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 December 2023 (TBM month 9), 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 December 2023 was 5.09% under-performing the benchmark rate by 10 basis points (or 0.10 percentage points). Performance has lagged the benchmark for two primary reasons; Firstly, there has been a time lag between changes in base rate and investments maturing and being able to re-invest at more favourable rates; this is normal in an increasing interest rate period. Secondly, the ability to re-invest funds in longer term funds has reduced in quarter 3 due to decreasing cash balances.

Average Investment Balance (Oct – Dec) £m	Average Investment return	Average Benchmark Rate*	Difference
165.017	5.09%	5.19%	(0.10%)

* *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 0.050% i.e. there is a 99.95% probability that the council will receive its investments back. The benchmark is a simple target that measures risk based on the financial standing of counterparties and the length of each investment based on historic default rates. The actual risk indicator has varied between 0.090% and 0.019% between October 2023 and December 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	0.019%

Borrowing

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

	General Fund Borrowing £m	HRA Borrowing £m	Total Borrowing £m	Average Rate %
PWLB	151.692	182.925	334.617	2.78%
Market Loans	16.251	18.749	35.000	4.33%
Total borrowing	**167.493**	**201.674**	**369.617**	**2.92%**
Average Rate	**3.08%**	**2.79%**	**2.92%**	

The table below shows the forecast of the Capital Financing Requirement (CFR) for both the General Fund and the HRA at TBM month 9 compared to the estimate within the 2023/24 strategy approved in February 2023.

The General Fund Capital Programme forecast as at TBM month 9 includes projects funded by borrowing of £33.989m compared to an original estimate of £55.344m. The reduction is a result of the 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 £69.157m. 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 no new external borrowing will 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 December 2023 £m**
Opening General Fund CFR	234.743	211.894
Borrowing Need	55.344	33.989
Minimum Revenue Provision	(18.850)	(9.233)
Closing General Fund CFR	**271.238**	**236.650**
GF External Borrowing as at 31 December 2023		**167.493**
Forecast Under-borrowing		**69.157**

The TBM HRA Capital Programme forecast includes projects funded by borrowing of £34.335m 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 £37.116m. 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 £37.116m 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 December 2023 £m**
Opening HRA CFR	208.947	204.455
Borrowing Need	58.890	34.335
Minimum Revenue Provision	0	0
Closing HRA CFR	**267.837**	**238.790**
HRA External Borrowing as at 31 December 2023		**201.674**
Forecast Under-borrowing (if no action taken)		**37.116**

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	(369.617)	(369.617)
Headroom*	199.383	249.383

**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 December 2023
Under 12 Months	0%	40%	0%
12 months to 2 years	0%	40%	5%
2 years to 5 years	0%	50%	3%
5 years to 10 years	0%	75%	9%
Over 10 years	40%	100%	83%