



**AUDIT COMMITTEE/ CABINET
/ COUNCIL**

Portfolio Area: Resources and Transformation

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2024/25 MID YEAR TREASURY MANAGEMENT REVIEW AND PRUDENTIAL INDICATORS

NON-KEY DECISION

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1 PURPOSE

1.1 To update Members on the Treasury Management activities in 2024/25 and review effectiveness of the 2024/25 Treasury Management and Investment Strategy including the 2024/25 prudential and treasury indicators.

2 RECOMMENDATIONS

2.1 Audit Committee

That subject to any comments by the Audit Committee to the Cabinet, the 2024/25 Mid-Year Treasury Management Review and Prudential indicators reports is recommended to Council for approval.

2.2 Cabinet

That subject to any comments made by the Cabinet, in addition to those made by the Audit Committee, the 2024/25 Mid-Year Treasury Management Review and Prudential indicators report is recommended to Council for approval.

2.3 Council

That subject to any comments from the Audit Committee and the Cabinet, 2024/25 Mid-Year Treasury Management Review and Prudential indicators report be approved by Council.

3 BACKGROUND

3.1.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

3.1.2 The second main function of the treasury management service is the funding of the Council's capital plans, (subject to affordability). These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

“The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

3.1.3 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021). The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.

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- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Audit committee.

3.1.4 In December 2021, CIPFA revised the Code to require, all local authorities to report on:

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

These elements are covered in the annual Capital Strategy reported to Council in February each year.

3.1.5 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2024/25 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2024/25;
- A review of the Council's borrowing strategy for 2024/25;
- A review of compliance with Treasury and Prudential Limits for 2024/25.

3.2 Economics and interest rates

3.2.1 Economics update.

3.2.2 The first half of 2024/25 saw:

- GDP growth stagnating in July following 0.5% growth in the three months to July.
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August then falling to 1.7% in September;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

3.2.3 10-year Gilt yield movements in the first half of 2024/25, declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by

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only 5bps after the announcement. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.

3.2.4 Interest Rate Forecasts

3.2.5 The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate* (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

3.2.6 The Bank cut base rates by 25bps rate cut in August, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, opted to hold rates steady at 5.0%, signalling a preference for a gradual approach to rate cuts.

3.2.7 The latest forecast (Link 10 October) sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, as the Bank of England continues to prioritise controlling inflation.

Chart 1

	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

* Certainty Rate reduction HRA – 0.6% is not included above

4 Treasury Management Strategy Statement and Annual Investment Strategy Update

4.1.1 The Treasury Management Strategy was approved by Council on 21 February 2024. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

4.2 The Council’s Capital Position (Prudential Indicators).

4.2.1 This part of the report is structured to update:

- The Council’s capital expenditure plans and how these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

4.2.2 Prudential Indicator for Capital Expenditure and changes to Financing of the Capital Programme.

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4.2.3 The table below shows the revised estimates for capital expenditure and financing and the changes since the capital programme was agreed at the Budget. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 1 Capital Expenditure and Financing			
	Original Capital Strategy (Council February 2024)	Revised Capital Strategy Q2	Movement¹
	£'000	£'000	£'000
Capital Expenditure:			
General Fund Capital Expenditure	33,558	25,919	(7,639)
HRA Capital Expenditure	54,831	31,662	(23,169)
Total Capital Expenditure	88,389	57,581	(30,808)
Financed by:			
Capital Receipts	(7,945)	(16,947)	(9,002)
Capital Grants /Contributions	(33,542)	(9,949)	23,593
Capital Reserves	(654)	(0)	654
Revenue contributions	(7,055)	(4,167)	2,888
Major Repairs Reserve	(20,417)	(18,671)	1,746
Total Financing	(69,613)	(49,734)	19,879
Borrowing requirement	18,776	7,847	(10,929)

4.2.4 The General Fund net reduction of £7.6Million includes:

- Re-phasing of £10.4Million of 2023/24 budgets into 2024/25 across all services.
- Re-phasing of £17Million capital budgets in from 2024/25 into future years. Details are included in the quarterly monitoring reports referred to below.

4.2.5 The HRA net reduction of £23Million is due to re-phasing of the Housing Development and investment budgets. The current phasing is detailed in the HRA MTFS report in the meeting agenda.

4.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational

¹ This movement differs from that reported in the quarterly Capital Monitoring reports as that report uses the latest budget rather than the original as a comparator.

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4.3.1 The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement and the Operational Boundary for external debt.

