Audit & Governance Committee

Report Subject	**Treasury Management Monitoring report for the period April to December 2023 and Treasury Management Strategy 2024/25**
Meeting date	11 January 2024
Status	Public
Executive summary	This report sets out the monitoring of the Council's Treasury Management function for the period 1 April 2023 to 31 December 2023. A surplus of £650k will be achieved due to the increase in interest rates. The report also recommends changes to the Council current MRP Policy for 2023/24 set out in detail from paragraph 16-32. The Treasury Management Strategy 2024/25 is included as an appendix to this report. Key changes to the strategy have been set out in paragraphs 33-34.
Recommendations	**It is recommended that Audit & Governance Committee:** 1) note the reported activity of the Treasury Management function for the period ending 31 December 2023 2) Approve and recommend to Full Council the Minimum Revenue Provision (MRP) change for 2023/24 set out in paragraphs 16-32 3) Approve and recommend to Full Council the Treasury Management Strategy 2024/25 Appendix 4
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 Mike Cox, Portfolio Holder for Finance
Corporate Director	Ian O'Donnell, Interim Corporate Director for Resources
Service Director	Adam Richens - Chief Financial Officer
Classification	For information and recommendation
Report author	Matthew Filmer, Assistant Chief Financial Officer Russell Oakley, Finance Manager Technical

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 2023 held interest rates for a third time at 5.25%, it has been at this rate since August 2023 following fourteen consecutive increases. The Bank's Monetary Policy Committee (MPC) voted 6-3 in favour of holding the rate, with 3 voting for a 0.25% increase.
6. The BoE policymakers are trying to ensure inflation falls back to their targeted 2%. This is currently 4.2%, down from 10.7% last December, with interest rates forecast to remain unchanged until mid-2024 to enable inflation to reduce further.
7. The Bank of England is continuing to attempt to calm rising prices. Inflation - the rate at which prices rise, has seen the cost of food and energy soar over the last two years. High interest rates should, in theory, encourage people to spend less and save more. This should help bring down the rate of inflation.

Interest Rates

8. 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	**Dec-23**	**Mar-24**	**Jun-24**	**Sep-24**	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**
Link	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.25%	3.00%
Cap Econ	5.25%	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%	3.00%
5Y PWLB RATE								
Link	4.90%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%	3.70%
Cap Econ	4.50%	4.40%	4.30%	4.20%	4.10%	3.90%	3.80%	3.70%
10Y PWLB RATE								
Link	5.00%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%	3.70%
Cap Econ	4.60%	4.50%	4.40%	4.30%	4.30%	4.20%	4.10%	4.10%
25Y PWLB RATE								
Link	5.30%	5.10%	4.90%	4.70%	4.50%	4.30%	4.20%	4.10%
Cap Econ	4.90%	4.80%	4.60%	4.40%	4.40%	4.50%	4.50%	4.60%
50Y PWLB RATE								
Link	5.10%	4.90%	4.70%	4.50%	4.30%	4.10%	4.00%	3.90%
Cap Econ	4.60%	4.50%	4.50%	4.40%	4.40%	4.40%	4.40%	4.40%

Treasury Management Performance 2023/24

9. Table 2 below shows the overall treasury management position for 2023/24. The current forecast is an underspend of £650k (Quarter 2 forecasted £730k) on interest receivable budgets reflecting the increase in interest rates.

Table 2: 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	(4,050)	(3,400)	(650)
Total	**(567)**	**83**	**(650)**

Borrowing

10. Table 3 below shows the closing level of borrowing for the Council's two loan pools.

Table 3: Council Borrowings as at 31 December 2023

Initial Loan Value £'000	Interest Rate	Balance as at 31 Dec 2023 £'000	Maturity Date	General Fund Pool £'000	HRA Pool £'000	Source
Short Term Borrowing						
-		**-**		**-**	**-**	
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	14,922	17-Oct-2039	14,922	-	Prudential Assurance Co
49,000	2.83%	47,701	24-May-2068	47,701	-	Phoenix Life Limited
260,521		**251,519**		**124,623**	**126,896**	

Investments

11. A full list of investments held by the authority as at 31 December 2023 is shown in Table 4 below.

Table 4: Investment Summary as at 31 December 2023

Investments	Maturity Date	Principal Amount £	Interest %
Fixed Term Deposits			
Plymouth City Council	12-Feb-2024	10,000,000	5.50%
Standard Chartered Bank	16-Feb-2024	10,000,000	5.82%
Lancashire County Council	04-Mar-2024	5,000,000	5.65%
Close Brothers	17-May-2024	10,000,000	5.62%
Sub Total		**35,000,000**	
Call Account			
HSBC Sterling Liquidity Fund	instant access	1,225,000	5.31%
LGIM Sterling Liquidity Fund	instant access	13,125,000	5.33%
Total		**49,350,000**	

12. The Treasury Management function average returns of 4.97% for the period 1 April 2023 to 31 December 2023 for its combined investments, compared favourably to the average SONIA overnight benchmark rate of 4.85%.

