Audit Committee Meeting	
Meeting Date	23 October 2024
Report Title	Treasury Management Quarterly Report April - June 2024
EMT Lead	Lisa Fillery, Director of Resources
Head of Service	Claire Stanbury, Head of Finance and Procurement
Lead Officer	Olga Cole, Management Accountant
Classification	**Open**
Recommendations	1. To note the performance information in this report. 2. To note the prudential and treasury management indicators within the report.

1 Purpose of Report and Executive Summary

1.1 The purpose of this report is to review the Quarter 1 position on treasury management transactions for 2024/25, including compliance with treasury limits and Prudential and Treasury Management Indicators.

1.2 The Treasury Management Strategy is underpinned by the adoption of 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, as a minimum, treasury management semi-annual and annual outturn reports.

1.3 The Council's Treasury Management Strategy for 2024/25 was approved at a meeting on 21 February 2024. The Council has invested and borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's Treasury Management Strategy.

1.4 In conclusion the Council reports that all treasury management activity undertaken in the period has complied with its Prudential Indicators for 2024/25 which were set in February 2024 as part of the Council's Treasury Management Strategy Statement. The Council is required to report on the highly technical Prudential Indicators. There are no issues of concern to highlight with Members. The indicators are based on approved commitments and the current budget.

2 External Context

2.1 **Economic background:** UK headline consumer price inflation (CPI) continued to decline over the quarter, falling from an annual rate of 3.2% in March to 2.0% in May, in line with the Bank of England's target. The core measure of inflation, however, only declined from 4.2% to 3.5% over the same period, which, together with stubbornly services price inflation at 5.7% in May, helped contribute to the BoE maintaining Bank Rate at 5.25% during the period, a level unchanged since August 2023.

2.2 Data released during the period showed that the UK economy had emerged from the technical recession at the end of 2023 to expand by 0.7% (upwardly revised from the initial estimate of 0.6%) in the first quarter of the calendar year. Monthly GDP data showed zero growth in April following an expansion of 0.4% in the previous month.

2.3 The Bank of England's Monetary Policy Committee (MPC) maintained Bank Rate at 5.25% throughout the quarter. Arlingclose, the Council's treasury adviser, maintained its view that 5.25% is the peak in Bank Rate and that interest rates will most likely be cut later in 2nd half of 2024.

2.4 Arlingclose's Economic Outlook for the remainder of 2024/25 (based on 25th June 2024 interest rate forecast).

	Current	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	5.25	5.00	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00

The MPC held Bank Rate at 5.25% in June. Arlingclose see rate cuts from Q3 2024 to a low of around 3% by late 2025. The risks over the medium term are deemed to be to the upside as while inflation has fallen to target, it is expected to pick up again later in the year, with services price inflation and wage growth remaining strong.

2.5 **Credit review:** Arlingclose maintained its advised recommended maximum unsecured duration limit on all banks on its counterparty list at 100 days.

2.6 During the quarter, Fitch revised its outlook on Transport for London (TfL) to stable from negative while S&P upgraded its long-term rating for TfL to AA- from A+, in line with its rating of the UK sovereign. Fitch also upgraded the long-term ratings for the main four Australian banks – Australia & New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac. Having placed Warrington Borough Council on review for a downgrade in March, Moody's subsequently withdrew its ratings for the council in June.

2.7 Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remain under constant review.

Borrowing

2.8 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 Council.

2.9 As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriate risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. At the present time short term interest rates are higher than long term interest rates.

2.10 Whilst the cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024, primarily due a dearth of LA-LA lending/borrowing activity during the month, as expected shorter-term rates reverted to a more normal range and were generally around 5.25% through the quarter.

2.11 The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the quarter and 4.96% percent at the end. The lowest available 10-year maturity rate during the quarter was 4.80% and the highest was 5.18%. Rates for 20-year maturity loans ranged from 5.24% to 5.57% during the quarter, and 50-year maturity loans from 5.06% to 5.40%.

At 30th June the Council held £10m of loans, same position to 31st March 2024, as part of its strategy for funding previous (and current) years' capital programmes. Outstanding loans at 30 June 2024 are detailed in Appendix I.

<u>Investments</u>

2.12 The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown. These counterparties were agreed by Council earlier this year when the 2024/25 Treasury Strategy was approved.

Counterparty	**Time Limit**	**Cash Limits**
The UK Government	50 years	Unlimited
Local Authorities and other government entities	25 years	£3m
Major UK banks / building societies unsecured deposits*	13 months	£3m
Leeds Building Society unsecured deposits*	As per credit advice	£1.5m
Close Brothers unsecured deposits*	As per credit advice	£1.5m
Money Market Funds*	n/a**	£3m each
Strategic Pooled Funds e.g., Absolute return, Equity income, Corporate Bond Funds, Multi Asset Funds	n/a**	£3m each
CCLA Property Fund	n/a**	£3m
Registered providers (unsecured) *	5 years	£3m in aggregate
Secured Investments*	25 years	£3m in aggregate

Counterparty	Time Limit	Cash Limits
Other Investments *	5 years	£3m in aggregate
Non treasury investments	As per credit advice	To be agreed on a case by case basis

* Minimum credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

**These funds have no defined maturity dates but are available for withdrawal after a notice period.

2.13 The Council holds significant investment funds, representing income received in advance of expenditure plus balances and reserves held. During the three months to 30 June 2024 the Council held an average daily cash balance of £16.9m (£19.6m June 2023). The balances invested at 30 June 2024 are detailed in Appendix I.

2.14 The Council's budgeted investment income for the three months to 30 June 2024 was £132k (£57k June 2023) and the actual income received was £177k (£170k June 2023), of which £38k (£34k for Q1 2023-24) was from the Council's long-term investment in the Church, Charities and Local Authorities (CCLA) Mutual Investment Property Fund.

2.15 The results for the three months to 30 June 2024 show that the Council achieved 0.11% (0.23% June 2023) average return above the average Sterling Overnight Index Average (SONIA) and 0.07% average return rate below the average Bank of England Base Rate.

<u>Externally Managed Pooled Funds</u>

2.16 The Council has £3m invested in an externally managed property fund, which is the CCLA property fund, where short term security and liquidity and lesser considerations, and the objectives instead are regular revenue income and long term price stability. The fund generated an average total return of 5.03%, comprising of a £38k (3.84%, £34k June 2023) income return.

2.17 Since this fund has no defined maturity date, but is available for withdrawal after a 6 months' notice period, its performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Considering its performance and the Council's latest cash flow forecasts, investment in this fund has been maintained. Strategic fund investments are made in the knowledge that capital values will move both up and down over months and even years; but with the confidence that over the medium term total returns will exceed cash interest rates.

2.18 In April 2023 the Department for Levelling Up, housing and Communities published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for 2 years to 31 March 2025 but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not. The Council has set up a reserve of £250k to mitigate the impact of the statutory override not being extended and unrealised losses on pooled investment funds are required to be recognised.

MRP Regulations

2.19 On 10 April 2024 amended legislation and revised statutory guidance were published on Minimum Revenue Provision (MRP), the majority of changes taking effect from the 2025/26 financial year.

2.20 The regulations require that local authorities cannot exclude any amount of the CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in hole or part, the prudent charge to revenue for MRP.

Compliance with Prudential Indicators

2.21 The Council reports that all treasury management activity undertaken in the period has complied with its Prudential Indicators for 2024/25 which were set in February 2024 as part of the Council's Treasury Management Strategy Statement. The Council is required to report on the highly technical Prudential Indicators. There are no issues of concern to highlight with Members. The indicators are based on approved commitments and the current budget.

2.22 Prudential and Treasury Management Indicators are set out in Appendix II.

3 Proposals

3.1 No changes are proposed at this stage.

4 Alternative Options Considered and Rejected

4.1 The Head of Finance and Procurement will consider changes to the counterparty criteria with reference to the Council's agreed policy with regard to risk.

5 Consultation Undertaken or Proposed

5.1 Consultation has been undertaken with the Council's treasury management consultants Arlingclose.

6 Implications

Issue	Implications

Corporate Plan	Supports delivery of the Council's objectives.
Financial, Resource and Property	As detailed in the report.
Legal, Statutory and Procurement	CIPFA produce a framework for managing treasury activities, called a 'Code'. Councils are legally required to have regard to this Code and members of CIPFA are expected to comply with its requirements. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DLUHC Guidance.
Crime and Disorder	Following CIPFA's Treasury Management Code of Practice is important to avoid involvement in potential fraud or money laundering.
Environment and Climate/Ecological Emergency	The Council does not own any shares or corporate bonds so there are no ethical investment considerations to be met.
Health and Wellbeing	Not relevant to this report.
Safeguarding of Children, Young People and Vulnerable Adults	Not relevant to this report.
Risk Management and Health and Safety	Risk is controlled through adherence to specific guidance included in CIPFA's Treasury Management Code of Practice. The principle of security of funds over-rides investment performance.
Equality and Diversity	Not relevant to this report.
Privacy and Data Protection	Not relevant to this report.

7 Appendices

7.1 The following documents are to be published with this report and form part of the report.

- Appendix I: Investments and Borrowing as at 30 June 2024
- Appendix II: Prudential and Treasury Management Indicators

8 Background Papers

8.1 None.

Investment and Borrowing Levels

Appendix I

Investments and Borrowings as at 30 June 2024

Counterparty	Long-Term Rating	Balance Invested & Borrowed at 30 June 2024 £'000
Money Market Funds		
Invesco Money Market Fund	AAAmmf	3,000
Morgan Stanley Money Market Fund	AAAmmf	2,900
Black Rock Money Market Fund	AAAmmf	3,000
Aberdeen Money Market Fund	AAAmmf	3,000
CCLA Property Fund		3,000
Total Fixed Term Deposits, Money Market and Property Funds		**14,900**
TOTAL INVESTMENTS	**Maturity Date**	**£'000**
North Northamptonshire Council	08/01/2025	(5,000)
PWLB Loan	31/08/2025	(5,000)
TOTAL BORROWING		**(10,000)**

The Ratings above are from Fitch credit rating agency. The Long-Term Rating is the benchmark measure of probability of default. These ratings are shown for illustrative purposes only, as the Council uses the lowest rating across three agencies on which to base its decisions.

AAAmmf: Fund has very strong ability to meet the dual objective of providing liquidity and preserving capital.

Investment Activity in 2024/25

Investments	Balance on 01/04/2024 £'000	Investments Made £'000	Investments Repaid £'000	Balance on 30/06/2024 £'000	Average Rate %
Short Term Investments & Money Market Funds	12,210	57,885	(58,195)	11,900	5.18
Pooled Property Fund	3,000	0	0	3,000	5.03
TOTAL INVESTMENTS	**15,210**	**57,885**	**(58,195)**	**14,900**	

Investment and Borrowing Levels

Appendix I

Borrowing Activity in 2024/25

Borrowing	Balance on 01/04/2024 £'000	Borrowing Made £'000	Borrowing Repaid £'000	Balance on 30/06/2024 £'000	Average Rate %
External Borrowing	10,000	0	0	10,000	5.69
Total Borrowing	**10,000**	**0**	**0**	**10,000**	

The Council's short-term borrowing cost has remained high with the currently high Base Rate and short-dated market rates. The average rate on the Council's loans at 30th June 2024 was 5.69%.

Non-Treasury Investments

The definition of investments in the Treasury Management Code covers all the financial assets of the Council, as well as other non-financial assets which the Council 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).

The Council holds £3.896m (£4.173m June 2023) of a long-standing portfolio of 11 investment properties within the borough. These investments are expected to generate £0.2m (£0.2m June 2023) of annual investment income for the Council after taking account of direct costs, representing a rate of return of 5.7% (5.8% June 2023).

Prudential and Treasury Management Indicators

Appendix II

1. Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in local authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Gross Debt and the Capital Financing Requirement (CFR)

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

Capital Financing Requirement	**2023/24 Actual**	**2024/25 Revised Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Capital Financing Requirements	52,113	72,390	77,412	76,445
External Borrowing	(10,000)	(30,500)	(40,500)	(50,500)
Cumulative External Borrowing Requirements	**42,113**	**41,890**	**36,912**	**25,945**

External Borrowing: as at 30 June 2024 the Council had £10 million of external borrowing – please see Appendix I for further details.

3. Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure and Financing	2023/24 Actual £'000	2024/25 Revised Estimate £'000	2025/26 Original Estimate £'000	2026/27 Original Estimate £'000
Total Expenditure	**11,020**	**31,384**	**10,625**	**4,935**
Source of Funding				
Capital grants and other contributions	3,780	16,469	2,725	2,725
Reserves	623	871	350	460
Borrowing	4,789	14,044	7,550	1,750
Capital Receipts	1,800	0	0	0
Direct Revenue Funding	28	0	0	0
Total Financing	**11,020**	**31,384**	**10,625**	**4,935**

4. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability, highlighting the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	0.47%	6.85%	6.59%	5.36%

5. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 30/06/2024	£'000
Borrowing	10,000
Other Long-term Liabilities	0
Total	**10,000**

6. Authorised Limit and Operational Boundary for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long- and short-term borrowing, overdrawn bank balances and long-term liabilities). This Prudential Indicator separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing, and its approved treasury management strategy and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit and Total Debt	**30/06/2024 Boundary £'000**	**30/06/2024 Actual Debt £'000**	**Complied**
Borrowing	55,000	10,000	✓
Other Long-Term Liabilities	2,500	0	✓
Total Authorised Limit	**57,500**	**10,000**	✓

The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst-case scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary	**30/06/2024 Boundary £'000**	**30/06/2024 Actual Debt £'000**	**Complied**
Borrowing	45,000	10,000	✓
Other Long-term Liabilities	1,000	0	✓
Total Debt	**46,000**	**10,000**	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

The Head of Finance and Procurement confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the period to 30 June 2024.

7. Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

Upper Limit for Interest Rate Exposure	Actual level at 30/06/24	2024/25 Approved Limit	Complied
Interest on fixed rate borrowing	100%	100%	✓
Interest on fixed rate investments	-0%	-100%	✓
Interest on variable rate borrowing	0%	100%	✓
Interest on variable rate investments	-100%	-100%	✓

8. Maturity Structure of Borrowing

This indicator is set to control the Authority’s exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Maturity structure of borrowing	Existing level at 30/06/24 %	Lower Limit for 2024/25 %	Upper Limit for 2024/25 %	Complied
Under 12 months	50	0	100	✓
12 months and within 24 months	50	0	100	✓
24 months and within 5 years	0	0	100	✓
5 years and within 10 years	0	0	100	✓
10 years and above	0	0	100	✓

9. Credit Risk

The Council considers security, liquidity and yield, in that order, when making investment decisions. Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- sovereign support mechanisms;
- credit default swaps (where quoted);
- share prices (where available);
- economic fundamentals, such as a country's net debt as a percentage of its GDP;
- corporate developments, news, articles, markets sentiment and momentum; and
- subjective overlay.

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

The Head of Finance and Procurement confirms that there were no breaches to counterparty limits or credit ratings at the time of placing investments.

10. Principal Sums Invested for Periods Longer than over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Total Principal Sums Invested Over 364 Days	**2024/25 £'000**
Upper Limit Estimate	10,000
Actual	3,000
Complied?	✓

11. Investment Benchmarking for the three months to 30 June 2024

Average Actual Return on Investments	Original Estimate Return on Investments	Average Bank Base Rate	Average Overnight SONIA Rate
5.18%	5.15%	5.25%	5.07%

12. Liability Benchmark

	31.3.24 Actual £m	31.3.25 Estimate £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
Loans CFR	52.1	65.1	71.3	71.6	70.1
Less: Balance sheet resources	(55.4)	(50.9)	(50.4)	(49.9)	(49.9)
Net loans requirement	**(3.3)**	**14.2**	**20.9**	**21.7**	**20.2**
Plus: Liquidity allowance	10	10	10	10	10
Liability benchmark	**6.7**	**24.2**	**30.9**	**31.7**	**30.5**

The long-term liability benchmark above assumes capital expenditure funded by borrowing, minimum revenue provision on new capital expenditure based on income, expenditure and reserves all increasing by inflation and appropriate asset life values (8 years for waste vehicles, 50 years for all other assets).