



Report to Audit and Governance Committee

Date: 1st February 2023

Reference number: N/A

Title: Treasury Management Strategy 2023/24

Relevant councillor(s): Cllr John Chilver, Cabinet Member for Accessible Housing and Resources and Cllr Timothy Butcher, Deputy Cabinet Member for Accessible Housing and Resources

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Recommendations: The Audit and Governance Committee are asked to recommend the Council's Treasury Management Strategy Statement (TMSS) for 2023/24 to Council to agree at its meeting on 22nd February 2023.

The Audit and Governance Committee are asked to recommend the operational boundary for external borrowing, the authorised limit for external borrowing, the maturity structure of borrowing, the upper limit for principal sums invested for longer than 365 days and the liability benchmark to Council to agree at its meeting on 22nd February 2023.

Executive summary

1.1 The Council is required to approve a treasury management strategy statement before the start of each financial year. The table below is a summary of the Council's borrowing position:

£000	1st April 2020	31st March 2021	31st March 2022	30th Dec 2022	31st March 2023	31st March 2024
PWLB ¹	333,193	286,459	279,638	263,692	262,728	255,728
LOBO ²	30,000	30,000	30,000	30,000	30,000	30,000
Total	363,193	316,459	309,638	293,692	292,728	285,728

¹ PWLB Public Works Loans Board. The PWLB is a statutory body, part of HM Treasury; its purpose is to lend money to local authorities.

² LOBOs Lender Option Borrower Option. LOBOs are long-term borrowing instruments which include an option for the lender to periodically revise the interest rate. If the lender decides to revise the interest rate, the borrower then has the option to pay the revised interest rate or repay the loan.

1.1 The treasury cash (investments) position is summarised below:

£000	31st Dec 2021	31st March 2022	30th June 2022	30th Sept 2022	31st Dec 2022	31st March 2023	30th June 2023
Term Deposits					-		
UK Banks	5,000	5,000	15,000	15,000	5,000	20,000	20,000
Overseas Banks	5,000	10,000	10,000	20,000	30,000	20,000	20,000
Building Societies	-	-	10,000	10,000	-	10,000	10,000
Local Authorities	113,000	103,000	70,000	75,000	65,000	55,000	45,000
UK Government	-	-	23,300		24,200	10,000	40,000
	123,000	118,000	128,300	120,000	124,200	115,000	135,000
Instant Access							
MMF	62,360	37,815	78,750	53,510	52,060	43,800	65,100
Property Fund							
CCLA	21,418	22,923	24,122	23,098	19,522	19,522	19,522
Total	206,778	178,738	231,172	196,608	195,782	178,322	219,622

1.2 The Council continues to pursue a strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, to reduce risk and keep external financing costs low. The Council will continue the strategy of internal borrowing while it makes sense to do so. In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but the Council will also consider investing for periods of up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated. The Council is considering opportunities for investments with longer exposure, but also ensuring that there is sufficient liquidity to meeting any short-term significant costs that may arise.

- 1.3 The Bank of England's Monetary Policy Committee made clear at its November 2022 meeting that further rate increases are in the pipeline and markets expect Bank Rate to peak at 4.5%-4.75%. Investing in 2023/24, is therefore likely to be conducted, first, in a rising interest rate environment, but also - potentially - a falling interest rate environment at the back-end of the financial year, depending on how quickly inflation falls back and how growth performs.
- 1.4 The Council's main objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The continuation of the Council's strategy of using surplus cash instead of external borrowing, keeping external financing costs low. The Council is actively reviewing opportunities for rescheduling long term debt.
- 1.5 The only proposed change to the 2023/24 TMSS compared to the 2022/23 TMSS is to amend the section for investments with other local authorities so that the investment can only be placed with the prior approval of the Council Leader or deputies in the case of leave, the Chief Executive and the Service Director of Finance. Furthermore, if a local authority that the Council has invested in subsequently issues a section 114 or is given a capitalisation directive, or any other untoward financial event experienced by an authority who the Council held an investment in will be reported to the Audit and Governance Committee at the earliest opportunity.

