

7 December 2022

**Report of**


**Head of Finance**

**Author**

**Paul Cook**

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**Title**

**Treasury Management – Mid-Year Review 2022/23**

**Wards**

Not applicable

**affected**

## 1 Executive Summary

- 1.1 This report is part of the cycle of monitoring treasury management and covers all the borrowing and investment activities of the Council.
- 1.2 Where internal funds were available, treasury strategy during 2022/23 is to borrow internally. This is influenced by the investment rates on offer during the first part of 2022/23 and high PWLB borrowing rates after September 2022.
- 1.3 The investment policy reflects the Council's low appetite for risk. The Council's investments 30 September 2022 totalled £89.800m as set out in Appendix A.
- 1.4 The Council employs Link Group to provide a treasury management consultancy service including advice on borrowing, investments, counterparty credit details and general capital accounting information. The service includes treasury training, market updates and real time credit information. Link also advise on proposed government accounting and funding changes. Member training by Link has been arranged for 30 January 2023.

## 2 Recommendations

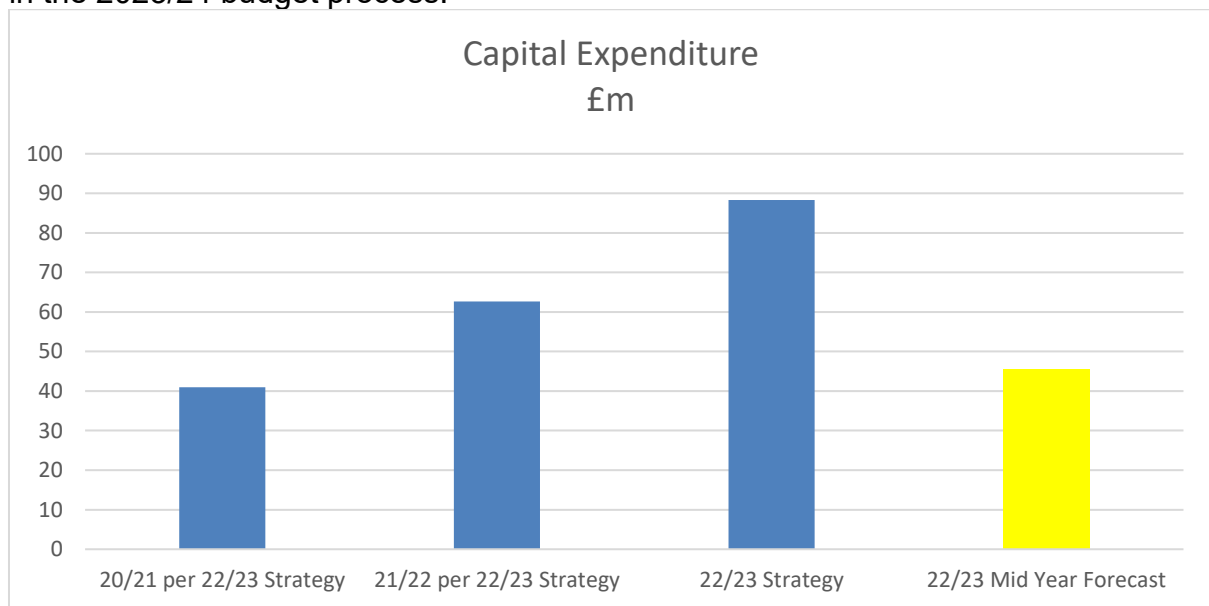
- 2.1 To approve the Treasury Management Mid-Year Review for 2022/23.

