Report to Audit & Governance Committee

Date:	27th November 2023
Title:	**Treasury Management – 2023-24 Mid-Year update**
Cabinet Member(s):	Cllr John Chilver - Cabinet Member for Accessible Housing and Resources and Cllr Tim Butcher - Deputy Cabinet Member for Resources and Human Resources
Contact officer:	Hasina Shah
Ward(s) affected:	Not Applicable
Recommendations:	**Members are requested to note the report**
Reason for recommendation:	Not Applicable

1. Executive summary

1.1 The Treasury Management Strategy Statement was approved by the full Council on 22nd February 2023 in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management.

1.2 Treasury management comprises:

i. Investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security of capital and liquidity. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially, before considering optimising investment return.

ii. Managing the Council's borrowing to ensure funding of the future capital programme is at optimal cost. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The primary requirements of the Treasury Management Code are summarised below:-

i. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
ii. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
iii. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review** Report (this report) and an Annual Report (stewardship report) covering activities during the previous year.
iv. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. At Buckinghamshire, this responsibility is delegated to the Director of Finance.
v. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. In Buckinghamshire, the delegated body is the Audit and Governance Committee.

1.4 This report forms part of the monitoring of the Treasury Function and it reviews the implementation of the strategy to date in compliance with CIPFA code of practice and covers the following:-

- A review of the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS);
- A six-monthly review of the Council's Treasury position for 2023/24;
- The Council's capital expenditure, as set out in the Capital Strategy;
- A review of compliance with Treasury and Prudential Limits for 2023/24;
- A review of the Council's borrowing strategy and debt rescheduling;
- An economic update is attached at Appendix A;

2. Treasury Management Strategy Statement and Annual Investment Strategy

2.1 The Council's policy objective is the prudent investment of balances to achieve optimum returns on investments, subject to maintaining adequate security of capital and a level of liquidity appropriate to the Council's projected need for funds over time. There are no policy changes to TMSS or AIS.

2.2 The Council has complied with all elements of the TMSS. Further information on the activities for the first half of the year is available in sections 5 and 6.

3. Treasury Position

3.1 As at 30 September 2023, the net cash position was £177m, an increase of £63m on the position at 31 March 2023 as shown below:

	30 Sept 2023 £m	Average Interest %	March 2023 £m
Borrowing			
PWLB	260	2.63	263
LOBO	30	4.04	30
Total	**290**	**2.77**	**293**
Investments			
Specified Investments (up to one year)			
Money Market Funds (MMF)	48	5.22	20
Term Deposit - UK Banks	70	5.39	20
Term Deposit - Non UK Banks	40	5.79	-
Local Authorities	-		55
Non-Specified Investments (longer than one year)			
CCLA Property Pooled Fund	19	4.66	19
Total Investments	**177**	**5.38**	**114**
Net Cash Invested	**- 113**		**- 179**

3.2 The increase of £63m reflects the forecast pattern of the Council's cashflows and is mainly dependant on the timing of precept payments, receipt of grants, council tax and business rates, and progress on the capital expenditure programme.

3.3 **Investments**

i. The average level of funds available for investment within Money Market Funds and Term Deposits in the first six months of 2023/24 was £150m.

ii. Liquid balances are managed through Money Market Funds, providing same day liquidity. Cash has also been invested less liquid Fixed Term Deposits (typically 3-6 months) and a longer term illiquid pooled Local Authority Property Fund.

iii. There are attractive opportunities in the current economic climate for investments of up to 12 months in financial institutions with high credit ratings. The Council has taken these opportunities and have fully utilised the limit of £40m in overseas banks with AAA sovereign rated countries.

iv. The Council's investment strategy looks to achieve a return on its investments in line with the Sterling Overnight Index Average (SONIA) rate, as suggested by its treasury advisors (Link Group). During the first half of the year the average investment return was 4.34% compared to the SONIA Rate of 4.84%. This underperformance against the benchmark is expected in the rising rate environment, as the bank base rate has been increasing since the last quarter of 2021. Council's investment portfolio had fixed rate investments which were placed before the rate rise and therefore were at the lower rate. As these investments mature the Council is now securing higher rates on its investment portfolio and is expecting to meet its benchmark for the second half of the year.

v. The Council currently has no investments placed with other Local Authorities.

