

<b>Audit Committee Meeting</b>	
<b>Meeting Date</b>	22 January 2025
<b>Report Title</b>	Treasury Management Half Year Report 2024/25
<b>EMT Lead</b>	Lisa Fillery, Director of Resources
<b>Head of Service</b>	Claire Stanbury, Head of Finance and Procurement
<b>Lead Officer</b>	Olga Cole, Management Accountant
<b>Classification</b>	<b>Open</b>
<b>Recommendations</b>	<ol style="list-style-type: none"> <li>1. To note the performance information in this report.</li> <li>2. To note the prudential and treasury management indicators within the report.</li> </ol>

## **1 Purpose of Report and Executive Summary**

- 1.1 The purpose of this report is to review the mid-year position on treasury management transactions for 2024/25, including compliance with treasury limits and Prudential and Treasury Performance 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 half-year 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 and Treasury 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. There are no issues of concern to highlight to Members. The indicators are based on approved commitments and the current budget.

## **2 Background**

- 2.1 **Economic background:** UK headline consumer price inflation remained around the Bank of England (BoE) target later in the period, falling from an annual rate of 3.2% in March to 2.0% in May and then rebounding marginally to June to 2.2% in July and August, as was expected, due to base effects from

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energy prices. Core and services price inflation remained higher at 3.6% and 5.6% respectively in August.

- 2.2 The UK economy continued to expand over the period, albeit slowing from the 0.7% gain in the first calendar quarter to 0.5% (downwardly revised from 0.6%) in the second. Of the monthly figures, the economy was estimated to have registered no growth in July.
- 2.3 Labour market data was slightly better from a policymaker perspective, showing an easing in the tightness of the job market, with inactivity rates and vacancies declining. However, a degree of uncertainty remains given ongoing issues around the data collected for the labour force survey by the Office for National Statistics.
- 2.4 With headline inflation lower, the Bank of England (BoE) cut Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. The meeting minutes and vote suggested a reasonably hawkish tilt to rates, with sticky inflation remaining a concern among policymakers. Arlingclose, the Council's treasury adviser, maintained its central view that Bank Rate would steadily fall from the 5.25% peak, with the first cut in August being followed by a series of further cuts, with November 2024 the likely next one, taking Bank Rate down to around 3% by the end of 2025.
- 2.5 Arlingclose's Economic Outlook for the remainder of 2024/25 (based on 11th November 2024 interest rate forecast).

	Current	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75

The MPC will continue to reduce Bank Rate, but more slowly and by less. We expect to see another rate cut in February 2025, followed by a cut alongside every Monetary Policy Report publication, to a low of 3.75%.

- 2.6 **Credit review:** Arlingclose maintained its advised recommended maximum unsecured duration limit on all banks on its counterparty list at 100 days.
- 2.7 Having had its outlook increased by Fitch and ratings by S&P earlier in the period, Moody's upgraded Transport for London's rating to A2 from A3 in July. S&P upgraded the rating on National Bank of Canada to A+ from A, and together with Fitch, the two rating agencies assigned Lancashire County Council with a rating of AA- and A+ respectively.
- 2.8 Moody's also placed National Bank of Canada on Rating Watch for a possible upgrade, revising the outlook on Standard Chartered to Positive, the outlook to Negative on Toronto Dominion Bank, and downgrading the rating on Close Brothers to A1 from Aa3.
- 2.9 Financial market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remains under constant review.

### Borrowing Strategy and Activity

- 2.10 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 Authority.
- 2.11 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.
- 2.12 After substantial rises in interest rates since 2021 many central banks have now begun to reduce rates, albeit slowly. Much of the downward pressure from lower inflation figures was counteracted by upward pressure from positive economic data.
- 2.13 The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the half year and 4.79% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.18%. Rates for 20-year maturity loans ranged from 5.01% to 5.57% during the half year, and 50-year maturity loans from 4.88% to 5.40%.
- 2.14 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 5.00% - 5.25%.
- 2.15 On 1 April 2024, the Council had two loans: one from a local authority and one from PWLB, totalling £10m. On 30 September 2024, the Council's external borrowing stood at £10m and further details can be found within appendix I below. The average rate on the Council's short-term loans at 30th September 2024 on £10m was 5.69%, this compares with 5.69% on £10m loans 3 months ago.

### Investments

- 2.16 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 Policy and Resources Committee and Council earlier this year when the 2024/25 Treasury Strategy was approved.

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### 2.17

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
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.

- 2.18 The Council holds significant investment funds, representing income received in advance of expenditure plus balance and reserves held. During the six months to 30 September 2024 the Council held average daily cash balance of £19.8m (£19.6m September 2023).
- 2.19 The Council's budgeted investment income for the six months to 30 September 2024 was £263k (£113k September 2023) and the actual income received was £645k (£484k September 2023), of which £72k (£64k September 2023) was from the Council's long-term investment in the Church, Charities and Local Authorities (CCLA) Mutual Investment Property Fund.
- 2.20 The results for the six months to 30 September 2024 show that the Council achieved 0.15% (0.78% September 2023) average return below the average

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Sterling Overnight Index Average (SONIA) and 0.20% average return rate below the average Bank of England Base Rate.

- 2.21 The Council has £3m invested in an externally managed property fund which is the CCLA property fund which generated an average total return of 4.83%, comprising of a £72k (4.26%, £64k September 2023) income return. Since this fund has no defined maturity date but is available for withdrawal after a 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.
- 2.22 **Statutory override:** In April 2023 the Ministry for Housing, Communities and Local Government 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 until 31st 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.

### Compliance with Prudential Indicators

- 2.23 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.
- 2.24 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

<b>Issue</b>	<b>Implications</b>
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 MHCLG 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 September 2024
- Appendix II: Prudential and Treasury Management Indicators

**8 Background Papers**

8.1 None.

**Investments and Borrowings as at 30 September 2024**

<b>Counterparty</b>	<b>Long-Term Rating</b>	<b>Balance Invested &amp; Borrowed at 30 September 2024 £'000</b>
<b><u>Money Market Funds</u></b>		
Invesco Money Market Fund	AAAmmf	3,000
Abrdn Money Market Fund	AAAmmf	3,000
Black Rock Money Market Fund	AAAmmf	3,000
Morgan Stanley Money Market Fund	AAAmmf	35
SSGA Money Market Fund	AAAmmf	3,000
CCLA Property Fund		3,000
<b>Total Fixed Term Deposits, Money Market and Property Funds</b>		<b>15,035</b>
<b>TOTAL INVESTMENTS</b>	<b>Maturity Date</b>	<b>£'000</b>
North Northamptonshire Council	08/01/2025	(5,000)
PWLB	31/08/2025	(5,000)
<b>TOTAL BORROWING</b>		<b>(10,000)</b>

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**

<b>Investments</b>	<b>Balance on 01/04/2024 £'000</b>	<b>Investments Made £'000</b>	<b>Investments Repaid £'000</b>	<b>Balance on 30/09/2024 £'000</b>	<b>Average Rate %</b>
Short Term Investments and Cash and Cash Equivalents	12,210	111,845	(112,020)	12,035	4.97
Pooled Property Fund	3,000	0	0	3,000	4.83
<b>TOTAL INVESTMENTS</b>	<b>15,210</b>	<b>111,845</b>	<b>(112,020)</b>	<b>15,035</b>	

**Borrowing Activity in 2024/25**

<b>Borrowing</b>	<b>Balance on 01/04/2024 £'000</b>	<b>Borrowing Made £'000</b>	<b>Borrowing Repaid £'000</b>	<b>Balance on 30/09/2024 £'000</b>	<b>Average Rate %</b>
External Borrowing	10,000	0	0	10,000	5.69
<b>Total Borrowing</b>	<b>10,000</b>	<b>0</b>	<b>0</b>	<b>10,000</b>	

**Non-Treasury Investments**

The definition of investments in CIPFA's revised 2021 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 September 2023) of a long-standing portfolio of 11 investment properties within the borough. These investments are expected to generate £0.2m (£0.2m September 2023) of investment income for the Council after taking account of direct costs, representing a rate of return of 5.7% (5.8% September 2023).

## 1. Background

As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management 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.

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

**External Borrowing:** as at 30 September 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.

<b>Capital Expenditure and Financing</b>	<b>2023/24 Actual</b>	<b>2024/25 Revised Estimate</b>	<b>2025/26 Original Estimate</b>	<b>2026/27 Original Estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Total Expenditure</b>	<b>11,020</b>	<b>31,384</b>	<b>10,625</b>	<b>4,935</b>
<b>Sources of Funding</b>				
Reserves	651	871	350	460
Capital receipts	1,800	0	0	0
Grants and other contributions	3,780	16,469	2,725	2,725
Internal/ External borrowing	4,789	14,044	7,550	1,750
<b>Total Financing</b>	<b>11,020</b>	<b>31,384</b>	<b>10,625</b>	<b>4,935</b>

### 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.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2023/24 Actual</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
Total	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.

<b>Actual External Debt as at 30/09/2024</b>	<b>£'000</b>
Borrowing	10,000
Other Long-term Liabilities	0

<b>Total</b>	<b>10,000</b>
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## 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).

<b>Authorised Limit for External Debt</b>	<b>30/09/2024 Boundary £'000</b>	<b>30/09/2024 Actual Debt £'000</b>	<b>Complied</b>
Borrowing	55,000	10,000	✓
Other Long-term Liabilities	2,500	0	✓
<b>Total</b>	<b>57,500</b>	<b>10,000</b>	<b>✓</b>

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.

<b>Operational Boundary</b>	<b>30/09/2024 Boundary £'000</b>	<b>30/09/2024 Actual Debt £'000</b>	<b>Complied</b>
Borrowing	45,000	10,000	✓
Other Long-term Liabilities	1,000	0	✓
<b>Total Debt</b>	<b>46,000</b>	<b>10,000</b>	<b>✓</b>

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 September 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 30/09/24	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 30/09/24 %	Lower Limit for 2024/25 %	Upper Limit for 2024/25 %	Complied
Under 12 months	100	0	100	✓
12 months and within 24 months	0	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.

<b>Total Principal Sums Invested Over 364 Days</b>	<b>30 September 2024 £'000</b>
Upper Limit Estimate	10,000
Actual	3,000
Complied?	✓

**11. Investment Benchmarking for the six months to 30 September 2024**

Average Actual Return on Investments	Original Estimate Return on Investments	Average Bank Base Rate	Average Overnight SONIA Rate
4.97%	5.15%	5.17%	5.12%

**12. Liability Benchmark**

This indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making.

	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)
<b>Net loans requirement</b>	<b>(3.3)</b>	<b>14.2</b>	<b>20.9</b>	<b>21.7</b>	<b>20.2</b>
Plus: Liquidity allowance	10	10	10	10	10
<b>Liability benchmark</b>	<b>6.7</b>	<b>24.2</b>	<b>30.9</b>	<b>31.7</b>	<b>30.5</b>

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).

