

Treasury and Prudential Indicator Management: Quarter 4 (to 31 March 2023)

For Cabinet on 22 June 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	22 May 2023
Cabinet Member	23 May 2023
Finance & Governance Cabinet Advisory Board	6 June 2023
Cabinet	22 June 2023

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 unaudited actual for investment and bank interest is £1,643,000, an increase of £1,198,000 from the approved budget of £445,000, and a further improvement of £48,000 from the Quarter 3 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 31 March 2023.
- 1.2 The report updates Members on investments held by the Council and informs that interest from investments and bank interest for 2022/23 was £1,643,000, an increase of £1,198,000, on the approved budget of £445,000, and a further improvement of £48,000 from the Quarter 3 position.

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 31 March 2023, 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 31 March 2023 the Council had £52.8 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, with the rate as at 31 March 2023 being 4.25%. There has been one further increase after year end, being an increase of 0.25% on 11 May 2023, to take the current rate from 4.25% to 4.50%.

- 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 to 5.00%, by the end of September 2023, with a first rate cut to 4.75% in March 2024. This will be followed by further rates cuts through 2024 and 2025. The CPI measure of inflation dropped back from 8.7%, from 10.1%, in May 2023, but is still at the higher end of market expectations.

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 has now been returned to Government.
 - The Council received £5.025 million for the Government Energy Rebate Scheme on 30 March 2022. This was paid to residents during April to September 2022 with the balance held short term until it was 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 were also 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 repaid the government the 60% that was due to the other preceptors, a sum of £12.465 million, but this was not paid until February 2023, therefore increasing the average funds throughout the year.
 - Capital projects have been rescheduled during 2022/23. Projects totalling £10.686 million were rescheduled into 2023/24 by the end of Quarter 3, and a further £3.225 million was rescheduled in Quarter 4, as detailed in the Capital Management Report.

- 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 £0.943 million would be needed to balance the budget.

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 received from investments and bank balances was £1,643,000, an increase of £1,198,000 on the approved budget, and a further improvement of £48,000 from the Quarter 3 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 and actual position is shown below:

	Budget 2022/23	Quarter 3 Forecast	Actual
Equated Investments	£40,800,000	£69,500,000	£69,302,000
Average Interest Rate	1.09%	2.29%	2.37%
Total Interest	£445,000	£1,595,000	£1,643,000

2.13 The average rate achieved on the entire portfolio was 2.37%.

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 2023 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 2022/23 was 5.66% although a management fee of 0.82% was paid back to the Fund resulting in a net interest rate of 4.84%.

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 31 March 2023 is £10,222,968, a decrease of £2,017,854 in 2022/23.

- 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 £1,222,968 cumulative gain from the investment. The decrease during 2022/23 has no impact on the overall cost of services.
- 2.19 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

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

	Budget 2022/23	Actual 2022/23
Investment Property Income	£45,000	£45,000
Mortgages	£2,500	£2,446
Other Interest	£0	£5,106
Total	£47,500	£52,552

- 2.21 Other interest includes interest from on a loan to a parish council and interest from car loans made to staff.

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 was £1,643,000, an increase of £1,198,000 on the approved budget of £445,000, and a further improvement of £48,000 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 6 June 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 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: Investments as at 31 March 2023
- 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 2022) – CAB47/22
<https://democracy.tunbridgewells.gov.uk/documents/s63184/Quarter%201%20Treasury%20Management%20202223.pdf>
- Treasury and Prudential Indicator Management: Quarter 2 (to 30 September 2022) – CAB99/22
<https://democracy.tunbridgewells.gov.uk/documents/s64405/Quarter%202%20Treasury%20Management%20202223.pdf>
- Treasury and Prudential Indicator Management: Quarter 3 (to 31 December 2022) – CAB145/22

<https://democracy.tunbridgewells.gov.uk/documents/s66157/Quarter%203%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