



2022/23 Treasury Management Mid-Year Performance Report and Strategy Update

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Purpose of the Report

1. To present the Council's 2022/23 mid-year treasury performance report as required by CIPFA's Treasury Management Code.

Recommendations

2. The Audit Committee recommends that Council note the actual and forecast treasury performance and approve the updated Treasury Management Strategy Statement and Investment Strategy for 2022/23.

Introduction and Background

3. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services Code of Practice requires the Council to approve an annual Treasury Management Strategy and, report treasury performance mid-year and at the year end.
4. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Treasury Management Strategy.
5. This report provides information on the performance of the Council's Treasury Investments for the first six months of the 2022/23 financial year. The performance of the Council's Commercial Investments, which are part of the Commercial Strategy, are reported separately through 6-monthly update reports therefore that detail is not included in this report. On this basis, it is worth noting that whilst the treasury income and cost implications of commercial investment acquisitions are included within this report, the investment property income is not.

6. CIPFA has defined Treasury Management as “the management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
7. The Council has delegated responsibility for the oversight and monitoring of its treasury management policies and practices to Audit Committee, and for the execution and administration of treasury management decisions to the S151 Officer who will act in accordance with the organisation’s policy statement and Treasury Management Practices (TMPs), and CIPFA’s standard of Professional Practice on Treasury Management.
8. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Specific risks are identified in the Council’s approved Treasury Management Practices. The risks include:
 - Liquidity Risk (Adequate cash resources)
 - Interest Rate Risk (Fluctuations in the value of investments and borrowing).
 - Inflation Risks (Exposure to inflation)
 - Fraud, Error and Corruption, and Contingency Management (Exposure to loss through fraud, error or other eventualities)
 - Refinancing Risks (Impact of debt maturing in future years).
 - Legal & Regulatory Risk (Compliance with statutory and regulatory requirements).
9. The Local Government Act 2003 requires the Council to ‘have regard to’ the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments.

Treasury Management Strategy Statement and Investment Strategy

10. The updated 2022/23 Treasury Management Strategy is attached at Appendix A. There are no amendments to the borrowing strategy, treasury investment strategy, approved counterparties or investment limits.
11. The updated strategy includes a revision to the capital financing requirement figures, with amendments made to reflect the actual capital financing requirement at 31/3/2022 and the revised estimates for the subsequent three years. Please refer to table 2: Balance Sheet Summary and Forecast within Appendix A.



12. The remainder the report provides information on:

- Treasury Management Position
- Current Borrowing
- Interest Rates and Inflation
- Treasury Investment Activity
- Pooled Fund Investments
- Non Treasury Investments

Treasury Management Position - Summary

13. The treasury management position as at 30 September 2022 and the change during the year is shown in the Table 1.

Table 1: Treasury Management Position – Summary

	31/03/2022 Balance £000's	Net Movement £000's	30/09/2022 Balance £000's
Long-term borrowing	-	0	-
short-term borrowing	(128,500)	14,500	(114,000)
Total Borrowing	(128,500)	14,500	(114,000)
Long-term Investments	0	0	0
Short-term Investments	16,550	(13,550)	3,000
Cash and Cash Equivalents	23,500	740	24,240
Total Investment	40,050	(12,810)	27,240
Net Position	(88,450)	1,690	(86,760)

External Borrowing

14. External borrowing has decreased during the first six months of the year due to a significant element of the loan portfolio maturing and improved cash flow has meant that not all the matured borrowing needed replacing.
15. It should be noted that the actual external borrowing held at 30 September 2022 was £114m, in addition, and in line with the treasury management strategy and the principle of minimising borrowing costs forward deals to the value of £27m have been placed.
16. Including the forward deals means the actual and committed borrowing figure rises to £141m as at the end of September 2022. The £27m of forward deals have been secured at rates between 1.25% and 1.95% with the loan periods being between three and four months. If this borrowing were to have been



