| | | | |
|---|---|---|---|
| **REPORT TO:** | | CABINET | |
| **DATE:** | | 22nd January 2025 | |
| **PORTFOLIO:** | | Councillor Noordad Aziz – Deputy Leader;<br>Councillor Vanessa Alexander – Resources & Council Operations | |
| **REPORT AUTHOR:** | | C Worthington – Principal Accountant / A Martin – Principal Accountant<br>Jody Spencer-Anforth – Head of Finance | |
| **TITLE OF REPORT:** | | Prudential Indicators Monitoring and Treasury Management Strategy Update – Quarter 3 2024/25 | |
| **EXEMPT REPORT:** | **No** | | |
| | | | |
| **KEY DECISION:** | **No** | If yes, date of publication: | |

**1. PURPOSE OF REPORT**

1.1 This report updates Cabinet on the Treasury Management activities since the start of this financial year.

**2. RECOMMENDATION(S)**

2.1 To note the Treasury Management activities and position during the third quarter of 2024/25.

**3. REASONS FOR RECOMMENDATION(S)**

3.1 To keep Cabinet updated on the Treasury Management activities during the year.

**4. BACKGROUND**

4.1 The *Prudential Code for Capital Finance in Local Authorities* requires the Council to set Prudential Indicators annually for the forthcoming three years to demonstrate that the Council's capital investment plans are affordable, prudent, and sustainable. The Council adopted its prudential indicators for 2024/2025 at its meeting in February 2024.

4.2 The Prudential Code requires the Council, having agreed at least a minimum number of mandatory prudential indicators (including limits and statements), to monitor them - in a locally determined format on a quarterly basis.

4.3 The indicators are purely for internal use and not designed to be used as comparators between authorities. If it should be necessary to revise any of the indicators during the year, the Executive Director (Resources) will report and advise the Council further.

4.4 *'Treasury Management'* relates to the borrowing, investing and cash activities of the authority, and the effective management of any associated risks. In February 2024 in the same report referred to at 4.1 above the Council also set out and then approved its current Treasury Management Strategy. This was in accordance with the CIPFA (Chartered Institute of Public Finance & Accountancy) code of practice on treasury management in public services, the Council having previously adopted, via Cabinet, the then revised code of practice. Associated treasury management Prudential Indicators were included in the February 2024 report.

## 5. PRUDENTIAL INDICATORS MONITORING

5.1 Appendix 1 shows the monitoring information for each of the prudential indicators and limits. They relate to:

- External debt overall limits
- Affordability (e.g. implications for Council Tax)
- Prudence and sustainability (e.g. implications for external borrowing)
- Capital expenditure.
- Other indicators for Treasury Management.

## 6. TREASURY MANAGEMENT UPDATE

6.1 The forecast balance sheet position at 31st December 2024 for treasury management activities is shown in the table below.

**Forecast Treasury Balance Sheet Position 2024/25**

| Portfolio Position 2024/25 Q1 | Original Estimate 2024/25<br>£'000 | Position 31 Dec 2024<br>£'000 |
|---|---|---|
| **EXTERNAL DEBT** | | |
| Borrowing | 9,595 | 9,595 |
| Other Long-Term Liabilities | 1,274 | 1,302 |
| **Total External Debt** | **10,869** | **10,897** |
| Capital Financing Requirement | 8,798 | 8,826 |
| **Under/(Over) Borrowing** | **(2,071)** | **(2,071)** |
| **INVESTMENTS** | | |
| Total Long-Term Investments | - | - |
| Total Short-Term Investments | - | 34,780 |
| **Total Investments** | **-** | **34,780** |

6.2 As can be seen from the above table we are performing within the original targets set at the start of the year. Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. In general, the requirement is that the Capital Financing Requirement exceeds gross debt. However, in 2024/25 the gross debt exceeds the Capital Financing Requirement. This is due to the Council having historical debt with a maturity repayment profile (meaning all principal is paid at the loans maturity date) but the accounting treatment requires that the Capital Financing Requirement is reduced each year by the payment of Minimum Revenue Provision (MRP). Other Liabilities in prior years reflect finance liabilities relating to vehicles and plant and in the current year reflect the transfer of all leases onto the balance sheet to comply with the new IFRS 16 – Leases accounting standard.

6.3 The requirement to have Capital Financing Requirement exceed Gross Debt centres around providing an assurance that borrowing is not taking place for Revenue purposes. However, as the Council is not borrowing additional funds at this time, this is not an issue.

