Sandwell
Metropolitan Borough Council

Report to Council

18 March 2025

Subject:	Annual Report on the Treasury Management Service and Actual Prudential Indicators for 2023/24 and Mid-Year Review 2024/25
Cabinet Member:	Cabinet Member for Finance and Resources, Deputy Leader Councillor Paul Moore
Director:	Executive Director for Finance and Transformation Alex Thompson (Section 151 Officer)
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1. Recommendations

1.1. That Council notes the Treasury outturn for 2023/24, including the Treasury and Prudential Indictors detailed within Table 1 and;

1.2. That with regard to the Mid-Year Review for 2024/25 that Council:

- notes that there be no amendments required to previously approved limits on borrowing for 2024/25 - indicators 3 and 6 of Table 1, and;
- notes the revisions to the remaining Treasury and Prudential Indicators as detailed within Table 1 and paragraph 4.7.

2. Reasons for Recommendations

2.1. The CIPFA Code of Practice on Treasury Management – revised 2021 (The Code) - requires Council to receive reports on Treasury Management including the Annual Treasury Management Strategy and MRP Policy Statement before the start of each financial year, as well as a Mid-Year Review and an Annual Outturn Report detailing activities during the previous year.

2.2. The regulatory environment places responsibility on Members for the review and scrutiny of treasury management activities. This report is therefore important in that respect as it provides details of the outturn position for the treasury management function and highlights compliance with the Council's policies previously approved by Members in the 2024/25 Treasury Management Strategy and 2023/24 Mid-Year Review.

3. How does this deliver objectives of the Council Plan?

Growing Up in Sandwell	The financial position of the authority determines the affordability of all the authority's activities. This underpins the resources available to achieve the Council Plan. Effective Treasury Management supports the objectives of the Council Plan by ensuring that the Council aligns available resources most efficiently to meet its strategic policy and performance commitments. This ensures the Council's best value obligations are met.
Living in Sandwell	
Thriving Economy in Sandwell	
Healthy in Sandwell	
One Council One Team	

4. Context and Key Issues

Executive Summary

4.1. Treasury Management is defined as “The management of a 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”.

4.2. Prudential and Treasury indicators are set and approved before the start of each financial year using information included in the budget reports to inform members of the impact of capital investment decisions and to agree processes for managing risk within the debt and investment strategies.

4.3. As the financial year progresses, capital investment decisions will change as new projects are brought into the programme and others will require re-profiling into future years. Therefore, the forecast borrowing will also require revision.

4.4. Due to the delays in the audit of the statutory Statement of Accounts for 2023/24, it has not been possible until now to prepare an accurate Treasury outturn report for 2023/24, as a number of key elements of this report rely on data from the accounts, such as resources used to finance capital and the capital financing requirement. However, the control environment around Treasury Management has ensured that no limits were breached during 2023/24. All relevant expenditure was contained within the limits agreed by Council within the 2023/24 Treasury Management and Capital Strategies.

4.5. Table 1 below lists all of the key indicators and compares actual outturn for 2023/24 against the last approved indicators, plus 2024/25 updated estimates for noting.

4.6. Further detail is included within the body of this report which provides information on 2023/24 outturn variances where material, and explanations for updated 2024/25 Treasury and Prudential Indicators.

4.7. Table 1 below summarises the 2023/24 outturn for the Treasury and Prudential Indicators which Council is being asked to note, and also the mid-year review position for 2024/25 where Council is being requested to note revisions due to updates on capital spend profiles and predicted outturn information.

Table 1 – Executive Summary:

	2022/23	2023/24			R	2024/25	
	Actual	**Original Indicator (Feb TMSS)**	**Revised Estimate (Mid Year Review)**	**Actual**	A G	**Approved Indicator**	**Updated Estimate (Mid Year Review)**
Indicator 1							
Capital Expenditure							
General Fund	£65.681m	£109.596m	£75.289m	£61.454m	G	£144.476m	£82.291m
HRA	£55.043m	£91.949m	£75.700m	£59.032m	G	£58.945m	£80.270m
Total Capital Expenditure	**£120.724m**	**£201.545m**	**£150.989m**	**£120.486m**	G	**£203.421m**	**£162.561m**
Indicator 2							
Closing Capital Financing Requirement (CFR)							
General Fund	£325.365m	£313.595m	£314.056m	£331.866m	A	£357.949m	£334.313m
HRA	£514.602m	£582.986m	£562.582m	£543.637m	G	£591.089m	£584.389m
Total Closing CFR	**£839.967m**	**£896.581m**	**£876.638m**	**£875.503m**	G	**£949.038m**	**£918.702m**
Gross Debt							
External Treasury Debt	£470.808m			£437.305m	n/a		£416.801m
PFI Liabilities	£65.294m			£61.570m	n/a		£57.414m
Total Gross Debt	**£536.102m**			**£498.875m**	n/a		**£474.215m**
Indicator 3							
Authorised Limit	£844.533m	£913.142m	£891.638m	£891.638m	G	£1,013.411m	£1,013.411m
Operational Boundary	£591.513m	£544.113m	£573.252m	£573.252m	G	£655.851m	£655.851m
Indicator 4							
Financing Costs as Proportion of Net Revenue Stream							
General Fund	4.3%	4.7%	4.7%	4.7%	G	6.1%	5.5%
HRA	16.1%	19.3%	19.3%	18.1%	G	18.9%	18.7%
Indicator 5							
Treasury Portfolio							
Treasury Debt	£470.808m			£437.305m	n/a		£416.801m
Treasury Investments	(£30.704m)			(£38.815m)	n/a		(£61.192m)
Net Debt (Treasury Management)	**£440.104m**			**£398.490m**	n/a		**£355.609m**
Indicator 6							
Maturity Structure of fixed rate borrowing:	**Actual**	**Original Approved Upper Limit**	**Updated Upper Limit**	**Actual**		**Original Approved Upper Limit**	**Mid Year Review**
Under 12 months	11.7%	20.0%	20.0%	14.8%	G	40.0%	40.0%
12 months to 2 years	4.0%	20.0%	20.0%	7.8%	G	30.0%	30.0%
2 years to 5 years	6.0%	20.0%	20.0%	15.6%	G	20.0%	20.0%
5 years to 10 years	9.9%	25.0%	25.0%	11.6%	G	25.0%	25.0%
10 years to 20 years	8.9%	30.0%	30.0%	0.0%	G	30.0%	30.0%
20 years to 30 years	19.2%	40.0%	40.0%	24.5%	G	40.0%	40.0%
30 years to 40 years	31.1%	50.0%	50.0%	25.7%	G	50.0%	50.0%
40 years to 50 years	4.6%	70.0%	70.0%	0.0%	G	70.0%	70.0%
50 years plus	4.6%	90.0%	90.0%	0.0%	G	90.0%	90.0%
	100.0%			**100.0%**			

4.8. Explanations for each of the indicators are summarised in the table below:

Indicator	How Indicator is Set	Description and Mid-Year Review Comment	Mid-Year Review Recommendation
1 – Capital Expenditure	Capital expenditure budget set annually within the Capital and HRA budget appendices to the Medium-Term Financial Strategy – approved by Council in February each year	Capital expenditure incurred by the Council. Revisions to forecast expenditure due to updated capital spend profiles.	That revisions be noted.
2 – Capital Financing Requirement (CFR) and Gross Borrowing	The initial CFR estimates are approved within the Treasury Management Strategy (TMS) approved by Council in February each year, with revisions required at the Mid-Year Review to reflect variances between capital spend estimates at that time and actual outturn.	The CFR, being the underlying borrowing requirement, reflects the amount of capital spend that has yet to be financed from revenue resources or capital receipts. Projections updated to account for capital spend reprofiling. Gross debt position shown as debt should not generally be above CFR.	That revisions be noted.

Indicator	How Indicator is Set	Description and Mid-Year Review Comment	Mid-Year Review Recommendation
3 - Authorised Limit and Operational Boundary	The Authorised Limit and Operational Boundary are approved in February by Council within the TMS.	The Authorised Limit reflects the absolute maximum borrowing that the Council could hold, allowing for borrowing up to the CFR plus short-term headroom for cash-flow borrowing need. The Operational Boundary is the expected debt levels during the year and actual debt holdings can be above or below this value.	No changes proposed.
4 – Financing Costs as Proportion of Net Revenue Stream	The indicator is approved within the TMS in February and is calculated with initial indicators calculated from budgeted values with subsequent revisions taken from estimated or actual outturn figures.	The proportion of revenue funding streams (Council Tax, Business Rates and non-ringfenced Government Grants for General Fund/ Dwelling Rents for the HRA) that is used to fund capital financing costs. Amounts updated to reflect latest outturn predictions.	That revisions be noted.
5 – Treasury Portfolio	The indicator for the treasury portfolio the actual debt and investment position as at the date specified and is for information.	Summary of the Council's net borrowing position (debt less investments) that is managed by officers.	That latest position be noted.

