

# Cabinet



Report of Head of Finance

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Wards affected: All

Vale Cabinet member responsible: Andy Crawford

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To: Joint Audit and Governance Committee

Dates: 31 January 2025

## Treasury management 2024/25 mid-year monitoring report

### Recommendations

That Cabinet:

1. Considers any comments from Joint Audit and Governance Committee
2. notes the treasury management mid-year monitoring report 2024/25.
3. is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy, and
4. recommends council to approve the report

Implications (further detail within the report)	Financial	Legal	Climate and Ecological	Equality and diversity
	Yes	Yes	Yes	Yes
Signing off officer	Anna Winship	Nick Bennett	Kim Hall	Lorne Grove

## Purpose of report

1. This report covers the treasury management activity for the first half of 2024/25 in compliance with the requirements of the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021. It provides an update on the mid-year position and prudential indicators with a view to the remainder of the year.

## Corporate objectives

2. Managing the finances of the authorities in accordance with their treasury management strategies will help to ensure that resources are available to deliver services and meet the councils' strategic objectives.

## Background

3. This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021) and covers the following:
  - An economic update for the first part of the 2024/25 financial year;
  - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
  - A review of the councils' investment portfolios for 2024/25;
  - A review of the councils' borrowing strategy for 2024/25;
  - A review of compliance with Treasury and Prudential Limits for 2024/25.
4. The first main function of the treasury management service is to ensure the councils' cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.
5. The second main function of the treasury management service is to ensure funding for the councils' capital plans. These capital plans provide a guide to the borrowing need of the councils, essentially the longer-term cash flow planning to ensure the councils can meet their capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet risk or cost objectives.
6. Accordingly, treasury management is defined as:

“The management of the 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.”
7. The 2024/25 treasury management strategy was approved by each council in February 2024. This report summarises the treasury activity and performance for the first six months of 2024/25 against those prudential indicators and benchmarks set for the year. It also provides an opportunity to review and subsequently revise limits if required. Full council is required to approve this report and any amendments to the Treasury Management Strategy.

8. The councils continue to invest with regard to security, liquidity and yield, in that order. The total available for investment purposes does not represent uncommitted resource that the council's have at their disposal. This amount includes council tax receipts held prior to forwarding to Oxfordshire County Council and the Police and Crime Commissioner for the Thames Valley, business rate receipts prior to payment to the government and committed capital and revenue balances.

## Economic conditions during the period

9. The approved Treasury Management Strategies for 2024/25 were based on a Bank of England base rate forecast of 5.25 per cent from April 2024, falling to 5.0 per cent in June, with a fall to 4.0 per cent anticipated during the last quarter of the financial year.
10. At the beginning of the financial year UK base rate was 5.25 per cent; the Bank of England Monetary Policy Committee (MPC) meeting kept base rate at 5.25 per cent for the first quarter of the financial year.
11. In August base rate by fell by 0.25 per cent to end the first half of the financial year at 5.00 per cent. In its latest monetary policy meeting on 19 September, the Bank of England left interest rates unchanged at 5.00 per cent.

## Interest rate forecasts

12. The councils' treasury advisor, Link Asset Services, provides a regular forecast of interest rates.
- *'The MPC has estimated CPI inflation will be 2.7% in Q4 2025 and 2.2% in Q4 2026, before dropping back in 2027 to 1.8%.'*
  - *'Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20bps).'*

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
<b>BANK RATE</b>	<b>4.75</b>	<b>4.50</b>	<b>4.25</b>	<b>4.00</b>	<b>4.00</b>	<b>3.75</b>	<b>3.75</b>	<b>3.75</b>	<b>3.50</b>	<b>3.50</b>	<b>3.50</b>	<b>3.50</b>	<b>3.50</b>
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

13. This forecast shows an expectation that base rate will fall to 4.50 per cent by the end of this financial year and will fall to 3.75 per cent by the first quarter of 2025/26. PWLB forecasts are based on Link Group's view that markets have already built in nearly all the effects on gilt yields of likely increases in Bank Rate. This is a slight positive change to the forecast position which we are seeing in the increased investment income.

## Treasury activity

14. The performance of the two councils for the first six months of the financial year is summarised in the tables below<sup>1</sup>.

