North Devon Council

Report Date: Monday, 4 November 2024

Topic: Mid Year Treasury Management Report 2024/25

Report by: Adam Tape, Head of Governance

1. Introduction

1.1 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2024/25 financial year (appendix A);
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure and prudential indicators;
- A review of the Council's investment portfolio for 2024/25;
- A review of the Council's borrowing strategy for 2024/25;
- A review of any debt rescheduling undertaken during 2024/25;
- A review of compliance with Treasury and Prudential Limits for 2024/25.

2. Recommendations

The Committee is asked to recommend to full Council that:

2.1 The changes to the prudential indicators be approved.

2.2 The report and the treasury activity be noted.

3. Reasons for Recommendations

3.1 This Council is required through regulations issued under the Local Government Act 2003 to produce a mid-year treasury report reviewing treasury management activities and the prudential and treasury indicators for 2024/25. This report meets the requirements of the CIPFA Code of Practice on Treasury Management (revised 2021).

3.2 This Council is also required under the Code to give prior scrutiny to the treasury management reports by the Policy Development Committee before they are reported to the full Council.

4. Report

4.1 Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2024/25 was approved by this Council on 21st February 2024.

The underlying TMSS approved previously requires revision in the light of economic and operational movements during the year. The proposed changes are set out below:

Prudential Indicator 2024/25	Original Estimate £000	Revised Prudential Indicator £000
Capital Financing Requirement	36,322	37,291
Maturity Structure of borrowing Under 12 months – Upper Limit	70%	90%

Section 4.3 of this report gives further information on the Capital Financial Requirement. The change to the upper limit for borrowing under 12 months will allow greater flexibility for short term borrowing, given the current interest rate forecast.

4.2 The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the budget.

Capital Expenditure by Service	2024/24 Original Estimate £000	Current Position 30/09/24 £000	2024/25 Revised Estimate £000
Customer Focus	207	11	226
Environmental Enhancement	3,288	1,468	4,538
Governance	0	0	0
Place & Regeneration	14,853	2,174	13,477
Planning, Housing & Health	1,910	1,250	4,511
Total	**20,258**	**4,903**	**22,752**

Changes to the Financing of the Capital Programme

The table below draws together the capital expenditure plans (above), and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision).

Capital Expenditure	2024/25 Original Estimate £000	2024/25 Revised Estimate £000
Total capital spend	**20,258**	**22,752**
Financed by:		
Capital receipts	(150)	(320)
Capital grants	(9,847)	(10,684)
Capital reserves	(1,410)	(1,937)
Total financing	**(11,407)**	**(12,941)**
Borrowing requirement	**8,851**	**9,811**

4.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the borrowing requirement (above), the reduction for the Minimum Revenue Provision (MRP) and impact on the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

	2024/25 Original Estimate £000	**2024/25 Revised Estimate £000**
Opening CFR 1st April 2024	26,044	26,044
Prudential Indicator – Capital Financing Requirement		
Borrowing requirement	**8,851**	**9,811**
Finance Leases – Capital costs	2,659	2,541
Minimum Revenue Provision	(822)	(784)
Finance Lease Principal Payments (MRP)	(410)	(321)
Movement in CFR	**10,278**	**11,247**
Revised Total CFR 31st March 2025	**36,322**	**37,291**
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	18,000	18,000
Other long term liabilities	5,200	5,200
Total debt (year-end position)	**23,200**	**23,200**

Prudential Indicator – Capital Financing Requirement

The forecast Capital Financing Requirement has increased by circa £1m from the original budget. This relates to the Local Authority Housing Fund, round 3 (£650,000) approved at Strategy & Resources in September 2024 and the Material Recovery Facility at BEC (£350,000) approved by Full Council in March 2024.

4.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. **Gross 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 will be adhered to if this proves prudent.

	2024/25 Original Estimate £000	**Current Position 30/09/24 £000**	**2024/25 Revised Estimate £000**
Borrowing	18,000	6,000	18,000
Other Long term Liabilities	5,171	3,900	5,033
Total debt	**23,171**	**9,900**	**23,033**
CFR (year end position)	36,322		37,291
Under / over borrowing	(13,151)		(14,258)

A further prudential indicator controls the overall level of borrowing. This is the **Authorised Limit** that represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	**2024/25 Original Indicator £000**	**2024/25 Revised Indicator £000**
Borrowing	33,000	33,000
Other long term liabilities	7,000	7,000
Total	40,000	40,000

4.5 Borrowing

The Council's forecast capital financing requirement (CFR) for 2024/25 is £37.3m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the Public Works Loan Board (PWLB), or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

At present, the Council has projected total external borrowing of £18m with £5m long term liabilities (finance leases) whilst utilising £14.3m of cash flow funds in lieu of borrowing (internal borrowing). This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring of economic conditions and our own cash flow balances to support the internal borrowing. The capital programme is being kept under regular review due to the effects of on-going budgetary pressures. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the long-term.

As at 1st April 2024, external borrowing, excluding finance leases, stood at £3m. Due to the overall financial position and the underlying need to borrow for capital purposes (the CFR); new external borrowing of £3m was undertaken on 23rd April 2024. This was short term borrowing, over 6 months from another Local Authority at a rate on 5.30%. There has now been approval to extend this borrowing for a further 12 month period on maturity, with the same provider, at a rate of 4.85%.

Therefore, external borrowing, excluding finance leases, as at 30th September 2024 was £6m. We are projecting that a further £12m may be borrowed over the second half of the financial year in order to fund the approved capital programme, subject to any capital programme slippages or changes to year end cash flow projections.

Interest rate forecasts (Appendix A) have bank rate and therefore PWLB borrowing rates reducing over the next few years, so the borrowing undertaken is prudently likely to be short term.

PWLB maturity certainty rates (gilts plus 80bps) year to date to 30 September 2024

Gilt yields and PWLB certainty rates were less volatile than at this time last year. Overall, the 10, 25 and 50-year part of the curve endured a little volatility but finished September very much as it started in April.

Where there was some movement downwards, this came in the shorter part of the curve as markets positioned themselves for Bank Rate cuts in the second half of 2024 and into 2025, although the continued stickiness of inflation and the prevailing tight labour market is a concern for those looking for more sizeable falls ahead.

At the beginning of April, the 5-year certainty rate was the cheapest part of the curve at 4.72% whilst the 25-year rate was relatively expensive at 5.28%. May saw yields at their highest across the whole curve.

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Conversely, 17 September saw the low point for the whole curve, with the 5-year certainty rate falling to 4.31% before rebounding to 4.55% by the end of the month. Similarly, the 50-year certainty rate fell to 4.88% but finished the month at 5.13%, slightly higher than at the start of April.

At this juncture, we still forecast rates to fall back over the next two to three years as inflation dampens, although there is upside risk to our Bank Rate forecast at present. The CPI measure of inflation is expected to fall below 2% in the second half of 2025, however, and we forecast 50-year rates to stand at 4.20% by the end of September 2026. The major caveats are that there is considerable gilt issuance to be digested by the market over the next couple of years, and geo-political uncertainties – which are generally negative for inflation prospects – abound in Eastern Europe and the Middle East, in particular.

HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.24 – 30.09.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
30/09/2024	4.95%	4.55%	4.79%	5.33%	5.13%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
High date	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

4.6 Debt Rescheduling

Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt rescheduling has been undertaken to date in the current financial year.

4.7 Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing 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. The Chief Finance Officer reports that 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.

4.8 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 21st February 2024. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach.

Creditworthiness.

The UK's sovereign rating has proven robust through the first half of 2024/25. The new Labour Government is expected to outline in detail its future fiscal proposals in the Budget scheduled for 30 October 2024.

Investment Counterparty criteria

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

Investment balances

The Council held £6.2m of investments as at 30 September 2024 (£1.8m at 31 March 2024) and the investment portfolio yield for the first six months of the year was 4.72% against the benchmark 7 day average SONIA rate of 5.12%.

The Council's budgeted investment return for 2024/25 was £400,000. Investment interest of £280,000 was earned in the half-year period.

The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2023/24.

Investment performance year to date as of 30th September 2024

	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	5.25	5.20	5.20	5.21	5.23	5.26	5.33
High Date	02/04/2024	03/05/2024	13/05/2024	26/06/2024	26/07/2024	26/07/2024	01/08/2024
Low	5.00	4.95	4.95	4.96	5.06	5.18	5.09
Low Date	01/08/2024	01/08/2024	27/08/2024	04/09/2024	30/09/2024	30/09/2024	02/04/2024
Average	5.17	5.12	5.12	5.15	5.20	5.25	5.26
Spread	0.25	0.25	0.25	0.25	0.17	0.08	0.24

Non-Treasury Management Investments

The PWLB will no longer provide loans for ‘debt for yield’ projects where financial assets and property are purchased primarily for financial return. This would also mean no PWLB loans for the rest of the capital programme in that year.

The Chief Finance Officer confirms there have been no ‘debt for yield’ projects included in the current capital programme.

5. Resource Implications

5.1 As detailed in the report.

6. Equalities Assessment

6.1 There are not any equalities implications anticipated as a result of this report, as the purpose of this report is to present the Council’s financial position only.

7. Environmental Assessment

7.1 The Council has held funds in a sustainable deposit account during the half year period. These deposits have an underlying commitment to supporting activities that provide sustainable and environmentally friendly services and products.

8. Corporate Priorities

8.1 The Treasury management function supports the delivery of the Councils capital programme and ensures cash flows meets the day to day requirements for service delivery

9. Constitutional Context

9.1 The decision in respect of the recommendations in this report can be made by this Committee pursuant to delegated powers provided in Part 3 Annexe 1, para 1(c)

9.2 The power to decide on one or more of the recommendations in this report is reserved to Council pursuant to Article 4.5.26 and Part 4 (Financial Procedure Rules) para 13.8 and as such the recommendation must be referred to Council to ratify.

10. Statement Of Confidentiality

10.1 This report contains no confidential or exempt information under the provisions of Schedule 12A of 1972 Act.

11. Statement Of Internal Advice

11.1 The author (below) confirms that advice has been taken from all appropriate Councillors and Officers.

Adam Tape, Head of Governance