



Audit & Governance Committee

Report Subject	Treasury Management Monitoring update for Quarter 2 2023/24
Meeting date	26 October 2023
Status	Public
Executive summary	The report sets an economic update with a Quarter 2 performance for 2023/24 which forecasts an underspend of £730k due to the increase in interest rates, an improvement from the £665k reported in Quarter 1. The report also details the Councils borrowing which stood at £258m and investments at £69m.
Recommendations	It is recommended that Audit & Governance Committee: 1) note the reported activity of the Treasury Management function for April to September 2023
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 are 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
Report author	Matthew Filmer, Assistant Chief Financial Officer ☎ 01202 128503 ✉ matthew.filmer@bcpcouncil.gov.uk

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 August 2023, the Bank of England's Monetary Policy Committee (MPC) voted to raise the Bank Rate from 5.00% to 5.25%, a 15 year high. In a surprise move, the following September meeting left the rate unchanged after the Bank of England said price rises were slowing faster than expected.
6. The decision to freeze rates was after the latest UK inflation rate for August fell to 6.7%, down from 6.8% in July. It is the third month in a row that the figure has dropped. Most experts had expected inflation to increase due to a rise in the cost of petrol and diesel, driven by higher oil prices. But a slowdown in rising food prices and a drop in air fares and accommodation costs all helped drive the overall rate of inflation lower.
7. The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long". This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.
8. The Bank of England will also now need to consider recent geopolitical risks which are a fresh threat to the global economic recovery. Fears of a wider Middle East conflict poses a risk of higher oil prices, and risks to both inflation and the growth outlook.

Interest Rates

9. 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	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Link	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.00%
Cap Econ	5.25%	5.25%	5.25%	5.25%	5.25%	4.75%	4.25%	3.75%
5Y PWLB RATE								
Link	5.10%	5.00%	4.90%	4.70%	4.40%	4.20%	4.00%	3.90%
Cap Econ	5.20%	5.10%	4.90%	4.80%	4.60%	4.40%	4.30%	4.10%
10Y PWLB RATE								
Link	5.00%	4.90%	4.80%	4.60%	4.40%	4.20%	4.00%	3.80%
Cap Econ	5.10%	4.80%	4.70%	4.60%	4.50%	4.30%	4.20%	4.10%
25Y PWLB RATE								
Link	5.40%	5.20%	5.10%	4.90%	4.70%	4.40%	4.30%	4.10%
Cap Econ	5.50%	5.10%	5.00%	4.90%	4.80%	4.60%	4.50%	4.40%
50Y PWLB RATE								
Link	5.20%	5.00%	4.90%	4.70%	4.50%	4.20%	4.10%	3.90%
Cap Econ	5.00%	4.90%	4.80%	4.70%	4.60%	4.50%	4.40%	4.30%

Treasury Management Performance 2023/24

10. Table 2 below shows the overall treasury management position for 2023/24. The current forecast is a surplus of £730k on interest receivable budgets reflecting the increase in interest rates. An improvement from the Quarter 1 report which forecasted £665k.

Table 2: Treasury Management performance 2023/24

	Forecast 2023/24 £'000	Budget 2023/24 £'000	Variance 2023/24 £'000
<u>Expenditure</u>			
Interest Paid on Borrowings	3,483	3,483	-
<u>Income</u>			
Investment Interest Received	(4,130)	(3,400)	(730)
Total	(647)	83	(730)

Borrowing

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

Table 3: Council Borrowings as at 30 September 2023

Initial Loan Value £'000	Interest Rate	Balance as at 30 Sept 2023 £'000	Maturity Date	General Fund Pool £'000	HRA Pool £'000	Source
Short Term Borrowing						
6,000	5.30%	6,000	05-Oct-2023	6,000	-	City of Edinburgh Council
6,000		6,000		6,000	-	
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	15,120	17-Oct-2039	15,120	-	Prudential Assurance Co
49,000	2.83%	47,968	24-May-2068	47,968	-	Phoenix Life Limited
266,521		257,984		131,088	126,896	

Investments

12. A full list of investments held by the authority as at 30 September 2023 is shown in Table 4 below.

Table 4: Investment Summary as at 30 September 2023

Investments	Maturity Date	Principal Amount £	Interest %
<u>Fixed Term Deposits</u>			
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%
Standard Chartered Bank	16-Feb-2024	10,000,000	5.82%
Sub Total		65,500,000	
<u>Call Account</u>			
LGIM Sterling Liquidity Fund	instant access	3,075,000	5.35%
Total		68,575,000	

13. The Treasury Management function has achieved returns of 4.82% for the period 1 April 2023 to 30 September 2023 for its combined investment, in line with the SONIA (Sterling Overnight Index Average) overnight rate of 4.72%.

Prudential Indicators and Member Training

14. 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 30 September 2023.
15. 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;

16. 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.
17. 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

18. 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.
19. 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 2023 to 30 September 2023.

Summary of Financial/Resource Implications

20. Financial implications are as outlined within the report.

Summary of Legal Implications

21. There are no known legal implications.

Summary of Equalities and Diversity Impact

22. 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

23. 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

24. 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

25. 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

26. 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

27. 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

28. 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

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

Appendices

Appendix 1 – BCP Liability Benchmarking