# Resources and Fire & Rescue Overview and Scrutiny Committee
# 05 March 2025

# Treasury Management Quarter 3 Update Report 2024/25

## Recommendation

That Resources and Fire & Rescue Overview and Scrutiny Committee receives and comments upon the update on Treasury Management activity and performance in respect of the first three quarters of the 2024/25 financial year.

## 1. Executive Summary

1.1 This quarterly report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and includes coverage of the following:

i.) a review of the Treasury Management Strategy Statement (TMSS);

ii.) a review of the Council's investment portfolio for 2024/25 (Section 2 & Appendix 1);

iii.) a review of the Council's borrowing strategy for 2024/25, including comments on any debt rescheduling undertaken during 2024/25 (Section 3 & Appendix 1);

iv.) the Council's capital expenditure, liability benchmark, and prudential indicators (Section 4 & Appendix 2); and

v.) an economic update for the reporting period (Appendix 3).

1.2 The following highlights are detailed in this report and annexes:

i.) Treasury operations, balances, and investments during the first three quarters of the year aligned with the Council approved Treasury Management Strategy's security, liquidity, and yield prioritisation.

ii.) Total treasury investments were £282m at the end of Q3, £63m lower than at the beginning of the financial year 2024/25.

iii.) Liquid funds (funds that can be accessed quickly) averaged £97m during the nine-month period, sufficient liquidity has been retained to meet the expected calls on the Council's cash balances to fund service, capital spending and Dedicated Schools Grant High Needs Block revenue overspend.

iv.) Investments' interest rates on the Council's treasury balances which had remained stable through the first four months of the year, slightly reduced in August and November in response to the Bank of England rate reductions.

v.) The average yield on the Council's treasury investments was 4.92% during the nine months, which is a reduction of about two basis points since Q2. This decrease is due to the Monetary Policy Committee reducing interest rates further in November 2025.

vi.) Interest income on treasury investments of £12.8m was achieved during the nine-month period, against a year-to-date budget of £3.7m. At the end of Q3, the full year revenue surplus from interest income is forecast to be £15.4m. It is important to note that while the additional income contributes towards mitigating in-year revenue budget pressures, this income is treated as windfall and cannot be relied upon to be achieved indefinitely as it is impacted by the level of deposits earmarked for the delivery of the capital programme and the negative impact on cash balances of the large and growing Dedicated Schools Grant (DSG) High Needs Block overspend with the Council now relying on the 'statutory override'. Furthermore, this income stream is sensitive to fluctuations in interest rates, which may affect its overall yield and stability.

## 2. Annual Investment Strategy update as at Q3

2.1 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 8 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, and yield.

2.2 This section of the report gives a view of how the Council's treasury operations, investments and performance aligned to these priorities and the overall TMSS.

***Investment balances***

2.3 Throughout the first nine months of the year, the level of funds available for investment purposes averaged £347m. By the end of quarter 3, this total had decreased to £282.7m, representing a further reduction of £26.3m since Q2. These funds were temporarily available, with their levels primarily influenced by the timing of cashflows such as precept payments, grant receipts, payments due, payroll, and progress in the capital programme. It is important to note that cash balances tend to decrease towards the end of the month due to larger payment runs, such as payroll, but recover as we receive income and grants throughout the month. Based on the Q3 revenue forecast and the use of reserves to fund the MTFS, we expect our cash balances to reduce as we utilise our reserves. The in-year deficit on the DSG of £44.4m and the cumulative balance of £84.7m DSG deficit, subject to the 'statutory override' which allows councils to discount DSG deficits on their balance sheets, are also impacting our cash balances. The timing of cash flow fluctuations is temporary, while the use of reserves is permanent until such time as Government provides a long-term solution to this systemic issue arising from national policy decisions.

2.4 About 64% (£181.4m) of total treasury investments are managed in-house through fixed term lending to local authorities and housing associations together with a bank call account, while 36% (£101.3m) was externally managed through money market funds and special purpose variable net asset value funds.