Indicator	How Indicator is Set	Description and Mid-Year Review Comment	Mid-Year Review Recommendation
6 – Maturity Structure of Fixed Rate Borrowing	The indicator is approved by Council within the TMS report in February each year. Revisions to the limits, as included in the mid-year review, may be required due to changes in the economic conditions affecting new loan rates.	Upper limits for proportion of debt portfolio that matures within specific time periods. This is to manage re-financing risk ensuring an adequate spread of loan maturities considering interest rate forecasts.	Current approved limits remain appropriate and no changes are proposed.

<u>The Council's Capital Expenditure and Financing for 2023/24 and 2024/25</u>

4.9. The Council undertakes capital expenditure on its long-term assets. These activities can either be financed immediately through the application of capital receipts, capital grants and contributions, or from revenue resources. These resources do not impact on the Council's underlying borrowing need.

4.10. If insufficient resources are available to fund the capital programme then the remaining expenditure can be serviced through Prudential Borrowing resulting in an increase in the Council's borrowing need (Capital Financing Requirement – CFR). For General Fund prudential borrowing this amount is charged to the Council's General Fund Revenue Account over a period of years linked to the life of the asset the borrowing funded (up to 40 years). This is known as the Minimum Revenue Provision (MRP). There is no legal requirement for an MRP to be charged to the Housing Revenue Account.

4.11. Actual capital expenditure is one of the Prudential Indicators and the table below provides a summary of information required and how this expenditure was financed:

Indicator 1 – Capital Expenditure:

	2022/23 Actual £m	2023/24 Original Indicator (Feb TMSS) £m	Revised Estimate (Mid Year Review)	Actual £m	2024/25 Approved Indicator £m	Updated Estimate (Mid Year Review) £m
Capital Expenditure						
General Fund	65.681	109.596	75.289	61.454	144.476	82.291
HRA	55.043	91.949	75.700	59.032	58.945	80.270
Total	**120.724**	**201.545**	**150.989**	**120.486**	**203.421**	**162.561**
Resources used to finance:						
Capital Receipts	9.539	22.993	21.212	7.089	9.658	2.943
Grants and External Contributions	45.683	81.934	50.783	40.744	131.699	74.800
Revenue Contributions	6.010	17.859	10.554	5.722	3.560	2.884
Major Repairs Reserve (HRA)	16.834	17.490	17.490	18.796	18.089	21.917
Total Resources Applied	**78.066**	**140.276**	**100.039**	**72.351**	**163.006**	**102.544**
Residual amount to be financed from Prudential Borrowing	**42.658**	**61.269**	**50.950**	**48.135**	**40.415**	**60.017**
being:						
General Fund	*11.403*	*3.616*	*4.887*	*17.894*	*21.504*	*20.942*
HRA	*31.255*	*57.653*	*46.063*	*30.241*	*18.911*	*39.075*

4.12. Key variances from the approved indicators in 2023/24, and revisions for 2024/25 indicators are as follows:

- General Fund Prudential Borrowing for 2023/24 presented an outturn of £17.9m compared to a mid-year review estimate of £4.9m. This was due to the previous S151 Officer implementing an updated strategy for Flexible Use of Capital Receipts which resulted in an adjustment of financing. An adjustment can also be seen on the application of capital receipts in the resources used to finance capital expenditure in 2023/24.

- The decreased use of Prudential Borrowing in the HRA in 2023/24 was due to increased slippage of capital expenditure into 2024/25 and this is reflected in the updated financing for 2024/25 which Council is being asked to approve.

- The updated spend estimate for 2024/25 for the General Fund reflects the re-profiling of spend into future financial years.

The Council's Overall Borrowing Need

4.13. The Council's underlying need to borrow for capital expenditure is called the Capital Financing Requirement (CFR).

4.14. **Gross borrowing and the CFR** – In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement as at the end of the previous financial year plus estimates for any additional prudential funding requirements in the current and the next two financial years. This essentially means that the Council is not borrowing to support its revenue activities. By including the following two financial years in this calculation does allow some flexibility to borrow in advance of need, although this Council has not utilised this option due to the economic uncertainty and the cost of debt which would create additional pressures on the Council's finances.

