COTSWOLD
District Council

Council name	**COTSWOLD DISTRICT COUNCIL**
Name and date of Committee	**AUDIT AND GOVERNANCE COMMITTEE – 21 NOVEMBER 2024**
Subject	**TREASURY MANAGEMENT MID-YEAR REPORT 2024-25**
Wards affected	ALL
Accountable member	Cllr Mike Evemy, Deputy Leader and Cabinet Member for Finance and Transformation Email: mike.evemy@cotswold.gov.uk
Accountable officer	David Stanley, Deputy Chief Executive and Section 151 Officer Email: david.stanley@cotswold.gov.uk
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Summary/Purpose	To receive and discuss details of the Council's Treasury Management performance for the period 01 April to 30 September 2024 and Quarter 2 Treasury Management Prudential Indicators.
Annexes	Annex A - Economic Background (April – September 2024)
Recommendation(s)	That the Audit and Governance Committee resolves to: 1. Note the Council's Treasury Management performance for the period 1 April 2024 to 30 September 2024 and the Quarter 2 Prudential Indicators 2. Recommended to Council for approval.
Corporate priorities	The Council's Treasury Management Strategy underpins all of the Council Priorities and is relevant to the Council principle of "Value for money – we will use the council's resources wisely but will invest in the fabric and future of the district".
Key Decision	NO
Exempt	NO

Consultees/ Consultation	N/A

1. BACKGROUND

1.1 In February 2011 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code). The CIPFA Code requires the Council to approve reports on treasury management activities at the end of the first half of the financial year and at the end of the financial year.

1.2 This report covers the Treasury Management activity and performance of Cotswold District Council for the period 01 April to 30 September 2024.

1.3 The Council's Treasury Management Strategy for 2024/25 was approved at the Council meeting on 21 February 2024. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy.

1.4 The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management 2021 ("the Code"), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also recommends that members be informed of Treasury Management activities on a quarterly basis. This report therefore ensures this Council is embracing best practice in accordance with CIPFA's recommendations.

2. TREASURY MANAGEMENT – INTRODUCTION

2.1 The purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's low risk approach, pursuing optimum performance while ensuring that security of the investment is considered ahead of investment return. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.

2.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure the Council can meet its capital spending obligations. The management of longer-term cash may involve the arrangement of long and/or short-term loans (external borrowing) or may use longer term cash flow surpluses in lieu of external borrowing (internal borrowing).

2.3 The Council continued to engage the services of Arlingclose for independent treasury advice during the year 2024/25. Arlingclose provide specialist treasury support to 25% of UK local authorities. They provide a range of treasury management services including technical advice on investment management and long-term capital financing. They advise on investment trends, developments, and opportunities consistent with the Council's Treasury Management Strategy.

2.4 The Council's treasury management advisors have provided commentary on the economic background that prevailed during the first half of 2024/25. This commentary is provided at Annex A.

3. TREASURY MANAGEMENT- SUMMARY POSITION - 1 APRIL 2024 to 30 SEPTEMBER 2024

3.1 On 31 March 2024, the Council had net investments of £24.554m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while useable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below:

Table 1: Balance Sheet Summary

	Actual as at 31/03/2024 (£m)	2024/25 Forecast (£m)
General Fund CFR	0.071	0.496
Less: External borrowing	(0.357)	(0.260)
Less: Usable reserves	(22.149)	(16.270)
Less: Working capital	(2.119)	(2.500)
Net Investments	**(24.554)**	**(18.534)**

3.2 The Council's current strategy is to fund capital expenditure through its capital receipts or to maintain investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk. If interest rates were to rise by 1%, then investment income would average 5.82%, whilst borrowing costs (based on 20-year PWLB Annuity Loan inclusive of the certainty rate) would be 5.44%. For every £1m borrowed there be an additional £3,800 income per annum.

3.3 The Council's strategy has been to diversify investments into pooled funds in order to reduce risk and increase returns. The treasury management position as at 31 March 2024 and the mid-year change is shown in Table 2 below.

Table 2: Treasury Management Summary

	Balance as at 31/03/2024 (£m)	Movement (£m)	Balance as at 30/09/2024 (£m)	Rate as at 30/09/2024 (%)
Long-term borrowing	0.357	(0.048)	0.309	2.21
Total borrowing	**0.357**	**(0.048)**	**0.309**	**2.21**
Long-term investments	11.552	0.161	11.713	4.84
Short-term investments	1.221	10.122	11.343	4.90
Cash and cash equivalents	12.138	(6.294)	5.844	5.14
Total investments	**24.911**	**3.989**	**28.900**	**4.68**
Net investments	**24.554**	**4.037**	**28.591**	

4. BORROWING ACTIVITY

4.1 Local authorities can borrow from the Public Works Loan Board (PWLB) provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 Officer. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to re-finance existing loans or externalise internal borrowing.

