





## Audit & Governance Committee

Report Subject	<b>Treasury Management Monitoring Outturn 2020/21 and update for Quarter 1 2021/22</b>
Meeting date	29 July 2021
Status	Public
Executive summary	<p>This report sets out the monitoring of the Council's Treasury Management function for the period 1 April 2020 to 31 March 2021.</p> <p>A surplus of £18k has been achieved through a reduced need to carry out temporary borrowing due to high cash balances generated from funding paid in advance associated with the government's response to the pandemic.</p> <p>The report also sets out the Quarter One performance for 2021/22 which forecasts an underspend of £171k due to a lower requirement for temporary borrowing.</p> <p>Further to the standard update the reports seeks approval to a minor adjustment to the Councils minimum revenue provision policy as well as seeking endorsement to increase our borrowing head room in line with the proposal set out in the financial strategy supporting the proposed 2022/23 budget as endorsed by Cabinet.</p>
Recommendations	<p><b>It is recommended that Audit &amp; Governance Committee:</b></p> <ol style="list-style-type: none"> <li>1) note the reported activity of the Treasury Management function for 2020/21</li> <li>2) note the reported activity of the Treasury Management function for April to June 2021</li> <li>3) note and endorse the update on borrowing set out from paragraph 23-29</li> <li>4) approve and recommend to Full Council the revised prudential indicators set out in table 8 and the proposed adjustment to the Council Minimum Revenue Provision policy as set out in paragraph 32.</li> </ol>
Reasons for recommendations	<p>It is a requirement under the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice that regular monitoring of the Treasury Management function is reported to Members.</p> <p>Council are required to approve any changes to the prudential indicators based on a recommendation from the Audit &amp; Governance Committee.</p>

Portfolio Holder	Councillor Drew Mellor, Leader, Finance & Transformation
Corporate Director	Graham Farrant, Chief Executive
Service Director	Adam Richens - Chief Financial Officer
Classification	For information and recommendation
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## Background Detail

1. Treasury Management is defined as the management of the Council's cash flows, its borrowings and investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks.
2. The Treasury Management function operates in accordance with The Chartered Institute of Public Finance and Accountancy (CIPFA) 'Treasury Management in the Public Services' Code of Practice (2011).
3. The Treasury Management function manages the Council's cash flow by exercising effective cash management and ensuring that the bank balance is as close to nil as possible. The objective is to ensure that bank charges are kept to a minimum whilst maximising interest earned. A sound understanding of the Council's business and cash flow cycles enables funds to be managed efficiently.
4. This report considers the treasury management activities in relation to the Treasury Management Strategy. Also included is a summary of the current economic climate, an overview of the estimated performance of the treasury function, an update on the borrowing strategy, investments and compliance with prudential indicators.

## Economic Background

5. The 24 June Monetary Policy Committee (MPC) meeting voted unanimously to keep the Bank Rate unchanged at 0.10%. They voted by a majority of 8-1 to continue unchanged the existing programme of UK government bond purchases of £875bn which is due to end by the end of this year.
6. The MPC noted the developing upside risks in the UK to both activity and inflation. In particular the MPC still appears willing to ride out the inevitable spike in inflation over the next six months as it thinks it will be short-lived and caused by one-off reopening price rises and supply shortages relative to demand - boosted by consumers having built up huge savings of around £145bn during lockdown.
7. The UK latest inflation rate hit 2.5% in the year to June, the highest for nearly three years, as the unlocking of the UK economy continued. The Consumer Prices Index measure of inflation rose from 2.1% in May. On a monthly basis, the Consumer Price Index (CPI) rose by 0.5% in June 2021, compared with a rise of 0.1% in June 2020. The Office for National Statistics (ONS) said that the largest factor pushing inflation upwards was transport costs such as fuel, as well as

higher prices for clothes, food and footwear. The data came a day after it was revealed that US inflation had risen to 5.4%.

8. The rate is higher than the Bank of England's 2% inflation target for a second month. This is fuelling the debate about whether interest rates need to go up sooner, with economists predicting inflation could reach nearly 4% this year.