South Somerset District Council

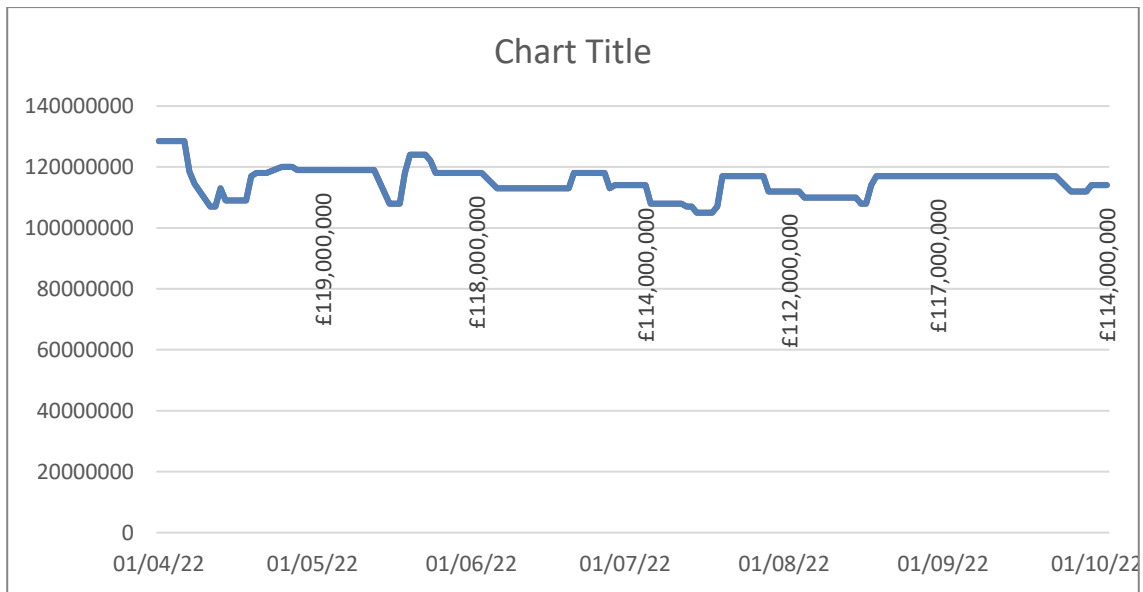
secured today, the rate for the same loan period would be in the region of 3% (based on PWLB rates at 7 November).

17. The external borrowing requirement in respect of the capital programme for 2022/23 was anticipated to be in the region of £20m. As at 30 September 2022 only a small amount of external borrowing has been required to fund the capital expenditure. It is anticipated that expenditure will increase in the second half of the financial year and that external borrowing will be a source of funding in respect of this spend. Therefore, the expectation is that the projected borrowing of £20m will be utilised by the end of the financial year. However, this does not take account of any slippage in capital spend which might be identified as part of the quarter 2 capital programme monitoring.
18. Taking into account the projected borrowing to fund capital spend and the borrowing required for cashflow purposes means the projected value of long term borrowing as at 31 March 2023 is estimated to be in the region of £149m.
19. The external borrowing requirement at the end of the 2022/23 financial year was anticipated to be £146m. There is a small anticipated increase, however this is a projection, and the year end figure for external borrowing is partially dependant on the delivery of the capital programme and the associated borrowing costs.
20. As mentioned above, the amount of external borrowing is partially dependent on spend on the projects included in the capital programme progressing as planned, particularly those projects in the Regeneration Programme, and the Council's cash flow position. If project timescales slip the external borrowing amount will be significantly lower than the figure anticipated in the 2022/23 Annual Treasury Management Strategy.
21. The Council's finance team continually review the council's cash flow position and borrowing options in order to keep the cost of borrowing to a minimum. With interest rates rising significantly in recent months and with a rise in rates expected to continue for the foreseeable future continual monitoring of the cashflow position and the available borrowing options is a high priority for the finance team. The securing of forward deals at a significantly lower rate has helped to protect the Council revenue budget from the impact of the recent rate rises.
22. Work is also ongoing with the Council's treasury advisors to further ensure that all borrowing options are considered. It is anticipated that short term rather than long term borrowing will be utilised for the remaining part of the financial year. However, this is kept under review to strike the appropriate balance between costs and cost certainty. If long term borrowing were to become the better option, which is a change of strategy, any decision which may affect the successor council and its future year revenue budget will be taken in line with the Section 24 notice.



23. Graph 1 shows the movement in the external borrowing position for 2022/23. It provides the amount of external borrowing on the first day of each month for the April to September period and the value of borrowing at 30 September 2022 (£114m).

Graph 1: External Borrowing 2022/23



24. Table 2 summarises the external borrowing position as at 30 September 2022. It includes the opening position in respect of external loans, loans repaid, new loans and the average interest rate.