## 3 Reason for report

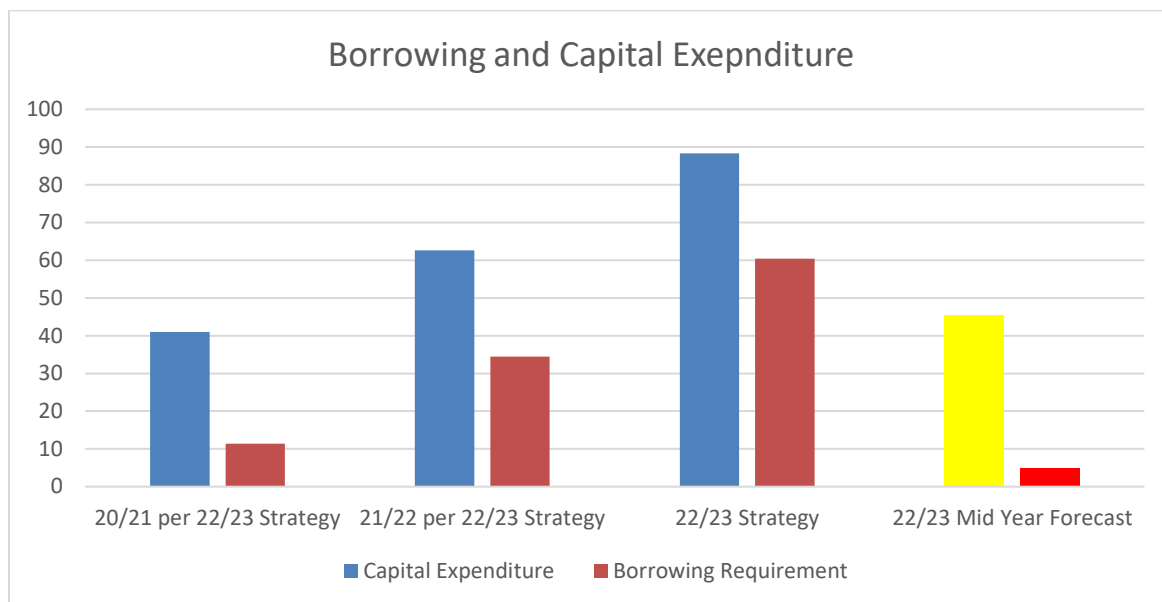
- 3.1 The CIPFA Treasury Management Code of Practice requires the Council to produce three main reports each year, of which this is the second report for 2022/23.
  - the Treasury Management Strategy Statement
  - the Mid-Year Treasury Management Report (this report)
  - the Annual Treasury Management Review

## 4 Treasury Management Mid-Year Review 2022/23

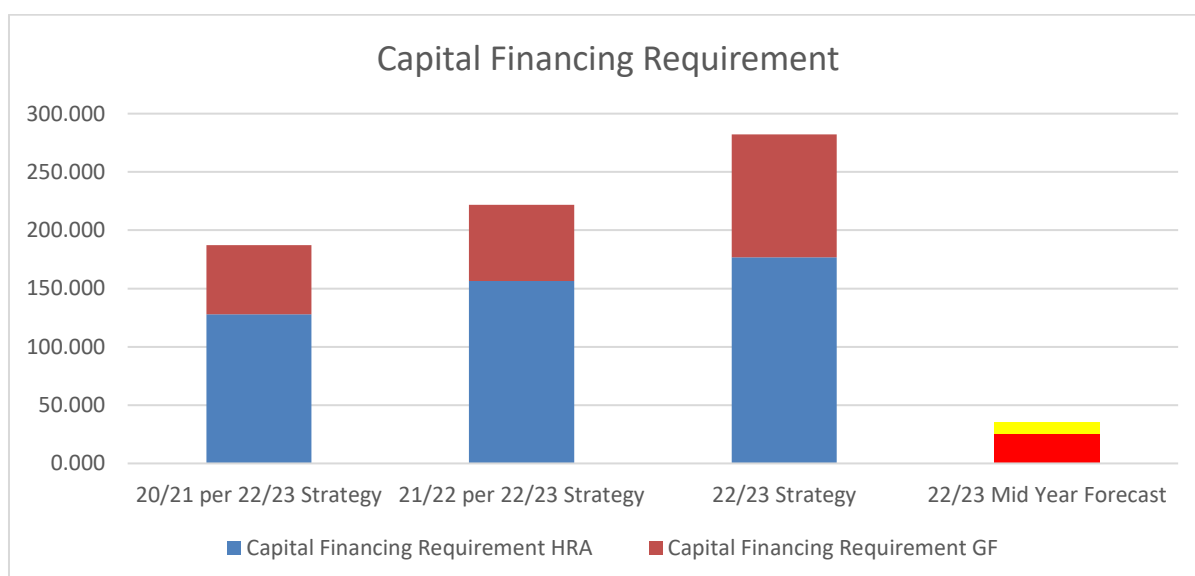
- 4.1 The Council uses Link as its external treasury management advisors.
- 4.2 Responsibility for treasury management decisions remains with the Council and undue reliance was not placed upon external advisors. Decisions used available information including external advice.
- 4.3 The Council's capital expenditure plans are the key driver of treasury.
- 4.4 The Capital Expenditure Prudential Indicator compares 22/23 forecast capital expenditure to the Council's capital expenditure plans set out in its 22/23 Treasury Management Strategy. The lower level of expenditure reflects the impact of Covid and delays to some large projects. This was set out more fully in the 22/23 capital monitoring report to the Committee 18 October 2022. Future years' capital plans will be determined in the 2023/24 budget process.



