



# Audit Committee



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<b>Report for:</b>	Audit Committee
<b>Title of report:</b>	Treasury Management 2024/25 Mid-Year Performance Report
<b>Date:</b>	27 <sup>th</sup> November 2024
<b>Report on behalf of:</b>	Cllr William Allen, Portfolio Holder for Corporate and Commercial Services
<b>Part:</b>	I
<b>If Part II, reason:</b>	N/A
<b>Appendices:</b>	Appendix A: Investment portfolio as at 30 September 2024 Appendix B: Link Asset Services counterparty credit list as at 30 September 2024
<b>Background papers:</b>	Cabinet 13 <sup>th</sup> February 2024 – Treasury Management Strategy (Appendix K to Budget 2024-25 Report)
<b>Glossary of acronyms and any other abbreviations used in this report:</b>	CIPFA-The Chartered Institute of Public Finance and Accountancy MPC- Bank of England Monetary Policy Committee CFR- Capital Financing Requirement GDP- Gross Domestic Product CPI- Consumer Prices Index

## Report Author / Responsible Officer

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<b>Corporate Priorities</b>	Service improvement and delivery:
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	Running the Council efficiently and putting residents at the heart of everything we do
<b>Wards affected</b>	All
<b>Purpose of the report:</b>	To report upon the mid-year information on Treasury Management performance for 2024/25.
<b>Recommendation (s) to the decision maker (s):</b>	Committee reviews and notes the 2024/25 Treasury Management performance report.
<b>Report Period for post policy/project review:</b>	Regular reports are taken to Members on the Council's Treasury Management performance.

## 1. Background

1.1 The purpose of this report is to update Audit Committee on the performance of the Council's treasury management function during the first half of 2024/25, to the period 30 September 2024.

1.2 Treasury management is defined as:

"The management of the local authority's borrowing, investments and cash flows, 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."

The Council's Treasury Management team manages the Council's cash-flows in order to strike the optimal balance between the following three elements:

- The liquidity requirements for the Council's day-to-day business;
- Funding the Council's capital programme;
- Investing surplus monies in line with the Treasury Management Strategy.

## 2. Governance

2.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management.

2.2 The Code requires:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
- Creation and maintenance of treasury management practices setting out the manner in which the Council will seek to achieve those policies and objectives;
- Receipt by Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report (this report) and an Annual Report (stewardship report) covering during the previous year;
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and execution and administration of treasury management decisions;

- This Council nominates Cabinet to be responsible for effective scrutiny of the Treasury Management Strategy, policies and monitoring before recommendation to Full Council.

### 3. Economic update

3.1 The first half of 2024/25 saw:

- Interest rates fall from 5.25% to 5.00%.
- Gross Domestic Product (GDP) stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- Consumer Prices Index (CPI) inflation hitting its targets in June before increasing to 2.2% in July and August.
- A further easing in wage growth as the headline 3myr rate (including bonuses) fell from 4.6% in June to 4.0% in July.

3.2 The Bank of England lowered rates from 5.25% to 5.0% in August. In its September meeting, the bank opted to hold rates at 5.0%, signalling a preference for a more gradual approach to rate cuts.

3.3 Below is our treasury advisors, Link Group's forecast of interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	28.05.24									
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
<b>BANK RATE</b>	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

### 4. Treasury Management Strategy Statement and Annual Investment Strategy update

4.1 Council approved the 2024/25 Treasury Management Strategy Statement (TMSS) on 13 February 2024.

4.2 The Council's Annual Investment Strategy, which is included in the TMSS, outlines the Council's investment priorities as:

- Security of capital;
- Liquidity;
- Return on investment.

4.3 The Council aims to achieve optimum return on investments within the context of the first 2 priorities. See Appendix A for a breakdown of the Council's investment portfolio, as at 30 September 2024.

4.4 Link Asset Services' full counterparty credit list as at 30 September 2024 identifies those organisations the Council is able to place funds and is shown in Appendix B.

