Report to Audit and Governance Committee

Date:	5th July 2023
Title:	**Treasury Management Annual Report 2022/23**
Relevant councillor:	John Chilver, Cabinet Member for Accessible Housing and Resources
Contact officer:	Mark Preston, Assistant Director of Finance (Pensions, Procurement and Revenues & Benefits
Ward(s) affected:	None specific
Recommendations:	**The Audit and Governance Committee is asked to note the Treasury Management Annual Report for 2022/23.**

1. Executive summary

1.1 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).

1.2 The CIPFA Code 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.

1.3 On 31st March 2023 the Council held £114.27m cash and £292.73m of loans, a net borrowing position of £178.46m. The Council pursues 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. Liquid cash was diversified over several counterparties and Money Market Funds to manage both credit and liquidity risks. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets. Recent increases in interest base rates should improve future investment returns, but the cost of PWLB borrowing has increased and so new borrowing will cost slightly more.

2. Content of report

2.1 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). In line with the CIPFA Code and the Council's Financial Regulations, this Council is required to provide the Audit and Governance Committee with a report on the previous year's treasury management activity.

2.2 The CIPFA Code 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. The Council's 2022/23 Treasury Management Strategy was approved by Council on 23rd February 2022. The general policy is the prudent investment of its treasury balances and cost-effective borrowing to finance long term investment in the Council's assets.

2.3 On 31st March 2023 the Council held £114.27m cash and £292.73m of loans, a net borrowing position of £178.46m. The Council repaid £16.9m borrowing to the PWLB and £39m Business Rates Grant which had been received in advance, the combined impact increased the Council's net debt position from £130.9m on 31st March 2022 to £178.46m on 31st March 2023. The table below is a summary of the Council's treasury position on 31st March 2022 and 31st March 2023.

31st March 2022 £m	%	Treasury Portfolio	31st March 2023 £m	%
Treasury Investments				
15.00	8%	Banks & Building Societies	20.00	18%
93.00	52%	Local Authorities (less than 364 days)	55.00	48%
37.82	21%	Money Market Funds	20.13	18%
0.00	0%	UK Government	0.00	0%
10.00	6%	Local Authorities (longer than 364 days)	0.00	0%
22.92	13%	Property Fund	19.14	17%
178.74	**100%**	**Total Treasury Investments**	**114.27**	**100%**
External Borrowing				
-279.64	90%	PWLB[1]	-262.73	90%
-30.00	10%	LOBOs[2]	-30.00	10%
-309.64	**100%**	**Total External Borrowing**	**-292.73**	**100%**
Net treasury investments / (Borrowing)				
-130.90		**Net Treasury Investments /(Borrowing)**	**-178.46**	

[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. 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.

[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.

2.4 In overall budget terms, the Council ended up £3.806m net better off during the year, the increase in interest rates means that the Council achieved £2.890m more investment income than budgeted for. The Council spent £8.379m on interest for external borrowing activity in the financial year, an underspend of £916k compared to the budget of £9.295m. The budget assumed that the Council would undertake new borrowing in 2022/23, no new borrowing has been undertaken. Another factor was the continuation of the Council's internal borrowing strategy to reduce risks and keep external financing costs low. Liquid cash was diversified over several counterparties and Money Market Funds to manage both credit and liquidity risks. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets. Recent increases in interest base rates should improve future investment returns, but PWLB borrowing has increased and so new borrowing will cost slightly more. The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties. The following table summarises the 31st March 2023 year end position for interest on external borrowing and interest receivable on term deposits / Money Market Funds.

Summary of external interest costs and interest receivable

	Budget	**Year End Outturn**	**Variance**
	£000	**£000**	**£000**
External Interest Costs	9,295	8,379	-916
Interest Receivable on Term Deposits / MMFs	-1,469	-4,359	-2,890
Net Position	**7,826**	**4,020**	**-3,806**

2.5 On 31st March 2023 the Council held £292.728m of loans, a decrease of £16.910m compared to 31st March 2022; £262.728m was from the Public Works Loans Board (PWLB1), £30.000m Lenders Option Borrowers Option (LOBOs[2]) from the money markets. The Council pursues 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 continue to do so. Liquid cash was diversified over several counterparties and Money Market Funds to manage both credit and liquidity risks. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets. Recent increases in interest base rates should improve future investment returns, but the cost of PWLB borrowing has increased and so new borrowing will cost slightly more.