4.2 Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action and re-financing debt.

4.3 Competitive market alternatives are available for authorities with or without access to the PWLB. However, the financial strength of the individual Council and borrowing purpose will be scrutinised by commercial lenders.

4.4 The Council's first Community Municipal Investment (CMI), named 'Cotswold Climate Investment' (CMI) which had a fund target of £0.5m closed on the 16 August 2022, fully funded by over 450 investors. As at 30 September 2024 the Council's balance on the loan administered through Abundance Investments Limited for the purpose of Community Municipal Investments was £0.309m. The Cotswold Climate Investment will support a range of projects, including installing publicly available off-street electric vehicle charging points (EVCPs) around the district to encourage electric vehicle take-up, and improving the energy and carbon performance of the Council's Cirencester offices.

4.5 In order to support the Capital Programme in the future, the Council may need to undertake borrowing, there is no expectation of undertaking borrowing in the current financial year. Any future borrowing decision will be reported back to members of this Committee and will be subject to consideration and approval by either Cabinet or Council as appropriate.

5. INVESTMENT PERFORMANCE AND PROJECTIONS

5.1 The Council invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of the year, the Council's investment balances ranged between £42m and £22m million due to timing differences between income and expenditure. The investment position is shown in table 3 below:

Table 3: Treasury Investment Position

	Balance as at 31/03/2024 (£m)	Movement (£m)	Balance as at 30/09/2024 (£m)	Income Return as at 30/09/2024 (%)
Bank of England DMADF	1.141	8.689	9.830	5.10
Banks	0.000	1.500	1.500	4.91
Money Market Funds/ Call Accounts	12.138	(6.294)	5.844	5.14
Real Estate Investment Trust (REIT)	0.953	0.007	0.960	3.01
Cash Plus Fund	1.153	0.032	1.185	N/A
Pooled Funds (I)	9.526	0.055	9.581	4.84
Total investments	**24.911**	**3.989**	**28.900**	**4.68**

(1) - See breakdown at Table 4 below.

5.2 Both the CIPFA Code and Government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3 The Investment income budget for 2024/25 is £1.223m, as approved in February 2024. As part of Treasury Management monitoring, a review of Investment income expectations for the year indicates income could exceed budget by £0.376m by year end (based on investment returns in the first half of the year). Income achieved in excess of budget will be transferred to the Treasury Management Reserve at year end to mitigate the risk around future borrowing and potential changes to the accounting treatment on Pooled Funds. A sustained period of high interest rates have fed through to higher short-term deposit and MMF interest rates. There has been a small increase in Pooled Fund interest, further details are included in section 6 of this report.

6. EXTERNALLY MANAGED POOLED FUNDS

6.1 Of the Council's investments, £11.5m are held in externally managed strategic pooled cash, bond, equity, multi-asset, and property funds and a further £1m is invested in a

Housing Real Estate Investment Trust where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability

6.2 These funds have generated a revenue return of £0.199m (4.84% annualised) in the first half of the financial year. As at 30 September 2024, there is a capital loss of £0.967m against the initial investment due to continued external economic conditions.

6.3 The stabilisation in interest rates and well telegraphed move towards rate cuts, albeit at a much more conservative pace than previously expected, has allowed fund managers to position for a falling rate environment.

6.4 This in turn has led to some improvement in capital values of the Council's longer-dated bond funds during the six-month period and, to a lesser extent, the multi-asset funds, there has been £0.161m increase in capital value in the first six months of 2024/25.

6.5 Members are reminded that Pooled Funds are held for the longer-term and the capital value will fluctuate over each financial year.

