

## **REPORT TO EXECUTIVE**

Date of Meeting: 3 December 2024

## **REPORT TO COUNCIL**

Date of Meeting: 17 December 2024

Report of: Strategic Director Corporate Resources

Title: Treasury Management 2024/25 Half Year Update

### **Is this a Key Decision?**

No

### **Is this an Executive or Council Function?**

Council

### **1. What is the report about?**

1.1 To report on the current Treasury Management performance for the 2024/25 financial year and the position regarding investments and borrowings at 30 September 2024, and to seek adoption of the Council of a Treasury Management Environmental, Social and Governance policy.

### **2. Recommendations:**

2.1 That Members of the Executive and Council note the Treasury Management report in respect of the first six months of the 2024/25 financial year.

2.2 That Executive recommend to Council the adoption of a Treasury Management Environmental, Social and Governance policy.

### **3. Reasons for the recommendation:**

3.1 It is a statutory requirement for the Council to publish regular reports on Treasury Management to Council. This includes an annual Treasury Management Strategy and half yearly report and a year-end report as a minimum.

### **4. What are the resource implications including non financial resources**

4.1 The report is an update on the overall performance in respect of Treasury Management for the first six months of the 2024/25 financial year. Therefore, there are no financial or non-financial resource implications.

### **5. Section 151 Officer comments:**

5.1 Members will note that the Council's cash balances have reduced throughout the year as the policy to defer long term borrowing takes effect. It is likely that some short-term borrowing will be required before the end of the financial year to ensure the Council has sufficient resources to meet its day-to-day cash needs. Whilst this may seem unusual to Councillors who have only experienced recent years when long term borrowing was

cheap and therefore the Council has not borrowed short term, it is not uncommon in periods where interest rates are expected to drop (albeit slowly) from existing levels and was used by the Council in the mid-2000s to protect the Council from locking in higher interest rates longer periods.

5.2 The proposed ESG Policy will support decision making for treasury management. However, it does not supersede Councillor's legal responsibilities and therefore Council must retain the ability to ensure it protects Taxpayers money.

## **6. What are the legal aspects?**

6.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Treasury Management Code of Practice recommends that members be updated on treasury management activities regularly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code. Adoption of the Code is required by regulations laid under the Local Government Act 2003.

Chapter 1 of the Act sets out capital finance and accounts requirements. Section 1 states that local authorities have the powers to borrow money for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. Sections 2 to 6 of the Act cover the duty to control borrowing and the duty to determine affordable borrowing limits. Section 12 covers the power to invest.

The Treasury Management Strategy is based on the requirements of DLUHC's Guidance on Local Government Investments and the CIPFA Treasury Management code.

This report confirms that the Section 151 Officer is satisfied that Council borrowing is affordable and in accordance with the provisions of the Local Government Act 2003, DLUHC's Guidance and CIPFA Code of Practice.

Members will note the proposed Treasury Management Environmental, Social and Governance Policy. Priority is still to be given to the core principles of security, liquidity, and yield (SLY) in accordance with the Secretary of State Investment Guidance. As stated in this report, local authorities can overlay Environmental, Social and Governance (ESG) processes, but climate change concerns cannot displace the SLY principles.

## **7. Monitoring Officer's comments:**

7.1 This report is for Members' information in relation to Treasury Management. With regard to the proposed Treasury Management Environmental, Social and Governance Policy, Members will note that there is no statutory duty to have such a policy in place, but it can be considered as good practice to do so.

## **8. Report details:**

### **8.1 Economics and Interest Rates**

The third quarter of 2024 (July to September) saw:

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q);
- a further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;

- core CPI inflation increasing from 3.3% in July to 3.6% in August;
- the Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting; and
- 10-year gilt yields falling to 4.0% in September.

