REPORT TO:	**Audit and Governance Committee – 3 October 2024**
SUBJECT:	**Treasury Management – Quarter 1 report 2024-25**
LEAD OFFICER:	**Antony Baden - Group Head of Finance and Section 151 Officer**
LEAD MEMBER:	**Councillor Matt Stanley**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT/CORPORATE VISION:

The Treasury Management function is required by regulation and has an effect on all Directorates of the Council.

DIRECTORATE POLICY CONTEXT:

This report is the Treasury Management update report for Quarter 1 (Q1) 2024-25.

This report summarises:

- Investment position (Appendix 1)
- Borrowing position (Appendix 2) and
- Prudential Indicators (Appendix 3)

FINANCIAL SUMMARY:

The financial implications arising from this report are detailed in Appendices 1 to 3. Some of the figures contained in this report are draft, and subject to external audit but they are not expected to change significantly. Any such changes will be reported to this Committee.

1. PURPOSE OF REPORT

1.1. To note the Treasury Management activities for the first financial quarter ending 30th June 2024.

2. RECOMMENDATIONS

The Audit and Governance Committee is asked to recommend the following to Full Council:

2.1. note the Quarter 1 treasury management report for 2024/25;

2.2. note the treasury activity for the quarter ended 30 June 2024, which has generated interest receipts of £563,000 (5.15%) against a budget of £1,896,310 (4.63%); and

2.3. note the quarter 1 prudential and treasury indicators for 2024/25 contained in the report.

3. EXECUTIVE SUMMARY

3.1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that Members be updated on treasury management activities at least quarterly. The 2024/25 Treasury Management Strategy states this report will go to the Audit and Governance Committee around September time. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

3.2. During the first quarter to 30 June 2024, the Council complied with its legislative and regulatory requirements, including confirmation that the authorised limit was not breached.

4. DETAIL

4.1. The Council has also implemented the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance in producing these regular reports.

4.2. The investment activity to date conforms to the approved strategy and the Council has had no liquidity difficulties. This report focuses on the 2024/25 financial period ending 30 June 2024 and is based on the data available at the time of writing.

4.3. The detail can be found in appendices 1 to 3.

4.4. Economic update

4.5. The first quarter of 2024/25 saw:

- GDP growth flatlining in April following positive Q4 2023/24 growth figures of 0.7% q/q.
- A stalling in the downward trend in wage growth, with the headline 3myy rate staying at 5.9% in April.
- CPI inflation falling from 2.3% in April to 2.0% in May.
- Core CPI inflation decreasing from 3.9% in April to 3.5% in May.
- The Bank of England holding rates at 5.25% in May and June.
- 10-year gilt yields climbing to 4.35% in April, before closing out at 4.32% in May.

4.6. The economy grew by 0.7% q/q in Q4 2023/24 and confirmed that it moved out of its very mild technical recession that prevailed at the back end of 2023. However, data released for April and May so far shows a slight stalling in the recovery, with GDP data for April coming out at 0.0% m/m.

4.7. Interest rate forecasts

4.8. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012. For Housing Revenue Account authorities, the lower Housing Revenue Account (HRA) PWLB rate has also been available since 15 June 2023 (standard rate minus 60 bps) but is available for HRA borrowing only.

4.9. The latest forecast, updated on 28th May, sets out a view that both short and long-dated interest rates will start to fall once the Bank of England feels that it has a sufficient handle on inflation.

4.10. Below is Link group's Interest rate view at 28 May 2024.

Link Group Interest Rate View 28.05.24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	5.30	5.00	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	5.30	4.90	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	5.10	4.80	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

5. CONSULTATION

5.1. Consultation has been undertaken with the Council's Treasury Advisors – Link Group, Link Treasury Services Limited.

6. OPTIONS / ALTERNATIVES CONSIDERED

6.1. As the CIPFA Code of Practice for Treasury Management 2021 recommends that Members be updated on treasury management activities at least quarterly, the only option available is to request that Full Council note the recommendations (2.1, 2.2, 2.3).

7. COMMENTS BY THE GROUP HEAD OF FINANCE SUPPORT/SECTION 151 OFFICER

7.1. The Council is required to ensure that cash raised during the year will meet expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments in line with the Council's low risk appetite, providing adequate liquidity before considering investment return.