Table 2: External Borrowing Summary

	Amount £'000	Average Interest Rate %
External Loans as at 1 April 2022	128,500	0.20
New Loans	108,000	1.07
Loans Repaid	(122,500)	0.34
Total External Loans as at 30 September 2022	114,000	1.21

25. The £114m of external borrowing as at 30 September 2022 is detailed in Table 3. The table shows that we have prioritised the inter-authority lending market, with the short-term loan interest rates ranging from 0.15% to 1.88%.



Table 3: External borrowing as at 30 September 2022

Lender	Date Borrowed	Repayment Date	No of Days	Interest Rate	Amount
West Yorkshire Police Authority	19/01/2022	18/01/2023	364	0.15%	10,000,000
Guildford Borough Council	19/04/2022	31/03/2023	346	1.00%	2,000,000
Wealden District Council	19/04/2022	31/03/2023	346	1.00%	6,000,000
West Midlands Combined Authority	20/04/2022	21/10/2022	184	0.75%	11,000,000
Rushcliffe Borough Council	27/04/2022	25/11/2022	212	0.85%	3,000,000
West of England Combined Authority	16/05/2022	15/05/2023	364	1.00%	3,000,000
Tendring District Council	19/05/2022	20/02/2023	277	0.85%	5,000,000
West of England Combined Authority	19/05/2022	18/05/2023	364	1.00%	5,000,000
London Borough of Newham	20/05/2022	20/10/2022	153	0.95%	8,000,000
Northumberland County Council	24/05/2022	24/10/2022	153	0.98%	5,000,000
Ards and North Down Borough Council	15/07/2022	17/10/2022	94	1.20%	3,000,000
West Yorkshire Combined Authority	19/07/2022	19/04/2023	274	1.25%	2,000,000
London Borough of Hackney	20/07/2022	20/04/2023	274	1.25%	5,000,000
Spelthorne Borough Council	20/07/2022	20/10/2022	92	1.20%	5,000,000
West Yorkshire Combined Authority	20/07/2022	03/04/2023	257	1.25%	10,000,000
Chichester District Council	21/07/2022	21/10/2022	92	1.20%	5,000,000
The Nottinghamshire Office of the Police & Crime Commissioner	18/08/2022	18/04/2023	243	1.70%	8,000,000
Barnsley Metropolitan Borough Council	19/08/2022	20/02/2023	185	1.65%	3,000,000
West Yorkshire Combined Authority	19/09/2022	20/03/2023	182	1.88%	3,000,000
Barnsley Metropolitan Borough Council	20/09/2022	20/03/2023	181	1.67%	5,000,000
Basildon Borough Council	20/09/2022	20/03/2023	181	1.88%	5,000,000
Brentwood Borough Council	30/09/2022	31/03/2023	182	1.88%	2,000,000
				Total	114,000,000



Table 4: Forward deals as at 30 September 2022

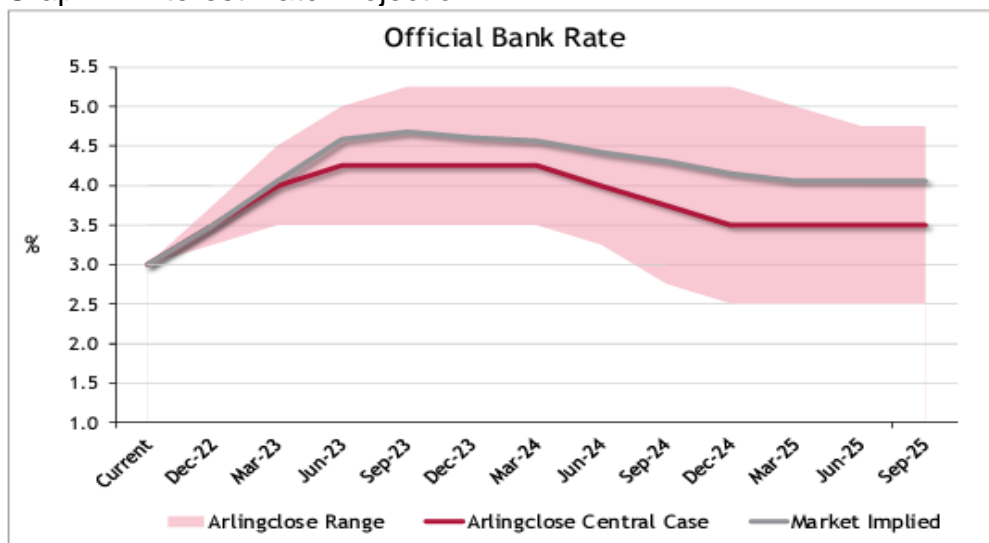
Lender	Date Borrowed	Maturity Date	No. of Days	Interest Rate	Amount £
Warwickshire County Council	20/10/2022	20/02/2023	123	1.9500	5,000,000
Warwickshire County Council	21/10/2022	21/02/2023	123	1.9500	5,000,000
Bolton Metropolitan Borough Council	21/10/2022	21/02/2023	123	1.9800	10,000,000
Crawley Borough Council	25/11/2022	06/03/2023	101	1.2500	5,000,000
Maldon District Council	19/01/2023	19/04/2023	90	1.3300	2,000,000
				Total	27,000,000

