Report Title:	**Treasury Management Mid-Year Review 2023/24**
Contains Confidential or Exempt Information	No - Part I
Cabinet Member:	Councillor Lynne Jones, Deputy Leader and Finance
Meeting and Date:	Audit and Governance Committee – 16th November 2023
Responsible Officer(s):	Elizabeth Griffiths, Executive Director of Resources and Section 151 Officer
Wards affected:	All

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REPORT SUMMARY

The purpose of this report is to:

i) Update Members on the delivery of the Treasury Management Strategy approved by Council on 9th February 2023 and allow for any changes to be made depending on market conditions;

ii) This report forms part of the monitoring of the treasury management function as recommended in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice which requires that the Council receives a report on its treasury management activity at least twice a year;

Specifically this report includes:

a) a review of the Council's borrowing strategy in 2023/24;

b) a review of the Council's financial investment portfolio for 2023/24 as at 30th September 2023;

c) a review of compliance with the Council's Treasury and Prudential limits for the first 6 months of 2023/24; and

d) an economic update for the financial year is included as Appendix B.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION:

That the Audit and Governance Committee notes and approves the mid-year Treasury Management Mid-Year Review Report 2023/24.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management mid-year and annual reports.

2.2 The Council's treasury management strategy for 2023/24 was approved at the Council meeting on 9th February 2023. When borrowing and investing money the Council is exposed to financial risks including the loss of invested funds and the revenue impact of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

3. KEY IMPLICATIONS

3.1 A successful treasury management approach will ensure the security of the Council's assets whilst meeting the liquidity requirements of the Council.

Table 1: Key Implications

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	2022/23 Actual
No. of days that counterpart limits are exceeded	>0	<=0	N/A	N/A	0
No of days that the operational boundary for long-term debt is exceeded	>0	<=0	N/A	N/A	0

4. FINANCIAL DETAILS / VALUE FOR MONEY

MID-YEAR REVIEW OF TREASURY MANAGEMENT ACTIVITY

4.1 The treasury management position on 30th September 2023 and the change during the year to this date is shown in Table 2 below. Net borrowing has gone down since the start of the year. This because loans were taken out in advance of need in the previous financial year, and borrowing that was replaced in advance has been repaid.

Table 2: Treasury Management Summary

	31.3.23 Balance £m	Movement £m	30.9.23 Balance £m	30.9.23 Average Interest Rate
Long-term borrowing	111.3	(3.6)	107.7	3.66%
Short-term borrowing	121.1	(49.8)	71.3	4.19%
Total borrowing	**232.4**	**(53.4)**	**179.0**	
Long-term investments		1.3	1.3	9.25%
Short-term investments	27.2	(20.8)	6.4	5.18%
Cash and cash equivalents	42.0	(24.0)	18.0	5.75%
Total investments	**69.2**	**(43.5)**	**25.7**	
Net borrowing	**163.2**	**(9.9)**	**153.3**	

Borrowing

4.2 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority.

4.3 PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield. The Authority intends to avoid this activity in order to retain its access to PWLB loans.

Borrowing Strategy and Activity

4.4 As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continued to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

4.5 There was a substantial rise in the cost of both short- and long-term borrowing over the last 18 months. Bank Rate rose by 1% from 4.25% at the beginning of April to 5.25% at the end of September. Bank Rate was 2% higher than at the end of September 2022.

4.6 UK gilt yields were volatile, mainly facing upward pressure since early April following signs that UK growth had been more resilient, inflation longer lasting than expected, and that the Bank of England saw persistently higher rates through 2023/24 as key to controlling domestic demand. Gilt yields, and consequently PWLB borrowing rates, increased and broadly remained at elevated levels.

4.7 On 30th September, the PWLB certainty rates for maturity loans were 5.26% for 10 year loans, 5.64% for 20-year loans and 5.43% for 50-year loans. Their equivalents on 31st March were 4.33%, 4.70% and 4.41% respectively.

4.8 At 30th September the Authority's total borrowing was £179.0m, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th September are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.23 Balance £m	Net Movement £m	30.9.23 Balance £m	30.9.23 Weighted Average Rate %
Public Works Loan Board	83	(3)	80	4.2
Banks (LOBO)	13	0	13	4.2
Local authorities (long-term)	15	0	15	0.6
Local authorities (short-term)	104	(50)	54	3.8
Funds held on behalf of LEP	17	0	17	5.3
Total borrowing	**232**	**(53)**	**179**	

4.9 The Authority had high levels of borrowing at the start of the year. This reflects the conversion of some of our internal borrowing to external borrowing and allowed us to fix debt at lower rates ahead of the anticipated rises in interest rates which subsequently did occur during the first half of the year.