### Interest Rates

9. Table 1 below which is produced by the authority's treasury consultants Link Asset Services illustrates that there is an expectation, albeit tentatively that the bank rate will only increase in September 2023 with Public Works Loan Board (PWLB) borrowing rates continuing to edge up very marginally over that period.

**Table 1: Interest rate projection (Link Asset Services)**

Link Group Interest Rate View		10.5.21										
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
<b>BANK RATE</b>	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
5 yr PWLB	1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50
10 yr PWLB	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
25 yr PWLB	2.20	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40

### Treasury Management Performance 2020/21

10. Table 2 below shows the final overall treasury management position for 2020/21. Investment income fell short of the budget set for 2020/21 by £11k. This was down to historically low interest rates being earned on the Council investments.
11. The interest paid on borrowing was £29k under budget. This was mainly driven by the reduced need to carry out temporary borrowing. The Government had provided significant cash resources due COVID19 which meant cash balances throughout the year were higher than assumed in the budget setting.

**Table 2: Treasury Management Performance 2020/21**

	Actuals 2020/21 £'000	Budget 2020/21 £'000	Variance 2020/21 £'000
<b><u>Expenditure</u></b>			
Interest Paid on Borrowings	1,771	1,800	(29)
<b><u>Income</u></b>			
Investment Interest Received	(174)	(185)	11
<b>Total</b>	<b>1,597</b>	<b>1,615</b>	<b>(18)</b>

## Borrowing

12. The Council has adopted a two-pool approach to debt management, separating the debts of the General Fund (Pool 1) and the Housing Revenue Account (HRA) (Pool 2). The HRA pool is a combination of both the Poole and Bournemouth Neighbourhood HRA accounts.
13. Table 3 below shows the closing level of borrowing for the Council.

**Table 3: Council Borrowings as at 31 March 2021**

Initial Loan Value £'000	Interest Rate	Balance as at 31 Mar 2021 £'000	Maturity Date	General Fund Pool £'000	HRA Pool £'000	Source
<b>Short Term Borrowing</b>						
10,000	0.90%	10,000	26-Apr-2021	10,000	-	Nottingham City Council
5,000	0.85%	5,000	28-Apr-2021	5,000	-	Wokingham Borough Council
5,000	0.19%	5,000	30-Apr-2021	5,000	-	Portsmouth City Council
10,000	0.19%	10,000	24-May-2021	10,000	-	South Yorkshire Pensions Authority
5,000	0.19%	5,000	24-May-2021	5,000	-	Solihull MBC
2,000	8.00%	2,000	25-Nov-2021	-	2,000	PWLB
<b>37,000</b>	1.72% <i>Average Rate</i>	<b>37,000</b>		<b>35,000</b>	<b>2,000</b>	
<b>Long Term Borrowing</b>						
2,000	8.00%	2,000	25-Nov-2022	-	2,000	PWLB
5,000	2.66%	1,042	22-Aug-2023	-	1,042	PWLB
5,000	4.45%	5,000	24-Sep-2030	-	5,000	PWLB
5,000	4.45%	5,000	24-Nov-2031	5,000	-	PWLB
5,000	4.75%	5,000	24-Sep-2032	-	5,000	PWLB
5,000	4.45%	5,000	24-Nov-2032	5,000	-	PWLB
5,000	4.75%	5,000	24-Sep-2033	-	5,000	PWLB
5,000	4.60%	5,000	23-Feb-2035	-	5,000	PWLB
5,000	4.72%	5,000	22-Aug-2036	-	5,000	PWLB
5,000	2.80%	5,000	20-Jun-2041	5,000	-	PWLB
5,000	2.80%	5,000	20-Jun-2041	5,000	-	PWLB
2,500	6.75%	2,500	06-Mar-2056	-	2,500	PWLB
1,500	6.75%	1,500	13-Mar-2057	-	1,500	PWLB
1,500	5.88%	1,500	07-Mar-2058	-	1,500	PWLB
42,488	3.48%	42,488	28-Mar-2062	-	42,488	PWLB
43,908	3.48%	43,908	28-Mar-2062	-	43,908	PWLB
<b>143,896</b>		<b>139,938</b>		<b>20,000</b>	<b>119,938</b>	
22,625	2.26% + RPI Annually	17,046	17-Oct-2039	17,046	-	Prudential Assurance Co
3,673	0.00%	507	01-Apr-2023	507	-	Salix
<b>207,194</b>		<b>194,491</b>		<b>72,553</b>	<b>121,938</b>	

## Investments

14. During the year, cash surpluses are invested by the Treasury Management team through direct dealing or money brokers with approved counterparties. The Council's counterparty list i.e. the list of organisations that it has been agreed that the Council can invest with has become increasingly restricted in recent years

due to the economic climate and the criteria used to select appropriate organisations.

15. A full list of investments held by the authority as at 31 March 2021 is shown in Table 4 below.

**Table 4: Investment Summary as at 31 March 2021**

Investments	Maturity Date	Principal Amount £	Interest %
<b><u>Fixed Term Deposits</u></b>			
Cheshire East Council	22-Apr-2021	5,000,000	0.10%
Surrey County Council	26-Apr-2021	10,000,000	0.10%
Lloyds Bank	14-May-2021	15,180,472	0.10%
Rugby Borough Council	11-Jun-2021	5,000,000	0.17%
Close Brothers	29-Sep-2021	10,000,000	0.25%
<b>Sub Total</b>		<b>45,180,472</b>	
<b><u>Call Account</u></b>			
Handelsbanken	instant access	11,505,000	0.01%
<b>Total</b>		<b>56,685,472</b>	

16. The Treasury Management function has continued to achieve higher average returns of 0.17% for the period 1 April 2020 to 31 March 2021 for its combined investment compared to the average 7-day benchmark rate of (0.07%).

### Treasury Management Performance 2021/22

17. Table 5 below shows the overall treasury management position for 2021/22. The current forecast is an underspend of £171k on interest payable budgets. This is due to higher cash balances than assumed when setting the budget. The Government continue to provide funding to the Council in relation to the Covid-19 pandemic such as financial support to businesses which the Council will distribute over a period of time.

**Table 5: Treasury Management performance 2021/22**

	Forecast 2021/22 £'000	Budget 2021/22 £'000	Variance 2021/22 £'000
<b><u>Expenditure</u></b>			
Interest Paid on Borrowings	3,010	3,181	(171)
<b><u>Income</u></b>			
Investment Interest Received	(45)	(45)	0
<b>Total</b>	<b>2,965</b>	<b>3,136</b>	<b>(171)</b>

## Borrowing

18. Table 6 below shows the closing level of borrowing for the Council.

**Table 6: Council Borrowings as at 30 June 2021**

Initial Loan Value £'000	Interest Rate	Balance as at 30 June 2021 £'000	Maturity Date	General Fund Pool £'000	HRA Pool £'000	Source
<b>Short Term Borrowing</b>						
2,000	8.00%	2,000	25-Nov-2021	-	2,000	PWLB
<b>2,000</b>	8.00% <i>Average Rate</i>	<b>2,000</b>		<b>-</b>	<b>2,000</b>	
<b>Long Term Borrowing</b>						
2,000	8.00%	2,000	25-Nov-2022	-	2,000	PWLB
5,000	2.66%	1,042	22-Aug-2023	-	1,042	PWLB
5,000	4.45%	5,000	24-Sep-2030	-	5,000	PWLB
5,000	4.45%	5,000	24-Nov-2031	5,000	-	PWLB
5,000	4.75%	5,000	24-Sep-2032	-	5,000	PWLB
5,000	4.45%	5,000	24-Nov-2032	5,000	-	PWLB
5,000	4.75%	5,000	24-Sep-2033	-	5,000	PWLB
5,000	4.60%	5,000	23-Feb-2035	-	5,000	PWLB
5,000	4.72%	5,000	22-Aug-2036	-	5,000	PWLB
5,000	2.80%	5,000	20-Jun-2041	5,000	-	PWLB
5,000	2.80%	5,000	20-Jun-2041	5,000	-	PWLB
2,500	6.75%	2,500	06-Mar-2056	-	2,500	PWLB
1,500	6.75%	1,500	13-Mar-2057	-	1,500	PWLB
1,500	5.88%	1,500	07-Mar-2058	-	1,500	PWLB
42,488	3.48%	42,488	28-Mar-2062	-	42,488	PWLB
43,908	3.48%	43,908	28-Mar-2062	-	43,908	PWLB
<b>143,896</b>		<b>139,938</b>		<b>20,000</b>	<b>119,938</b>	
49,000	2.83%	49,000	24-May-2068	49,000	-	Phoenix Life Limited
22,625	2.26% + RPI Annually	16,858	17-Oct-2039	16,858	-	Prudential Assurance Co
3,673	0.00%	381	01-Apr-2023	381	-	Salix
<b>221,194</b>		<b>208,177</b>		<b>86,239</b>	<b>121,938</b>	