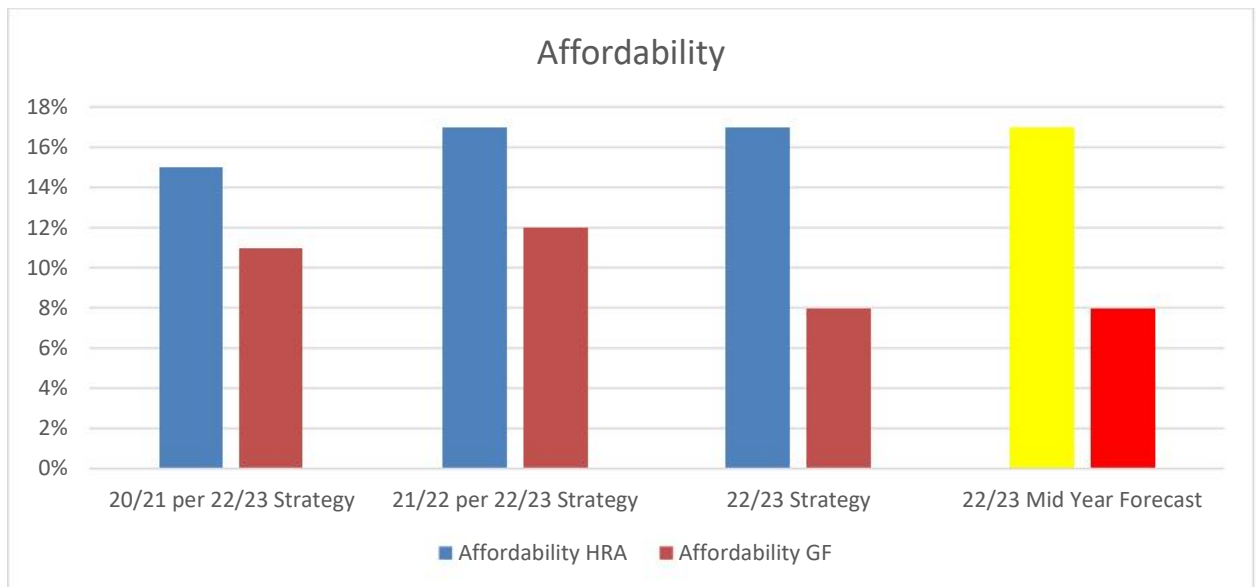
- 4.5 The chart below shows planned and actual changes in the Council's borrowing requirement to fund capital expenditure. Again, the lower than planned level reflects delays in the capital programme.



- 4.6 Capital Financing Requirement projections are set out below, with a breakdown of the annual movement. Again, the lower than planned level reflects delays in the capital programme.



