Public Document Pack

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25 September 2024

Dear Councillor

I am now able to enclose, for consideration at the meeting of the **GOVERNANCE COMMITTEE** on Thursday 26 September 2024 at 6.00 pm, the following report that was unavailable when the agenda was printed.

10 **TREASURY MANAGEMENT QUARTER ONE REPORT 2024/25** (Pages 2 - 23)

To consider the attached report of the Head of Finance and Investment.

Yours sincerely

Chief Executive

Subject:	**TREASURY MANAGEMENT QUARTER ONE REPORT 2024/25**
Meeting and Date:	**Governance Committee - 26 September 2024**
Report of:	**Helen Lamb - Head of Finance and Investment**
Portfolio Holder:	**Councillor S B Blair - Portfolio Holder for Finance, Governance, Climate Change & Environment**
Decision Type:	**Non-Key Decision**
Classification:	**Unrestricted**
Purpose of the report:	To provide details of the Council's treasury management for the period ended 30 June 2024
Recommendation:	That the report is received.

1. Summary

1.1 For the quarter to 30th June 2024 a total income of £597k was generated by the £50m long-term investments in externally managed strategic pooled bond, multi-asset and property funds. The Council's investments generated a return for the period 30 June of 7.46% (annualised) which outperformed the SONIA[1] (Sterling Overnight Index Average) benchmark by 2.26%. This return includes changes to capital values in the funds which are not recognised in the revenue budget. These long-term investments generated a reasonable return despite the volatility of the market.

1.2 The Council remained within its Treasury Management guidelines and complied with the Prudential Code guidelines during the period, except for the maturity structure of borrowing. This is due to short term borrowing (under 12 months) exceeding the upper limit due to pressures on cash flow due to the postponement of long-term borrowing for projects following the increases in interest rates. The position continues to be monitored and arrangements for longer term borrowing will be put in place when appropriate.

2. Introduction and Background

2.1 In March 2012 the Council adopted 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. This report is part of implementing best practice in accordance with the Code.

2.2 Council adopted the 2024/25 Treasury Management Strategy (TMS) on 6th March 2024 as part of the 2024/25-2027/28 Budget and Medium-Term Financial Plan.

[1] SONIA is administered by the Bank of England. It is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

2.3 To comply with the CIPFA code referred to above, a brief summary is provided below, and Appendix 1A contains a full report from the Council's Treasury Management Advisors, Arlingclose.

2.4 Members are asked to note that in order to minimise the resource requirements in producing this report, Arlingclose's report has been taken verbatim. Treasury advisors generally use a more journalistic style than is used by our officers, but to avoid changing the meaning or sense of Arlingclose's work, this has not been edited out.

3. **Economic Background**

3.1 The reports attached (Appendices 1A & 1B) contains information up to the end of June 2024; since then, we have received the following update from Arlingclose (in italics). Please note that any of their references to quarters are based on *calendar* years:

“Main points since June:

i. *In a ‘finely balanced’ decision, the Bank of England cut Bank Rate in August by 25bps to 5.00%, in line with Arlingclose’s forecast held since September 2023. In a 5-4 vote, a majority of MPC members thought inflationary pressures had eased enough to justify a rate cut, while others continued to maintain caution over underlying inflationary persistence and voted for no change.*

ii. *Arlingclose expects that the MPC will continue to cut rates to stimulate the UK economy but will be reluctant to do so significantly until it is sure there will be no lingering second-round effects. We see rate cuts continuing in Q4 2024 to a low of around 3% by late 2025. Upside risks to inflation remain which could limit the extent of monetary easing.*

iii. *Long-term gilt yields have fallen following fears of a US recession. Arlingclose’s central case is for yields to be volatile around a relatively narrow range, reflecting the likelihood for monetary policy loosening in the Eurozone, UK and US.*

iv. *CPI rose by 2.2% in the 12 months to July 2024, increasing from 2.0% in June 2024. On a monthly basis, CPI decreased by 0.2% in July 2024, while in July 2023 there was a fall of 0.4%. A rise in CPI inflation driven by energy price-related base effects had been widely anticipated, however the increase to 2.2% was smaller than expected, with the Bank of England forecasting 2.4%. Additionally, and likely reassuringly for the MPC, services inflation fell by much more than predicted to a two-year low of 5.2%. Within this, a big drop in restaurant and hotels inflation perhaps suggests an unwinding of one-off impacts such as the ‘Taylor Swift’ effect. The softening in underlying inflationary pressures should help convince the MPC that further rate cuts are appropriate this year. However, the committee remain concerned about the upside risks from stronger economic activity, so this data alone seems unlikely to prompt another rate cut immediately in September.*

