

**Title:** Quarter Three Treasury Management Report - 2024/25

**Meeting:** Cabinet

**Date:** 3 March 2025

**Classification:** Part 1

**Policy Context:** All Corporate Priorities

**Key Decision:** No

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**Executive Councillor:** Councillor Collins - Cabinet Member for Finance, Assets and Investments

## **1. Executive Summary**

1.1. The Quarter Three Treasury Management Report covers the treasury management activity and compliance with the treasury management strategy for both quarter three and the period from April to December 2024.

## **2. Recommendations**

**That Cabinet:**

2.1. **Approves the Quarter Three Treasury Management Report for 2024/25.**

**That Cabinet:**

2.2. **Notes that treasury management activities were carried out in accordance with the CIPFA (The Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management in the Public Sector during the period from April to December 2024; and**

2.3. **That the loan and investment portfolios were actively managed to minimise cost and maximise interest earned, whilst maintaining a low level of risk; and**

2.4. **That £4.490m of interest and income distributions for all investments were earned during this nine-month period at an average rate of 4.56%. Also, the**

value of the externally managed funds increased by a net of £3.098m due to changes in the unit price, giving a combined overall return of 7.71%. (Section 8); and

- 2.5. That the level of borrowing from the Public Works Loan Board (PWLB) (excluding debt relating to services transferred from Essex County Council on 1<sup>st</sup> April 1998) remained at £347.3m (Housing Revenue Account (HRA): £74.2m, General Fund: £273.1m) during the period from April to December 2024 at an average rate of 3.46%; and
- 2.6. That the level of financing for 'invest to save' capital schemes decreased from £8.03m to £7.93m during the period from April to December 2024.

### **3. Background**

- 3.1. This Council has adopted the 'CIPFA Code of Practice for Treasury Management in the Public Sector' and operates its treasury management service in compliance with this code. The code recommends that local authorities submit reports regularly as part of its Governance arrangements.
- 3.2. Current guidance is that authorities should report formally at least twice a year and preferably quarterly. The Treasury Management Policy Statement for 2024/25 set out that reports would be submitted to Cabinet quarterly on the activities of the treasury management operation. This is the third quarter report for the financial year 2024/25, covering both quarter three and the period from April to December 2024.
- 3.3. Appendix 1 shows the in-house investment position at the end of quarter three of 2024/25.
- 3.4. Appendix 2 shows the treasury management performance specifically for quarter three of 2024/25.

### **4. National Context**

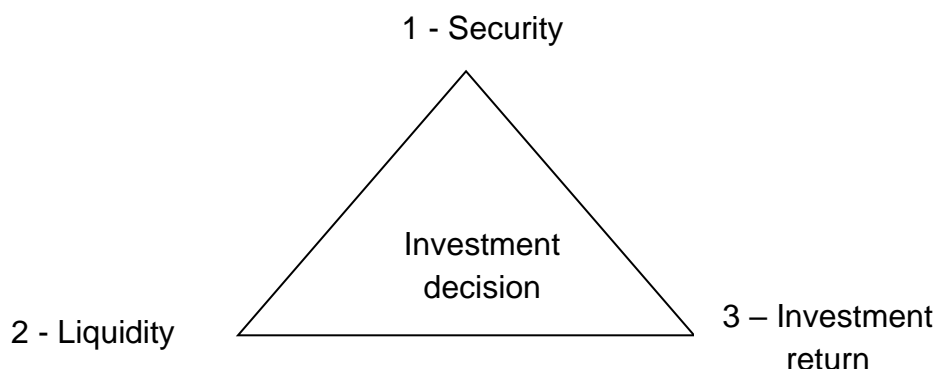
- 4.1 Given the ongoing economic and fiscal challenges UK gross domestic product (GDP) is estimated to have shown no growth in the quarter from July to September 2024, downwardly revised from a first estimate of an increase of 0.1%. There was no growth in the services sector in the latest quarter, whilst a 0.7% increase in construction was offset by a 0.4% fall in production.
- 4.2 The unemployment rate for the quarter from September to November 2024 was 4.4%, an increase of 0.1% on the previous quarter. In the quarter the UK economic inactivity rate for people aged 16 to 64 years was estimated at 21.6%. The estimated number of vacancies in the UK fell by 24,000 on the quarter to 812,000.
- 4.3 The Consumer Prices Index including owner occupiers' housing costs (CPIH) was at 3.2% in October, at 3.5% in November and 3.5% in December. (The Consumer Prices Index excluding owner occupiers' housing costs (CPI) rose by

2.5% in the 12 months to December 2024.) The largest upward contributions to the annual CPIH inflation rate in December came from transport while the largest downward contributions came from restaurants and hotels.