6.6 Table 4 below shows the current valuations of the Pooled Funds portfolio, Cash Plus Fund and REIT at 30 September 2024, compared with the opening balances of 1 April 2024

COTSWOLD District Council

Table 4: Pooled Funds, Cash Plus Fund and REIT

Fund	Initial Investment (£)	Value of Fund as at 01/04/2024 (£)	Value of Fund as at 30/09/2024 (£)	2024/25 Dividends to 30/09/2024 (£)	2024/25 Gain / (Loss) (£)	Initial Principal Gain / (Loss) (£)	2024/25 Return Capital & Dividend (%)
CCLA Property Fund	2,500,000	2,153,645	2,145,985	29,663	(7,660)	(354,015)	0.88%
Schroders Income Maximiser Fund (E)	1,000,000	806,834	854,897	22,588	48,063	(145,103)	7.07%
CCLA Better World Fund (M)	1,000,000	985,867	967,557	10,468	(18,310)	(32,443)	(0.78%)
M&G UK Income Fund (E)	2,000,000	1,763,426	1,819,078	50,877	55,652	(180,922)	5.33%
Investec Diversified Fund (M)	2,000,000	1,812,676	1,838,949	40,113	26,274	(161,051)	3.32%
Columbia Threadneedle Bond Fund (B)	2,000,000	1,923,475	1,949,254	37,361	25,779	(50,746)	3.16%
Federated Cash + Fund (C)	1,000,000	1,153,550	1,184,557	0	31,007	184,557	3.10%
Fundamentum Housing REIT	1,000,000	952,900	952,900	7,875	0	(47,100)	0.79%
Total	**12,500,000**	**11,552,372**	**11,713,177**	**198,946**	**160,805**	**(786,823)**	**6.03%**

Key: E- Equity, M – Multi asset, B –Bond, C – Cash

6.7 Pooled funds capital value gained in the period April to September, by 1.39%. The first six months of 2024/25 were marked by ongoing market volatility, with global bond yields remaining elevated, although trending downward as policymakers kept rates at a restrictive level in light of persistent core inflation until nearly the end of the period, when the MPC, Federal Reserve, and ECB began to deliver rate cuts and signal a shift towards loosening monetary policy.

6.8 Stock markets across the UK, Europe, and US were buoyed by hopes of rate cuts over the first half of the period. UK equities saw growth in small and mid-sized companies while the US continued to be supported by its strong IT sector, especially growth in AI companies which continued to outperform. IT names performed well in the Eurozone as well while consumer discretionary stocks declined. Towards the end of the period, market volatility spiked after worries about a US recession coincided with Japan's central bank cutting interest rates, leading to the unwinding of the popular Yen 'carry trade'. This saw a huge selloff in equities globally, but markets quickly recovered without lasting impact. Slowdown in the Chinese economy and ongoing geopolitical tension in the Middle East and Europe continue to weigh on investor sentiment but are somewhat offset by the loosening of monetary policy and prospect of further rate cuts.

6.9 After a sustained period of high interest rates, central banks began to reverse course towards second half of the year. The European Central Bank began to cut rates in June, the Bank of England delivered its first rate cut in August, and the Federal Reserve surprised markets with an outsized rate cut of 50bps in September.

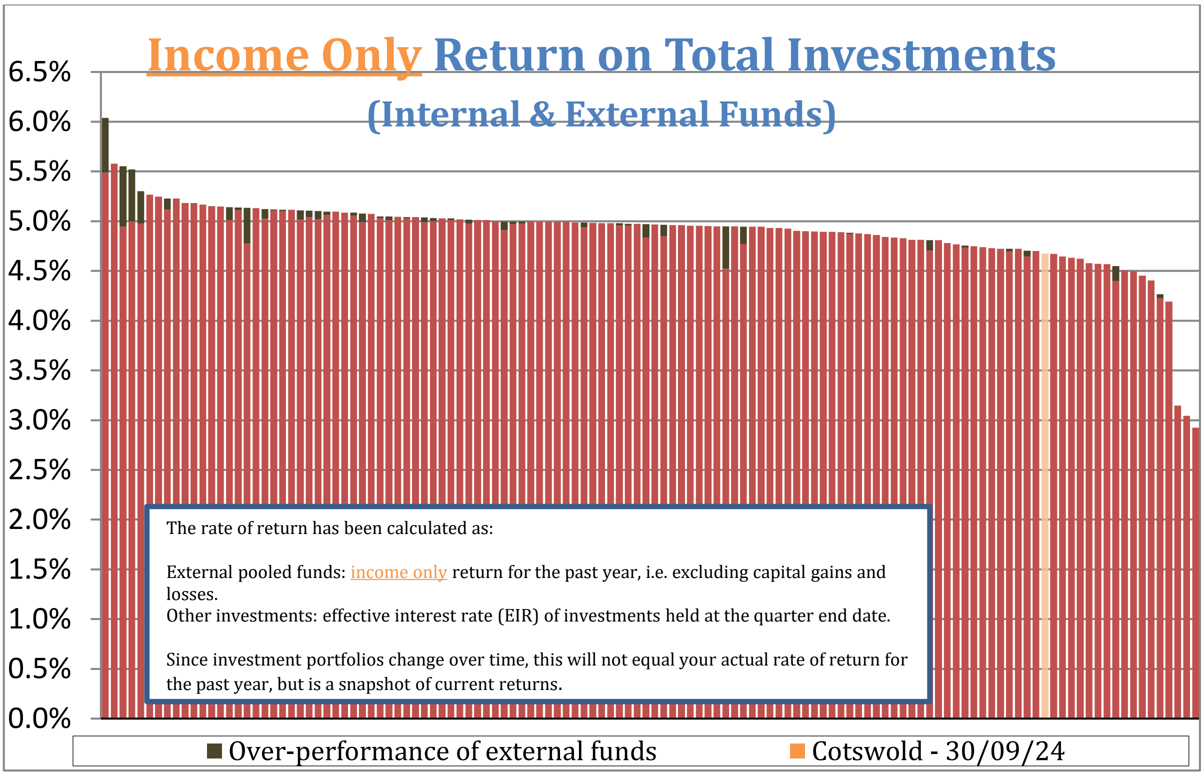
6.10 UK commercial property values started to stabilise, then improve slightly towards the end of the period, with interest rates being cut from their peak and investor attention turning to the timing of further interest rate cuts. Transaction activity remains somewhat subdued but signs of recovery in the occupier and rental markets as well as moderate economic growth and further falling interest rates are hoped to be favourable for an improving property sector outlook over the medium term. Capital growth is expected to be gradual while income levels remain strong for many sub-sectors.

6.11 The combination of the above had a positive effect on the combined value of the Council's strategic funds since March 2024. Income from the Council's cash plus / short bond funds has stayed broadly stable.

6.12 Because the Council's externally managed funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year minimum period total returns will exceed cash interest rates.

6.13 Table 5 below shows that as at 30 September 2024, Cotswold District Council (orange bar) achieved an average rate on investments of 4.68%, 107th in a pool of 124 Local Authorities where the top 121 ranged between 4.19% and 5.5% and the average was 4.90%

Table 5: Cotswold District Council investment returns v Arlingclose clients (124) as at 30 September 2024.



7. ARLINGCLOSE'S ECONOMIC OUTLOOK FOR THE REMAINDER OF 2024/25

	Current	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	5.00	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Downside risk	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

7.1 As expected, the MPC held Bank Rate at 5.0% in September. While the "no change" majority of eight to one was unexpectedly strong, the minutes suggested some policymakers believed a gradual approach to loosening policy was warranted given the persistence of services inflation, rather than no loosening at all.

7.2 CPI inflation remained just above the 2% target in August, the Bank expects this to rise to 2.5% by the end of the year as prior falls in energy prices drop out of the annual comparison and reveal the prevailing persistence of domestic inflationary pressures. Private sector wage growth has eased back but remains elevated and services inflation remains high at 5.6%. However, both will continue to decline over time.

7.3 UK GDP growth has been relatively strong in H1 2024, although this partly reflects a rebound from the H2 2023 technical recession. Underlying growth is weaker, but risks around domestic demand lie to the upside due to recovering consumer demand (although the announcement of higher taxes in the upcoming Budget could damage confidence). Stronger economic activity amid a continued tight, albeit easing, labour market could leave wage growth and inflation persistently higher.

7.4 We expect that the continuation of restrictive monetary policy and the appreciation in sterling will bear down on activity and will require more substantial loosening in 2025 to boost activity and inflation.

7.5 Global bond yields have reduced in anticipation of US monetary loosening, duly delivered by the Federal Reserve. However, US interest rate expectations seem relatively aggressive compared to policymakers' own expectations, which raises the risk of continued US-policy induced volatility in gilt yields. Moreover, there remains a heightened risk of fiscal policy, credit events and/or geo-political events causing additional volatility in yields.

7.6 The MPC will continue to cut rates to stimulate the UK economy but will initially be cautious given lingering domestic inflationary pressure. We have seen another rate cut in 2024 (Q4), but anticipate more significant monetary easing in 2025, with Bank Rate falling to a low of around 3%.

8. Long-term gilt yields have fallen alongside US monetary policy expectations. Arlingclose's central case is for yields to be volatile around a relatively narrow range, reflecting the likelihood for monetary policy loosening in the Eurozone, UK and US.