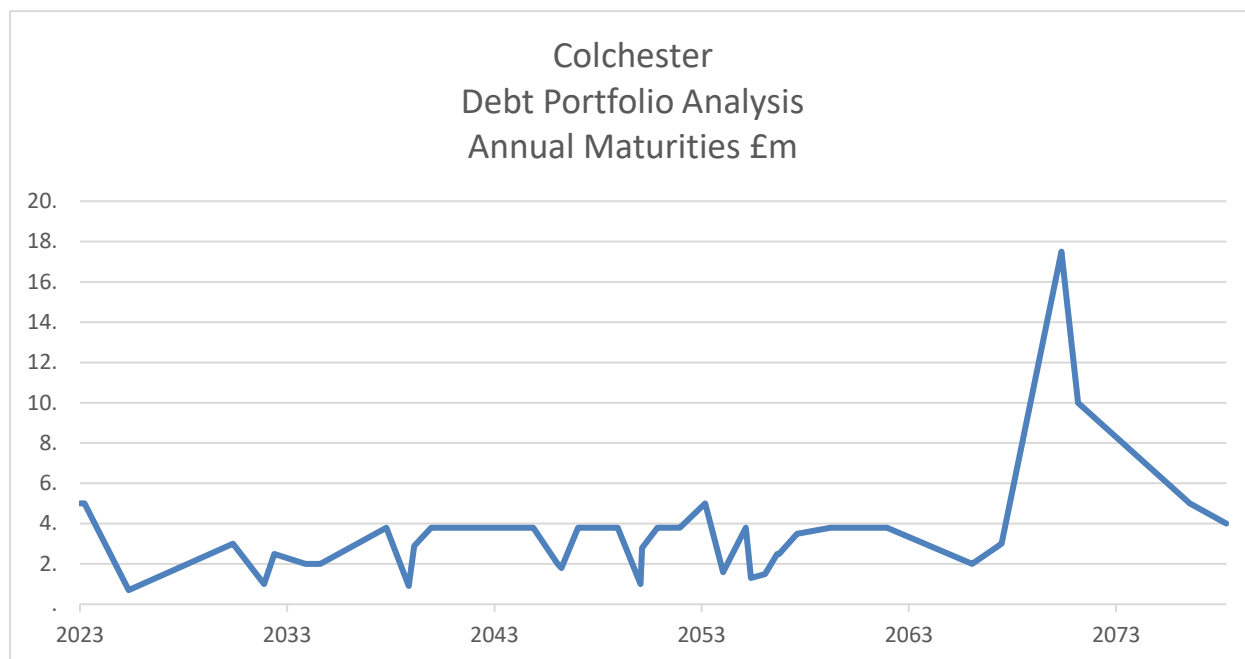
- 4.7 Due to low spending on the capital programme the affordability indicator (the cost of borrowing as a percentage of the Council's net revenue stream) is substantially below the strategy level. This indicator will need to be rebased in setting the 2023/24 Capital Programme.



- 4.8 The tables below set out 2022/23 performance on other Treasury Management Strategy Prudential Indicators. It is not now expected new borrowing will be required in 2022/23 as maturing loans will be replaced by reduced external investments. The maturity profile as at 30 September 2022 is shown in the table.

	22/23 Strategy	22/23 Mid-Year
Creditworthiness	Link System	All investments within policy
Country limits	AA-	All investments within policy
Non-UK not to exceed	£15m	All investments within policy
Return on in-house funds	0.5%	Full year forecast 1.9%
Authorised Borrowing Limit	£295.6m	
Operational Boundary	£28.6m	
Total Borrowings		£166.594m
Maturity Structure		
< 1 year	15%	12%
1 to 2	15%	0%
2 to 5	15%	0.4%
5 to 10	15%	1.8%
10 to 20	40%	13.6%
20 to 30	40%	22.8%
30 to 40	40%	22.1%
40 to 50	40%	21.8%
More than 50yrs	10%	5.4%

- 4.9 For full PWLB borrowing details for Colchester see **residual maturities** under [Historical Data \(dmo.gov.uk\)](https://data.dmo.gov.uk)