- 4.4 During the quarter the Bank of England reduced the bank base rate from 5.00% to 4.75%.
- 4.5 The economic situation together with the financial market conditions prevailing throughout the quarter provided mixed opportunities for in-house treasury management activities. Variable rate instant access accounts started to feel the effects of the reducing bank base rate but fixed term deposits continued to benefit from higher returns than the prevailing interest rates, as those rates were secured at the point at which those monies were invested.
- 4.6 The prevailing economic conditions had a relatively small impact on the monies invested by our Fund Managers, with minimal movement in the unit price of those funds over the quarter. However, the exception to this was the change in the unit price of the Patrizia Hanover Property Unit Trust due to one the properties in the fund being granted outline planning permission which substantially increased its value. More details are set out in paragraph 7.4.

## 5. Investments – quarter three (October to December)

- 5.1. A prime objective of our investment activities is the security of the principal sums invested. To ensure this security before a deposit is made an organisation is tested against a matrix of credit criteria and then other relevant information is considered. During the period from October to December 2024 investment deposits were limited to those who met the criteria in the Annual Treasury Management Investment Strategy when the deposit was placed.
- 5.2. Other investment objectives are to maintain liquidity (i.e. adequate cash resources to allow the council to operate) and to optimise the investment income generated by surplus cash in a way that is consistent with a prudent level of risk. Investment decisions are made with reference to these objectives, with security and liquidity being placed ahead of the investment return. This is shown in the diagram below:



Security:

- 5.3. To maintain the security of sums invested, we seek to lower counterparty risk by investing in financial institutions with good credit ratings, across a range of

sectors and countries. The risk of loss of monies invested is minimised through the Annual Treasury Management Investment Strategy.

- 5.4. Pie chart 1 of Appendix 1 shows that at the end of quarter three; 11% of our in-house investments were placed with financial institutions with a long-term rating of AAA, 28% with a long-term rating of A+, 61% with a long-term rating of A.
- 5.5. As shown in pie chart 2 of Appendix 1, these monies were placed with various counterparties, 89% being placed directly with banks and 11% placed with a range of counterparties via money market funds.
- 5.6. Pie chart 3 of Appendix 1 shows the countries where the parent company of the financial institution with which we have monies invested is registered. For money market funds there are various counterparties spread across many countries. The cumulative balance of funds held with any one institution was kept within agreed limits.

Liquidity:

- 5.7 At the end of quarter three £28.5m of our in-house monies were available on an instant access basis, £10.0m were held in notice accounts and £25.0m were held in fixed term deposits. The table below shows the fixed term deposits during the period October to December 2024.

Table 1: Fixed Term Deposits

Counterparty	Date of Deposit	Return Date	Number of days	Interest rate (%)	Amount (£m)
National Bank of Kuwait (International) plc	13/08/2024	13/11/2024	92	5.07	5
Lloyds Bank Corporate Markets (NRFB)*	27/09/2024	26/09/2025	364	4.56	10
National Bank of Kuwait (International) plc	11/06/2024	11/06/2025	365	5.34	5
National Bank of Kuwait (International) plc	15/11/2024	14/11/2025	364	4.94	10

\* NRFB – Non Ring-Fenced Bank

- 5.8. The maturity profile of our investments is shown in pie chart 4 of Appendix 1.

Investment return:

- 5.9. During the quarter the Council used the enhanced cash fund manager Payden & Rygel to manage monies on our behalf. An average balance of £5.1m was invested in these funds during the quarter. The table on the next page shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 3 of Appendix 2.

Table 2: Payden Sterling Reserve Fund

<b>Quarter 3</b>	<b>£m</b>	<b>Annualised investment return (%)</b>
Value of fund at start of quarter	5.055	
Decrease in fund due to value of unit price	(0.007)	(0.54)
Value of fund at end of quarter	5.048	
Income distributions	0.055	4.29
Combined investment income (income distribution plus change in fund value due to unit price)	0.048	3.75

5.10. The Council had an average of £78.5m of investments managed in-house over the period from October to December, and these earned an average interest rate of 4.60%. Of the in-house managed funds:

- an average of £26.8m was held in the Council's main bank account earning an average of 4.02% over the quarter.
- an average of £19.3m was held in money market funds earning an average of 4.97% over the quarter. These work in the same way as a deposit account but the money in the overall fund is invested in a number of counterparties, therefore spreading the counterparty risk.
- an average of £10.0m was held in notice accounts earning an average of 4.82% over the quarter.
- an average of £22.4m was held in fixed term deposits and earned an average return of 4.87% over the quarter.

5.11. In accordance with the Treasury Management Strategy the in-house performance during the quarter is compared to the SONIA rate. Overall, average in-house investment performance was 0.20% lower than the average SONIA rate (Sterling Overnight Index Average). This was due to the amounts held in the Council's main bank account for liquidity purposes, which attract bank base rate less 1%.

5.12. The SONIA rate fluctuated between 4.700% and 4.950% during the quarter. The bank base started the quarter at 5.00% and decreased to 4.75% on 7 November 2024. Performance is shown in Graph 1 of Appendix 2.

5.13. As investment balances fluctuate, all investment returns quoted in this report are calculated using the average balance over the period and are quoted as annualised returns.

## **6. Short Dated Bond Funds – quarter three (October to December)**

6.1. Throughout the quarter medium term funds were invested in two short-dated bond funds: Royal London Investment Grade Short Dated Credit Fund and the AXA Sterling Credit Short Duration Bond Fund.

- 6.2. The monies are invested in units in the fund, the fund is then invested as a whole by the fund managers into corporate bonds in the one-to-five-year range. An income distribution will be generated from the coupon on the bond and income distributions are paid to the Council. The price of units can rise and fall, depending on the value of the corporate bonds in the fund. So, these investments would be over the medium term with the aim of realising higher yields than short term investments.
- 6.3. In line with the capital finance and accounting regulations the Council's Financial Instrument Revaluation Reserve will be used to capture all the changes in the unit value of the funds and therefore there will be no impact from these changes on the revenue budget. Members should be aware that investment returns in some quarters will look very good and in other quarters there may be losses reported, but these will not impact the revenue account as only the distributions paid to the Council will impact that and not the change in the unit price.
- 6.4. An average of £7.5m was managed by AXA Investment Managers UK Limited. the table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 2 of Appendix 2.

Table 3: AXA Sterling Credit Short Duration Bond Fund

<b>Quarter 3</b>	<b>£m</b>	<b>Annualised investment return (%)</b>
Value of fund at start of quarter	7.562	
Decrease in fund due to value of unit price	(0.029)	(1.56)
Value of fund at end of quarter	7.533	
Income distributions*	0.080	4.23
Combined investment income (income distribution plus change in fund value due to unit price)	0.051	2.67

\* This income distribution is an estimate and will be confirmed and distributed in quarter 4.

- 6.5. An average of £7.2m was managed by Royal London Asset Management. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 2 of Appendix 2.

Table 4: Royal London Investment Grade Short Dated Credit Fund

<b>Quarter 3</b>	<b>£m</b>	<b>Annualised investment return (%)</b>
Value of fund at start of quarter	7.268	
Decrease in fund due to value of unit price	(0.038)	(2.13)
Value of fund at end of quarter	7.230	
Income distributions	0.090	4.94
Combined investment income (income distribution plus change in fund value due to unit price)	0.052	2.81

## 7. Property Funds – quarter three (October to December)

- 7.1. Throughout the quarter long term funds were invested in two property funds: Patrizia Hanover Property Unit Trust and Lothbury Property Trust.
- 7.2. The monies are invested in units in the fund, the fund is then invested as a whole by the fund managers into properties. An income distribution is generated from the rental income streams from the properties in the fund. Income distributions are paid to the Council. There are high entrance and exit fees and the price of the units can rise and fall, depending on the value of the properties in the fund, so these funds are invested over the long term with the aim of realising higher yields than other investments.
- 7.3. In line with the capital finance and accounting regulations the Council's Financial Instrument Revaluation Reserve will be used to capture all the changes in the unit value of the funds and therefore there will be no impact from these changes on the revenue budget. Members should be aware that investment returns in some quarters will look very good and in other quarters there may be losses reported, but these will not impact the revenue account as only the distributions paid to the Council will impact that and not the change in unit price.
- 7.4. An average of £19.3m was managed by Patrizia Property Investment Managers LLP. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 1 of Appendix 2.