Table 1 Investment Balances movements from the start of the year to Q3

| Investment Type in £ Millions | Balance at 31 March 2024 | Movement | Balance at 31 December 2024 |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| Housing Association Loans | 40.0 | -28.6 | 11.4 |
| Local Authority Loans | 180.4 | -50.4 | 130.0 |
| Bank Deposits* | 16.4 | 23.6 | 40.0 |
| **Managed In House** | **236.7** | **-55.3** | **181.4** |
| Money Market Funds* | 70.1 | -8.7 | 61.4 |
| VNAV Funds | 39.4 | 0.5 | 39.9 |
| **Externally Managed** | **109.5** | **-8.3** | **101.3** |
| **Total Funds** | **346.3** | **-63.6** | **282.7** |
| ***Highly liquid (funds that can be accessed quickly).** | | | |

2.5 During Q3, our money market funds were predominantly invested in Low Volatility Net Asset Value (LVNAV) funds with an average aggregate holding of £93m. This exceeds our current TMSS guideline which stipulates that no more than £60m should be allocated to any single type of fund and that investments should be diversified across Constant Net Asset Value (CNAV), Low Volatility Net Asset Value (LVNAV), and Variable Net Asset Value (VNAV) funds with a maximum allocation of £60m each, although all LVNAV funds are AAA-rated and thus carry low risk. Our investment portfolio remained diversified, including six different LVNAV money market funds, investments in the local authority market, banks, and VNAV funds.

2.6 Internal monitoring arrangements are being reviewed, and for the 2025/26 strategy, an aggregate NAV fund limit not exceeding £150m has been approved to provide more flexibility, which is justifiable due to the low-risk nature of these investments (in particular CNAV and LVNAV funds).

2.7 Fixed term loans to Local Authorities and Housing Associations have varying remaining maturities averaging 106 days, this is a decrease of 114 days since

Q3. During the quarter there were no new fixed term investments made as maturing amounts were deposited on the money market in line with the Council's liquidity requirements.

2.8 Further information on the Council's liquidity, yields, and performance of our Variable Net Asset Value (VNAV) Funds is in Appendix 1 of this report.

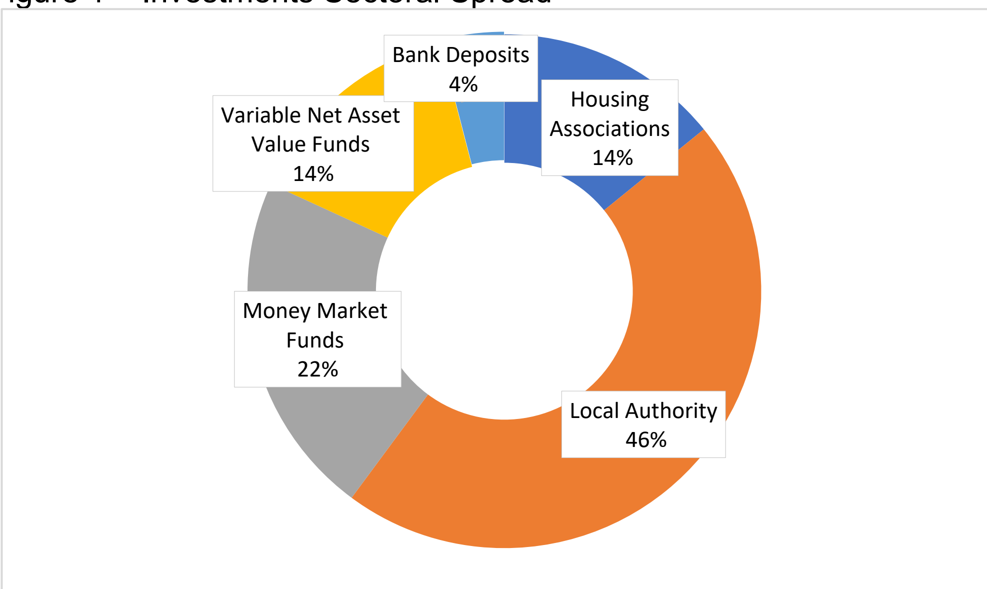
***Creditworthiness***

2.9 Between Q2 and Q3, no changes occurred in the credit ratings of investment counterparties and countries. The Council relies on credit ratings to evaluate the creditworthiness of Treasury investment counterparties. As per the Treasury Management Strategy Statement (TMSS), investments are made in UK-based banks, building societies with a minimum A- Fitch credit rating, and UK local authorities.