Prudential Indicators

13. The Treasury Management Prudential Code Indicators were set as part of the 2023/24 Treasury Management Strategy as agreed with Council in February 2023. It can be confirmed that all indicators have been complied with during the period 1 April 2023 to 31 December 2023.

Compliance with Policy

14. 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 2023 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.

15. 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 31 December 2023.

MRP Policy Change 2023/24

16. The Council sets its Treasury Management strategy every year and as part of this is required to set out the council's approach to the repayment of debt referred to as the minimum revenue provision (MRP). In this regard the council is required to periodically review the approach taken.

17. The Authority is required to determine a level of MRP it considers to be prudent, whilst having regard to the current MRP Guidance issued by government in 2018. The Guidance gives four ready-made options for determining MRP which it considers to be prudent but does not rule out alternative approaches.

18. The overriding requirement of the Guidance is to set a prudent provision which ensures that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

19. The Guidance requires that before the start of each financial year the Authority prepares a statement of its policy on making MRP in respect of the forthcoming financial year and submits it to full Council for approval.

20. The government has recently consulted on changes to the MRP regulations with an intention to make explicit that (i) capital receipts may not be used in place of the revenue charge, and (ii) there should be no intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan. The proposed changes are expected to be implemented in April 2024.

MRP Policy Change 2023/24

21. A review of the Authority's MRP policy was recently undertaken by Link Group (Link). Link are the Councils Treasury Management Advisors who have director level representation at the roundtable discussions with government looking at capital and treasury management policy.

22. The objective of the review was to identify opportunities to move to a more suitable and cost effective MRP strategy whilst ensuring that the provision remains prudent and compliant with statutory guidance. The review identified various options for both supported and unsupported borrowing which could be implemented within statutory guidance; the Authority has chosen within these options to adopt the policies which is deemed best suited to Bournemouth, Christchurch, and Poole Council.

23. The Authority's current MRP policy for supported borrowing and historic debt prior to 2008 is calculated on a reducing balance method. The Authority would benefit from changing the calculation to an annuity basis using PWLB rates as the

annuity rate. An annuity basis is the same approach taken by most people in repaying their mortgage.

24. It is recommended that the Council considers implementing this option – the MRP savings for the first 5 years is shown below, and the full financial impact of the proposed change is provided in Appendix 2.

Supported borrowing:

Year	**Original charge £'000**	**Revised charge £'000**	**(Saving) / Cost £'000**
2023/24	2,289	477	(1,812)
2024/25	2,227	500	(1,728)
2025/26	2,168	524	(1,644)
2026/27	2,109	549	(1,560)
2027/28	2,053	576	(1,477)
5y TOTAL			**(8,222)**

25. The current method for calculating MRP for unsupported borrowing is a reducing balance or asset life method depending on the approach inherited from the previous authorities before Local Government Reorganisation. The Authority could alternatively choose an annuity method over the asset life for all unsupported borrowing, applying the calculation on a weighted average basis where appropriate, this having the benefit of a reduction in MRP charges in the near term. This option is as prudent as the current policy since the asset lives currently being used will not be changed.

26. Link have carried out extensive research on current MRP policies in England and have observed that the annuity method of calculating MRP is used by over 60% of Authorities throughout the country.

27. It is recommended that the Council considers implementing these options – the MRP savings for the first 5 years is shown below, and the full financial impact of the proposed change is provided in Appendix 3.

Unsupported borrowing:

Year	**Original charge £'000**	**Revised charge £'000**	**(Saving) / Cost £'000**
2023/24	9,369	1,983	(7,386)
2024/25	9,173	2,080	(7,093)
2025/26	9,006	2,181	(6,824)
2026/27	8,387	2,288	(6,099)
2027/28	8,026	2,399	(5,627)
5y TOTAL			**(33,029)**

28. Main advantages of the changes in policy:

- The weighted average method of calculation for unsupported borrowing is a much simpler calculation than the current method, providing for more concise and user-friendly working papers.
- The MRP charges in the near term will be reduced.
- Is as prudent as the current policy since the asset lives currently being used will not be changed.

