Audit & Governance Committee

Report Subject	**Treasury Management Monitoring Outturn 2022/23 and update for Quarter 1 2023/24**
Meeting date	27 July 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 March 2023. A surplus of £1.9m has been achieved through a reduced need to carry out temporary borrowing due to high cash balances as well as increasing interest rates earnt on the Councils investments. In addition, the report also sets out the Quarter One performance for 2023/24 which forecasts an underspend of £665k due to the increase in interest rates. Further to the standard update the reports seeks approval to decrease our borrowing headroom.
Recommendations	**It is recommended that Audit & Governance Committee:** 1) note the reported activity of the Treasury Management function for 2022/23 2) note the reported activity of the Treasury Management function for April to June of 2023/24. 3) note and endorse the update on borrowing set out in paragraph 20. 4) approve and recommend to Council the revised prudential indicators set out in table 10.
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. Council is required to approve any changes to the prudential indicators based on a recommendation from the Audit & Governance Committee.
Portfolio Holder	Councillor Mike Cox, Portfolio Holder for Finance
Corporate Director	Ian O'Donnell, Interim Director of Corporate Resources
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 (Link Treasury Services)

5. In June 2023, the Bank of England's Monetary Policy Committee (MPC) voted by a majority of 7-2 to raise the Bank Rate from 4.50% to 5.00%. In May. the Bank of England released a new set of forecasts, which saw the largest ever upside revision to growth since the Bank gained independence in 1997. The Bank of England's revised view now erases past expectations that the UK will enter a recession this year and that the real economy will be 2.25% bigger by mid-2026. The change was predicated on plunging gas prices, additional fiscal support, and more resilient consumers.
6. The UK latest inflation rate was 8.7% in April and May 2023, down from the peak of 11.1% in October. The rate is still much higher than the Bank of England's 2% inflation target, however CPI inflation is expected to fall significantly further during the course of the year, in the main reflecting developments in energy prices.
7. Food prices appear to have replaced energy prices as a key concern, and although that is now expected to have peaked, any shift down is likely to be slow due to high energy prices and hedging strategies in the food supply chain. On wages, survey data suggests that wage growth could ease further later this year, with signs that employees are moving jobs less frequently and employers are getting more applications for job vacancies.

8. The Bank of England now expects prices to fall to 5.1% by the close of this year, compared to 3.9% seen in February, with prices pressures now expected to cool more slowly, however the outlook is for inflation to get back below its 2% target in two years, when based on current market forecasts.

9. The MPC has not committed to raising rates again or suggested that 50bps rises are now the norm. However, it looks highly probable, given the on-going strength of inflation and employment data, that the Bank will need to raise rates to at least 5.5% and to keep rates at their peak until the mid-point of 2024. Link Treasury Services believe it is only a matter of time before the rise in rates weakens the economy sufficiently to push it into recession. That is why instead of rising to between 6.00%-6.25%, as is currently priced in by markets, they consider rates are more likely to peak between 5.50-6.00%.

Interest Rates

10. Table 1 below, produced by the authority's treasury consultants Link Asset Services, sets out their current projection of interest rates over the medium term.

Table 1: Interest rate projection (Link Treasury Services)

Interest Rate Forecasts								
Bank Rate	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Link	5.50%	5.50%	5.50%	5.25%	4.75%	4.25%	3.75%	3.25%
Cap Econ	5.25%	5.25%	5.25%	5.25%	4.75%	4.50%	4.00%	3.50%
5Y PWLB RATE								
Link	5.60%	5.30%	5.10%	4.80%	4.50%	4.20%	3.90%	3.60%
Cap Econ	5.10%	4.80%	4.60%	4.40%	4.20%	4.00%	4.00%	3.90%
10Y PWLB RATE								
Link	5.20%	5.00%	4.90%	4.70%	4.40%	4.20%	3.90%	3.70%
Cap Econ	5.00%	4.80%	4.60%	4.50%	4.30%	4.10%	4.00%	3.90%
25Y PWLB RATE								
Link	5.40%	5.20%	5.10%	4.90%	4.70%	4.50%	4.20%	4.00%
Cap Econ	5.20%	5.10%	4.90%	4.70%	4.50%	4.30%	4.30%	4.20%
50Y PWLB RATE								
Link	5.10%	5.00%	4.90%	4.70%	4.50%	4.30%	4.00%	3.80%
Cap Econ	4.90%	4.90%	4.80%	4.60%	4.40%	4.30%	4.20%	4.10%

Treasury Management Performance 2022/23

11. Table 2 below shows the final overall treasury management position for 2022/23. Investment income overachieved the budget set for 2022/23 by £1.8m. This was due to increasing interest rates, much higher than originally forecast, being earnt on the Council investments as well as having higher cash balances than forecasted.

12. The interest paid on borrowing was £143k under budget. This is due to a lower level of short-term borrowing being required than expected, due to increased cash balances. No long-term borrowing was taken out in 2022/23.

