

Report: **TREASURY MANAGEMENT MID-YEAR REVIEW REPORT 2024/25**

To:

The Executive Councillor for Finance and Resources: Councillor Simon Smith

Strategy and Resources Scrutiny Committee 21 November 2024

Report by:

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Wards affected:

All Wards

Key Decision

1. Executive Summary

- 1.1 The council has adopted The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (Revised 2021).
- 1.2 This half-year report has been prepared in accordance with the Code and covers the following: -
 - An economic update for the first half of the 2024/25 financial year;
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - The Council's capital expenditure, as set out in the Capital Strategy, 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; and
 - A review of compliance with Treasury and Prudential Limits for 2024/25.
- 1.3 Cash and investment balances as at 30 September were £105 million. The balance is forecast to gradually reduce over the remainder of the

year as existing balances are used to fund General Fund (GF) and Housing Revenue Account (HRA) capital expenditure.

- 1.4 Interest receipts for the year are projected at £6.6 million which is £3.1 million higher than the original budget. The variance is due mainly to sustained higher investment rates and higher cash balances being held for longer periods than expected.

2. Recommendations

The Executive Councillor is asked to:-

- 2.1 Recommend to Council the council's estimated Prudential and Treasury Indicators for 2024/25 to 2027/28 (Appendix A).
- 2.2 Note that no changes have been made to the counterparty list (Appendix B).

3. Background

- 3.1. In December 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following: -
 - a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
 - an overview of how the associated risk is managed; and
 - the implications for future financial sustainability.
- 3.2 The Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly.
- 3.3 In line with the Code of Practice, all treasury management reports are presented to both Strategy & Resources Scrutiny Committee and to Full Council.
- 3.4 The Council is currently supported in its treasury management functions by specialist advisors, Link Asset Services. These services include the provision of advice to the council on developments and best practice in this area and provide information on the creditworthiness of potential counterparties, deposits, borrowing, interest rates and the economy.

4. Economic and Interest Rate Update

- 4.1 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. The PWLB rate forecasts below are based on the certainty rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012.
- 4.2 In addition to this discount, the PWLB has introduced a 'Reduced HRA lending margin'. This is a reduction in the margin applied to loans that will be used to fund capital expenditure within the HRA. From 15 June 2023 qualifying loans have attracted a lower rate equivalent to 0.40% below the current PWLB certainty rate.
- 4.3 The latest forecast on 10 July 2024 is shown below. A comparison between the forecast and that included in the Treasury Management Strategy Statement shows that PWLB rates are still forecast to decrease over the next two years, but now at a slower trajectory.

	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Bank rate	5.00%	4.50%	4.00%	3.50%	3.00%	2.75%	2.75%	2.75%
3 month Average Earnings	5.00%	4.50%	4.00%	3.50%	3.00%	2.80%	2.80%	2.80%
6 month Average Earnings	5.10%	4.60%	4.10%	3.60%	3.10%	2.90%	2.90%	2.90%
12 month Average Earnings	5.20%	4.70%	4.20%	3.70%	3.20%	3.00%	3.00%	3.00%
5yr PWLB rate	4.70%	4.50%	4.30%	4.10%	4.00%	3.90%	3.90%	3.90%
10yr PWLB rate	4.80%	4.60%	4.50%	4.30%	4.10%	4.10%	4.10%	4.00%
25yr PWLB rate	5.20%	5.00%	4.80%	4.70%	4.50%	4.50%	4.40%	4.40%
50yr PWLB rate	5.00%	4.80%	4.60%	4.50%	4.30%	4.30%	4.20%	4.20%

- 4.4 The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target. Following several years of high inflation, CPI dropped below this target for the first time to 1.7% in September 2024.

4.5 At its meeting on 31 July 2024, the MPC voted by a majority of 5-4 to reduce Bank Rate by 0.25 percentage points, to 5.00%. At its meeting on 18 September 2024, the MPC agreed to maintain the Bank Rate at 5.00%.

5. Annual Investment Strategy

5.1 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by Full Council on 15 February 2024.

5.2 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.

