

**Meeting:** Audit Committee/Council      **Date:** 27<sup>th</sup> November 2024/ 5<sup>th</sup> December 2024

**Wards affected:** All wards in Torbay

**Report Title:** Treasury Management Mid – Year Review 2024/25

**When does the decision need to be implemented?** Immediate

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## 1. Purpose of Report

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- 1.1 This report provides Members with a review of Treasury Management activities during the first part of 2024/25. The Treasury function aims to support the provision of all Council services through management of the Council's cash flow and debt & investment operations.
- 1.2 The report has been prepared based on performance and data at 30th September 2024.
- 1.3 The key points in the Treasury Management review are as follows:
  - Bank rate was cut from 5.00% to 4.75% in November with further cuts forecast.
  - Gilt yields and therefore PWLB rates are over 1% higher than those at the start of the year.
  - No new borrowing has been undertaken and internal resources used to fund capital expenditure.
  - Further strategic investments in long term bonds to provide budgetary surety over the medium term
  - All decisions have complied fully with adopted principles and the Council's approved Treasury Management Strategy.

## 2. Reason for Proposal and its benefits

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- 2.1 The preparation of a mid-year review on the performance of the treasury management function forms part of the minimum formal reporting arrangements required by the CIPFA Code of Practice for Treasury Management.

## 3. Recommendation(s) / Proposed Decision

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Audit Committee:

- 3.1 That the Audit Committee provide any comments and/or recommendations on the Treasury Management performance for the half year to 30 September 2024

Council:

- 3.2 That the Treasury Management decisions made during the half year to 30 September 2024 as detailed in this report be noted.

## Appendices

Appendix 1: Economic Commentary

Appendix 2: Non-Treasury Management Investments (Exempt)

Appendix 3: Borrowing and Investment Portfolio at 30<sup>th</sup> September 2024

## Background Documents

[Treasury Management Strategy 2425.pdf \(torbay.gov.uk\)](#)

# Supporting Information

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## 1. Introduction

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- 1.1 In February 2019 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 treasury management semi-annual and annual reports.
- 1.2 The Treasury Management strategy for 2024/25 was approved at a meeting on 22nd February 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.
- 1.3 Treasury Management decisions and strategies have been made in consultation with the Council's advisors, Arlingclose Ltd.

## 2. Economic Commentary

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- 2.1 The significant economic events impacting the Treasury Management strategy during the year were:
  - UK headline consumer price inflation fell from 3.2% at the start of the year to 2.0% by May and has remained around that Bank of England target.
  - The Monetary Policy Committee cut Bank rate from 5.00% to 4.75% in November.
  - Gilt yields have risen with a period high in May before falling back by end September
- 2.2 A full economic commentary covering the first quarter 2024/25 by Arlingclose Ltd is provided at Appendix 1 to this report.
- 2.3 Arlingclose's key observations for the remainder of 2024/25 are set out below:
  - The MPC will continue to cut rates to stimulate the UK economy but will initially be cautious given lingering domestic inflationary pressure. We see another rate cut in 2024 (Q4), but more significant monetary easing in 2025, with Bank Rate falling to a low of around 3%.
  - Upside risks to inflation remain which could limit the extent of monetary easing
  - Long-term gilt yields have fallen alongside US monetary policy expectations. 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.

### 3. Local Context

3.1 On 31st March 2024, the Council had net borrowing of £309m 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 usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

*Table 1: Balance Sheet Summary*

	31st March 2024 Actual £m	31st March 2025 Forecast (at 30.9.24) £m
<b>Total Capital Financing Requirement (CFR)</b>	<b>449</b>	<b>446</b>
Less: Other debt liabilities	(14)	(13)
<b>Borrowing CFR</b>	<b>435</b>	<b>433</b>
<b>Financed by:</b>		
<b>External borrowing</b>	<b>359</b>	<b>356</b>
Internal borrowing	76	77
Total	435	433
<b>Internal Resources for investment:</b>		
Useable Reserves	(99)	(92)
Working Capital/Other	(27)	(35)
Less: Cash resource applied to Internal Borrowing	76	77
<b>Total Treasury Management Investments</b>	<b>(50)</b>	<b>(50)</b>
<b>Net Treasury Management Position</b>		
External Borrowing	359	356
Investments	(50)	(50)
<b>Net Total</b>	<b>309</b>	<b>306</b>

3.2 The treasury management position (nominal values) on 30<sup>th</sup> September 2024 and the change over the six months is shown in Table 2 below.

*Table 2: Treasury Management Summary*

	<b>31.3.24 Balance £m</b>	<b>Movement £m</b>	<b>30.9.24 Balance £m</b>	<b>30.9.24 Rate %</b>
Long-term borrowing	359	(3)	356	2.91
Short-term borrowing	0	0	0	0
<b>Total borrowing</b>	<b>359</b>	<b>(3)</b>	<b>356</b>	<b>2.91</b>
Long-term investments	(15)	(6)	(21)	4.72
Short-term investments	(35)	(24)	(59)	5.00
Cash and cash equivalents	(0)	(0)	(0)	
<b>Total investments</b>	<b>(50)</b>	<b>(30)</b>	<b>(80)</b>	<b>4.93</b>

## 4. Borrowing

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- 4.1 Gilt yields were volatile over the 6-month period and have reduced slightly between April and September 2024. The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the half year and 4.79% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.18%. Rates for 20-year maturity loans ranged from 5.01% to 5.57% during the half year, and 50-year maturity loans from 4.88% to 5.40%.
- 4.2 As outlined in the Treasury Management Strategy, the Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should 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.
- 4.3 No new borrowing was undertaken while a £3m existing loan has matured without replacement.
- 4.4 The Council will continue to monitor, with the support of its Treasury advisor's, any alternative borrowing options.
- 4.5 Outstanding loans on 30th September 2024 are summarised in Table 3 below.

Table 3: Borrowing Position

	<b>31.3.24 Balance £m</b>	<b>Net Movement £m</b>	<b>30.9.24 Balance £m</b>	<b>30.9.24 Weighted Average Rate %</b>	<b>30.9.24 Weighted Average Maturity (years)</b>
Public Works Loan Board	349	(3)	346	2.858	25
Banks (LOBO)	5	0	5	4.395	54
Banks (fixed term)	5	0	5	4.700	50
<b>Total borrowing</b>	<b>359</b>	<b>(3)</b>	<b>356</b>	<b>2.905</b>	<b>26</b>

- 4.6 LOBO loans: The Council continues to hold £5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The lender option does not commence until 2028.
- 4.7 After £0.8m repayment of prior years' Private Finance Initiative debt, the balance outstanding stood at £13m on 30<sup>th</sup> September 2024, taking total debt to £369m.

## 5. Treasury Investment Activity

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- 5.1 The CIPFA TM Code defines treasury management investments as those which arise from the Council's cash flows or treasury risk management activity that ultimately represents balances which 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. During the year investment balances ranged between £52m and £92m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	<b>31.3.24 Balance £m</b>	<b>Net Movement £m</b>	<b>30.9.24 Balance £m</b>	<b>30.9.24 Income Return %</b>	<b>30.9.24 Weighted Average Maturity days</b>
Banks & Building Societies	0.3	0.0	0.3	3.20	1
Government Bonds	3.3	14.3	19.6	4.50	5,601
Local Authorities	35.0	12.0	47.0	4.78	198
Corporate Bonds	2.0	0.0	2.0	4.28	1,599
Money Market Funds	4.6	10.7	15.3	4.94	1
Other Pooled Funds:					
- Property fund	4.4	0.0	4.4	4.86	-
<b>Total Investments</b>	<b>49.6</b>	<b>37.0</b>	<b>86.6</b>	<b>4.73</b>	<b>1,189</b>

- 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 Bank Rate reduced from 5.00% to 4.75% in November 2024 with short term interest rates largely being around these levels. The rates on DMADF deposits obtained ranged between 4.86% and 5.20% and money market rates between 4.8% and 5.3%.
- 5.5 Further investments into longer term bonds were made in June and July as part of the strategy of diversifying the portfolio. A further £10 million was placed in these instruments at yields of 4.118%, 4.551% and 4.802% providing budgetary security through returns beyond the medium term.
- 5.6 Cash levels were boosted at the start of the year by capital grant monies. After consideration of the affect on strategic cash flows and forecast reductions to interest rates, a number of deposits were made through the period, with other Local Authorities, to lock in rates before they fell. Rates obtained from these transactions ranged from 4.70% to 5.15%. Otherwise, investments were kept short with the government DMADF facility, in Money Market Funds and other Local Authority deposits.
- 5.7 The progression of risk and return metrics are shown in the extracts from Arlingclose' s quarterly investment benchmarking exercise (Q2 to end September 2024) in Table 5 below.

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

	<b>Credit Score</b>	<b>Credit Rating</b>	<b>Bail-in Exposure</b>	<b>Weighted Average Maturity (days)</b>	<b>Rate of Return %</b>
30.06.2024	3.99	AA-	22%	821	4.81%
30.09.2023	4.02	AA-	11%	1,189	4.73%
<b>Similar LAs</b>	<b>4.65</b>	<b>A+</b>	<b>60%</b>	<b>100</b>	<b>5.01%</b>
<b>All LAs</b>	<b>4.60</b>	<b>A+</b>	<b>61%</b>	<b>11</b>	<b>4.91%</b>

5.8 The benchmarking results reflect the Council’s appetite for low-risk counterparties which may impact the overall level of return. The high average maturity period is driven by the move into longer dated bond investments. Details behind the benchmarking results suggest that other LA’s use pooled funds for their strategic investments; these may be providing a higher return currently but are more volatile than the fixed return of bonds and may be subject to revenue impacts from potential changes to accounting regulations in the near future.

5.9 **Externally Managed Pooled Funds:** £5m of the Council’s investments is held in an externally managed strategic pooled property fund where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

## 6. Non-Treasury Investments

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6.1 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).

6.2 A full list of the Council’s non-treasury investments is presented at Appendix 2.

## 7. Impact of Treasury Performance on the Revenue Budget

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7.1 The net revenue budget for treasury management is projected to be underspent as a result of reduced external borrowing expectations and the rise in investment returns, as shown in table 6 below.



As at 30 <sup>th</sup> September 2024	Budget 2024/25	Projected Outturn 2024/25	Variation
	£m	£m	£m
Investment Income	(1.3)	(3.7)	(2.4)
Interest Paid on Borrowing	12.2	10.4	(1.8)
<b>Net Position (Interest)</b>	<b>10.9</b>	<b>6.7</b>	<b>(4.2)</b>
Minimum Revenue Provision	7.6	7.6	(0.0)
Amortisation of discount on repaid loans	0	(0.1)	(0.1)
<b>Net Position (Other)</b>	<b>7.6</b>	<b>7.5</b>	<b>(0.1)</b>
<b>Net Position Overall</b>	<b>18.5</b>	<b>14.2</b>	<b>(4.3)</b>

## 8. Compliance

- 8.1 The Chief Finance Officer reports that all treasury management activities undertaken during the period complied fully with the principles in the TM Code and the Council's approved Treasury Management Strategy. Compliance with specific limits is demonstrated in tables 7 and 8 below.

Table 7: Debt Limits

	2024/25 Maximum	30.9.24 Actual	2024/25 Operational Boundary	2023/24 Authorised Limit	Complied? Yes/No
Borrowing	£359m	£359m	£430m	£480m	Yes
PFI & Finance Leases	£14m	£14m	£20m	£20m	Yes
<b>Total Debt</b>	<b>£373m</b>	<b>£373m</b>	<b>£450m</b>	<b>£500m</b>	<b>Yes</b>

Table 8: Investment Limits

	Maximum in period	30.9.24 Actual	2024/25 Limit	Complied? Yes/No
Any single organisation, except the UK Government	£10m	£10m	£15m	Yes
UK Central Government	£23m	£0m	Unlimited	Yes
Money Market Funds	£23m	£13m	Unlimited	Yes

**Treasury Management Indicators:** The Council measures and manages its exposures to treasury management risks using the following indicators.

**Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating/credit score of its investment portfolio. The credit score is calculated by applying a value to each investment (AAA=1, AA+=2, .... A=6 etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	<b>30.9.24 Actual</b>	<b>2024/25 Target</b>	<b>Complied?</b>
Portfolio average credit rating (score)	AA- (4)	A (6)	Yes

**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 one-month period, without additional borrowing.

	<b>30.9.24 Actual</b>	<b>2024/25 Target</b>	<b>Complied?</b>
Total cash available within one month	£25m	£10m	Yes

**Interest rate exposures:** This indicator is set to control the Council's exposure to interest rate risk.

The Council's debt portfolio is virtually all at fixed rate and therefore has no exposure to fluctuations in interest rates. As such no specific limits are proposed on interest rate exposure but any new borrowing will be restricted to a maximum 30% of the total portfolio exposed to variable interest rate. No new borrowing has been undertaken during the first part of the year.

**Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

<b>Refinancing rate risk indicator</b>	<b>30.9.24 Actual</b>	<b>Upper limit</b>	<b>Lower limit</b>	<b>Complied?</b>
Under 12 months	2%	10%	0%	Yes
12 months and within 24 months	0%	15%	0%	Yes
24 months and within 5 years	6%	30%	0%	Yes

5 years and within 10 years	10%	40%	10%	Yes
10 years and within 20 years	18%	50%	10%	Yes
20 years and within 30 years	9%	50%	10%	Yes
30 years and within 40 years	37%	50%	10%	Yes
40 years and above	18%	50%	0%	Yes

**Principal Sums Invested for Periods Longer than a year:** 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.

	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
Actual principal invested beyond year end	£30m	£20m	£20m
Limit on principal invested beyond year end	£40m	£40m	£40m
Complied?	Yes	Yes	Yes