4.5 All investments during the first six months of 2024/25 were placed in accordance with the approved strategy.

## **5. Investment Performance 2024/25**

- 5.1 It is the Council's priority to ensure security of capital and liquidity and to obtain a level of return consistent with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out best value available in periods up to 12 months with high credit rated financial institutions.
- 5.2 As shown in section 3.3, the latest interest forecast sets out a view that in the short-term interest rates are to steadily decrease, as the Bank of England seeks to manage inflation. The general fund half yearly performance is achieving £1.5m against a budget of £0.5m, a surplus of £1m. On the HRA, half yearly performance is achieving investment income of £0.2m against a budget of £0.1m, a surplus of £0.1m. This favourable return is unlikely to continue in the long-term if interest rates fall as predicted.
- 5.3 The Council held £81.971m of investments as at 30 September 2024 (£88.579m at 31 March 2024). The average investment return for the first six months of the year was 5.14%. In comparison, the Council achieved 4.51% in the first 6 months of 2023/24.
- 5.4 The existing 2024 Treasury Management strategy sets out the investment limits for the different rated third parties the council can invest with. Natwest is a British bank and has been previously classified in the blue group of third parties the council can lend to. On the 20<sup>th</sup> November the Council's treasury advisers informed us that due to the Government's level of shares in Natwest reducing, the credit rating issued had changed. Natwest is now included in the red group of third party bodies. In the 2024 Treasury Strategy this group of third parties has an investment limit of £11m and investment period limit of 6 months.
- 5.5 At present the council has £11m invested in 3 fixed- term products, with the earliest loan maturing on the 8th May. This level of investment is within the revised investment level set out in the 2024 treasury management strategy, even though the rating of the bank has changed.
- 5.6 In addition to this the Council holds a reserve bank account with Natwest for operational use when balances are high. The Council is now not planning on using this account unless absolutely necessary. The concern is that if this account was used this would potentially leave us outside our current treasury strategy principles.
- 5.7 After consulting Link, the Council's independent treasury advisers for seek advice on the situation they provided the following advice;
- They do not suggest we break the existing fixed term loan deposits as they were compliant at the time of investment
  - We consider classification of the operational reserve as outside the investment limit of £11m and hence would remain inside treasury strategy limits if we did have to utilise this account.
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- 5.8 We intend to follow this advice and leave investments in Natwest at the limit of £11m, until maturity in May and then follow future 2025 treasury strategy in regards future investments.

## **6. Borrowing**

### The Capital Financing Requirement

- 6.1 The Council's Capital Financing Requirement (CFR) is the Council's underlying need to borrow for capital purposes and is forecasted to be £379.715M as at 31/03/2025. This includes the fixed interest rate borrowing from the Public Works Loan Board (PWLB) for HRA Self Financing and the General Fund capital expenditure requirements.

### Current Borrowing Arrangements

- 6.2 As a Local Authority, the Council is able to borrow from PWLB, which operates within the Debt Management Office (DMO), an Executive Agency of HM Treasury.
- 6.3 The PWLB charges interest on loans it issues. Any Council borrowing will be carried out in line with its approved Treasury Management Strategy. If required, the Council can utilise existing cash balances to fund its future capital programme instead of undertaking new external borrowing.

#### Debt rescheduling

- 6.4 No debt rescheduling has been undertaken in the current financial year. There may be opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

#### Compliance with Treasury and Prudential Limits

- 6.5 The Council has a statutory duty to determine and monitor affordable borrowing limits. During the half year ended 30th September 2024, the Council operated within the treasury and prudential indicators in the Council's Treasury Management Strategy Statement. The Chief Finance Officer envisages no difficulties for the current or future years in complying.

### **7. The Council's Capital Expenditure (Prudential Indicators)**

- 7.1 Prudential indicators are set yearly as part of the Council's Treasury Management Strategy. They set the annual limits on borrowing, and provide a basis for assessing the affordability of financing costs, external debt and capital expenditure.

#### Prudential Indicators for Capital Expenditure

- 7.2 The table below shows the revised estimates for capital expenditure and financing with the changes since the capital programme was agreed in February 2024, as at the end of September 2024.