7.2. Another key function of the treasury management service is to manage the funding of the Council's Capital Programme. It determines borrowing needs in respect of longer-term cash flow planning so that the Council can deliver its capital plans. This involves arranging long and short-term loans as well as the use of cash flow surpluses. It can also involve restructuring existing debt if this reduces costs or risk exposure to interest rate increases.

7.3. The Treasury Management function looks to optimize interest income and reduce debt interest payments whilst ensuring that the Council has enough liquidity to meet all its spending commitments. Since cash balances generally consist of reserves and balances, it is paramount that investments are placed as securely as possible as any losses would have an adverse impact on the revenue budget.

7.4. The parameters guiding our approach to treasury management are set out in the Council's approved Treasury Management and Annual Investment strategies and the financial implications and detail arising from our Treasury Management activities are outlined in appendices 1 and 2.

8. RISK ASSESSMENT CONSIDERATIONS

8.1. The main risks in treasury management are financial ones. These are identified in the Council's Treasury Management Practices and the main risks in these activities are:

- liquidity;
- markets or investment;
- inflation;
- credit and counterparty;
- legal and regulatory

8.2. The consequences of ignoring these are poor practices implemented, diminished interest returns, loss of capital invested, poor liquidity (funds available when required). The Council's strategies guard against most of these risks.

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1. Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority including securing effective arrangements for treasury management. There are no other specific legal implications arising from this report.

10. HUMAN RESOURCES IMPACT

10.1. None direct

11. HEALTH & SAFETY IMPACT

11.1. None direct

12. PROPERTY & ESTATES IMPACT

12.1. None direct

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

13.1. None

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

14.1. Best practice is taken when reviewing investment options to ensure that they are with companies or banks that are actively looking to reduce their impact on the environment and increase sustainability.

14.2. Current Investments with CCLA (better world cautious fund and the property fund) and Standard Chartered (Sustainable deposits) have positive ESG (Environmental, Social and Governance) factors.

14.3. Further options with be explored and considered.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1. None

16. HUMAN RIGHTS IMPACT

16.1. None

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1. None

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BACKGROUND DOCUMENTS*:*

- The Local Government Act 2003 (The Local Government Act 2003).
- Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA, December 2021) *(Link not available as copyright).*

- The Prudential Code for Capital Finance in Local Authorities (CIPFA, December 2021) *(Link not available as copyright).*
- MHCLG Guidance on Local Government Investments

  Guidance_on_local_government_investments.pdf (publishing.service.gov.uk)-
- Link Asset Services Ltd Annual Treasury Management review Template 2023/24. *(Link not available as copyright).*

- 2024/2025 Strategy:
  (Public Pack)Agenda Document for Audit and Governance Committee, 19/02/2024 18:00 (arun.gov.uk)

Appendix 1

Arun District Council

Investment Position

1. Investment and Strategy review

1.1. The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on **13 March 2024**. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being (SLY):

- Security of capital
- Liquidity
- Yield

1.2. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned 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 2 years with high credit rated financial institutions to achieve the best yield possible but with SLY at the forefront.

1.3. A full list of investments held as at 30 June 2024 are shown in the following table:

Reference no.	Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate
904	DBS Bank Ltd.	09/04/2024	05/07/2024	£1,000,000.00	5.2800
905	DBS Bank Ltd.	11/04/2024	22/07/2024	£3,000,000.00	5.2900
890	DBS Bank Ltd	25/10/2023	25/07/2024	£1,000,000.00	5.620
892	Goldman Sachs International	01/11/2023	01/08/2024	£1,000,000.00	5.620
894	DBS Bank Ltd	15/11/2023	15/08/2024	£1,000,000.00	5.500
902	Merthyr Tydfill CBC	15/02/2024	15/08/2024	£1,000,000.00	6.000
910	Lloyds Bank Plc (RFB)	13/06/2024	13/09/2024	£3,000,000.00	5.2600
907	Lancashire County Council	25/04/2024	20/09/2024	£3,000,000.00	5.3600
903	Goldman Sachs International Bank	08/04/2024	07/10/2024	£1,000,000.00	5.2750
906	Lloyds Bank Plc (RFB)	18/04/2024	14/10/2024	£2,000,000.00	5.2300
888	Standard Chartered Bank - Sustainable Deposits	18/10/2023	17/10/2024	£1,000,000.00	5.820
889	Goldman Sachs International	20/10/2023	18/10/2024	£1,000,000.00	5.750
909	Goldman Sachs International Bank	09/05/2024	19/11/2024	£1,000,000.00	5.2800
908	City of Bradford Metropolitan District Council	02/05/2024	20/11/2024	£2,000,000.00	5.3800
865	Goldman Sachs International	05/01/2023	06/01/2025	£1,000,000.00	4.645
911	National Westminster Bank PLC (RFB)	20/06/2024	20/02/2025	£2,000,000.00	5.1800
912	Goldman Sachs International Bank	27/06/2024	07/04/2025	£1,000,000.00	5.2050
893	Close Brothers Limited	06/11/2023	06/11/2025	£1,000,000.00	5.350
44447	Lloyds Bank			£2,000,000.00	5.140
100500	CCLA (Churches, Charities and LA's) (MMF)			£4,000,000.00	5.2103
110000	Federated Investors LLP (MMF)			£4,000,000.00	5.2231
99999	Fidelity Fund Management Ltd (MMF)			£4,000,000.00	5.1886
130000	Deutsche Bank (MMF)			£10,000.00	5.1062
140000	CCLA (Churches, Charities and LA's) LAPF			£5,000,000.00	*5.33
140500	CCLA (Churches, Charities and LA's) BWCF			£2,000,000.00	*3.40
				£48,010,000.00	