## **5 Strategic Plan references**

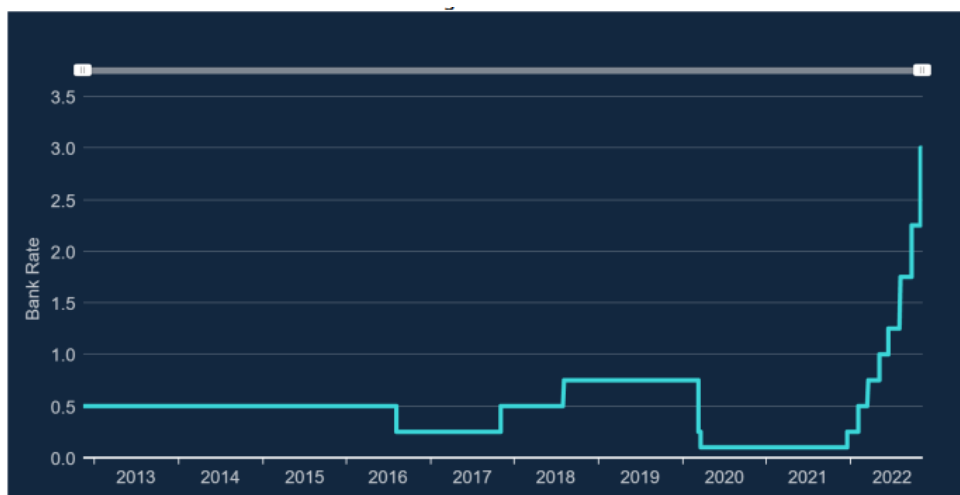
- 5.1 Prudent treasury management underpins the budget strategy required to deliver all Strategic Plan priorities.

## **6 Publicity considerations**

- 6.1 Investments reported in treasury monitoring are now on the open agenda after clarification by the Monitoring Officer following FOI requests. Please see Appendix A.

