

**Committee Name and Date of Committee Meeting**

Audit Committee – 26 September 2024

**Report Title**

Quarter 1 2024/25 Treasury Management Update

**Is this a Key Decision and has it been included on the Forward Plan?**

No

**Strategic Director Approving Submission of the Report**

Judith Badger, Strategic Director of Finance and Customer Services

**Report Author(s)**

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**Ward(s) Affected**

Borough-Wide

**Report Summary**

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that Members are updated on treasury management activities at least quarterly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

This report is the quarter 1 review for 2024/25. It incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs).

It is also a requirement that any proposed changes to the 2024/25 prudential indicators are approved by Council.

**Recommendations**

1. Audit Committee is asked to note the contents of the report.

**List of Appendices Included**

Appendix 1 – Prudential and Treasury Indicators for 2024-25 as of 30th June 2024

**Background Papers**

Budget and Council Tax Setting Report 2024/25 to Council on 28<sup>th</sup> February 2024, Including the Treasury Management Strategy 2024/25

**Consideration by any other Council Committee, Scrutiny or Advisory Panel**  
No.

**Council Approval Required**  
No

**Exempt from the Press and Public**  
No.

<b>1.</b>	<b>Background</b>
1.1	<b>Quarter 1 Treasury Review</b> – The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that Members are updated on treasury management activities at least quarterly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.
<b>2.</b>	<b>Key Issues</b>
2.1	Quarter 1 Treasury Review – The review as set out in the Appendix 1 provides Members with details of performance against agreed treasury and prudential indicators.
2.2	<p>a. Investments - the primary governing principle remains security over return and the criteria for selecting counterparties continues to reflect this.</p> <p>b. Borrowing – The Council will maintain its strategy of being under-borrowed against the capital financing requirement. The Council has borrowed £35m in the year to date. This has been used to refinance short term borrowing as it matured, as well as financing the Capital Programme.</p> <p>It is anticipated that further borrowing will be required before the end of 2024/25. As previously reported, the Council will predominantly adopt a short-term borrowing strategy to cover this borrowing need in anticipation of lower interest rates in the medium term. There is a discounted rate with the PWLB for borrowing long term funds specifically for HRA purposes which is available until June 2025. Depending on the prevailing interest rate position the Council may utilise this rate for some long term borrowing. The borrowing position will remain under review.</p> <p>c. Governance - strategies and monitoring are reviewed by Audit Committee.</p> <p>d. Whilst the Council’s approach to Treasury Management in recent years, utilising short term borrowing in particular, has generated significant savings for the Council, essential to achieving balanced budgets, the future outlook is more challenging. It should be noted that it is expected that borrowing rates have now peaked and will reduce over the next couple of years, linked to the recent fall in inflation which is now 2.2% and much closer to the Bank of England’s target 2% level.</p>
<b>3.</b>	<b>Options considered and recommended proposal</b>
3.1	Quarter 1 Treasury Review – The review as set out in the Appendix indicates performance is in line with the plan and no proposals to vary the approach for the remainder of the year are proposed.

<b>4.</b>	<b>Consultation on proposal</b>
4.1	The continuing approach to treasury management has been discussed with the Council's external Treasury Management Advisers, Link Asset Services, who have confirmed this is a prudent approach given current market conditions. Link Asset Services will continue to monitor borrowing rates and inform the Council if there are opportunities to borrow at advantageous rates.
<b>5.</b>	<b>Timetable and Accountability for Implementing this Decision</b>
5.1	The report is for Audit Committee information and noting.
<b>6.</b>	<b>Financial and Procurement Advice and Implications</b>
6.1	Treasury Management forms an integral part of the Council's overall financial arrangements. For the financial year 2024/25 the Treasury Management budgets are estimated to provide an underspend that will help support the Council's overall budget pressures, through the income generated through the investment strategy.
6.2	The current strategy is to maintain the Council's position of being under-borrowed against the Capital Financing Requirement. The Council is forecast to require additional borrowing before the end of the 2024/25 financial year. This borrowing will be taken on a short-term basis to avoid exposure to currently high interest rates in anticipation of lower rates in future years. There is a possibility of taking some long term borrowing from the PWLB at the discounted HRA rate. A further update will be provided as part of the Council's mid year Treasury Management report.
6.4	There are no direct procurement implications arising from this report.
<b>7.</b>	<b>Legal Advice and Implications</b>
7.1	It is a requirement that changes to the Council's prudential indicators are approved by Council
<b>8.</b>	<b>Human Resources Advice and Implications</b>
8.1	There are no Human Resource implications arising from the report.
<b>9.</b>	<b>Implications for Children and Young People and Vulnerable Adults</b>
9.1	The report does not impact the Children's and Adult Social care budgets.
<b>10.</b>	<b>Equalities and Human Rights Advice and Implications</b>
10.1	There are no implications arising from this report to Equalities and Human Rights.

11.	<b>Implications for CO2 Emissions and Climate Change</b>
11.1	No direct implications.
12.	<b>Implications for Partners</b>
12.1	There are no implications arising from this report to Partners or other directorates.
13.	<b>Risks and Mitigation</b>
13.1	Regular monitoring of treasury activity ensures that risks and uncertainties are addressed at an early stage and hence kept to a minimum.
<b>14.</b>	<b>Accountable Officers</b>
	Rob Mahon, Assistant Director Financial Services
	Natalia Govorukhina, Head of Corporate Finance

*Report Author: Tom Soulby, Principal Finance Officer (Treasury)*

This report is published on the Council's [website](#).

## **Quarter 1 Prudential Indicators and Treasury Management Monitoring**

### **1. Introduction and Background**

- 1.1 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. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.
- 1.2 The underlying purpose of the report supports the objective in the CIPFA Code of Practice on Treasury Management and the Communities & Local Government Investment Guidance. This states that Members receive and adequately scrutinise information on the treasury management service.
- 1.3 The underlying economic and financial environment remains difficult for the Council, on investment the main challenge relates to concerns over investment counterparty risk. This background encourages the Council to continue maintaining investments short term and with low risk counterparties. In the period covered by this report the Bank of England base rate remained at 5.25% which has significantly increased the interest available on investments. The base rate was subsequently reduced to 5% on the 1<sup>st</sup> of August.
- 1.4 The Council has undertaken £35m of new borrowing in the year to date. This has been used to refinance existing borrowings as they matured as well as financing capital activity.
- 1.5 PWLB rates fluctuate, during quarter 1 of 2024/25 the rates have seen highs of 5.61% for a 50 year PWLB loan and lows of 5.43%. These are the highest rates for a number of years. This further emphasises the positive deals that the Council took during 2021/22, with the £227m being borrowed at an average of 1.53%. Short term borrowing rates have started to decrease with 6 month borrowing rates standing at around 5.2%, compared with 5.6% in September 2023. The Council keeps interest rates under constant review within its borrowing strategies and decisions on the mix of long-term and short-term borrowing.
- 1.6 The Strategic Director Finance & Customer Services can report that the basis of the Treasury Management Strategy, the Investment Strategy and the PIs have not changed from that set out in the approved Treasury Management Strategy (Council February 2024).

## 2. **Annual Investment Strategy**

### 2.1 **Key Objectives**

The primary objective of the Council's Investment Strategy is safeguarding the repayment of the principal and interest of its investments on time – the investment return being a secondary objective. The current difficult economic and financial climate has heightened the Council's over-riding risk consideration with regard to "Counterparty Risk". As a result of these underlying market concerns, officers continue to implement an operational investment strategy which maintains the tight controls already in place in the approved Investment Strategy.

2.1.1 To mitigate the risk of interest rates rising and to take advantage of low long term PWLB interest rates £227m of PWLB borrowing was taken in the 2021/22 financial year. The proceeds of this borrowing have now been fully utilised to refinance other borrowing and finance the Capital Programme. As a result, the Council now carries a minimal cash balance and seeks additional borrowing only as and when required to reduce the cost of carry and in anticipation of reductions in interest rates in the near future.

2.1.2 The Council has been investing any cash surpluses into Money Market Funds which at the end of quarter 1 had interest rates of between 5.15% and 5.26%. The process for using MMF's is very efficient and effective, with the added benefit that the funds the Council can access are all AAA rated. The Council also has the option to invest with the Debt Management Office (DMO, 5.19%), Bank Deposits (e.g. Goldman Sachs, 5.22%, min. 3 months) and Other Local Authorities (5.15% for 3 months). All interest rates quoted are as at the end of quarter 1.

### 2.2 **Current Investment Position**

The Council held £34.510m of investments at 30 June 2024, and the constituent parts of the investment position are:

<b>Sector</b>	<b>Country</b>	<b>Up to 1 year £m</b>	<b>1 - 2 years £m</b>	<b>2 – 3 years £m</b>
Banks	UK	0.000	0	0
Local Authorities	UK	0.000	0	0
MMF's	UK	34.510	0	0
<b>Total</b>		<b>34.510</b>	<b>0</b>	<b>0</b>

### 2.3 **Risk Benchmarking**

A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are requirements to Member reporting and the following reports the current position against the benchmarks:

2.3.1 **Security** – The Council monitors its investments against historic levels of default by continually assessing these against the minimum criteria used in the Investment Strategy. The Council’s approach to risk, the choice of counterparty criteria and length of investment ensures any risk of default is minimal when viewed against these historic default levels.

2.3.2 **Liquidity** – In respect of this area the Council set liquidity facilities/benchmarks to maintain:

- Bank overdraft – the Council does not currently have an agreed overdraft. Whilst an overdraft could be negotiated, less expensive short-term borrowing can be accessed through the financial markets.
- Liquid short-term deposits of at least £3m available within a week’s notice.

The Strategic Director for Finance & Customer Services can report that liquidity arrangements were adequate during the year to date.

2.3.3 **Yield** – a local measure for investment yield benchmark is internal returns above the Overnight Sterling Overnight Index Average (SONIA).

The Strategic Director for Finance & Customer Services can report that the return in quarter 1 averages 5.216%, against an average Overnight SONIA to the end of June 2024 of 5.199%. The average rate of return has increased as investments placed in previous years when interest rates were much lower have matured and been replaced with better performing investments.

Based on the Council’s current average cash investments of £28m, the additional return achieved over the benchmark rate is £4.7k.

### 3. **Borrowing**

3.1 The first key control over the treasury activity is a Prudential Indicator (PI) to ensure that over the medium term, gross and net borrowing will only be for a capital purpose. Gross and net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which would only be undertaken if this proves prudent to do so.

3.2 Due to the overall financial position and the underlying need to borrow for capital purposes (the Capital Financing Requirement - CFR), new external borrowing of £35m was undertaken in the quarter. The details of this borrowing are:

Lender	Amount	Interest rate	Maturity date
West Yorkshire Combined Authority	£15,000,000	5.1%	May 2025
PWLB	£20,000,000	4.77%	July 2026



- 3.3 The Council continues to pursue a strategy of committing to short term borrowing only, in the expectation that interest rates will fall in the near future. This is in line with the advice of our treasury advisors.
- 3.4 During the three months to 30 June 2024, the Council has repaid principal on long term maturity and annuity loans from the PWLB, and loans from the Local Authority lending market. The principal repaid, and interest rates are detailed in the table below. There are 5 Annuity loans on which variable amounts of principal are repaid each six months.

Lender	Principal	Type	Interest Rate %
PWLB	£5,000,000	Fixed Rate (Maturity)	5.63
PWLB	£111,414	Fixed rate (Annuity)	Various
Local Authority	£5,000,000	Temp	0.48
Local Authority	£5,000,000	Temp	0.80
Local Authority	£5,000,000	Temp	0.55

#### **4. Compliance with Treasury and Prudential Limits**

- 4.1 The prudential and treasury Indicators are included below.
- 4.2 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 Director of Finance and Customers Services reports that no difficulties are envisaged for the current or future years in complying with these indicators.
- 4.3 All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.
- 4.4 Treasury Management advice continues to be provided by Link Asset Services Treasury Solutions (LAS). They were appointed for a three year term in January 2022 following a procurement exercise.

#### **Prudential and Treasury Indicators for 2024-25 as of 30th June 2024**

##### **Actual and estimates of the ratio of financing costs to net revenue stream**

This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream.

	2024/25 Original Indicator %	June 2024/25 Position %
Non-HRA	12.66	8.19
HRA	13.70	14.49

The current position reflects in-year changes to the Capital Programme and minor fluctuations in interest rates.

### **Authorised limit and operational boundary for external debt**

This indicator confirms the Council's compliance with its authorised limit and operational boundary for external debt as at the end of June 2024. The figure for gross external debt includes other long term liabilities such as leases and PFI agreements.

Treasury Indicators	2024/25 Budget £'000	June Actual £'000
Authorised limit for external debt	1,054.76	
Operational boundary for external debt	937.078	
Gross external debt	907.078	761.592
Investments	20.000	34.510
<b>Net borrowing</b>	<b>887.078</b>	<b>727.082</b>

### **Prudential indicator limits based on debt net of investments**

- **Upper Limits on Fixed Rate Exposure** – This indicator covers a maximum limit on fixed interest rates.
- **Upper Limits on Variable Rate Exposure** – Similar to the previous indicator this identifies a maximum limit for variable interest rates based upon the debt position net of investments.

RMBC	2024/25 Original Indicator	June Position
Limits on fixed interest rates based on net debt	100%	86.20%
Limits on variable interest rates based on net debt	50%	13.80%

## **Maturity Structures of Borrowing**

These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) falling due for refinancing.

RMBC	2024/25 Original Indicator		June Position	
	Lower	Upper	%	£m
Under 12 months	0%	50%	3.83%	25.000
12 months to 2 years	0%	35%	11.50%	75.000
2 years to 5 years	0%	45%	3.07%	20.000
5 years to 10 years	0%	45%	1.53%	10.000
10 years to 20 years	0%	45%	5.68%	37.067
20 years to 30 years	0%	50%	4.68%	30.521
30 years to 40 years	0%	50%	11.62%	75.815
40 years to 50 years	0%	60%	43.53%	284.000
50 years and above	0%	60%	14.56%	95.000

## **Total Principal Funds Invested**

These limits are set to reduce the need for the early sale of an investment, and show limits to be placed on investments with final maturities beyond each year-end.

The Council currently has no sums invested for periods exceeding 364 days due to market conditions. To allow for any changes in those conditions the indicator has been left unchanged.

RMBC	2024/25 Original Indicator £m	June Position £m
<b>Maximum principal sums invested &gt; 364 days</b>	10	0
Cash deposits	10	0