5.3 The council has endeavoured to position its portfolio to take advantage of the current interest rate environment. Officers have sought to achieve a balance between instruments offering liquidity to meet the needs of financing the capital programme, with fixed term investments agreed when the interest rates were generally understood to have peaked. The strategy will be kept under review over the remainder of the financial year and updated in line with revised profiling of capital expenditure and advice from our treasury management advisors on the future path of interest rates.

5.4 The average rate of return for all deposits to 30 September 2024 is 4.16%, compared to 4.62% over the same six-month period in 2023/24. In the year to date, the council's investment in the CCLA Property Fund has provided distributions equivalent to 5.21% (annualised) of the council's initial investment.

5.5 To ensure that minimal risk is present for the HRA nominal cash balances, returns from lower risk investments are used to transfer interest receipts to the HRA.

5.6 Current estimates for 2024/25 include gross interest receipts of £6.6 million. This is mainly due to interest rates remaining higher than anticipated for longer, and capital slippage meaning there remains more cash available to invest.

- 5.7 An analysis of the instruments the council has invested in and the associated counterparties has been prepared as at 30 September 2024 (Appendix C).
- 5.8 During the first half of 2024/25, we have utilised Link Group's Treasury Agency Service. This service facilitates access to financial instruments which are not always available to individual local authorities accessing financial markets.
- 5.9 Officers continue to work with Link Group to understand developments within financial markets which offer the opportunity to have regard for environmental, social and governance (ESG) criteria when placing investments. The relevant CIPFA guidance asserts the primacy of 'security, liquidity and yield' considerations when managing the treasury portfolio and the council is required to adhere to that guidance. Where the council invests for the longer term, there are opportunities to invest in products or counterparties which align with council objectives. Currently, this is reflected in the substantial fixed-term deposits with other local authorities covering periods up to 13 months and investments in the CCLA Local Authority Property Fund. The CCLA Property Fund provides investors with regular updates about its work to reduce the carbon footprint of its property portfolio and increase the EPC rating of individual properties it owns.

6. The Council's Capital Expenditure and Financing 2024/25 to 2027/28

- 6.1 The council undertakes capital expenditure on long-term assets. These activities may either be:
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, developer contributions, revenue contributions, reserves etc.), which has no resultant impact on the council's borrowing need; or
 - If insufficient financing is available, or a decision is taken not to apply other resources, the funding of capital expenditure will give rise to a borrowing need.
- 6.2 Details of capital expenditure forms one of the required prudential indicators. The table below shows the proposed capital expenditure and how it will be financed. It also includes any re-phasing during 2024/25

and is in line with the agreed capital plan and estimated future capital expenditure.

Estimate	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
GF capital expenditure	106,907	18,172	2,727	1,798
HRA capital expenditure	107,748	93,643	102,622	126,491
Total capital expenditure	214,655	111,815	105,349	128,289
Resourced by:				
• Capital receipts	(20,264)	(6,668)	(3,671)	(5,538)
• Other contributions	(52,035)	(73,959)	(98,887)	(60,379)
Total resources available for financing capital expenditure	(72,299)	(80,627)	(102,558)	(65,917)
Financed from cash balances & any Prudential Borrowing required	142,356	31,188	2,791	62,372

6.3 Capital expenditure in the General Fund in 2024/25 includes a planned £64.3 million on the Park Street car park development. This project is due to complete during the financial year so there is no spend included in future years. Capital expenditure in the HRA over the four year period shown in the table includes a total of £306.5 million on the construction, redevelopment and acquisition of new council housing stock as part of the council's ambitious ten-year programme in this area. The remaining spend is primarily in respect of the ongoing costs of maintaining existing stock to decent homes standards.

7. The Council's Prudential and Treasury Management Indicators

7.1 The table overleaf shows the Capital Financing Requirement (CFR), which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

7.2 Both the GF and HRA CFR are projected to increase from current levels in line with the capital plans for the respective funds. Based on the current capital plan, the GF CFR reduces in 2026/27 as capital loans to CIP are repaid. However, the current MTFs assumes that subsequent capital

plans, approved as part of future years' budgets, will increase the CFR unless other sources of financing for GF capital expenditure can be identified.