26. The above information shows that the current strategy of utilising short-term inter-authority lending for the Council's treasury borrowing requirement means interest rates and interest costs are relatively low to date.
27. The tables also demonstrates that rates have continued to increase in the April to September period and short-term borrowing for a 6 month period can now be sourced in the region of 3.20%. It is anticipated that interest rates will continue to increase, and the assumption is that interest rates for 6 months will be in the region of 4% to 5% by the end of the financial year. The previous advantage of borrowing for short periods to take advantage of the low rates on offer is diminishing and will need to be monitored closely given current and anticipated future rate increases and the risk this creates at the point of re-financing.

Interest Rates

28. The November 2022 economic and interest forecast data provided by the Council's treasury advisors anticipates that interest rates are likely to rise further during 2022/23 to reach 4% by the end of the year.
29. The graph below details the Arlingclose interest rate projection for the period to September 2025.

Graph 2: Interest Rate Projection





30. It is expected that the Bank Rate will continue to be high in 2023 and 2024 in order to dampen aggregate demand and reduce the risk of sustained higher inflation. This action by the Monetary Policy Committee will slow the economy, necessitating cuts in the Bank Rate later in 2024.
31. Further commentary from Arlingclose in respect of the economy and financial markets is provided in appendix B.

Treasury Investment Activity

32. The Council holds significant invested funds, representing income received in advance of expenditure plus cash balances and reserves held. In the first six months of the financial year, the Council's investment balance has ranged between £25.74 million and £40.05 million.

Table 4: Breakdown of Investments as at 30 September 2022

	Date Invested	Maturity Date	Interest Rate %	Nominal Amount £
Treasury Bills				
UK Government T-Bill 0%	30/09/22	10/10/22	2.10	1,000,000
UK Government T-Bill 0%	30/09/22	17/10/22	2.10	2,000,000
Money Market Funds				
Invesco Aim	Various	Not fixed	1.30	740,000
Property & Pooled Funds				
Schroders Income Maximiser (UK Equity)	Various	Not fixed	4.15	6,250,000
CCLA Property Fund	Various	Not fixed	2.48	6,000,000
Fidelity Global enhanced income (Global Equity)	Various	Not fixed	3.86	250,000
Ninety One Diversified Income	Various	Not fixed	3.99	5,000,000
Columbia Threadneedle Strategic Bond	Various	Not fixed	2.99	5,000,000
Royal London Enhanced Cash Plus Fund	Various	Not fixed	1.07	1,000,000
			Total	27,240,000