Content of report

- 1.6 In line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management and the Council's Financial Procedures (part of the constitution), this Council is required to submit a treasury management strategy statement for the following financial year to the Audit and Governance Committee to consider on 1st February 2023, prior to the Council agreeing the strategy at its meeting on 22nd February 2023. The draft Treasury Management Strategy Statement for 2023/24 is attached as Appendix 1 to this report. The strategy for 2023/24 covers the current treasury position, treasury indicators which limit the treasury risk and activities of the Council, prospects for interest rates, the borrowing strategy, policy on borrowing in advance of need, debt rescheduling, the investment strategy, creditworthiness policy and the policy on use of external service providers.
- 1.7 The Code of Practice defines Treasury Management as: The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. Treasury management is conducted within the framework of the Chartered Institute

of Public Finance and Accountancy’s Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code).

- 1.8 The treasury management function ensures that the Council’s cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council’s capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The Council is asked to approve the following limits to borrowing activity:

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed.

Operational boundary £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt	320	410	410	410
Other long-term liabilities	7.5	7.5	7.5	7.5
Total	327.5	417.5	417.5	417.5

- 1.9 **The authorised limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be approved by full Council. If there is a possibility that the Council is likely to exceed the agreed authorised limit, then full Council approval would be required in advance. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

Authorised limit £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/25 Estimate
Debt	420	510	510	510
Other long-term liabilities	10	10	10	10
Total	430	520	520	520

- 1.10 **Maturity structure of borrowing.** These gross limits are set to reduce the Council’s exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.



Maturity structure of borrowing 2023/24		
	Lower	Upper
Under 12 months	0%	18%
12 months to 2 years	0%	20%
2 years to 5 years	0%	17%
5 years to 10 years	0%	36%
10 years to 20 years	0%	34%
20 years to 30 years	0%	34%
30 years to 40 years	0%	32%
40 years to 50 years	0%	20%
More than 50 years	0%	12%

- 1.11 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 1.12 The only proposed change to the 2023/24 TMSS compared to the 2022/23 TMSS is to amend the section for investments with other local authorities so that the investments can only be placed with the prior approval of the Council Leader, the Chief Executive and the Service Director of Finance or deputies in the case of leave. Furthermore, if a local authority that the Council has invested in subsequently issues a section 114 or is given a capitalisation directive, or any other untoward financial event experienced by an authority who the Council held an investment in will be reported to the Audit and Governance Committee at the earliest opportunity.
- 1.13 The Council is asked to approve the following treasury indicator and limit for the total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

Upper limit for principal sums invested for longer than 365 days			
£m	2022/23	2023/24	2024/25
Principal sums invested for longer than 365 days	£25m	£25m	£25m
Current investments on 31 st December 2022 in excess of 1 year maturing in each year	£0m	£10m	£0m

1.14 CIPFA published revised Treasury Management Code and Prudential Code on 20th December 2021 which is required to be formally adopted in the 2023/24 financial year. The revised Code includes a requirement for the Council to adopt a new prudential indicator for the debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement. The Council's Liability Benchmark chart for the following 10 years is attached as Appendix 2. It show the existing loans debt outstanding, the loans Capital Financing Requirement, the net loans requirement and the liability benchmark. The liability benchmark is the net loans required plus the short-term liquidity allowance. Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position. Buckinghamshire Council's liability benchmark tracks closely to the net loans requirement over the forthcoming years.

Legal and financial implications

1.15 The publication of an annual strategy, a mid-year treasury report and an annual treasury management report conforms to best practice as required by the Code of Practice CIPFA Treasury Management in the Public Services. A quarterly updated is reported to the Treasury Management Group.

Corporate implications

1.16 There are none.