Table 5: Patrizia Hanover Property Unit Trust

<b>Quarter 3</b>	<b>£m</b>	<b>Annualised investment return (%)</b>
Value of fund at start of quarter	18.667	
Increase in fund due to value of unit price	2.662	54.63
Value of fund at end of quarter	21.329	
Income distributions*	0.176	3.62
Combined investment income (income distribution plus change in fund value due to unit price)	2.838	58.25

\* This income distribution is an estimate and will be confirmed and distributed in quarter 4.

It should be noted that this large increase in the fund value is one-off in nature as it relates to the receipt of outline planning permission for one of the properties in the fund, for change of use to a data centre. This had the effect of substantially increasing the value of that property. The annualised investment return is calculated on a pro-rata basis, however, we do not expect such large increases to be regularly repeated. Although, at certain points, there may be some future increases as the development of the site progresses and the site is sold.

- 7.5. As the Lothbury Property Trust has now terminated there will be no further valuations undertaken. At the termination date of 30 May 2024 the redemption value of the units in the Lothbury Property Trust was notified as £9.968m. As the property disposal programme progresses it is the intention of the fund managers that distributions will be made in the first week of each month where sufficient sales have been achieved. During quarter three there was one distribution of £0.741m completed in the first week of November, from the proceeds of the asset disposals that had taken place to that date. There were no distributions

made in October or December as no further sales had been made at those points in time.

Table 6: Lothbury Property Trust

<b>Quarter 3</b>	<b>£m</b>	<b>Annualised investment return (%)</b>
Value of fund at start of quarter	4.079	
Distributions completed	(0.741)	
No change in fund due to value of unit price	(0.000)	(0.0)
Value of fund at end of quarter	3.338	
Income distributions*	0.036	3.88
Combined investment income (income distribution plus change in fund value due to unit price)	0.036	3.88

\* This income distribution is an estimate and will be confirmed and distributed in quarter 4.

- 7.6. The Council has opted to have its fund distributions re-directed to the UBS Triton Property Unit Trust and during November, £0.741M of units were purchased. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return. See also Table 1 of Appendix 2.

Table 7: UBS Triton Property Unit Trust

<b>Quarter 3</b>	<b>£m</b>	<b>Annualised investment return (%)</b>
Value of fund at start of quarter	5.904	
Purchase of units	0.741	
Increase in fund due to value of unit price	0.052	3.35
Value of fund at end of quarter	6.697	
Income distributions*	0.034	2.15
Combined investment income (income distribution plus change in fund value due to unit price)	0.086	5.50

\* This income distribution is an estimate and will be confirmed and distributed in quarter 4.

## 8. Investments – quarter three cumulative position

- 8.1. During the period from April to December 2024 the Council complied with all the relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. Its adoption and implementation of the Code of Practice for Treasury Management means its treasury practices demonstrate a low-risk approach.
- 8.2. The Council is aware of the risks of passive management of the treasury portfolio and has proactively managed levels of debt and investments over the nine-month period with the support of its treasury management advisers.



8.3. The table below summarises the Council’s investment position for the period from April to December 2024:

Table 8: Investment position

	At 31 March 2024	At 31 December 2024	April to December 2024	
	Actual Balance (£000s)	Actual Balance (£000s)	Average Balance (£000s)	Average Rate (%)
Call accounts <sup>#</sup>	19,038	20,497	22,864	4.25
Money market funds	14,000	8,000	29,455	5.19
Notice Accounts	10,000	10,000	11,073	5.40
Fixed term deposits	22,500	25,000	19,136	5.31
<b>Total investments managed in-house</b>	<b>65,538</b>	<b>63,497</b>	<b>82,528</b>	<b>4.99</b>
Enhanced Cash Funds	5,034	5,048	5,057	4.92
Short Dated Bond Funds	14,697	14,762	14,703	5.10
Property Funds	28,345	31,364	28,328	17.50
<b>Total investments managed externally</b>	<b>48,076</b>	<b>51,174</b>	<b>48,088</b>	<b>12.38</b>
<b>Total investments</b>	<b>113,614</b>	<b>114,671</b>	<b>130,616</b>	<b>7.71</b>

<sup>#</sup> This includes the council’s main current account.

When the quarter two figures were considered at the Policy and Resources Scrutiny Committee meeting of 7 November a request was made for benchmarking information to be included for the externally managed funds, at the most appropriate points in the year.

