Audit & Governance Committee

Report Subject	**Treasury Management Monitoring report for the period April to December 2022 and Treasury Management Strategy 2023/24**
Meeting date	12 January 2023
Status	Public
Executive summary	This report sets out the monitoring of the Council's Treasury Management function for the period 1 April 2022 to 31 December 2022. A surplus of £2m will be achieved due to the increase in interest rates. The Treasury Management Strategy 2023/24 is included as an appendix to this report. Key changes to the strategy have been set out in paragraphs 18-20.
Recommendations	**It is recommended that Audit & Governance Committee:** 1) note the reported activity of the Treasury Management function for the period ending 31 December 2022 2) Approve the Treasury Management Strategy 2023/24 & Treasury Management Policy, Practices and Schedules included in Appendix 1 and 2
Reasons for recommendations	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.
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 (2022).

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 Bank of England (BoE) in December 2022 raised interest rates once again to 3.5% from 3% making the ninth time in a row it has hiked interest rates. The Bank's Monetary Policy Committee (MPC) voted 6-2-1 in favour of the increase to 0.5%, with 2 voting for no change and 1 voting for a 0.75% hike.
6. The BoE policymakers are trying to contain inflation amid fears of looming economic recession. The MPC said there were considerable uncertainties around the outlook of the economy in the short to medium term.
7. The Bank of England has been attempting to calm rising prices since the end of last year. Inflation - the rate at which prices rise - has been increasing at its fastest rate for 40 years as the cost of food and energy soars. Raising interest rates should, in theory, encourage people to borrow and spend less and save more. This should help bring down the rate of inflation.
8. At 10.7%, the inflation rate remains more than five times higher than the Bank's 2% target, but it eased slightly in November. Bank of England Governor Andrew Bailey said it was the "first glimmer" that soaring price rises were starting to come down but there was still "a long way to go". Announcing its latest rise, the Bank indicated it was likely to continue to increase interest rates next year.

Interest Rates

9. Table 1 overleaf which is produced by the authority's treasury consultants Link Asset Services.

Table 1: Interest rate projection (Link Asset Services)

Interest Rate Forecasts								
Bank Rate	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**	**Sep-24**	**Dec-24**
Link	4.25%	4.50%	4.50%	4.50%	4.00%	3.75%	3.50%	3.25%
Cap Econ	4.50%	4.50%	4.50%	4.50%	4.25%	4.00%	3.50%	3.00%
5Y PWLB RATE								
Link	4.20%	4.20%	4.10%	4.00%	3.90%	3.80%	3.60%	3.50%
Cap Econ	4.00%	3.80%	3.70%	3.50%	3.50%	3.40%	3.30%	3.30%
10Y PWLB RATE								
Link	4.40%	4.40%	4.30%	4.10%	4.00%	3.90%	3.80%	3.60%
Cap Econ	4.00%	3.80%	3.70%	3.60%	3.50%	3.40%	3.40%	3.30%
25Y PWLB RATE								
Link	4.60%	4.60%	4.50%	4.40%	4.20%	4.10%	4.00%	3.90%
Cap Econ	4.40%	4.20%	4.00%	3.80%	3.80%	3.70%	3.60%	3.60%
50Y PWLB RATE								
Link	4.30%	4.30%	4.20%	4.10%	3.90%	3.80%	3.70%	3.60%
Cap Econ	4.10%	4.00%	3.90%	3.80%	3.80%	3.70%	3.60%	3.60%

Treasury Management Performance 2022/23

10. Table 2 below shows the overall treasury management position for 2022/23. The current forecast is an underspend of £2m on interest receivable budgets reflecting the increase in interest rates and still being in receipt of a number of significant grants from central government.

Table 2: Treasury Management Performance 2022/23

	Forecast 2022/23 £'000	Budget 2022/23 £'000	Variance 2022/23 £'000
Expenditure			
Interest Paid on Borrowings	3,100	3,199	(99)
Income			
Investment Interest Received	(1,935)	(45)	(1,890)
Total	**1,165**	**3,154**	**(1,989)**

