

This report is public	
Treasury Management Report – Q1 2024/25 (June 2023)	
Committee	Accounts, Audit and Risk Committee
Date of Committee	17 July 2024
Portfolio Holder presenting the report	Portfolio Holder for Finance and Resources, Councillor Lesley McLean
Date Portfolio Holder agreed report	4 July 2024
Report of	Assistant Director of Finance (Section 151 Officer), Michael Furness

Purpose of report

To provide information on treasury management performance and compliance with treasury management policy for 2024-25 as required by the Treasury Management Code of Practice.

To demonstrate that all treasury management activities undertaken during the first quarter of 2024-25 complied with the CIPFA Code of Practice and the council's approved Treasury Management Strategy.

1. Recommendations

The Accounts, Audit and Risk Committee resolves:

- 1.1 To note the contents of this Treasury Management Performance Report.

2. Executive Summary

- 2.1 The council complies with 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 semi-annual and annual reports.
- 2.2 The council's Treasury Management Strategy for 2024-25 was approved by Council on 26 February 2024. The Treasury indicators have been included in this report as per the 2021 CIPFA Treasury Management in the Public Services Code of Practice requirements.

Implications & Impact Assessments

Implications	Commentary			
Finance	There are no financial implications arising directly from any outcome of this report. Joanne Kaye, Head of Finance (D151), 3 July 2024			
Legal	The presentation of the report is required by regulations issued under the Local Government Act 2003 to review the treasury management activities, the actual prudential indicators and the treasury related indicators and confirm compliance with the Code. Alison Coles, Legal Services Operations Manager, Solicitor, 3 July 2024			
Risk Management	It is essential that this report is considered by the Audit Committee as it demonstrates that the risk of not complying with the council's Treasury Management Policy has been avoided. This and any other risks related to this report will be managed through the service operational risk and escalated to the leadership risk register as and when necessary. Celia Prado-Teeling, Performance Team Leader, 3 July 2024			
Impact Assessments	Positive	Neutral	Negative	Commentary
Equality Impact		X		Not applicable
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		Not applicable
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		Not applicable
Climate & Environmental Impact				Not applicable
ICT & Digital Impact				Not applicable
Data Impact				Not applicable

Procurement & subsidy				Not applicable
Council Priorities	Not applicable			
Human Resources	Not applicable			
Property	Not applicable			
Consultation & Engagement	Not applicable			

Supporting Information

3. Background

- 3.1 The council continues to pursue its strategy of keeping borrowing and investments below its underlying levels, sometimes known as internal borrowing, in order to reduce risk and borrowing costs. As at the end of June 2024 the council had borrowing of £181m and investments of £30m – a net borrowing position of £151m. This is an improvement from the net borrowing position of £159m on 31/03/24.
- 3.2 It is a statutory duty for the council to determine and keep under review its affordable borrowing limits. During the first quarter of 2024/25, the council has operated within the treasury and prudential indicators set out in the council's Treasury Management Strategy Statement for 2024/25. The Assistant Director of Finance reports that, based on current plans and economic forecasts, these indicators are forecast to be complied with in the current and future years.

4. Details

Borrowing performance 1 April to 30 June 2024

- 4.1 The council requires external borrowing to fund its capital programme and had a total debt of £181m at the date of this report. The increased cost of borrowing over the last two years has resulted in the council moving from an equal mix of short and long-term borrowing to predominantly medium to long term loans from the Public Works Loan Board (PWLB) to provide interest rate certainty. This move was made in July 2022 while rates were still comparatively low and resulted in an average interest rate of just 2.19% for the 2023/24 financial year, with 2.45% forecast for 2024/25 as per Table 1 below. It should be noted that as loans become due for renewal it is likely that short term borrowing will increase as interest rates are anticipated to fall in the coming years.