* rates at 30-6-24

MMF- Money Market Fund
LAPF - Local Authority Property Fund
BWCF- Better World Cautious Fund

1.4. The table below shows the £48m investment portfolio and percentage in each sector.

INVESTMENT PORTFOLIO	31.3.24 Actual £000	31.3.24 Actual %	**30.6.24 Actual £000**	**30.6.24 Actual %**
Treasury investments				
Banks	15,800	37%	**23,000**	**48%**
Building Societies - rated	1,000	2%	**0**	**0%**
Building Societies - unrated	0	0%	**0**	**0%**
Local authorities	6,000	14%	**6,000**	**13%**
Money Market Funds	12,965	30%	**12,010**	**25%**
Total managed in house	**35,765**	**83%**	**41,010**	**86%**
Property funds	5,000	12%	**5,000**	**10%**
Diversified funds	2,000	5%	**2,000**	**4%**
TOTAL TREASURY INVESTMENTS	**42,765**	**100%**	**48,010**	**100%**

1.5. Investment rates have remained elevated during the first quarter of 2024/25 but are expected to fall back through the second half of 2024 as inflation reduces and the MPC starts to reduce interest rates.

1.6. 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.

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

1.8. Investment balances - The average level of funds available for investment purposes during the quarter was just shy of £44m. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

1.9. The table below shows the total useable reserves compared to the investment balances at 31 March 2024. The figures contained in this table are draft, and subject to revisions and external audit.

Usable Reserves at 31 March 2024	£m
Earmarked Reserves	14.677
Housing Revenue Account Balance	0.481
General Fund Revenue Balance	5.000
Usable Capital Receipts	1.103
Housing Major Repairs Reserve	4.209
Capital Grants Unapplied	10.560
Total	**36.030**
S106 / CIL	8.067
ADC acting as Agents for grants	1.188
Reserves + S106/CIL + Grants to repay	**45.285**
Investments at 31-3-24	*42.765*
Lloyds Bank current account	*0.295*
Investments & Bank at 31-3-24	***43.060***

1.10. The usable reserves and the above other elements will never match exactly to cash & investments, due to timing differences (accruals mainly), but also there are other cash movements which are not captured in the table above.

1.11. **Investment performance for quarter ended 30 June 2024**

Benchmark	Benchmark Return	Budgeted Return	Council Performance	Investment Interest Earned
Average O/N *Sonia	5.20%	4.63%	5.15%	£563,000

* *The SONIA is a risk-free rate for sterling markets administered by the Bank of England. It is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and institutional investors.*

1.12. As illustrated, the authority is outperforming the budgeted interest return and is close to the benchmark rate. The Council's budgeted investment return for 2024/25 is £1,896,310 and performance for the year to date is above budget based on a straight-line profile.
The estimated outturn is currently around £2.04m showing an over achievement of around £140k. This enhanced return is largely due to rates applied to investments being higher than expected plus more principal available to invest, in some case due to large payments being delayed as works not completed.

1.13. The CCLA property fund continues to increase the returns the Council is achieving on its investments and currently £5M is invested in this fund achieving an average rate of return of approx. 4.96%, however the Capital value is down around 8.8% (at 30 June 2024). This is a long-term investment, and values will rise and fall over the years.

1.14. The Council had the following valuations at 30 June 2024:

- CCLA property fund - £4,558,037 (£5m invested)
- CCLA better world cautious fund - £1,964,520 (£2m invested)

This would have had an adverse impact of £477,443 on the Council's revenue budget if the IFRS 9 override was not in place.

1.15. IFRS 9 - following the consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG), the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

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

Appendix 2

1. **Borrowing position**

1.1 No borrowing was undertaken during the quarter ended 30th June 2024.

1.2 The Council has no immediate plans to borrow externally for capital expenditure in the current financial year, although funding will need to be arranged for approved schemes. We will look to borrowing internally for these in the first instance, until interest rates reduce further.

1.3 Currently Arun's only borrowing relates to the HRA Self-Financing settlement (£35.46m), also summarised in the table below:

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£8.870m	Maturity	3.21%	28/3/2030
PWLB	£8.870m	Maturity	3.40%	28/3/2035
PWLB	£8.860m	Maturity	3.53%	28/3/2050
PWLB	£8.860m	Maturity	3.48%	28/3/2062
	£35.46m			

1.4 Officers will continue to keep borrowing policy under review and use internal balances where possible to minimise borrowing costs.

Appendix 3

1. Treasury and Prudential Indicators

1.1. As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following Treasury Management Prudential Indicators.

1.2. The borrowing activity is controlled by prudential indicators for net borrowing, the Capital Financing Requirement (CFR), and by the authorised limit which is summarised in the table below and in 4.6.

Prudential Indicators	*31 March 2024 Actual £000	**2024/25 Original Forecast £000	2024/25 Current Forecast £000
Capital Expenditure:			
Non - HRA	7,224	24,020	31,302
HRA	7,114	15,151	26,897
TOTAL	**14,338**	**39,171**	**58,200**
Ratio of financing costs to net revenue stream:			
Non - HRA	(8.37)%	(6.22)%	(7.14)%
HRA	18.25%	16.96%	17.91%
Capital Financing Requirement (CFR):			
Total opening CFR	52,858	55,212	51,884
Closing CFR			
Non - HRA	119	6,451	6,640
HRA	51,765	60,538	58,304
TOTAL	**51,884**	**66,989**	**64,944**
Annual change in CFR:			
Non – HRA	138	5,707	4,915
HRA	(1,111)	6,069	8,145
TOTAL	**(973)**	**11,776**	**13,060**
Unfinanced capital expenditure	**2,654**	**16,277**	*****25,724**

** Slightly amended from annual report as there have been changes to the 23-24 accounts since*
*** Original estimate as per the 2024-25TMSS*
****Of the £58.2m capital expenditure it is assumed that £25.7m is currently unfinanced*

1.3. The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need: or
- If insufficient financing is available, or a decision is taken not to apply internal resources, the capital expenditure will give rise to a borrowing need.

1.4. In the table in 4.2, all "unfinanced capital expenditure" results in a financing or borrowing need which will come from either internal or external borrowing.

1.5. The ratio of Financing Costs to the Net Revenue Stream is estimated to be (7.14)% by the end of the financial year (non-HRA) which is a change of (0.92)%. This is largely due to better than expected interest rates.

1.6. The treasury Indicators are shown in the table below:

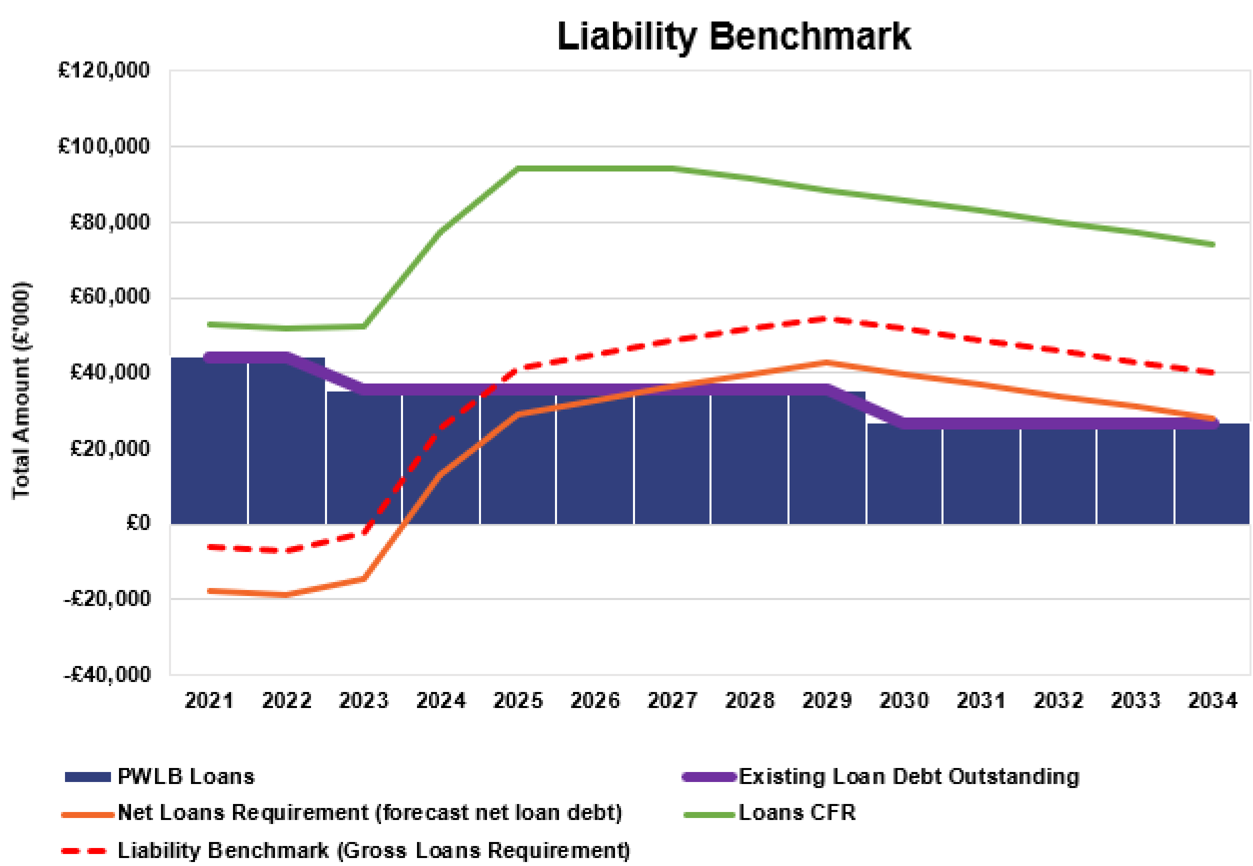
Treasury indicators	**31 March 2024 Actual £000**	**2024/25 Original £000**	**June 2024 Position £000**
Authorised Limit for External Debt:			
Borrowing	59,000	75,000	75,000
Other long-term liabilities	4,000	8,000	8,000
TOTAL	**63,000**	**83,000**	**83,000**
Operational Boundary for External Debt:			
Borrowing	55,000	70,000	70,000
Other long-term liabilities	4,000	8,000	8,000
TOTAL	**59,000**	**78,000**	**78,000**
Gross External Debt (Actual)			
Non – HRA	0	0	0
HRA	35,460	35,460	35,460
TOTAL	**35,460**	**35,460**	**35,460**
Remaining Authorised Limit for External debt:	**27,540**	**47,540**	**47,540**
Total Investments	42,765	40,000	48,010
Net borrowing (Net debt)	7,305	4,540	**12,550**

1.7. There is one treasury borrowing related prudential indicator against the maturity structure of the Council's borrowing portfolio. Gross upper and lower percentage limits are set to limit exposure to large sums falling due for refinancing.

1.8. The current limits are shown in the table below:

Maturity structure of borrowing – upper & lower limits:	Actual fixed borrowing 30 June 24	lower limit	upper limit
Under 12 months	0%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	25%	0%	60%
10 years and above	75%	0%	100%

1.9. The Liability Benchmark compares the Council's actual existing borrowing against a Liability Benchmark that has been calculated to show the lowest risk level of borrowing.



1.10. The liability benchmark is a projection of the amount of loan debt outstanding that the authority needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows. The benchmark shows the gap between the authority's outstanding loans (purple line) at future points in time and the authority's need to borrowing (the benchmark- red line). It can be used to identify the debt maturities needed for new borrowing in order to match to future liabilities.

1.11. **An explanation of what this is showing is highlighted below:**

- The green line (at the top) represents the Loans CFR.
- The purple line represents the existing load debt outstanding and tracks the existing debt balance.

A liability benchmark above the current maturity portfolio, indicates an additional borrowing need, should the schemes in the CFR come to fruition.

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