

Treasury and Prudential Indicator Management: Quarter 1 (to 30 June 2023)

For Cabinet on 21 September 2023

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	21 August 2023
Cabinet Member	21 August 2023
Finance & Governance Cabinet Advisory Board	5 September 2023
Cabinet	21 September 2023

Recommendations

Officer / Committee recommendations as supported by the Cabinet Member:

1. That Cabinet note the Treasury Management and Prudential Indicator position for 2023/24.
2. That Cabinet note the forecast for investment and bank interest is £2,668,000, an increase of £1,248,000 from the approved budget of £1,420,000.

1. Introduction and Background

- 1.1 This report monitors compliance with the Treasury Management Policy & Strategy 2023/24 for the period 1 April 2023 to 30 June 2023.
- 1.2 The report updates Members on investments held by the Council and informs that interest from investments and bank interest for 2023/24 is forecast to be £2,668,000, an increase of £1,248,000, on the approved budget of £1,420,000.

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 2023 to 30 June 2023, compliance with the Treasury Management Policy and Strategy 2023/24 recommended by Cabinet at its meeting 9 February 2023 (CAB118/22) and approved by Full Council at its meeting of 23 February 2023 (FC31/22).

Current Investments

- 2.3 The 2023/24 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 June 2023 the Council had £64.3 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 to 0.25%. At each subsequent meeting, the Bank of England has increased the rate, with the rate as at 30 June 2023 being 5.00%. There has been one further increase after quarter end, being an increase of 0.25% on 3 August 2023, to take the current rate from 5.00% to 5.25%.

- 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 5.50% by the end of September 2023. They forecast that at the start of 2024 the rate will start to fall slowly, back to 5.25% by March 2024 and to 3.25% by March 2025. They expect the Bank of England to continue its efforts to squeeze inflation out of the economy. The CPI measure of inflation dropped from 8.7% in May, to 7.9% in June and 6.8% in July 2023, but is still at the higher end of market expectations.

Cash Balances

- 2.7 The 2023/24 budget was set based on average funds expected to be available for investments during the year of £46.2 million.
- 2.8 The opening cash balance position was higher than forecast at budget setting due to several reasons including:
- Capital projects totalling £13.911 million were rescheduled during 2022/23 into the 2023/24 financial year.
 - In March 2022 the Council received an allocation of £3.2 million from the Covid-19 Additional Relief Fund (CARF) which was used to apply an additional relief to business rates accounts for 2021/22. The Council received 100% of the relief, as it is the billing authority, and was due to repay the 60% share to Government at the end of March 2023. However, as some local authorities had applied their CARF allocation to 2022/23 bills rather than 2021/22, all repayments from local authorities have been delayed by a year. The Council therefore held the £1.9 million repayment within its opening cash balance and will continue to hold it until it is due for repayment in March 2024.
 - The Council was able to close the 2022/23 financial year with a small surplus of £18,000 being returned to the general fund. At budget setting time it had been expected that reserves of £0.944 million would be needed to balance the budget.
- 2.9 The funds available for investment throughout 2023/24 are also expected to be higher than forecast due to:
- Capital projects have been rescheduled during 2023/24. Projects totalling £3.204 million have been rescheduled into 2024/25 in Quarter 1, 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 3.07%. Applying this to the budgeted funds available resulted in an interest budget of £1,420,000.

2.11 The amount of interest to be received from investments and bank balances is forecast to be £2,668,000, an increase of £1,248,000 on the approved budget of £1,420,000. The increase is due to the 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 2023/24	Quarter 1
Equated Investments	£46,240,000	£59,240,000
Average Interest Rate	3.07%	4.50%
Total Interest	£1,420,000	£2,668,000

2.13 The average rate of the entire portfolio is estimated to increase from 3.07% to 4.50%.

2.14 The £1,248,000 surplus to budget will be transferred to the Capital and Revenue Initiatives Reserve, to fund the capital programme. The Council is returning to its policy of any interest achieved that is surplus to budget, is transferred to reserves. This has not been possible for the last two years, when the Council has been facing the challenges presented by the pandemic and needed the interest to balance the budget. However, this policy protects the Council from building in short term interest windfalls into its base and must be reinstated as we return to business as usual.

Treasury Management Strategy Prudential Indicators and Targets

2.15 Details of the Prudential Indicators and Treasury Management Targets compared to the position as at 30 June 2023 are set out in **Appendix C**.

2.16 None of the Prudential Indicators were breached during the quarter.

Local Authorities Property Fund

2.17 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 June 2023 was 6.01% although a management fee of 0.71% was paid back to the Fund resulting in a net interest rate of 5.30%.

2.18 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 £10,222,968 as at 31 March 2023. The value

of the £9 million invested as at 30 June 2023 is £10,208,783, a decrease of £14,185 in 2023/24.

- 2.19 The difference in value is held in an unusable reserve, set up specifically for this purpose, called the Pooled Investment Funds Adjustment Account. This reserve holds the £1,208,783 cumulative gain from the investment. The decrease during 2023/24 has no impact on the overall cost of services.
- 2.20 The Council has now served notice on the investment and will sell the units currently held in the Fund, at the end of September 2023.

Other Interest and Investment Income Received

- 2.21 The Council receives interest and investment income in addition to investment interest as shown below:

	Budget 2023/24
Investment Property Income	£45,000
Mortgages	£2,400
Other Interest	£1,200
Total	£48,600

3. Options Considered

- 3.1 This report is essentially for information.

4. Preferred Option and Reason

- 4.1 That Members acknowledge the 2023/24 Treasury Management and Prudential Indicator position and note that investment and bank interest is forecast to be £2,668,000, an increase of £1,248,000 on the approved budget of £1,420,000.

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 5 September 2023 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 1 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: Investments as at 30 June 2023
- Appendix C: Prudential Indicators and Treasury Management Targets

Background Papers:

- Treasury Management Policy and Strategy 2023/24 – CAB118/22
<https://democracy.tunbridgewells.gov.uk/documents/s65166/Treasury%20Management%20Policy%20Strategy%20202324.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, 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