Herefordshire Council

APPENDIX C TREASURY MANAGEMENT QUARTER 3 UPDATE

Introduction

1.1 Treasury Management is the management of the council's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

1.2 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly. This report, therefore, ensures the council is implementing best practice in accordance with the Code.

Economic Context

2.1 The third quarter of 2024/25 saw:

- Stagnant UK growth, with Gross Domestic Product (GDP) at 0.1% for the quarter;
- The 3 month year on year rate of average earnings growth increase from 4.4% in September to 5.2% in October;
- CPI inflation at 1.7% in September, 2.3% in October and 2.6% in November (clothing and fuel prices were among the main drivers behind the rise);
- 10-year gilt yields starting October at 3.94% before finishing at 4.57% at the end of December (peaking at 4.64%).

2.2 On 7 November, the Bank of England's Monetary Policy Committee (MPC) voted to reduce the Bank Rate from 5.00% to 4.75% and held it steady in their December meeting.

Investments

3.1 At 31 December 2024, the council held investments as shown in table 1.

Table 1 Investment Portfolio

Treasury investments	Term	Maturity date	Interest rate	Amount invested £m
Instant Access Money Market Funds:				
Federated	N/A	N/A	4.78%	10.00
Aberdeen Standard	N/A	N/A	4.78%	10.00
Invesco	N/A	N/A	4.76%	7.00
CCLA	N/A	N/A	4.75%	3.25
95 Day Notice Bank Accounts:				
Barclays (ESG green deposits)	N/A	N/A	4.80%	5.00
Fixed Term Deposits:				
DMADF	21 days	07/01/25	4.70%	10.00
Central Bedfordshire Council	181 days	20/11/24	5.20%	5.00
Total treasury investments			**Average 4.80%**	**50.25**

3.2 The council applies the credit worthiness service provided by Link Group. This service employs a modelling approach utilising credit ratings from three main credit rating agencies (Fitch, Moody's and Standard and Poor's). This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system to which Link Group allocate a series of colour coded bands with suggested maximum durations for investments. These are detailed in the Treasury Management Strategy for 2024/25 as approved by Council in February 2024.

3.3 The council has earned interest on its investments as shown in table 2. There is a revenue budget of £0.5 million for 2024/25, resulting in an underspend of £2.040 million within the Central budget line.

Table 2: Interest earned

Month	Average amount invested £m	Average rate of interest earned	Amount of interest earned £m
April 24	54.6	5.31%	0.221
May 24	61.0	5.27%	0.273
June 24	64.0	5.26%	0.276
July 24	76.2	5.23%	0.339
August 24	75.4	5.06%	0.324
September 24	68.5	5.01%	0.282
October 2024	69.7	4.97%	0.294
November 2024	71.6	4.82%	0.284
December 2024	60.5	4.79%	0.247
Total			**2.540**
Budget			**0.500**
Underspend variance			**2.040**

3.4 In addition to the investment income, the council earns interest on the provision of loan finance to the waste disposal PFI provider. This is expected to generate loan interest of £1.9 million in 2024/25 and will be credited to the waste reserve.

Borrowing

4.1 The council can only borrow up to its Authorised Borrowing Limit which represents the affordable limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements. The Authorised Borrowing Limit for external borrowing for 2024/25 is £350m which was approved in the Treasury Management Strategy.

4.2 At 31 December 2024, the council held long-term borrowing of £117.7m; no new long-term borrowing has been secured during the financial year. The council's Capital Financing Requirement at 1st April 2024 is £303.1m, which demonstrates that the Council has significant internal borrowing when compared to the actual long-term borrowing (excluding PFI liabilities) of £117.7m.

4.3 The current capital financing budget position is shown in table 3.

Table 3: Summary of borrowing budget

	Budget £m	Forecast £m	(Surplus)/deficit £m
Minimum Revenue Position (MRP)	9.7	9.5	(0.2)
Interest Payable on loans	5.8	4.7	(1.1)
Total	**15.5**	**14.2**	**(1.3)**

Compliance with Treasury and Prudential Limits

5.1 During the quarter ended 31 December 2024, the council has operated within the treasury and prudential indicators set out in the Treasury Management Strategy for 2024/25. Actual values for quarter 3 are shown in table 4.

5.2 Treasury indicators for quarter 3 are shown as actual values as at 31 December 2024, e.g. for PI4 (authorised limit for external debt), the actual value of external debt as at 31 December 2024 of £155.5 million is shown against a Treasury Indicator limit of £420.0 million as approved in the Treasury Management Strategy. This means that actual debt is lower than the approved limit and the council is operating within agreed boundaries.

5.3 Prudential indicators for quarter 3 are shown as updated forecasts for the financial year 2024/25, e.g. for PI1 (capital expenditure), the forecast of spend for the financial year 2024/25 of £96.7 million is shown against a Prudential indicator value approved in the Treasury Management Strategy of £160.0 million. This means that capital expenditure for 2024/25 is now forecast to be lower than was budgeted for at the start of the year.

Table 4: Prudential and Treasury indicators for 2024/25 as at 31 December 2024

Ref	Treasury indicators	Description	2024/25 Budget/Limit £000	Actual as at 31 December 2024 £000	Compliance result
PI4	Authorised limit for external debt	To set an authorised limit for its gross external debt for the forthcoming financial year (includes PFI liabilities)	420,000	155,500	Within limit
PI5	Operational boundary for external debt	To set an operational boundary for its gross external debt for the forthcoming financial year (includes PFI liabilities)	400,000	155,500	Within limit
PI8	Upper limit for principal sums invested over 364 days	To set an upper limit for total principal sums invested over 364	5,000	NIL	Within limit
PI7	Maturity structure upper and lower limits:	To set upper and lower limits for the maturity structure of its borrowing			
	Under 12 months		0-10%	6%	Within limit
	12 months to 2 years		0-10%	9%	Within limit
	2 to 5 years		0-25%	7%	Within limit
	5 to 10 years		0-35%	20%	Within limit
	10 years and above		0-80%	58%	Within limit
	Prudential indicators	**Description**	**2024/25 Budget £000**	**Forecast for 2024/25 at 31 December 2024 £000**	**Compliance result**
PI1	Capital expenditure	A reasonable estimate of the total capital expenditure that it plans to incur during the forthcoming financial year	160,033	96,660	Under budget
PI2	Capital financing requirement (CFR)	A reasonable estimate of the total capital financing requirement at the end of the forthcoming financial year	349,974	324,806	Under budget
PI3	Gross debt and CFR	To ensure that the total gross debt does not, except in the short term, exceed the total of capital financing requirement	52%	36%	Below 100%, within limit
PI6	Ratio of financing costs to net revenue stream	To estimate the proportion of financing costs to net revenue stream for the forthcoming financial year	7%	7%	In line with budget
PI9	Ratio of net commercial and service investments income to net revenue stream	To estimate the proportion of net income from commercial and service investments to net revenue stream for the forthcoming financial year	1%	1%	Low reliance on this income