Kirklees COUNCIL

Report title: Half Yearly Monitoring report on Treasury Management activities 2024/25

Meeting:	**Cabinet (Reference from Corporate Governance and Audit Committee, Reference to Council)**
Date:	**Corporate Governance and Audit Committee 6 December 2024 / Cabinet 21 January 2025 / Council 12 February 2025**
Cabinet Member (if applicable)	**Councillor Graham Turner**
Key Decision **Eligible for Call In**	**No** **No**
Purpose of Report The Council has adopted the CIPFA Code of Practice on Treasury Management. It is a requirement of the Code that regular reports be submitted to Members detailing treasury management operational activity. This report is the mid-year for 2024/25 covering the period 1 April to 30 September 2024.	
Recommendation and Reasons To note the treasury management performance during the first half of 2024/25 as set out in this report. This report has previously been presented to Corporate Governance and Audit Committee in December 2024.	
Resource Implications: There are no additional resource implications required as part of this report.	
Date signed off by Strategic Director & name **Is it also signed off by the Service Director for Finance?** **Is it also signed off by the Service Director for Legal Governance and Commissioning?**	**N/A** **Kevin Mulvaney – 27/11/2024** **Sam Lawton –27/11/2024**

Electoral wards affected: N/A

Ward Councillors consulted: N/A

Public or private: Public

Have you considered GDPR: Yes – there is no personal data within the budget details and calculations set out in this report and accompanying Appendices

1. Summary

1.1 The report gives assurance that the Council's treasury management function is being managed prudently and pro-actively and that the Council complied with its treasury management prudential indicators in the year (Appendix 4).

1.2 External investments, including the £10.0 million Local Authority Property Fund (LAPF), averaged £61.6 million during the period at an average rate of 5.06%. Investments ranged from a peak of £103.5m million in April to a low of £27.9 million in August.

1.3 The large range in investment balances are because of receiving significant cash sums at the start of the month, for example DSG (Dedicated Schools Grant) monies and Council Tax/NNDR, which result in peaks of cash for a short period of time.

1.4 The Council's net borrowing increased by £25.2 million in the 6 month period, from £668.2 million at 31 March 2024 to £693.4 million at 30 September 2024.

1.5 All treasury management activities undertaken during the period complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in Appendix 1.

1.6 The treasury management revenue budget for 2024/25 is £27.1 million. This is covered in more detail at paragraph 2.5.1 later in this report.

1.7 This report includes the requirement in the 2021 Code of quarterly reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the Council's normal quarterly revenue reports along with the treasury management indicators.

1.8 The main findings from the 2023/24 MRP review is included at Appendix 6.

2 Information required to take a decision:

2.1 Introduction

2.1.1 The treasury management strategy for 2024/25 was approved by Council on 6 March 2024. The over-riding policy continues to be one of ensuring the security of the Council's balances. The Council aims to invest externally balances of around £30.0 million, largely for the purpose of managing day-to-day cash flow requirements

2.1.2 The investment strategy is designed to minimise risk, with investments being made primarily in instant access accounts or short-term deposits, with Money Market Funds, the Debt Management Office (DMO), Local Authorities and major British owned banks and building societies. Diversification amongst counterparties is key.

2.2 The Economy and Interest Rates

2.2.1 UK headline consumer price inflation remained around the Bank of England (BoE) target later in the period, falling from an annual rate of 3.2% in March to 1.7% in September, largely due to base effects from energy prices but also a general easing in inflationary pressures. Core and services price inflation remained higher at 3.2% and 4.9% respectively in September.

2.2.2 The UK economy continued to expand over the period as it recovered from a technical recession, albeit slowing from the 0.7% gain in the first calendar quarter to 0.5% (downwardly revised from 0.6%) in the second. UK GDP growth, however, slowed materially in calendar year quarter three (July to September 2024), registering 0.1%. Of the monthly figures, the economy was estimated to have contracted by 0.1% in September.

2.2.3 Labour market data was slightly better from a policymaker perspective, showing an easing in the tightness of the job market, with inactivity rates and vacancies declining. However, a degree of uncertainty remains given ongoing issues around the data collected for the labour force survey by the Office for National Statistics. Figures for the three months to September showed the unemployment rate rose to 4.3% from 4.0% in the previous three-month period while the employment rate fell to 74.8% from 75.0%.

2.2.4 Over the same period average regular earnings (excluding bonuses) was 4.8%, down from 5.4% in the earlier period and total earnings (including bonuses) was 4.3%. Adjusting for inflation, real regular pay rose by 1.9% and total pay by 1.4%.

2.2.5 With headline inflation lower, the BoE cut Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. At the September MPC meeting, committee members voted 8-1 for no change at 5.00%, with the lone dissenter preferring Bank Rate to be cut again to 4.75%. The meeting minutes and vote suggested a reasonably hawkish tilt to rates, with sticky inflation remaining a concern among policymakers.

2.2.6 Arlingclose, the Council's treasury adviser, maintained its central view that Bank Rate would steadily fall from the 5.25% peak, with the first cut in August being followed by a series of further cuts, with November 2024 the likely next one (which did happen), taking Bank Rate down to around 3% by the end of 2025. Although the most recent forecasts (post budget) now indicate that this rate is now likely to be c3.75%.

2.2.7 The latest BoE Monetary Policy Report, published in August, showed policymakers expected GDP growth to continue expanding during 2024 before falling back and moderating from 2025 to 2027. Unemployment was forecast to stay around 4.5% while inflation was shown picking up in the latter part of 2024 as the previous years' energy price declines fell out of the figures before slipping below the 2% target in 2025 and remaining there until early 2027.

2.2.8 Sentiment in financial markets continued to mostly improve over the period, but the ongoing trend of bond yield volatility remained. Long-term gilt yields have risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests incoming data for clues around the impact of policy changes.

2.2.9 Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at 4.00% but hit a high of 4.41% in May and a low of 3.76% in mid-September. While the 20-year gilt started at 4.40% and ended at 4.51% but hit a high of 4.82% in May and a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.12% over the period to 30th September.

2.3 Local Context

2.3.1 On 30 September 2024, the Council had net borrowing of £693.4 million 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 balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	Actual 2023/24 £m	**Strategy Estimate 2024/25 £m**	**Revised Forecast 2024/25 £m**
General Fund CFR - Non PFI	663.2	706.8	714.0
PFI	33.6	31.2	31.2
HRA CFR - Non PFI	163.7	169.3	163.7
PFI	40.6	38.1	38.1
Total CFR	**901.1**	**945.4**	**947.0**
Less: PFI debt liabilities	74.2	69.3	69.3
: Other debt liabilities	3.4	3.5	3.5
Borrowing CFR	**823.5**	**872.6**	**874.2**
Less actual external borrowing *	707.3	614.9	711.4
Internal (over) borrowing	116.2	257.7	162.8
Total borrowing	**823.5**	**872.6**	**874.2**
Less: Balance sheet resources	155.3	144.0	122.6
Net borrowing	**668.2**	**728.6**	**751.6**
Investments	39.1	30.0	30.0

*shows only loans to which the Council is committed to the year end and excludes future borrowing and refinancing

2.3.2 The treasury management position at 30 September 2024 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.03.24 Balance £m	Movement £m	30.09.24 Balance £m	30.09.24 Weighted Average Rate %
Long-term borrowing:				
PWLB	550.4	23.0	573.4	4.21
LOBOs	30.8	0.0	30.8	4.39
Loan Stock	7.0	0.0	7.0	11.60
Other LT Loans	40.0	0.0	40.0	3.89
Other MT Loans	37.7	-10.7	27.0	4.56
Short-term borrowing	41.4	28.6	70.0	4.92
Total borrowing	**707.3**	**40.9**	**748.2**	**4.21**
Long-term investments	10	0.0	10.0	N/A
Short-term investments	0	20.0	20.0	N/A
Cash and cash equivalents	29.1	-4.4	24.7	N/A
Total investments	**39.1**	**15.6**	**54.7**	N/A
Net borrowing	**668.2**	**25.2**	**693.4**	

2.4 Investment Activity

2.4.1 The Council invested an average balance of £51.6 million externally (excluding the LAPF) during the period (£34.5 million in the first six months of 2023/24), generating £1,330k in investment income over the period (£789k in 2023/24). The LAPF investment of £10.0 million generated £227k of dividend income during the period (£198k in the first six months of 2023/24).

