,000 on the approved budget of £362,000, and a further improvement of £25,000 from the Quarter 3 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 7 June 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 4 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%20%20Treasury%20Management%20202122.pdf>
- Treasury & Prudential Indicator Management: Quarter 3 (to 31 December 2021)  
– CAB150/21  
<https://democracy.tunbridgewells.gov.uk/documents/s60123/Quarter%203%20Tr%20easury%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