Table 2: Treasury Management Performance 2022/23

	Actuals 2022/23 £'000	Budget 2022/23 £'000	Variance 2022/23 £'000
Expenditure			
Interest Paid on Borrowings	3,196	3,339	(143)
Income			
Investment Interest Received	(1,808)	(45)	(1,763)
Total	**1,388**	**3,294**	**(1,906)**

Borrowing

13. 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.

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

Table 3: Council Borrowings as at 31 March 2023

Initial Loan Value £'000	Interest Rate		Balance as at 31 March 23 £'000	Maturity Date	General Fund Pool £'000	HRA Pool £'000	Source
Short Term Borrowing							
10,000	4.00%		10,000	31-Jul-2023	10,000	-	North Somerset Council
2,000	3.93%		2,000	31-Jul-2023	2,000	-	South Derbyshire District Council
208	2.66%		208	22-Aug-2023	-	208	PWLB loan 509032 (EIP)
3,000	4.00%		3,000	01-Sep-2023	3,000	-	Tendring District Council
5,000	4.00%		5,000	14-Sep-2023	5,000	-	Vale of White Horse Council
3,673	0.00%		64	01-Apr-2023	64	-	Salix
23,881	3.72%	*Average Rate*	**20,272**		**20,064**	**208**	
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		15,514	17-Oct-2039	15,514	-	Prudential Assurance Co
49,000	2.83%		48,231	24-May-2068	48,231	-	Phoenix Life Limited
284,402			**272,913**		**145,809**	**127,104**	

15. Table 4 below shows the closing level of the Council Capital Financing Requirement and how that is made up of actual external borrowing and what the level of under borrowing.

Table 4: Council Capital Financing Requirement 31 March 2023

	General Fund £000	HRA £000	Total £000
External Borrowing	145,809	127,104	**272,913**
Internal Borrowing (under borrowing)	212,121	5,599	**217,720**
Capital Financing Requirement	**357,930**	**132,703**	**490,633**

Investments

16. 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.

17. A full list of investments held by the authority as of 31 March 2023 is shown in Table 5 below.

Table 5: Investment Summary as at 31 March 2023

Investments	Maturity Date	Principal Amount £	Interest %
Fixed Term Deposits			
Bury Metropolitan Council	13-Apr-2023	6,000,000	4.40%
Wokingham Borough Council	24-Apr-2023	10,000,000	4.40%
Telford & Wrekin Council	11-Sep-2023	10,000,000	4.70%
Sub Total		**26,000,000**	
Call Account			
HSBC Sterling Liquidity Fund	Instant access	9,400,000	4.13%
Total		**35,400,000**	

18. The Treasury Management function achieved average returns of 2.00% for the period 1 April 2022 to 31 March 2023 for its combined investment compared to the SONIA average rate of 2.24%. The reason for lower average returns than the SONIA average rate is due to the fact more investments were held in the first half of the financial year, when interest rates were much lower than the second half of the year. From 1 April 2022 to 30 September 2022, average returns were 1.22% compared to SONIA average rate of 1.18%.

Treasury Management Performance 2023/24

19. Table 6 below shows the overall treasury management position for 2023/24. The current forecast is a surplus of £665k on interest receivable budgets reflecting the increase in interest rates.

Table 6: Treasury Management performance 2023/24

	Forecast 2023/24 £'000	Budget 2023/24 £'000	Variance 2023/24 £'000
Expenditure			
Interest Paid on Borrowings	3,483	3,483	0
Income			
Investment Interest Received	(3,200)	(2,535)	(665)
Total	**283**	**948**	**(665)**

Borrowing

20. Table 7 below shows the closing level of borrowing for the Council's two loans pool.

Table 7: Council Borrowings as at 30 June 2023

Initial Loan Value £'000	Interest Rate	Balance as at 31 March 23 £'000	Maturity Date	General Fund Pool £'000	HRA Pool £'000	Source
Short Term Borrowing						
10,000	4.00%	10,000	31-Jul-2023	10,000	-	North Somerset Council
2,000	3.93%	2,000	31-Jul-2023	2,000	-	South Derbyshire District Council
208	2.66%	208	22-Aug-2023	-	208	PWLB loan 509032 (EIP)
3,000	4.00%	3,000	01-Sep-2023	3,000	-	Tendring District Council
5,000	4.00%	5,000	14-Sep-2023	5,000	-	Vale of White Horse Council
20,208	3.72% *Average Rate*	**20,208**		**20,000**	**208**	
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	15,318	17-Oct-2039	15,514	-	Prudential Assurance Co
49,000	2.83%	47,968	24-May-2068	48,231		Phoenix Life Limited
231,729		**272,390**		**145,745**	**127,104**	

