



AUDIT AND GOVERNANCE COMMITTEE



Report subject	Treasury Management Outturn 2023/24 and Quarter 1 2024/25 Update
Meeting date	25 July 2024
Status	Public
Executive summary	<p>This report sets out the monitoring of the Council's Treasury Management function for the period 1 April 2023 to 31 March 2024. A surplus of £789k has been achieved through a reduced need to carry out temporary borrowing due to high cash balances as well as increasing interest rates achieved on the Council's investments.</p> <p>The report also sets out the Quarter One performance for 2024/25 which forecasts an overspend of £1.4m due to reduced investment income resulting from reducing cash balances.</p>
Recommendations	<p>It is recommended that Audit & Governance Committee:</p> <ol style="list-style-type: none">1) note the reported activity of the Treasury Management function for 2023/242) Note the Reported activity of the Treasury Management function for April to June 2024
Reason 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 is required to approve any changes to the prudential indicators based on a recommendation from the Audit & Governance Committee.</p>

Portfolio Holder(s):	Councillor Mike Cox, Portfolio Holder for Finance
Corporate Director	Graham Farrant, Chief Executive
Report Authors	Adam Richens - Chief Financial Officer
Wards	For information and recommendation
Classification	<p>Russell Oakley, Finance Manager - Technical  russell.oakley@bcpcouncil.gov.uk</p> <p>Matthew Filmer, Assistant Chief Financial Officer  matthew.filmer@bcpcouncil.gov.uk</p>

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. On 9th May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
6. The news that the economy grew by 0.7% in Q4 2023/24 confirmed that it moved out of its very mild technical recession that prevailed at the back end of 2023. However, data released for April and May so far shows a slight stalling

in the recovery, with GDP data for April coming out at 0.0%, as inclement weather weighed on activity.

7. Stronger consumer spending, as low inflation allows households' real incomes to strengthen and the drag from higher interest costs fades, suggests that real consumption will strengthen substantially over the next two years. GDP growth is forecasted at 1.0% in 2024, activity will continue to surprise to the upside with GDP growth of 1.5% for both 2025 and 2026.
8. The fall in CPI inflation in May back to the Bank's 2% target for the first time since July 2021 will have come as welcome news, nonetheless, the on-going stickiness of wage growth in April will be a lingering concern for the Bank of England.
9. There was little chance that the Bank would cut rates at its June meeting, given upside surprises on services CPI inflation and wage growth. But several developments implied a rate cut is getting closer and a cut is predicted for August or September.

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-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Link	5.00%	4.50%	4.00%	3.50%	3.25%	3.25%	3.25%	3.25%
Cap Econ	5.00%	4.50%	4.00%	3.50%	3.00%	3.00%	3.00%	3.00%
5Y PWLB RATE								
Link	4.70%	4.50%	4.30%	4.10%	4.00%	3.90%	3.90%	3.90%
Cap Econ	4.50%	4.20%	4.10%	4.00%	4.00%	3.90%	3.80%	3.80%
10Y PWLB RATE								
Link	4.80%	4.60%	4.40%	4.30%	4.10%	4.10%	4.10%	4.00%
Cap Econ	4.60%	4.30%	4.30%	4.20%	4.10%	4.10%	4.00%	3.90%
25Y PWLB RATE								
Link	5.20%	5.00%	4.80%	4.70%	4.50%	4.50%	4.40%	4.40%
Cap Econ	5.00%	4.60%	4.50%	4.40%	4.40%	4.30%	4.20%	4.10%
50Y PWLB RATE								
Link	5.00%	4.80%	4.60%	4.50%	4.30%	4.30%	4.20%	4.20%
Cap Econ	4.80%	4.60%	4.60%	4.50%	4.40%	4.30%	4.30%	4.20%

Treasury Management Performance 2023/24

11. Table 2 below shows the final overall treasury management position for 2023/24 which overachieved against the budget by £789k. Investment income was £785k better due to increasing interest rates, much higher than originally forecast, being earned on the Council investments.
12. The interest paid on borrowing was £167k over budget. This is due to higher than forecast interest rates paid for short-term borrowing. No long-term borrowing was taken out in 2023/24.