	South	Treasury investments £000	Non treasury loan £000	Sub Total £000	Property investment £000	Overall total £000
1	Average investment balance	171,575	15,000	186,575	8,052	194,627
2	Budgeted investment income	3,347	312	3,660	226	3,885
3	Actual investment income	4,411	312	4,723	240	4,963
4	surplus/(deficit) (3) - (2)	1,064	0	1,064	15	1,078
5	Annualised rate of return	5.13%	4.15%	5.05%	5.97%	5.10%

	Vale	Treasury investments £000	Property investment £000	Overall total £000
1	Average investment balance	143,441	4,707	148,148
2	Budgeted investment income	2,502	108	2,610
3	Actual investment income	3,815	108	3,923
4	surplus/(deficit) (3) - (2)	1,313	0	1,313
5	Annualised rate of return	5.30%	4.59%	5.30%

15. The forecast outturn position as at September 2024, based on known investments and maturities and an estimate for future earnings is shown in the table below:

	South Oxfordshire District Council	Vale of White Horse District Council
Annual budget as per MTFP	£7,317,466	£5,004,588
Forecast outturn	£9,691,000	£7,753,310
Variance against budget	£2,373,534	£2,748,722
Borrowing	Nil	Nil

16. **SODC.** The latest estimate is that income receivable on cash investments will be above budget by £2.4 million. This is due to interest rates being above those forecast when the budget was set and average balances deposited being higher than expected.
17. **VWHDC.** The latest estimate is that income receivable on cash investments will be above budget by £2.7 million. This is predominantly due to higher than expected balances and above budgeted interest rates achieved on new deposits.
18. The income at Vale includes interest earned on Enterprise Zone (EZ) monies held. The forecast income receivable relating to these investments is expected to be £1.2m and this will be allocated to the EZ at the end of the financial year.

<sup>1</sup> For property, the balance shown is the fair value of investment properties as at 31 March 2024.

## Performance measurement

19. A list of investments as at 30 September 2024 is shown in **Appendices A1** and **A2**.
20. The councils' performance against benchmarks for the first six months of the year are detailed in **Appendices A3** and **A4**. All investments were with approved counterparties. The average return on these investments is shown above in the table at paragraph 16.

## Treasury management limits on activity

21. Each council is required by the Prudential Code to report on the limits set each year in their respective Treasury Management Strategies. The purpose of these limits is to ensure that the activity of the treasury functions remain within certain parameters, thereby mitigating risk and reducing the impact of an adverse movement in interest rates. However, if the limits set are too restrictive, they will impair the opportunities to reduce costs/improve performance. The performance against the limits for both councils are shown in **Appendices B1** and **B2**.

## Debt activity during 2024/25

22. During the first six months of 2024/25 there has been no need for either of the councils to borrow. The Head of Finance will continue to take a prudent approach to the councils' debt strategies. The prudential indicators and limits set out in **Appendices B1** and **B2** provide the scope and flexibility for either of the councils to borrow in the short-term up to the maximum limits, if ever such a need arose within the cash flow management activities of the councils in order to achieve their service objectives.

## Financial Implications

23. These are covered in the body of the report.

## Legal implications

24. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the MHCLG Local Government Investment Guidance provides assurance that the councils' investments are, and will continue to be, within their legal powers.

## Climate and ecological impact implications

25. There are no climate or ecological implications arising from this report, however the Council can make significant impact via future investment opportunities and operational changes. Numerous changes have already been made to ensure that climate is a key consideration in key documents and processes (such as the procurement strategy), and this will become more evident in future decision making. As opportunities to support the climate ambitions of the councils arise, they will be considered and appropriately weighted to include any climate or ecological impacts.

26. In order to comply with treasury management professional guidance, the council's investments must prioritise security, liquidity and yield in that order. Environmental, Social and Governance (ESG) factors represent a fourth consideration in the decision-making process and whilst this is something that the councils are exploring it is in the context of the need to comply with the priorities outlined in the guidance.
27. The councils had no direct investments during the financial year with companies engaged in environmentally harmful activities. The councils' externally managed pooled investment fund managers are founding members of the Net Zero Asset Managers Initiative.

## **Equalities implications**

28. This report is for information only and therefore there are no equalities implications.

## **Risks**

29. During the first six months of the financial year, the councils operated within the treasury limits and prudential indicators set out in their treasury management strategies approved by council in February 2024. Security of capital remains the main objective. The council has not made any significant changes to its investment approach or risk appetite during the period covered by this report.

## **Conclusion**

30. This report provides details of the treasury management activities for the period 1 April 2024 to 30 September 2024 and the mid-year prudential indicators to each respective council.
31. This report also provides the monitoring information for joint audit and governance committee to fulfil its role of scrutinising treasury management activity at each council.

## **Background papers**

- Chartered Institute of Public Finance and Accounting (CIPFA) code of practice for treasury management in the public sector.
- DCLG Local Government Investment Guidance
- Treasury Management Investment Strategy 2024/25 (South Oxfordshire & Vale of White Horse, February 2024)

## **Appendices**

- A1 – SODC List of investments as at 30 June and 30 September 2024
- A2 – VWHDC List of investments as at 30 June and 30 September 2024
- A3 – SODC Performance against benchmark
- A4 – VWHDC Performance against benchmark
- B1 – SODC Prudential Indicators
- B2 – VWHDC Prudential Indicators
- C1 – Note on Prudential Indicators

## South Oxfordshire District Council

Counterparty	Deposit Type	Principal	Start Date	Maturity Date	Rate %
Gravesham Borough Council	Fixed	3,000,000	31-Mar-22	31-Mar-27	0.75
London Borough of Barking & Dagenham	Fixed	5,000,000	14-Apr-22	13-Apr-25	1.00
Suffolk County Council	Fixed	5,000,000	01-Nov-23	03-Nov-25	5.45
Highland Council	Fixed	4,000,000	09-Nov-23	06-Nov-24	5.65
Aberdeen City Council	Fixed	5,000,000	17-Nov-23	15-Nov-24	5.60
City of Stoke on Trent	Fixed	5,000,000	29-Jan-24	27-Jan-25	5.75
Great Yarmouth Borough Council	Fixed	5,000,000	19-Mar-24	19-Feb-25	6.20
Walsall MBC	Fixed	5,000,000	28-Mar-24	28-Mar-29	4.40
Rushmoor Borough Council	Fixed	5,000,000	05-Apr-24	04-Apr-25	5.25
Moray Council	Fixed	5,000,000	05-Apr-24	04-Apr-25	5.25
Gravesham Borough Council	Fixed	3,000,000	24-Apr-24	21-Dec-24	5.35
Bath & North East Somerset D.C.	Fixed	5,000,000	26-Apr-24	25-Apr-25	5.25
Lancashire	Fixed	5,000,000	26-Apr-24	25-Apr-25	5.25
North Lanarkshire Council	Fixed	5,000,000	19-Apr-24	19-Feb-25	5.25
Suffolk County Council	Fixed	5,000,000	30-Apr-24	30-Apr-27	5.00
Uttlesford District Council	Fixed	4,000,000	21-May-24	21-Nov-24	5.35
Fareham Borough Council	Fixed	3,000,000	19-Jun-24	18-Jun-25	5.10
Goldman Sachs International Bank	Fixed	3,000,000	05-Jul-24	05-Mar-25	5.21
Principality Building Society	Fixed	5,000,000	19-Jul-24	18-Jul-25	4.95
Newcastle Building Society	Fixed	5,000,000	24-Jul-24	23-Jul-25	5.00
Rushmoor Borough Council	Fixed	5,000,000	29-Jul-24	28-Jul-25	5.15
London Borough of Barking & Dagenham	Fixed	5,000,000	29-Jul-24	28-Jul-25	4.95
National Counties Building Society	Fixed	3,000,000	05-Aug-24	04-Aug-25	4.96
Nottingham Building Society	Fixed	5,000,000	13-Aug-24	12-Aug-25	4.95
Nottingham Building Society	Fixed	2,000,000	16-Aug-24	15-Aug-25	4.95
National Counties Building Society	Fixed	2,000,000	16-Aug-24	15-Aug-25	4.95
Telford & Wrekin Council	Fixed	5,000,000	22-Aug-24	21-Aug-25	4.85
Blackpool BC	Fixed	5,000,000	29-Aug-24	16-Jun-25	4.85
Surrey County Council	Fixed	5,000,000	10-Sep-24	09-Sep-25	4.60
Babergh District Council	Fixed	2,000,000	16-Sep-24	15-Sep-25	4.88
Blackpool BC	Fixed	5,000,000	16-Sep-24	30-May-25	4.77
North Lanarkshire Council	Fixed	5,000,000	19-Sep-24	31-Jul-25	4.80
Mid Suffolk District Council	Fixed	5,000,000	19-Sep-24	21-Oct-24	5.00
London Borough of Haringey	Fixed	5,000,000	24-Sep-24	23-Sep-25	4.80
Goldman Sachs Money Market Fund	MMF	10,335,000			
Blackrock Money Market Fund	MMF	215,000			
Lloyds	Call	375,000			
Santander	Call	86,537			
Total deposits		160,011,537			
Legal and General Unit Trust		14,643,518			
CCLA property fund		6,101,889			
Total Investments		180,756,944			



## Appendix A2

### Vale of White Horse District Council

Counterparty	Deposit Type	Principal	Start Date	Maturity Date	Rate %
LB Barking & Dagenham	Fixed	5,000,000	14-Apr-22	14-Apr-25	escalator
Kirklees Metropolitan Council	Fixed	5,000,000	18-Mar-22	18-Mar-25	0.80
Gravesham Borough Council	Fixed	3,000,000	16-May-22	17-May-27	escalator
Worcestershire County Council	Fixed	5,000,000	27-Jul-23	28-Oct-24	5.75
Suffolk County Council	Fixed	5,000,000	31-Oct-23	31-Oct-25	5.45
Standard Chartered	Fixed	5,000,000	11-Oct-23	09-Oct-24	5.81
Aberdeen City Council	Fixed	5,000,000	15-Nov-23	13-Nov-24	5.60
Wrexham County Borough Council	Fixed	5,000,000	02-Jan-24	02-Oct-24	5.60
Aberdeen City Council	Fixed	5,000,000	11-Jan-24	09-Jan-25	5.60
Goldman Sachs International Bank	Fixed	5,000,000	21-Dec-23	19-Dec-24	5.29
North Ayrshire Council	Fixed	5,000,000	31-Jan-24	29-Jan-25	5.65
Walsall Metropolitan Borough Council	Fixed	5,000,000	28-Feb-24	28-Feb-29	4.40
Suffolk County Council	Fixed	5,000,000	30-Apr-24	30-Apr-27	5.00
Moray Council	Fixed	5,000,000	26-Apr-24	13-Mar-25	5.25
Rushmoor Borough Council	Fixed	5,000,000	01-Jul-24	30-Jun-25	5.20
London Borough of Haringey	Fixed	5,000,000	26-Jun-24	25-Jun-25	5.20
Newcastle Building Society	Fixed	5,000,000	27-Jun-24	07-Jan-25	5.25
Broxbourne Borough Council	Fixed	3,000,000	28-Aug-24	28-May-25	5.15
Surrey County Council	Fixed	5,000,000	05-Aug-24	05-Feb-25	4.95
London Borough of Barking & Dagenham	Fixed	5,000,000	30-Jul-24	30-Jan-25	5.05
National Counties Building Society	Fixed	3,000,000	24-Jul-24	23-Jul-25	4.96
Harlow District Council	Fixed	5,000,000	03-Sep-24	04-Mar-25	4.80
Lloyds Bank	Fixed	5,000,000	13-Aug-24	13-Nov-24	4.91
Fife Council	Fixed	5,000,000	14-Aug-24	13-Aug-25	4.75
North Lanarkshire Council	Fixed	5,000,000	19-Aug-24	18-Aug-25	4.75
West Dunbartonshire Council	Fixed	5,000,000	20-Aug-24	19-Aug-25	4.80
Goldman Sachs International Bank	Fixed	5,000,000	21-Aug-24	20-Aug-25	4.77
Bristol City Council	Fixed	5,000,000	27-Aug-24	27-Nov-24	4.85
Blackpool Borough Council	Fixed	5,000,000	11-Sep-24	11-Dec-24	4.89
National Counties Building Society	Fixed	3,000,000	05-Sep-24	17-Dec-24	4.95
Folkestone & Hythe District Council	Fixed	2,000,000	19-Sep-24	20-Jan-25	4.90
Great Yarmouth Borough Council	Fixed	5,000,000	19-Sep-24	18-Sep-25	4.85
Goldman Sachs Money Market Fund	MMF	7,050,000			
LGIM	MMF	8,000,000			
Lloyds	Call	600,000			
<b>Total deposits</b>		<b>164,650,000</b>			
<b>CCLA property fund</b>		<b>2,440,974</b>			
<b>Total Investments</b>		<b>167,090,974</b>			

**South Oxfordshire District Council**

<b>Treasury investment returns achieved against benchmark</b>				
	<b>Benchmark Return</b>	<b>Actual Return</b>	<b>Growth (Below)/above Benchmark</b>	<b>Benchmarks</b>
Bank & Building Society deposits - internally managed (6mths to 30/9)	5.06%	5.13%	0.07%	3 Month SONIA
L&G UK Index Trust (6mths to 30/09) *	8.37%	8.23%	(0.14%)	FTSE All Shares Index
CCLA Property Fund *	-1.29%	1.07%	2.36%	IPD balanced property unit trust index

\* Returns include income & capital movements

Fixed rate deposits arranged during the first quarter of the financial year earned interest rates from 4.40 to 6.20 per cent. During quarter two from July to September new fixed rate deposits achieved returns of between 4.77 and 5.21 per cent. Longer-term deposits arranged prior to the start of the current financial year at rates from 0.75 per cent and short-term liquidity funds reduced the average return for the internally managed portfolio to 5.13 per cent for the first half of the year.

**Vale of White Horse District Council**

<b>Treasury investment returns achieved against benchmark</b>				
	<b>Benchmark Return</b>	<b>Actual Return</b>	<b>Growth (Below)/above Benchmark</b>	<b>Benchmarks</b>
Bank & Building Society deposits - internally managed (6mths to 30/9)	5.06%	5.30%	0.24%	3 Month SONIA
CCLA Property Fund *	-1.29%	1.07%	2.36%	IPD balanced property unit trust index

\* Returns include income & capital movements

Fixed rate deposits arranged during the first quarter of the financial year earned interest rates from 5.00 to 5.30 per cent. During quarter two from July to September new fixed rate deposits achieved returns of between 4.75 and 5.15 per cent. Longer-term deposits arranged prior to the start of the current financial year at rates from 0.3 per cent and short-term liquidity funds equated to the average return for the internally managed portfolio of 5.30 per cent for the first half of the year.

South Oxfordshire District Council

<b>Prudential indicators as at 30 September 2024</b>		
	<b>2024/25 Original Estimate £m</b>	<b>Actual as at 30-Sep £m</b>
<b>Debt</b>		
<b>Authorised limit for external debt</b>		
Borrowing	35	0
Other long-term liabilities	10	0
	<b>45</b>	<b>0</b>
<b>Operational boundary for external debt</b>		
Borrowing	30	0
Other long-term liabilities	10	0
	<b>40</b>	<b>0</b>
<b>Interest rate exposures</b>		
Maximum fixed rate borrowing	100%	<b>0</b>
Maximum variable rate borrowing	100%	<b>0</b>
<b>Investments</b>		
<b>Interest rate exposures</b>		
Limits on fixed interest rates	100%	93%
Limits on variable interest rates	100	11
<b>Principal sums invested &gt; 364 days</b>		
Upper limit for principal sums invested >364 days	55	23

Vale of White Horse District Council

<b>Prudential indicators as at 30 September 2024</b>		
	<b>2024/25 Original estimate £m</b>	<b>Actual as at 30-Sep £m</b>
<b>Authorised limit for external debt</b>		
Borrowing	30	0
Other long-term liabilities	10	0
	<b>40</b>	<b>0</b>
<b>Operational boundary for external debt</b>		
Borrowing	25	0
Other long-term liabilities	10	0
	<b>35</b>	<b>0</b>
<b>Interest rate exposures</b>		
Maximum fixed rate borrowing	100%	<b>0</b>
Maximum variable rate borrowing	100%	<b>0</b>
<b>Investments</b>		
<b>Interest rate exposures</b>		
Limits on fixed interest rates	100%	91%
Limits on variable interest rates	100	16
<b>Principal sums invested &gt; 364 days</b>		
Upper limit for principal sums invested >364 days	45	33

### **Prudential indicators – explanatory note**

#### **Debt**

There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. They are both based on estimates of most likely, but not worst-case scenario.

The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, "invest to save" projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls as well as an assessment of risks involved in managing cash flows.

The Operational Boundary is a more realistic indicator of the likely position.

#### **Interest rate exposures**

The maximum proportion of interest on borrowing which is subject to fixed/variable rate of interest.

#### **Investments**

##### **Interest rate exposure**

The purpose of these indicators is to set ranges that will limit exposure to interest rate movement. The indicator required by the Treasury Management Code considers the net position of borrowing and investment and is based on principal sums outstanding.

##### **Principal sums invested**

This indicator sets a limit on the level of investments that can be made for more than 364 days.