Since September we have seen CPI fall to a 1.7% increase, and core inflation down to 3.2%. The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. Their latest forecast on 28th May sets a view that short, medium, and long-dated interest rates will fall back over the next year or two. Link PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

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

## 8.2 Treasury Management Strategy Statement

The Council approved the 2024/25 Treasury Management Strategy Statement (TMSS) at its meeting on 20 February 2024. The Council's Treasury Management Strategy does not currently cover Environmental, Social and Governance issues, and a draft policy is included in Appendix A for approval and future inclusion in the Treasury Management Strategy and Practices.

The Council's stated investment strategy was to continue to hold small surplus funds and to seek to utilise its Call Accounts, Money Market Funds, use the Government's Debt Management Office and use short-dated deposits which would be placed with Local Authorities, Banks, or Building Societies in-line with the Council's counterparty list.

The Council's stated borrowing strategy was to defer borrowing until later years, where possible, and to reduce the size of the Council's investment balance instead, however some targeted long-term borrowing may be undertaken, where the costs will be offset against future income streams.

The Council is currently maintaining an under-borrowed position; so, the actual borrowings of the Council are below the Council's borrowing requirement, as it has taken advantage of internal borrowings. This means that the Council's borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure.

### The impact of the ECC's Net Zero objectives and the climate emergency on Treasury Management Strategy and investments

At the Customer Focus Scrutiny Committee meeting on 27th June 2024 questions were received from members of the public relating to what consideration has been given in the Treasury Management Strategy and investment decisions on the impacts of climate change and plans to become Net Zero.

Responses were provided at the meeting and there were supplementary questions. Officers have been requested to review alternatives for investment and feedback to the next appropriate committee.

The Secretary of State Investment Guidance requires Local Authorities to emphasise the Security and Liquidity of any investment, followed by Yield (SLY). Authorities can overlay an Environmental, Social and Governance (ESG) process, but ECC is unable to prioritise climate change concerns as SLY should drive investment strategy and selection of suitable counterparties.

ECC has appointed Link Group as its Treasury Management advisers and part of this service includes providing regular counterparty lists based on credit ratings. Link confirm that ESG risk is taken into account.

Link offer access to a range of fixed term deposits and notice accounts through their agency treasury services and regularly send details of a range of products. There are currently three sustainable fixed term deposits available; Standard Chartered Bank, SMBC Bank International Plc, and NatWest Markets Plc. There is also a Lloyds Bank Plc sustainable notice account, however Lloyds are ECC's bankers so any further investment with them would breach the counterparty threshold.

The rates of the sustainable fixed term deposits are the same as their alternative options, so that we can demonstrate no loss of yield. However, the minimum investments for both SMBC and NatWest are both higher than ECC's counterparty limits, so that leaves the Standard Chartered option, which has been used previously.

There are ESG rating providers which offer services which can be used alongside information from Link, however there would be a cost associated with this, and ESG issues can be very subjective with different organisations weighting issues differently. For example, SMBC is the only one of the three options mentioned above which specifically mentions net zero and fossil fuels in reports provided through Link.

This a developing area and some banks are researching internally how they could offer a sustainable product in future. Hopefully there will be more options available in future, and we will keep this under review.

### **8.3 Investments**

The Council can utilise the Government's Debt Management Office (DMO) account and a reserve account with Barclays, these accounts have not been utilised during the period.

Appendix B sets out the institutions that the Council can use for deposits, this is known as our Counterparty list.

The Council had access to four Money Market Funds during the period. The money market funds allow immediate access to our funds and spreads risk as it is pooled with

investments by other organisations and invested across a wide range of financial institutions.

The Council made investments in the CCLA's LAMIT Property Fund in 2016. It should be noted that investments in property funds are a long-term commitment which means that there can be fluctuations on the return from the investment.