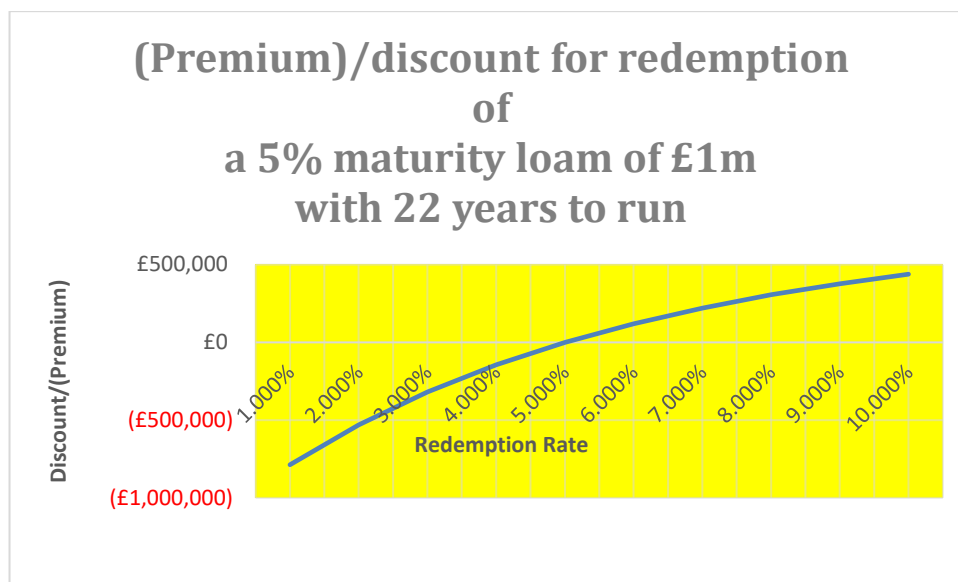
## **7 Financial implications**

- 7.1 Interest paid and earned on borrowing and investments is accounted for in the Central Loans and Investment Account (CLIA). Forecast outturn figures for 2022/23 show a favourable variance of £400k, due primarily to underspending on the capital programme and higher available investment rates.
- 7.2 Bank rate has increased since March 2022 (see the below table). Most recently the rate was raised to 3% on 2 November 2022. Higher short-term rates have improved forecast interest earnings on council investments.
- 7.3 The Council's Treasury Management Strategy is not to borrow in advance of need. The Council's long-term borrowing to finance capital expenditure is predominantly held in fixed rate, long term Public Works Loan Board loans. Changes in gilt yields experienced over recent weeks will not therefore impact on the Council's borrowing costs in 2022/23. The Council does not borrow abroad, and recent currency market movements similarly will not affect borrowing costs directly.
- 7.4 Public Works Loan Board rates still represent good value in long maturities. It is not expected significant PWLB borrowing will be required until 2023 or 2024.
- 7.5 Borrowing requirements will be reviewed in resetting the capital programme for 2023/24 onwards. The 2023/24 Treasury Management Strategy will be reviewed by 24 January 2023 Scrutiny Panel as part of budget setting.



## 8 Premature redemption of loans, and LOBOs

- 8.1 PWLB will normally accept premature redemption of any loan over a year into its life and having at least a year left to run.
- 8.2 The redemption value is a present value calculation. The discount rate is published in regular interest rate notices. **Premature repayment rates are different from new loan rates and not as advantageous.** So, for example 2 November 2022 a new 25-year maturity loan was offered at 4.73%. The premature redemption rate for a 25-year maturity loan was 3.60%. Therefore, to redeem an existing 4.73% 25-year loan would result in a premium on redemption being payable.
- 8.3 PWLB lending arrangements allow for replacement loans for premature redemptions.
- 8.4 Premature redemption decisions are always subject to the normal overriding requirements to act prudently.
- 8.5 Premature redemption is likely to be of advantage for treasury management where the PWLB rates offered in different durations show a steep gradient in either direction. If for example the longest maturities have high premature redemption rates, but medium-term rates are lower than the long premature redemption rates, it may be possible to replace some long maturity loans with cheaper medium-term loans. These conditions do not currently apply as the maturity v interest rate gradient is virtually flat.
- 8.6 The accounting treatment for loans prematurely repaid after April 2007 is set out in SI 2007 573. [The Local Authorities \(Capital Finance and Accounting\) \(Amendment\) \(England\) Regulations 2007 \(legislation.gov.uk\)](https://www.legislation.gov.uk/si/2007/573)
- 8.7 Essentially any premium must be spread in the accounts until what would have been the end of the replaced loan or over the life of the replacement loan whichever is longer. Any discount must be spread in the accounts until the end of the replaced loan or over 10 years whichever is shorter.
- 8.8 The Chart shows how a premium or discount arises depending on how current redemption rates compare to the original rate of the loan advance. In the event of a discount these funds would be available for temporary investment to avoid additional borrowing.



- 8.9 There is a significant maturity peak for Colchester in the 2070's (see section 4 of this report) and this will need addressing in future debt restructuring. This is not an urgent issue but will be reflected in the 2023-24 Treasury Management Strategy
- 8.10 LOBO is an acronym for Lender's Option Borrower's Option. The Council has 3 LOBOs totalling £5.5m. These were taken out some years ago and expire in the period 2046 to 2066; the rates are in the range 3.53% to 3.79%. The LOBOs have been rolled over at annual reviews by the lenders since inception. Because of recent interest rate changes, the lenders will now be out of the money on the swaps understood to underly these loans. It is therefore a possibility the lenders will request repayment at the January 2023 roll overs. If so, 7 days' notice will be given. In the event repayment was required the Council would address whether refunding was required. The PWLB rates offered for similar maturities are currently not greatly different from the LOBO rates.

## 9 Revised Prudential Code

- 9.1 In 2023/24 additional or enhanced requirements will come into force under *The Prudential Code for Capital Finance in Local Authorities 2021 Edition*. These requirements are not relevant to 2022/23 monitoring but will be set out in the 2023/24 Treasury Management Strategy. The requirements are summarised below with comments.
- 9.2 Investments for commercial purposes' (or commercial investments) are defined in the Code as taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services. Colchester Council does not currently hold such investments and does not plan to do so.
- 9.3 It is not expected that any of the new requirements will be problematic for Colchester to fulfil.
- 9.4 The Council has made or plans to make investments for service purposes in Colchester Amphora Energy Limited and in Colchester Amphora Housing Ltd.

