Report No.
FSD24049

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Resources, Commissioning and Contracts Management Portfolio Holder** **Council**
Date:	**For pre-decision scrutiny by Executive, Resources and Contracts PDS Committee on 8th July 2024** **Council on 15th July 2024**
Decision Type:	Non-Urgent Executive Non-Key
Title:	**TREASURY MANAGEMENT – ANNUAL REPORT 2023/24**
Contact Officer:	Abdul Munim, Principal Accountant Tel: 020 8313 4334 E-mail: Abdul.Munim@bromley.gov.uk
Chief Officer:	Peter Turner, Director of Finance Tel: 020 8313 4668 E-mail: Peter.Turner@bromley.gov.uk
Ward:	All

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1. Reason for report

1.1. This report summarises treasury management activity during the fourth quarter of 2023/24 and includes the Treasury Management Annual Report for 2023/24, which is required to be reported to full Council. The report ensures that the Council is implementing best practice in accordance with the CIPFA Code of Practice for Treasury Management.

1.2. Investments as at 31st March 2024 totalled £326.9m and there was no outstanding external borrowing. For information and comparison, the balance of investments stood at £370.1m as at 31st December 2023 and £344.0m as at 31st March 2023.

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2. RECOMMENDATION(S)

2.1. The Resources, Commissioning and Contracts Management Portfolio Holder is requested to:

(a) note the Treasury Management Annual Report for 2023/24; and

(b) approve the actual prudential indicators within the report.

2.2. Council is requested to:

(a) note the Treasury Management Annual Report for 2023/24; and

(b) approve the actual prudential indicators within the report.

Impact on Vulnerable Adults and Children

1. Summary of Impact: None

Corporate Policy

1. Policy Status: Existing policy. To maintain appropriate levels of risk, particularly security and liquidity, whilst seeking to achieve the highest rate of return on investments.

2. Making Bromley Even Better Priority: To manage our resources well, providing value for money, and efficient and effective services for Bromley's residents.

Financial

1. Cost of proposal: N/A

2. Ongoing costs: N/A

3. Budget head/performance centre: Interest on balances

4. Total current budget for this head: Net interest earnings of £14.7m achieved against a budget of £9.8m for 2023/24 (a surplus of £4.9m.) The budget for 2024/25 is £12.0m.

5. Source of funding: Net investment income

Personnel

1. Number of staff (current and additional): 0.25 fte

2. If from existing staff resources, number of staff hours: 9 hours per week

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Legal

1. Legal Requirement: Non-statutory - Government guidance.

2. Call-in: Call-in is applicable

Procurement

1. Summary of Procurement Implications: N/A

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): N/A

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 Under the requirements of the CIPFA Code of Practice on Treasury Management, the Council is required, as a minimum, to approve an annual treasury strategy in advance of the year, a mid-year review report and an annual report following the year comparing actual activity to the strategy. In practice, the Director of Finance has reported quarterly on treasury management activity for many years, as well as reporting the annual strategy before the year and the annual report after the year-end.

3.2 This report includes details of investment performance in the final quarter of 2023/24 and the annual report for the whole of the 2023/24 financial year.

3.3 The 2023/24 Annual Treasury Strategy, including the Minimum Revenue Provision (MRP) policy statement and prudential indicators, was originally approved by Council in February 2023.

3.4 Changes in the regulatory environment have placed a much greater onus on Members to undertake the review and scrutiny of treasury management policy and activities. This report is important in that respect as it provides details of the actual position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

3.5 The Council has monies available for treasury management investment as a result of the following:

- Positive cash flow;
- Receipts (mainly from Government) received in advance of payments being made;
- Capital receipts not yet utilised to fund capital expenditure;
- Provisions made in the accounts for liabilities e.g. provision for outstanding legal cases which have not yet materialised;
- General and earmarked reserves retained by the Council.

3.6 Some of the monies identified above are short term and investment of these needs to be highly 'liquid', particularly if it relates to a positive cash flow position which can change in the future. Future monies available for treasury management investment will depend on the budget position of the Council and whether the Council needs to substantially run down capital receipts and reserves. Against a backdrop of unprecedented cuts in Government funding which will require the Council to make revenue savings to balance the budget in future years, there is a likelihood that such actions may be required in the medium term, which will reduce the monies available for investment.