Table 2	2024/25 Original Estimate Council February 2024 £'000	Current Position £'000	2024/25 Revised Estimate Mid- Year £'000
CFR – non housing	63,370	59,524	59,256
CFR – housing	284,060	272,384	272,384
Total CFR	347,430	331,908	331,640
Net movement in CFR			(15,790)

4.3.2 The net movement in the CFR relates mainly to the re-phasing of the HRA capital programme funded by borrowing into future years as part of the revised HRA MTFS.

4.4 Limits to Borrowing Activity

4.4.1 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and next two financial years.

4.4.2 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

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Table 3 Authorised limits	Operational Boundary £'000	Authorised Limit £'000	Actual External Debt 30/09/2024 £'000
General Fund ²	70,904	82,904	25,704
Housing WOC	15,000	16,800	0
Total General Fund	85,904	99,704	25,704
HRA	288,060	292,060	246,231
Total Debt	373,964	391,764	271,935
CFR (projected year-end position)			331,640

4.4.3 A temporary breach of the operational boundary is permissible for short term cash flow purposes however a breach of the authorised limit would require a report to Council. There have been no breaches of either limit in the period for 2024/25.

4.5 Borrowing

4.5.1 The Council's capital financing requirement (CFR) for 2024/25 is £334Million. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 3 shows the Council has borrowings of £272Million and has utilised £62Million of cash flow funds in lieu of borrowing (Current CFR less total current debt). This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

4.5.2 Capital programme is being kept under regular review due to the effects of inflationary pressures, shortages of materials and labour. The Council borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, in order to achieve optimum value and risk exposure in the long-term.

4.5.3 External borrowing of a total £13Million from the PWLB was taken out - 17 April 2024 (£7.5m) for a period of 21 years at 4.87%, and 2 July 2024 (£5.5m) for a period of 21 years at 4.88%. This funding replaced internal borrowing used to fund the HRA and did not increase the overall CFR for the HRA.

4.5.4 It is anticipated that further borrowing will be undertaken during the financial year in line with financing in table 1 above.

4.5.5 Borrowing rates from PWLB are based on Gilt yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields and Bank Rate, inflation expectations and movements in US treasury yields.

4.5.6 Gilt yields and PWLB certainty rates were less volatile than at this time last year. Overall, the 10, 25 and 50-year part of the curve endured a little volatility but finished September very much as it started in April.

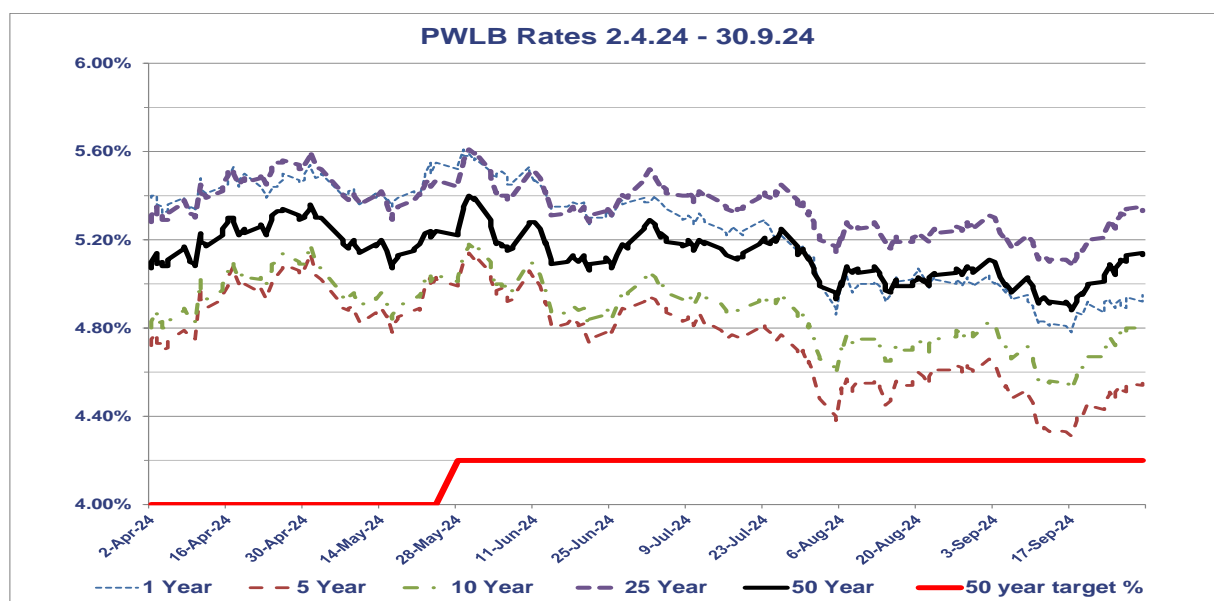
² Includes Finance Lease

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4.5.7 Rates are forecast to fall back over the next two to three years as inflation dampens. The CPI measure of inflation is expected to fall below 2% in the second half of 2025, (however the CPI for September was announced on the 16 October 2024 at 1.7%), and 50-year rates are expected to stand at 4.20% by the end of September 2026. However, there is considerable gilt issuance to be digested by the market over the next couple of years, as a minimum, so there is a high degree of uncertainty as to whether rates will fall that far.