Investments

21. A full list of investments held by the authority as at 30 June 2023 is shown in Table 8 below.

Table 8: Investment Summary as at 30 June 2023

Investments	Maturity Date	Principal Amount £	Interest %
Fixed Term Deposits			
Stockport Metropolitan Borough Council	05-Jul-2023	10,000,000	4.75%
Telford & Wrekin Council	11-Sep-2023	10,000,000	4.70%
Goldman Sachs International Bank	17-Oct-2023	12,000,000	4.77%
Lloyds Bank Corporate Markets	03-Nov-2023	10,000,000	5.00%
Lloyds Bank Corporate Markets	17-Nov-2023	4,000,000	5.00%
Close Brothers	17-Nov-2023	10,000,000	5.00%
Lloyds Bank Corporate Markets	01-Dec-2023	8,000,000	5.30%
Goldman Sachs International Bank	07-Dec-2023	11,500,000	5.25%
Sub Total		**75,500,000**	
Call Account			
Aberdeen Standard Liquidity Fund	Instant access	12,250,000	4.83%
Total		**87,750,000**	

22. The Treasury Management function has achieved returns of 4.37% for the period 1 April 2023 to 30 June 2023 for its combined investment, in line with the SONIA overnight rate of 4.37%.

Prudential Indicators and Member Training

23. The Treasury Management Prudential Code Indicators were set as part of the 2022/23 & 2022/23 Treasury Management Strategy. It can be confirmed that all indicators have been complied with during all of 2022/23 and the period 1 April 2022 to 31 June 2023.

24. 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.

25. Appendix 1 has been attached to this report showing the Council's new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement.

26. Given new members have joined the Audit & Governance Committee, full training will be given with optional invites to all members. Possible dates will be sent out after this meeting.

Compliance with Policy

27. 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.

28. 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 all of 2022/23 and the period 1 April 2022 to 30 June 2023.

Decrease the Councils Debt Threshold (Capital Financing Requirement)

29. As part of the financial strategy supporting the development of the 2023/24 budget the council in November 2022 approved a revision to its self-imposed debt threshold, see table 9 below. The decision was to move our debt threshold to 257% of our NRE which would move the council to the mid-point average and support a debt level of £855m. The decision to increase the Council debt threshold to £1.334bn represented 387% of our NRE. This moved the council's threshold from the mid-point range compared to upper tier authorities including metropolitan boroughs to the top of the 3rd quarter. There were two main drivers for extending the Council's debt threshold.

1) To enable service-based capital expenditure to be financed from debt with the cost spread over the time-period that will benefit from the expenditure.

2) To support the big plan objectives of the previous administration, including the delivery of regeneration and housing business cases which will provide an ongoing resource base for the authority, as a minimum, once the borrowing is repaid.

Table 9: Previously agreed Treasury Indicators: limits to borrowing activity

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Operational boundary	855	1,334	1,334	1,334
Authorised limit	905	1,384	1,384	1,384

30. The previous approach resulted in concerns around the risk associated with higher debt levels and the robustness and accountability for any underlying business cases. The recommendation of this report is to now reduce the debt threshold to £755m based on the current committed level via the approved capital strategy, plus a 5% variance which equates to approximately £30m. This approach does not reduce the ambition of the council. It will though mean that Audit & Governance Committee will also need to consider the debt obligation associated with any significant new business cases which are underpinned by the use of borrowing which will strengthen the governance arrangements around the robustness of any proposal.

31. The approach to reduce the debt threshold is in line with the method the council has in the past adopted and it accords with a prudent, traditional approach to local government finance. This includes consideration of the duty to demonstrate value for money and the ability to ensure the security of funds raised via any business case.

32. The advantage of the recommend approach is that it strengthens governance and improves the transparency round any new significant business cases. It will though add an extra procedural process which may extended the timeline for a business cases approval depending on the timing within the Councils approved calendar of meetings.

33. Self-imposed debt levels are set against the Councils Capital Financing Requirement (CFR). Such levels are a requirement of the CIPFA Prudential Code and link into the prudential indicators agreed by Council based on recommendations of the Audit and Governance Committee who are responsible for the Treasury Management Strategy.

34. The recommended new indicators are as follows:

Table 10: Revised Treasury Indicators: limits to borrowing activity.

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Operational boundary	855	755	755	755
Authorised limit	905	785	785	785

Summary of Financial/Resource Implications

35. Financial implications are as outlined within the report.

Summary of Legal Implications

36. There are no known legal implications.

Summary of Equalities and Diversity Impact

37. 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

38. 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

39. 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

40. 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

41. 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

42. 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

43. 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

44. Treasury Management report to Full Council on 22 February 2023 https://democracy.bcpcouncil.gov.uk/documents/g5032/Public%20reports%20pack%2021st-Feb-2023%2019.01%20Council.pdf?T=10

Appendices

Appendix 1 – BCP Liability Benchmarking

Appendix 2 – Details of capital commitment against the debt ceiling