

<b>This report is public</b>	
<b>Treasury Management Report – Mid-year review 2024/25 (September 2024)</b>	
<b>Committee</b>	Council
<b>Date of Committee</b>	16 December 2024
<b>Portfolio Holder presenting the report</b>	Portfolio Holder for Finance, Regeneration and Property, Councillor Lesley McLean
<b>Date Portfolio Holder agreed report</b>	4 December 2024
<b>Report of</b>	Assistant Director of Finance (S151), Michael Furness

## **Purpose of report**

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

To demonstrate that all treasury management activities undertaken during the reporting period complied with the CIPFA Code of Practice and the council's approved Treasury Management Strategy.

## **1. Recommendations**

Council resolves:

- 1.1 To note the contents of this Treasury Management mid-year review as recommended by the Accounts, Audit and Risk Committee on the 20 November 24.

## **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			
<b>Finance</b>	There are no financial implications arising directly from any outcome of this report. Joanne Kaye, Head of Finance (D151), 8 November 2024			
<b>Legal</b>	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. More information can be requested if this is needed to review the contents further. Alison Coles, Legal Services Operations Manager, Solicitor, 29 October 2024			
<b>Risk Management</b>	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, 29 October 2024			
Impact Assessments	Positive	Neutral	Negative	Commentary
<b>Equality Impact</b>		X		Not applicable
<b>A</b> Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		Not applicable
<b>B</b> Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		Not applicable
<b>Climate &amp; Environmental Impact</b>				Not applicable
<b>ICT &amp; Digital Impact</b>				Not applicable

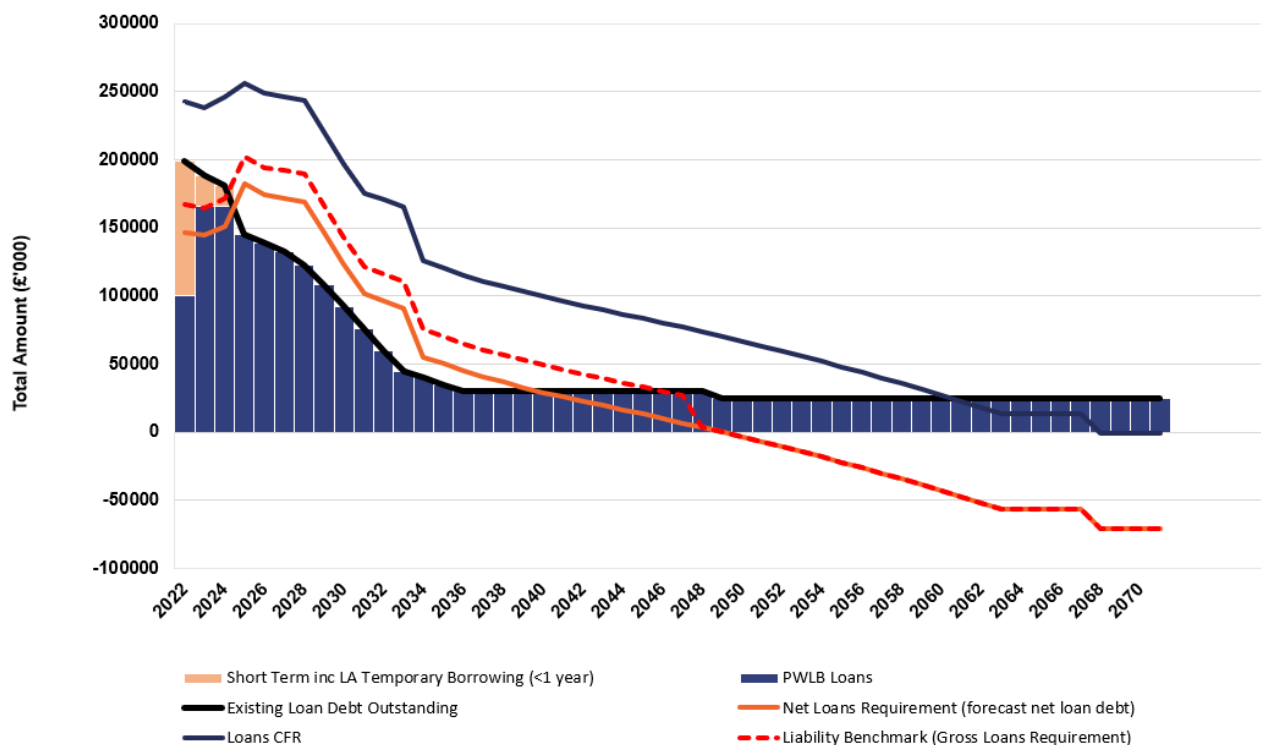
<b>Data Impact</b>				Not applicable
<b>Procurement &amp; subsidy</b>				Not applicable
<b>Council Priorities</b>	Not applicable			
<b>Human Resources</b>	Not applicable			
<b>Property</b>	Not applicable			
<b>Consultation &amp; Engagement</b>	Not applicable			