Table 2: Treasury Management Performance 2023/24

	Actual 2023/24 £'000	Budget 2023/24 £'000	Variance 2023/24 £'000
<u>Expenditure</u>			
Interest Paid on Borrowings	3,650	3,483	167
<u>Income</u>			
Investment Interest Received	(4,185)	(3,400)	(785)
Deductions from general fund	694	865	(171)
Total	159	948	(789)

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 2024

Initial Loan Value	Interest Rate	Balance as at 31 March 2024 £'000	Maturity Date	General Fund Pool £'000	HRA Pool £'000	Source
Short Term Borrowing						
2,000	7.00%	2,000	03-Apr-2024	2,000	-	Conwy County Borough Council
10,000	7.30%	10,000	08-Apr-2024	10,000	-	Birmingham City Council
10,000	6.30%	10,000	17-Apr-2024	10,000	-	Birmingham City Council
5,000	6.00%	5,000	25-Apr-2024	5,000	-	PCC for West Midlands
5,000	7.20%	5,000	25-Apr-2024	5,000	-	Leicester City Council
5,000	5.80%	5,000	30-Apr-2024	5,000	-	Coventry University
5,000	5.85%	5,000	08-May-2024	5,000	-	London Borough of Havering
1,500	7.00%	1,500	17-May-2024	1,500	-	Derbyshire Dales District Council
43,500		43,500		43,500	-	
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	14,722	17-Oct-2039	14,722	-	Prudential Assurance Co
49,000	2.83%	47,701	24-May-2068	47,701	-	Phoenix Life Limited
304,021		294,819		167,923	126,896	

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 2024

	General Fund £000	HRA £000	Total £000
External Borrowing	167,923	126,896	294,819
Internal Borrowing (Under borrowing)	209,027	4,578	213,605
Capital Finance Requirement	376,950	131,474	508,424

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 2024 is shown in Table 5 below.

Table 5: Investment Summary as at 31 March 2024

Investments	Maturity Date	Principal Amount £	Interest %
<u>Fixed Term Deposits</u>			
Cornwall Council	12-Apr-2024	5,000,000	6.80%
Surrey County Council	25-Apr-2024	10,000,000	7.50%
Close Brothers	17-May-2024	10,000,000	5.62%
Sub Total		25,000,000	
<u>Call Account</u>			
LGIM Sterling Liquidity Fund	instant access	3,675,000	5.29%
Total		28,675,000	

18. The Treasury Management function achieved average returns of 5.05% for the period 1 April 2023 to 31 March 2024 for its combined investment compared to the SONIA average rate of 4.91%.

Treasury Management Performance 2024/25

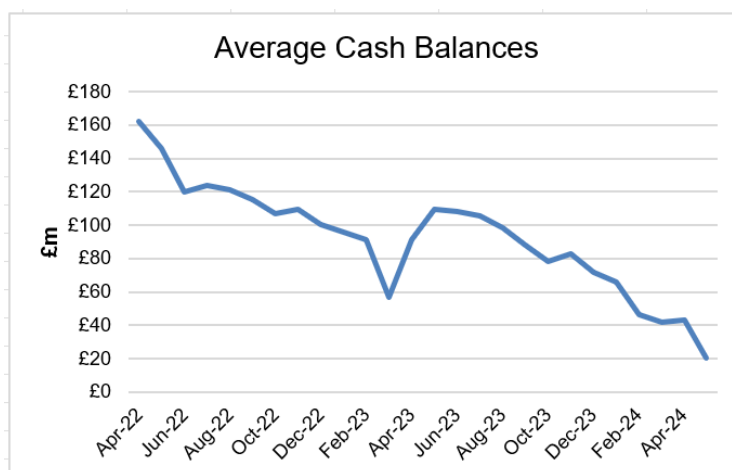
19. Table 6 below shows the overall treasury management position for 2024/25. The current forecast is a deficit of £1.45m on interest receivable budgets due to lower than forecasted cash balances available for investments and likely reduction in interest rates during 2024/25.

Table 6: Treasury Management performance 2024/25

	Forecast 2024/25 £'000	Budget 2024/25 £'000	Variance 2024/25 £'000
<u>Expenditure</u>			
Interest Paid on Long Term Borrowings	3,177	3,132	45
Interest Paid on Short Term Borrowings	1,475	1,475	0
<u>Income</u>			
Investment Interest Received	(1,050)	(2,500)	1,450
Deductions from general fund	645	645	0
Total	4,247	2,752	1,495

20. Table 7 below demonstrates the reducing average cash balances over the last two years as expenditure on the Councils capital program and increasing deficit on the dedicated school grant continues without any increased long-term borrowing. As an example, the Council Newbuild Housing & Acquisition Strategy purchase program was fast tracked at the end of 2023 and has developed quicker than the previous cash forecast allowed.

Table 7: Average Cash Balances



Borrowing

21. Table 8 below shows the closing level of borrowing for the Council's two loans pool.

Table 8: Council Borrowings as at 30 June 2024

Initial Loan Value £'000	Interest Rate	Balance as at 30 June 2024 £'000	Maturity Date	General Fund Pool £'000	HRA Pool £'000	Source
Short Term Borrowing						
5,000	5.25%	5,000	08-Jul-2024	5,000	-	Manchester City Council
5,000	5.25%	5,000	11-Jul-2024	5,000	-	West of England Combined Authority
5,000	5.20%	5,000	11-Jul-2024	5,000	-	Nuneaton & Bedworth Borough Council
5,000	5.25%	5,000	12-Jul-2024	5,000	-	Kirklees Metropolitan Council
5,000	5.25%	5,000	01-Aug-2024	5,000	-	Halton Borough Council
25,000		25,000		25,000	-	
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	14,521	17-Oct-2039	14,521	-	Prudential Assurance Co
49,000	2.83%	47,430	24-May-2068	47,430	-	Phoenix Life Limited
285,521		275,847		148,951	126,896	