CFR and External Borrowing Estimate	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
GF CFR	139,463	151,364	107,633	127,846
HRA CFR	284,880	302,568	305,359	367,731
Total CFR	424,343	453,932	412,992	473,916
Movement in the CFR	142,050	29,589	(40,940)	60,924
Estimated External Gross Debt/Borrowing (Including HRA Reform)	313,123	385,162	386,839	448,078
Authorised Limit for External Debt	550,000	600,000	600,000	625,000
Operational Boundary for External Debt	434,343	463,932	422,992	483,916

7.3 A further prudential indicator controls the overall level of borrowing externally. This is the Authorised Borrowing Limit (ABL) which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members.

7.4 The table below shows the council's current outstanding debt and headroom (the amount of additional borrowing that is possible without breaching the Authorised Borrowing Limit): -

UPDATE	Principal (£'000)
Authorised Borrowing Limit (A) – Agreed by Council on 15 February 2024	550,000
External Borrowing as at 30 September 2024 (B)	243,572
Total Current Headroom (A minus B)	306,428

7.5 During this financial year the council has operated within the 'authorised' and 'operational' borrowing limits contained within the Prudential Indicators set out in the council's Treasury Management Strategy Statement. The anticipated Prudential & Treasury Indicators are shown in Appendix A.

8. Borrowing

- 8.1 The council is permitted to borrow under the Prudential Framework, introduced with effect from 1 April 2004.
- 8.2 Current borrowing relates to loans from the PWLB for self-financing dwellings held within the HRA, taken out in 2012 totalling £213.572 million, and the first tranche of external borrowing undertaken to support the Park Street redevelopment project, with £30 million having been drawn down in April 2024.
- 8.3 The council's current capital plan incorporates further external borrowing in 2024/25 and future years. This represents the draw down of the remaining £55 million funding for Park Street agreed at the inception of the project, funding for delivery of the HRA capital programme and funding for GF capital projects which cannot be funded from available capital resources. The current Medium Term Financial Strategy assumes an increasing need for borrowing over the life of the forecast period. The council will take advice from its treasury management advisors about when to borrow and the appropriate terms to reflect the assets being financed.
- 8.4 The provision for the repayment of debt is known as the Minimum Revenue Provision (MRP). Regulations require the council to publish at least annually a policy by which MRP will be determined. This policy was agreed by council on 15 February 2024. Changes to the policy will be considered and amendments may be proposed in the next Treasury Management Strategy Statement, alongside the council's Capital Strategy and Budget Setting Report.

9. Implications

(a) Financial Implications

This is a financial report and implications are included in the detailed paragraphs as appropriate.

The prudential and treasury indicators have been amended to take account of known financial activities.

(b) Staffing Implications

None

(c) Equality and Poverty Implications

None

(d) Environmental Implications

None

(e) Procurement Implications

None

(f) Community Safety Implications

None

10. Consultation and communication considerations

None required

11. Background papers

No background papers were used in the preparation of this report

12. Appendices

12.1 Appendix A – Prudential and Treasury Management Indicators

Appendix B – The Council's Current Counterparty list

Appendix C – Sources of the Council's Deposits

Appendix D – Glossary of Terms and Abbreviations

13. Inspection of papers

13.1 If you have any queries about this report please contact:

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Appendix A

PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

Estimates	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Capital expenditure				
- GF	106,907	18,172	2,727	1,798
- HRA	107,748	93,643	102,622	126,491
Total	214,655	111,815	105,349	128,289
Capital Financing Requirement (CFR) as at 31 March				
- GF	139,463	151,364	107,633	106,185
- HRA	284,880	302,568	305,359	367,731
Total	424,343	453,932	412,992	473,916
Change in the CFR	142,050	29,589	(40,940)	60,924

The above tables reflect capital expenditure in the current capital plan and highlight the expected impact of that expenditure on the council's Capital Financing Requirement.

PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

Estimates	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Deposits at 31 March	47,692	90,142	132,759	133,074
External Gross Debt	313,123	385,162	386,839	448,078
Ratio of net financing costs to net revenue stream				
-GF%	(6.46)	6.58	17.13	22.14
-HRA%	14.62	18.47	18.22	18.66
Net income from commercial and service investments to net revenue stream				
-GF	10,532	12,554	14,147	14,006
-HRA	471	483	494	627
% of net revenue stream				
-GF%	43.02	46.38	69.31	65.36
-HRA%	0.84	0.83	0.81	0.94

The above table reflects the treasury management implications of the projected capital expenditure, funding sources, financing costs and investment income set out in the council's current Medium Term Financial Strategy (MTFS). The use of the MTFS is considered to provide the most relevant source of data to show how the council's performance against CIPFA's prudential indicators is expected to change over the period covered by the MTFS.

PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

Estimates	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000	Estimate 2027/28 £'000
<u>Treasury Indicators</u>				
Authorised limit				
for borrowing	550,000	600,000	600,000	625,000
for other long-term liabilities	2,000	2,000	2,000	2,000
Total	552,000	602,000	602,000	627,000
Operational boundary				
for borrowing	434,343	463,932	422,992	483,916
for other long-term liabilities	1,500	1,500	1,500	1,500
Total	435,843	465,432	424,492	485,416
Upper limit for total principal sums deposited for over 364 days & up to 5 years	50,000	50,000	50,000	50,000
Analysis of exposure to fixed and variable interest rates				
Net interest on fixed rate borrowing/deposits	8,489	12,217	14,249	16,819
Net interest on variable rate borrowing/deposits	(2,152)	(1,292)	(1,050)	(1,137)
Maturity structure of new fixed rate borrowing		Upper Limit	Lower Limit	
10 years and above		100%	100%	

The above table reflects the treasury management implications of the projected capital expenditure, financing costs and investment income set out in the council's current Medium Term Financial Strategy (MTFS). The use of the MTFS is considered to provide the most relevant source of data to show how the council's performance against CIPFA's prudential indicators is expected to change over the period covered by the MTFS.

Appendix B

Treasury Management Annual Investment Strategy

The full listing of approved counterparties is shown below, showing the category under which the counterparty has been approved, the appropriate deposit limit and current duration limits.

Current Counterparty List

Link Group Colour	Council's Current Deposit Period	Category	Limit (£)
UK Banks and Building Societies: -			
Yellow	60 months	UK Banks and Building Societies	35m
Magenta	60 months	UK Banks and Building Societies	35m
Pink	60 months	UK Banks and Building Societies	35m
Purple	24 months	UK Banks and Building Societies	30m
Blue	12 months	UK Banks and Building Societies	30m
Orange	12 months	UK Banks and Building Societies	30m
Red	6 months	UK Banks and Building Societies	20m
Green	100 days	UK Banks and Building Societies	10m
No Colour	Not recommended	UK Banks and Building Societies	0m

Name	Council's Current Deposit Period	Category	Limit (£)
Specified Investments: -			
All UK Local Authorities	N/A	Local Authority	20m

Name	Council's Current Deposit Period	Category	Limit (£)
All UK Passenger Transport Authorities	N/A	Passenger Transport Authority	20m
All UK Police Authorities	N/A	Police Authority	20m
All UK Fire Authorities	N/A	Fire Authority	20m
Debt Management Account Deposit Facility	N/A	DMADF	Unlimited
Enhanced Cash Funds (Standard & Poor's: AAAf/S1, Fitch: AAA/S1)	Over 3 months and up to 1 year	Financial Instrument	10m (per single counterparty)
Enhanced Money Market Funds (not below AAf) - VNAV	Over 3 months and up to 1 year	Financial Instrument	5m (per fund)
Money Market Funds (AAf) – CNAV, VNAV & LVNAV	Liquid Rolling Balance	Financial Instrument	15m (per fund) with no maximum limit overall
UK Government Treasury Bills	Up to 6 months	Financial Instrument	15m
Members of a Banking Group	Using Link's Credit Criteria	UK Banks and UK Nationalised Banks	40m
Non-Specified Investments: -			
All UK Local Authorities – longer term limit	Over 1 year and up to 5 years	Local Authority	Up to 35m (in total)
Cambridge City Council Housing (CCHC) Working Capital Loan *	Up to 1 year	Loan	200,000
Cherry Hinton Community Benefit Society	Up to 1 year	Loan	50,000
CCHC Investment *	Rolling Balance	Loan (Asset Security)	7,500,000
Cambridge Investment Partnership (Mill Road)*	Rolling Balance	Loan (Asset Security)	17,800,000

Name	Council's Current Deposit Period	Category	Limit (£)
Cambridge Investment Partnership (Cromwell Road)*	Rolling Balance	Loan (Asset Security)	48,300,000
Cambridge Investment Partnership (Orchard Park L2)*	Rolling Balance	Loan (Asset Security)	11,529,000
Cambridge Investment Partnership	Rolling Balance	Loan (Asset Security)	33,940,000
CCLA Local Authorities' Property Fund	Minimum of 5 years	Pooled UK Property Fund	Up to 15m
Certificates of Deposit (with UK Banking Institutions)	Liquid Rolling Balance	Financial Instrument	See limits above
Certificates of Deposit (with UK Building Societies)	Liquid Rolling Balance	Financial Instrument	See limits above
Certificates of Deposit (with Foreign Banking Institutions)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)
Enhanced Cash Funds (Standard & Poor's: AAf/S1, Fitch: AA/S1)	Over 1 year and up to 5 years	Financial Instrument	10m (per single counterparty)
Enhanced Money Market Funds (not below AAf) - VNAV	Over 1 year and up to 5 years	Financial Instrument	5m (per fund)
Commercial Property Investments funded from cash balances	Over 1 year	Commercial Property	25m (in total)
Municipal Bonds Agency	N/A	Pooled Financial Instrument Facility	50,000
Secured Local Bond – Allia Limited	N/A	Local Business Bond	Up to 5m in total
Supranational Bonds – AAA	Using Link's Credit Criteria	Multi-lateral Development Bank Bond	15m
UK Government Gilts	Over 1 year & up to 30 Years	Financial Instrument	15m

Note: In addition to the limits above, the total non-specified items over 1 year (**excluding balances with related parties***) will not exceed £50m.

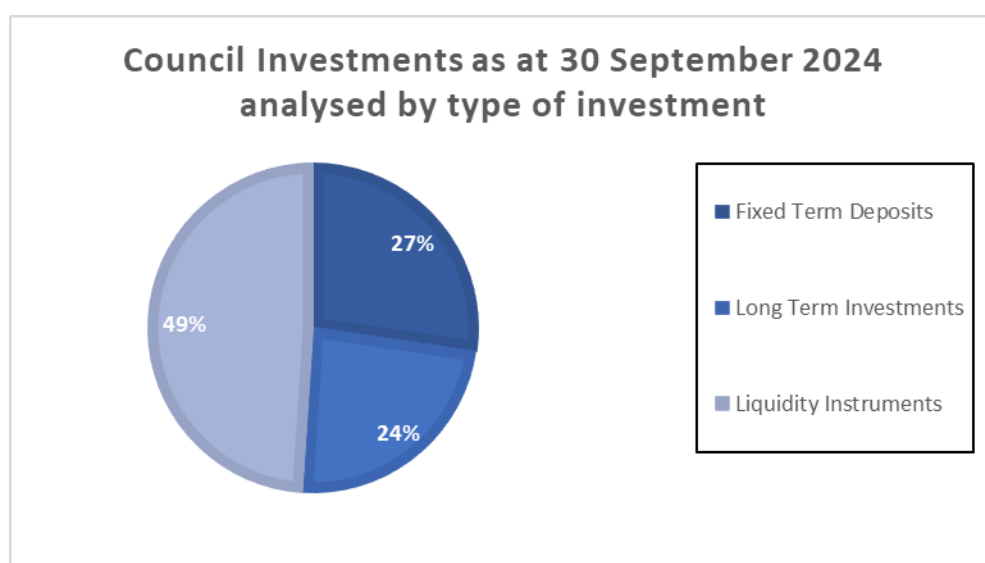
Deposits as at 30 September 2024

Local authorities are free to deposit surplus funds not immediately required to meet the costs of providing services. The council deposits amounts set aside in its general reserves and earmarked reserves.

The interest earned on these deposits is credited to the GF and HRA respectively and helps to fund the cost of providing services.