3.4 **Borrowing** - During the first half of the year the Council repaid £3.489m of PWLB loans and the estimated repayment for the second half of the year is £3.512m. This will bring the borrowing down to £285.728m by 31st March 2024.

3.5 The table below shows the forecast position of both the borrowing cost and investment income. The favourable variance of £1.1m on borrowing cost is resulting from use of internal borrowing for capital programme. Due to higher interest rates and higher cash balances than budgeted the investment income is forecasting a favourable variance of £3.5m.

	Budget £m	Forecast £m	Variance £m
Borrowing Cost	10.0	8.9	-1.1
Minimum Revenue Provision	13.0	12.4	-0.6
Interest on Term Deposits/MMF	-7.0	-10.5	-3.5
Total	16.0	10.8	-5.2

3.6 **CCLA Local Authorities Property Pooled Fund**

i. The Council has £19m invested in this fund and in the past it has provided a good return compared to cash investment portfolio. As at end of September it is generating a return of 4.66%. In the recent period there has been adverse impact on capital performance influenced by:-

a. The macro background, markets firmed up their expectations that interest rates would remain ‘higher for longer’. This has kept capital values in the property market under a little more pressure as investors demand higher yields; and

b. Property investment fundamentals have re-surfaced as the impact of rising yields on valuations started to fade. Offices remained the most troubled sector in a challenging market. The general pause in investment activity and the requirement for higher yields also focused attention on assets where the fundamentals were weak, and thin markets explicitly exposed more fully the issues faced by office investment, reflecting a combination of changing working practices and more stringent environmental standards adding to landlords’ costs. As a result, offices have been driving the further decline in portfolio valuations during 2023.

ii. The portfolio is managed actively with the aim of providing a high income and long-term capital appreciation. There is a bias towards industrial assets, and retail warehouses are also well represented, whereas there is little exposure to high street shops, with office weighting relatively low too. Valuations are likely to remain under some pressure until investors are confident that the peak of the interest rate cycle has been reached.

iii. The fund remains well positioned - it has had no exposure to shopping centres for many years and very little exposure to traditional retail. The fund has returned relatively good performance against a challenging economic backdrop, supported by a high - and growing - income yield. This is vital whilst capital markets and returns remain weak.

4. Capital Expenditure

4.1 The table below shows the anticipated half year position and the revised budget for capital expenditure.

Capital Expenditure by Portfolio	2023/24 Original Estimate £m	2023/24 Revised Forecast £m
Leader	35.6	6.0
Accessible Housing and Resources	11.8	4.3
Climate Change and Environment	9.6	9.0
Culture and Leisure	6.5	4.6
Education and Children's Services	28.6	16.9
Homelessness and Regulatory Services	6.6	21.2
Planning and Regeneration	18.9	11.5
Transport	47.4	49.7
Corporate	0.8	-
Total Capital Expenditure	**165.8**	**123.2**
Funding by Source		
Grants	- 79.8	- 61.7
Section 106	- 16.6	- 16.9
Community Infrastructure Levy	- 4.0	- 2.9
Capital Receipts	- 11.0	- 8.7
Revenue Contribution	- 15.2	- 12.0
Total Financing	**- 126.6**	**- 102.2**
Borrowing Need	**39.2**	**21.0**

4.2 The above table shows an anticipated decrease in the capital programme of £42m with current forecast spend of £124m. During the summer months the Council undertook the Annual Review of the Capital Programme in line with the practice of recent years. The review identified a requirement for significant re-profiling across a number of schemes. Most of the re-phasing moved into the years 2024/25.