v. *UK GDP continued its solid expansion so far this year, with a 0.6% growth rate in Q2 2024. The service sector was the main driver, offset by drags from both construction and services. Interestingly consumer-facing services failed to follow Q1’s 0.6% growth, falling 0.1% in Q2. On the expenditure side, household consumption was relatively weak, while business investment contracted, suggesting private sector spending struggled. Government spending was up 1.4%, contributing half of the overall quarterly GDP growth rate. Overall, a further recovery in economic growth, but June’s GDP growth rate of 0.0%, underlying* *weakness in private sector spending and early data for Q3 suggest that coming quarters are unlikely to remain at this pace.*

vi. The UK unemployment rate for April to June 2024 was 4.2% (down from 4.4% in the three months leading to May). UK employment rate was estimated at 74.5% in April to June 2024, increasing in the latest quarter, but still down from the same period last year. The annual decrease was largely because of part-time workers, although this number did increase on the quarter. The latest set of data points to the labour market continuing to loosen. Although the rise in employment was above consensus and vacancies fell, the further drop in average earnings growth is encouraging. Wage growth has been easing in line with expectations, including private sector pay, the latter fairly close to the Bank of England's forecast. Downward pressure on wage-led inflation over the coming months will need to be maintained as well as a softening in a wider set of inflation indicators for MPC members to be convinced at their forthcoming meetings that further rate cuts are appropriate."

4. Annual Investment Strategy

4.1 The investment portfolio, as at the end of June 2024, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £60.69m increasing to £63.26 at the end of August (see Appendix 4). The increase reflects normal cashflow fluctuations arising from the timing of 'major preceptor' payments, which are made over twelve months, while the Council Tax receipts that fund them typically come in over the ten months to January and then decline.

4.2 As at 30 June 2024, the Council's investment portfolio totalled £50m (see Appendix 2). Cashflow funds were higher than anticipated at £10.69m on 30 June 2024, (see Appendix 2).

4.3 Cashflow funds have since increased to £13.26m at 31 August 2024, (see Appendix 4) due to normal cashflow fluctuations. Short term borrowing will be used to cover fluctuations in the cash flow requirements as needed, instead of holding excess funds in call accounts.

5. New Borrowing

5.1 The Council's borrowing portfolio is attached at Appendix 3. At the end of June 2024, the Council had outstanding short-term loans of £52 million with other Local Authorities as part of the Council's strategic cash management objectives.

5.2 This high level of short term borrowing is due to the strategic management of cash flow and option for converting this to longer term borrowing are currently under review.

6. Debt Rescheduling

6.1 Currently, it is not considered of benefit to the Council to undertake any further rescheduling of its long-term debt.

7. Compliance with Treasury and Prudential Limits

7.1 The Council has operated within the Prudential Indicators in compliance with the Council's Treasury Management Practices.

8. **Climate Change and Environmental Implications**

8.1 There are no climate change or environmental implications.

9. **Appendices**

Appendix 1A –Arlingclose Treasury Management Report for 1st Qtr 2024

Appendix 1B –Arlingclose Outturn 1st Qtr FY24/25 Prudential Indicators

Appendix 2 – Investment portfolio as at 30 June 2024

Appendix 3 – Borrowing portfolio as at 30 June 2024

Appendix 4 – Investment portfolio as at 31 August 2024

10. **Background Papers**

Medium Term Financial Plan 2024/25 – 2027/28

Contact Officer: Angela Chambers, extension 2111

Treasury Management Report Q1 2024/25

1. Introduction

1.1. In March 2012 the Council adopted 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.

1.2. This quarterly report provides an additional update and includes the requirement in the 2021 Code of quarterly reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the Council's normal quarterly revenue and capital monitoring report.

1.3. The Council's treasury management strategy for 2024/25 was approved at a meeting on 6th March 2024. The Council has borrowed and invested 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 remains central to the Council's treasury management strategy.

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 showed 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. Labour market data continued to provide mixed messages for policymakers, exacerbated by issues the Office for National Statistics is having compiling the labour force survey. In the three months between February and April 2024, unemployment was up, employment fell, while the decline in vacancies slowed and wage growth remained elevated. Unemployment rose to 4.4% (3mth/year) while average regular earnings (excluding bonuses) was 6.0% and total earnings (including bonuses) was 5.9%. Adjusting for inflation, real regular pay rose by 2.3% and total pay by 2.2%. Given how keenly the 'second-round' impact of inflation on wages is watched by the BoE, policymakers will likely want to see more downward movement before cutting interest rates.

