



COMMITTEE TITLE: Audit & Scrutiny Committee

DATE: 23rd January 2023

REPORT TITLE:	Treasury Management April - December 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 December 2023.

RECOMMENDATIONS

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

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.

2.0 OTHER OPTIONS CONSIDERED

N/A

3.0 BACKGROUND INFORMATION

Main Report

UK Economy and Interest Rate Forecasts

1. The period April to December saw:

- CPI inflation falling from 8.7% in April to 3.9% in November.
- Core CPI inflation (excluding energy, food, alcohol and tobacco) declining from the 31-year high of 7.1% in April to 5.2% in November.
- Annual growth in regular earnings was 7.2% in August to October 2023. This growth remains strong but is not as high as in recent periods.
- 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):

	NOW	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%	3.00%	3.00%	3.00%
PWLB Rates											
- 5 years	4.18%	4.90%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%	3.70%	3.60%	3.50%
- 10 years	4.31%	5.00%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%	3.70%	3.70%	3.60%
- 25 years	4.85%	5.30%	5.10%	4.90%	4.70%	4.50%	4.30%	4.20%	4.10%	4.10%	4.00%
- 50 years	4.59%	5.10%	4.90%	4.70%	4.50%	4.30%	4.10%	4.00%	3.90%	3.90%	3.80%

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

3. 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	23,000	5.32%
Nov 2023	25,000	5.36%
Dec 2023	24,000	5.39%

4. 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 31st December 2023 totalling £24,380m is shown at Appendix A.

Borrowing Activity

5. 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-Dec-23	22,000	192,019	25,000	0	239,019
Interest rate	4.48%	2.37%	2.06%	8.80%	

6. The short-term borrowing is all from other local authorities. This has reduced to minimise the risk of rising interest rates. We have reduced this by using the Long term market lender loan to refinance. 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 now settled this loan in November 2023 and this is reflected in the table above.

Compliance with Treasury and Prudential Limits

7. During the period ended 31st December 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.

8. 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	5,429
Capital Expenditure-HRA	22,008	13,200
Capital Financing Requirement	303,964	262,042
Gross External Borrowing	267,688	239,019
Operational Boundary	305,000	262,500
Authorised Limit	340,000	297,303

- 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.

4.0 FINANCIAL IMPLICATIONS

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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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

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N/A

10.0 ECONOMIC AND CLIMATE IMPLICATIONS

Name & Title: Henry Muss, Sustainability & Climate Officer

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There are no direct economic and climate implications arising from the report.

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APPENDICES

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

BACKGROUND PAPERS

- None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
<ul style="list-style-type: none">• Audit & Scrutiny: 2023 Treasury management Q2 update	14 th Nov 2023
<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