4.10 This strategy has limited the impact of the increases in the Bank of England base rate on the Authority's budget in the first half of the year. However, additional borrowing that will be required in the second half of the year will need to be taken out at the current higher market rates.

4.11 Officers are currently discussing potential new treasury strategies with our advisers, ArlingClose, in order to limit the future impact of high interest rates and to manage the Council's debt position. A new treasury strategy will be set out in the budget papers presented to Cabinet and Full Council in February 2024.

4.12 The Council continues to hold £13m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The Authority's LOBO lenders do not have an option to increase rates within the next 12 months. Therefore, there is no immediate risk to these loans requiring early repayment or experiencing rate rises.

TREASURY INVESTMENT ACTIVITY

4.13 The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

4.14 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the period, the Authority's investment balances ranged between £12.5m and £80.3m due to timing differences between income and expenditure. The investment position is shown in Table 4 below.

Table 4: Treasury Investment Position

	31.3.23 Balance £m	Net Movement £m	30.9.23 Balance £m	30.9.23 Income Return %
Banks	**0.6**	**2.4**	**3.0**	**5.1**
Money Market Funds	**20.0**	**(5.0)**	**15.0**	**5.3**
Debt Management Office	**21.4**	**(21.4)**	**0.0**	**-**
Other Local Authorities	**17.5**	**(17.5)**	**0.0**	**-**
Total investments	**59.5**	**(41.5)**	**18.0**	

4.15 Both the CIPFA Code and government guidance require the Authority 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 Authority'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.

4.16 As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term borrower, and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments.

4.17 Bank Rate increased by 1%, from 4.25% at the beginning of April to 5.25% by the end of September. Short-dated cash rates rose commensurately, with 3-month rates rising to around 5.25% and 12-month rates to nearly 6%. The rates on DMADF deposits also rose, ranging between 4.8% and 5.4% by the end of June.

NON-TREASURY INVESTMENTS

4.18 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

4.19 At 30/09/2023 the Authority held £7.7m of loans made for services purposes, comprising of £6.4m loaned to Achieving for Children, and £1.3m loaned to RBWM Property Company. These investments have earned £205k of interest during the first have of the year, representing an average rate of return of 5.6%.

4.20 The Authority held £82.6m investments in investment properties. These investments generated £1.036m of investment income for the Authority during the period after taking account of direct costs, representing a rate of return of 2.5%.

COMPLIANCE & INDICATORS

4.21 The Director of Resources (S151 Officer) reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

Liability Benchmark

4.22 This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £10m required to manage day-to-day cash flow.

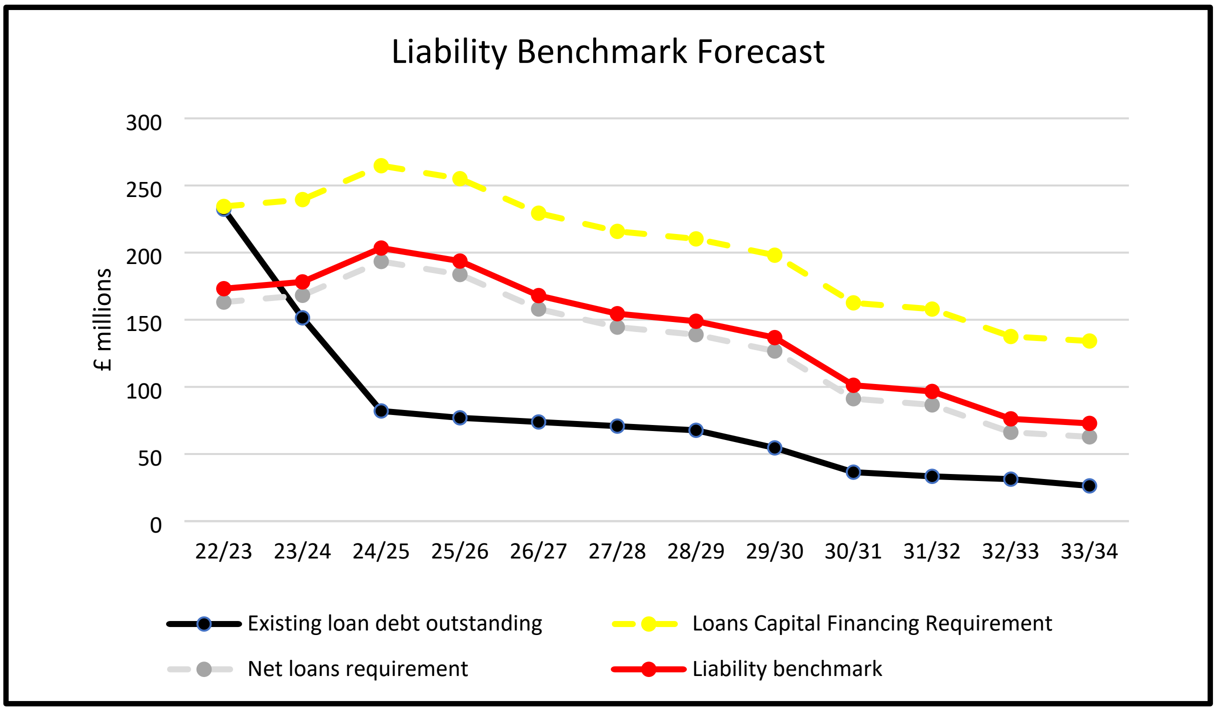
4.23 The existing loan debt outstanding is calculated based on the maturity dates of existing debt. The Capital Financing Requirement is our overall level of debt required and the Net Loans Requirement is the new loans required.

Table 5: Prudential Indicator: Medium-term liability benchmark

	31.3.23 Actual	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
Existing loan debt outstanding	**232.3**	**151.4**	**82.1**	**77.0**
Loans Capital Financing Requirement	234.4	239.5	264.7	255.1
Net loans requirement	163.1	168.2	193.4	183.7
Liability benchmark	**173.1**	**178.2**	**203.4**	**193.7**

4.24 **Table 5** above shows the forecast medium-term liability benchmark for the Authority and **Chart 1** below shows its forecast long-term liability benchmark. The difference between the liability benchmark (the red line in Chart 1) and the existing loan debt outstanding (the black line in Chart 1) represents additional borrowing that the Authority will be required to arrange to meet its borrowing requirement.

Chart 1: Liability Benchmark Forecast



4.25 These figures assume that capital receipts generated from the development of Maidenhead Golf Course will be used to reduce the Authority's borrowing requirement from 2026/27 onwards. They show that the Authority is expected to remain in a borrowing position into the long-term. These figures are based on estimates and will be updated imminently.

4.26 The performance against debt and counterparty limits is shown in Tables 5 and 6 below.

Table 6: Debt Limits

	2023/24 Maximum	30.9.23 Actual	2022/23 Operational Boundary	2022/23 Authorised Limit	Complied?
Borrowing	£215m	£162m	£302m	£329m	Yes

Table 7: Counterparty Limits

	2023/24 Actual	2023/24 Target	Complied?
No. of days that counterpart limits are exceeded	0	0	Yes

4.27 The Authority's interest rate exposure limit is set to control its exposure to interest rate rises by limiting the amount of short-term borrowing that it holds. The Authority complied with this limit as shown in Table 8 below:

Table 8: Interest Rate Risk Indicator

	30.9.23 Actual	2023/24 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	£0.24m	£2m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.24m	£2m	Yes

4.28 The maturity structure of borrowing indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing and compliance against these are shown in Table 9 below:

Table 9: Maturity Structure of Borrowing

	30.9.23 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	**41%**	**80%**	**0%**	**Yes**
12 months and within 24 months	**10%**	**80%**	**0%**	**Yes**
24 months and within 5 years	**6%**	**100%**	**0%**	**Yes**
5 years and within 10 years	**27%**	**100%**	**0%**	**Yes**
10 years and above	**16%**	**100%**	**0%**	**Yes**

4.29 Table 10 shows the Authority's compliance with its limits for the amount of principle invested beyond year end. The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments.

Table 10: Principle sums invested beyond year end

	2023/24	2024/25	2025/26
Actual principal invested beyond year end	£1.3m	£1.3m	£1.3m

Limit on principal invested beyond year end	£25m	£25m	£25m
Complied?	Yes	Yes	Yes

5. LEGAL IMPLICATIONS

5.1 In producing and reviewing this report the Council is meeting legal obligations to properly manage its funds.

6. RISK MANAGEMENT

6.1

Table 11: Impact of risk and mitigation

Threat or risk	Impact with no mitigations in place or if all mitigations fail	Likelihood of risk occurring with no mitigations in place.	Mitigations currently in place	Mitigations proposed	Impact of risk once all mitigations in place and working	Likelihood of risk occurring with all mitigations in place.
That a counterparty defaults on repayment of a loan resulting in a loss of capital for the Authority.	Major	Medium	Loans are only made to counterparties on the approved lending list. The credit ratings of counterparties on the lending list are monitored regularly Counterparty limits reviewed and reduced to limit individual exposure.		Moderate	Low
That funds are invested in fixed-term deposits and are not available to meet the Authority's commitment to pay suppliers and payroll.	Moderate	Medium	A cashflow forecast is maintained and referred to when investment decisions are made to ensure that funds are available to meet the Authority's		Minor	Low

			commitment to pay suppliers and payroll.			