2.4. Having started the financial year at 5.25%, the Bank of England's Monetary Policy Committee (MPC) maintained Bank Rate at this level throughout the quarter. In line with expectations, at its June meeting, the Committee voted by a majority of 7-2 in favour of maintaining the status quo. The two dissenters preferred an immediate 0.25% reduction in Bank Rate to 5.0%. This continued dovish tilt by the Committee increased financial market expectations that the first cut in Bank Rate will likely be in August.

2.5. Earlier in May, in addition to an identical MPC rate decision and voting pattern, the Bank published the latest version of its Monetary Policy Report (MPR). Within the Report, the Committee noted that it expected four-quarter GDP growth to increase over the forecast period, reflecting the declining negative effects of past Bank Rate increases and the predicted downward path of interest rates which should provide support to economic activity. The trajectory of inflation was broadly similar to that in the previous MPR, albeit slightly lower towards the end of the forecast horizon due to the Committee's revised assessment of falling external inflationary pressures from past import price increases. This meant the Committee expected headline inflation to hit the 2% target two quarters sooner than in the February MPR. As was highlighted earlier, inflation data published in June showed that CPI inflation fell to the 2% target in May.

2.6. Arlingclose, the Council's treasury adviser, maintained its central view that 5.25% is the peak in Bank Rate and that interest rates will most likely be cut later in H2 2024. 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 and as services price inflation and wage growth are still on the firmer side, the MPC could well delay before delivering the first rate cut.

2.7. The US Federal Reserve also maintained interest rates over the period, holding the Fed Funds Rate at 5.25%-5.50% for the seventh consecutive month in June, as was expected. US policymakers have maintained a relatively dovish stance throughout the period but have steadily reduced their predictions around the pace and timing of rate cuts in the face of higher inflation and firmer economic growth. At the meeting, economic projections pointed to one rate cut in calendar 2024 and four in 2025.

2.8. The European Central Bank cut rates in June, reducing its main refinancing rate from 4.50% to 4.25%. Inflation in the region fell to 2.5% in May, having increased in the previous month, but since February has been fairly sticky at between 2.4% and 2.6%. Economic growth in the region has picked up but remains weak, and with inflation above the ECB's target this continues put pressure on policymakers on how to balance these factors when setting monetary policy.

2.9. **Financial markets:** Sentiment in financial markets showed signs of improvement over the quarter, but bond yields remained volatile. Early in the period yields climbed steadily, but mixed signals from economic data and investors' constant reassessment of when rate cuts might come caused a couple of fairly pronounced but short lived dips in yields. Towards the end of the quarter yields rose once again and were generally higher than at the start of the period.

2.10. Over the quarter, the 10-year UK benchmark gilt yield started at 3.94% and ended at 4.18% having reached 4.41% in May. While the 20-year gilt started at 4.40%, hit 4.82% in May, before ending the period at 4.61%. The Sterling Overnight Rate (SONIA) averaged 5.20% over the quarter to 30th June.

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

2.12. 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.

2.13. 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.

2.14. Having placed Warrington Borough Council on review for a downgrade in March, Moody's subsequently withdrew its ratings for the council in June.

2.15. Credit default swap prices started and ended the quarter at broadly similar levels in the UK as they did for the European, Singaporean and Australian lenders on Arlingclose's counterparty list, while Canadian banks generally trended modestly downwards.

2.16. 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.

3. Local Context

3.1. On 31st March 2024, the Council had net borrowing of £47.4 m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.24 Actual £m	**31.3.25 Forecast £m**
Capital Financing Requirement	134.3	152.7
External borrowing	(108.7)	(65.4)
Internal (over) borrowing	25.6	87.2
Balance sheet resources	(73.0)	(64.8)
Net Investment (new borrowing)	47.4	(22.5)

3.2. The treasury management position at 30th June and the change over the quarter is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.24 Balance £000	**Movement £000**	**30.6.24 Balance £000**
Long-term borrowing			
- PWLB	68,064	0	68,064
- Salix Loan	194	52	138
- LTA Loan	30	4	26
Short-term borrowing	40,500	11,500	52,000
Total borrowing	108,778	11,556	120,228
Long-term investments	50,000	0	50,000

	31.3.24 Balance £000	Movement £000	30.6.24 Balance £000
Short-term investments	4	0	4
Cash and cash equivalents	1,228	9,458	10,686
Total investments	51,232	9,458	60,690
Net borrowing	57,547		59,538

4. Borrowing Strategy and Activity

4.1. As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriately 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.

4.2. Policy interest rates have risen substantially since 2021 although they have largely plateaued over the last year. Over the last quarter gilt yields have risen slightly overall, having had a number of peaks and troughs. There has been downward pressure from lower inflation figures, but also upward pressure from unexpectantly positive economic data. Data from the US continues to impact global markets including UK gilt yields.

4.3. 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%.

4.4. 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.

4.5. 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. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Council has no new plans to borrow to invest primarily for financial return.

4.6. The PWLB HRA rate, which is 0.4% below the certainty rate, is available up to June 2025. This discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans. The Council is considering new HRA borrowing for the affordable housing developments currently being progressed and intends to take advantage of this lower rate when the relevant borrowing is undertaken.

4.7. **Loans Portfolio:** At 30th June the Council held £120.2m of loans, an increase of £11.4m from

31st March 2024, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th June 2024 are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.3.24 Balance £000	Net Movement £000	30.6.24 Balance £000
Public Works Loan Board	68,064	0	68,064
Local authorities (short-term)	40,500	11,500	52,000
Others (LTA & Salix)	224	-56	168
Total borrowing	108,788	11,444	120,232

4.8. There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Council will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

4.9. The UK Infrastructure Bank is one alternative source of funding which offers funding at gilt yields + 0.40% (0.40% below the PWLB certainty rate) and the possibility of more flexible funding structures than the PWLB. Funding from UKIB is generally only available for certain types of projects that meet its criteria of green energy, transport, digital, water and waste. The minimum loan size is £5 million.

4.10. **Loans restructuring:** The continuing rise in gilt yields since early 2022 resulted in some of the Council's PWLB loans being in or close to a discount position if repaid early. However, as the prepaid loans would need to be replaced by new loans at higher interest rates, this isn't a cost-effective option for the Council.

4.11. The Council had total short-term borrowing of £68.5m for the 1st Qtr FY 24-25 and has repaid £16.5m, still outstanding £52m as detailed in Appendix 3.

5. Treasury Investment Activity

5.1. The CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (revised in 2021) defines treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

5.2. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held and money borrowed in advance of need. During the year, the Council's investment balances ranged between £51.2m and £60.7m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.03.24 Balance £000	**Net Movement £000**	**30.06.24 Balance £000**	**30.6.24 Income Return %**

Banks & Building Societies (unsecured)	11	100	111	1.45%
Money Market Funds	1,217	9,358	10,575	4.15%
Other Pooled Funds (book costs)				
- *Cash plus funds*	8,000			
- *Strategic bond funds*	8,000			
- *Property funds*	6,000			
- *Multi asset income funds*	28,000			
Other Pooled Funds Sub-total	50,000	0	50,000	4.81%
Total investments	**51,228**		**60,686**	

5.3. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.4. As demonstrated by the liability benchmark in this report, the Council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

5.5. Bank Rate remained at 5.25% through the quarter with short term interest rates largely being around this level. The rates on money market funds range between 5.1% and 5.25%.

5.6. £50m that is available for longer-term investment is invested in pooled property/bond/equity/multi-asset funds. The Council have maintained the amount invested.

5.7. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity (days)**	**Rate of Return**
31.03.2024	**5.40**	**A+**	**100%**	**1**	**5.14%**
30.06.2024	**5.26**	**A+**	**100%**	**1**	**5.23%**
Similar LAs	**4.76**	**A+**	**62%**	**52**	**5.06%**
All LAs	**4.66**	**A+**	**62%**	**10**	**5.07%**

5.8. **Externally Managed Pooled Funds:** £50m of the Council's investments is invested in externally managed strategic pooled bond, equity, multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

5.9. The reliance markets had placed at the beginning of 2024 on rapid declines in inflation, stalling growth and the consequent interest rate cuts in quick succession proved overoptimistic. Core inflation was higher than expected and economic activity was relatively resilient. Central bankers remained cautious and, barring the one 0.25% cut by the European Central Bank, the status quo was maintained for policy rates by the Bank of England and the US Federal Reserve.

5.10. It was tough quarter for fixed income investors. Government bonds yields, sensitive to hotter-than-expected inflation data and an improving economic outlook, remained elevated. The higher-for-longer interest rate narrative keeping yields mostly pegged in a narrow range between 4.0% - 4.7%. Escalating geopolitical tensions and the setback in expectations of lower official interest rates and corporate borrowing costs were headwinds for corporate bonds. Combined, these resulted in a drop in capital values of the Council's bond funds, and, to a lesser extent, the multi-asset funds where there was some offset from better equity performance.

5.11. Upbeat earnings data and better economic growth prospects helped global equities perform well during the quarter and supported investor appetite for riskier assets despite stronger than expected inflation and employment data delaying interest rate cuts. US stocks once again performed well although much of the momentum in the S&P 500 in recent months has been derived from the very large concentration in the index of a handful of technology stocks.