6.4 The current position of the treasury function, and its expected change in the future, introduces risk to the Council from an adverse movement in interest rates. The Prudential Code is constructed on the basis of affordability, part of which is related to borrowing costs and investment returns.

6.5 Investment balances were higher than had been forecast when the Prudential Indicators and strategy were set. This is mainly due to grants received in advance of capital spend being incurred, as well as slippage in the capital programme.

6.6 The Capital Programme 2024/25 is expected to be funded by the use of Government Grants (including Levelling Up Fund and UK Shared Prosperity Fund) and other external financing. It has also been supported during the year by greater use of internal sources of capital finance (including capital receipts and use of the Council’s reserve balances). No external borrowing is expected to be required during the year.

## 7. INVESTMENT ACTIVITIES DURING THE PERIOD

7.1 During the first half of the year the Council has invested funds with other Local Authorities, the Governments Debt Management Agency Deposit Facility and uses Money Market Funds and Bank deposit accounts.

| **Portfolio Position 31 Dec 2024** | **Position 31 Dec 2024**<br><br>**£'000** |
|---|---|
| Local Authorities | 30,000 |
| Debt Management Agency Deposit Facility | 1,000 |
| Money Market Funds | 2,000 |
| Lancashire County Council Call Account | 1,000 |
| Bank Deposit Accounts | 780 |
| **Total Short-Term Investments** | **34,780** |

7.2 The table below shows the investments the Council had in place at 31st December 2024 with other local authorities:

| Local Authority | Date From | Date To | Amount £'000 | Interest Rate |
|---|---|---|---|---|
| **Loans Outstanding at 31 Dec 2024** | | | | |
| Broxbourne Borough Council | 29-Aug-24 | 06-Jan-25 | 2,000 | 5.150% |
| Luton Borough Council | 21-Oct-24 | 08-Jan-25 | 2,000 | 5.000% |
| Wirral MBC | 27-Sep-24 | 27-Jan-25 | 2,000 | 4.900% |
| East Hertfordshire Council | 30-Sep-24 | 31-Jan-25 | 2,000 | 4.900% |
| Leeds City Council | 05-Nov-24 | 05-Feb-25 | 2,000 | 5.000% |
| West Northamptonshire Borough Council | 18-Nov-24 | 18-Feb-25 | 2,000 | 5.000% |
| Flintshire Borough Council | 27-Nov-24 | 20-Feb-25 | 2,000 | 5.000% |
| Cheltenham Borough Council | 25-Nov-24 | 25-Feb-25 | 2,000 | 5.000% |
| Bradford City Council | 19-Dec-24 | 19-Mar-25 | 2,000 | 5.300% |
| Central Bedfordshire Council | 25-Nov-24 | 31-Mar-25 | 2,000 | 5.300% |
| Basildon Borough Council | 11-Oct-24 | 11-Apr-25 | 2,000 | 4.900% |
| Reading Borough Council | 05-Sep-24 | 15-Apr-25 | 2,000 | 4.750% |
| Falkirk Council | 16-Aug-24 | 16-May-25 | 2,000 | 4.650% |
| West Dunbartonshire Borough Council | 23-May-24 | 22-May-25 | 2,000 | 5.150% |
| Rushmoor Borough Council | 08-Jul-24 | 07-Jul-25 | 2,000 | 5.200% |
| **Total Local Authority Loans** | | | **30,000** | |

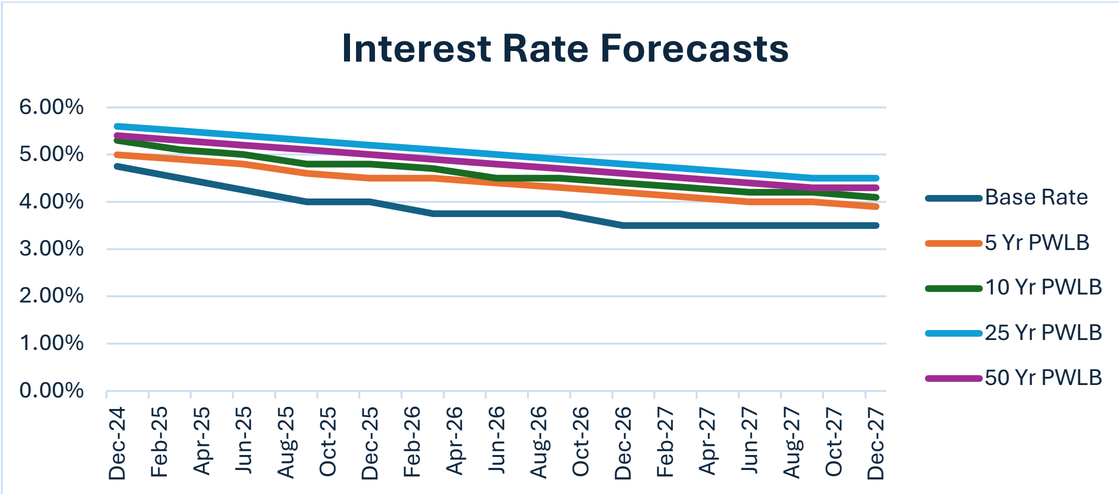
7.3 The Council have no future dated loans agreed at the end of the quarter:

| Local Authority | Date From | Date To | Amount £'000 | Interest Rate |
|---|---|---|---|---|
| **Future Dated Loans Agreed** | | | | |
| | | | | |
| **Total Future Dated Local Authority Loans** | | | **-** | |

7.4 The Council's Finance team have a number of checks in place before any loans to other local authorities are agreed, to prioritise the security of any funds invested.

## 8. EXPECTED MOVEMENT IN INTEREST RATES

8.1 The Council appointed Link Asset Services as treasury adviser to the Council and part of their service is to assist the Council in formulating a view on interest rates. The following graph gives Link's latest available view of the expected future movement in interest rates.




Link interest rate forecasts as at 24/11/2024.

8.2 The latest forecast sets out a view that both short and long-dated interest rates will start to fall, as inflation has fallen closer to the Bank of England's target of 2.00%.

8.3 The Council's exposure to interest rate movements is largely neutralised currently as our borrowings are effectively at a fixed rate until a trigger point is reached, where the lender believes a better rate can be achieved elsewhere. Interest rates would have to exceed current levels before this is likely to happen. The above graph indicates that this is unlikely to happen in the next few years as interest rates are expected to fall, although this will continue to be closely monitored.

8.4 The revenue outturn position on the Council's Treasury Management activities is shown in the table below.

**Forecast Treasury Revenue Outturn – 2024/25 Q3**

| **Portfolio Position 2024/25** | **Working Budget 2024/25 £'000** | **Forecast Outturn 2024/25 £'000** | **Forecast (Under)/ Over Spend £'000** |
|---|---|---|---|
| **INTEREST RECEIVABLE** | | | |
| Interest Receivable on Temporary Lendings | (401) | (1,627) | (1,226) |
| Other Interest Receivable | - | - | - |
| **Total Interest Receivable** | **(401)** | **(1,627)** | **(1,226)** |
| **INTEREST PAYABLE** | | | |
| Interest Payable on Long-Term Borrowings | 513 | 440 | (73) |
| Interest Payable on Finance Leases | 41 | 39 | (2) |
| Other Interest Payable | - | - | - |
| **Total Interest Payable** | **554** | **478** | **(75)** |
| Minimum Revenue Provision | 1,085 | 1,006 | (79) |
| **Net (Income) / Expenditure from Treasury Activities** | **1,237** | **(143)** | **(1,380)** |

8.5 **Interest Receivable**

8.6 The Council has invested amounts of surplus cash on a short-term, temporary basis. The Council's strategy continues to focus on the security of deposits and the liquidity of funds. The interest received from these investments is above the budgeted expectations for the full year, mainly due to higher levels of funds being held and the Bank of England maintaining interest rates at higher levels than were anticipated when the budget was set. The forecast income from investment interest for the year ending 31 March 2025 is £1,627,000, an increase of £1,226,000 against the original budget forecast.

8.7 The Council continues to invest surplus cash in top rated financial institutions. We continue to spread our money around a number of institutions to ensure that we are not potentially damaged by the unforeseen collapse of any one bank. Deposits are also held with banks where we believe that the respective governments are likely to be able to guarantee deposits in the event of bank failure. This strategy is continuing to yield an appropriate rate of return, though at a lower rate, as there is less risk attached to these deposits. We also operate a policy of holding no more than £2m in any one bank (with the exception of the liquidity account held with Nat West Bank where the limit is £3m) to ensure that the risk is spread. The council can place unlimited funds with the Government Debt Management Agency Deposit Facility (DMADF). This allows greater flexibility for placing of funds with potential for higher returns with minimal risk.

8.8 **Interest Payable**

An estimate of interest on additional borrowing was included in the budget, no new borrowing is expected to be required during the year.

8.9 **Minimum Revenue Provision**

Minimum revenue provision charge is forecast to be below budget due to new vehicles being delivered later than was expected.