9. COMPLIANCE

9.1 The Chief Finance Officer reports that the majority of treasury management activities undertaken during the quarter complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 6 below.

Table 6: Investment Limits

Investment Limits Qtr2	2024/25 Maximum (£)	30/09/2024 Actual (£)	2024/25 Counterparty Limit (£)	2024/25 Sector Limit (£)	Complied?
Any single organisation, except the UK Government	0	0	3,000,000	Unlimited	Yes
Any group of organisations under the same ownership	0	0	3,000,000	Unlimited	Yes
Negotiable instruments held in a broker's nominee account	0	0	3,000,000	3,000,000	Yes
Limit per non-UK country	0	0	3,000,000	3,000,000	Yes
Registered providers and registered social landlords	0	0	3,000,000	10,000,000	Yes
Unsecured investments with banks and building societies	3,000,000	2,000,000	3,000,000	10,000,000	Yes
Money Market Funds	9,000,000	5,220,000	3,000,000	Unlimited	Yes
Strategic pooled funds	11,500,000	11,500,000	4,000,000	20,000,000	Yes
Real Estate Investment Trusts	1,000,000	1,000,000	3,000,000	20,000,000	Yes

9.2 Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 7 below.

Table 7: Debt and the Authorised Limit and Operational Boundary

Debt, Authorised Limit and Operational Boundary	Maximum Debt Q1 2024/25 (£)	Debt as at 30.09.2024 (£)	2024/25 Authorised Limit (£)	2024/25 Operational Boundary (£)	Complied?
Borrowing	10,000,000	308,955	10,000,000	5,000,000	YES
PFI and Finance Leases	0	0	0	0	YES
Total debt	**10,000,000**	**308,955**	**10,000,000**	**5,000,000**	

9.3 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

10. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

10.1 As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

10.2 Liability Benchmark - This new indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £13m required to manage day-to-day cash flow.

Liability benchmark - Q2	31/03/2024 Actual (£)	31/03/2025 Forecast (£)	31/03/2026 Forecast (£)	31/03/2027 Forecast (£)
Loans CFR	71,000	495,664	469,014	4,618,364
Less: Balance sheet resources	-24,268,000	-18,770,000	-19,225,000	-16,850,000
Net loans requirement	**-24,197,000**	**-18,274,336**	**-18,755,986**	**-12,231,636**
Plus: Liquidity allowance	13,000,000	13,000,000	13,000,000	13,000,000
Liability benchmark	**-11,197,000**	**- 5,274,336**	**-5,755,986**	**768,364**
Existing borrowing	**357,000**	**259,000**	**157,000**	**50,000**

*A negative liability benchmark indicates that the Council would be able to fund borrowing 'internally' from balance sheet resources rather than needing to externally borrow.

10.3 Long-term Treasury Management Investments: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

Long Term Q2	2024/25 (£)	2025/26 (£)	2026/27 (£)	No fixed date (£)
Limit on principal invested beyond year end	15,000,000	15,000,000	15,000,000	15,000,000
Actual principal invested beyond year end at 30.09.2024	£0	N/A	N/A	12,500,000
Compiled?	Yes	N/A	N/A	Yes

10.4 Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

10.5 Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Average Credit Rating Q2	2024/25 Target	30/09/2024 Actual	Complied?

Portfolio average credit rating	A-	AA-	Y

10.6 Interest Rate exposures – This indicator is set to control the Council's exposure to interest rate risk. Bank Rate fell by 0.25% from 5.25% on 1st April to 5.00% by 30th September. The upper limits on the one-year impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator Q2	2024/25 Target	30.9.24 Actual	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	-£0.153m	-£0.221m	No
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.153m	£0.221m	No

Due to lower than forecast capital expenditure the weighted average on variable rate investments (MMFs) has been higher than originally forecast. The 1% increase was therefore higher than the target and we have generated more interest income.

11. FINANCIAL IMPLICATIONs

11.1 Financial implications are outlined in the body of the report.

12. LEGAL IMPLICATIONS

12.1 There are no legal implications arising from this report.

13. RISK ASSESSMENT

13.1 This report discusses the impact of economic risk on the value and returns associated with the Council's investment portfolio together with the risk of low interest rates on the Council's revenue budget.

14. EQUALITIES IMPACT

14.1 None**.**

15. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS

15.1 None directly arising from this report.

16. BACKGROUND PAPERS

16.1 None.