2.6 The cost of external borrowing in 2022/23 was £8.379m, an underspend of £0.916m compared to the £9.295m budget. The Council continues to look for opportunities to reschedule debt where this is expected to lead to an overall cost saving or a reduction in risk. The Council has significant capital ambitions in the next three years and does not envisage receiving significant surplus capital receipts. Given that there is a strong possibility that the Council will need to borrow at a higher interest rate than existing loans it is not expected that the Council will redeem current borrowing early. The table below is a summary of the Council's historic and projected borrowing, the projected borrowing position for 31st March 2024 assumes that there is no new borrowing in 2023/24.

Summary of Buckinghamshire Council's external borrowing

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

2.7 The table below shows the maturity structure of the Council's borrowing.

Maturity structure of borrowing

31 March 2022 £m		31 March 2023 £m
16.910	Under 12 months	7.001
6.910	12 months and within 24 months	7.095
20.730	24 months and within 5 years	21.871
75.342	5 years and within 10 years	78.447
189.746	10 years and above	178.314
309.638	**Total Borrowing**	**292.728**

2.8 **Treasury Position:** The Council's investment strategy sets out the approach for choosing investment counterparties. They are based on a system of credit ratings provided by the three main credit rating agencies and supplemented by additional market data (such as rating outlooks, credit default swaps and bank share prices) provided by the Council's treasury advisors.

2.9 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances fluctuated due to timing differences between income and expenditure.

Treasury Cash Position

2.10 The treasury cash (investments) historic and forecast position is summarised in the table below:

£000	30th June 2022	30th Sept 2022	31st Dec 2022	31st March 2023	30th June 2023	30th Sept 2023	30th Dec 2023
Term Deposits							
UK Banks	15,000	15,000	5,000	**10,000**	25,000	45,000	40,000
Overseas Banks	10,000	20,000	30,000	**-**	-	15,000	10,000
Building Societies	10,000	10,000	-	**10,000**	15,000	30,000	25,000
Local Authorities	70,000	75,000	65,000	**55,000**	50,000	-	-
UK Government	23,300		24,200	**-**		10,000	10,000
	128,300	120,000	124,200	**75,000**	90,000	100,000	85,000
Instant Access							
MMF	78,750	53,510	52,060	**20,125**	50,000	60,000	50,000
Property Fund							
CCLA	24,122	23,098	19,252	**19,144**	19,144	19,144	19,144
Total	231,172	196,608	195,512	**114,269**	159,144	179,144	154,144

2.11 The Council repaid £16.9m borrowing to the PWLB and £39m Business Rates Grant which had been received in advance reducing the Council's cash available for investments. The Council's cash balances are usually lower at the end of March each year since less Council tax is collected in February and March.

2.12 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. The Council earned £4.359m interest on its investments, an overachievement of £2.890m compared to the budget of £1.469m. Investment returns picked up throughout 2022/23 as the Bank of England tightened monetary policy to mitigate inflationary pressures. In April 2022, the Bank Rate was 0.75% and moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24. The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties. Several of the Council's treasury counterparties have Environmental, Social and Governance (ESG) strategies integrated into their investment processes. (ESG) treasury investments are being developed but do not represent a significant proportion of the investment vehicles / Money Market Funds available. Treasury management is about ensuring the Council has liquidity to meet its day-to-day cash requirements; the investments are generally short term, some overnight, secure, providing access to cash when the Council needs it, they don't include investments in fossil fuels or companies with a large carbon footprint.

2.13 **Externally Managed Pooled Funds** £19.144m of the Council's investments are held in an externally managed strategic pooled property fund where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. In the fourth quarter of 2022 property valuations responded to the Bank of England's rate hikes with significant falls in net asset values as the asset class adjusted to future borrowing costs. The dividend yield on the Local Authorities' Property Fund was 4.26% in the year to 31 March 2023.

2.14 The Council invests with other local authorities, the 2022/23 Treasury Management Strategy included a statement that where a local authority has issued a section 114 notice or has been granted permissions to use capital to help with their revenue budgets the investment can only be placed with the prior approval of the Service Director of Finance (Section 151 officer) in consultation with the Cabinet Member for Accessible Housing and Resources. The number of local authorities who are experiencing financial difficulties has increased significantly over recent years resulting in s114 notices, Best Value reports and Public Interest reports, applications for Capitalisation Directives, as well as reports of general financial pressures being experienced by councils. In this economic environment, the policy was tightened so that future investments with other local authorities require advance approval from the Chief Executive, the Leader of the Council and the Service Director of Finance (Section 151 officer) or deputies in the case of absence.

2.15 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. This policy was formally adopted in the Treasury Management Strategy for 2023/24.