***Investment Counterparty Criteria***

2.10 In accordance with the TMSS, we have maintained our emphasis on security and liquidity. This approach results in the Council's treasury investments being spread across diverse sectors which exhibit strong security and liquidity features. The graph below (*Figure 1*) illustrates the sectors and proportions the treasury funds were invested in at the end of the reporting period.

Figure 1 – Investments Sectoral Spread




2.11 Local authorities and housing associations together held 64% of the Council's treasury funds on fixed term loans with varying repayment dates, the latest being March 2027. Investments held with local authorities amounted to £130m, equivalent to 46% of the total investment portfolio.

2.12 About 26% of the Council's treasury investments were instantly accessible and held in Money Market Funds (22%) and an instant access bank account (4%).

All the money market funds in place are rated at the highest form of credit worthiness by all the major three credit rating companies. The remainder (14%) was held in longer term special purpose funds known as variable net asset funds discussed in more detail in Appendix 1.

2.13 Counterparty investments were within the limits set in the Treasury Management Strategy.

***Liquidity***

2.14 The second most important priority in day-to-day treasury activities is liquidity, ensuring funds are available when needed for essential public services and the Council's capital programme. Periodic reviews of forecast cash flows are carried out to inform investment and borrowing decisions. A portion of treasury cash balances are invested in highly liquid funds, such as money market funds and bank call accounts, averaging £97m over three quarters. Longer-term investments are made only when it is certain the funds won't be needed immediately. More details on liquidity are shown in Appendix 1

2.15 Further information on investments at the end of quarter three can be found in Appendix 1, which provides an analysis of liquidity, investment maturity profiles, and yield performance.

## 3. Borrowing

3.1 The TMSS states that the Council will aim to maintain efficient cash levels by running down external investment balances and utilising available cash to finance a portion of the Capital Financing Requirement, which is referred to as internal borrowing. As of the end of Quarter 3, the internal borrowing forecast has decreased from £179m to £36m compared to the TMSS as shown in Table 2 below.

3.2 This change is attributed mainly to the increased use of reserves, which has increased from £20m at budget setting (as reported in the TMSS 24/25) to £64m at Q3. The increase in use of reserves is primarily required to cover the revenue outturn impact and accommodate adjustments to the Medium-Term Financial Strategy (MTFS) in future years.

3.3 In addition, slippage in the capital programme has resulted in expenditure being pushed to future years, reducing the internal borrowing requirements for the current year. Additional details regarding reserve movements and revisions to capital forecasts can be found in the 2024/25 Monitoring report Q3, which was presented to Cabinet on 28 January 2025.

3.4 In line with the MTFS 2025/26, a forecast for the DSG High Needs Block overspend in 2025/26 of £60m has been included, with no assumptions for future years. Without adequate Government funding to address the cumulative deficit, borrowing would need to be increased to maintain liquidity. This would reduce the capacity for internal borrowing, strain the cash position, and lower investment returns.

3.5 Total external borrowing has remained unchanged at £273m at the end of Q3. It is expected that the authority will be required to start borrowing externally from 2025/26.