The Council's investments held at 30 September 2024 were:

#### **Money Market Funds**

| Amount      | Investment                                      | Interest rate* |
|-------------|---|----------------|
| £10,000,000 | Federated Short-Term Sterling Prime Fund        | 5.17%          |
| £0          | CCLA - The Public Sector Deposit Fund           | 5.15%          |
| £0          | BlackRock Institutional Sterling Liquidity Fund | 5.18%          |
| £7,000,000  | Aberdeen Standard Liquidity Fund                | 5.16%          |

\* Interest rate is variable (therefore rates quoted were the average as at 30 September 2024)

#### **Fixed Term Deposits – Current**

| Amount     | Investment                       | Interest rate | Date Invested | Maturity Date            | No. of Days |
|------------|----------------------------------|---------------|---------------|--------------------------|-------------|
| £2,000,000 | Barclays Green notice account    | 5.25%         | 19/07/22      | 65 days from notice date | Min: 65     |
| £1,000,000 | Barclays Standard notice account | 5.25%         | 19/07/22      | 65 days from notice date | Min: 65     |

The Barclays Green account is linked to projects in pursuit of the transition to a lower carbon economy and as such counts towards the Council's Green agenda and can be included in a sustainability clause in the audited accounts. These accounts have been withdrawn since 30th September as balances were required as a result of the strategy to defer borrowing.

#### **Property Funds**

| Amount     | Investment                 | Dividend Yield Q1 |
|------------|----------------------------|-------------------|
| £5,000,000 | CCLA – LAMIT Property Fund | 5.39%             |

### **8.4 Borrowings**

The Council's long-term borrowing is currently £164.004 million (£91.760 million General Fund and £72.244 HRA) and there is no short-term borrowing. Details of existing loans are set out below:

| Principal Amount outstanding as at 30/09/2024 | Lender     | Interest rate | Loan type | Date of repayment |
|---|------------|---------------|-----------|-------------------|
| £56,884,000                                   | PWLB (HRA) | 3.48%         | Maturity  | 28/03/2062        |
| £1,819,348                                    | PWLB       | 2.34%         | Annuity   | 11/01/2044        |
| £1,804,090                                    | PWLB       | 2.08%         | Annuity   | 04/04/2044        |
| £4,021,672                                    | PWLB       | 1.61%         | Annuity   | 26/09/2049        |
| £7,840,191                                    | PWLB       | 1.71%         | Annuity   | 26/09/2054        |
| £33,672,366                                   | PWLB       | 1.80%         | Annuity   | 26/09/2069        |
| £15,360,000                                   | PWLB (HRA) | 1.31%         | Maturity  | 14/04/2070        |
| £42,601,839                                   | PWLB       | 1.78%         | Annuity   | 24/12/2071        |

Given the ongoing high costs of borrowing the capital programme is being funded by internal temporary borrowing. The liability benchmark treasury indicator at Appendix C compares the current Capital Financing Requirement with existing debt.

The ongoing borrowing requirement will be monitored and a decision of whether to take further borrowing will be made in light of need and current and forecast interest rates. If additional borrowing is required advice will be sought from the treasury management advisors in order that the most cost-effective form of borrowing can be secured.

### 8.5 Treasury and Prudential Limits

During the half year ended 30th September 2024, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2024/25. No difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices. The approved limits within the Annual Investment Strategy set out in the TMSS were not breached during the period ended 30th September 2024.

### 8.6 Net Interest Position

The General Fund shows a £33k improvement against the estimate for net interest payable, the position is:

|                 | Estimate 2024/25<br>£ | Actual to 30 September 2024<br>£ | Estimated Outturn<br>£ | Variation<br>£ |
|-----------------|-----------------------|----------------------------------|------------------------|----------------|
| Interest paid   | 1,841,500             | 921,363                          | 1,842,726              | 1,226          |
| Interest earned |                       |                                  |                        |                |

|  |                  |                |                  |                 |
|--|------------------|----------------|------------------|-----------------|
| Temporary investment interest                  | (1,200,000)      | (708,615)      | (1,062,922)      | 137,078         |
| Other interest earned                          | (13,500)         | (17,929)       | (62,229)         | (48,729)        |
| <b>Less</b>                                    |                  |                |                  |                 |
| Interest to HRA                                | 1,000,000        | 448,596        | 897,192          | (102,808)       |
| Interest to deposits held                      | 5,000            | 5,816          | 11,632           | 6,632           |
| Interest to Trust Funds & Lord Mayor's Charity | 10,500           | 14,547         | 29,093           | 18,593          |
| GF interest (received) / paid out              | (1,006,000)      | (464,216)      | (928,432)        | (77,568)        |
| <b>Net Interest</b>                            | <b>1,643,500</b> | <b>663,778</b> | <b>1,655,492</b> | <b>11,992</b>   |
| CCLA – LAPF Dividend                           | (225,000)        | (67,405)       | (269,620)        | (44,620)        |
| <b>Net Interest after dividends</b>            | <b>1,418,500</b> | <b>596,373</b> | <b>1,385,872</b> | <b>(32,628)</b> |

### 8.7 Repayment of Debt (MRP) Position

|                          | <b>Estimate<br/>2024/25<br/>£</b> | <b>Estimated<br/>Outturn<br/>£</b> | <b>Variation<br/>£</b> |
|--------------------------|-----------------------------------|------------------------------------|------------------------|
| <b>Repayment of Debt</b> | 1,831,020                         | 1,904,733                          | 73,713                 |

There has been a small increase in the projected costs to include MRP on lease agreements as a result of IFRS 16 leases.

### 8.8 Future Position

The short-term cash surplus will be invested in line with the Council's Treasury Management Strategy and will ensure that funds are available to meet demands, whilst also maximising returns.

The Council's Money Market Funds, which are AAA, rated, currently offer rates between 4.93% to 4.97%, the rates are liable to fluctuation in the year. The short-term investments that are made through the money market funds ensure cash can be accessed immediately. This has an impact on returns but ensures the liquidity of funds.

The Council will also lend, when possible, to institutions on the Council's counterparty list which includes other Local Authorities, UK, and Foreign owned banks, building societies and the Debt Management Office. Due to reduced cash balances the Council currently has no short-term deposits.

Officers have regular meetings with the Treasury Management advisors in order to seek advice on how to maximise investment returns and to minimise the need to borrow whilst taking into account investment risk.

Officers continually explore the possibility of widening the investment options available to the Council. If the options are proved to be of interest, and viable, they will be included in

the Treasury Management Strategy which is presented to committee for approval in February 2025.

This will be closely reviewed, and advice will be sought from our financial advisors to ensure our counterparty list is adequate and robust enough. Any adjustments to the list and the impact of this will be presented to committee for approval in the Treasury Management Strategy 2025/26.

## **9. How does the decision contribute to the Council's Corporate Plan?**

9.1 Treasury Management supports the Council in generating additional funds for investing in Services, whilst minimising the amount of interest paid on borrowings. It does not in itself contribute to the Council's Corporate Plan.

## **10. What risks are there and how can they be reduced?**

10.1 The council uses Treasury Management advisors who continually provide updates on the economic situation, interest rates and credit ratings of financial institutions. They also provide a counterparty list which details the financial institutions which meet the council's Treasury Management strategy.

The volatility of the world economy is being closely monitored and daily updates are provided by our financial advisors and investment brokers. This has somewhat eased in the past month and economic forecasts now show an improved position.

## **11. Equality Act 2010 (The Act)**

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation, and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies, and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage, and civil partnership status in coming to a decision.

11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because there are no significant equality and diversity impacts associated with this decision.



## **12. Carbon Footprint (Environmental) Implications:**

12.1 No direct carbon/environmental impacts arising from the recommendations.

## **13. Are there any other options?**

13.1 No.

**Strategic Director Corporate Resources, David Hodgson**

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## **Local Government (Access to Information) Act 1972 (as amended)**

Background papers used in compiling this report:-

None

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