5.12. UK equities also enjoyed a positive quarter. The FTSE All Share index was buoyed in April by data showing the economy had emerged from the short, shallow recession in 2023. Sterling's weakness against the dollar in April also provided a boost to UK stocks with overseas earnings. The energy, materials and mining sectors gained as the outlook for global manufacturing improved. Healthcare and financial stocks were also supported by good earnings data. The rally faded somewhat with the unexpected announcement in May of a general election in early July.

5.13. Dwindling prospects of policy rate cuts weighed on consumer discretionary stocks as well as on the UK real estate sector. Improvement in commercial property capital values was dampened by property's sensitivity to higher interest rates.

5.14. The Council has budgeted £2,391k income from these investments in 2024/25. Income received up to 30th June was £597k, whist a further £243k has been declared and is due to be paid by July/August. Over the quarter, these funds generated £709k of unrealised capital growth

5.15. The combination of the above had a marginal positive effect on the combined value of the Council's funds since March 2024.

5.16. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

5.17. **Statutory override:** 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 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 position will continue to be monitored.

6. ESG Policy

6.1. **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

7. Non-Treasury Investments

7.1. The definition of investments in the Treasury Management Code now 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).

7.2. Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

7.3. The Council also held £25.2m of such investments in:

Directly owned property		£21.7m
B&Q	£17.2m	
Whitfield Court	£4.5m	
Shared ownership housing		£3.5m

8. Treasury Performance

8.1. The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget, as shown in table 6 below.

Table 6: Performance (Quarter One)

	Actual £000	Budget £000	Over/ under
Interest Received	597	598	(1)
Interest Payable	507	220	288

9. MRP Regulations

9.1. On 10th April 2024 amended legislation and revised statutory guidance were published on Minimum Revenue Provision (MRP). The majority of the changes take effect from the 2025/26 financial year, although there is a requirement that for capital loans given on or after 7th May 2024 sufficient MRP must be charged so that the outstanding Capital Financing Requirement (CFR) in respect of the loan is no higher than the principal outstanding less the Expected Credit Loss (ECL) charge for that loan.

9.2. The regulations also require that local authorities cannot exclude any amount of their CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP (there are specific exceptions for capital loans and leased assets).

10. Compliance

10.1. The Strategic Director (Finance and Housing) reports that all treasury management activities undertaken during the quarter complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy, except for the maturity structure of borrowing. This is due to short term borrowing (under 12 months) exceeding the upper limit due to pressures on cash flow due to the postponement of long-term borrowing for projects following the increases in interest rates. The position continues to be monitored and arrangements for longer term borrowing will be put in place when appropriate.

10.2. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	2024/25 Maximum	**30.6.24 Actual**	**2024/25 Limit**	**Complied?** Yes/No
Unsecured investments with banks and building societies	**£.64m**	**£.1m**	**£10m**	Yes
Money Market Funds	**£9.9m**	**£9.3m**	**£10m**	Yes
Strategic pooled funds	**£10m**	**Between £6m & £10m**	**£10m**	Yes

10.3. Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 8 below.

Table 8: Debt and the Authorised Limit and Operational Boundary

	Q1 2024/25 Maximum £m	**30.6.24 Actual** £m	**2024/25 Operational Boundary** £m	**2024/25 Authorised Limit** £m	**Complied?** Yes/No
Borrowing	120.2	120.2	333	338.5	Yes

10.4. 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. Total debt was below the operational boundary.