3.7 The Council has also identified an alternative investment strategy relating to property investment. To date, this has resulted in actual and planned acquisitions which generated a cumulative total of £31.8m between 2016/17 and 2021/22, £4.5m in 22/23 and £6.4m in 2023/24. This is based on a longer-term investment timeframe of at least 3 to 5 years and ensures that the monies available can attract higher yields over the longer term.

3.8 A combination of lower risk investment relating to treasury management and a separate investment strategy in the form of property acquisitions (generating higher yields and risks) provides a balanced investment strategy. Any future investment decisions will also need to consider the high likelihood that interest rates will decrease. The available resources for the medium term, given the ongoing reductions in Government funding, will need to be regularly reviewed.

Treasury performance in the quarter ended 31st March 2024

3.9 **Borrowing**: The Council's healthy cashflow position continues and, other than some short-term borrowing at the end of 2015/16, no borrowing has been required for a number of years. However, it is highly likely that borrowing will be required for any further capital expenditure not funded by capital receipts or grants unless the financial position of the Council significantly improves in the medium and longer term. This also recognises the limited ability of the Council to increase its reserves compared with previous years. In the context of high interest rates, the timing of any such borrowing will be crucial.

3.10 **Investments**: the following table sets out details of investment activity during the fourth quarter and the full financial year:

	Qtr ended 31/03/24		**2023/24 full year**	
	Deposits	**Ave Rate**	**Deposits**	**Ave Rate**
	£m	**%**	**£m**	**%**
Balance of "core" investments b/f	220.00	5.76	230.00	2.97
New investments made in period	25.00	5.64	230.00	5.82
Investments redeemed in period	-50.00	5.16	-265.00	3.29
"Core" investments at end of period	195.00	5.90	195.00	5.90
Money Market Funds	18.80	5.26	18.80	5.00
CCLA Property Fund*	40.00	2.44	40.00	1.10
Multi-Asset Income Funds*	40.00	6.44	40.00	4.22
Schroders Diversified Growth Fund	20.00	11.67	20.00	8.33
Project Beckenham Loan	3.08	6.00	3.08	6.00
Sovereign Bonds	10.00	6.61	10.00	6.61
"Alternative" investments at end of period	131.88	5.85	131.88	3.52
Total Investments at end of Period	**326.88**	**5.88**	**326.88**	**4.94**

* The rates shown in here are the total return (ie. the dividend income plus the change in capital value). A more detailed breakdown of the rates for these investments is shown in the relevant paragraphs

3.11 Details of the outstanding investments at 31st March 2024 are shown in maturity date order in Appendix 2 and by individual counterparty in Appendix 3. The return on the new "core" investments placed during the fourth quarter of 2023/24 was 5.90% (5.76% during the third quarter).

3.12 Reports to previous meetings have highlighted the fact that options with regards to the reinvestment of maturing deposits have become limited in recent years following bank credit rating downgrades. Changes to lending limits and eligibility criteria, as well as the introduction of pooled funds and housing associations have alleviated this to some extent. Following the succession of increases in the Bank of England base rate to the current rate of 5.25%, counterparty rates were generally in excess of 6% for a one-year deposit during the first half of 2023/24. However, interest rates are expected to start reducing during 2024/25, so one-year rates are around 5% at the time of writing this report.

3.13 The chart in Appendix 1 shows total investments at quarter-end dates back to 1st April 2004 and shows how available funds had increased steadily over the years, peaking in December 2021 and have since started reducing.

Interest rate forecast (provided by Link Group)

3.14 The current Bank of England base rate is 5.25%, following an increase at the September 2023 meeting of the Monetary Policy Committee. The market believes rates will remain at this rate until mid Q2 before decreasing to 4.75%. Link has stated that they expect MPC will keep Bank Rate at 5.25% until the second half of 2024, to combat on-going inflationary and wage pressures, even if they have dampened somewhat of late. They do not think that the MPC will increase Bank Rates above 5.25%.

Link Group Interest Rate View	25.03.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

3.15 The following table, also provided by Link, is included here for context and shows the scope and timing of the changes in forecast.

