TITLE	**Treasury Management Mid-Year 2023-24 Report**
FOR CONSIDERATION BY	Council on Thursday, 18 January 2024
WARD	(All Wards);
LEAD OFFICER	Deputy Chief Executive - Graham Ebers
LEAD MEMBER	Executive Member for Finance - Imogen Shepherd-DuBey

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

Council is recommended to note:

1) that the Treasury Management Mid-Year report was considered and agreed by the Executive at their meeting on Thursday 30 November 2023;

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

3) As at the end of September 2023, the forecast for the total external general fund debt is £129m at March'24, which reduces to £110m after taking into account cash balances (net indebtedness) reducing interests costs in the current economic climate.

EXECUTIVE SUMMARY

This report provides a summary of the treasury management operations during the first six months of 2023/24. 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, as part of the treasury management strategy, the mid-year update (this report) and the outturn report.

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;

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

  The ratio of financing costs to net revenue stream indicator identifies the cost of capital, (borrowing and other long term obligation costs net of income generated to repay capital costs), against the net revenue stream. The forecast position is -0.54% which is almost on target with the estimate set in treasury strategy at -0.57%. This means the overall cost of capital is fully funded from investment income and income received from commercial, regeneration and invest to save schemes.

  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.

- HRA - capital financing requirement and external borrowing.

  The capital financing requirement (CFR) for the HRA has increased from the strategy estimate due to additional HRA borrowing agreed since the treasury management strategy was set in February 2023. Additional borrowing has been agreed by the Executive in relation to delivering the Ukrainian/Afghan Refugee Resettlement Government Grant Allocation (March 2023) and single homelessness accommodation programme (SHAP) (June 2023). Although this increases the CFR and external borrowing above limits set in the strategy, this additional borrowing is fully funded via additional rental income in the HRA over the 30-year HRA business plan as per the business cases considered by Executive. In addition, the CFR includes the revised profile of capital spend and capital funding on Gorse Ride regeneration which has changed from the profile used when the strategy was set. Importantly, these funded schemes will deliver much needed affordable housing within the HRA and are considered affordable across the 30 year HRA business plan.

- The Councils net indebtedness is forecast at 31 March 2024 to be £110m, an increase from the £101m forecast in the treasury strategy.

- The average interest rate of external borrowing for 2023/24 is forecast to be 3.68%. Due to recent rises in the Bank of England base rate, this is an expected increase from 2022/23 average borrowing cost of 2.35%. Interest rates continue to remain high and are expected to continue throughout 2024 before reducing however this remains uncertain and difficult to predict. Working with our external treasury management advisors, the finance team will continue to monitor the financial risks from higher interest rates. Whilst future rates remain uncertain, it is financially more prudent to minimise external borrowing through increased internal 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 and the outturn forecast reported at the mid-year position. 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 £494m 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.

  The general fund CFR is forecast to be £398m at the end of the financial year, below the estimate of £417m set out in the treasury strategy. This is due to 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.

  The HRA CFR is forecast to be higher than originally estimated, with reasons set out earlier in this report.

- General fund external borrowing is forecast at 31 March 2024 to be £129m, which was broadly in line with the strategy estimate of £130m. 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.

- Ratio of financing costs to net revenue stream – HRA is forecast to be 20.05%, broadly inline with the estimate of 20.26% set out in the treasury strategy. Although the HRA is forecast to increase external borrowing, the impact of additional interest costs will take effect from next financial year and will need to be considered in the budget setting on the HRA. In addition, investment income has improved during the year due to higher interest rates achieved on investments helping reduce the overall financing costs for the HRA.

- Net income from commercial & service investments to net revenue stream is forecast to be 8.36%. This is slightly lower than the estimate set out in the strategy due to income pressures forecast on commercial & service income in areas such as property, leisure and car parking income. The intention of the prudential indicator is to show as a %, how much of the Councils net revenue stream (i.e. annual budget) is related to commercial & service investments income and therefore how much reliance the authority has on this income to fund services. For Wokingham, although this is an important income stream to support the funding of vital services, the % is relatively modest at less than 10%.

Prudential Indicators	Treasury Strategy	Forecast Outturn March '24
	£m	£m
Affordability		
Limits		
Authorised Limit (Note: CFR*120%)	£594m	£593m
Operational Boundary (Note: CFR*110%)	£545m	£543m
Maturity structure of borrowing	See table B in report	
Performance Indicators		
Capital financing requirement – General Fund (GF)	£417m	£398m
Capital financing requirement – HRA	£78m*	£96m
Gross external borrowing – General Fund (GF)	£130m	£129m
Gross external borrowing - HRA	£65m*	£79m
Ratio of financing costs to net revenue stream - GF	(0.57%)	(0.54%)
Ratio of financing costs to net revenue stream - HRA	20.26%	20.05%
Net income from commercial & service investments to net revenue stream – GF	9.44%	8.36%
** Additional borrowing agreed for HRA since estimate set out in treasury strategy*		

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 23/24 treasury management strategy and the forecast position for March'24. The previous years outturn is included for comparison.

	Treasury Strategy £m	Forecast Outturn March '24 £m	Outturn Actual March '23 £m
General Fund – Capital Financing Requirement	417	398	371
Less Internal funded borrowing	(287)	(269)	(253)
External Debt Total	130	129	118
Less Cash investment balances	(29)	(19)	(50)
Net Indebtedness Total	**101**	**110**	**68**

Net indebtedness is estimated to be £110m as at 31 March ’24. This is an expected increase from the previous year and slightly above the estimate set out in the treasury management strategy. Although the Council estimate external borrowing to remain similar to the strategy at £129m, due to current year pressures in the general fund, DSG budgets and an increase in the use of reserves, we are forecasting a reduction in the underlying cash balances the Council hold causing an increase in net indebtedness. The Council have been prudent in minimising external interest costs in the current market uncertainty by utilising cash balances to avoid additional external borrowing.

The Council have reviewed the underlying cash balances (reserves + working capital) and are confident these can continue to support a high level of internal borrowing for 2023/24. Further work will be undertaken during the next 6 months to review the cashflow and to take into account the new medium term financial plan requirements.

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

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 have peaked however may remain higher for longer than previously thought continuing at current levels throughout 2024. Operating a high 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 be developed over the coming months taking into account updated forecasts for capital expenditure, cash balances and interest rates.

The average interest rate on the Council’s external debt is forecast to be 3.68% across the year. This is expected to rise next financial year as current loans expire and require refinancing at higher rates. The impact of this is being monitored however currently we estimate current debt financing budgets will be sufficient to absorb the impact.

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 are forecast to be £3m over the year. This is an improved position from the c£1.4m received in the last financial year, as a result of higher interest rates creating greater returns on short term investments. Cash balances are forecast to reduce at the end of the year where the Council continue to limit investments and instead use cash balances to avoid high external borrowing costs.

Interest rates have continued to remain high in 2023/24 in comparison to low interest rates seen 18 months ago. This 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	Annual Interest Received	Average Return %	Estimated Balance March '24
	£m	£m	%	£m
Treasury Investments				
- Local Authorities & Fund Managers	£58m	£2.6m	4.42%	£0.7m
- Money Markets	£10m	£0.4m	4.31%	£18.3m
Total	**£69m**	**£3.0m**	**4.41%**	**£19.0m**

* Average invested – this is the average amount invested across the year. This will vary during the year depending on cashflow requirements, existing loan / investment maturities, etc.

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 30 September 2023, including maturity dates and interest rates.

Investment Number	Counterparty	Start Date	Maturity Date	Loan Principal £	Interest Rate %
S1296	Local Authority	18/04/2023	28/02/2024	10,000,000	4.23%
S1297	Local Authority	26/04/2023	27/10/2023	10,000,000	4.20%
S1298	Local Authority	02/05/2023	22/03/2024	10,000,000	4.28%
S1299	Local Authority	30/05/2023	26/01/2024	10,000,000	4.30%
S1301	Local Authority	08/06/2023	08/03/2024	10,000,000	4.75%
S1302	Local Authority	07/06/2023	28/03/2024	10,000,000	4.50%
S1303	Local Authority	15/08/2023	18/01/2024	5,000,000	4.75%
S1304	Local Authority	21/06/2023	19/01/2024	5,000,000	4.78%
S1305	Local Authority	06/07/2023	06/10/2023	5,000,000	5.05%
S1133	Aberdeen Assets			655,019	Variable
	Money Market Fund			1,000,000	Variable

Current Account	669,967	Variable

Maturity Structure of Borrowing

The maturity structure of the Council external borrowing is shown in the 'Table B' below. This highlights the period for when external borrowing matures and becomes repayable. External debt is forecast to be £129m for the general fund and £79m for the HRA, totalling £208m as at 31 March 2024.

Table B

External Borrowing (GF + HRA)	30 September 2023 Actual £m	31 March 2024 Actual £m
Less than 1 year	78	89
Between 1 and 2 years	4	4
Between 2 and 5 years	18	18
Between 5 and 10 years	34	34
Between 10 and 15 years	19	19
Between 15 and 20 years	0	0
Between 20 and 25 years	1	1
Between 25 and 30 years	9	9
More than 30 years	34	34
Total	**197**	**208**

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 12-24 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 as at 30 September 2023

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%

L1172	Local Authority	07/06/2023	05/06/2024	10,000,000	4.20%
L1189	Local Authority	19/06/2023	17/06/2024	2,000,000	5.00%
L1190	Local Authority	19/06/2023	17/06/2024	3,000,000	5.00%
L1193	Local Authority	03/07/2023	01/07/2024	10,000,000	5.45%
L1198	Local Authority	18/08/2023	20/11/2023	8,000,000	5.45%
L1200	Local Authority	29/09/2023	31/10/2023	2,000,000	5.45%
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 as at 30 September 2023

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%

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

Stakeholder Considerations and Consultation
None

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

Climate Emergency – *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*
The capital programme includes projects which help achieve our priorities in relation to climate change.

Reasons for considering the report in Closed Session
N/A

List of Background Papers
N/A

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