Table 2 – External and internal borrowing forecast as at Q3

| | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|---|---|---|---|---|---|
| **External Debt** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Current Debt | 272.4 | 272.4 | 347.1 | 445.5 | 493.0 |
| Planned Debt repayments | 0.0 | 0.0 | 0.0 | 0.0 | -40.7 |
| New Debt | 0.0 | 74.7 | 98.4 | 47.5 | 0.0 |
| **Actual gross debt at 31 March** | 272.4 | 347.1 | 445.5 | 493.0 | 452.3 |
| Capital Financing Requirement | 308.7 | 430.8 | 527.8 | 577.4 | 554.5 |
| **Under / (over) borrowing** | 36.3 | 83.7 | 82.3 | 84.4 | 102.2 |
| Budget as per the TMSS 2024/25 | 179.4 | 179.4 | 179.4 | 179.4 | 179.4 |
| Change at Q1 | (103.4) | (59.8) | (56.2) | (38.2) | (30.5) |
| Change at Q2 | (31.1) | (13.0) | (4.5) | (7.9) | (2.0) |
| **Change from Budget to Q3** | (8.6 ) | (72.1) | (84.4) | (82.2) | (64.4) |

***PWLB maturity Certainty Rates 1st April to 31st December 2024***

3.6 Medium and long-term government bond yields, and therefore Public Works Loan Board (PWLB) rates, have increased, due to several factors: inflation has been higher than expected, wages are growing at about 5% per year, and the job market is tight with unemployment at just over 4% and more than 800,000 job vacancies.

**HIGH/LOW/AVERAGE PWLB RATES FOR 0.04.24 – 31.12.24**

| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|---|---|---|---|---|---|
| **02/04/2024** | 5.39% | 4.72% | 4.80% | 5.28% | 5.07% |
| **31/12/2024** | 5.20% | 5.12% | 5.43% | 5.91% | 5.68% |
| **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% | 5.16% | 5.44% | 5.92% | 5.69% |
| **High date** | 29/05/2024 | 19/12/2024 | 19/12/2024 | 19/12/2024 | 27/12/2024 |
| **Average** | 5.22% | 4.80% | 4.96% | 5.43% | 5.21% |
| **Spread** | 0.83% | 0.85% | 0.92% | 0.84% | 0.81% |