Bank Rate	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
25.03.24	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
08.01.24	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Change	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Money Market Funds

3.18 The Council currently has five AAA rated Money Market Fund accounts, with Federated Prime Rate, Aberdeen Standard (formerly known as Ignis), Insight, Fidelity and Legal & General, all of which have a maximum investment limit of £15m. The LGIM, Aberdeen Standard and Federated Funds currently offer the best rate at around 5.3%.

3.19 The total balance held in Money Market Funds has varied during the year to date moving from £0m as at 31st March 2023 to £36.1m as at 30th September 2023, £37.0m as at 31st December 2023 and down to £18.8m as at 31st March 2024. The Money Market Funds usually offer the lowest interest of all eligible investment vehicles with the exception of the Government Debt Management Account Deposit Facility. However, they are the most liquid, with funds able to be redeemed up until midday for same-day settlement.

3.20 Daily balances in the Money Market Funds vary considerably and balances tend to be managed higher during February and March to provide a cashflow buffer when the Council's income from Council Tax and Business Rates is significantly lower than the rest of the year. Occasionally, these balances are inflated to ensure that the Council has sufficient liquidity to cover any 'non-standard' expenditure such as significant capital expenditure.

Housing Associations

3.21 Deposits have previously been made with Housing Associations where they had attracted favourable rates. However at the time of drafting this report, the Council holds no investments in Housing Associations as the rates offered have been less competitive than other fixed term deposit opportunities.

Loan to Project Beckenham

3.22 On 26th June 2017, Council approved the inclusion in the strategy of a secured loan to Project Beckenham, relating to the provision of temporary accommodation for the homeless, that had previously been agreed to be advanced from the Investment Fund. A loan of £2.3m was made in June 2017, at a rate of 6% (increasing to 7.5% if the loan to value ratio exceeds a specified value). £1.0m of this loan was re-paid during 2019/20, leaving a balance of £1.3m as at the end of March 2020. Advances totalling £2.45m were made in 2020/21 and 2021/22 leaving a balance of £3.75m. A further five loan advances totalling £1.2m were made in 2022/23 and repayments of £960k were received in November and December leaving the balance as at 31st March 2023 at £4.0m. In May, September and November 2023, repayments totalling £0.91m were made, leaving the balance as at 31st March 2024 at £3.08m.

Sovereign bonds

3.23 During November 2021, it was agreed that the Council's treasury management strategy be amended to allow investment in sterling-denominated sovereign bonds, subject to a maximum of duration of 3 years and an exposure limit of £25m. On 30th November 2021, an investment of £10m was made for two years at a rate of 1.84% and a further investment of £10m was invested on 1st August 2023 for two years at a rate of 6.61%.

Pooled investment schemes

3.24 In September 2013, the Portfolio Holder and, subsequently, Council approved the inclusion of collective (pooled) investment schemes as eligible investment vehicles in the Council's Investment Strategy with an overall limit of £25m and a maximum duration of 5 years. The limit was subsequently increased to £40m by Council in October 2015, £80m in June 2017 and £100m in December 2017. Such investments would require the approval of the Director of Finance in consultation with the Resources Portfolio Holder.

3.25 Until March 2018, accounting rules required that the change in capital value of these investments be held in the Available for Sale Financial Assets Reserve, and only recognised in revenue on the sale of the investment. In year projections for interest on balances therefore only reflected the dividends from these investments.

3.26 However, from 2018/19 onwards, local authorities have been required to account for financial instruments in accordance with IFRS9. One of the results of this is that changes in the capital value of pooled fund investments are recognised in revenue in-year. Subsequently, MHCLG issued regulations providing a statutory override to reverse the impact of IFRS9 on the Council's General Fund, which came into force in December 2018 and would apply until 31st March 2023, after which it was intended for movements in value to be recognised in year. Following consultation, DLUHC announced in January that the override would be extended for a further 2 years to 31st March 2025, after which the standard will be applied fully.

3.27 Due to the regulations being time limited and the potentially volatile nature of these investments, interest/dividend earnings above a determined threshold have been set aside in an earmarked Income Equalisation reserve. This will protect the Council against unexpected variations in the capital value of these investments and any timing issues arising from the expiry of the statutory override. Details are shown in the following table:

FY	Threshold %	Bal bfwd £'000	Set aside £'000	Bal cfwd £'000
2017/18	2.5	0	1,085	1,085
2018/19	2.5	1,085	1,509	2,594
2019/20	2.5	2,594	1,196	3,790
2020/21	2.0	3,790	1,520	5,310
2021/22	2.0	5,310	1,676	6,986
2022/23	2.0	6,986	2,044	9,030

2023/24	2.0	9,030	4,211	13,241

CCLA Property Fund

3.28 Following consultation between the Director of Finance and the Resources Portfolio Holder, an account was opened in January 2014 with the CCLA Local Authorities' Property Fund and an initial deposit of £5m was made, followed by further deposits of £5m in July 2014, £5m in March 2015, £10m in October 2015, £5m in October 2016 and £10m in October 2017. The investment in the CCLA Fund is viewed as a medium to long-term investment and dividends are paid quarterly. A breakdown of dividends earned and capital growth is provided in the table below.

Annualised net return	Dividend %	Capital gain/(loss) %	Total Return %
01/02/14- 31/03/14	4.29	-29.64	-25.35
01/04/14 - 31/03/15	5.03	3.44	8.47
01/04/15 - 31/03/16	5.02	1.63	6.65
01/04/16 - 31/03/17	4.55	-2.50	2.05
01/04/17 - 31/03/18	4.58	2.41	6.99
01/04/18 - 31/03/19	4.46	1.57	6.03
01/04/19 - 31/03/20	4.45	-3.68	0.77
01/04/20 - 31/03/21	4.30	-0.71	3.60
01/04/21 - 31/03/22	3.82	17.29	21.12
01/04/22 - 31/03/23	4.19	-19.09	-14.90
01/04/23 - 31/03/24	4.86	-3.76	1.10
Cumulative return	4.45	-0.85	3.59

3.29 The annualised fund return for the year to 31st March 2024 was capital decline of -3.76% and dividends paid of 4.86%, resulting in a total return of 1.10%. Since inception, dividends paid have averaged 4.45% per annum and the capital value has decreased by -0.85% per annum resulting in a net annual return of 3.59%.

Multi-Asset Income Fund

3.30 Following approval by Council in June 2017, the limit for pooled investment schemes was increased to £80m and an investment of £30m was made on 12th July 2017 in the Fidelity Multi-Asset Income Fund, following the agreement of the Resources, Commissioning and Contracts Management Portfolio Holder. A subsequent investment of £10m was made on 30th December 2019.

Annualised net return	Dividend %	Capital Gain/(Loss) %	Total Return %
12/07/17 - 31/03/18	4.24	-6.02	-1.78
01/04/18 - 31/03/19	4.26	1.38	5.64
01/04/19 - 31/03/20	4.37	-11.81	-7.44
01/04/20 - 31/03/21	4.38	9.52	13.9
01/04/21 - 31/03/22	4.16	-4.98	-0.82
01/04/22 - 31/03/23	4.17	-12.08	-7.92

01/04/23 - 31/03/24	4.88	-0.66	4.22
Cumulative Return	4.36	-3.32	1.04

3.31 The annualised fund return for the year to 31st March 2024 was a capital decline of -0.66% and dividends paid of 4.88%, resulting in a total return of 4.22%. Since inception, dividends paid have averaged 4.36% per annum and the capital value has declined by -3.32% per annum resulting in a net annual return of 1.04%.

Global Diversified Income Fund

3.32 During 2020/21 a new investment was made in the Global Diversified Income Fund managed by Schroders. The aim of this fund is to provide long-term capital growth and income of 3-5% per annum. An initial investment of £10m was made in March 2021, followed by a further £10m in April 2021. A breakdown of dividends earned and capital growth is provided in the table.

Annualised net return	Dividend %	Capital gain/(loss) %	Total Return %
01/03/21 - 31/03/21	2.45	2.43	4.88
01/04/21 - 31/03/22	2.96	-3.15	-0.19
01/04/22 - 31/03/23	3.50	-8.38	-4.88
01/04/23 - 31/03/24	4.04	4.29	8.33
Cumulative return	3.49	-2.34	1.15

3.33 The annualised fund return for the year to 31st March 2024 was a capital increase of 4.29% and dividends paid of 4.04%, resulting in a total return of 8.33%. Since inception, dividends paid have averaged 3.49% per annum and the capital value has declined by -2.34% per annum resulting in a net annual return of 1.15%.