At 30 September 2024, the council had deposits of £105.4m. The table below provides a breakdown of where the money was deposited and the types of financial instrument held.

Funds Deposited as at 30 September 2024	£'000
UK Banks	14,590
Local Authorities	21,000
Money Market Funds	42,000
Enhanced Cash Funds	10,000
Property Fund	15,000
Allia Limited	2,800
Total Deposited	105,390



Treasury Management – Glossary of Terms and Abbreviations

Term	Definition
Authorised Limit for External Borrowing	Represents a control on the maximum level of borrowing
Capital Expenditure	Expenditure capitalised in accordance with regulations i.e. material expenditure either by Government Directive or on capital assets, such as land and buildings, owned by the Council (as opposed to revenue expenditure which is on day to day items including employees' pay, premises costs and supplies and services)
Capital Financing Requirement	A measure of the Council's underlying borrowing need, i.e. it represents the total historical outstanding capital expenditure which has not been paid for from either revenue or capital resources
Certificates of Deposit (CDs)	Low risk certificates issued by banks which offer a higher rate of return
CIP	Cambridge Investment Partnership
CIPFA	Chartered Institute of Public Finance and Accountancy
Corporate Bonds	Financial instruments issued by corporations
Counterparties	Financial institutions with which funds may be placed
Credit Risk	Risk of borrower defaulting on any type of debt by failing to make payments which it is obligated to do
Enhanced Cash Funds	Higher yielding funds typically for investments exceeding 3 months
Eurocurrency	Currency deposited by national governments or corporations in banks outside of their home market
External Gross Debt	Long-term liabilities including Private Finance Initiatives and Finance Leases

Term	Definition
Government CNAV	Highly liquid sovereign stock based on a Constant Net Asset Value (CNAV)
HRA	Housing Revenue Account - a ringfenced account for local authority housing where a council acts as landlord
HRA Self-Financing	A new funding regime for the HRA introduced in place of the previous annual subsidy system
Liquidity	A measure of how readily available a deposit is
Low Volatility Net Asset Value (LVNAV)	Highly liquid sovereign stock based on a Constant Net Asset Value (CNAV)
MPC	Monetary Policy Committee - The Bank of England Committee responsible for setting the UK's bank base rate
Minimum Revenue Provision (MRP)	Revenue charge to finance the repayment of debt
Non Ring Fenced Bank (NRFB)	Government and Bank of England rules apply to all UK Banks which have to split their business into 'core' retail and investment units known as Ring and Non Ring Fenced Banks
Non-Specified Investments	These are investments that do not meet the conditions laid down for Specified Investments and potentially carry additional risk, e.g. lending for periods beyond 1 year
Operational Boundary	Limit which external borrowing is not normally expected to exceed
PWLB	Public Works Loans Board - an Executive Government Agency of HM Treasury from which local authorities and other prescribed bodies may borrow at favourable interest rates
Quantitative Easing (QE)	A financial mechanism whereby the Central Bank creates money to buy bonds from financial institutions, which reduces interest rates, leaving businesses and individuals to borrow more. This is intended to lead to an increase in spending, creating more jobs and boosting the economy

Term	Definition
Ring Fenced Bank (RFB)	Government and Bank of England rules apply to all UK Banks which have to split their business into 'core' retail and investment units known as Ring and Non Ring Fenced Banks
Sterling Over Night Index Average (SONIA)	SONIA is a widely used benchmark based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.
Security	A measure of the creditworthiness of a counter-party
Specified Investments	Those investments identified as offering high security and liquidity. They are also sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' credit rating criteria where applicable
Supranational Bonds	Multi-lateral Development Bank Bond
UK Government Gilts	Longer term Government securities with maturities over 6 months and up to 30 years
UK Government Treasury Bills	Short term securities with a maximum maturity of 6 months issued by HM Treasury
Variable Net Asset Value	MMF values based on daily market fluctuations to 2 decimal places known as mark-to-market prices
Weighted Average Life (WAL)	Weighted average length of time of unpaid principal
Weighted Average Maturity (WAM)	Weighted average amount of time to maturity
Yield	Interest, or rate of return, on an investment