

Appendix A - Treasury Management Mid-Year Review

TREASURY MANAGEMENT

Introduction

The council reported on its 21/22 outturn position to Policy and Resources committee on 19 July 22. A new Treasury Management Strategy Statement covering 22/23 was also agreed by Council on 01 March 22. This update reports on the Treasury position on 31 August 22, at which point the council remained in compliance with its agreed TMSS.

Investment Performance

- 4.1 Investment deposits are managed internally. As at 31st August 2022, deposits outstanding were £179.4 million, achieving an average annual rate of return of 1.63% (range from 0.7% to 2.95%) against a benchmark average Daily Sterling overnight index average (SONIA) of 1.69%. This benchmark is based on actual transactions and is the rate that banks pay to borrow overnight from other banks. The list of deposits outstanding is detailed in the table below. The balance excludes loans to Saracens and to Open Door Homes.

Table 1: Investments Outstanding as at 31 August 2022

| Counterparty | Principal (£'000) | Interest Rate (%) | Start Date | Maturity Date | Lowest long term rating | Historic risk of Default (%) |
|---|-------------------|-------------------|------------|---------------|-------------------------|------------------------------|
| Money Market Fund | | | | | | |
| Federated | 25,000 | 1.74 | | | AAA | 0.04 |
| Aviva | 25,000 | 1.68 | | | AAA | 0.04 |
| Goldman Sachs | 15,100 | 1.67 | | | AAA | 0.04 |
| Invesco | 25,000 | 1.72 | | | AAA | 0.04 |
| Total Money Market | 90,100 | | | | | |
| Housing Associations (High credit quality) | | | | | | |
| Southern Housing Group Ltd. | 5,000 | 0.70 | 04-May-21 | 04-May-23 | A- | 0.05 |
| Metropolitan Housing Trust Ltd. | 10,000 | 0.90 | 10-Mar-22 | 09-Mar-23 | A- | 0.05 |
| Places for People Treasury PLC. | 10,000 | 1.00 | 15-Mar-21 | 15-Mar-23 | A- | 0.05 |
| Total Housing Associations | 25,000 | | | | | |

| Counterparty | Principal (£'000) | Interest Rate (%) | Start Date | Maturity Date | Lowest long term rating | Historic risk of Default (%) |
|----------------------------------|-------------------|-------------------|------------|---------------|-------------------------|------------------------------|
| Banks | | | | | | |
| Goldman Sachs International Bank | 5,000 | 1.51 | 07-Feb-22 | 06-Feb-23 | A+ | 0.05 |
| ANZ Banking Group | 6,200 | 1.85 | 08-Apr-22 | 06-Apr-23 | A+ | 0.05 |
| ANZ Banking Group | 3,100 | 1.91 | 13-Apr-22 | 13-Apr-23 | A+ | 0.05 |
| Goldman Sachs International Bank | 10,000 | 1.51 | 19-Apr-22 | 19-Oct-22 | A+ | 0.05 |
| Landesbank Baden Wurttemberg | 25,000 | 1.54 | 21-Apr-22 | 21-Oct-22 | A | 0.05 |
| Close Brothers Helaba | 5,000 | 2.95 | 29-Jul-22 | 28-Jul-23 | A | 0.05 |
| Landesbank Hessen-Thuringen | 10,000 | 2.25 | 15-Aug-22 | 15-Dec-22 | A- | 0.05 |
| Total Banks | 64,300 | | | | | |
| Total Investments | 179,400 | 1.63 | | | | 0.04 |

NB: All the above counterparties have a limit of £25 million. No limits are exceeded.

Through rapid increases in interest rates, the council has changed its mix of short-term investments to improve returns without the risk of investing over longer tenors. Short term investments are benefitting from the uplift to the Bank of England base rates by the Monetary Policy Committee (MPC). These rates are currently at 1.75% and are expected to continue to rise further when the MPC next sits in September and at subsequent meetings.

Borrowing

- 4.2 The council has operated within the Prudential Indicators with an emphasis on high quality relatively liquid investments to ensure that cash is available to meet expenditure requirements. The Local Government Act 2003 requires the council to set maximum limits on its total outstanding debt. During the period to 31 August 2022, there were no breaches of the Authorised Limit (maximum permitted debt) and the Operational Boundary (the value of debt considered affordable). The council's timeframes and credit criteria for placing cash deposits and the parameters for undertaking any further borrowing are set out in the Treasury Management Strategy (TMS). The TMS requires regular compliance reporting to include an analysis of deposits made during the period. This also reflects good practice and will serve to

reassure that all current deposits for investment are in line with agreed principles as contained within the TMS.

