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| TITLE | Treasury Management Report |
| FOR CONSIDERATION BY | Council on Thursday, 19 October 2023 |
| WARD | None Specific |
| LEAD OFFICER | Deputy Chief Executive - Graham Ebers |

PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)

To demonstrate that the Council's treasury function has effectively managed the Council's debt and cash balances to support the funding of the delivery of the Council's key priorities.

RECOMMENDATION

That Council approve the Treasury Management Outturn Report 2022-23, which was considered by the Executive on 28 September 2023, and note:

- 1) that all approved indicators set out in the Treasury Management Strategy have been adhered to; with the exceptions of;
 - Internal borrowing ratio.
 - Ratio of financing costs to net revenue stream – General Fund.
 - Capital financing requirement – HRA.

- 2) As at the end of March 2023, the total external general fund debt was £118m, which reduces to £68m after taking into account cash balances (net indebtedness) reducing interest costs in the current economic climate. This was an improved position from the forecast at mid-year stage of £81m net indebtedness and £72m at March 2022.

SUMMARY

This report provides a summary of the treasury management operations during the 2022/23. It is presented for the purpose of monitoring and review, in accordance with Council's treasury management practices. This includes ensuring the necessary liquidity to deliver on the day-to-day operations of the Council. There are two aspects of treasury performance: debt management which relates to the Council's borrowing and cash investment which relates to the investment of cash balances.

The Council report on its treasury management position throughout the year. Previously this has been presented to Audit Committee as part of the treasury management strategy, the mid-year update and the outturn report (this report). The Executive will now consider these reports going forward.

Key highlights from this report to note are:

- All approved indicators set out in the Treasury Management Strategy have been adhered to with the exceptions of;
 - Internal borrowing ratio

Although internal borrowing is higher than the forecast in the strategy, this is positive on the basis, the Council has reduced the need for external borrowing by utilising cash balances more than was planned in the strategy.

- Ratio of financing costs to net revenue stream – General Fund.

The movement on this from the original budgets is as a result of reducing the interest charge to town centre (to better reflect the actual interest costs) to help maintain its movement to a surplus following significant economic challenges. The net general fund financing costs of the Council are forecast to remain minimal, at 0.47% of the net revenue expenditure, equal to c£0.8m. It is important to note the calculations of this indicator as set out in the prudential code does not include the total income (over and above amount that funds capital debt costs) received from commercial / regeneration assets. If these were included, this would further improve the ratio and reduce the true cost of financing.

- Capital financing requirement – HRA.

The CFR for the HRA has increased from the estimate when the treasury management strategy was set due to inclusion of the Gorse Ride Regeneration project agreed at Executive in February 2022.

- The Council's net indebtedness at 31 March 2023 was £68m, this is an improved position from the £72m at 31 March 2022.
- The average interest rate of external borrowing for 2022/23 was 2.35%. Due to the rise in the Bank of England base rate, this is an expected increase from 2021/22 average borrowing cost of 1.56%. Interest rates have continued to increase throughout 2023/24 with the peak remaining uncertain and frequently changing. Working with our external treasury management advisors, the finance team will continue to monitor the financial risks from higher interest rates. When the strategy was set, the interest rate market was fairly stable with regards to future forecasts of interest rates remaining low. Based on these market conditions, the Council would have looked to secure some medium to long external borrowing. However, due to the continued volatility and rises in interest rates, alongside a reduction in capital spend and the maintaining of cash balances, it was financially more prudent to minimise external borrowing, thus avoiding higher external debt costs. This approach has been discussed with our external treasury management advisors and is considered prudent due to the strength of our cash balances.

Prudential Indicators Debt and Investment

The table below summarises the prudential indicators, comparing the limits set in the strategy, the outturn forecast reported in the mid-year and the actual outturn position (31 March 2023). These are primary indicators designed to ensure the key objectives of the Prudential Code are met and that local authorities' capital investment plans are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice.