Code	Requirement	Comment
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20	In order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The capital strategy should form a part of the authority's integrated revenue, capital and Balance Sheet planning.	These requirements will be addressed in the resetting the 2023/24 capital programme and the 2023/24 Treasury Management Strategy.
22	The capital strategy should give a high-level overview of how capital expenditure, capital financing, investments and treasury management activity contribute to the delivery of the authority's plans and provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.	These requirements will be addressed in the resetting the 2023/24 capital programme and the 2023/24 Treasury Management Strategy.
23	The capital strategy should be tailored to the authority's individual circumstances but should include capital expenditure, investments and liabilities and treasury management. The capital strategy should include sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability, proportionality and affordability will be secured and to meet legislative requirements on reporting.	These requirements will be addressed in the resetting the 2023/24 capital programme and the 2023/24 Treasury Management Strategy.
24	<p>In considering how stewardship, value for money, prudence, sustainability, proportionality and affordability can be demonstrated, capital strategies should have regard to the following key areas, where material.</p> <p>Capital expenditure</p> <ul style="list-style-type: none"> <li>• An overview of the governance process for approval and monitoring of capital expenditure, including how capital expenditure is prioritised in relation to the strategic priorities and policies of the authority, such as affordable housing, regeneration and environmental sustainability.</li> </ul>	These requirements will be addressed in the resetting the 2023/24 capital programme and the 2023/24 Treasury Management Strategy.



- A long-term view of capital expenditure plans, where 'long-term' is defined by the financing strategy and risks faced by the authority with reference to the life of projects and assets.

- An overview of asset management planning including the cost of past borrowing, maintenance requirements and planned disposals.

- Any restrictions around borrowing or funding of ongoing capital finance, for example requirements around the HRA or police funds.

#### Debt, borrowing, investments and treasury management

- A long-term projection of external debt (ie gross borrowing plus other long-term liabilities).

- Provision for the repayment of debt over the long term, having regard to statutory guidance on MRP or the repayment of loans fund advances.

- Authorised limit and operational boundary for the following year (see below).

- The authority's approach to treasury management, including processes, due diligence and defining the authority's risk appetite.

- Authorities with restricted or no access to the Public Works Loan Board (PWLB) should note the liquidity risks this may create and where they would access borrowing from, if required.

- A projection of investments (where material) analysed between investments for

	<p>treasury management purposes, service purposes and commercial purposes (including commercial property).</p> <ul style="list-style-type: none"> <li>• A statement of whether the authority has complied with paragraphs 51 to 53 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest for the primary purpose of financial return.</li> </ul> <p>Investments for service or commercial purposes</p> <p>Authorities may report the following matters in their investment strategy, or in a separate investment strategy for service and commercial investments, rather than in the capital strategy:</p> <ul style="list-style-type: none"> <li>• The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence.</li> <li>• An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (ie whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).</li> <li>• Details of financial and other risks of undertaking investments for service or commercial purposes, and how these are managed.</li> </ul>	
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	<ul style="list-style-type: none"> <li>• Limits on total investments for service purposes and for commercial purposes, respectively (consistent with any limits required by other statutory guidance on investments).</li> <li>• Requirements for independent and expert advice and scrutiny arrangements. While business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy.</li> </ul> <p>For the avoidance of doubt, references in this capital strategy section and throughout the Prudential Code to investments and investments for treasury management, service or commercial purposes, include all such investments as defined in the definitions section below. This includes investments whose purchase is not treated as capital expenditure, as well as those that are treated as capital.</p> <p>Other long-term liabilities</p> <ul style="list-style-type: none"> <li>• An overview of the governance process for approval and monitoring and ongoing risk management of any other financial guarantees and other long-term liabilities.</li> </ul> <p>Knowledge and skills</p> <ul style="list-style-type: none"> <li>• A summary of the knowledge and skills available to the authority and confirmation that these are commensurate with the authority's risk appetite and activities</li> </ul>	
81	Estimates of net income from commercial and service investments to net revenue stream	
85	Actual net income from commercial and service investments to net revenue stream	
43	The chief finance officer is required to establish procedures to monitor and report performance against all forward-looking indicators at least quarterly. The chief finance officer will need to	This will necessitate four quarterly monitoring reports to Governance and Audit on the same cycle as revenue and capital monitoring.

	establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. Monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to full council and should be reported as part of the authority's integrated revenue, capital and Balance Sheet monitoring	The quarterly reports will be tied into monitoring of capital programme and the resultant treasury choices will be set out.
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## **10 Risk management implications**

**10.1** Risk Management is essential to effective treasury management. The Council's Treasury Management Policy Statement contains a section on treasury risk management.

## **11 Other standard references**

**11.1** Having considered consultation, equality, diversity and human rights, community safety, and health and safety implications, there are none that are significant to the matters in this report.

## **Appendices**

Appendix A – Investments held as at 30<sup>th</sup> September 2022

## **Background Papers**

Treasury Management Strategy 2022/23

## Appendix A

Fixed Term Investments	Principal	From	To	Rate	Interest @ Maturity	Creditworthiness Colour Cod	Geographic Location
DBS	4,000,000.00	12/01/2022	24/10/2022	0.65	20,301.37	Orange	Australia
Thurrock Borough Council	2,500,000.00	08/04/2022	10/10/2022	1.00	12,671.23	n/a	UK
ANZ	2,500,000.00	06/04/2022	06/10/2022	1.42	17,798.63	Orange	Australia
Heleba	2,500,000.00	06/04/2022	06/10/2022	1.29	16,169.18	Red	UK
Coventry Building Society	2,500,000.00	13/04/2022	13/10/2022	1.01	12,659.59	Red	UK
First Abu Dhabi	2,500,000.00	13/04/2022	13/10/2022	1.45	18,174.66	Orange	UAB
ANZ	2,500,000.00	10/05/2022	10/11/2022	1.64	20,668.49	Orange	Australia
First Abu Dhabi	2,500,000.00	10/05/2022	10/11/2022	1.60	20,164.38	Orange	UAB
Lancashire	5,000,000.00	16/06/2022	16/03/2023	1.25	46,746.58	n/a	UK
Heleba	5,000,000.00	04/07/2022	19/12/2022	2.05	47,178.08	Red	UK
Bayerische Landesbank London (Link)	2,500,000.00	04/07/2022	04/10/2022	1.55	9,767.12	Red	UK
Standard Chartered Bank (Link)	2,500,000.00	04/07/2022	04/10/2022	1.57	9,893.15	Red	UK
Standard Chartered Bank (Link)	2,500,000.00	13/07/2022	13/01/2023	2.15	27,095.89	Red	UK
ANZ	2,500,000.00	28/07/2022	28/10/2022	1.89	11,909.59	Orange	Australia
DBS	2,500,000.00	28/07/2022	28/10/2022	1.90	11,972.60	Orange	Singapore
Thurrock Borough Council	1,500,000.00	16/08/2022	16/02/2023	2.2	16,635.62	n/a	UK
Bayerische Landesbank London (Link)	2,500,000.00	09/08/2022	09/02/2023	2.36	29,742.47	Red	UK
Nationwide	5,000,000.00	12/08/2022	14/11/2022	1.84	23,693.15	Red	UK
Qatar (Link)	5,000,000.00	12/08/2022	14/11/2022	2.27	29,230.14	Red	UK
Suffolk County Council	5,000,000.00	05/09/2022	05/01/2023	2.31	38,605.48	n/a	n/a
Goldman Sachs	5,000,000.00	30/09/2022	31/01/2023	3.32	55,939.73	Red	UK
	68,000,000.00				497,017.13		
MMF's							
LGIM	10,000,000.00						
BNP Paribas	0.00						
Federated Prime	10,000,000.00						
Aberdeen	500,000.00						
	20,500,000.00						
Non- Treasury Investments Held as at 30th September 2022							
Colchester Amphora Energy Ltd	1,300,000.00	Various	Unknown	BOE+4%			
	1,300,000.00						
Total	89,800,000.00						