## 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.
- 3.2 As at the end of September 2024 the council had borrowing of £181m and investments of £32m – a net borrowing position of £149m. This is a reduction from the net borrowing position of £151m at the end of quarter 1 (30/06/24.) This was expected due to the cashflow cycle of collecting taxes over 10 months while paying the associated precepts out over 12 months.
- 3.2 It is a statutory duty for the council to determine and keep under review its affordable borrowing limits. During the first half 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 no difficulties are envisaged for the current or future years in complying with these indicators.
- 3.4 The Liability benchmark is a prudential indicator which shows the Capital Financing Requirement, loan requirements and committed loans in a 50-year forecast.  
Table 1: Liability benchmark

## Liability Benchmark



- 3.5 The graph above demonstrates that the council is expecting its loans to decrease in line with the Capital Financing Requirement and that it will not be in an overborrowed position in the future. The shortfall between the Capital Financing Requirement and net loan requirement is made up of internal borrowing from reserves and working capital. This graph reflects the council's position on the basis that no new capital expenditure is funded from borrowing after the end of the current capital programme.

## 4. Details

### Borrowing performance 1 April to 30 September 2024

- 4.1 The council requires external borrowing to fund its capital programme and has 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 greater interest rate certainty. This move was made in July 2022 while rates were still comparatively low and has resulted in a forecast interest rate of just 2.68% for the 2024/25 financial year. 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. It would not be good value for the council to take out longer term borrowing at current rates, but instead the council will take out short-term borrowing until rates return to average levels before considering longer term borrowing.
- 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 2: Borrowing Position for quarter ended 30 September 2024

	<b>Borrowing Amount £m</b>	<b>Average Interest Rate</b>	<b>Interest Paid Budget £m</b>	<b>Interest Paid Actual £m</b>	<b>Variance to Date £m</b>
April to Sept 24	181 (average)	2.45%	2.230	1.972	(0.258)
As at 30/09/24	181	2.45%	-	-	-

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

4.3 As a comparison, the table below shows average borrowing rates.

Table 3: Average borrowing rates for the reporting period

**HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24**

	<b>1 Year</b>	<b>5 Year</b>	<b>10 Year</b>	<b>25 Year</b>	<b>50 Year</b>
<b>02/04/2024</b>	5.39%	4.72%	4.80%	5.28%	5.07%
<b>30/09/2024</b>	4.95%	4.55%	4.79%	5.33%	5.13%
<b>Low</b>	4.78%	4.31%	4.52%	5.08%	4.88%
<b>Low date</b>	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
<b>High</b>	5.61%	5.14%	5.18%	5.61%	5.40%
<b>High date</b>	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
<b>Average</b>	5.21%	4.76%	4.88%	5.35%	5.14%
<b>Spread</b>	0.83%	0.83%	0.66%	0.53%	0.52%

4.4 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%. A full list of current borrowing is shown below:

Table 4: Borrowing

<b>Lender</b>	<b>Principal Borrowed £m</b>	<b>Maturity Date</b>
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
<b>TOTAL</b>	<b>181</b>	

- 4.5 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 it is 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 borrowing in a particular category that would lock it into an unfavourable borrowing situation.

