DFP/24/121
Corporate Infrastructure & Regulatory Services Scrutiny Committee
28 November 2024

TREASURY MANAGEMENT – MID YEAR STEWARDSHIP REPORT 2024/25

Report of the Director of Finance and Public Value

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

1) Recommendation

That the Committee consider whether it wishes to draw to the attention of the Cabinet any observations on the Treasury Management Mid-Year Stewardship Report.

2) Introduction

2.1 The County Council has adopted the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management in the Public Services. A revised Code of Practice was published by CIPFA in December 2021 and a revised Policy Statement and Treasury Management Practices (TMPs) were agreed by Council in February 2022. The Treasury Management and Investment Strategy for 2024/25 was agreed by Council in February 2024 and forms part of the published budget book.

2.2 The purpose of this report is to inform members of any key matters arising from the Authority's Treasury and Debt Management activities during the first six months of the 2024/25 financial year. It is intended to enable members to ensure that agreed policy is being implemented. This report, together with any comments offered by this committee, will be considered by Cabinet on 11th December. The position on external borrowing was reported to Cabinet on 13 November as part of the Month 6 budget monitoring report.

3) Minimum Revenue Provision

3.1 Each year the Authority has a statutory obligation to charge to the revenue account an annual amount of Minimum Revenue Provision (MRP), which is a charge to make provision for the repayment of the authority's external debt and internal borrowing. The charge is based on the historic borrowing required to fund the Authority's capital programme.

3.2 The current policy is to charge MRP based on the period of benefit of the capital investment, i.e. straight line, over the life of the asset, calculated using the annuity method. The budgeted MRP for 2024/25 was £10.9 million. It is now forecast that the actual MRP will be below budget, at £10.4 million, an underspend of around £500,000.

4) Borrowing Strategy Update

4.1. The overall aims of the borrowing strategy are to achieve:

- Borrowing at the lowest rates possible in the most appropriate periods;
- The minimum borrowing costs and expenses;
- A reduction in the average interest rate of the debt portfolio.

4.2. Since 2009 the Authority has followed a policy of containing the capital programme, taking out no new long term external borrowing and repaying debt whenever this can be done without incurring a financial penalty.

4.3. During 2023/24, the Authority took the opportunity to repay £46.5 million of external Lender Option Borrower Option (LOBO) borrowing. This was initially funded by £29 million of short-term borrowing at a lower interest rate than the LOBO and eliminated the risk of the LOBO rate increasing.

4.4. As at the end of September, £19 million of the subsequent borrowing has also now been repaid, with the remaining £10 million due to be repaid in early November. The Authority's long term and short-term external borrowing as at 30th September is set out in the following table.

Analysis of Long Term Debt

	Actual 31/03/24 £'m	Interest Rate %	Actual 30/09/24 £'m	Interest Rate %
Fixed Rate Debt				
PWLB	436.35	4.99	436.35	4.99
Money Market	25.00	5.60	25.00	5.60
Variable Debt				
PWLB	0.00		0.00	
Money Market	0.00		0.00	
Total Long Term Borrowing	**461.35**	**5.03**	**461.35**	**5.03**
Additional Short Term Borrowing (less than 1 year)				
Other Local Authorities	13.00		10.00	
Total Short Term Borrowing	**13.00**	**0.00**	**10.00**	**0.00**

4.5. As planned a review has been undertaken during October and an initial sum of £15 million has been refinanced for 12 months at 0.35% below Public Works Loan Board (PWLB) rates.

4.6. As set out in the 2024/25 Treasury Management Strategy, the requirement to refinance the original loan repayments on a longer-term basis will be kept under review. Following the Government's Autumn budget there has been an upward spike in the cost of new borrowing, but it is still anticipated that rates will fall during 2025, and therefore any requirement to refinance on a longer-term basis should be left until rates are lower.

5) Investment Strategy Update

5.1 The overall aim of the Council's investment strategy is to:

- Limit the risk to the loss of capital;
- Ensure that funds are always available to meet cash flow requirements;
- Maximise investment returns, consistent with the first two aims;
- Review new investment instruments as they come to the Local Authority market, and to assess whether they could be a useful part of our investment process.

5.2 The following table shows the County Council's fixed and variable rate investments as at the start of the financial year, and at the end of September.

Schedule of Investments

		Actual 31/03/24 £'m	Interest Rate %	Actual 30/09/24 £'m	Interest Rate %
Bank, Building Society & MMF Deposits					
Fixed Rates					
Term Deposits:	Over 365 days	10.00	4.30	10.00	4.30
	365 days & Under	40.00	5.15	60.00	4.91
Variable Rate					
Call Accounts		0.04	5.14	0.07	4.90
Notice Accounts		0.00			
Money Market Funds (MMF's)		48.04	5.26	18.86	5.01
Property Fund		10.00	4.01	10.00	5.18
All Investments		**108.08**	**5.01**	**98.93**	**4.89**

5.3 The Treasury Management Strategy approved by the Council in February set an interest rate target of 5%. Rates have now started to come down, but the average rate achieved over the year should still be only marginally below that level.

5.4 However cash balances have reduced during 2024/25 reflecting:

- Internal borrowing for the capital programme.
- Capital expenditure funded by external grants and contributions received in previous financial years.
- The continuing DSG SEND deficit and impact on reserves.

5.4 The reduced level of cash balances will result in lower investment income being achieved than the budget set for the year. As part of the Safety Valve agreement, it was agreed that interest income achieved on the additional funds provided towards the SEND deficit would also contribute towards the deficit position. However the continuing deficit position, together with the other pressures on cash resources have reduced the level of cash balances by more than had been anticipated. As a consequence, investment income is now anticipated to be £1.5 million below the budget for 2024/25.

6) Prudential Indicators

6.1 Linked to its Treasury Management Strategy, the County Council is required to monitor its overall level of debt in line with the CIPFA Code of Practice. Part of the code requires consideration of a set of Prudential Indicators in order to allow the Council to form a judgement about the affordable, prudent and sustainable level of debt.

6.2 The purpose of the indicators is to demonstrate that:

- Capital expenditure plans are affordable;
- All external borrowing and other long term liabilities are within prudent and sustainable levels;
- Treasury management decisions are taken in accordance with professional good practice.

6.3 Four Prudential Indicators control the overall level of borrowing. They are:

- **The authorised limit** - this represents the limit beyond which any additional borrowing is prohibited until the limit is revised by the County Council. Revision may occur during the year if there are substantial and unforeseen changes in circumstances, for example, a significant delay in achieving forecast capital receipts. In normal circumstances this limit will not require revision until the estimate for the following year is revised as part of the budget setting process.
- **The operational boundary** – this indicator is based on the probable external debt and other long term liabilities during the year. Variations in cash flow may lead to occasional, short term breaches of the Operational Boundary that are acceptable.
- **The upper limit for net debt** - the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the Capital Financing Requirement.

- **The liability benchmark** – this sets a benchmark to demonstrate the external debt required to meet the Authority's capital financing requirement and ensure a minimum cash balance for liquidity purposes.

6.4 In addition to the external debt, the borrowing figures for 2024/25 relevant to the first three of the prudential indicators above also include budgeted internal borrowing to fund the capital programme (£132.0 million) and other long term liabilities related to Private Finance Initiative (PFI) contracts (£124.2 million).

6.5 The following Borrowing Limits were set for 2024/25:

- Maximum borrowing during the period (Authorised Limit) £901.729 million.
- Expected maximum borrowing during the year (Operational Limit) £776.729 million.
- Maximum amount of fixed interest exposure (as a percentage of total) 100%.
- Maximum amount of variable interest exposure (as a percentage of total) 30%.

6.6 During 2024/25 to date the Authority has remained within its set Borrowing Limits and complied with the interest rate exposure limits.

6.7 With respect to the liability benchmark, the refinancing of short-term borrowing taken out in early November should ensure that sufficient liquidity is maintained.

7) Prospects for 2025/26

7.1 As set out in the 2024/25 Treasury Management Strategy, the requirement to refinance the LOBO loan repayments made in 2023 on a longer-term basis will be kept under review.

7.2 Following the Government's Autumn budget there has been an upward spike in the cost of new borrowing, but it is still anticipated that rates will fall during 2025, and therefore any requirement to refinance on a longer-term basis should be left until rates are lower. By Autumn 2025, interest rates for borrowing may be around 1% lower than they are currently. The fall in rates is then expected to level off, so that is likely to be the right time to take out new long term external debt if required.

7.3 The Authority has enjoyed a long period in which no new long term debt has been required and any borrowing needed to fund the Capital Programme has been financed by internal borrowing. Whether this is sustainable going forward will be reviewed as part of the 2025/26 Treasury Management Strategy.

7.4 The lower forecast rates will be helpful with regard to any new external borrowing, but they will also have a negative effect on the level of external income that can be achieved. With a lower prevailing level of cash balances and lower interest rates, the investment income budget for 2025/26 will have to be set at a lower level than for the current year.

8) Summary

8.1 The initial short term borrowing of £29 million that was taken out to fund repayment of £46.5 million of LOBO loans during 2023 was all repaid by early November 2024, but was re-financed by further short-term borrowing of £15 million at a lower rate of interest.

8.2 Investment income for the 2024/25 financial year is forecast to be £1.5 million less than budget.

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Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

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