11. Treasury Management Prudential Indicators

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

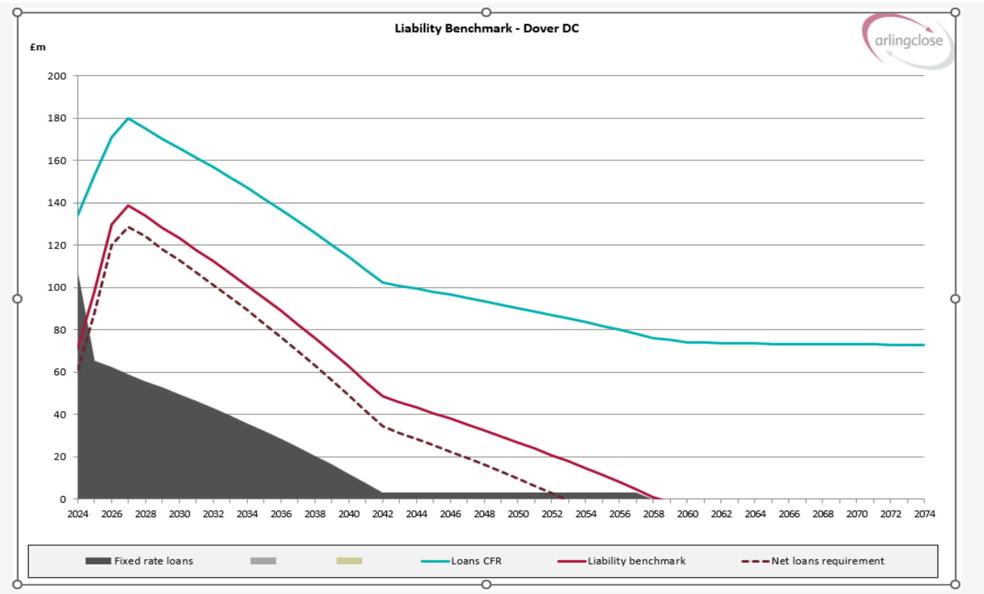
A. <u>Liability Benchmark</u>**:**

11.1.1. 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. It 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 of £8m required to manage day-to-day cash flow.

Dover DC

	Actual	Forecasts	£m		
Position at 31 March	**2024**	**2025**	**2026**	**2027**	**2028**
Loans CFR	134.3	152.7	171.1	179.9	175.1
External borrowing	-108.7	-65.4	-62.6	-58.8	-55.8
Internal (over) borrowing	25.6	87.2	108.5	121.1	119.3
Balance sheet resources	-73.0	-64.8	-51.1	-51.1	-51.1
Investments (new borrowing	47.4	-22.5	-57.4	-70.0	-68.2
Treasury investments	47.4	10.0	10.0	10.0	10.0
New borrowing	0.0	32.5	67.4	80.0	78.2
Net loans requirement	61.4	87.9	120.0	128.7	124.0
Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	71.4	97.9	130.0	138.7	134.0

11.1.2. Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £108.7m a year, minimum revenue provision on new capital expenditure based on a 25 year asset life and income, expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the Council's existing borrowing.



11.1.3. Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.

B. Maturity Structure of Borrowing:

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

	Upper Limit	Lower Limit	30.6.24 Actual £m	Complied?
Under 12 months	25%	0%	54.8	x
12 months and within 24 months	50%	0%	9.6	✓
24 months and within 5 years	50%	0%	3.1	✓
5 years and within 10 years	100%	0%	16.8	✓
10 years and above	100%	0%	32.0	✓

11.1.5. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

11.1.6. Short term borrowing (under 12 months) has exceeded the upper limit due to pressures on cash flow due to the postponement of long-term borrowing for projects following the increases in interest rates. The position continues to be monitored and arrangements for longer term borrowing will be put in place when appropriate.

C. Long-term Treasury Management Investments:

11.1.7. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

	2024/25	2025/26	2026/27	No fixed date
Limit on principal invested beyond year end	£55m	£55m	£55m	£55m
Actual principal invested beyond year end	0	0	0	0
Complied?	✓	✓	✓	✓

11.1.8. Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

12. Additional indicators

12.1. **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average [credit rating] or [credit score] of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	2024/25 Target	30.6.24 Actual	Complied?

Portfolio average credit score	6	5.26	✓

12.2. **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing / it can borrow each period without giving prior notice.

	30.6.24 Actual	**2024/25 Target**	**Complied?**
Total cash available within 3 months	£10.7m	£8m	✓
Total sum borrowed in past 3 months without prior notice	£42m	n/a	✓

12.3. Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk.

Interest rate risk indicator	**2024/25 Target**	**30.6.24 Actual**	**Complied?**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£500k	£46k	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	£500k	£46K	✓

12.4. For context, the changes in interest rates during the quarter were:

	01/04/24	30/06/24
Bank Rate	5.25%	5.25%
1-year PWLB certainty rate, maturity loans	5.39%	5.37%
5-year PWLB certainty rate, maturity loans	4.72%	4.89%
10-year PWLB certainty rate, maturity loans	4.80%	4.96%
20-year PWLB certainty rate, maturity loans	5.24%	5.37%
50-year PWLB certainty rate, maturity loans	5.07%	5.18%

12.5. The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.

Prudential Indicators Q1 2024/25

1. The Council measures and manages its capital expenditure, borrowing and service investments with references to the following indicators.
2. It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis.

3. **Capital Expenditure:**

3.1. The Council has undertaken and is planning capital expenditure as summarised below:

	2023/24 actual	2024/25 forecast *	2025/26 budget	2026/27 budget
General Fund services	18,287	16,568	8,184	1,133
Council housing (HRA)	10,231	37,334	30,632	18,689
Capital investments	**28,518**	**53,902**	**38,816**	**19,823**

3.2. The main General Fund capital projects to date have included Bus Rapid Transit Route and Restoration of Maison Dieu. HRA capital expenditure is recorded separately and to date includes £6m on Housing stock capital work and £4.2m on Affordable Housing Development Projects.

4. Capital Financing Requirement:

4.1. The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP / loans fund repayments and capital receipts used to replace debt.

4.2. The actual CFR is calculated on an annual basis.

	31.3.2024 actual £000	31.3.2025 forecast * £000	31.3.2026 budget £000	31.3.2027 budget £000
General Fund services	74,345	56,155	54,443	53,256
Council housing (HRA)	59,792	105,496	125,813	135,621
Capital investments	28,518	53,902	38,816	19,823
TOTAL CFR	**134,317**	**161,651**	**180,135**	**188,877**

5. Gross Debt and the Capital Financing Requirement:

5.1. Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Council has complied and expects to continue to comply with this requirement in the medium term as is shown below.

	31.3.2024 actual £000	31.3.2025 forecast £000	31.3.2026 budget £000	31.3.2027 budget £000	Debt at 30.6.2024 £000
Debt	108,788	65,778	62,606	62,606	120,232
Capital Financing Requirement	**134,317**	**161,651**	**180,135**	**188,877**	

6. **Debt and the Authorised Limit and Operational Boundary:**

6.1. The Council is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

	Debt at 30.6.24 £m	2024/25 Authorised Limit £m	2024/25 Operational Boundary £m	Complied? Yes/No
Debt	120.2	338.5	333.0	Yes

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

7. **Net Income from Commercial and Service Investments to Net Revenue Stream:**

7.1. The Council’s income from commercial and service investments as a proportion of its net revenue stream has been and is expected to be as indicated below.

	2023/24 actual £000	2024/25 forecast £000	2025/26 budget £000	2026/27 budget £000
Total net income from service and commercial investments	1,457	1,528	1,528	£1,528
Proportion of net revenue stream	7.6%	7.7%	7.6%	7.9%

8. **Proportion of Financing Costs to Net Revenue Stream:**

8.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP / loans fund repayments are charged to revenue.

8.2. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

	2023/24 actual £000	2024/25 forecast * £000	2025/26 budget £000	2026/27 budget £000
Financing costs	2,657	3,721	1,712	1,733

Proportion of net revenue stream	13.9%	18.6%	8.5%	9.0%

9. Treasury Management Indicators:

9.1. These indicators Liability Benchmark, Maturity Structure of Borrowing, Long-Term Treasury Management Investments indicators are within the Treasury Management Report Q1 2024/25 (Appendix 1A).

In-house as at 30/06/2024

APPENDIX 2

	Book Costs	Closing value	Income Receivable	Annualised Income return	Annualised Capital return	Annualised Total return
Aegon Diversified Monthly Income Fund	10,000,000	9,185,680	155,828	6.21%	5.27%	11.47%
CCLA Better World Cautious Fund	8,000,000	7,729,923	85,483	3.53%	4.33%	7.86%
CCLA Local Authorities Property Fund	6,000,000	5,243,306	72,260	5.18%	-4.24%	0.93%
CT Strategic Bond Fund	8,000,000	7,490,612	75,718	4.45%	6.74%	11.19%
Ninety One Diversified Income Fund	10,000,000	8,706,143	113,887	4.90%	0.04%	4.94%
Payden Sterling Reserve Fund	8,000,000	7,928,169	93,484	4.45%	2.15%	6.60%
Total Portfolio	**50,000,000**	**46,283,833**	**596,660**	**4.81%**	**2.64%**	**7.46%**

Cashflow:

Call Accounts/MMF (as at 30/06/2024)		
Global Treasury Fund (Goldman Sachs Money Market Fund)	9,254,962	
Aberdeen (Money Market Fund)	1,320,000	
Natwest SIBA	100,438	
Bank of Scotland	5,056	
Santander	3,762	
Barclays	1,399	
Total Cash flow	**10,685,617**	**10,685,617**
Total Portfolio and Cashflow	**60,685,617**	**56,969,450**

Dover District Council Borrowing - 2024/25 APPENDIX 3

Interest Type	Date Loan Taken Out	Date Loan Matures	Repayment Dates	Loan Number	Principal Balance 01-Apr-24	Interest Rate %	Principal To Be Repaid 2024/25	Principal Balance 31-Mar-25	Interest Payable 2024/25	Lender	Type of loan
Long Term Borrowing											
Fixed	02/10/1997	02/10/2057	APR-OCT	479961	1,000,000	6.75		1,000,000	67,500	PWLB	Principal due on Maturity
Fixed	28/05/1997	28/05/2057	MAY-NOV	479542	2,000,000	7.38		2,000,000	147,500	PWLB	Principal due on Maturity
Fixed	23/08/1946	23/06/2026	JUNE-DEC	131582	111	2.50	45	67	8	PWLB	Equal Instalment of Principal *(EIP)*
Fixed	27/09/1946	27/06/2026	JUNE-DEC	131583	20	2.50	8	12	2	PWLB	Equal Instalment of Principal *(EIP)*
Fixed	16/11/2001	30/09/2026	SEPT-MAR	486237	1,000,000	4.75		1,000,000	47,500	PWLB	Principal due on Maturity
Fixed	26/03/2012	26/03/2042	SEPT-MAR	499853	64,063,468	3.18	2,521,538	61,377,696	2,016,035	PWLB	Annuity (HRA Financing)
					68,063,600		2,521,591	65,377,774	2,278,544		
Short Term Borrowing											
Fixed	29/02/2024	29/05/2024			5,000,000	6.50			52,534	London Borough of Havering	Short term loan for Strategic cash flow purposes
Fixed	22/03/2024	03/04/2024			2,500,000	7.50			1,541	Conwy County BC	Short term loan for Strategic cash flow purposes
Fixed	22/03/2024	07/05/2024			2,000,000	7.00			14,192	Middlesborough Council	Short term loan for Strategic cash flow purposes
Fixed	23/02/2024	20/05/2024			14,000,000	6.50			124,658	London Treasury Liquidity Fund LP	Short term loan for Strategic cash flow purposes
Fixed	19/02/2024	19/02/2025			5,000,000	5.80	5,000,000		258,219	London Borough of Bromley	Short term loan for Strategic cash flow purposes
Fixed	20/02/2024	18/02/2025			5,000,000	5.68	5,000,000		252,099	Castlepoint BC	Short term loan for Strategic cash flow purposes
Fixed	28/03/2024	30/09/2024			7,000,000	6.50	7,000,000		228,123	West Northamptonshire Council	Short term loan for Strategic cash flow purposes
Fixed	20/05/2024	20/11/2024				5.30	14,000,000		374,049	London Treasury Liquidity Fund LP	Short term loan for Strategic cash flow purposes
Fixed	23/05/2024	23/11/2024				5.45	6,000,000		164,844	West Yorkshire Pension Fund	Short term loan for Strategic cash flow purposes
Fixed	29/05/2024	28/02/2025				5.30	7,000,000		279,521	West Yorkshire Combined Authority	Short term loan for Strategic cash flow purposes
Fixed	24/06/2024	24/01/2025				5.30	8,000,000		248,592	West Yorkshire Combined Authority	Short term loan for Strategic cash flow purposes
					40,500,000		52,000,000	0	1,998,371		*Sub-total*
Fixed	01/05/2012	01/11/2027	MAY-NOV		30,484		8,710	21,774	0	Lawn Tennis Association	Interest free
Fixed	01/12/2019	01/12/2024	APR-OCT		193,967		103,523	90,443	0	Salix	Interest free
					108,788,050		54,633,824	65,489,992	4,276,916		

In-house as at 31/08/2024

APPENDIX 4

				Annualised		
	Book Costs	**Closing value**	**Income receivable**	**Income return**	**Capital return**	**Total return**
Aegon Diversified Monthly Income Fund	10,000,000	9,346,230	228,423	5.93%	7.75%	13.69%
CCLA Better World Cautious Fund	8,000,000	7,852,344	85,483	3.52%	5.74%	9.27%
CCLA Local Authorities Property Fund	6,000,000	5,245,818	118,630	5.20%	-3.22%	1.97%
CT Strategic Bond Fund	8,000,000	7,648,309	125,322	4.35%	7.78%	12.13%
Ninety One Diversified Income Fund	10,000,000	8,883,642	187,927	4.97%	2.35%	7.33%
Payden Sterling Reserve Fund	8,000,000	8,016,516	93,484	4.39%	1.87%	6.25%
Total Portfolio	**50,000,000**	**46,992,859**	**839,269**	**4.75%**	**4.05%**	**8.79%**

Cashflow:

Call Accounts/MMF (as at 31/08/24)

Global Treasury Fund (Goldman Sachs Money Market Fund)	8,151,962	
Aberdeen (Money Market Fund)	5,000,000	
Natwest SIBA	101,253	
Santander	3,762	
Bank of Scotland (BOS)	5,056	
Barclays	1,399	
Total Cash flow	**13,263,432**	**13,263,432**