Table 5: Maturity structure of borrowing

Refinancing rate risk indicator	Upper limit	Lower limit	Actual structure
Under 12 months	50%	0%	30.85%
12 months and within 24 months	50%	0%	2.99%
24 months and within 5 years	60%	0%	20.40%
5 years and within 10 years	70%	0%	25.87%
10 years and above	80%	0%	19.90%

### Investment performance 1 April to 30 September 2024

- 4.6 Funds available for investment are available 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.
- 4.7 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 of (£0.168m) on investment income. Table 4 below shows the investment position during and at the end of the reporting period.

Table 6: Investment Position

	Investment Amount £m	Average Interest Rate	Interest Earned Budget £m	Interest Earned Actual £m	Variance to Date £m
April to Sept 24	28 (average)	5.34%	(0.575)	(0.743)	(0.168)
As at 30/09/24	32	5.08%	-	-	-

- 4.8 As a comparison, Table 7 below shows average money-market rates keeping in mind that the council has an average investment period of 30 days.

Table 7: Average investment rates for the reporting period

	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
<b>High</b>	5.25	5.20	5.21	5.20	5.17	5.08
<b>High Date</b>	02/04/2024	03/05/2024	27/06/2024	17/04/2024	31/05/2024	30/05/2024
<b>Low</b>	5.00	4.95	4.90	4.79	4.58	4.17
<b>Low Date</b>	01/08/2024	01/08/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
<b>Average</b>	5.17	5.12	5.11	5.06	4.96	4.75
<b>Spread</b>	0.25	0.25	0.31	0.41	0.58	0.91

- 4.9 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 8 below.

- 4.10 A full list of current investments is shown in Table 8 below:

Table 8: Investments

Counterparty	Principal Deposited £m	Maturity Date / Notice period
<u>Fixed Term Deposits</u>		
East Hertfordshire District Council	5.00	14/10/24
Wrexham County Borough Council	3.00	17/10/24
Bedford Borough Council	5.00	18/10/24
SMBC Bank International Plc	3.00	06/12/24
Development Bank of Singapore	3.00	19/12/24
London Borough of Barking & Dagenham	3.00	20/01/25
Qatar National Bank	3.00	13/02/25
<u>Money Market Funds</u>		
Legal & General Investment Management	3.30	Same day
Federated Investors UK	4.00	Same day
Northern Trust Asset Managements	0.02	Same day
CCLA Investment Management Limited	0.02	Same day
Goldman Sachs Asset Management	0.02	Same day
<b>TOTAL</b>	<b>32.36</b>	

4.11 Compliance with investment limits are detailed in Table 9 below:

Table 9: Investment Limits

<b>Counterparty</b>	<b>2024/25 Limit £m</b>	<b>Complied?</b>
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**

- 4.12 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.
- 4.13 As of 30 September 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.
- 4.14 The loan elements of these non-treasury investments generate a higher rate of return than that earned on treasury investments due to the commercial nature of the loans issued. Table 7 below shows the investment position for this reporting period.