- The total Capital Financing Requirement (CFR) of £453m was below the authorised and operational boundary limits set out in the treasury management strategy. The CFR is a technical calculation of historic capital expenditure less

that already paid for, required to arrive at the annual level of debt repayment. There are two main reasons for the reduction in the CFR for 2022/23;

- Reduced capital expenditure in year than originally planned in the strategy, driven by savings identified across the programme and reprofiling of expenditure into later years.
 - Debt repayments made in year from town centre capital receipts, subsidiary company loan repayments, developer contributions and minimum revenue provision (MRP) payments.
- General fund external borrowing as at 31 March 2023 was £118m, which was broadly in line with the mid-year estimate of £112m presented to audit committee in November 2022. External borrowing was significantly lower than the forecast when the treasury strategy was set as a result of the capital programme reprofiling. Furthermore, the internal borrowing level has remained high to offset the impact from increasing interest rates and volatility in the market. The Council will look to minimise new external borrowing through utilising its cash balances. This will avoid higher external debt costs.

| Prudential Indicators | Treasury Strategy | Outturn Forecast (Reported at mid-year) | Outturn Actual |
|--|--------------------------|--|-----------------------|
| | £m | £m | £m |
| <u>Affordability</u> | | | |
| <u>Limits</u> | | | |
| Authorised Limit (Note: CFR*120%, outturn = CFR) | 760 | 589 | 453 |
| Operational Boundary (Note: CFR*110%, outturn = CFR) | 696 | 540 | 453 |
| <u>Performance Indicators</u> | | | |
| Capital financing requirement – General Fund (GF) | 554 | 412 | 371 |
| Capital financing requirement – HRA | 79 | 79 | 82 |
| Gross external borrowing – General Fund (GF) | 388 | 112 | 118 |
| Gross external borrowing - HRA | 69 | 66 | 64 |
| % of internal borrowing to CFR – General Fund (GF) | 30% | 73% | 68% |
| % of internal borrowing to CFR - HRA | 13% | 17% | 22% |
| Ratio of financing costs to net revenue stream - GF | -0.60% | 0.10% | 0.47% |
| Ratio of financing costs to net revenue stream - HRA | 29.90% | 29.69% | 25.54% |
| <u>Prudence</u> | | | |
| Maturity structure of borrowing | See table B | | |

Council's Net Indebtedness

Net indebtedness represents the underlying debt position the Council holds. The table below shows how this is calculated. Included below are the estimates from the 22/23 treasury management strategy, the mid-year estimate and the actual position for March '23. The previous year's outturn is included for comparison. Please note the figures below are for the general fund only.

| | Treasury Strategy | Outturn Forecast (Reported at mid-year) | Outturn Actual March '23 | Outturn Actual March '22 |
|--|-------------------|--|-----------------------------|-----------------------------|
| | £m | £m | £m | £m |
| General Fund – Capital Financing Requirement | 554 | 412 | 371 | 382 |
| <u>Less</u> Internal funded borrowing | (166) | (300) | (253) | (186) |
| External Debt Total | 388 | 112 | 118 | 196 |
| <u>Less</u> Cash investment balances | (152) | (31) | (50) | (124) |
| Net Indebtedness Total | 236 | 81 | 68 | 72 |

The Councils net indebtedness at 31 March 2023 was £68m, this is an improved position from the £72m at 31 March 2022. This is driven mainly by the reduction in the capital financing requirement (CFR).

During 2022/23, due to strong cash balances, the Council were able to reduce external borrowing from £196m to £118m. This reduced the Council's interest payable costs and reduced the exposure to the volatile interest rate market. In addition, from reducing cash investments to lower external debt, the Council were also able to increase the level of internal borrowing (use of the internal cash reserves of the Council to fund its capital expenditure), saving the Council further costs in interest payments.

The HRA borrowing is excluded from this calculation as it is a ringfenced account with external borrowing funded from housing tenants.

The Council are monitoring interest rates very closely and working with our treasury management advisors to review the latest interest rate forecasts which currently suggest interest rates are expected to peak in 2024. The market is very volatile and difficult to make decisions on interest rates with certainty. During these times, operating a higher level of internal borrowing will help offset the impact from higher interest rates. It is expected that the Council will need to borrow next financial year to support the capital programme. The timing of this borrowing requirement will continue to be monitored taking into account updated forecasts for capital expenditure, cash balances and interest rates to minimise the financial impact for the Council. The Council have reviewed the underlying cash balances (reserves + working capital) and are confident these can support a high level of internal borrowing for 2023/24. The impacts for 2024/25 onwards are being monitored and will be considered as part of the budget setting process and setting of the treasury management strategy in February 2024.

The table below shows how external borrowing has changed during 2022/23. Repayments of borrowing will occur when historic loans reach maturity date. Depending on the cash position of the Council, we may need to refinance these loans (i.e. take out new loans) or will be in a position to not require new additional loans. During the year, c£156m of external borrowing was repaid and only £75m of new borrowing was taken out.

| | Opening @ 01/04/2022 | New Borrowing | Repayments of Borrowing | Closing @ 31/03/2023 |
|----------------------------|-------------------------|------------------|----------------------------|-------------------------|
| | £m | £m | £m | £m |
| General Fund | £196m | £75m | (£153m) | £118m |
| Housing Revenue Account | £67m | £0m | (£3m) | £64m |
| Total | £263m | £75m | (£156m) | £182m |

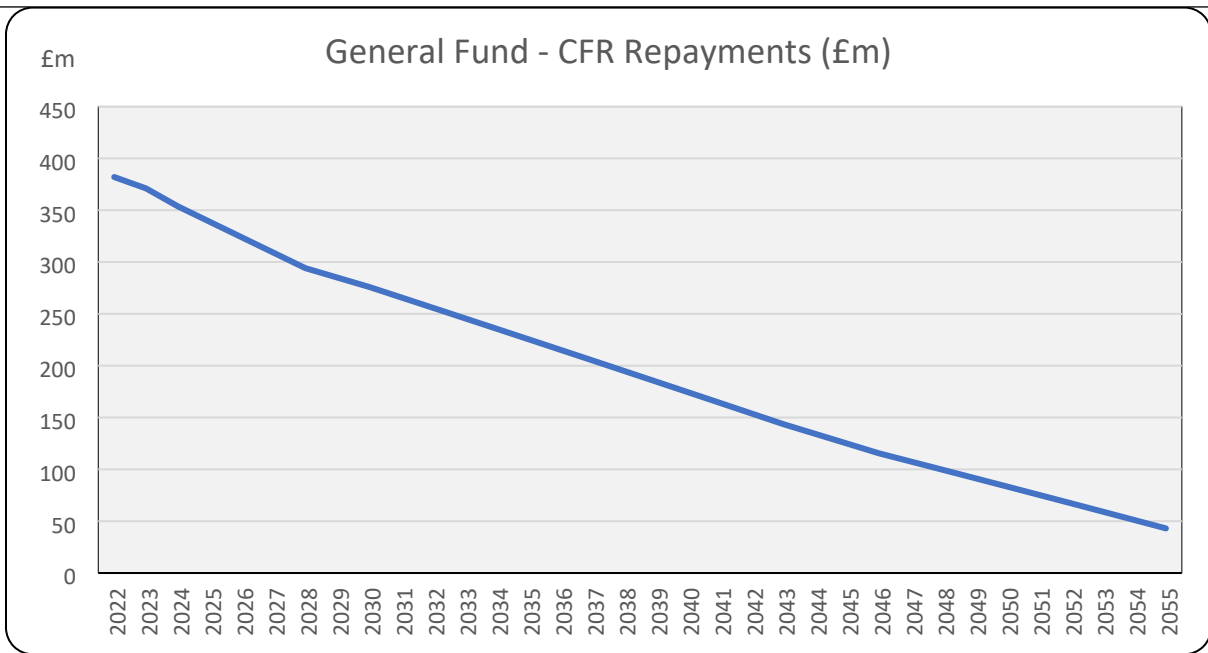
CFR Debt Repayment

The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from resources (e.g. Capital receipts or grants).

