

Treasury Management Update

The Chartered Institute of Public Finance & Accountancy has published revised Treasury and Prudential codes, which now require quarterly reporting of performance against forward looking prudential indicators. The performance of the council's treasury management activity to the end of August 2023 (TBM month 5), measured against benchmarks and the key indicators in the council's Treasury Management Strategy are set out below. The key indicators were approved by Budget Council at its meeting of 23 February 2023.

Investments

The average investment return to 31 August 2023 was 4.18% under-performing the benchmark rate by 46 basis points (or 0.46 percentage points) This is typical in a rising interest rate environment as a result of the time lag between changes in base rate and investments maturing and being able to be re-invested at more favourable rates.

Average Investment Balance Months 1-5 £m	Average Investment return	Average Benchmark Rate*	Difference
197.359	4.18%	4.64%	(0.46%)

* The Benchmark rate used is the Standard Overnight Index Average (SONIA); a rate administered by the Bank of England based on actual transactions of overnight borrowing by financial institutions.

** Pooled funds have been excluded from this assessment due to volatility of return.

As part of the investment strategy for 2023/24 the council agreed a maximum risk benchmark of 0.05% i.e. there is a 99.95% probability that the council will get its investments back. The benchmark is a simple target that measures risk based on the financial standing of counterparties and length of each investment based on historic default rates. The actual risk indicator has varied between 0.011% and 0.024% between April 2023 and August 2023, reflecting the high proportion of investments held in high security and/or very liquid investments. It should be remembered however that the benchmark is an 'average risk of default' measure and does not constitute an expectation of loss for any particular investment.

Investment Risk benchmark	0.050%
Maximum investment risk experienced to August	0.024%

Borrowing

The table below shows the Council's total external borrowing and average rates as at 31 August 2023, split between the General Fund and the HRA:

	General Fund Borrowing £m	HRA Borrowing £m	Total Borrowing	Average Rate
PWLB	156.216	187.497	343.713	2.84%
Market Loans	20.894	24.106	45.000	4.45%
Total borrowing	177.110	211.602	388.713	3.03%
Average Rate	3.18%	2.90%	3.03%	

Appendix 8 – Treasury Update

The table below shows the forecast of the Capital Financing Requirement (CFR) for both the General Fund and the HRA at TBM month 5 compared to the estimate within the 2023/24 strategy approved in February 2023.

The General Fund Capital Programme forecast as at TBM5 includes projects funded by borrowing of £67.477m compared to an original estimate of £55.344m. The reduction is a result of reprofiling of projects in the capital programme from 2022/23 to 2023/24.

The under-borrowing position, if no action is taken, is currently projected at £93.028m. The General Fund strategy currently forecasts that the level of reserves and balances in the medium term allows internal borrowing of up to £75.000m, and therefore it is currently expected that external borrowing of £18.028m may be required to support the capital programme.

General Fund Capital Financing Requirement (CFR) – Underlying Borrowing requirement	Original Estimate 2023/24 £m	Revised forecast as at 31 August 2023 £m
Opening General Fund CFR	234.743	211.894
Borrowing Need	55.344	67.477
Minimum Revenue Provision	(18.850)	(9.233)
Closing General; Fund CFR	271.238	270.138
GF External Borrowing as at 31 August 2023		177.110
Forecast Under-borrowing		93.028

The TBM HRA Capital Programme forecast includes projects funded by borrowing of £37.747m compared to an original estimate of £58.890m. The reduction is a result of reprofiling of projects in the capital programme from 2023/24 to 2024/25.

The under-borrowing position, if no action is taken, is currently projected at £30.599m. The HRA strategy is to fully borrow to meet its CFR and therefore it is currently expected that external borrowing or borrowing from the General Fund of £30.599m may be required to support the capital programme.

HRA Capital Financing Requirement (CFR) – Underlying Borrowing requirement	Original Estimate 2023/24 £m	Revised forecast as at 31 August 2023 £m
Opening HRA CFR	208.947	204.455
Borrowing Need	58.890	37.747
Minimum Revenue Provision	0	0
Closing General; Fund CFR	267.837	242.201
HRA External Borrowing as at 31 August 2023		211.602
Forecast Under-borrowing (if no action taken)		30.599

The table below shows that the Council is operating within the Operational Boundary and Authorised Borrowing Limits set within the Treasury Management strategy and has sufficient headroom to cover the borrowing need arising from the year's capital programme.

Borrowing Limits	Operational Boundary £m	Authorised Borrowing Limit £m
Limit set for 2023/24	607.000	657.000
Less: PFI & Leases	38.000	38.000
Limit for Underlying Borrowing	569.000	619.000
Actual External Borrowing at 31 August 2023	388.713	388.713
Headroom*	218.287	268.287

*Authorised Borrowing headroom cannot be less than zero

The maturity profile of the Authority's borrowing is within the limits set within the strategy.

Maturity Structure of borrowing	Lower Limit set	Upper Limit set	Actual as at 31 August 2023
Under 12 Months	0%	40%	2%
12 months to 2 years	0%	40%	5%
2 years to 5 years	0%	50%	3%
5 years to 10 years	0%	75%	8%
Over 10 years	40%	100%	82%