Property acquisition scheme (Meadowship Homes)

3.34 As agreed by the Executive in 2021, the Council has entered into a joint venture with Orchard & Shipman (since acquired by Pinnacle) for a property acquisition scheme. This involved the formation of an LLP between the Council and Orchard & Shipman. As part of this scheme, the Council will make a £20m loan (in tranches) for 50 years. Annual repayments will start from year 3 of 1.6% (£320k) per annum and increasing annually by CPI (collared at 0-4%). As the Effective Interest Rate on the loan is dependent on CPI, it is possible that this will be lower than the rate the Council might achieve through treasury management investments, so there may be a net loss of interest income. Phase 2 of the scheme was approved in July 2022, involving a further loan of £15m on similar repayment terms to the initial scheme. The loans themselves are not counted as treasury management in accordance with the Capital Financing Regulations.

Actual prudential indicators for 2023/24

3.35 The old capital control system was replaced in April 2004 by a prudential system based largely on self-regulation by local authorities themselves. At the heart of the system is The Prudential Code for Capital Finance in Local Authorities, developed by CIPFA. The Code requires the Council to set a number of prudential indicators designed to monitor and control capital expenditure, financing and borrowing. The indicators for 2023/24 were approved by the Executive and the Council in February 2023. Appendix 4 sets out the actual performance in 2023/24 against those indicators.

Economic background during 2023/24 (provided by Link Asset Services)

3.36 Further information on the economic background is included as Appendix 5.

Revised Treasury Management and Prudential Codes

3.37 During December 2021 CIPFA published a revised Prudential Code (Prudential Code for Capital Finance in Local Authorities) and Treasury Management Code (Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes). The requirements of the revised Codes, to the extent to which they apply to the Council, have been incorporated into the Treasury Management Strategy Statement and Annual Investment Strategy as approved by Council in February 2023.

Regulatory framework, risk and performance

3.38 The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 ('the Act') which provides the powers to borrow and invest as well as providing controls and limits on this activity
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing that may be undertaken (although no restrictions have been made to date)
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services
- Under the Act, DLUHC has issued Investment Guidance to structure and regulate the Council's investment activities
- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007, the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.

3.39 The Council has complied with all of the above relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. In particular, its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable and its treasury practices demonstrate a low-risk approach.

4. POLICY IMPLICATIONS

4.1 In line with government guidance, the Council's policy is to seek to achieve the highest rate of return on investments whilst maintaining appropriate levels of risk, particularly security and liquidity.

5. FINANCIAL IMPLICATIONS

5.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed.

Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

5.2 The provisional outturn for net interest on investments in 2023/24 was £14.7m compared to the budget of £9.8m, due to the continued high Bank of England base rate and high level of balances available for investment resulting in higher level of interest earned on the fixed deposits, money market funds and pooled funds.

5.3 The budget for 2023/24 has been set at £12.03m. This reflects an expected reduction in balances available for investment as a result of the utilisation of capital receipts and grants/contributions as well as earmarked revenue reserves. The Bank of England base rate is currently at 5.25% and it is expected to decrease in 2024/25 which will in turn reduce counterparty rates. There is some uncertainty as to how much the rates will reduce meaning we cannot be fully certain on the amount of investment return that will be achieved on the entire portfolio.

5.4 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council. Although the Council does not currently borrow to finance its general fund capital spending plans, officers still plan and forecast the longer-term cash flow position in order to ensure that the Council can meet its capital spending obligations and that it maintains balances (working capital) at a prudent and sustainable level.

5.5 The Council's Treasury Management Strategy and day-to-day operations of the treasury function are informed by our professional adviser, Link Group. It advises the Council on counterparties, investment and borrowing options, and risk management.

6. LEGAL IMPLICATIONS

6.1 Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.

6.2 This report fulfils the requirements of the Chartered Institute of Public Finance & Accountancy's Treasury Management and Prudential Codes of Practice and Statutory Guidance on Local Government Investments.

Non-applicable sections:	Impact on Vulnerable Adults and Children, Personnel, Legal and Procurement Implications
Background documents: (access via Contact Officer)	CIPFA Code of Practice on Treasury Management 2021 CIPFA Prudential Code for Capital Finance in Local Authorities 2021 DLUHC Guidance on Investments External advice from Link Group