Each fund has an index against which they compare their performance. However, the figures vary as to whether they are quoted net or gross of fees, charges and tax and vary as to the timescales, often on a rolling period that doesn’t match our financial years. Given this, we will liaise with the fund managers and our treasury management advisors so that we can gather and report this information in a meaningful way. It is therefore our intention to include this in the treasury management outturn report to June Cabinet.

8.4. In summary the key factors to note regarding Table 8 are:

- An average of £82.5m of investments were managed in-house. These earned £3.101m of interest during this nine-month period at an average rate of 4.99%. This is 0.02% below the average SONIA rate and 0.07% below the average bank base rate of 5.06%.

- An average of £5.1m was managed by an enhanced cash fund manager. During this nine-month period this earned £0.173m from income distributions at an average rate of 4.54% and the value of the fund increased by £0.014m giving a combined overall return of 4.92%.
- An average of £14.7m was managed by two short-dated bond fund managers. During this nine-month period these earned £0.500m from income distributions at an average rate of 4.51% and the value of the funds increased by £0.065m giving a combined overall return of 5.10%.
- An average of £28.3m was managed by three property fund managers. During this nine-month period these earned £0.716m from income distributions at an average rate of 3.35% and the value of the funds increased by £3.019m giving a combined overall return of 17.50%.

8.5. The total for interest and income distributions in paragraph 8.4 above is £4.490m. The total change in external fund values due to the unit price is a net increase of £3.098m, which is set out in the table below. In line with the capital finance and accounting regulations the Council's Financial Instrument Revaluation Reserve will be used to capture all the changes in the unit value of the funds and therefore there will be no impact from these changes on the revenue budget.

Table 9: Externally managed funds – changes in unit price

<b>Fund</b>	<b>Table Number</b>	<b>Amount (£m)</b>
Payden Sterling Reserve Fund	Paragraph 8.4	0.014
AXA Sterling Credit Short Duration Bond Fund	12	0.037
Royal London Investment Grade Short Dated Credit Fund	13	0.028
Patrizia Hanover Property Unit Trust	14	3.000
Lothbury Property Trust	15	(0.048)
UBS Triton Property Unit Trust	16	0.067
<b>Total net increase due to changes in unit price</b>		<b>3.098</b>

8.6. Some cash balances managed in-house are required to meet short term cash flow requirements and therefore throughout the nine-month period monies were placed 4 times for periods of one year or less. The table on the next page shows the most used counterparties overall and the countries in which they are based. All deals are in sterling despite the country the counterparties are based in.

Table 10: Counterparties used

Counterparty	Country	No. of Deals	Value of Deals (£m)
Aberdeen Liquidity Fund	Money Market Fund (Various Counterparties)	2	28
BlackRock	Money Market Fund (Various Counterparties)	1	16
Insight	Money Market Fund (Various Counterparties)	1	10
<b>Total</b>		<b>4</b>	<b>54</b>

8.7. In addition to the above, use was also made of call accounts during the year because they provide instant access to funds. This meant that funds were available for cash flow movements to avoid having to pay higher rates to borrow from the market. During the period from April to December 2024 an average of £22.9m was held in such accounts.

8.8. For cash balances that are not needed to meet immediate or very short-term cash flow requirements, monies were invest in:

- a 35-day notice account with Santander UK plc.
- a 95-day notice account with Santander UK plc.

8.9. Monies were also invested in fixed term deposits of up to one year, depending on the liquidity requirements. The table below shows the fixed term deposits held during the period from April to December 2024.

8.10. Table 11: Fixed Term Deposits

Counterparty	Date of Deposit	Return Date	Number of days	Interest rate (%)	Amount (£m)
National Bank of Kuwait (International) plc	13/08/2024	13/11/2024	92	5.07	5
Lloyds Bank Corporate Markets (NRFB)*	29/09/2023	27/09/2024	364	5.87%	10
Lloyds Bank Corporate Markets (NRFB)*	27/09/2024	26/09/2025	364	4.56%	10
National Bank of Kuwait (International) plc	17/05/2023	16/05/2024	365	5.27	12.5
National Bank of Kuwait (International) plc	11/06/2024	11/06/2025	365	5.34	5
National Bank of Kuwait (International) plc	15/11/2024	14/11/2025	364	4.94	10

\* NRFB – Non Ring-Fenced Bank

## 9. Short Dated Bond Funds – quarter three cumulative position

- 9.1. An average of £7.5m was managed by AXA Investment Managers UK Limited. The table below shows the movement in the fund value over the period from April to December, the income distributions for that period, the returns both for each element and the combined return.