2.4.2 Debt repayments are weighted towards the second half of the year; to spread risk and given the Council’s significant borrowing requirement, even amounts of borrowing have been taken throughout the first six months of the year along with taking borrowing when opportunities arose if yields dipped. This has resulted in higher-than-normal cash balances compared to the 2024/25 strategy.

2.4.3 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 on incurring losses from defaults and the risk of receiving unsuitably low investment income.

2.4.4 Balances were mainly invested in instant access accounts such as Money Market Funds, short term deposits, Debt Management Office (DMO), Local Authority fixed term deposits and the LAPF. Appendix 1 shows where investments were held at the start of April, the end of June and September by counterparty, by sector and by country.

2.4.5 As demonstrated by the liability benchmark in this report at Appendix 4, the Council expects to be a long-term borrower and treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments.

2.4.6 Bank Rate reduced from 5.25% to 5.00% in August 2024 with short term rates largely being around these levels. The rates on Debt Management Account Deposit Facility (DMADF) also rose, ranging between 4.92% and 5.20% and Money Market Rates between 4.91% and 5.27%.

2.4.7 The Council's average investment rate for the period was 5.06%. This is higher than the average in the same period in 2023/24 of 4.43%. Returns on liquid cash balances were 5.16%

2.4.8 The Council continues to hold £10 million of strategic investment in the Local Authorities Pooled Investment Fund (LAPF). The fund returned a net yield of 4.53% after deducting charges. The actual gross dividend yield quoted from the fund on Net Asset Value was 5.21% at the end of September for the last 12 months, and the fund size was £1,032.3 million (4.66% and £1,186.3 million respectively for the 12 months to September 2023).

2.4.9 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.

2.4.10 The chart at Appendix 3, provided by Arlingclose, compares the Council's performance against other Local Authorities at the end of September. In order to gain better rates of return, the majority of Local Authorities with a higher rate of return have further external investments creating a more diverse portfolio.

2.5 Revenue Budget Monitoring

2.5.1 The treasury management budget is £27.1 million. Forecasted outturn is currently under budget by £1.0 million and this position is reflected in the Council's Q2 financial report to Cabinet later this month. This reflects higher levels of investment balances resulting in increased investment income than budgeted.

2.6 Borrowing Update

2.6.1 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decisions that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. PWLB loans are no longer available to buy investment assets primarily for yield unless these loans are for refinancing purposes

2.6.2 The Council has not invested in assets primarily for financial return or that are not primarily related to the functions of the Council. It has no plans to do so in the future.

2.6.3 Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing is also allowed for financing capital expenditure primarily related to the delivery of a Local Authority's function. The Council's borrowing is undertaken for these purposes only.

2.6.4 After substantial rises in interest rates since 2021 many central banks have now begun to reduce rates, albeit slowly. Gilt yields were volatile over the 6-month period and have reduced slightly between April and September 2024. Much of the downward pressure from lower inflation figures was counteracted by upward pressure from positive economic data. Data from the US continues to impact global bond markets including UK gilt yields.

2.6.5 The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the half year and 4.79% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.18%. Rates for 20-year maturity loans ranged from 5.01% to 5.57% during the half year, and 50-year maturity loans from 4.88% to 5.40%.

2.6.6 Whilst the cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024, primarily due a scarcity of LA-LA lending/borrowing activity during the month, as expected shorter-term rates reverted to a more normal range and were generally around 5.00% - 5.25%.

2.6.7 The PWLB HRA rate which is 0.4% below the certainty rate has been extended further to March 2026. This discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans.

2.7 Borrowing Activity

2.7.1 As outlined in the Treasury Strategy, the Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. At the present time short term interest rates are higher than long term interest rates.

2.7.2 In terms of borrowing, long-term loans (including LOBO's - see paragraph 2.7.6) at the end of September totalled £678.2 million (£562.1 million 31 March 2024) and short-term loans £70.0 million (£96.7 million 31 March 2024).

2.7.3 Fixed rate loans account for 95.84% of total long-term debt giving the Council stability in its interest costs. The maturity profile for long-term loans is shown in Appendix 2 and shows that no more than 9.64% of debt is due to be repaid in any one year. This is good practice as it reduces the Council's exposure to a substantial borrowing requirement in future years when interest rates might be at a relatively high level.

2.7.4 The Council has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark (see Appendix 4), which also considers usable reserves and working capital. The mid-year forecasted liability benchmark, based on updated capital plans, highlights that there is an expectation of additional borrowing of £70.2 million for the year.