5. Compliance with Treasury Limits and Prudential Indicators

5.1 During the financial year to 30 September 2023, the Council operated within the Treasury Limits and Prudential Indicators as set out below. The Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

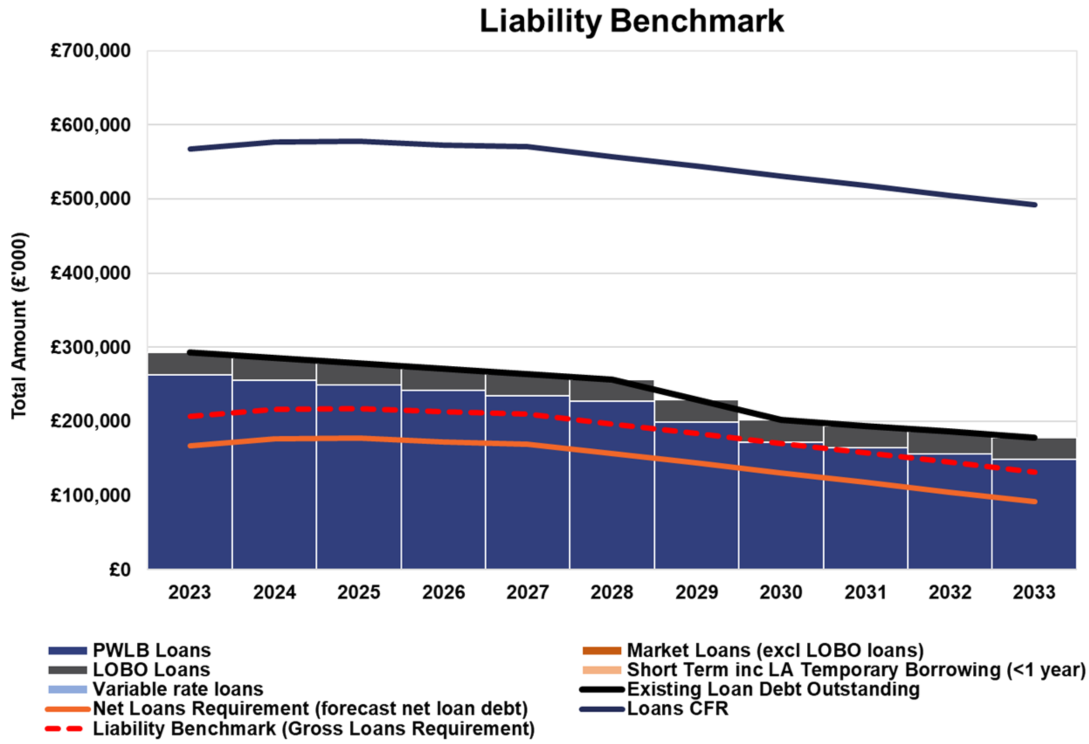
	Note	2023/24 Original Estimate £m	2023/24 Revised Forecast £m
Capital Financing Requirement	a	667	555
External Debt			
Borrowing		376	286
Other Long-term liabilities		10	4
Total Debt		**386**	**290**
Under Borrowing		**281**	**265**
Authorised limit for external debt	b	520	340
Operational boundry for external debt	c	417	300
Upper Limit for fixed Interest rate borrowing exposure		100%	100%
Upper Limit for variable Interest rate borrowing exposure		100%	100%
Upper limit for Principal amounts invested over 365 days		25	25

i. **Capital Financing Requirement (CFR)** – The CFR measures the extent to which capital expenditure has not yet been financed from either Revenue or Capital resources. This indicator is essentially a measure of indebtedness and therefore a guide as to the Council's underlying borrowing needs. Any capital expenditure which has not immediately been financed or paid for will increase the CFR.

ii. **Authorised Limit for External Debt** – This is the limit prescribed by Section 3(1) of the Local Government Act 2003 and represents the maximum level of borrowing that the Council may incur. This sum reflects the amount of external debt which, while not desired, could be afforded by the Council in the short-term. It should be noted that this commitment may not be sustainable over a longer period.

iii. **Operational Boundary** – This is the limit that indicates the level of external debt that the Council should not normally expect to exceed. This threshold is based upon current debt plus anticipated net financing needs in respect of forthcoming financial years.

5.2 CIPFA published revised Treasury Management Code and Prudential Code in 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 detailed below. It shows the existing loans debt outstanding, the 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 loan requirement over the forthcoming years.