## Investments

19. A full list of investments held by the authority as at 30 June 2021 is shown in Table 7 overleaf.

**Table 7: Investment Summary as at 30 June 2021**

Investments	Maturity Date	Principal Amount £	Interest %
<b><u>Fixed Term Deposits</u></b>			
Close Brothers	29-Sep-2021	10,000,000	0.25%
Goldman Sachs International Bank	05-Nov-2021	15,000,000	0.25%
Close Brothers	24-Nov-2021	12,800,000	0.25%
<b>Sub Total</b>		<b>37,800,000</b>	
<b><u>Call Account</u></b>			
Santander UK	120 day notice	22,825,000	0.25%
Handelsbanken	instant access	27,090,000	0.01%
Aberdeen Standard Liquidity Fund	instant access	10,325,000	0.01%
<b>Total</b>		<b>98,040,000</b>	

## Prudential Indicators

20. The Treasury Management Prudential Code Indicators were set as part of the 2020/21 & 2021/22 Treasury Management Strategy. It can be confirmed that all indicators have been complied with during all of 2020/21 and the period 1 April 2021 to 30 June 2021.

## Compliance with Policy

21. The Treasury Management activities of the Council are regularly audited both internally and externally to ensure compliance with the Council's Financial Regulations. The recent internal audit in September 2020 rated the Treasury Management function as "Substantial" assurance which means that there is a sound control framework which is designed to achieve the service objectives, with key controls being consistently applied.
22. The Treasury Management Strategy requires that surplus funds are placed with major financial institutions but that no more than 25% (AA- Rated Institutions) or 20% (A to A- Rated) of the investment holding is placed with any one major financial institution at the time the investment takes place. It can be confirmed that the Treasury Management Strategy has been complied with during the period 1 April 2020 to 30 June 2021.

## Debt Headroom

23. The Committee was made aware on 21 January 2021 through the Treasury Management update that the Council was looking to refinance its capital investment programme significantly in response to the financial challenge presented by the global public health emergency. This process focussed on

switching capital reserve allocations within projects to in most cases prudential borrowing.

24. The implication of this change was allowed for in the Councils Treasury Management Strategy 2021/22.
25. Further to this change the Council has continued to explore its ambition to invest in its local community and regenerate areas of the conurbation as expressed thorough its “Big Plan”. The large-scale projects which underpin such ambition will, by and large, need to be funded through increased borrowing if the Council is to retain ownership of the assets created.
26. To ensure that the level of borrowing remains prudent and at scale to the size of the authority, the Finance team have carried out extensive analysis of what impact these ambitions will have on the Council’s Capital Financing Requirement (CFR). This has then been compared to all upper tier authorities CFR’s to see where the Council would be situated. Appendix 1 to this report sets out this benchmarking work.
27. This analysis has then allowed us to set a self-imposed level of debt which enshrines the need for borrowing to remain prudent and affordable. The intention would be to move to the mid-point of all upper tier authorities as a percentage of net revenue expenditure. Such an approach has enabled the Council to determine that it will have debt headroom of £212 million on the 31 March 2024 compared to its 31 March 2024 forecast position.
28. This provides the parameters for the additional amount available to the Council to support its regeneration and big plan ambitions. This amount is additional to the £184 million already set aside via prudential borrowing in the capital programme to support service delivery, housing and regeneration schemes over the next three years such as those the being delivered to increase its housing stock and the schemes being delivered by the Bournemouth Development Company (BDC).
29. It is important that Audit and Governance committee are aware and confident of the implications of this decision on the Council. To ensure we remain compliant under statutory limit determined under section 3 (1) of the Local Government Act 2003, we are required to revise the borrowing prudential indicators within the Treasury Management Strategy for 2021/22. As part of the regulatory framework, Full Council is required to approve these revised indicators set out in table 8 below:

**Table 8: Revised Treasury Indicators: limits to borrowing activity**

	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Operational boundary	550	797	855	855
Authorised limit	600	847	905	905



## **Minimum Revenue Provision**

30. The Council is under a duty to annually set aside revenue funds for the prudential repayment of outstanding capital borrowing in accordance with provisions set out in CIPFA's Prudential Code and Ministry of Housing, Communities and Local Government's (MHCLG) Statutory Guidance on Minimum Revenue Provision. The setting aside of revenue funds for the future repayment of outstanding borrowing is referred to as a Minimum Revenue Provision (MRP) charge.
31. It is proposed that alongside the Council agreed MRP policy set out in the 2021/22 Treasury Management Strategy that a small amendment is made to allow flexibility around assets under construction.
32. Assets under construction which have yet to fully deliver their expected benefits will not be subject to MRP charges to the Revenue Account until such time as they become operational for a full accounting year. Accordingly, on becoming operational, the charge for MRP will not commence until the following financial year.
33. As part of the regulatory framework, Full Council is required to approve a Minimum Revenue Provision (MRP) Policy.

## **Summary of Financial/Resource Implications**

34. Financial implications are as outlined within the report.

## **Summary of Legal Implications**

35. There are no known legal implications.

## **Summary of Equalities and Diversity Impact**

36. The Treasury Management activity does not directly impact on any of the services provided by the Council or how those services are structured. The success of the function will have an impact on the extent to which sufficient financial resources are available to fund services to all members of the community.

## **Summary of Risk Assessment**

37. The Treasury Management Policy seeks to consider and minimise various risks encountered when investing surplus cash through the money markets. The aim in accordance with the CIPFA Code of Practice for Treasury Management is to place a greater emphasis on the security and liquidity of funds rather than the return gained on investments. The main perceived risks associated with treasury management are discussed below.

## **Credit Risks**

38. Risk that a counterparty will default, fully or partially, on an investment placed with them. There were no counterparty defaults during the year to date, the Council's position is that it will invest the majority of its cash in the main UK Banks which are considered to be relatively risk adverse and have been heavily protected by the UK Government over the last few years. The strategy is being constantly monitored and may change if UK Bank Long Term ratings fall below acceptable levels.

## **Liquidity Risks**

39. Aims to ensure that the Council has sufficient cash available when it is needed. This was actively managed throughout the year and there are no liquidity issues to report.

## **Re-financing Risks**

40. Managing the exposure to replacing financial instruments (borrowings) as and when they mature. The Council continues to monitor premiums and discounts in relation to redeeming debt early. Only if interest rates result in a discount that will benefit the Council would early redemption be considered.

## **Interest Rate Risks**

41. Exposure to interest rate movements on its borrowings and investments. The Council is protected from rate movements once a loan or investment is agreed as the vast majority of transactions are secured at a fixed rate.

## **Price Risk**

42. Relates to changes in the value of an investment due to variation in price. The Council does not invest in Gilts or any other investments that would lead to a reduction in the principal value repaid on maturity.

## **Background papers**

43. Treasury Management report to Full Council on 23 February 2021 <https://democracy.bcpCouncil.gov.uk/documents/g4287/Public%20reports%20pack%2023rd-Feb-2021%2019.00%20Council.pdf?T=10>

## **Appendices**

Appendix 1 - BCP Council Debt Benchmarking