2.7.4 During the period £35m of PWLB EIP loans were taken along with £20m of medium term loans from other Local Authorities. These loans provide some longer-term certainty and stability to the debt portfolio. A mixture of short, medium-term and further PWLB will be taken during the remainder of the year to fund the additional borrowing required. The rate assumption in the treasury budget for 2024/25 is 5.35%.

Medium and Long-term loans taken during the period 01/04/24 to 30/09/24

	Loan Period	**Amount £m**	**Rate %**	**Date to be repaid**
PWLB 739810 – EIP	12 years	20.0	4.67%	28/06/2036*
PWLB 751915 – EIP	11 years	10.0	4.37%	12/08/2035*
PWLB 759388 – EIP	12 years	5.0	4.52%	12/09/2036*
Oxfordshire County Council	3 years	5.0	5.00%	17/03/2027
West Yorkshire Combined Authority	11 months	5.0	5.15%	30/04/2025
Cambridgeshire & Peterborough Combined Authority	2 years	5.0	4.70%	06/08/2026
Elmbridge Borough Council	2 years	5.0	4.50%	14/09/2026
Total		**55.0**		

*EIP final repayment date

2.7.5 Appendix 5 sets out in year repayments on long-term borrowing and further re-payments for the next 6 months.

2.7.6 The Council has £30.0 million of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate and terms or to repay the loan at no additional cost.

2.7.7 As market rates remain high, there is an increased probability of call options on the LOBOs being exercised by lenders. No LOBO loans were called during the 6 month period to September 2024, however there remains a possibility they could within the next 12 months and as such have been classified as short-term borrowing in the debt maturity table in Appendix 2.

2.7.8 If the option is exercised and an increased rate proposed, the Council plans to repay the loan at no additional cost as accepting the revised terms would mean the Council would still have refinancing risk in later years. If required, the Council will repay the LOBO's by borrowing from other local authorities or the PWLB.

2.8 MRP Update

2.8.1 During 2023/24 an external review of MRP identified an overprovision which allowed for an unwind of £6.3 million to revenue in 2023/24. A further saving of £15.2 million will be released through a Voluntary Revenue Provision in 2024/25 and £10.8 million in 2025/26. Detail is provided in Appendix 6.

2.9 Risk and Compliance issues

2.9.1 The Council reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy, including the prudential indicators. Details can be found in Appendix 4. Indicators relating to affordability and prudence are highlighted in this appendix.

2.9.2 In line with the investment strategy, the Council has not placed any direct investments with companies as defined by the Carbon Underground 200.

2.9.3 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of the Council's consultants (Arlingclose), has proactively managed the debt and investments over the year.

3 Implications for the Council

3.1 Council Plan
N/A

3.2 Financial Implications
Any changes in assumed borrowing and investment requirements, balances and interest rates have been reflected in revenue budget monitoring reports during the year and the 2025/26 budget will be set to reflect the investment as per the capital plan and using the latest advice on forecast interest rates.

3.3 Legal Implications
N/A

3.4 Other (e.g. Risk, Integrated Impact Assessment or Human Resources)
N/A

4 Consultees and their opinions
N/A

5 Options
N/A

6 Next steps and timelines
Comments and feedback from CGAC will be incorporated into this report which will be subsequently presented to Cabinet and Council in January.

7 Contact Officer

James Anderson	Head of Accountancy	01484 221000
Rachel Firth	Finance Manager	01484 221000

8 Background Papers and History of Decisions
CIPFA's Prudential Code for Capital Finance in Local Authorities.
CIPFA's Code of Practice on Treasury Management in the Public Services.
CIPFA's Treasury Management in the Public Services – Guidance notes
The treasury management strategy report for 2024/25 - Council 6 March 2024
Council Budget Strategy Update Report 2025/26 – Council 18 September 2024

Annual Report on Treasury Management 2023/24 - Annual Financial Outturn Report 2023/24; Council 17 July 2024.