Investments

22. A full list of investments held by the authority as at 30 June 2024 is shown in Table 9 below.

Table 9: Investment Summary as at 30 June 2024

Investments	Maturity Date	Principal Amount £	Interest %
<u>Fixed Term Deposits</u>			
Sub Total		<u>0</u>	
<u>Call Account</u>			
LGIM Sterling Liquidity Fund	instant access	5,600,000	5.24%
Total		<u><u>5,600,000</u></u>	

23. The Treasury Management function has achieved returns of 5.53% for the period 1 April 2024 to 30 June 2024 for its combined investment, bettering the SONIA overnight rate of 5.20%.

Prudential Indicators and Member Training

24. The Treasury Management Prudential Code Indicators were set as part of the 2023/24 & 2024/25 Treasury Management Strategy. It can be confirmed that all indicators have been complied with during all of 2023/24 and the period 1 April 2024 to 31 June 2024.
25. 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;
26. 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.
27. In conjunction with the chair of Audit & Governance Committee we will look to carry out a training session to all members. Possible dates will be sent out after this meeting.

Compliance with Policy

28. 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 February 2024 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.
29. 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 2023/24 and the period 1 April 2024 to 30 June 2024.

Summary of Financial/Resource Implications

30. Financial implications are as outlined within the report.

Summary of Legal Implications

31. There are no known legal implications.

Summary of Equalities and Diversity Impact

32. 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

33. 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

34. 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

35. 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

36. 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

37. 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

38. 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

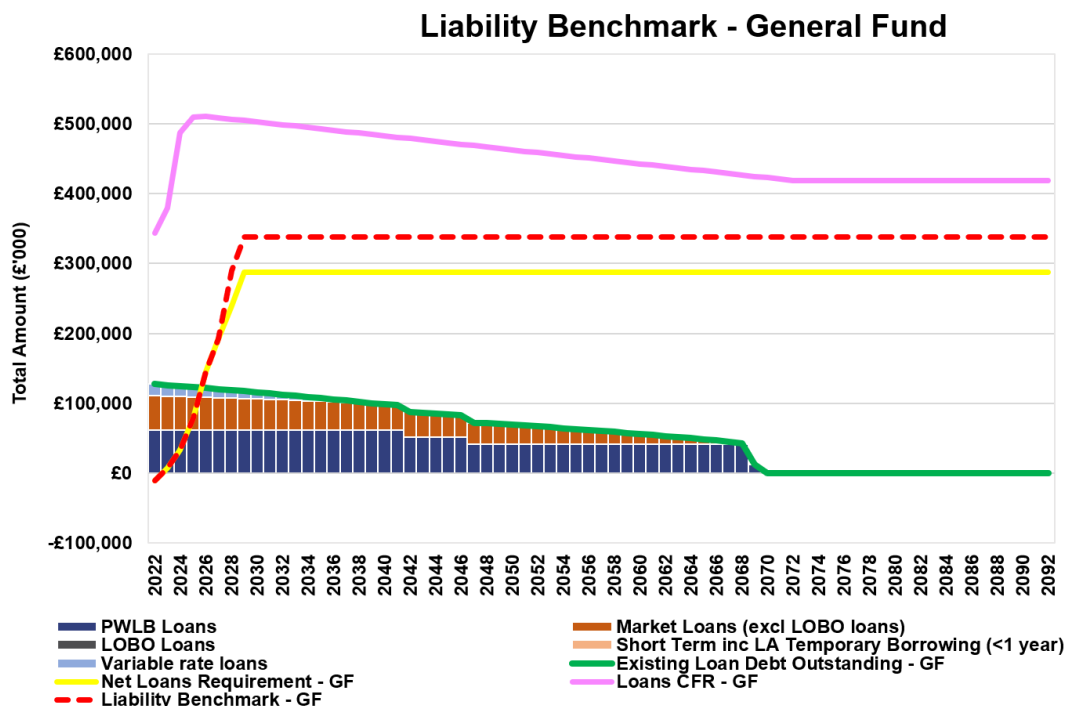
39. Treasury Management report to Full Council on 20 February 2024
<https://democracy.bcpccouncil.gov.uk/documents/s48214/Appendix%204%20for%20Treasury%20Management%20Monitoring%20report%20for%20the%20period%20April%20to%20December%202023%20and%20Treas.pdf>

Appendices

Appendix 1 – BCP Liability Benchmarking

Appendix 1 – BCP Liability Benchmarking

General Fund



HRA