The table below highlights the Council's CFR and gross borrowing positions for 2022/23, 2023/24 outturn (comparing the position to original estimates) and updated estimate for 2024/25:

Indicator 2 – Capital Financing Requirement and Gross Borrowing:

	2022/23 Actual £m	2023/24 Original Indicator (Feb TMSS) £m	2023/24 Revised Estimate (Mid Year Review)	2023/24 Actual £m	2024/25 Approved Indicator £m	2024/25 Updated Estimate (Mid Year Review) £m
CFR - General Fund						
Opening CFR	324.032	319.641	318.711	325.365	350.655	331.866
+ capital expenditure financed by borrowing	11.403	3.616	4.887	17.894	21.504	20.942
- Minimum Revenue Provision	(8.378)	(6.829)	(6.709)	(8.875)	(11.477)	(12.662)
+/- Movements in other Long Term Liabilities (e.g. PFI)	(1.692)	(2.833)	(2.833)	(2.518)	(2.733)	(2.733)
Other Movements	-	-	-	-	-	(3.100)
Closing CFR	**325.365**	**313.595**	**314.056**	**331.866**	**357.949**	**334.313**
CFR - HRA						
Opening CFR	484.886	526.722	517.908	514.602	573.601	543.637
+ capital expenditure financed by borrowing	31.255	57.653	46.063	30.241	18.911	39.075
+/- Movements in other Long Term Liabilities (e.g. PFI)	(1.539)	(1.389)	(1.389)	(1.206)	(1.423)	(1.423)
Other Movements	-			-		3.100
Closing CFR	**514.602**	**582.986**	**562.582**	**543.637**	**591.089**	**584.389**
CFR - Council Total						
Opening CFR	808.918	846.363	836.619	839.967	924.256	875.503
+ capital expenditure financed by borrowing	42.658	61.269	50.950	48.135	40.415	60.017
- Minimum Revenue Provision	(8.378)	(6.829)	(6.709)	(8.875)	(11.477)	(12.662)
+/- Movements in other Long Term Liabilities (e.g. PFI)	(3.231)	(4.222)	(4.222)	(3.724)	(4.156)	(4.156)
Other Movements	-	-	-	-	-	-
Closing CFR	**839.967**	**896.581**	**876.638**	**875.503**	**949.038**	**918.702**
Closing Gross Borrowing:						
External Borrowings	470.808			437.305		416.801
PFI Liabilities	65.294			61.570		57.414
Total Borrowing	**536.102**			**498.875**		**474.215**
Over/ (Under) Borrowing	**(303.865)**			**(376.628)**		**(444.487)**

4.15. For all financial years detailed above, the Council has held an under-borrowed position when comparing actual debt holdings to the Capital Financing Requirement. This is a strategic application of treasury cash management as the Council has borrowed "internally" from its cash investment resources, thereby reducing investment income opportunity but also not incurring increased debt costs. In a high-interest rate environment for borrowing this generates cash efficiencies but requires careful management with the assistance of our Treasury Advisors.

4.16. **The Authorised Limit** is the short term 'affordable borrowing limit' required by Section 3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level.

The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual borrowing is either above or below this value does not constitute a breach but is a guide for managing debt levels with the approved strategy.

The following table provides all the relevant values and shows that actual debt holdings during the year remained below the Operational Boundary, and therefore also below the statutory maximum level of the Authorised Limit.

Indicator 3 – Authorised Limit and Operational Boundary:

	2022/23 Actual £m	2023/24 Actual £m	2024/25 Latest Position (to end Q3) £m
Indicators:			
Authorised Limit			
External Debt	769.295	901.718	931.842
Other Liabilities	75.238	85.477	81.569
Total	**844.533**	**987.195**	**1,013.411**
Operational Boundary			
External Debt	523.115	553.867	594.282
Other Liabilities	68.398	65.477	61.569
Total	**591.513**	**619.344**	**655.851**
Actuals:			
Maximum External Debt in Year	502.493	493.019	459.385
Maximum Other Liabilities in Year	68.525	65.294	61.570
Total	**571.018**	**558.313**	**520.955**

The lower debt levels were due to the Council not taking new external borrowings due to the interest rate levels available in the market being inflated.