- 4.3 The council has undertaken £50m of new Public Works Loans Board (PWLB) borrowing in 22-23 and is currently assessing options to fix a further ca. £150m of borrowing needed to fund its capital programme between 22/23 and 24/25. In assessing the interest rates available from the PWLB at the time of borrowing, alongside considerations to the council's debt maturity profile, it was agreed to borrow in three tranches: two maturity loans of £16m with durations of 6 and 8 years and an annuity loan of £18m with a 15-year maturity.

Having considered measures to forward borrow to achieve better value than forecasted rates at the PWLB, analysis showed that while there could have been short term savings, there is an overall cost to the Council of pursuing this option in the long term. In the current raising rate environment, there are long-term borrowing rates that are below short-term deposit returns. This reduces the risk of cost of carry if borrowing slightly ahead of need to fund future years' capital expenditure.

At the close of Month 8, the council had long-term borrowing totalling £571.58m from the Public Works Loans Board (PWLB) and older Lender Option Borrower Option (LOBO) loans totalling £62.5m. The council's LOBO loans next come under option in 2024, however given current long-term interest rates are lower than the rates being charged on these historical loans, lenders are unlikely to trigger their options to change the interest rates as this would give Barnet the opportunity to terminate the loans and seek to refinance at lower rates.

Prudential Indicators

- 4.5 As stated, the total loans outstanding has increased in the five months by £50m to £639.093m (31 March 2022: £589.093m). The authorised debt limits (absolute maximum permitted) is £1,058.301m and the Operational Boundary (maximum consistent with long term affordability) is £959.047m. These limits were created from borrowing requirements detailed in the capital programme in February 2022 and apply to the 2022/23 financial year as detailed in the 22/23 TMS.

The CFR is the amount of debt outstanding that was taken to finance the acquisition of capital assets. The setting aside of MRP each year is earmarked for the repayment of debt as it falls due. As debt should only be for capital purposes, normally borrowing should be less than the CFR indicating that all borrowing is for capital purposes. The operational boundary for external debt is the expected debt level if capital expenditure plans are fully implemented. For the period 2021-22 the limits below applied.

Table 2: Capital Financing Requirement and External Debt

| | Outturn for March 2022 £'000 |
|--|---|
| Prudential Indicator – Capital Financing Requirement (CFR) | |
| CFR – Non-housing | 554,977 |
| CFR – Housing | 285,145 |
| Total CFR | 840,123 |
| Prudential Indicator – The Operational Boundary for External Debt | |
| Borrowing | 944,574 |
| Other long-term liabilities | 13,088 |
| Total debt | 957,662 |

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

The upper limit for variable rate exposure (40%) allows for the use of variable rate debt to offset changes in short-term investment returns. Currently the only variable debt is LOBO loans (because of the interest options). These represent 16% of current borrowing.

Table 3 : Upper limits for Interest rate exposure

| | Limits for 2022/23 % |
|---|---|
| Upper Limit for Fixed Rate Exposure | 100 |
| Compliance with Limits: | Yes |
| Upper Limit for Variable Rate Exposure | 40 |
| Compliance with Limits: | Yes |

Table 4: Maturity Structure of Fixed Rate Borrowing

| Maturity Structure of Fixed Rate Borrowing 31/08/22 | Upper Limit | Lower Limit | Actual fixed Rate Borrowing | Fixed Rate Borrowing Proportion | Compliance with Set Limits? |
|---|-------------|-------------|-----------------------------|---------------------------------|-----------------------------|
| | % | % | £'000 | % | |
| Under 12 months | 0 | 50 | 0 | 0.00% | Yes |
| 12 months and within 24 months | 0 | 50 | 2,000 | 0.31% | Yes |
| 24 months and within 5 years | 0 | 75 | 5,013 | 0.78% | Yes |
| 5 years and within 10 years | 0 | 75 | 123,032 | 19.25% | Yes |
| 10 years and above | 0 | 100 | 509,048 | 79.65% | Yes |
| Total | | | 639,093 | 100.00% | |

The above indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. Barnet debt is currently all long-term with no refinancing risk associated with short-term debt.