Capital Expenditure by Service	2024/25 Original Budget	Revised Forecast as at September 2024
	£M	£M
General Fund	10.62	8.638
HRA	60.192	59.683
<b>Total</b>	<b>70.814</b>	<b>68.320</b>
Financed by:		
Capital grants & S106	8.185	11.789
Capital receipts & reserves	34.351	37.101
Revenue	0	0.000
Internal Borrowing General Fund	13.74	0.000
HRA Borrowing	14.538	19.430
<b>Total financing</b>	<b>70.814</b>	<b>68.320</b>

- 7.3 The table below shows the CFR and the expected debt position over the period; termed the 'Operational Boundary'. The changes to the forecast CFR are due to incorporation of the actual Capital Programme outturn position from 2023/24 and slippage and underspends in 2024/2025. It is assumed as per the budget that £14.5m of HRA borrowing will be internal (funded by cash balances rather than borrowing externally), this is usually more cost effective.

	2024/25	2024/25
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	Original Estimate £M	Revised Forecast £M
<b>Prudential Indicator – Capital Financing Requirement</b>		
CFR – General Fund	18.587	12.787
CFR – HRA	375.775	366.927
Total CFR	394.361	379.715
<b>Net movement in CFR from 31/03/24</b>	<b>30.41</b>	<b>15.764</b>
<b>Prudential Indicator – External Debt / the Operational Boundary</b>		
Borrowing	345.685	335.907
Other long term liabilities (leases)	1.188	1.188
<b>Total debt 31 March 2025</b>	<b>346.873</b>	<b>337.095</b>

### Prudential Indicator for Borrowing Activity

7.4 The key control over treasury activity is a prudential indicator to ensure that, over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year, plus the estimates of any additional CFR for 2024/25 and the next two financial years.

7.5 The table highlights that the Council's gross borrowing is forecast to be below its CFR.

	2024/25	2024/25
	Original Estimate £M	Revised Estimate £M
<b>Gross borrowing</b>	<b>345.685</b>	<b>335.907</b>
Plus other long term liabilities (leases)	1.188	1.188
Less investments	(42.864)	(81.97)
Net borrowing	304.009	255.123
<b>CFR (year-end position)</b>	<b>394.361</b>	<b>379.71</b>

7.6 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised annually by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. As at 30 September 2024, the Council is forecast to have borrowing and other long term liabilities of £340.755m at 31/03/2025, which is £89.245m under the authorised limit.

Authorised limit for external debt	2024/25 Original Indicator £M	Current Forecast Debt 31/03/2025 £M
Borrowing	420.000	339.567
Other long term liabilities	10.000	1.188
<b>Total</b>	<b>430.000</b>	<b>340.755</b>

## **8. Options and alternatives considered**

8.1 None. A mid- year treasury management review is a statutory requirement.

## **9. Consultation**

9.1 The Council liaise with Link Asset Services, our Treasury advisors.

## **10. Financial comments**

10.1 In accordance with the CIPFA Treasury Management in the Public Services Code of Practice, the order of the Council's investment priorities is 1. Security; 2. Liquidity; and, 3. Return. This may result in the Council achieving a lower rate of return than an organisation operating a more aggressive investment strategy in a less regulated sector.

## **11. Legal Implications:**

11.1 There are no direct legal implications arising from this report.

## **12. Risk implications:**

12.1 A prudent approach to investment is required to minimise the risk to the Council of investment losses, as outlined in the Council's Treasury Management Strategy 2024/25. This report provides an update on the delivery of that strategy.

## **13. Equalities, Community Impact and Human Rights:**

13.1 A Community Impact Assessment is not required. There are no Human Rights Implications.

## **14. Sustainability Implications (including climate change, health and wellbeing, community safety):**

14.1 None arising directly from the report.

## **15. Council infrastructure (including Health and Safety, HR/OD, assets and other resources):**

15.1 None arising directly from the report

## **16. Conclusion:**

16.1 The Treasury Management Mid-Year Report provides an update of the Council's 2024/25 treasury activities and highlights compliance with policies previously approved by Members. Its approval is required for the Council to meet its statutory obligations in respect of Treasury Management activities.