4.17. **Ratio of Financing Costs to the Net Revenue Stream -** The borrowing decisions taken to fund the capital programme require revenue expenditure to service the associated debt financing costs such as debt interest and MRP (General Fund only). The net revenue stream for the General Fund is calculated as income from council tax, business rates plus any non-ringfenced government grants, whereas the HRA it is income from housing rents, non-dwelling rents and income from service charges. The definition of financing costs has been revised per the Code to remove investment income, therefore prior year comparator data has been restated to reflect this adjustment. The table below reflects those percentages and reflects how much of the net revenue stream is required to service debt costs.

Indicator 4 – Ratio of Capital Financing Costs to Net Revenue Stream:

	2022/23	2023/24			2024/25	
	Actual Outturn	Original Indicator	Mid-Year Review	Actual Outturn	Approved Indicator	Revised Indicator
General Fund	4.3%	4.7%	4.7%	4.7%	6.1%	5.5%
HRA	16.1%	19.3%	19.3%	18.1%	18.9%	18.7%

<u>Treasury Portfolio Positions</u>

4.18. The Council's treasury management debt and investment position is managed by the internal treasury management service in order to ensure adequate liquidity for its revenue and capital activities, ensure security for its investments and to manage risks within all treasury activities. Procedures and controls to achieve these objectives are well established and relevant staff regular attend training services provided by Link (the Council's treasury advisory service) to ensure that staff are fully briefed and updated on any changes in the regulatory environment or best practice.

4.19. The figures in this report are based on the principal amounts borrowed and invested and so may differ from those in the Financial Statement of Accounts due to the accounting treatment of these items (e.g. accrued interest, fair value).

4.20. During 2023/24 the Treasury Team managed the debt and investment portfolios and closed the financial year at £437.305m for borrowings and £38.815m for investments. The breakdown of these amounts compared to the end of the previous financial year are included in following table *(Note: investment balances are held at full Council level and not split between General Fund and Housing Revenue Account).*

Indicator 5 – Treasury Portfolio:

	2022/23 31 Mar 23 Actual £m	Rate	2023/24 31 Mar 24 General Fund £m	Rate	HRA £m	Rate	Total £m	Rate	2024/25 31 Dec 24 General Fund £m	Rate	HRA £m	Rate	Total £m	Rate
Fixed Rate Borrowings:														
PWLB	295.482	5.1%	47.979	4.5%	234.684	5.1%	282.663	5.0%	40.979	4.8%	234.684	5.1%	275.663	5.0%
Market Loans	92.000	4.1%	9.154	4.1%	72.846	4.1%	82.000	4.1%	9.154	4.1%	72.846	4.1%	82.000	4.1%
Local Authorities (long term)	6.498	5.4%	4.535	5.4%	-	-	4.535	5.4%	3.455	5.4%	-	-	3.455	5.4%
Local Authorities (short term)	35.000	2.3%	25.000	5.7%	-	-	25.000	5.7%	5.000	6.5%	-	-	5.000	6.5%
Interest Free	1.895	-	1.286	-	-	-	1.286	-	0.692	-	-	-	0.692	-
Total Fixed Rate Debt	430.875	4.6%	87.954	4.8%	307.530	4.8%	395.484	4.8%	59.280	4.8%	307.530	4.8%	366.810	4.8%
Variable Rate Debt (repayable on demand)	39.933	1.9%	41.821	3.8%	-	-	41.821	3.8%	49.991	4.2%	-	-	49.991	4.2%
Total Treasury Debt	**470.808**	**4.4%**	**129.775**	**4.5%**	**307.530**	**4.8%**	**437.305**	**4.7%**	**109.271**	**4.5%**	**307.530**	**4.8%**	**416.801**	**4.8%**
Investments:														
Money Market Funds (AAA)	(19.834)	4.2%	[redacted]				(33.200)	5.3%	[redacted]				(43.611)	4.8%
Cash at Bank	(0.620)	1.0%	[redacted]				(0.615)	3.3%	[redacted]				(17.581)	3.0%
Fixed Term Deposits (<1yr)	(10.000)	4.3%	[redacted]				(5.000)	5.6%	[redacted]				-	-
Fixed Term Deposits (>1yr)	(0.250)	-	[redacted]				-	-	[redacted]				-	-
Total Investments	**(30.704)**	**4.1%**	[redacted]				**(38.815)**	**5.3%**	[redacted]				**(61.192)**	**4.3%**
			[redacted]						[redacted]					
Net Debt (Treasury Management)	**440.104**		[redacted]				**398.490**		[redacted]				**355.609**	
Non Treasury Amounts														
PFI Liabilities	65.294						61.570						57.414	
Kickstart Loans (Fair Value)	(4.676)						**(5.058)**						**(5.058)**	
Equity Investments (Fair Value)	(33.084)						**(36.184)**						**(36.184)**	

4.21. The non-treasury liabilities and assets included in the table above, whilst not forming part of the general day to day treasury management activities and debt and investment holdings, remain key components of the Council's balance sheet:

- PFI Liabilities are outstanding debt liabilities relating to the PFI schemes and are paid through the annual unitary charge to the PFI provider which includes (i) operating service costs and lifecycle replacement costs for key components of the asset (ii) interest cost for outstanding liability amounts and (iii) an amount to repay a portion of the outstanding liability.
- Kickstart loans are amounts lent to homeowners to undertake improvement works and are an equity loan share of the house value. These are repayable on the sale of the property by the homeowner and are revalued each year using house price indices.
- Equity Investments include the Council's shareholdings in Birmingham Airport (revalued annually) and approximately £518k in shares in Environment for Learning Sandwell PFI Ltd which was a special purpose vehicles set up by the Local Enterprise Partnership.

4.22. A further key indicator to highlight and manage re-financing risk is the maturity structure of the fixed rate debt portfolio. This sets upper limits of amounts due to mature during specific time periods. The actual portfolio as at 31st March for 2023/24 compared to the approved indicator is shown in the following table along with current position for 2024/25:

Indicator 6 – Fixed Interest Debt Maturity Profile Limits

Fixed Rate Debt Maturity Profile	2022/23 Actual 31 March	Outturn Approved Indicator	2023/24 Actual 31 March	Actual 31 March £m	Mid Year Review Approved Indicator	Forecast 31 March	2024/25 Forecast 31 March £m	2024/25 Current Indicator
Under 12 months	11.7%	20%	14.8%	54.254	40%	2.5%	8.821	**40%**
12 months to 2 years	4.0%	20%	7.8%	28.822	30%	13.7%	48.438	**30%**
2 years to 5 years	6.0%	20%	15.6%	57.136	20%	15.8%	55.698	**20%**
5 years to 10 years	9.9%	25%	11.6%	42.500	25%	9.8%	34.500	**25%**
10 years to 20 years	8.9%	30%	-	-	30%	8.0%	28.203	**30%**
20 years to 30 years	19.2%	40%	24.5%	90.115	40%	23.5%	83.115	**40%**
30 years to 40 years	31.1%	50%	25.7%	94.454	50%	26.7%	94.454	**50%**
40 years to 50 years	4.6%	70%	-	-	70%	-	-	**70%**
50 years plus	4.6%	90%	-	-	90%	-	-	**90%**
	100.0%		**100.0%**	**367.281**		**100.0%**	**353.229**	

4.23. The maturity profile as at 2023/24 was within the approved limits.

4.24. The forecast for 2024/25 also indicates the Council will be well within the approved limits, however, this calculation is taken from the debt portfolio as at 31st December 2024 and there is a need for new borrowing to be taken before the end of the financial year. Considering the likely remaining borrowing need and interest rate forecasts, which assist in determining the period for new borrowings, the current limits for the maturity profile remain appropriate and no revisions are proposed to the current approved limits.

The Investment Strategy for 2023/24 and 2024/25

4.25. The priorities for the Council's investments are Security, Liquidity and Yield.

- Security – ensuring only suitable investment counterparties are used for investments
- Liquidity – Investments are placed for periods following cash flow considerations to ensure sufficient cash resources are available to meet expenditure commitments
- Yield – Only after the above two criteria have been addressed is the actual return on the investment considered to obtain optimum return.

4.26. For 2023/24 and 2024/25 the strategy has been to maintain investments short term to cover cash flow requirements, although consideration was to be given to place investments for periods up to 12 months with high credit rated institutions, in line with the approved counterparty selection criteria.

4.27. Returns on the investment portfolio have been marginally above benchmark with 2023/24 posting an average return of 5.11% against a benchmark of 5.10% and year to date for 2024/25 a return of 5.03% against benchmark of 5.01%.