Borrowing

11. Table 3 below shows the closing level of borrowing for the Council's two loans pool.

Table 3: Council Borrowings as at 31 December 2022

Initial Loan Value £'000	Interest Rate	Balance as at 31 Dec 2022 £'000	Maturity Date	General Fund Pool £'000	HRA Pool £'000	Source
Short Term Borrowing						
3,673	0.00%	64	01-Apr-2023	64	-	Salix
5,000	2.66%	417	22-Aug-2023	-	417	PWLB
8,673		**481**		**64**	**417**	
Long Term Borrowing						
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
10,000	1.83%	10,000	22-Jul-2046	10,000	-	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
17,000	1.54%	17,000	17-May-2068	17,000	-	PWLB
12,500	1.56%	12,500	16-Aug-2068	12,500	-	PWLB
12,500	1.55%	12,500	16-Aug-2069	12,500	-	PWLB
188,896		**188,896**		**62,000**	**126,896**	
22,625	2.26% + RPI Annually	15,710	17-Oct-2039	15,710	-	Prudential Assurance Co
49,000	2.83%	48,231	24-May-2068	48,231	-	Phoenix Life Limited
269,194		**253,318**		**126,005**	**127,313**	

Investments

12. A full list of investments held by the authority as at 31 December 2022 is shown in Table 4 below.

Table 4: Investment Summary as at 31 December 2022

Investments	Maturity Date	Principal Amount £	Interest %
Fixed Term Deposits			
Standard Chartered Bank	05-Jan-2023	20,000,000	2.08%
Landesbank Hessen Thuringen	05-Jan-2023	15,000,000	2.28%
Landesbank Hessen Thuringen	06-Jan-2023	7,250,000	3.47%
West Yorkshire Combined Authority	09-Jan-2023	10,000,000	3.40%
Goldman Sachs International Bank	16-Feb-2023	12,000,000	2.58%
Sub Total		**64,250,000**	
Call Account			
Aberdeen Standard Liquidity Fund	instant access	8,575,000	3.28%
Total		**72,825,000**	

13. The Treasury Management function average returns of 1.56% for the period 1 April 2022 to 31 December 2022 for its combined investment compared to the average 7-day benchmark rate of (1.63%).

Prudential Indicators

14. The Treasury Management Prudential Code Indicators were set as part of the 2022/23 Treasury Management Strategy as agreed with Council in February 2022. It can be confirmed that all indicators have been complied with during the period 1 April 2022 to 31 December 2022.

Compliance with Policy

15. 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 August 2022 rated the Treasury Management function as "reasonable" assurance which means that there is a sound control framework which is designed to achieve the service objectives, with key controls being consistently applied.

16. 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 2022 to 31 December 2022.

Treasury Management Strategy 2023/24

17. The Treasury Management Strategy is produced each year in accordance with the CIPFA Code of Practice on Treasury Management. It sets out how the Council's Treasury service will support capital investment decisions, and how the treasury management operates day to day. Its sets out the limitations on treasury management activity through prudential indicators, within which the council's treasury function must operate. The strategy is included as Appendix 1 to the report.

Changes to the Treasury Management Strategy and Policies 2023/24

18. CIPFA published updated Treasury Management and Prudential Codes on 20th December 2021. CIPFA stated that after a soft introduction of the Codes, Local Authorities are expected to fully implement the required reporting changes within their TMSS/AIS reports from 2023/24.

19. The revised Treasury Management Code requires an authority to implement the following: -

    a) Adopt a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;

    b) Amendment to the knowledge and skills register for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority;

    c) Reporting to members is to be done quarterly. Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, 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;

    d) Environmental, social and governance (ESG) issues to be addressed within an authority's treasury management policies and practices (TMP1).

20. The main requirements of the Prudential Code relating to service and commercial investments are: -

    a) The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;

b) An authority must not borrow to invest for the primary purpose of commercial return;

c) It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose. Appendix 3 to this report sets out all the approved and known commitments to be funded from borrowing;

d) An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;

Summary of Financial/Resource Implications

21. Financial implications are as outlined within the report.

Summary of Legal Implications

22. There are no known legal implications.

Summary of Equalities and Diversity Impact

23. 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

24. 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

25. 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

26. 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

27. 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

28. 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

29. 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

30. Treasury Management report to Full Council on 22 February 2022. https://democracy.bcpcouncil.gov.uk/documents/g4812/Public%20reports%20pack%2022nd-Feb-2022%2019.00%20Council.pdf?T=10

Appendices

Appendix 1 - Treasury Management Strategy 2023/24

Appendix 2 – Treasury Management Policy, Practices and Schedules

Appendix 3 – Approved Capital schemes and known commitments funded from borrowing