4.5.8 The Chart below shows the volatility of the PWLB borrowing rates from 2 April 2024 to 30 September 2024.

Chart 2



4.6 Compliance with Treasury and Prudential Limits

4.6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2024 the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2024/25. The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

4.6.2 All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

4.7 Annual Investment Strategy

4.7.1 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 21 February 2024. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity

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- Yield

4.7.2 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite.

4.7.3 There were no breaches to this policy in the year to 30 September 2024 with the investment activity conforming to the approved strategy. The Council had no liquidity difficulties and no funds have been placed with the Debt Management Office (DMO), demonstrating that counterparty limits and availability for placing funds approved in the TM Strategy were working effectively. It is possible that surplus funds that may be borrowed during 2024/25 will be placed in the DMO temporarily, if PWLB borrowing rates are advantageous and cash balances due to timing of taking out new loans would breach other counterparty limits.

Creditworthiness

4.7.4 The UK's sovereign rating has proven robust through the first half of 2024/25. The Government is expected to outline in detail its fiscal proposals in the Budget scheduled for 30 October 2024.

Investment Counterparty criteria

4.7.5 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function. Countries included are those where relevant banks are active in Sterling markets.

4.7.6 The Specified and Non-Specified Investment Criteria (Appendix C) have been reviewed and updated in the Treasury Management Strategy 2024/25 which was agreed at Full Council in February 2024 and no further amendments are proposed at this stage.

4.8 Investment performance year to date as of 30 September 2024

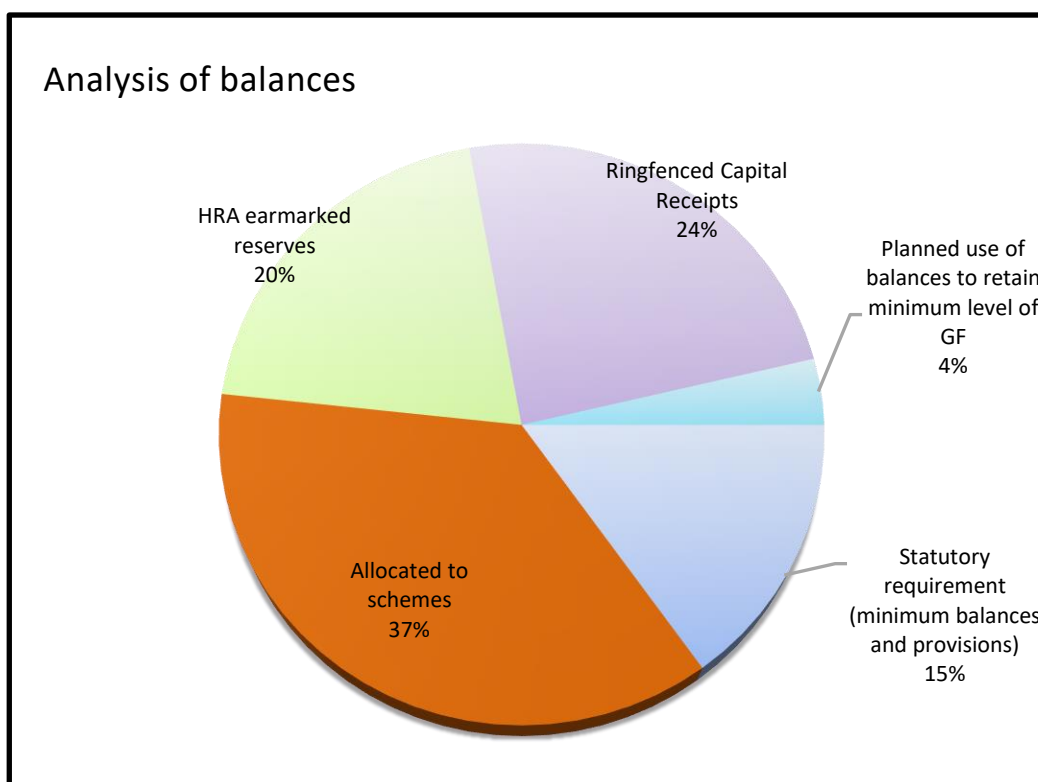
4.8.1 The Council's current investment portfolio consists of "conventional" cash investments: deposits with banks and building societies, Money Market Funds and loans to other Local Authorities. Currently no investments have been made with any of the other approved instruments within the Specified and Non-specified Investment Criteria (see Appendix C).