## 9. PERFORMANCE AGAINST PRUDENTIAL INDICATORS

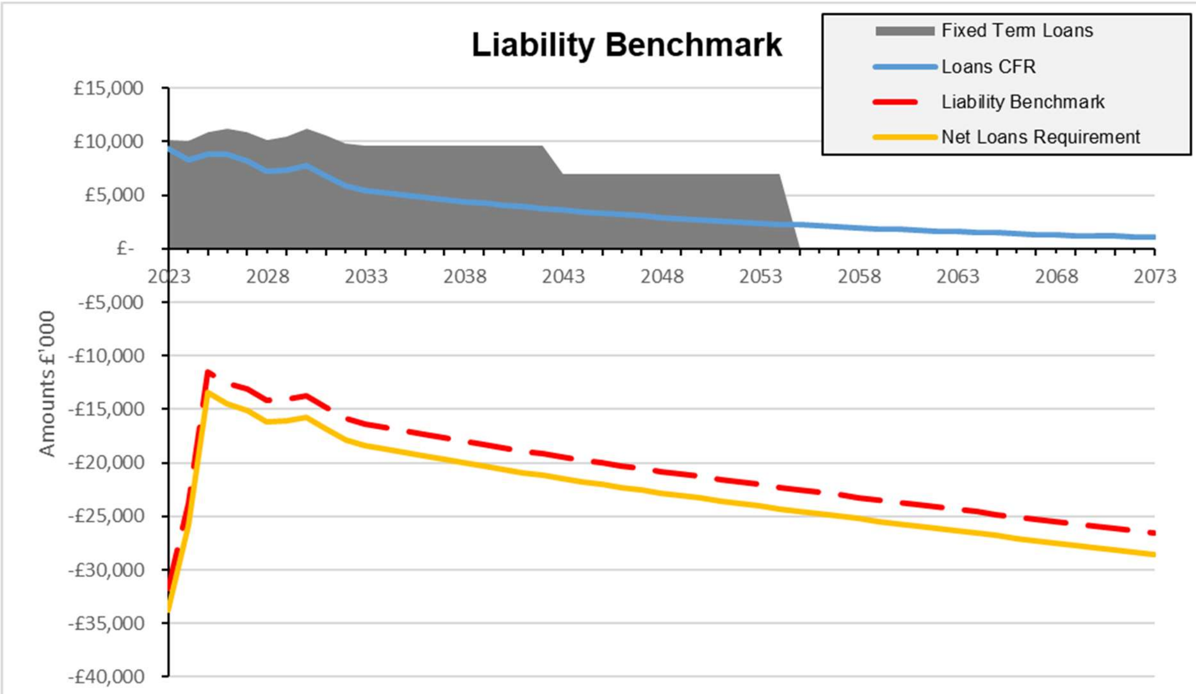
9.1 The Council's performance to date, and current forecasts for the year, against the Prudential Indicators set in the Treasury Management Strategy approved by full Council on 27th February 2024 are shown in **Appendix 1**. The Council has remained within the Prudential Indicators set out in the approved Treasury Management Strategy.

9.2 **Liability Benchmark**

9.3 The Council's Treasury Management Strategy also set out a Liability Benchmark. This compares the Council's actual borrowing against an alternative strategy, the liability benchmark was calculated showing the lowest risk level of borrowing.

9.4 The liability benchmark is a useful tool to help establish whether the Council is likely to be a long-term borrower or a long-term investor in the future, and so shape its strategy focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans, while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

9.5 There have been no significant changes to the inputs to this calculation, therefore there have been no updates to this indicator. The chart below reflects that presented in the approved Treasury Management Strategy.




## 10. ALTERNATIVE OPTIONS CONSIDERED AND REASONS FOR REJECTION

None applicable.

## 11. CONSULTATIONS

None applicable in this instance.

## 12. IMPLICATIONS

| | |
|---|---|
| Financial (Including any future financial commitments for the Council) | There are none arising directly from this report. |
| Legal and human rights implications | The Local Government Act 2003 (part 1) and associated regulations gave statutory recognition to the Prudential Code - therefore there is a statutory backing to the background and local purpose of the report.<br>Treasury Management activities of local authorities are prescribed by statute – the source of powers is, in England & Wales, the 2003 Act. 'Statutory Guidance' on investment is given by the MHCLG to local authorities. |

| | |
|---|---|
| Assessment of risk | There are inherent risks in capital finance and treasury management. When appropriate the risks are identified and assessed as part of the various recommendations made on Prudential Capital Finance and in the Council's Treasury Management Strategy. |
| Equality and diversity implications | There are no specific implications for customers' equality and diversity arising directly from the recommendations in this report |

## 13. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985:

**List of Background Papers**

- The Local Government Act 2003 and related regulations
- The Prudential Code for Capital Finance in Local Authorities (CIPFA 2021)
- The Treasury Management Code of Practice (CIPFA 2021)
- Prudential Indicators, Treasury Management and Investment Strategy (Including Capital Strategy) approved at full Council 27th February 2024

## 13. FREEDOM OF INFORMATION

The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.