A major source of funding for the Council’s capital programme is borrowing. This is described in two forms, supported borrowing and general fund borrowing. A significant part of the Council’s capital programme is either self-financing or makes a surplus where the income generated is greater than the cost of financing and therefore is available to fund other council services. These are referred to as “supported borrowing”. General fund borrowing is funded through existing base budget and supports general investment to maintain Council assets and continue to provide services to customers and residents.

The CFR position for the general fund as reported above is £371m at the end of March 2023. The CFR covers areas such as town centre regeneration, loans to WBC housing companies, forward funding of infrastructure, commercial properties and invest to save assets. Despite the high risk that comes with an ambitious capital programme in relation to housing, economy, and regeneration, this has delivered many assets that residents are benefiting from and we expect debt repayments each year in the region of c£10m - £15m.

The graph below shows the expected repayment of the current general fund CFR balance of £371m. It is important to note, the CFR balances below do not take into account the asset value and the impact if the Council were to realise these values through disposals, etc.



Investment of Cash Balances

Cash flow balances vary significantly throughout the year due to differences in timing of income (council tax, developer contributions, grants, etc.) and timing of expenditure (running costs - revenue, and investment in assets and services – capital). During times when the council holds cash balances, investments will be made based on security, liquidity, and yield (in this order).

As highlighted in the table below, treasury investment returns were £1.4m over the year. This was an improved position from the forecast of c£1.1m reported in the mid-year report. Cash investment balances were £43m at the end of the financial year, an improved position from the mid-year estimate of £31m resulting in additional investment income for the Council. In addition, throughout the second half of the year, interest rates have increased creating greater returns on short term investments.

Interest rates have continued to increase throughout 2023/24 which will result in further returns on investments however more importantly for the Council is the security and liquidity of these balances before yield is considered. In addition, reducing cash investments to avoid the need to borrow externally can have a greater benefit through cost avoidance on interest payable costs compared to interest from investment returns.

| | Average Invested* | Interest Received | 31 st March 2023 Balance |
|---------------------------------|-------------------|-------------------|-------------------------------------|
| | £m | £m | £m |
| Treasury Investments | | | |
| - Local Authorities | £76m | £1.01m | £30.0m |
| - Money Markets / Fund Managers | £23m | £0.39m | £12.7m |
| Total | £99m | £1.4m | £42.7m |

* Average invested – this is the average amount invested across the year. The balance invested was higher at the start of the year and reduced during the year as borrowing was repaid as described earlier in the report.

In addition to treasury investments, the Council receive income from housing, local economy and regeneration assets. This income covers the interest costs from the borrowing associated with the assets and contribute a net income to the Council to help fund vital services. Included within the Housing, Local Economy & Regeneration are the capital loans made to the Councils housing companies which support the development of new affordable housing. The Council have a statutory requirement under the Subsidy Control Act 2022 (previously known as state aid) to charge interest at the market rate which is higher than the investment returns the Council would achieve on treasury investments.

The following table sets out the investments the Council have in place at 31 March

| Investment Number | Counterparty | Start Date | Maturity Date | Loan Principal | Interest Rate |
|---------------------------|---|------------|---------------|----------------|---------------|
| S1281 | Local Authority | 18/01/2023 | 18/04/2023 | 10,000,000 | 3.20% |
| S1287 | Local Authority | 03/01/2023 | 03/04/2023 | 10,000,000 | 3.32% |
| S1291 | Local Authority | 24/03/2023 | 26/06/2023 | 5,000,000 | 4.50% |
| S1292 | Local Authority | 23/03/2023 | 23/06/2023 | 5,000,000 | 4.50% |
| Investment Summary | | | | | |
| S1133 | Aberdeen Assets | | | 655,019 | Variable |
| S1001 | Invesco Global Sterling Liquidity Portfolio | | | 10,000,000 | Variable |
| S1002 | Deutsche Global Liquidity Series | | | 2,000,000 | Variable |
| Current Account | | | | | |
| | Current Account | | | 7,383,569 | Variable |

2023, including maturity dates and interest rates.