- 4.2 The council's main objective when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

Table 1: Borrowing Position for quarter ended 30 June 2024

	Borrowing Amount £m	Average Interest Rate	Interest Paid Budget £m	Interest Paid Actual £m	Variance to Date £m
April to June 24	181 (average)	2.45%	1.178	0.855	(0.323)
As at 31/06/24	181	2.45%	-	-	-

* Interest payable relates to external loans only, excluding finance lease and other interest

- 4.3 Interest payable for the full year is forecast just below the budget. Loans to the value of £36m are maturing in 2024/25. These loans will be refinanced by short term loans at a forecast average rate of 5.05%. This short-term rate is modelled in the forecast annual average interest rate in Table 1. When the short term loans mature there is the possibility of further refinancing them for longer periods to achieve greater rate certainty when rates are more favourable. A full list of current borrowing is shown below:

Table 2: Borrowing

Lender	Principal Borrowed £m	Maturity Date
PWLB 7-year maturity	21	19/10/2024
West Midlands Combined Authority 1-year maturity	15	13/02/2025
PWLB 6-year maturity	6	25/09/2025
PWLB 7-year maturity	6	19/09/2026
PWLB 5-year maturity	10	26/07/2027
PWLB 10-year maturity	10	31/05/2028
PWLB 6-year maturity	5	26/07/2028
PWLB 7-year maturity	10	26/07/2029
PWLB 10-year maturity	6	25/09/2029
PWLB 8-year maturity	10	26/07/2030
PWLB 11-year maturity	6	19/09/2030
PWLB 9-year maturity	16	26/07/2031
PWLB 10-year maturity	15	26/07/2032
PWLB 15-year maturity	5	31/05/2033
PWLB 15-year maturity	5	25/09/2034
PWLB 16-year maturity	5	19/09/2035
PWLB 30-year maturity	5	31/05/2048
PWLB 50-year maturity	25	10/11/2071
TOTAL	181	

- 4.4 The council monitors its exposure to refinancing risk with the maturity structure of borrowing indicator. While it is important to have flexibility to navigate changing market conditions is it critical that loan repayments are spread appropriately. The lower limit has been considered but kept at zero to ensure that the council is not forced into taking borrowings in a particular category that would lock it into an unfavourable borrowing situation.

Table 3: Maturity structure of borrowing

Refinancing rate risk indicator	Upper limit	Lower limit	Actual structure
Under 12 months	50%	0%	17.91%
12 months and within 24 months	50%	0%	12.94%
24 months and within 5 years	60%	0%	15.42%
5 years and within 10 years	70%	0%	33.83%
10 years and above	80%	0%	19.90%

Investment performance 1 April to 30 June 2024

- 4.5 Funds available for investment are on a temporary basis because the council prioritises keeping borrowing to a minimum and only invests surplus funds retained to meet its commitments. The level of funds available is mainly dependent on the timing of precept payments, receipt of grants and funding of the Capital Programme.
- 4.6 The Bank of England has not cut interest rates as was forecast when the budget was set and as a result there is currently a positive variance (£0.136m). Table 4 below shows the investment position during and at the end of the reporting period.

Table 4: Investment Position

	Investment Amount £m	Average Interest Rate	Interest Earned Budget £m	Interest Earned Actual £m	Variance to Date £m
April to June 24	25 (average)	5.48%	(0.288)	(0.424)	(0.136)
As at 30/06/24	30	5.32%	-	-	-

- 4.7 While the council is always looking for ways to invest sustainably (or green investments) this must be done within the criteria laid out in the approved Treasury Management Strategy with counterparties that meet the council's investment criteria. Security, liquidity and yield remain the primary investment considerations as required by the Treasury Management Code.

The council continues to invest in three Money Market funds that meet the criteria pursuant to Article 8 of the Sustainable Finance Disclosure Regulation (Regulation EU/2019/2088). These are highlighted in green in the full list of current investments in Table 5 below:

Table 5: Investments

Counterparty	Principal Deposited £m	Maturity Date / Notice period
<u>Fixed Term Deposits</u>		
Wakefield Council	5.00	11/07/24
SMBC Bank International Plc	3.00	06/09/24
Qatar National Bank	3.00	06/09/24
Development Bank of Singapore	3.00	19/09/24
London Borough of Barking & Dagenham	3.00	19/09/24
East Hertfordshire District Council	5.00	14/10/24
<u>Money Market Funds</u>		
Legal & General Investment Management	5.00	Same day
Federated Investors UK	2.55	Same day
Northern Trust Asset Managements	0.01	Same day
CCLA Investment Management Limited	0.02	Same day
Goldman Sachs Asset Management	0.08	Same day
TOTAL	29.66	

