

## **REPORT OF THE CORPORATE COMMITTEE No. 1, 2022-23**

### **FULL COUNCIL 13 February 2023**

Chair: Councillor Diakides

Vice-chair: Councillor Dogan

#### **1. INTRODUCTION**

This report to Full Council arises from a report presented at Corporate Committee on 15 November 2022.

The report pertained to the treasury's activities that were undertaken in line with the Treasury Management Strategy that was approved by Full Council on 1 March 2022. The report provided an update to the Corporate Committee on the Council's treasury management activities and performance for the first half of the financial year to 30 September 2022, in accordance with the CIPFA Treasury Management Code of Practice.

#### **2. TREASURY MANAGEMENT UPDATE MID-YEAR REPORT 2022/23**

We considered the report which was set out by the Head of Pensions & Treasury who provided an update on the Council's treasury management activities and performance in the first half of the financial year to 30 September 2022.

We noted that the cost of borrowing had risen primarily driven by high levels of inflation; the Bank of England increasing interest rates; and political uncertainty over September and October. We discussed the impact of rising interest rates on the Council's capital programme which will involve borrowing significant amounts in the future. It was noted that the cost of borrowing assumptions would be reviewed as part of the Council's Medium Term Financial Strategy (MTFS) planning work. It was also noted that in April of this year, the interest rate payable on a 30 year loan from the Public Works Loan Board (PWLB) loan increased from 2.6% to 4.6% by the end of September 2022. Additionally, it was noted that the rising interest rates would only affect any new loans that the council took out in the future. It would not have an impact on the existing loan portfolio due to the interest on current borrowing being set at a fixed rate. Current borrowing costs were forecasted to be within the budget set out in the Treasury Management Strategy for the financial year.

In response to a question around how borrowing decisions were made, we noted that these were made in line with the Treasury Management Strategy which was agreed by the Corporate Committee and approved by Full Council on an annual basis. Borrowing decision were taken within this framework and were based on ongoing contextual economic advice received from the Council's treasury advisors. For example, in keeping with the council's Treasury Management Strategy, £70m of new long-term borrowing was undertaken during the period. The average interest rate for this borrowing was approximately 2.75%, meaning the Council was able to achieve some cost certainty in anticipation of the higher expected increases to the cost of borrowing during the financial year. We commended this proactive action as it ensured that the Council was able to minimise its borrowing costs through taking out, loans at relatively lower interest rates.

It was also asked why the Council was holding a higher cash balance than previously assumed. We understand that the Council is doing this due to changes in the economic environment. The interest earned on the Council's cash deposits has also increased in line with the rising interest rates. In prior years, the Council's treasury investment strategy was to hold low cash balances as interest rates were close to 0%. This action, which is in line with the agreed Treasury Management Strategy, meant that the Council was able to keep its net borrowing costs to a minimum.

It was also queried what the impact of a potential recession would have on treasury management. It was noted that the Council's treasury advisors were forecasting that a recession would likely lead to the Bank of England having to lower interest rates sooner than previously anticipated. The Council's treasury management activities would be undertaken with this context in mind.

It was also noted that all the Council's Treasury Management activities during the first half of the financial year had been undertaken in accordance with the approved Treasury Management Strategy, including the approved Treasury Management Indicators which the Council complied with over the reporting period.

### **3. RECOMMENDATIONS**

Full Council is recommended:

- a. To note the Treasury Management activity undertaken during the first half of the financial year to 30 September 2022 and the performance achieved which is attached as Appendix 1 to this report; and
- b. To note that all treasury activities were undertaken in line with the approved Treasury Management Strategy.