Table 10: Non-treasury Investment Position

	<b>Investment Amount £m</b>	<b>Average Interest Rate</b>	<b>Interest Earned Budget £m</b>	<b>Interest Earned Actual £m</b>	<b>Variance to Date £m</b>
April to Sept 24	66.75 (average)	6.76%	(1.919)	(1.904)	0.015
As at 30/09/24	66.75	6.76%	-	-	-

### **Overall performance**

- 4.15 The overall performance for the mid-year review April to September 24, is:



Table 11: Overall Treasury Position for the Period

	<b>Budget 24/25 £m</b>	<b>Actual 24/25 £m</b>	<b>Variance to date £m</b>
Borrowing costs	2.230	1.972	(0.258)
Other interest payable	0.000	0.000	0.000
Treasury income	(0.575)	(0.743)	(0.168)
Non-treasury income	(1.919)	(1.904)	0.015
<b>Total cost/(income)</b>	<b>(0.264)</b>	<b>(0.675)</b>	<b>(0.411)</b>

- 4.16 The accounting transaction to account for the S106 interest (budgeted for under Other Interest) will only be done at year end. The full year forecast reflects a surplus due to the interest rates remaining higher than forecast.

Table 12: Overall Treasury Position Forecast to Year End

	<b>Full Year Budget £m</b>	<b>Full Year Actual £m</b>	<b>Full Year Variance £m</b>
Borrowing costs	4.711	4.702	(0.009)
Other interest payable	0.769	0.780	0.011
Treasury income	(1.151)	(1.245)	(0.094)
Non-treasury income	(4.487)	(4.510)	(0.023)
<b>Total cost/(income)</b>	<b>(0.158)</b>	<b>(0.273)</b>	<b>(0.115)</b>

### Interest rate forecast

- 4.17 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 fall back over the next year or two.

Table 13: Link Forecast Rates published on 28 May 2024

<b>Link Group Interest Rate View</b>	<b>28.05.24</b>									
	<b>Dec-24</b>	<b>Mar-25</b>	<b>Jun-25</b>	<b>Sep-25</b>	<b>Dec-25</b>	<b>Mar-26</b>	<b>Jun-26</b>	<b>Sep-26</b>	<b>Dec-26</b>	<b>Mar-27</b>
<b>BANK RATE</b>	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave eamings	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave eamings	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

## 5. Alternative Options and Reasons for Rejection

- 5.1 The nature of this report is such that alternative options are not appropriate. It is an option 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 half of 2024/25. It is submitted to council for information as required by the Treasury Management Code of Practice.

### Decision Information

Key Decision	N/A
Subject to Call in	N/A
If not, why not subject to call in	N/A
Ward(s) Affected	All

### Document Information

Appendices	
Appendix 1	Prudential Indicators
Background Papers	None
Reference Papers	<p>Treasury Management Report – Q1 2024/25 (June 2024) <a href="https://modgov.cherwell.gov.uk/documents/s56552/Treasury%20Management%20Report%20Q1%202024%2025.pdf">https://modgov.cherwell.gov.uk/documents/s56552/Treasury%20Management%20Report%20Q1%202024%2025.pdf</a></p> <p>Treasury Management Report – Annual Performance Report 2023/24 with Capital Prudential indicators <a href="https://modgov.cherwell.gov.uk/documents/s56500/Treasury%20Management%20Outturn%20Report%202023%2024.pdf">https://modgov.cherwell.gov.uk/documents/s56500/Treasury%20Management%20Outturn%20Report%202023%2024.pdf</a> <a href="https://modgov.cherwell.gov.uk/documents/s56501/Appendix%201%20Prudential%20indicators%202023%2024%20Outturn%20report.pdf">https://modgov.cherwell.gov.uk/documents/s56501/Appendix%201%20Prudential%20indicators%202023%2024%20Outturn%20report.pdf</a></p> <p>Treasury Management Strategy 2024-25 approved 26 February 2024 <a href="https://modgov.cherwell.gov.uk/documents/s55393/Appendix%201%20-%20Treasury%20Management%20Strategy%202024-25.pdf">https://modgov.cherwell.gov.uk/documents/s55393/Appendix%201%20-%20Treasury%20Management%20Strategy%202024-25.pdf</a></p>

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<b>Corporate Director Approval (unless Corporate Director or Statutory Officer report)</b>	Report of Statutory Officer, Section 151 Officer