29. Main disadvantages of the changes in policy:

- The proposed changes will lead to a higher Capital Financing Requirement and borrowing requirement than under the Authority's current MRP policy. The associated cost for the Authority will depend on the Authority's treasury position and interest rates prevailing at the time.
- The regulations allow the Authority to review its policy every year and set a policy that it considers prudent at that time. The impact of a revised MRP policy will be kept under regular review in order to ensure that the annual provision is prudent.

30. The proposed revised MRP policy is shown in Appendix 1.

31. There is a risk that the councils External Auditor will raise questions around the prudence of such an approach however our advisors are clear it accords with the legislation and ultimately it is a decision for council. The MRP Guidance allows authorities to provide an additional amount of MRP, in excess of the prudent amount known as a Voluntary Revenue Provision (VRP). The Authority can choose to offset an amount of VRP against any current or future year's MRP provision, providing the resulting net MRP charge in the year is not negative.

32. As part of process due regard was given to the decision by Council to half its overall debt threshold from £1.334bn to £755m which significantly reduces the council's exposure to borrowing risks.

Treasury Management Strategy 2024/25

33. 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 2024/25

34. The main change to the Treasury Management Strategy 2024/25 is the revised MRP Policy set out earlier in this report. The strategy also reflects the decision

by Audit and Governance on the 27 July 2023 and subsequently approved by Full Council to reduce the Council overall debt threshold from £1.334bn to £755m reducing the council's exposure to borrowing risks.

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 - Minimum Revenue Provision (MRP) Policy Statement 2023/24

Appendix 2 - MRP Policy change full calculations – Supported borrowing

Appendix 3 - MRP Policy change full calculations – Unsupported borrowing

Appendix 4 - Treasury Management Strategy 2024/25

Appendix 1 - Minimum Revenue Provision (MRP) Policy Statement 2023/24

Council is recommended to approve the following:

- The Authority’s MRP policy has been amended for 2023/24 following a comprehensive review of MRP charges and methodology. This updated policy reflects the new MRP calculation methods to be implemented.

- For supported capital expenditure incurred before 1st April 2008, the Authority will apply the Asset Life Method using an annuity calculation.

- Unsupported borrowing will be subject to MRP under option 3 of the guidance (Asset Life Method). MRP will be based on the estimated life of the assets in accordance with the statutory guidance using the annuity method, calculated on a weighted average basis, where appropriate.

- MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset lives as recommended by the statutory guidance.
- The interest rate applied to the annuity calculations will reflect the market conditions at the time, and will for the current financial year be based on PWLB annuity rates

- Where applicable, repayments included in annual PFI or finance leases are applied as MRP.

- MRP Overpayments - The MRP Guidance allows that any charges made in excess of the statutory minimum revenue provision (MRP), i.e. voluntary revenue provision or overpayments, can be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. The amount of VRP overpayments up to 31st March 2023 was £0m.

- MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for asset under construction where the MRP will be deferred until the year after the asset becomes operational.

Appendix 2 – MRP Policy change full calculations – Supported borrowing

Financial year	Current repayments £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000
2023/24	2,289	477	(1,813)	(1,751)
2024/25	2,227	500	(1,728)	(1,613)
2025/26	2,168	524	(1,644)	(1,483)
2026/27	2,109	549	(1,560)	(1,360)
2027/28	2,053	576	(1,478)	(1,244)
2028/29	1,998	603	(1,395)	(1,135)
2029/30	1,945	633	(1,313)	(1,032)
2030/31	1,894	663	(1,231)	(935)
2031/32	1,844	695	(1,149)	(843)
2032/33	1,796	729	(1,067)	(756)
2033/34	1,749	764	(985)	(675)
2034/35	1,703	801	(902)	(597)
2035/36	1,659	839	(819)	(524)
2036/37	1,616	880	(736)	(455)
2037/38	1,574	922	(652)	(389)
2038/39	1,534	967	(567)	(327)
2039/40	1,494	1,014	(481)	(268)
2040/41	1,456	1,063	(393)	(212)
2041/42	1,419	1,114	(305)	(159)
2042/43	1,383	1,168	(215)	(108)
2043/44	1,348	1,224	(124)	(60)
2044/45	1,314	1,283	(31)	(14)
2045/46	1,281	1,345	64	29
2046/47	1,249	1,410	162	71
2047/48	1,218	1,478	261	110
2048/49	1,187	1,550	363	148
2049/50	1,158	1,625	467	184
2050/51	1,129	1,703	574	219
2051/52	1,101	1,785	684	252
2052/53	1,074	1,872	798	284
2053/54	1,048	1,962	914	315
2054/55	1,022	2,057	1,035	344
2055/56	997	2,156	1,159	372
2056/57	973	2,260	1,288	400
2057/58	949	2,370	1,420	426
2058/59	926	2,484	1,558	452
2059/60	904	2,604	1,700	476
2060/61	882	2,730	1,848	500
2061/62	861	2,862	2,001	523