4.8.2 In accordance with the Treasury Management Strategy, the Council invests its surplus cash balances that are committed for future approved spending. The policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data and counterparty limits dependant on level of cash balances held.

4.8.3 The average level of funds available for investment purposes during the first half of the financial year was £51.6Million, earning an average interest rate of 5.1%. Interest earned to 30 September 2024 was £1.1Million. Projected investment balances at 31 March 2025 are currently £37Million and forecast external interest receivable from investments is currently £2.2Million against a working budget of £1.9Million, contributing to General Fund (£284k) and Housing Revenue Account revenue income (£31k).

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- 4.8.4 The Council’s balances are made up of cash reserves e.g. HRA and General Fund balances, restricted use receipts e.g. right to buy one for one receipts and balances held for provisions such as business rate appeals and debt repayment.
- 4.8.5 In considering the Council’s level of cash balances, Members should note that the General Fund MTFs and Capital Strategy have a planned use of resources over a minimum of five years and the HRA Business Plan (HRA BP) a planned use of resources over a thirty year period, which means, while not committed in the current year; they are required in future years.
- 4.8.6 The following chart shows the planned use of cash balances as at 30 September 2024.



- 4.8.7 The restrictive use of a proportion of the cash balances set out above, plus the planned use of resources in line with the Council’s capital and revenue strategies mean that the investment balance of £39.4Million as at 30 September 2024 is not available for new expenditure (for details see Appendix B).

5 IMPLICATIONS

5.1 Financial Implications

- 5.1.1 This report is of a financial nature and reviews the treasury management function for 2024/25 to date. Any consequential financial impacts identified in the Capital strategy and Revenue budget monitoring reports have been incorporated into this report.

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5.1.2 During the financial year Officers operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury management practices.

5.2 Legal Implications

5.2.1 Approval of the Prudential Code Indicators and the Treasury Management Strategy are intended to ensure that the Council complies with relevant legislation and best practice.

5.2.2 There have been no changes to PWLB borrowing arrangements since the last Treasury report, however where there are changes to the Prudential and Treasury Management codes from 2024/25. Officers will ensure that any changes are reflected in treasury operations and reporting requirements.

5.3 Risk Implications

5.3.1 The current policy of minimising external borrowing only remains financially viable while cash balances are high and the differentials between investment income and borrowing rates remain. As these conditions change the Council may need to take borrowing at higher rates which would increase revenue costs.

5.3.2 There remains uncertainty on the long-term implications of exiting the EU on the UK economy and borrowing rates. Officers monitor interest rate forecasts to inform the timing of borrowing decisions.

5.3.3 The Council's Treasury Management Strategy is based on limits for counterparties to reduce risk of investing with only a small number of institutions.

5.3.4 The thresholds and time limits set for investments in the Strategy are based on the relative ratings of investment vehicles and counter parties. These are designed to take into account the relative risk of investments and also to preclude certain grades of investments and counterparties to prevent loss of income to the Council.

5.3.5 There is a risk to the HRA BP's ability to fund the approved thirty year spending plans if interest rates rise above budgeted rates. Mitigation is included in the revision to the BP since 2023, including requiring higher levels of reserves to be maintained in the medium term to cover interest rate risks.

5.4 Equalities and Diversity Implications

5.4.1 This report is technical in nature and there are no implications associated with equalities and diversity within this report. In addition to remaining within agreed counterparty rules, the council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues. Counterparty rules will also be overlaid by any other ethical considerations from time to time as appropriate.

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5.4.2 The Treasury Management Policy does not have the potential to discriminate against people on grounds of age; disability; gender; ethnicity; sexual orientation; religion/belief; or by way of financial exclusion. As such a detailed Equality Impact Assessment has not been undertaken.

5.5 Climate Change Implications

5.5.1 The council's investment portfolio is sterling investments and not directly in companies. However the TM team continue to review the use of Money Market funds to ensure, where possible, money market funds that invest in environmentally sustainable companies are used. In this way the TM team aligns with the Councils ambition to attempt to be carbon neutral by 2030.

BACKGROUND PAPERS

- BD1 Treasury Management Strategy including Prudential Code Indicators 2024/25 (Council 21 February 2024)
- BD2 Quarter 1 Revenue and Capital Monitoring Report – General Fund and HRA (Cabinet 18 September 2024)
- BD3 Quarter 2 Revenue and Capital Monitoring Report – General Fund and HRA (Cabinet 13 November 2024)
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APPENDICES

- Appendix A Prudential Indicators
- Appendix B Investment Portfolio
- Appendix C Country Counterparty List 30 September 2024
- Appendix D Specified and Non-specified Criteria