6. Review of Borrowing Strategy and Debt Rescheduling

6.1 The Council took no additional borrowing for the financial year due to the higher borrowing rates and the sufficient level of cash holdings. During 2023/24, the Council have maintained an under-borrowed position of £265m (see table in paragraph 5.1) and is well within the Prudential Indicator. This means that the capital borrowing need (the CFR) is not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow is being used as an interim funding measure. These reserves are expected to remain part of the Council's balance sheet throughout the remainder of 2023/24.

6.2 The purpose of the maturity structure of borrowing indicator is to highlight any potential refinancing risk that the Council may be facing if, in any one particular period, there was a disproportionate level of loans maturing. The table below shows that the maturity structure of the Council's borrowing as at 30 September 2023 was within the limits set and does not highlight any significant issues.

Maturity Structure of Borrowing	Upper Limit	Actual £m	Actual %
Under 12 Months	18%	7.05	2.4%
12 Months to 2 Years	20%	7.14	2.5%
2 Years to 5 Years	17%	22.02	7.6%
5 Years to 10 Years	36%	80.14	27.5%
10 Years to 20 Years	34%	60.14	20.6%
20 Years to 30 Years	34%	23.28	8.0%
30 Years to 40 Years	32%	31.67	10.9%
40 Years to 50 Years	20%	30.00	10.3%
More than 50 Years	12%	30.00	10.3%

6.3 The Council is not subject to any adverse movement in interest rates in its current loans portfolio as it only holds fixed interest borrowing.

6.4 The average rate on the fixed interest borrowing is 2.77% with an average redemption period of 28.79 years. Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt rescheduling has been undertaken to date in the first six months of this financial year.

6.5 The Council's borrowing portfolio contains £30m of Lender Option Borrower Option loans (LOBOs). These are long-term loans of up to 55 years, which are subject to periodic rate re-pricing. The rates are comparable with loans for similar durations provided by the PWLB. There is some refinancing risk associated with these loans because of the lender option to increase interest rates. Some banks are offering premature repayment or loan conversion for LOBOs to fixed term loans and officers will remain alert to such opportunities as they arise.

7. Economic update

7.1 The Bank of England's Monetary Policy Committee (MPC) members meeting on 2nd November, the committee voted to keep the rate at 5.25%. For the first 6 months of 2023/24 the Bank's base rate has ranged between 4.25% and 5.25%.

7.2 Prior to updated figures being released on 15th November 2023, the headline CPI Inflation rate stood at 6.3% for the twelve months to September, down from 8.9% at the beginning of the financial year.

7.3 The asset purchase programme (quantitative easing) continues to be reduced and is currently at £760bn as at 13th September. On the 6th June, the Bank of England reported that it had concluded its corporate bond purchase programme and that only a small number of short dated bonds (£0.8bn) would continue to be held until fully maturing on 5th April 2024.

7.4 During the current financial year significant adjustments were made by the rating agencies (Moody's, Fitch and Standard & Poors) on their long-term outlook for the UK's sovereign rating from Negative to Stable. Fitch has downgraded their sovereign ratings for the United States from AAA to AA+ and for France from AA to AA-, Fitch upgraded Deutsche Bank from BBB+ to A.

7.5 Further information on the economic outlook and interest rate forecast provided by our Treasury advisor is attached in Appendix A.

8. Other updates

8.1 The Council banks with Barclays Bank and has been recognised as Best UK Bank for ESG by Euromoney. Further information is available on the link below.

https://www.euromoney.com/article/2cc8q50d68ey5crupk6pt/western-europe-country-category-winners-2023-best-bank-for-esg-in-the-uk-barclays

9. Other options considered

9.1 Not applicable

10. Legal and financial implications

10.1 **Finance** : Financial Implications are contained in the body of this report.

10.2 **Legal** : The Local Government Act 2003 ("the Act") and the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 require the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The legislation requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. This report assists the Council in fulfilling its statutory obligation under the Act to monitor its borrowing and investment activities.

11. Corporate implications

11.1 Treasury Management activities play a significant role in supporting the delivery of the Council's Capital Programme and Corporate Priorities

12. Communication, engagement & further consultation

12.1 Not applicable

13. Next steps and review

13.1 Not applicable

14. Background papers

14.1 Full Council Report 22nd February 2023 - Full Council - 22 February 2023(moderngov.co.uk)