**Performance Against Treasury & Prudential Indicators in 2024/25** **Appendix 1**

<table>
<tr><th>Indicator</th><th colspan="3">As Approved February 2024</th><th colspan="3">As at 31 Dec 2024</th><th>Comments</th></tr>
<tr><td>Estimated Capital Expenditure</td><td colspan="3">£36.104M</td><td colspan="3">£23.635M</td><td>The current figure takes account of additional slippage from 2023/24 in the capital programme where spend will now be incurred in 2024/25. It also takes account of slippage from 2024/25 where it is forecast that this will now be spent in future years.</td></tr>
<tr><td>Estimated Capital Financing Requirement at Year End</td><td colspan="3">£8.798M</td><td colspan="3">£8.826M</td><td>Capital Financing Requirement is a prescribed measure of the capital expenditure incurred historically by the authority which has been financed by external or internal borrowing.</td></tr>
<tr><td>Estimated Ratio of Financing Costs to Net Revenue Stream</td><td colspan="3">10.20%</td><td colspan="3">9.70%</td><td></td></tr>
<tr><td rowspan="4">External Debt Prudential Indicators (Operational Boundary and Authorised Borrowing Limit)</td><td colspan="2" rowspan="2">Operational Boundary</td><td rowspan="2">£20M</td><td colspan="2">Borrowing to Date</td><td>£M</td><td rowspan="4">Borrowing has been within both the Operational Boundary and Authorised Borrowing Limit throughout the year.</td></tr>
<tr><td colspan="2">Long-Term Borrowing</td><td>9.595</td></tr>
<tr><td colspan="2" rowspan="2">Authorised Borrowing Limit</td><td rowspan="2">£35M</td><td colspan="2">Finance Lease Debt</td><td>1.302</td></tr>
<tr><td colspan="2">Total</td><td>10.897</td></tr>
<tr><td>Variable Interest Rate Exposure</td><td colspan="3">100%</td><td colspan="2">Exposure to Date</td><td>43%</td><td rowspan="2">In 2016/17 Barclays notified the Council that the debt held by Barclays was being converted into fixed rate debt from its original agreement as a LOBO.<br>All remaining LOBO debt is classified as having a variable interest rate.</td></tr>
<tr><td>Fixed Interest Rate Exposure</td><td colspan="3">100%</td><td colspan="2">Exposure to Date</td><td>57%</td></tr>
<tr><td rowspan="8">Prudential Limits for Maturity Structure of Borrowing</td><td colspan="3"></td><td colspan="3">Actual Maturity Structure to Date</td><td rowspan="8">Borrowings of £4.12M are subject to LOBO (Lender Option Borrower Option) agreements. As they have call periods at 6 monthly intervals they are classed as borrowing under 12 months.</td></tr>
<tr><td>Period</td><td>Lower Limit</td><td>Upper Limit</td><td>Period</td><td>£M</td><td>%</td></tr>
<tr><td>< 1 Year</td><td>0%</td><td>75%</td><td>< 1 Year</td><td>4.120</td><td>43%</td></tr>
<tr><td>1-2 Years</td><td>0%</td><td>75%</td><td>1-2 Years</td><td>-</td><td>0%</td></tr>
<tr><td>2-5 Years</td><td>0%</td><td>75%</td><td>2-5 Years</td><td>-</td><td>0%</td></tr>
<tr><td>5-10 Years</td><td>0%</td><td>75%</td><td>5-10 Years</td><td>-</td><td>0%</td></tr>
<tr><td>>10 Years</td><td>0%</td><td>75%</td><td>>10 Years</td><td>5.405</td><td>57%</td></tr>
<tr><td colspan="3"></td><td>Total</td><td>9.525</td><td>100%</td></tr>
<tr><td>Total Investments for Longer than 364 Days</td><td colspan="3">£3M</td><td colspan="3">No Long-Term Investments Made</td><td></td></tr>
</table>