Maturity Structure of Borrowing

The maturity structure of the Council external borrowing is shown in 'Table B' below. This highlights the period for when external borrowing matures and becomes repayable. External debt is £118m for the general fund and £64m for the HRA, totalling £182m.

Table B

| | 31 March 2023 Actual £m |
|--------------------------------------|----------------------------------|
| External Borrowing (GF + HRA) | |
| Less than 1 year | 59 |
| Between 1 and 2 years | 4 |
| Between 2 and 5 years | 15 |
| Between 5 and 10 years | 29 |
| Between 10 and 15 years | 31 |
| Between 15 and 20 years | 0 |
| Between 20 and 25 years | 2 |

| | |
|-------------------------|------------|
| Between 25 and 30 years | 9 |
| More than 30 years | 34 |
| Total | 182 |

Note: Less than a year borrowing will be replaced with a mixture of new external debt and internal borrowing if possible. Due to current high interest rates and expectations rates will reduce over the next 12-18 months, any new borrowing will be taken on a short-term basis (i.e. less than 2 years). The treasury service through the use of its cashflow, constantly review its debt and will endeavour to get the best rates available while looking at the long and short term picture of anticipated receipts and payments.

The following table sets out the current loans the Council have in place, including maturity dates and interest rates. These cover external borrowing for the general fund and the housing revenue account (HRA).

General Fund External Borrowing

| Loan Number | Counterparty | Start Date | Maturity Date | Loan Principal | Interest Rate |
|-------------|-------------------------|------------|---------------|----------------|---------------|
| L1167 | Local Authority | 28/03/2023 | 26/03/2024 | 10,000,000 | 2.50% |
| L1168 | Local Authority | 23/03/2023 | 21/03/2024 | 10,000,000 | 2.50% |
| L1169 | Local Authority | 31/10/2022 | 05/10/2023 | 15,000,000 | 4.10% |
| L1182 | Local Authority | 21/03/2023 | 21/09/2023 | 5,000,000 | 4.50% |
| L1183 | Local Authority | 24/03/2023 | 24/04/2023 | 10,000,000 | 4.40% |
| L1184 | Local Authority | 24/03/2023 | 30/06/2023 | 5,000,000 | 4.40% |
| 488876 | Public Works Loan Board | 16/07/2004 | 01/02/2034 | 2,343,298 | 4.95% |
| 491320 | Public Works Loan Board | 15/02/2006 | 01/08/2051 | 2,929,123 | 3.85% |
| 491456 | Public Works Loan Board | 26/04/2006 | 30/09/2046 | 1,430,867 | 4.35% |
| 491474 | Public Works Loan Board | 28/04/2006 | 01/08/2052 | 5,587,374 | 4.40% |
| 493309 | Public Works Loan Board | 24/05/2007 | 31/03/2054 | 9,763,742 | 4.60% |
| 505948 | Public Works Loan Board | 31/03/2017 | 31/03/2034 | 6,000,000 | 2.30% |
| 505949 | Public Works Loan Board | 31/03/2017 | 31/03/2035 | 8,000,000 | 2.34% |
| 505950 | Public Works Loan Board | 31/03/2017 | 31/03/2036 | 4,000,000 | 2.37% |
| 3b | Barclays | 24/02/2007 | 24/02/2077 | 4,881,871 | 4.35% |
| 2c | Barclays | 11/01/2007 | 11/01/2077 | 4,881,871 | 4.60% |
| 1c | Just retirement | 06/02/2006 | 06/02/2066 | 4,881,871 | 4.88% |
| 4 | Barclays | 16/02/2006 | 16/02/2066 | 1,952,748 | 3.68% |
| 5 | Barclays | 19/10/2006 | 19/10/2076 | 4,881,871 | 3.73% |
| 6 | Barclays | 19/10/2006 | 19/10/2076 | 1,952,748 | 3.77% |