2.16 During 2022/23 there were several articles in the press about high levels of indebtedness with other local authorities. The Council received a letter of assurance from Slough Council that a loan would be repaid, the loan was repaid on the maturity date of the 22nd October 2022. A loan placed with Thurrock Council was also repaid on its expected maturity date the 6th January 2023.

2.17 In line with the requirement of the Treasury Management Strategy to report to the Audit and Governance Committee at the earliest opportunity any local authority that the Council had an investment with who subsequently issued a section 114 or was given a capitalisation directive, or any other untoward financial event, an update was provided on a loan made to Birmingham City Council. It was reported on 10th May 2023 that the Council had a £10m loan with Birmingham City Council which is due to be repaid on 1 September 2023, this loan was made before the additional sign off requirements were introduced. The loan was covered by the statutory underpin and there was nothing to suggest that there would be an issue with the repayment or indeed the overall financial stability of Birmingham City Council. Birmingham City Council had experienced some issues with its implementation of a new ERP system, so it was thought appropriate to report it to the Committee.

2.18 **Prudential Indicators:** Each year, the Council agrees Prudential Indicators under the Local Government Act 2003 which are affordable, prudent and sustainable. The 2022/23 indicators were agreed by Council on 23rd February 2022, updated indicators for 2023/24 were agreed by Council in February 2024.

2.19 **Borrowing Indicators:** The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes. This is essentially the Council's outstanding debt, necessary to finance the Council's capital expenditure. The actual debt is dependent on the type and maturity of the borrowing undertaken as well as seeking the optimal cashflow situation.

2.20 Comparing gross debt with the capital financing requirement is an indicator of the Council's prudence in managing its capital expenditure and is designed to ensure that, over the medium term, external borrowing is only for capital purposes. The Council should ensure that gross debt does not exceed the total of the 'capital financing requirement'. The values are measured at the end of the financial year.

Comparison of gross debt with the capital financing requirement

Actual Debt Compared to CFR £m	Approved £m	Actual £m
Debt	394.56	292.73
Capital Financing Requirement	579.76	570.67
Under / (over) borrowing	**185.20**	**277.94**

2.21 On 31st March 2023 the actual debt was £277.94m lower than the capital financing requirement.

2.22 The authorised limit for external debt is required to separately identify external borrowing (gross of investments) and other long-term liabilities such as covenant repayments and finance lease obligations. The limit provides a maximum figure that the Council could borrow at any given point during each financial year.

2.23 The Operational Boundary for External Debt is a key management tool for in-year monitoring and is lower than the Authorised Limit as it is based on an estimate of the most likely level of external borrowing at any point in the year. In comparison, the authorised limit is the maximum allowable level of borrowing.

Authorised Limit (for total external debt)

Authorised limit £m	Approved	Actual
Debt*	510.00	292.73
Other long-term liabilities *	10.00	0.00
Total Authorised limit (for external debt) *	**520.00**	**292.73**

* These limits can only be breached with the approval of the full Council to raise them.

2.24 There were no breaches of the authorised limit in 2022/23.

Operational boundary (for borrowing)

Operational Boundary £m	Approved £m	Actual £m
Debt	410.00	292.73
Other long-term liabilities	7.50	0.00
Total Operational Boundary (for external debt)	**417.50**	**292.73**

2.25 The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. Actual debt in 2022/23 was below the operational boundary. The operational boundary allowed for circa £100m borrowing approval delegated to Cabinet should viable and robust businesses come forward, this was not utilised in 2022/23.

2.26 **Treasury Management Indicators:** The Council measures and manages its exposures to treasury management risks using the following indicators.

2.27 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk. The portfolio average credit rating of AA- exceeded the target of A.

Credit Risk Indicator

	Indicator as at 31 March 2023	**Target**
Portfolio average credit rating	AA-	A

2.28 **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator

	31 March 2023	Upper Limit	Lower Limit
Under 12 months	2%	30%	0%
12 months and within 24 months	2%	25%	0%
24 months and within 5 years	7%	30%	0%
5 years and within 10 years	27%	40%	0%
10 years and above	62%	80%	20%

2.29 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

2.30 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Upper Limit for Principal Sums Invested for Periods Longer than a Year

	2022/23	2023/24	2024/25
Investments as at 31st March 2023 invested for longer than 365 days	£0m	£0m	£0m
Limit on principal sums invested beyond year end	£25m	£25m	£25m

3. Legal and financial implications

3.1 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.

4. Corporate implications

4.1 There are none.