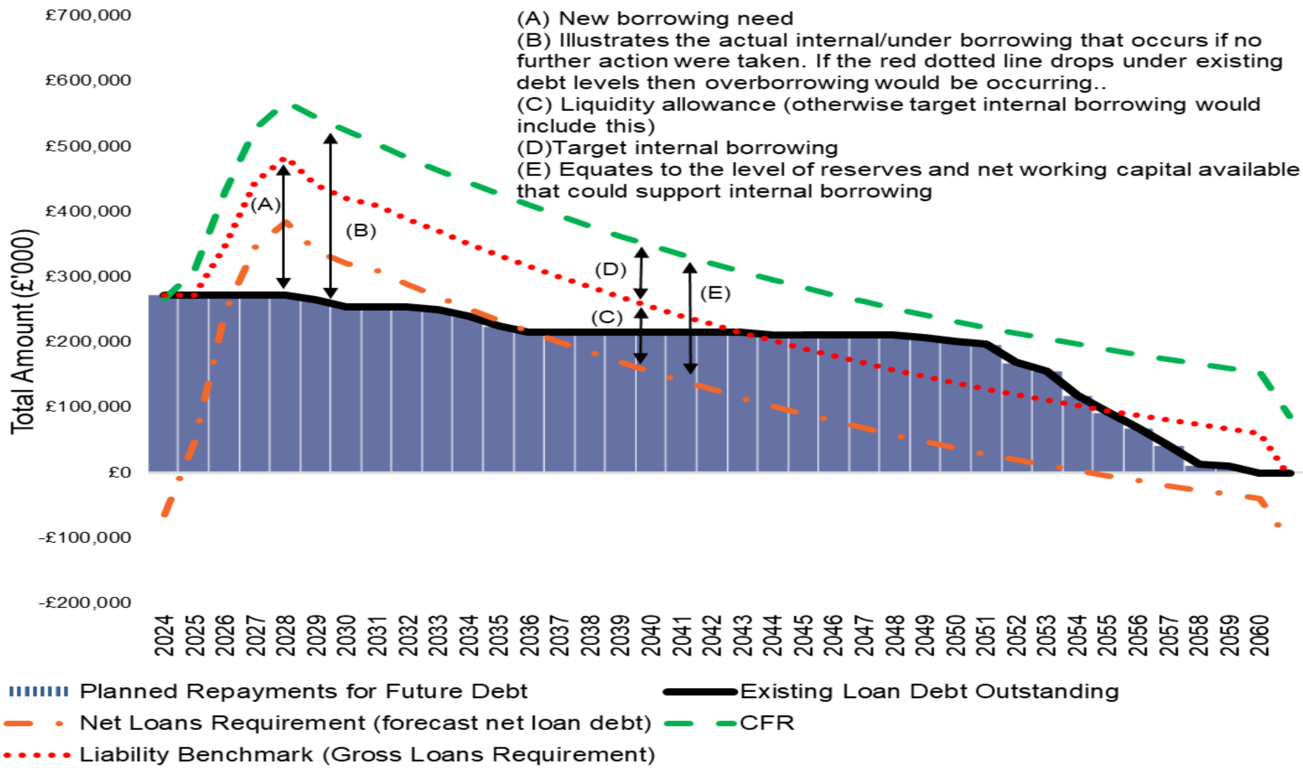
## 4. Liability Benchmark

4.1 The liability benchmark is a prudential indicator comparing the Authority's current loans with the estimated need for external borrowing. It considers capital spending, cash balances, and liquidity. If current loans are insufficient, more borrowing may be needed; if excessive, cash may need to be invested or borrowing reduced. The liability benchmark is intended to help determine borrowing amounts and timing.

4.2 The benchmark includes assumptions about future borrowing beyond the five-year Medium Term Financial Strategy, showing a decrease until 2050. However, new capital expenditures may alter the actual Capital Financing Requirement (CFR). The benchmark represents the minimum borrowing level compared to the CFR, assuming optimal use of internal resources like reserves and working capital. As capital spending increases and reserves are used instead of borrowing, the gap between external debt (solid black line) and the liability benchmark (dotted red line) narrows until borrowing resumes. The cash liquidity buffer is shown by the gap between the dotted red line (liability benchmark) and the dot-dash orange line (net loans requirement). This buffer is planned to reduce to £100m over time, reflecting more efficient use of resources.

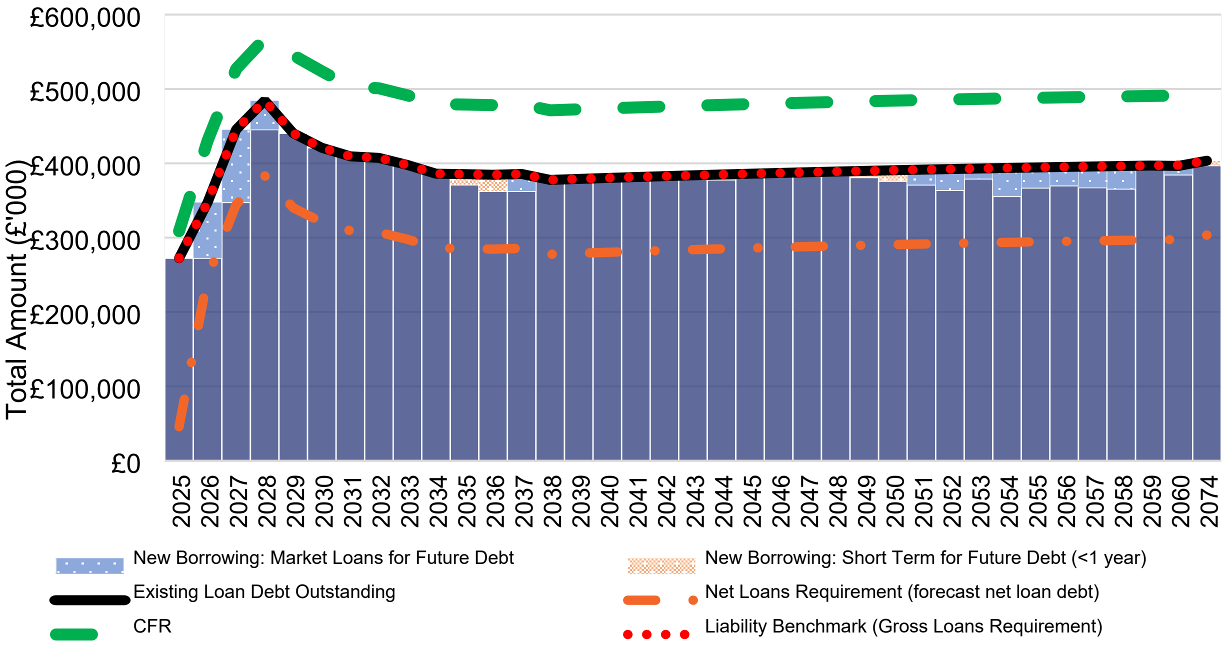
4.3 Figure 2 below illustrates the current Medium-Term Financial Strategy (MTFS) position and projections without future borrowing assumptions.

**Figure 2-Liability Benchmark chart (without management actions)**




4.4 New capital spending and proactive debt management will affect these projections, with an expected rolling programme of new capital spending occurring over time, as shown in Figure 3, which shows borrowing actions to align debt levels with the liability benchmark.

**Figure 3-Liability Benchmark chart (with management actions)**




## 5. Non-Treasury Investments

5.1 In addition to managing the Council's treasury investments and borrowings, the Treasury Management Team are also responsible for managing other non-treasury investments, undertaken in pursuit of achieving the Council's economic, commercial, and social objectives. Among the ongoing non-treasury investments that the team is involved in are loans through the Warwickshire Investment Fund, and loans to the Warwickshire Property and Development Group, and Educaterers, the school catering local authority trading company.

5.2 Non-treasury investments activities are reported and monitored at other governance forums and are excluded from this report which focuses only on treasury management activity.

## 6. Financial Implications

6.1 The financial implications of the treasury management performance and activity are set out in the body of the report.

## 7. Environmental Implications

7.1 The Council is committed to considering environmental, social, and governance (ESG) issues, and has a particular interest in terms of climate change and pursuing activities that have a positive social impact.

7.2 In the TMSS, the Council undertook to ensure an understanding of the degree to which investments may contribute towards climate change and where appropriate, move cash balances to funds that have ESG driven targets, or "green funds". In line with the Council's climate change commitments, this aims to ensure that where possible our investment activities are contributing towards tackling ESG issues, among other undertakings, once requirements for the security and liquidity of investments have taken precedence.

7.3 **Environmental**: The majority (64%) of the treasury investments outstanding at the end of the quarter were fixed-term deposits with other local authorities and housing associations. Of these deposits, 51% by value were with local authorities and housing associations with a climate action plan.

## 8. Timescales Associated with Next Steps

8.1 A Treasury Management Outturn report and Investment Outturn report will be presented to Cabinet after the year-end.

## Appendix

Appendix 1 – Investment and Borrowing Portfolio
Appendix 2 – Prudential Indicators
Appendix 3 – LINK Economic Update

**Background Papers**
None.

| | Name | Contact Information |
|---|---|---|
| Report Author | Chris Norton<br>Head of Investments, Audit, Insurance, and Risk | chrisnorton@warwickshire.gov.uk |
| Director | Purnima Kandula<br>Director of Finance | purnimakandula@warwickshire.gov.uk |
| Executive Director | Rob Powell,<br>Executive Director for Resources | robpowell@warwickshire.gov.uk |
| Portfolio Holder | Cllr Peter Butlin,<br>Portfolio Holder for Finance and Property | peterbutlin@warwickshire.gov.uk |

The report was circulated to the following members prior to publication:
Local Member(s): None – this is a County wide report.
Other Members: