

Treasury and Prudential Indicator Management: Quarter 2 (to 30 September 2022)

For Cabinet on 8 December 2022

Summary

Lead Member: Councillor Christopher Hall (Cabinet Member for Finance & 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 | 26 October 2022 |
| Cabinet Member | 28 October 2022 |
| Finance & Governance Cabinet Advisory Board | 15 November 2022 |
| Cabinet | 8 December 2022 |

Recommendations

Officer / Committee recommendations as supported by the Cabinet Member:

1. That Cabinet note the Treasury Management and Prudential Indicator position for 2022/23.
2. That Cabinet note the forecast for investment and bank interest is £1,195,000, an increase of £750,000 from the approved budget of £445,000, and a further improvement of £450,000 from the Quarter 2 projection.

1. Introduction and Background

- 1.1 This report monitors compliance with the Treasury Management Policy & Strategy 2022/23 for the period 1 April 2022 to 30 September 2022.
- 1.2 The report updates Members on investments held by the Council and informs that interest from investments and bank interest for 2022/23 is forecast to be £1,195,000, an increase of £750,000, on the approved budget of £445,000.

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 2022 to 30 September 2022, compliance with the Treasury Management Policy and Strategy 2022/23 recommended by Cabinet at its meeting 10 February 2022 (CAB133/21/20) and approved by Full Council at its meeting of 23 February 2022 (FC80/21).

Current Investments

- 2.3 The 2022/23 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 30 September 2022 the Council had £65 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 pandemic would pose a huge threat to the economy. It remained unchanged until December 2021 when it was increased by 0.15% to 0.25%. At each subsequent meeting the Bank of England has increased the rate again, by 0.25% in February, March, May and June, and by 0.50% in August and September, resulting in a current base rate of 2.25%.
- 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 peak at 5.00% by the end of March 2023, with an increase to 4% by December and two further increases of 0.50% between February and March 2023. They forecast that in the following year the rate will start to fall slowly, back to 4% by March 2024 and to 2.75% by March 2025. They expect the Bank of England to continue its efforts to squeeze inflation out of the economy but, mindful of the cost-of-living crisis, will be keen to lower rates when the worst of the inflationary pressures are over.

Cash Balances

- 2.7 The 2022/23 budget was set based on average funds expected to be available for investments during the year of £40.8 million.
- 2.8 The opening cash balance position was much higher than forecast at budget setting due to several reasons including:
- The funding for business grants schemes provided by the Government, to support businesses during the pandemic, was provided up front and at year end the Council held a balance of £1.597 million for these which will be returned to Government.
 - The Council received £5.025 million for the Government Energy Rebate Scheme on 30 March 2022. This will be paid to residents during April to September 2022 with the balance held short term until it can be passed on.
 - Capital projects totalling £9.613 million were rescheduled during 2021/22 into the 2022/23 financial year.
 - The Council was able to close the 2021/22 financial year with a small surplus of £35,000 being returned to the general fund. At budget setting time it had been expected that reserves of £1.518 million would be needed to balance the budget.
- 2.9 The funds available for investment throughout 2022/23 are also expected to be higher than forecast due to several reasons including:
- The Government provided eligible retail, hospitality and leisure properties with business rates reliefs during 2021/22. 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 £14.453 million, but this will not be paid until March 2023, therefore increasing the average funds throughout the year.
 - Capital projects have been rescheduled during 2022/23. Projects totalling £1.650 million were rescheduled into 2023/24 in Quarter 1, with a further £7.193 million being rescheduled in Quarter 2, as detailed in the Capital Management Report.

Investment and Bank Interest

- 2.10 The target interest rate to be earned from funds was set at 1.09%. Applying this to the budgeted funds available resulted in an interest budget of £445,000.
- 2.11 The amount of interest to be received from investments and bank balances is forecast to be £1,195,000, an increase of £750,000 on the approved budget, and a further improvement of £450,000 from the Quarter 2 projection. The increase is due to an increase in interest rates available, as explained in Note 2.5, and more funds being available for investment, as explained in Notes 2.8 and 2.9.
- 2.12 A summary of the forecast position is shown below:

| | Budget 2022/23 | Quarter 1 | Quarter 2 |
|-----------------------|-------------------|-------------|-------------|
| Equated Investments | £40,800,000 | £60,400,000 | £66,800,000 |
| Average Interest Rate | 1.09% | 1.23% | 1.79% |
| Total Interest | £445,000 | £745,000 | £1,195,000 |

- 2.13 The average rate of the entire portfolio is estimated to increase from 1.09% to 1.79%.

Treasury Management Strategy Prudential Indicators and Targets

- 2.14 Details of the Prudential Indicators and Treasury Management Targets compared to the position as at 30 September 2022 are set out in **Appendix C**.
- 2.15 None of the Prudential Indicators were breached during the quarter.

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 April to September was 5.69% although a management fee of 0.88% was paid back to the Fund resulting in a net interest rate of 4.81%.
- 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 £12,240,822 as at 31 March 2022. The value of the £9 million invested as at 30 September 2022 is £12,333,736, an increase of £92,914 in 2022/23 thus far. This is a decrease of £546,842 since Quarter 1 so this will continue to be carefully monitored.

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 will hold the £3,333,736 cumulative gain from the investment. The increase during 2022/23 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 as shown below:

| | Budget 2022/23 |
|----------------------------|---------------------------|
| Investment Property Income | £45,000 |
| Mortgages | £2,500 |
| Total | £47,500 |

3. Options Considered

3.1 This report is essentially for information.

4. Preferred Option and Reason

4.1 That Members acknowledge the 2022/23 Treasury Management and Prudential Indicator position and note that investment and bank interest is forecast to be £1,195,000, an increase of £450,000 on the approved budget of £445,000, and a further improvement of £450,000 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 15 November 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 interest and income are also included within the Quarter 2 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 2022/23 – CAB133/21
<https://democracy.tunbridgewells.gov.uk/documents/s59504/11%20Treasury%20Strategy%20202223.pdf>
- Treasury and Prudential Indicator Management: Quarter 1 (to 30 June 022)
<https://democracy.tunbridgewells.gov.uk/documents/s63184/Quarter%201%20Treasury%20Management%20202223.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