Table 12: AXA Sterling Credit Short Duration Bond Fund

<b>April to December 2024</b>	<b>£m</b>	<b>Annualised investment return (%)</b>
Value of fund at start of financial year	7.496	
Increase in fund due to value of unit price	0.037	0.66
Value of fund at end of quarter 3	7.533	
Income distributions*	0.238	4.21
Combined investment income (income distribution plus change in fund value due to unit price)	0.275	4.87

\* Q3 of this income distribution is an estimate and will be confirmed and distributed in quarter 4.

- 9.2. An average of £7.2m was managed by Royal London Asset Management. The table below shows the movement in the fund value over the period from April to December, the income distributions for that period, the returns both for each element and the combined return.

Table 13: Royal London Investment Grade Short Dated Credit Fund

<b>April to December 2024</b>	<b>£m</b>	<b>Annualised investment return (%)</b>
Value of fund at start of financial year	7.202	
Increase in fund due to value of unit price	0.028	0.51
Value of fund at end of quarter 3	7.230	
Income distributions	0.262	4.83
Combined investment income (income distribution plus change in fund value due to unit price)	0.290	5.34

## 10. Property Funds – quarter three cumulative position

- 10.1. An average of £18.7m was managed by Patrizia Property Investment Managers LLP. The table on the next page shows the movement in the fund value over the period from April to December, the income distributions for that period, the returns both for each element and the combined return.

Table 14: Patrizia Hanover Property Unit Trust

<b>April to December 2024</b>	<b>£m</b>	<b>Annualised investment return (%)</b>
Value of fund at start of financial year	18.329	
Increase in fund due to value of unit price	3.000	21.31
Value of fund at end of quarter 3	21.329	
Income distributions*	0.490	3.48
Combined investment income (income distribution plus change in fund value due to unit price)	3.490	24.79

\* Income distribution for Q3 is an estimate and will be confirmed and distributed in Q4.

The large increase in fund value relates mainly to the activity in quarter three. Please see paragraph 7.4 for further information.

- 10.2. As the Lothbury Property Trust has now terminated there will be no further valuations undertaken. At the termination date of 30 May 2024 the redemption value of the units in the Lothbury Property Trust was notified as £9.968m. As the property disposal programme progresses it is the intention of the fund managers that distributions will be made in the first week of each month where there are disposal proceeds to distribute. The initial distribution of £4.373M was completed in the first week of June, with further distributions in July of £1.011M, in August of £0.505M and in November of £0.741M, from the proceeds of the asset disposals that had taken place to those dates. There were no distributions made in September, October or December as no further sales had been made at those points in time.
- 10.3. The table below shows the movement in the fund value over the period from April to December, the income distributions for that quarter, the returns both for each element and the combined return.

Table 15: Lothbury Property Trust

<b>April to December 2024</b>	<b>£m</b>	<b>Annualised investment return (%)</b>
Value of fund at start of financial year	10.016	
Distributions completed	(6.630)	
Decrease in fund due to value of unit price	(0.048)	(1.14)
Value of fund at end of quarter 3	3.338	
Income distributions*	0.128	3.03
Combined investment income (income distribution plus change in fund value due to unit price)	0.080	1.89

\*Income distribution for Q3 is an estimate and will be confirmed and distributed in Q4.

- 10.4. The Council has opted to have its fund distributions re-directed to the UBS Triton Property Unit Trust and during June, July, August and November £4.373M, £1.011M, £0.505M and £0.741M of units were purchased respectively. The table below shows the movement in the fund value over the period from April to September, the income distributions for that quarter, the returns both for each element and the combined return.

Table 16: UBS Triton Property Unit Trust

<b>April to December 2024</b>	<b>£m</b>	<b>Annualised investment return (%)</b>
Value of fund at start of financial year	0.000	
Purchase of units	6.630	
Increase in fund due to value of unit price	0.067	2.19
Value of fund at end of quarter 3	6.697	
Income distributions	0.098	3.22
Combined investment income (income distribution plus change in fund value due to unit price)	0.165	5.41

\*Income distribution for Q3 is an estimate and will be confirmed and distributed in Q4.

## 11. Borrowing – quarter three

- 11.1. The Capital Financing Requirement (CFR) is the Council's theoretical need to borrow but the Section 151 Officer can manage the Council's actual borrowing position at any one time by either:

- 1 - Borrowing to the CFR.
- 2 - Choosing to use temporary cash flow funds instead of borrowing (internal borrowing) or
- 3 - Borrowing for future increases in the CFR (borrowing in advance of need).

Over time the Section 151 Officer can manage the Council's actual borrowing position in a combination of the above.

- 11.2. The Council began quarter three in the second of the above scenarios, with actual borrowing below CFR.
- 11.3. This, together with the Council's cash flow, the prevailing Public Works Loans Board (PWLB) interest rates and the future requirements of the capital programme, were taken into account when deciding the amount and timing of any loans. During the quarter no new PWLB loans were taken out, no loans matured, and no debt restructuring was carried out.
- 11.4. The level of PWLB borrowing (excluding debt relating to services transferred from Essex County Council on 1<sup>st</sup> April 1998) remained the same at £347.3m during the quarter. The average rate of borrowing over all the PWLB loans at the end of the quarter was 3.46%. A profile of the PWLB loan repayment dates is shown in Graph 2 of Appendix 2.

- 11.5. The level of PWLB borrowing at £347.3m is in line with the financing requirements of the capital investment programme and the revenue costs of this borrowing are fully accounted for in the revenue budget. The current level of borrowing is also in line with the Council’s prudential indicators and is proportionate, prudent, affordable, and sustainable.
- 11.6. Interest rates from the PWLB fluctuated throughout the quarter in response to economic events: 10-year PWLB rates between 4.77% and 5.47%; 25-year PWLB rates between 5.27% and 5.92% and 50-year PWLB rates between 5.06% and 5.69%. These rates are after the PWLB ‘certainty rate’ discount of 0.20%.
- 11.7. During quarter three no short-term loans were taken out for cash flow purposes. This is shown in Table 4 of Appendix 2.

## 12. Borrowing – quarter three cumulative position

- 12.1. The Council’s borrowing limits for 2024/25 are shown in the table below:

Table 17: Borrowing limits

	2024/25 Original (£m)
Authorised Limit	395
Operational Boundary	385

- 12.2. The Authorised Limit is the “Affordable Borrowing Limit” required by the Local Government Act 2003. This is the outer boundary of the Council’s borrowing based on a realistic assessment of the risks and allows sufficient headroom to take account of unusual cash movements.
- 12.3. The Operational Boundary is the expected total borrowing position of the Council during the year and reflects decisions on the amount of debt needed for the Capital Investment Programme. Periods where the actual position is either below or over the Boundary are acceptable subject to the Authorised Limit not being breached.
- 12.4. The Council’s outstanding borrowing as at 31<sup>st</sup> December 2024 was:
- |                              |         |
|------------------------------|---------|
| Southend-on-Sea City Council | £355.2m |
| PWLB:                        | £347.3m |
| Invest to save:              | £7.93m  |
| ECC transferred debt         | £8.38m  |
- 12.5. Repayments in the first 9 months of 2024/2025 were:
- |                              |        |
|------------------------------|--------|
| Southend-on-Sea City Council | £0.10m |
| PWLB:                        | £0.0m  |
| Invest to save:              | £0.10m |
| ECC transferred debt         | £0.41m |

- 12.6. Outstanding debt relating to services transferred from Essex County Council (ECC) on 1<sup>st</sup> April 1998, remains under the management of ECC. Southend Borough Council reimburses the debt costs incurred by the County. Regarding the repayments the Council repays this debt at 4% per annum on a reducing balance basis and can choose to make voluntary overpayments to repay the debt at a faster rate, if the budget allows. The debt is recognised as a deferred liability on our balance sheet.
- 12.7. The interest payments for PWLB and excluding transferred debt, during the period from April to December 2024 were £8.1m which is the same as the original budget for the same period.
- 12.8. The table below summarises the PWLB borrowing activities over the period from April to December 2024:

Table 18: PWLB borrowing activities

Quarter	Borrowing at beginning of quarter (£m)	New borrowing (£m)	Re-financing (£m)	Borrowing repaid (£m)	Borrowing at end of quarter (£m)
April to June 2024	347.3	0	0	(0)	347.3
July to September 2024	347.3	0	0	(0)	347.3
October to December 2024	347.3	0	0	(0)	347.3
<i>Of which:</i>					
General Fund	273.1	0	0	(0)	273.1
HRA	74.2	0	0	(0)	74.2

All PWLB debt held is repayable on maturity.

### 13. Funding for Invest to Save Schemes (included in Section 12)

- 13.1. Capital projects have been completed on energy efficiency improvements at the new Beecroft Art Gallery, replacement lighting on Southend Pier, lighting replacements at University Square Car Park and LED lighting at the Priory Park workshop which will generate on-going energy savings. These are invest-to-save projects and the predicted revenue streams cover as a minimum the financing costs of the project.
- 13.2. To finance these projects in total the Council took out interest free loans of £0.161m with Salix Finance Ltd which is an independent, not for profit company, funded by the Department for Energy and Climate Change that delivers interest-free capital to the public sector to improve their energy efficiency and reduce their carbon emissions. The loans are for a period of four and five years with equal instalments to be repaid every six months. There are no net revenue budget implications of this funding as there are no interest payments to be made and the revenue savings generated are expected to exceed the amount needed for the repayments. £0.003m of these loans were repaid during the period from April to December 2024. At 31 December 2024 the loans regarding the lighting replacements at University Square Car Park, the replacement lighting on



Southend Pier and the energy efficiency improvements at the Beecroft Art Gallery have been fully repaid. The total loan amounts outstanding for the LED lighting at the Priory Park workshop is £0.001m and this amount is due to be repaid during Q1 of 2025/26.

- 13.3. At the meeting of Cabinet on 23<sup>rd</sup> June 2015 the LED Street Lighting and Illuminated Street Furniture Replacement Project was approved which was to be partly funded by 25 year reducing balance 'invest to save' finance from L1 Renewables Finance Limited. The balance outstanding at the end of quarter three was £7.929m. A repayment of £0.100m was made during the period from April to December 2024.
- 13.4. Funding of these invest to save schemes is shown in Table 5 of Appendix 2.

#### **14. Compliance with Treasury Management Strategy – quarter three**

- 14.1. The Council's investment policy is governed by the CIPFA Code of Practice for Treasury Management in the Public Sector, which has been implemented in the Annual Treasury Management Investment Strategy approved by the Council on 22 February 2024<sup>1</sup>. The investment activity during the quarter conformed to the approved strategy, and the cash flow was successfully managed to maintain liquidity. This is shown in Table 7 of Appendix 2.

#### **15. Reasons for Decisions**

- 15.1. The CIPFA Code of Practice on Treasury Management recommends that Local Authorities should submit reports regularly. The Treasury Management Policy Statement for 2024/25 set out that reports would be submitted to Cabinet quarterly on the activities of the treasury management operation.

#### **16. Other Options**

- 16.1. There are many options available for the operation of the Treasury Management function, with varying degrees of risk associated with them. The Treasury Management Policy aims to effectively control risk to within a prudent level, whilst providing optimum performance consistent with that level of risk.

#### **17. Financial Implications**

- 17.1. The financial implications of Treasury Management are dealt with throughout this report.

#### **18. Legal Implications**

- 18.1. This Council has adopted the 'CIPFA Code of Practice for Treasury Management in the Public Sector' and operates its treasury management service in compliance with this code.

<sup>1</sup>[https://democracy.southend.gov.uk/documents/s60792/Appendix%203%20-%20Annual%20Treasury%20Management%20Investment%20Strategy%20-%202024\\_2025.pdf](https://democracy.southend.gov.uk/documents/s60792/Appendix%203%20-%20Annual%20Treasury%20Management%20Investment%20Strategy%20-%202024_2025.pdf)

**19. Carbon Impact**

19.1. None arising from this report.

**20. Equalities**

20.1. None arising from this report.

**21. Consultation**

21.1. The key Treasury Management decisions are taken in consultation with our Treasury Management advisers.

**22. Background Papers**

CIPFA Code of Practice for Treasury Management in the Public Sector.

**23. Appendices**

Appendix 1 – In-House Investment Position as at 31 December 2024

Appendix 2 – Treasury Management Performance for Quarter Three – 2024/25

**Report Authorisation**

This report has been approved for publication by:

<b>This report has been approved for publication by:</b>		
	<b>Name:</b>	<b>Date:</b>
S151 Officer	Joe Chesterton	03/02/2025
Deputy Monitoring Officer	Jayne Middleton	30/01/2025
Executive Director(s)	Joe Chesterton	03/02/2025
Relevant Cabinet Member(s)	Councillor Collins	03/02/2025