4.28. As performance remains in line with benchmark, despite continuing to adopt a low-risk appetite for investments, no changes to the investment strategy for the remainder of 2024/25 are proposed.

4.29. The approved methodology for investment counterparty list remains fit for purpose and no changes are proposed.

Table 8 – Treasury Investment Returns:

	2022/23 Actual Outturn		2023/24 Actual Outturn		2024/25 as at 31 Dec 2024	
	Average Balance £m	**Average Return**	**Average Balance £m**	**Average Return**	**Average Balance £m**	**Average Return**
Liquid Investments (variable rate)						
Money Market Funds	88.215	2.14%	82.930	5.14%	82.809	5.04%
Cash at Bank	1.011	0.55%	0.930	2.25%	0.905	3.10%
Total Liquid Cash	**89.226**	**2.12%**	**83.860**	**5.11%**	**83.714**	**5.02%**
Non-Liquid Investments						
Fixed Term Fixed Rate (< 1 year)	4.630	4.34%	5.095	5.21%	3.709	5.18%
Fixed Term Fixed Rate (> 1 year)	0.250	-	-	-	-	-
Total Non-Liquid Cash	**4.880**	**4.12%**	**5.095**	**5.21%**	**3.709**	**5.18%**
Total Investments	**94.106**	**2.23%**	**88.955**	**5.11%**	**87.423**	**5.03%**

The Borrowing Strategy for 2023/24 and 2024/25

4.30. The strategy has been, and continues to be, to maintain an under-borrowed position (internal borrowing) while cash resources allowed, but to monitor the debt markets to seek opportunities to externalise the internal borrowing position should there be a risk of a sharp rise in borrowing rates.

4.31. Interest rates available for new borrowings remained inflated throughout 2023/24 and into 2024/25. Therefore, no new long-term debt has been taken.

4.32. The table below details the interest rate forecast as provided by Link (Treasury Advisors), highlighting the expected fall in longer term borrowing rates over the course of the next few financial years:

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

4.33. During 2023/24:

- a total of £67.8m was repaid being:
  - £12.8m PWLB

- £10.0m LOBO Market loan – called early by the lender
- £45.0m short-dated temporary borrowing taken to manage cash-flow

- £35.0m of new short-term temporary borrowing was taken to manage cash-flows over financial year end.

4.34. The LOBO Market loan (Lenders Option – Borrowers Option) was repaid in October 2023 due to the lender exercising their option to increase the interest rate payable on the debt instrument from 4.60% to 5.93%. This allowed the Council to implement the borrowers option of the agreement to reject the rate increase and repay the loan without penalty.

4.35. During 2024/25 (up to end December 2024)

- £27.0m of naturally maturing debt was repaid:
  - £7.0m PWLB
  - £20.0m of short-dated temporary borrowing.
- No new borrowing has been taken due to the interest rate environment and cash balances being sufficient.

4.36. A further £12.5m of borrowing is due to be repaid during the final quarter of the financial year and there will be a requirement for new temporary borrowing to ensure sufficient cash is available to service spending needs. As referred to earlier, this will be short dated for periods up to 5 years, allowing for a sufficient spread of maturities to reduce refinancing risk in the future. This borrowing need is in line with the approved strategy.

4.37. **Debt Rescheduling:** No rescheduling of debt was undertaken during 2023/24 or 2024/25 to date.

5. Alternative Options

5.1. Reporting of treasury management activity with prudential and treasury indicators is a requirement of the Local Government Act 2003, the CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance CIPFA Code of Treasury management. Therefore, there are no alternative options.

6. Implications

Resources:	Debt and investment balances are detailed within the report. The revenue implications of treasury activity is included within the regular quarterly budget monitoring reports that are presented to Cabinet.
Legal and Governance:	The Local Government Act 2003, the CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance CIPFA Code of Treasury management require that Council receive reports on the Treasury and Prudential Indicators.
Risk:	Risk management on treasury activity is covered through limits and processes approved within the annual Treasury Management Strategy Statement.
Equality:	No specific implications arising from this report.
Health and Wellbeing:	No specific implications arising from this report.
Social Value:	No specific implications arising from this report.
Climate Change:	No specific implications arising from this report.
Corporate Parenting:	No specific implications arising from this report.

7. Appendices

7.1. None

8. Background Papers

8.1 General Fund and Housing Revenue Account (HRA) Budget and Capital Programme & Council Tax Resolution 2024/25