Financial year	Current repayments £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000
2062/63	840	3,000	2,160	545
2063/64	820	3,145	2,324	567
2064/65	801	3,297	2,496	588
2065/66	782	3,456	2,674	609
2066/67	763	3,623	2,860	629
2067/68	745	3,798	3,053	649
2068/69	728	3,981	3,254	668
2069/70	711	4,173	3,463	687
2070/71	694	4,375	3,681	706
2071/72	678	4,586	3,909	724
2072/73	662	4,808	4,146	742
Years 51-100	19,509		(19,509)	(1,893)
100+	10,218		(10,218)	(328)
TOTAL	**94,482**	**94,482**	**(0)**	**(5,936)**

Appendix 3 – MRP Policy change full calculations – Unsupported borrowing

Financial year	Current repayments £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000
2023/24	9,369	1,983	(7,386)	(7,136)
2024/25	9,173	2,080	(7,093)	(6,622)
2025/26	9,006	2,181	(6,824)	(6,155)
2026/27	8,387	2,288	(6,099)	(5,315)
2027/28	8,026	2,399	(5,627)	(4,738)
2028/29	7,217	2,516	(4,700)	(3,824)
2029/30	6,511	2,639	(3,871)	(3,043)
2030/31	5,666	2,768	(2,898)	(2,201)
2031/32	4,881	2,903	(1,979)	(1,452)
2032/33	4,700	3,045	(1,656)	(1,174)
2033/34	4,579	3,193	(1,386)	(950)
2034/35	4,463	3,349	(1,115)	(738)
2035/36	4,352	3,512	(840)	(537)
2036/37	4,245	3,684	(562)	(347)
2037/38	4,143	3,863	(279)	(167)
2038/39	4,044	4,052	8	4
2039/40	3,949	4,248	298	166
2040/41	3,859	4,184	325	175
2041/42	3,772	4,389	618	321
2042/43	3,688	4,604	917	461
2043/44	3,608	4,830	1,223	594
2044/45	3,530	5,067	1,537	721
2045/46	3,456	5,315	1,859	843
2046/47	3,299	5,576	2,277	997
2047/48	3,087	5,849	2,762	1,169
2048/49	2,830	6,136	3,307	1,352
2049/50	2,767	6,437	3,670	1,450
2050/51	2,706	6,753	4,046	1,544
2051/52	2,648	7,084	4,435	1,636
2052/53	2,593	7,431	4,838	1,724
2053/54	2,539	7,795	5,256	1,809
2054/55	2,488	8,178	5,689	1,892
2055/56	2,327	8,578	6,252	2,009
2056/57	2,279	8,999	6,720	2,086
2057/58	2,234	7,805	5,571	1,671
2058/59	2,190	6,994	4,803	1,392
2059/60	2,149	6,643	4,495	1,259
2060/61	2,108	5,194	3,085	835
2061/62	2,053	5,448	3,396	888

Financial year	Current repayments £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000
2062/63	1,957	5,715	3,758	949
2063/64	1,886	746	(1,140)	(278)
2064/65	1,852	782	(1,070)	(252)
2065/66	1,819		(1,819)	(414)
2066/67	1,788		(1,788)	(393)
2067/68	1,758		(1,758)	(374)
2068/69	1,729		(1,729)	(355)
2069/70	1,701		(1,701)	(338)
2070/71	1,541		(1,541)	(296)
2071/72	1,258		(1,258)	(233)
2072/73	865		(865)	(155)
Years 51-100	12,322		(12,322)	(1,321)
100+	1,839		(1,839)	(59)
TOTAL	**197,238**	**197,238**	**0**	**(20,918)**