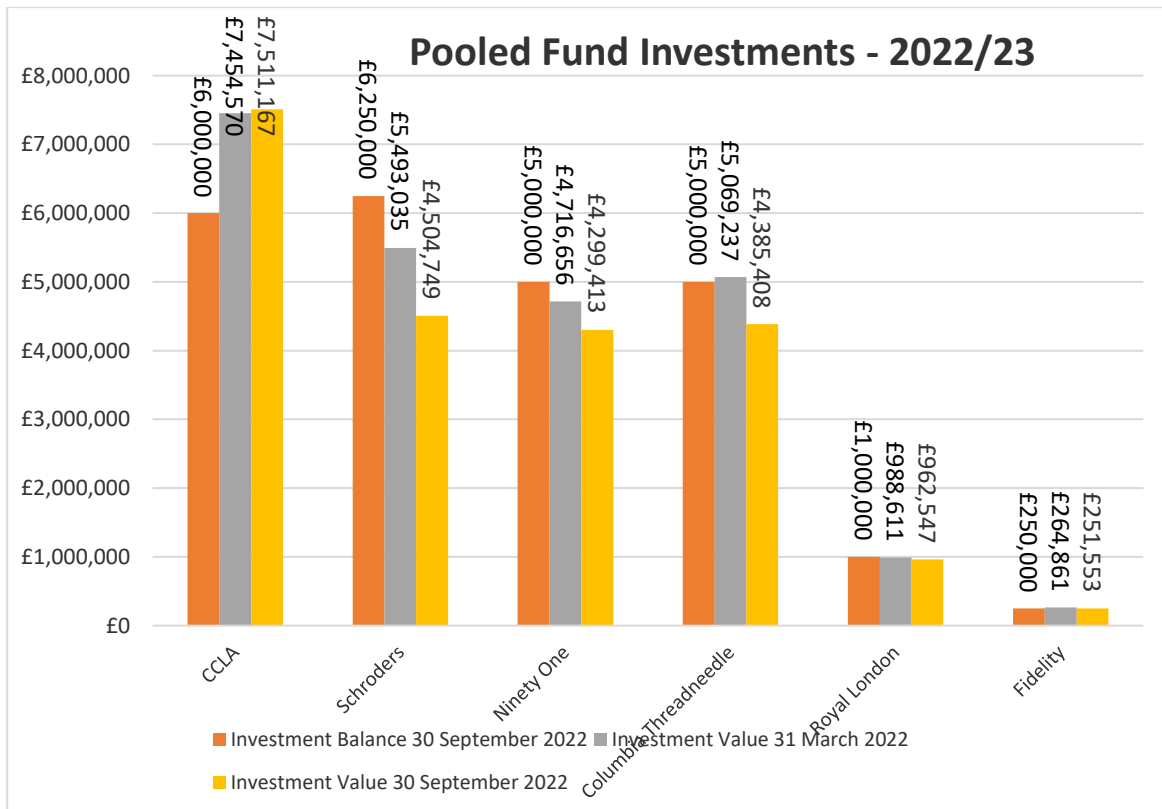
33. The Council has maintained its strategic fund investments in Property & Pooled Funds at £23.5m and it is estimated that the level of strategic investments as at 31 March 2023 will remain in the region of £23.5m.



Pooled Fund Investment - Values

- 34. The Council's pooled fund investments are held in externally managed funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. This fits with the objectives of the Council's overall Financial Strategy.
- 35. The Council has investments in bond, equity, multi-asset and property funds. The April to September period was a very difficult environment for bonds engendered by global central banks' determination to bring high and persistent inflation under control through increases in policy rates. The sell-off in gilts, other sovereign bonds and corporate bonds with a rise in gilt/bond yields (i.e. a fall in price) was reflected in the Authority's bond and multi-asset income funds. The fall in equity valuations is reflected in the equity and multi-asset income funds.
- 36. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's medium to long term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.
- 37. The investment balance as at 30 September 2022 and the value of each investment as at 1 April and 30 September are detailed in the following chart.

Graph 3: Pooled Fund Investments 2022/23



Note: Pooled fund investments are revalued to reflect the fair value of the investment, the second and third bars in the graph signifies this value at 31 March 2022 and 30 September 2022. The first bar represents the nominal investment balance in each fund at 30 September 2022.

38. Table 5 below includes the opening and closing investment balances for each pooled fund investment. The investment fair value signifies the individual value of the investments after the year-end and mid-year valuation. The table shows that the 'fair value' of the portfolio has decreased by £2.072m, which is a decrease of 8.64% between 1 April and 30 September, reflecting volatility in market value. The strategy works on the basis that investment values will go up and down, but annual income return remains positive, and the Council would not plan to redeem the investment when its value is below the nominal balance unless this would be a prudent course of action.

Table 5: Pooled Fund Investments as at 30 September 2022

Investment	Investment Balance 30/09/2022 £	Investment Value 01/04/2022 £	Investment Fair Value 30/09/2022 £
CCLA	6,000,000	7,454,570	7,511,167
Schroders	6,250,000	5,493,035	4,504,749
Ninety One	5,000,000	4,716,656	4,299,413
Columbia Threadneedle	5,000,000	5,069,237	4,385,408
Royal London	1,000,000	988,611	962,547
Fidelity	250,000	264,861	251,553
Total	23,500,000	23,986,970	21,914,837

Pooled Fund Investment – Income Return

39. The income generated from pooled fund investments for the first six months of 2022/23 and the rate of return is detailed in the following Graph 4 and Table 6. This demonstrates that the investment in the Schroder Income Maximiser, Ninety One and Columbia Threadneedle have performed well in terms of income and rate of return on investment.
40. Overall, the return on pooled funds has positively averaged 5% during the first six months of the financial year.