7. POTENTIAL IMPACTS

7.1 Equalities. An Equality Impact Assessment is available as Appendix A. ,

7.2 Climate change/sustainability. None identified

7.3 Data Protection/GDPR. None identified.

8. CONSULTATION

8.1 Not applicable

9. TIMETABLE FOR IMPLEMENTATION

9.1 Not applicable

10. APPENDICES

10.1 This report is supported by two appendices:

- Appendix A – Equality Impact Assessment
- Appendix B – Arlingclose Economic Update

11. BACKGROUND DOCUMENTS

11.1 None

12. CONSULTATION

Name of consultee	Post held	Date sent	Date returned
Mandatory:	*Statutory Officer (or deputy)*		
Elizabeth Griffiths	Executive Director of Resources & S151 Officer	**7/11/23**	
Elaine Browne	Deputy Director of Law & Governance & Monitoring Officer	**7/11/23**	
Deputies:			
Andrew Vallance	Deputy Director of Finance & Deputy S151 Officer	**Report Author**	
Jane Cryer	Principal Lawyer & Deputy Monitoring Officer		

Confirmation relevant Cabinet Member(s) consulted	Deputy Leader and Finance	Yes

REPORT HISTORY

Decision type:	Urgency item?	To follow item?
Audit and Governance Committee decision	No	No

Report Author: Andrew Vallance, Deputy Director of Finance

Appendix A - Equality Impact Assessment

For support in completing this EQIA, please consult the EQIA Guidance Document or contact equality@rbwm.gov.uk

www.rbwm.gov.uk

Royal Borough of Windsor & Maidenhead

1. Background Information

Title of policy/strategy/plan:	Treasury Management
Service area:	Finance
Directorate:	Resources

Provide a brief explanation of the proposal: • What are its intended outcomes? • Who will deliver it? • Is it a new proposal or a change to an existing one?
To provide effective management of the Authority's cash flows, borrowing and investments, and the associated risks. This is to be delivered by finance and is an updated strategy for the forthcoming financial year.

2. Relevance Check

Is this proposal likely to <u>directly</u> impact people, communities or RBWM employees? • If No, please explain why not, including how you've considered equality issues. • Will this proposal need a EQIA at a later stage? (for example, for a forthcoming action plan)
No – technical finance report No

If ‘No’, proceed to ‘Sign off’. If unsure, please contact equality@rbwm.gov.uk

3. Evidence Gathering and Stakeholder Engagement

Who will be affected by this proposal? For example, users of a particular service, residents of a geographical area, staff
Among those affected by the proposal, are protected characteristics (age, sex, disability, race, religion, sexual orientation, gender reassignment, pregnancy/maternity, marriage/civil partnership) **disproportionately represented?** For example, compared to the general population do a higher proportion have disabilities?
What engagement/consultation has been undertaken or planned? • How has/will equality considerations be taken into account? • Where known, what were the outcomes of this engagement?
What sources of data and evidence have been used in this assessment? Please consult the Equalities Evidence Grid for relevant data. Examples of other possible sources of information are in the Guidance document.

4. Equality Analysis

Please detail, **using supporting evidence**:

- How the protected characteristics below might influence the needs and experiences of individuals, in relation to this proposal.
- How these characteristics might affect the impact of this proposal.

Tick positive/negative impact as appropriate. If there is no impact, or a neutral impact, state 'Not Applicable'

More information on each protected characteristic is provided in the Guidance document.

	Details and supporting evidence	Potential positive impact	Potential negative impact
Age			
Disability			
Sex			
Race, ethnicity and religion			
Sexual orientation and gender reassignment			
Pregnancy and maternity			
Marriage and civil partnership			
Armed forces community			
Socio-economic considerations e.g. low income, poverty			
Children in care/Care leavers			

5. Impact Assessment and Monitoring

If you have not identified any disproportionate impacts and the questions below are not applicable, leave them blank and proceed to Sign Off.

What measures have been taken to ensure that groups with protected characteristics are able to benefit from this change, or are not disadvantaged by it? For example, adjustments needed to accommodate the needs of a particular group
Where a potential negative impact cannot be avoided, what measures have been put in place to mitigate or minimise this? • For planned future actions, provide the name of the responsible individual and the target date for implementation.
How will the equality impacts identified here be monitored and reviewed in the future? See guidance document for examples of appropriate stages to review an EQIA.

6. Sign Off

Completed by: Ryan Stone	**Date**: 19/10/2023
Approved by: Andrew Vallance	**Date:** 7/11/23

If this version of the EQIA has been reviewed and/or updated:

Reviewed by:	**Date**: