



Audit & Governance Committee

Report Subject	Treasury Management Monitoring report for the period April to December 2024 and Treasury Management Strategy 2025/26
Meeting date	27 January 2025
Status	Public
Executive summary	<p>This report sets out the monitoring of the Council's Treasury Management function for the period 1 April 2024 to 31 December 2024. A deficit of £2.2m is being forecast for the 2024/25 financial year as the Council continues to borrow to fund the accumulating deficit on its Dedicated Schools Grant (DSG) as pertaining to the excess special educational needs and disability service (SEND) revenue expenditure over the DSG High Needs block grant. Borrowing is also at higher-than-expected interest rates due to volatility in current debt costs.</p> <p>This report also presents the Treasury Management Strategy for 2025/26 with the relevant detailed strategy and the associated policies and practices document included as appendices. It should be highlighted the strategy inclusion of an assumption that Council, as part of the 2025/26 Budget setting process, will agree to a £60m SEND capitalisation direction to enable the forecast excess high needs expenditure in 2025/26 to be financed.</p>
Recommendations	<p>It is RECOMMENDED that Audit & Governance Committee:</p> <ol style="list-style-type: none">1) note the reported activity of the Treasury Management function for the period ending 31 December 2024. <p>It is RECOMMENDED that Audit & Governance Committee recommends that Council.</p> <ol style="list-style-type: none">2) Approve the Treasury Management Strategy 2025/26 (Appendix 1)3) Approve Treasury Management Practices and Policies 2025/26 (Appendix 2)

Reasons for recommendations	It is a requirement under the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice that regular monitoring of the Treasury Management function is reported to Members.
Portfolio Holder	Councillor Mike Cox, Portfolio Holder for Finance
Corporate Director	Graham Farrant, Chief Executive
Service Director	Adam Richens, Director of Finance
Classification	For information and recommendation
Report author	Matthew Filmer, Assistant Chief Financial Officer Russell Oakley, Finance Manager Technical

Background Detail

1. Treasury Management is defined as the management of the Council's cash flows, its borrowings and investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks.
2. The Treasury Management function operates in accordance with The Chartered Institute of Public Finance and Accountancy (CIPFA) 'Treasury Management in the Public Services' Code of Practice (2022).
3. The Treasury Management function manages the Council's cash flow by exercising effective cash management and ensuring that the bank balance is as close to nil as possible. The objective is to ensure that bank charges are kept to a minimum whilst maximising interest earned. A sound understanding of the Council's business and cash flow cycles enables funds to be managed efficiently.
4. This report considers the treasury management activities in relation to the Treasury Management Strategy. Also included is a summary of the current economic climate, an overview of the estimated performance of the treasury function, an update on the borrowing strategy, investments and compliance with prudential indicators.

Economic Background

5. The Bank of England (BoE) in November 2024 decreased interest rates to 4.75% before holding the rates in December 2024. This follows decreases in June and September from a high of 5.25%. The Bank's Monetary Policy Committee (MPC) voted 6-3 in favour of holding the rate in December, with 3 voting for a 0.25% decrease and emphasises the gradual approach to rate reduction.

6. The BoE policymakers are trying to ensure inflation falls back to their targeted 2%. Impacted by the October budget and overseas factors the inflation rate rose to 2.6% in November 2024 before dropping to 2.5% in December 2024. The long-term forecast is that inflation will return to the target rate by the end of 2025.
7. The 10-year gilt yield has also seen a rise from 3.94% in October to 4.57% in December 2024 following the budget announcement. As PWLB rates are closely linked to this market this has resulted in an increase in long term in PWLB borrowing rates, despite the reductions in overall Bank of England base rate.

Interest Rates

8. Table 1 below which is produced by the authority's treasury consultants Link Asset Services. Audit and Governance committee on the 17 October 2024 discussed the increasing cost of government borrowing and how this may play out after the Chancellors first Budget on the 30 October 2024. On the morning of the 30 October a 25 year loan would cost 5.48%, on the morning of 16 January 2025 it was 6.03%.

Table 1: Interest rate projection (Link Asset Services)

Interest Rate Forecasts								
Bank Rate	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Link	4.75%	4.50%	4.25%	4.00%	4.00%	3.75%	3.75%	3.75%
Cap Econ	4.75%	4.50%	4.25%	4.00%	3.75%	3.50%	3.50%	3.50%
5Y PWLB RATE								
Link	5.00%	4.90%	4.80%	4.60%	4.50%	4.50%	4.40%	4.30%
Cap Econ	5.20%	5.10%	4.90%	4.80%	4.60%	4.60%	4.50%	4.50%
10Y PWLB RATE								
Link	5.30%	5.10%	5.00%	4.80%	4.80%	4.70%	4.50%	4.50%
Cap Econ	5.40%	5.30%	5.10%	5.00%	4.80%	4.80%	4.70%	4.60%
25Y PWLB RATE								
Link	5.60%	5.50%	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%
Cap Econ	6.00%	5.70%	5.50%	5.30%	5.00%	4.90%	4.90%	4.80%
50Y PWLB RATE								
Link	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%
Cap Econ	5.40%	5.30%	5.20%	5.20%	5.10%	5.00%	4.90%	4.80%

Treasury Management Performance 2024/25

9. Table 2 below shows the overall treasury management position for 2024/25. The current forecast is an overspend of £2.2m, which is an improved position compared to the £2.4m overspend forecasted at Quarter 2.
10. The reason for this decreased forecast is partially as a result of the restructure of long-term debt agreement for our Phenix Life loan but primarily due to higher-than-expected interest received on investments. Borrowing longer term to ensure cash requirements are met into April 2025 means that we have higher balances to invest and have been able to take advantage of the high interest rates being paid within the inter-Local Authority market.

Table 2: Treasury Management Performance 2024/25

	Forecast 2024/25 £'000	Budget 2024/25 £'000	Variance 2024/25 £'000
<u>Expenditure</u>			
Interest Paid on Long Term Borrowings	2,955	3,026	(71)
Interest Paid on Short Term Borrowings	3,000	1,475	1,525
<u>Income</u>			
Investment Interest Received	(1,950)	(2,500)	550
Deductions from general fund	850	645	205
Total	4,855	2,646	2,209

Borrowing

11. Table 3 and 4 below shows the closing level of borrowing for the Council's two loan pools.

Table 3: Council Short Term Borrowings as at 31 December 2024

Initial Loan Value £'000	Interest Rate	Balance as at 31 Dec 2024 £'000	Maturity Date	General Fund Pool £'000	HRA Pool £'000	Source
Short Term Borrowing						
3,000	4.87%	3,000	13-Jan-2025	3,000	-	- Merseyside Fire and Rescue Service
3,000	4.88%	3,000	13-Jan-2025	3,000	-	- Broxbourne Borough Council
5,000	4.82%	5,000	15-Jan-2025	5,000	-	- Torbay Borough Council
5,000	4.88%	5,000	24-Jan-2025	5,000	-	- The City and County of Swansea Council
3,000	4.90%	3,000	31-Jan-2025	3,000	-	- PCC for Avon and Somerset
10,000	4.85%	10,000	10-Feb-2025	10,000	-	- Cornwall Council
1,500	4.95%	1,500	03-Apr-2025	1,500	-	- North Warwickshire Borough Council
20,000	5.00%	20,000	04-Apr-2025	20,000	-	- London Treasury Liquidity Fund LP
10,000	4.90%	10,000	07-Apr-2025	10,000	-	- PCC for West Midlands
2,000	4.95%	2,000	07-Apr-2025	2,000	-	- Humberside Fire Authority
6,000	4.85%	6,000	14-Apr-2025	6,000	-	- London Borough of Redbridge
10,000	4.95%	10,000	24-Apr-2025	10,000	-	- Liverpool City Region Combined Authority
2,000	4.95%	2,000	30-Apr-2025	2,000	-	- PCC for Avon and Somerset
5,000	5.00%	5,000	30-Apr-2025	5,000	-	- East Riding Yorkshire Council
4,000	4.95%	4,000	01-May-2025	4,000	-	- South Derbyshire District Council
2,000	4.80%	2,000	12-May-2025	2,000	-	- North Hertfordshire District Council
10,000	4.95%	10,000	30-May-2025	10,000	-	- West of England Combined Authority
3,000	4.95%	3,000	30-May-2025	3,000	-	- PCC for Avon and Somerset
104,500		104,500		104,500	-	

Table 5: Council Short Term Borrowings as at 31 December 2024

Initial Loan Value £'000	Interest Rate	Balance as at 31 Dec 2024 £'000	Maturity Date	General Fund Pool £'000	HRA Pool £'000	Source
Long Term Borrowing						
5,000	4.45%	5,000	24-Sep-2030	-	5,000	PWLB
5,000	4.45%	5,000	24-Nov-2031	-	5,000	PWLB
5,000	4.75%	5,000	24-Sep-2032	-	5,000	PWLB
5,000	4.45%	5,000	24-Nov-2032	-	5,000	PWLB
5,000	4.75%	5,000	24-Sep-2033	-	5,000	PWLB
5,000	4.60%	5,000	23-Feb-2035	-	5,000	PWLB
5,000	4.72%	5,000	22-Aug-2036	-	5,000	PWLB
5,000	2.80%	5,000	20-Jun-2041	5,000	-	PWLB
5,000	2.80%	5,000	20-Jun-2041	5,000	-	PWLB
10,000	1.83%	10,000	22-Jul-2046	10,000	-	PWLB
2,500	6.75%	2,500	06-Mar-2056	-	2,500	PWLB
1,500	6.75%	1,500	13-Mar-2057	-	1,500	PWLB
1,500	5.88%	1,500	07-Mar-2058	-	1,500	PWLB
42,488	3.48%	42,488	28-Mar-2062	-	42,488	PWLB
43,908	3.48%	43,908	28-Mar-2062	-	43,908	PWLB
17,000	1.54%	17,000	17-May-2068	17,000	-	PWLB
12,500	1.56%	12,500	16-Aug-2068	12,500	-	PWLB
12,500	1.55%	12,500	16-Aug-2069	12,500	-	PWLB
188,896		188,896		62,000	126,896	
22,625	2.26% + RPI Annually	14,116	17-Oct-2039	14,116	-	Prudential Assurance Co
49,000	2.83%	46,652	24-May-2068	46,652	-	Phoenix Life Limited
365,021		354,164		227,268	126,896	

Investments

12. A full list of investments held by the authority as at 31 December 2024 is shown in Table 5 below.

Table 5: Investment Summary as at 31 December 2024

Investments	Maturity Date	Principal Amount £	Interest %
<u>Fixed Term Deposits</u>			
Leeds City Council	15-Jan-2025	5,000,000	5.00%
Surrey County Council	15-Jan-2025	5,000,000	5.00%
Wakefield Council	15-Jan-2025	10,000,000	5.05%
Surrey County Council	20-Jan-2025	4,000,000	5.60%
London Borough of Newham	23-Jan-2025	2,000,000	5.60%
Luton Borough Council	31-Jan-2025	5,000,000	5.05%
Surrey County Council	12-Feb-2025	5,000,000	5.30%
Central Bedfordshire Council	14-Feb-2025	10,000,000	5.35%
Great Yarmouth Borough Council	24-Feb-2025	2,000,000	5.60%
Sub Total		48,000,000	
<u>Call Account</u>			
Aberdeen Standard Liquidity Fund	instant access	850,000	4.78%
Total		48,850,000	

13. The Treasury Management function average returns of 5.11% for the period 1 April 2024 to 31 December 2024 for its combined investments, compared favourably to the average SONIA overnight benchmark rate of 4.93%.

Prudential Indicators

14. The Treasury Management Prudential Code Indicators were set as part of the 2024/25 Treasury Management Strategy as agreed with Council in February 2024. It can be confirmed that all indicators have been complied with during the period 1 April 2024 to 31 December 2024.

Compliance with Policy

15. The Treasury Management activities of the Council are regularly audited both internally and externally to ensure compliance with the Council's Financial Regulations. The recent internal audit in 2024 rated the Treasury Management function as "Reasonable" assurance which means that there is a sound control framework which is designed to achieve the service objectives, with key controls being consistently applied.
16. The Treasury Management Strategy requires that surplus funds are placed with major financial institutions but that no more than 25% (AA- Rated Institutions) or 20% (A to A- Rated) of the investment holding is placed with any one major financial institution at the time the investment takes place. It can be confirmed that the Treasury Management Strategy has been complied with during all of 2023/24 and the period 1 April 2024 to 31 December 2024.

Treasury Management Strategy 2025/26

17. The Treasury Management Strategy is produced each year in accordance with the CIPFA Code of Practice on Treasury Management. It sets out how the Council's Treasury service will support capital investment decisions, and how the treasury management operates day to day. It sets out the limitations on treasury management activity through prudential indicators, within which the council's treasury function must operate. The strategy is included as Appendix 1 to the report.

Changes to the Treasury Management Strategy 2025/26

18. The main assumption to highlight in the Treasury Management Strategy 2025/26 is that the government will provide and Council will agree to accept a £60m SEND Capitalisation Directive. This will enable the council to borrow to fund the revenue SEND expenditure in excess of the high needs block grant provided by the Department for Education as part of the DSG. This is necessary as the council will run out of the Treasury Management headroom at the end of the 2024/25 financial year which is the mechanism by which the current deficit is being covered.
19. The formal request to government has been made and includes £57.5m for the estimated deficit in 2025/25 as well as £2.5m to cover associated interest costs. Without the agreement of the capitalisation directive the Treasury Strategy 2025/26 would not, in our professional view, be compliant with CIPFA's 2021 Prudential and Treasury Management Codes as we would be borrowing to fund revenue expenditure.
20. The request for the capitalisation directive is to allow the borrowing to be on a 1-year basis with the belief, that government will have put in place a solution to return the SEND system to financial sustainability nationally by this time next year.

21. It is estimated that the accumulated DSG deficit will have cost the council in the region of £5.4m in 2024/25 and £6.8m in 2025/26.
22. Borrowing limits have been adjusted to ensure sufficient headroom is allowed for the capitalisation directive. Beside the DSG increase the prudential borrowing limit has also been increased to take account for the report that is due to be presented to Cabinet in February 2025 regarding the reprofile of phase 1 and additional phase 2 borrowing to support the fleet replacement strategy.

Summary of Financial/Resource Implications

23. Financial implications are as outlined within the report.

Summary of Legal Implications

24. There are no known legal implications.

Summary of Equalities and Diversity Impact

25. The Treasury Management activity does not directly impact on any of the services provided by the Council or how those services are structured. The success of the function will have an impact on the extent to which sufficient financial resources are available to fund services to all members of the community.

Summary of Risk Assessment

26. The Treasury Management Policy seeks to consider and minimise various risks encountered when investing surplus cash through the money markets. The aim in accordance with the CIPFA Code of Practice for Treasury Management is to place a greater emphasis on the security and liquidity of funds rather than the return gained on investments. The main perceived risks associated with treasury management are discussed below.

Credit Risks

27. Risk that a counterparty will default, fully or partially, on an investment placed with them. There were no counterparty defaults during the year to date, the Council's position is that it will invest the majority of its cash in the main UK Banks which are considered to be relatively risk adverse and have been heavily protected by the UK Government over the last few years. The strategy is being constantly monitored and may change if UK Bank Long Term ratings fall below acceptable levels.

Liquidity Risks

28. Aims to ensure that the Council has sufficient cash available when it is needed. This was actively managed throughout the year and there are no liquidity issues to report.

Re-financing Risks

29. Managing the exposure to replacing financial instruments (borrowings) as and when they mature. The Council continues to monitor premiums and discounts in relation to redeeming debt early. Only if interest rates result in a discount that will benefit the Council would early redemption be considered.

Interest Rate Risks

30. Exposure to interest rate movements on its borrowings and investments. The Council is protected from rate movements once a loan or investment is agreed as the vast majority of transactions are secured at a fixed rate.

Price Risk

31. Relates to changes in the value of an investment due to variation in price. The Council does not invest in Gilts or any other investments that would lead to a reduction in the principal value repaid on maturity.

Background papers

32. Treasury Management report to Full Council on 20 February 2024
<https://democracy.bcpccouncil.gov.uk/documents/s48214/Appendix%204%20for%20Treasury%20Management%20Monitoring%20report%20for%20the%20period%20April%20to%20December%202023%20and%20Treas.pdf>

Appendices

Appendix 1 - Treasury Management Strategy 2025/26

Appendix 2 - Treasury Management Practices and Policies 2025/26