



AUDIT & SCRUTINY COMMITTEE

14th November 2023

REPORT TITLE:	Treasury Management April - October Update
REPORT OF:	Tim Willis, Interim Director – Resources
REPORT OF FOR:	Information

REPORT SUMMARY

This report gives an update on the Council's treasury management activity and performance for the period April to October 2023. In line with the scrutiny of the Council's Treasury Management activity and performance in 2023/24 in compliance with CIPFA's Treasury Management in the Public Services: Code of Practice (the CIPFA Code 2021 Edition) and generally accepted good practice.

SUPPORTING INFORMATION

3.0 BACKGROUND INFORMATION

UK Economy and Interest Rate Forecasts

The period April to October saw:

- CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7
- Core CPI inflation (excluding energy, food, alcohol and tobacco) declining from the 31-year high of 7.1% in April and May to 6.2% in August
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth as the 3mmyy growth of average earnings rose to 7.8% in August
- Interest rates rise by 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the cycle.
- Short, medium and long-dated gilts remaining elevated as inflation continually surprised to the upside.

The following table shows bank rate and PWLB rate forecasts up to June 2026 (provided by Link Group, the Council's treasury advisors):

	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Bank Rate	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.00%	2.75%	2.75%	2.75%
PWLB Rates											
- 5 years	5.10%	5.00%	4.90%	4.70%	4.40%	4.20%	4.00%	3.90%	3.70%	3.70%	3.60%
- 10 years	5.00%	4.90%	4.80%	4.60%	4.40%	4.20%	4.00%	3.90%	3.70%	3.70%	3.60%
- 25 years	5.40%	5.20%	5.10%	4.90%	4.70%	4.40%	4.30%	4.10%	4.00%	3.90%	3.80%
- 50 years	5.20%	5.00%	4.90%	4.70%	4.50%	4.20%	4.10%	3.90%	3.80%	3.70%	3.60%

They set out a view that the bank rate has peaked at 5.25% and will gradually start to fall next year. They also show a gradual decline over the period in PWLB rates from the current peak.

Investment Activity

The Council's investments have continued to benefit from the increase in interest rates during the period. The month-end investment balances and interest rates for the period are as follows:

Month end	Balance (£000)	Ave interest rate
April 2023	17,000	4.21%
May 2023	10,000	4.38%
June 2023	15,000	4.69%
July 2023	11,800	5.00%
August 2023	24,300	5.16%
Sept 2023	26,300	5.32%
Oct 2023	23,880	5.36%

The approach to investments has been to keep up to £5m on call with the Council's bankers, Lloyds Banking Group, and to invest the remaining funds through short-dated fixed term investments with the Debt Management Account Deposit Facility (DMADF) and with UK domiciled banks (accessible either directly or through the Link Agency Treasury Service). This is a secure, low risk approach, which will generate approximately £0.7m investment income for the year (split across the general fund and the HRA).

A table of investments as of 31 October 2023 totalling £23,880m is shown at Appendix A.

Borrowing Activity

The following table shows the amount of external borrowing at the beginning and the end of the period.

	Short term	Long term-PWLB	Long term-Market Lender	Transferred debt	Total
	£000	£000	£000	£000	£000
01-Apr-23	34,000	192,019	0	174	226,193
31-Oct-23	27,000	192,019	25,000	174	244,193
Interest rate	4.52%	2.37%	2.06%	8.80%	

The short-term borrowing is all from other local authorities. There was some modest activity during the period, with a net reduction of £7m. There has been no PWLB borrowing during the period. A breakdown of the short-term and long-term borrowings is shown in Appendix B.

The source of the £25m market lender borrowing is Phoenix Life Ltd. The £25m loan was received in August and is the first tranche of the £45m deferred loan agreement that the Council arranged in December 2021. It will be paid back over 40 years at an interest rate of 2.058%. The remaining £20m will be drawn down in June 2024.

The £0.174m transferred debt is a historic loan between Brentwood and Chelmsford councils, originating from the local government reorganisation of 1974. The Council has recently agreed to settle this loan in November and this debt will therefore have been cleared by the next treasury management update.

It is anticipated that short borrowing of up to £20m will be undertaken during the latter stages of this financial year to finance new capital expenditure. The timing of any borrowing will be influenced by the movement in interest rates.

Compliance with Treasury and Prudential Limits

During the period ended 31st October 2023, the Council has operated within the prudential and treasury indicators set out in the Council's Treasury Management Strategy Statement (TMSS) for 2023/24.

The Interim Director - Resources recommends that some revisions are made to the prudential indicators. Members are asked to approve these revised indicators, which are set out in the final column of the following table:

Indicator	2023/24 TMSS (£000)	2023/24 revised (£000)
Capital Expenditure-GF	36,332	24,862
Capital Expenditure-HRA	22,008	14,972
Capital Financing Requirement	303,964	280,759
Gross External Borrowing	267,688	260,019
Operational Boundary	305,000	281,000
Authorised Limit	340,000	316,000

- a) Capital Expenditure (GF and HRA). The revised indicators represent the forecast expenditure for 2023/24. Further explanation, including details of slippage, will be reported to the next Finance, Assets, Investment & Recovery Committee meeting in December.
- b) Capital Financing Requirement (CFR). This represents the total historic capital expenditure which has not yet been paid for from either revenue or capital resources. The revised CFR has been reduced from the original figure because of:
- the reduction in the forecast capital expenditure
 - the CFR in the TMSS was based on the estimated closing CFR for 2022/23; the revised CFR reflects the closing CFR for 2022/23
- c) Gross External Borrowing. This has also been revised downwards for the same reasons as the CFR.
- d) Operating Boundary. This is the borrowing limit above which borrowing would not normally be expected to rise. This aligns with the CFR level and has been reduced following the reduction in the CFR. The revised level continues to give the Council sufficient headroom for future borrowing this year, whilst remaining at a prudent level.
- e) Authorised Limit. This is the limit placed by the Council on the absolute level of its gross external debt, as required by the Local Government Act 2003. The revised level has also been reduced in line with the reduction in the CFR and the operational boundary. The revised level is considered to be prudent.

Review of capital investment and treasury management

The Interim Director- Resources recently commissioned Link Group to carry out a review of the Council's treasury management arrangements. A report on the outcome of this review is presented as a separate item on the agenda for this meeting.

4.0 FINANCIAL IMPLICATIONS

Name & Title: Tim Willis, Interim Director of Resources and Section 151
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Contained within the body of the report.

5.0 LEGAL IMPLICATIONS

Name & Title: Claire Mayhew, Acting Joint Director – People & Governance & Monitoring Officer
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The Council is obliged under Section 151 of the Local Government Act 1972 to make proper arrangements for the management of its financial affairs.

6.0 EQUALITY IMPLICATIONS

Name & Title: Kim Anderson, Corporate Manager – Communities, Leisure and Health
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7.0 ECONOMIC AND CLIMATE IMPLICATIONS

Name & Title: Phil Drane, Director – Place
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APPENDICES

- Appendix A: investments at 31 October 2023
- Appendix B: short and long-term borrowing at 31 October 2023

BACKGROUND PAPERS

- None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
<ul style="list-style-type: none">• Ordinary Council: 2023/24 Treasury Management Strategy	1 st March 2023
<ul style="list-style-type: none">• Ordinary Council: 2022/23 Treasury Management Strategy	23 rd February 2022
<ul style="list-style-type: none">• Ordinary Council: 2021/21 Treasury Management Strategy	24 th February 2021