Quarter 1 Review 2024/25: Treasury Management and Annual Investment Strategy

Governance & Audit Committee	4 November 2024
By	Chris Blundell, Director of Corporate Services and Section 151 Officer
Cabinet Portfolio Member	Councillor Rob Yates, Cabinet Member for Corporate Services
Key Decision	No
Decision Classification	Unrestricted
Call in status	For information
Previously Considered by	N/A
Ward	Thanet Wide

Purpose of the Report

This report summarises treasury management activity and prudential / treasury indicators for the first quarter of 2024/25.

Recommendation(s)

That the Governance & Audit Committee notes this report, and makes comments on it as appropriate.

Summary of Reasons

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the 2024/25 first quarter position for treasury activities.

Background

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management 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.”*

Key reporting items to consider include:

- 2024/25 three months capital expenditure on long term assets was £3.9m (2023/24 three months: £1.7m), against a full-year budget of £126.2m
- The Council's gross debt, also called the borrowing position, at 30 June 2024 was £19.6m (30 June 2023: £19.7m).
- The Council's underlying need to borrow to finance its capital expenditure, also called the Capital Financing Requirement (CFR), is estimated to be £99.2m at 31 March 2025 as per the 2024/25 Treasury Management Strategy Statement (TMSS) (31 March 2024: £56.8m).
- The Council has held less gross debt than its CFR and accordingly has complied with the requirement not to exceed its authorised borrowing limit of £106.5m.
- As at 30 June 2024 the Council's investment balance was £39.2m (30 June 2023: £53.8m).

Relevant Issues

1. **Introduction**

1.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The CIPFA Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual, mid-year and quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

2 Treasury Management Strategy Statement and Annual Investment Strategy Update

2.1 The TMSS for 2024/25, which includes the Annual Investment Strategy, Capital Strategy and Non-Treasury Investment Report, was approved by the Council on 22 February 2024. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

2.2 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 12 months with high credit rated financial institutions.

2.3 **Creditworthiness**

There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness, to ensure that only appropriate counterparties are considered for investment purposes.

2.4 **Investment counterparty criteria**

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

2.5 **CDS prices**

Credit Default Swaps (CDS) are market indicators of credit risk. For UK banks, these have remained low, and prices are not misaligned with other creditworthiness indicators, such as credit ratings. Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

2.6 **Investment balances**

The average level of funds available for investment purposes during the quarter was £41.235m. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

2.7 The yield on Council deposits for the first three months of the financial year is 5.22% against a benchmark 7 day SONIA compounded rate of 5.27%. This 0.05% difference is due to factors such as fixed term deposits taken out by the Council (at rates which reflect anticipated changes in the future Bank Rate) and management fees on money market funds used by the Council. The Council's budgeted investment return for 2024/25 is £1.515m (£0.379m for 3 months) and performance for the first three months of the financial year is above budget at £0.536m.

2.8 **Approved limits**

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 June 2024.

3 Borrowing

3.1 No new external borrowing was undertaken from the PWLB during the quarter ended 30 June 2024.

3.2 **PWLB maturity certainty rates - year to date to 30 June 2024**

Gilt yields and PWLB rates remained relatively stable during the quarter ended 30 June 2024. Having said that, the spread between the low and high points during the quarter was between 0.3% and 0.45% across the curve.

The 50 year PWLB Certainty Rate target (provided by the Council's external treasury management advisor Link) for new long-term borrowing (the low point of Link's forecast on a two-year timeline) started 2024/25 at 4.00% and increased to 4.20% on 28 May. With rates remaining elevated across the whole of the curve, Link's advice to the Council during the quarter was to not borrow long-term unless the Council wanted certainty of rate and judged the cost to be affordable.

3.3 Debt rescheduling

Debt rescheduling opportunities have remained a possibility in the current quarter for those authorities with significant surplus cash and a flat or falling Capital Financing Requirement in future years. Members will be advised of any rescheduling or part repayment of the debt portfolio.

4 Compliance with Treasury and Prudential Limits

4.1 Prudential and treasury Indicators are shown below

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 30 June 2024 the Council operated within the treasury and prudential indicators set out in the Council's TMSS for 2024/25. The Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

4.2 Indicator for Capital Expenditure

The revised GF and HRA budgets reflect reprofiling of £21m and £18m respectively from 2023/24.

Capital Expenditure	2024/25 Original Budget £m	Actual spend as at 30/06/24 £m	2024/25 Revised Budget £m
General Fund	52.625	3.080	74.128
HRA	25.746	0.841	52.057
Total	**78.371**	**3.921**	**126.185**

Monitoring information on the capital programme at scheme level, including forecasts to the end of the financial year, is included in the regular Cabinet Budget Monitoring Reports.

4.3 Indicators for Borrowing Activity

4.3.1 A key control over the treasury activity is a prudential indicator to ensure that over the medium term, borrowing 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 next two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

4.3.2 **Operational boundary:** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

4.3.3 **Authorised Limit:** This represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

	£m
Gross external debt as at 30 June 2024	19.582
CFR as at 31 March 2024	56.773
CFR as at 31 March 2025 (estimate as per 2025/26 TMSS)	99.222
Operational Boundary (debt) 2024/25	101.500
Authorised Limit (debt) 2024/25	106.500

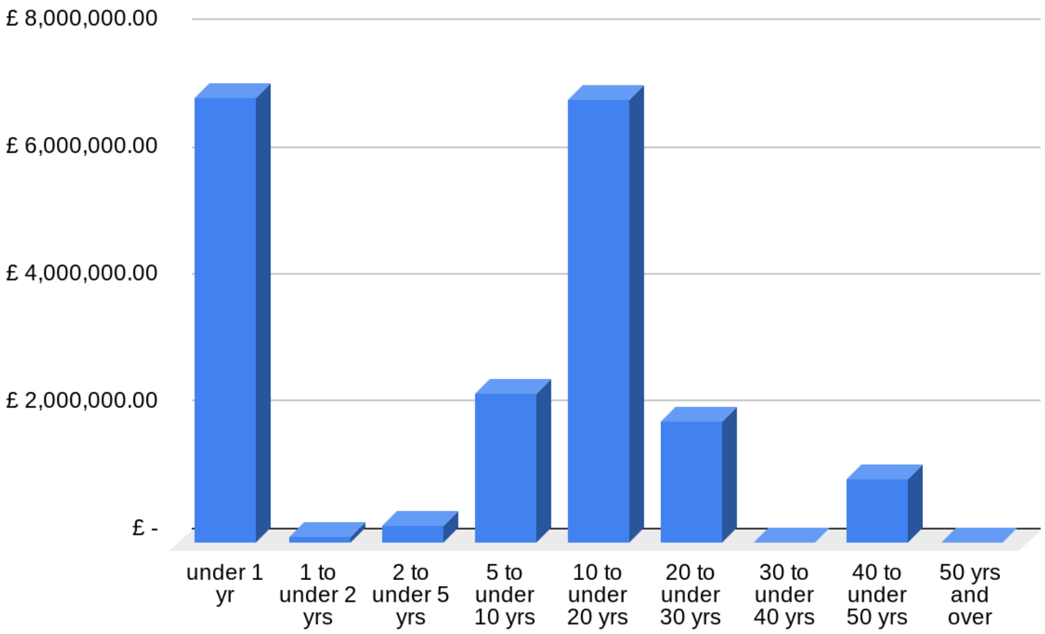
The Section 151 Officer reports that no difficulties are envisaged for the current or future years in complying with these prudential indicators.

4.3.4 **Maturity Structures of Borrowing:** These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.

	2024/25 Upper Limit	**Current Position – Actual at 30/06/24**
Maturity structure of fixed rate borrowing		
Under 12 months	50%	35.7%
1 year to under 2 years	50%	0.5%
2 years to under 5 years	50%	1.3%
5 years to under 10 years	50%	12.0%
10 years to under 20 years	50%	35.6%
20 years to under 30 years	50%	9.8%
30 years to under 40 years	50%	0.0%
40 years to under 50 years	50%	5.1%
50 years and above	50%	0.0%

The current position shows the actual percentage of fixed rate debt the authority has within each maturity span. None of the upper limits have been breached.

The maturity structure of the Council's borrowing as at 30 June 2024 is also shown below in graph format.



4.4 **Indicator for Investments**

The Council held £39.193m of investments as at 30 June 2024, with maturities all under one year (£53.811m at 30 June 2023). The constituent investments are:

Sector	Total £m
Banks	6.256
Money Market Funds	28.937
Local Authority Loans	2.000
Bond Funds	2.000
Total	**39.193**

5 Alternative Options

5.1 The recommended option (to ensure regulatory compliance as set out in section 1 of this report) is that the Governance & Audit Committee notes, and makes comments on as appropriate, this report.

5.2 Alternatively, the Governance & Audit Committee may decide not to do this and advise the reason(s) why.

6. Consultation

6.1 Not applicable

7. Corporate Implications

7.1 Finance and Resources

The financial implications are highlighted in this report.

7.2 Legal and Constitutional

There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the DLUHC Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.

The council must approve any amendment to the treasury management strategy and annual investment strategy in accordance with the relevant provisions of the Local Government Act 2003, the CIPFA Code of Practice for Treasury Management in the Public Services, the Ministry of Housing, Communities and Local Government's (previously DHLUC) Local Government Investment Guidance issued under Section 15(1) (a) Local Government Act 2003 and the CIPFA Prudential Code for Capital Finance.

7.3 Council Policies and Priorities

This report relates to the following corporate priorities: -

- To keep our district safe and clean
- To deliver the housing we need
- To protect our environment
- To create a thriving place
- To work efficiently for you

7.4 Risk

Risk management is as per the provisions of the annual Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy.

7.5 Climate Change and Biodiversity

No implications identified.

7.6 Equality, Equity and Diversity Implications

This report is for noting and not for decision. As such there are no particular equalities implications arising.

7.7 Crime and Disorder Implications and Community Impact

None identified.

7.8 Subject History and Background Papers

Not applicable

8 Disclaimer

8.1 This report (including annexes) is a technical document focussing on public sector investments and borrowings and, as such, readers should not use the information contained within the report to inform personal investment or borrowing decisions. Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no assurance that they will be consistent with future results or events. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith.

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Reporting to: Colin Carmichael, Interim Chief Executive

Annex List

Annex 1: Treasury Investments and Debt as at 30 June 2024

Corporate Consultation Undertaken

Finance: Matthew Sanham (Head of Finance and Procurement)
Legal: Ingrid Brown, Head of Legal and Democracy & Monitoring Officer