Graph 4: Interest Received and Rate of Return 1 April to 30 September

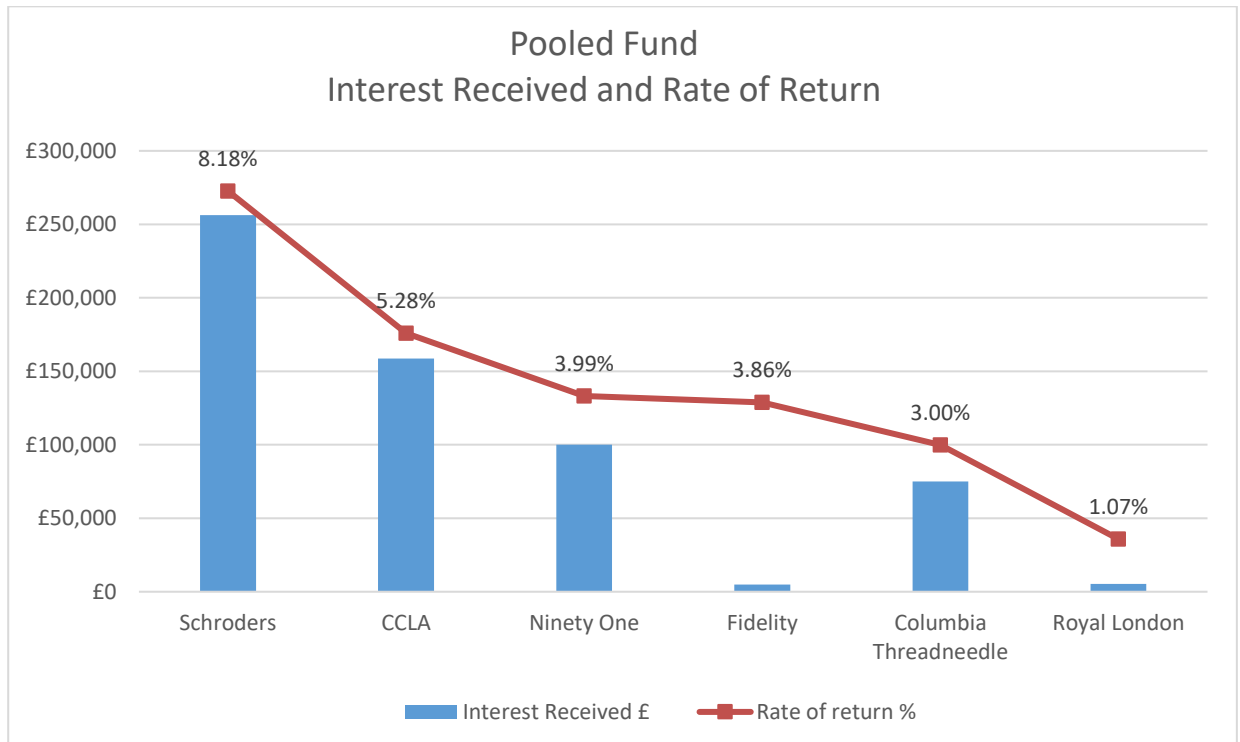


Table 6: Pooled Fund Investment Interest at 30 September 2022

Fund	Interest Received £	Rate of return %
Schroders	£256,329	8.18%
CCLA	£158,739	5.28%
Ninety One	£100,130	3.99%
Fidelity	£4,842	3.86%
Columbia Threadneedle	£75,121	3.00%
Royal London	£5,388	1.07%
Total	£600,548	5.11%

Non-Treasury Investments

41. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.



42. In addition to its treasury investments, the Council also holds £43.58m in other investments in the form of loans to third parties. The loans values are detailed below (as at 30 September 2022):
- Loan to Community Organisation - £0.13m
 - Loan to Trading Company - £0.05m
 - Loan to Local Authority Partnership - £3.43m
 - Loan for Commercial Activities - £39.97m
43. The detail of the Council's total investment in commercial investment property is reported separately. As part of its Commercial Strategy, investment in property has increased significantly in the past three years. The value of investment properties held on the balance sheet as at 31 March 2022 (including some properties held for a substantial period of time) was £89.97m. This is unchanged as at 30 September 2022 due to the Council decision to cease making acquisitions of this nature in order to comply with the revised Prudential Code.

Financial Implications

44. There are no additional financial implications in reviewing the attached treasury management strategy.

**Background
Papers:**

Treasury Management Strategy 2022/23 (Full Council February 2022)
