



COMMITTEE TITLE: Ordinary Council

DATE: 13th December 2023

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

REPORT SUMMARY

This report gives an update on the Council's treasury management activity and performance for the period April to October 2023. It also presents an update to the Council's Minimum Revenue Provision (MRP) policy for 2023/24, following discussions between the S151 Officer and the Council's external auditors. The report was presented to and was approved by Audit & Scrutiny Committee on 14th November 2023. The report is now being presented for consideration and approval to Ordinary Council in accordance with the Council's Treasury Management Practices.

RECOMMENDATIONS

R1. To note the Council's treasury management activity and performance for the period April to October 2023.

R2. To approve the revised prudential indicators set out in paragraph 13.

R3. To approve the updated MRP policy

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATIONS

To enable 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.

To add clarity to the method for calculating MRP being followed in respect of the debt liability pre-1 April 2008.

2.0 OTHER OPTIONS CONSIDERED

N/A

3.0 BACKGROUND INFORMATION

Main Report

UK Economy and Interest Rate Forecasts

1. 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.
2. 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
Bank Rate	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.00%	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%
- 10 years	5.00%	4.90%	4.80%	4.60%	4.40%	4.20%	4.00%	3.90%	3.70%	3.70%
- 25 years	5.40%	5.20%	5.10%	4.90%	4.70%	4.40%	4.30%	4.10%	4.00%	3.90%
- 50 years	5.20%	5.00%	4.90%	4.70%	4.50%	4.20%	4.10%	3.90%	3.80%	3.70%

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

Investment Activity

4. 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%

5. 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).
6. A table of investments as of 31 October 2023 totalling £23.880m is shown at Appendix A.

Borrowing Activity

7. 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%	

8. 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.
9. 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.
10. The £0.174m transferred debt is a historic loan between Brentwood and Chelmsford councils, originating from the local government reorganisation of 1974. The Council recently agreed to settle this loan and payment was made to Chelmsford in November 2023.
11. 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 (para 2).

Compliance with Treasury and Prudential Limits

12. 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.
13. 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

14. 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 was presented as a separate item on the agenda for the Audit & Scrutiny meeting on 14th November 2023.

Minimum Revenue Provision

15. The Council is required by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 to calculate a level a provision for the repayment of debt liability that it considers to be prudent, known as the Minimum Revenue Provision (MRP). The regulations also require the Council to approve an MRP policy in advance of each financial year. The policy may be revised or updated by the Council during the year.

16. Following discussions with the external auditors, the S151 Officer considers that the wording of the MRP policy should be updated to make it clear that the **regulatory Adjustment A** continues to be applied to the pre-1 April 2008 debt liability. This ensures that the same amount of debt liability is written down as previously (i.e. prior to the adoption in 2018 of the method currently being used).
17. This is a prudent approach as it ensures taxpayers are not being charged for a higher level of debt liability than under the previous policy.
18. Ordinary Council is asked to approve the following updated policy for 2023/24. The fresh wording is shown in italics. For completeness, the whole MRP policy is shown.

Updated MRP Policy for 2023/24

Debt Liability pre-1 April 2008

19. For capital expenditure funded by borrowing before 1 April 2008, minimum revenue provision will be provided on a 2% straight-line basis, i.e., provision for the repayment of debt over 50 years, ***and will continue to use the regulatory calculated Adjustment A.***

Debt Liability 1 April 2008 onwards

20. Minimum revenue provision for new capital expenditure incurred wholly or partly by unsupported (Prudential) borrowing will be determined by reference to the expected life of the asset on an annuity basis. The asset life is deemed to begin once the asset becomes operational. Minimum revenue provision will commence from the financial year following the one in which the asset becomes operational.
21. Minimum revenue provision in respect of unsupported (prudential) 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 life method as recommended by the statutory guidance.
22. The Council retains the right to make additional voluntary payments to reduce debt if deemed prudent.
23. There is no requirement on the HRA to make a minimum revenue provision but under HRA reform there is a requirement to charge depreciation on its

assets, which will have a revenue effect. The HRA business plan will need to fund this depreciation over the life of the assets.

Debt Liability in respect of loans to third parties

24. Where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

25. Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan

4.0 FINANCIAL IMPLICATIONS

Name & Title: Tim Willis, Director – Resources & Section 151 Officer
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All financial information is contained within the body of the report.

5.0 LEGAL/GOVERNANCE IMPLICATIONS

Name & Title: Claire Mayhew, Acting Joint Director – People & Governance & Monitoring Officer
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All governance information is contained within the body of the report

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

N/a

7.0 RELEVANT RISKS

N/a

8.0 ENGAGEMENT/CONSULTATION

N/a

9.0 EQUALITY IMPLICATIONS

Name & Title: Kim Anderson, Corporate Manager - Communities, Leisure and Health
Tel & Email 01277 312500 kim.anderson@brentwood.gov.uk

There are no implications arising from this report.

10.0 ECONOMIC IMPLICATIONS

Name & Title: Phil Drane, Director - Place
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There are no implications arising from this report.

11.0 ENVIRONMENTAL IMPACT

Name & Title: Henry Muss, Sustainability & Climate Officer
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There are no implications arising from this report.

REPORT AUTHOR:

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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
• Audit & Scrutiny: Treasury Management 2023/24 Half Yearly Update	14 th November 2023
• Ordinary Council: 2023/24 Treasury Management Strategy	1 st March 2023
• Ordinary Council: 2022/23 Treasury Management Strategy	23 rd February 2022
• Ordinary Council: 2021/21 Treasury Management Strategy	

	24 th February 2021
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