Housing Revenue Account External Borrowing

| Loan Number | Counterparty | Start Date | Maturity Date | Loan Principal | Interest Rate |
|-------------|--------------|------------|---------------|----------------|---------------|
| | | | | | |

| | | | | | |
|--------|-------------------------|------------|------------|-----------|-------|
| 488876 | Public Works Loan Board | 16/07/2004 | 01/02/2034 | 56,702 | 4.95% |
| 491320 | Public Works Loan Board | 15/02/2006 | 01/08/2051 | 70,877 | 3.85% |
| 491456 | Public Works Loan Board | 26/04/2006 | 30/09/2046 | 34,623 | 4.35% |
| 491474 | Public Works Loan Board | 28/04/2006 | 01/08/2052 | 135,200 | 4.40% |
| 493309 | Public Works Loan Board | 24/05/2007 | 31/03/2054 | 236,258 | 4.60% |
| 501035 | Public Works Loan Board | 28/03/2012 | 28/03/2032 | 8,516,000 | 3.30% |
| 501037 | Public Works Loan Board | 28/03/2012 | 28/03/2031 | 7,231,000 | 3.26% |
| 501039 | Public Works Loan Board | 28/03/2012 | 28/03/2029 | 6,378,000 | 3.15% |
| 501040 | Public Works Loan Board | 28/03/2012 | 28/03/2027 | 5,415,000 | 3.01% |
| 501043 | Public Works Loan Board | 28/03/2012 | 28/03/2033 | 9,276,247 | 3.34% |
| 501044 | Public Works Loan Board | 28/03/2012 | 28/03/2034 | 1,000,000 | 3.37% |
| 501045 | Public Works Loan Board | 28/03/2012 | 28/03/2025 | 3,744,000 | 2.82% |
| 501046 | Public Works Loan Board | 28/03/2012 | 28/03/2028 | 5,981,000 | 3.08% |
| 501047 | Public Works Loan Board | 28/03/2012 | 28/03/2030 | 6,789,000 | 3.21% |
| 501048 | Public Works Loan Board | 28/03/2012 | 28/03/2026 | 3,971,000 | 2.92% |
| 501049 | Public Works Loan Board | 28/03/2012 | 28/03/2024 | 4,116,000 | 2.70% |
| | | | | | |
| 3b | Barclays | 24/02/2007 | 24/02/2077 | 118,129 | 4.35% |
| 2c | Barclays | 11/01/2007 | 11/01/2077 | 118,129 | 4.60% |
| 1c | Just retirement | 06/02/2006 | 06/02/2066 | 118,129 | 4.88% |
| 4 | Barclays | 16/02/2006 | 16/02/2066 | 47,252 | 3.68% |
| 5 | Barclays | 19/10/2006 | 19/10/2076 | 118,129 | 3.73% |
| 6 | Barclays | 19/10/2006 | 19/10/2076 | 47,252 | 3.77% |
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FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces unprecedented financial pressures as a result of; the longer term impact of the COVID-19 crisis, Brexit, the war in Ukraine and the general economic climate of rising prices and the increasing cost of debt. It is therefore imperative that Council resources are optimised and are focused on the vulnerable and on its highest priorities.

| | How much will it Cost/ (Save) | Is there sufficient funding – if not quantify the Shortfall | Revenue or Capital? |
|-----------------------------------|-------------------------------|---|---------------------|
| Current Financial Year (Year 1) | N/A | N/A | N/A |
| Next Financial Year (Year 2) | N/A | N/A | N/A |
| Following Financial Year (Year 3) | N/A | N/A | N/A |

Other Financial Information

None

Legal Implications arising from the Recommendation(s)

None

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| Stakeholder Considerations and Consultation |
| None |

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| Public Sector Equality Duty |
| Equality assessments are carried out as part of each capital project. |

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| Climate Emergency – <i>This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030</i> |
| The capital programme includes projects which help achieve our priorities in relation to climate change. |

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| Reasons for considering the report in Closed Session |
| N/A |

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| List of Background Papers |
| N/A |

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