4.8 Compliance with investment limits are detailed in Table 6 below:

Table 6: Investment Limits

Counterparty	2024/25 Limit £m	Complied?
UK Central Government	Unlimited	Yes
Other Local Authorities	5 each	Yes
Any group of organisations under the same ownership	5 per group	Yes
Approved counterparties – Banks/Building Societies	3 each	Yes
Any group of pooled funds under the same management	5 per manager	Yes
Money Market Funds total	15 in total	Yes

Non-treasury investment activity

4.9 The definition of investments in CIPFA's revised Treasury Management Code covers all the financial assets of the council. This is replicated in the government's Statutory Guidance on Local Government Investments, in which the definition of investments is further broadened to also include all such assets that provide a financial return.

- 4.10 As of 31 June 2024, the council holds £102.4m of investments that qualify under the code in the form of shares (£35.6m) and loans (£66.8m) to subsidiary companies and other organisations, primarily Graven Hill and Crown House. There has been no change in balances since the previous quarter.
- 4.11 The loan elements of these non-treasury service investments generate a higher rate of return than that earned on treasury investments due to the commercial rates at which the majority of the loans were issued. Table 7 below shows the investment position for this reporting period.

Table 7: Non-treasury Investment Position

	Investment Amount £m	Average Interest Rate	Interest Earned Budget £m	Interest Earned Actual £m	Variance to Date £m
April to June 24	66.75 (average)	6.76%	(1.122)	(1.127)	(0.005)
As at 31/06/24	66.75	6.76%	-	-	-

Overall performance

- 4.12 The overall performance for the 3 months to 30 June 2024 has positive variance as borrowing costs will only increase during Q3 and Q4 when maturing loans are refinanced at higher interest rates. Interest income will similarly decrease in the last half of the year as investment returns are forecast to decrease in line with the forecast rate cuts by the Bank of England.

Table 8: Overall Treasury Position for the Period

	Budget 24/25 £m	Actual 24/25 £m	Variance to date £m
Borrowing costs	1.178	0.855	(0.323)
Other interest	0.000	0.000	0.000
Treasury income	(0.288)	(0.424)	(0.136)
Non-treasury income	(1.122)	(1.127)	(0.005)
Total cost/(income)	(0.232)	(0.696)	(0.464)

- 4.13 The overall full year forecast is expected to perform to budget.

Table 9: Overall Treasury Position Forecast to Year End

	Full Year Budget £m	Full Year Actual £m	Full Year Variance £m
Borrowing costs	4.711	4.702	(0.009)
Finance lease and other interest	0.769	0.780	0.011
Treasury income	(1.151)	(1.117)	0.034
Non-treasury income	(4.487)	(4.510)	(0.023)
Total cost/(income)	(0.158)	(0.145)	0.013

Interest rate forecast

- 4.14 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 latest forecast sets out a view that short, medium and long-dated interest rates will be elevated for the next year, as the Bank of England seeks to further reduce inflation.

Table 10: Link Forecast Rates published on the 28th May 2024

Link Group Interest Rate View 28.05.24		Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE		5.25	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings		5.30	5.00	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings		5.30	4.90	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings		5.10	4.80	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB		4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB		5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB		5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB		5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

5. Alternative Options and Reasons for Rejection

- 5.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To request further information on the performance reported.

6 Conclusion and Reasons for Recommendations

- 6.1 This report details the Treasury Performance for the council for the first quarter of 2024/25. It is submitted to the Accounts, Audit and Risk Committee for information as required by the Treasury Management Code of Practice.

Decision Information

Key Decision	Not applicable
Subject to Call in	Not applicable
If not, why not subject to call in	Not applicable
Ward(s) Affected	All

Document Information

Appendices	
Appendix 1	None
Background Papers	None
Reference Papers	Treasury Management Strategy 2024-25 approved 26 February 2024 https://modgov.cherwell.gov.uk/documents/s55393/Appendix%2021%20-%20Treasury%20Management%20Strategy%202024-25.pdf
Report Author	Janet du Preez – Finance Business Partner – Treasury and Insurance
Contact details	janet.du-preez@cherwell-dc.gov.uk 01295 221606