



## APPENDIX C TREASURY MANAGEMENT QUARTER 2 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 second quarter of 2024/25 saw:
  - Gross Domestic Product (GDP) growth stagnating in July following quarter 2 figures being revised downwards (0.5% quarter on quarter growth);
  - A further easing in wage growth as the headline rate (including bonuses) fell from 4.6% in June to 4.0% in July to 3.8% in August;
  - CPI inflation hitting its target in June before edging above it to 2.2% in July and August, with a fall to 1.7% in September (led by services and fuel prices);
  - Core CPI inflation increasing from 3.3% in July to 3.6% in August to 3.2% in September;
  - 10-year gilt yields falling to 4.0% in September.
- 2.2 On 1 August, the Bank of England's Monetary Policy Committee (MPC) voted to reduce the Bank Rate from 5.25% to 5.00% and held it steady in their September meeting.

## Investments

3.1 At 30 September 2024, the council held investments as shown in table 1.

**Table 1 Investment Portfolio**

| Treasury investments                      | Term     | Maturity date | Interest rate        | Amount invested £m |
|-------------------------------------------|----------|---------------|----------------------|--------------------|
| <b>Instant Access Money Market Funds:</b> |          |               |                      |                    |
| Federated                                 | N/A      | N/A           | 5.03%                | 10.00              |
| Aberdeen Standard                         | N/A      | N/A           | 5.01%                | 10.00              |
| Insight                                   | N/A      | N/A           | 4.94%                | 9.13               |
| Invesco                                   | N/A      | N/A           | 5.00%                | 7.00               |
| CCLA                                      | N/A      | N/A           | 4.99%                | 5.00               |
| <b>95 Day Notice Bank Accounts:</b>       |          |               |                      |                    |
| Barclays (ESG green deposits)             | N/A      | N/A           | 5.05%                | 5.00               |
| <b>Fixed Term Deposits:</b>               |          |               |                      |                    |
| Lloyds                                    | 94 days  | 11/11/24      | 5.03%                | 5.00               |
| Goldman Sachs                             | 182 days | 08/11/24      | 5.25%                | 5.00               |
| <b>Total treasury investments</b>         |          |               | <b>Average 5.03%</b> | <b>56.13</b>       |

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 £1.215 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                        |
| <b>Total</b>               |                            |                                 | <b>1.715</b>                 |
| <b>Budget</b>              |                            |                                 | <b>0.500</b>                 |
| <b>Underspend variance</b> |                            |                                 | <b>1.215</b>                 |

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 30 September 2024, the council held long-term borrowing of £118.1m; no new long-term borrowing has been secured during the financial year. The council's Capital Financing Requirement at 1<sup>st</sup> 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 £118.1m.
- 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)                |
| <b>Total</b>                   | <b>15.5</b> | <b>14.2</b> | <b>(1.3)</b>         |

## Compliance with Treasury and Prudential Limits

- 5.1 During the quarter ended 30 September 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 2 are shown in table 4.
- 5.2 Treasury indicators for quarter 2 are shown as actual values as at 30 September 2024, e.g. for PI4 (authorised limit for external debt), the actual value of external debt as at 30 September 2024 of £155.9 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 2 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 £88.8 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 30 September 2024**

| Ref | Treasury indicators                                                          | Description                                                                                                                               | 2024/25 Budget/Limit £000 | Actual as at 30 September 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                   | 155,900                                        | 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                   | 155,900                                        | 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%                     | 5%                                             | Within limit                |
|     | 2 to 5 years                                                                 |                                                                                                                                           | 0-25%                     | 10%                                            | Within limit                |
|     | 5 to 10 years                                                                |                                                                                                                                           | 0-35%                     | 20%                                            | Within limit                |
|     | 10 years and above                                                           |                                                                                                                                           | 0-80%                     | 59%                                            | Within limit                |
|     | Prudential indicators                                                        | Description                                                                                                                               | 2024/25 Budget £000       | Forecast for 2024/25 at 30 September 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                   | 88,782                                         | 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                   | 322,706                                        | 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%                       | 37%                                            | 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 |