9 **Appendices**

Appendix 1: Investments 24/25
Appendix 2: Debt Maturity
Appendix 3: Average Return on Total Investments
Appendix 4: Treasury Management Prudential Indicators
Appendix 5: Long-term loans
Appendix 6: Minimum Revenue Provision (MRP)
Appendix 7: Treasury Management Practices (TMP)
Appendix 8: PWLB Borrowing Rates Table
Appendix 9: Glossary of Treasury Terms

10 **Service Director responsible**

Kevin Mulvaney 01484 221000

Appendix 1

Kirklees Council Investments 2024/25

Counterparty		Approved Strategy Limit £m	Approved Strategy Credit Rating	Credit Rating Sept 2024*	1 April 2024 (opening)			30-Jun-24			30-Sep-24		
					£m	Interest Rate	Type of Investment	£m	Interest Rate	Type of Investment	£m	Interest Rate	Type of Investment
Specified Investments													
LAPF	Property Fund	10.0	-	-	10.0	-	***	10.0	-	***	10.0	-	***
DMO	Central Government	Unlimited	-	F1+/AA-	-	-	Fixed Deposit	5.9	5.19%	Fixed Deposit	-	-	Fixed Deposit
PCC for Dorset	Local Authority	10.0	-	F1+/AA-	-	-	Fixed Deposit	6.5	5.30%	Fixed Deposit	-	-	Fixed Deposit
Newport City Council	Local Authority	10.0	-	F1+/AA-	-	-	Fixed Deposit	7.0	5.26%	Fixed Deposit			Fixed Deposit
BCP Council	Local Authority	10.0	-	F1+/AA-	-	-	Fixed Deposit	5.0	5.25%	Fixed Deposit			Fixed Deposit
Bedford Borough Council	Local Authority	10.0	-	F1+/AA-	-	-	Fixed Deposit	10.0	5.30%	Fixed Deposit			Fixed Deposit
Luton Borough Council	Local Authority	10.0	-	F1+/AA-	-	-	Fixed Deposit	5.0	5.25%	Fixed Deposit			Fixed Deposit
Crawley Borough Council	Local Authority	10.0	-	F1+/AA-	-	-	Fixed Deposit	-	-	Fixed Deposit	5.0	5.00%	Fixed Deposit
London Borough of Waltham Forest	Local Authority	10.0	-	F1+/AA-	-	-	Fixed Deposit	-	-	Fixed Deposit	5.0	5.00%	Fixed Deposit
Leeds City Council	Local Authority	10.0	-	F1+/AA-	-	-	Fixed Deposit	-	-	Fixed Deposit	5.0	5.00%	Fixed Deposit
West Northamptonshire Council	Local Authority	10.0	-	F1+/AA-	-	-	Fixed Deposit	-	-	Fixed Deposit	5.0	5.00%	Fixed Deposit
Barclays Deposit Account	Bank	3.0	-	F1/A+	0.0	4.65%	Fixed Deposit	0.0	4.65%	Fixed Deposit	0.0	4.40%	Fixed Deposit
Aberdeen Standard	MMF**	10.0	AAA-A	AAA	9.8	5.27%	MMF	9.9	5.23%	MMF	8.2	5.01%	MMF
Aviva	MMF**	10.0	Aaa-A2	Aaa*	9.9	5.25%	MMF	9.8	5.25%	MMF	10.0	5.01%	MMF
Deutsche	MMF**	10.0	AAA-A	AAA	9.4	5.25%	MMF	0.1	5.19%	MMF	6.6	5.00%	MMF
Goldman Sachs	MMF**	10.0	AAA-A	AAA	0.0	5.14%	MMF	0.0	5.13%	MMF	0.0	4.92%	MMF
					39.1			**69.2**			**54.7**		
Sector analysis													
Property Fund		10.0			10.0	26%		10.0	14%		10.0	18%	
Local Authorities		10.0			0.0	0%		33.5	48%		20.0	37%	
Bank		3.0			0.0	0%		0.0	0%		0.0	0%	
MMF**		50.0			29.1	74%		19.8	29%		24.7	45%	
Central Government		Unlimited			0.0	0%		5.9	9%		0.0	0%	
					39.1	100%		**69.2**	100%		**54.7**	100%	
Country analysis													
UK					10.0	26%		49.4	71%		30.0	55%	
MMF**					29.1	74%		19.8	29%		24.7	45%	
					39.1	100%		**69.2**	100%		**54.7**	100%	

*Fitch short/long term ratings, except Aviva MMF (Moody rating). See next page for key. The use of Fitch ratings is illustrative – the Council assesses counterparty suitability using all 3 credit rating agencies, where applicable, and other information on credit quality.

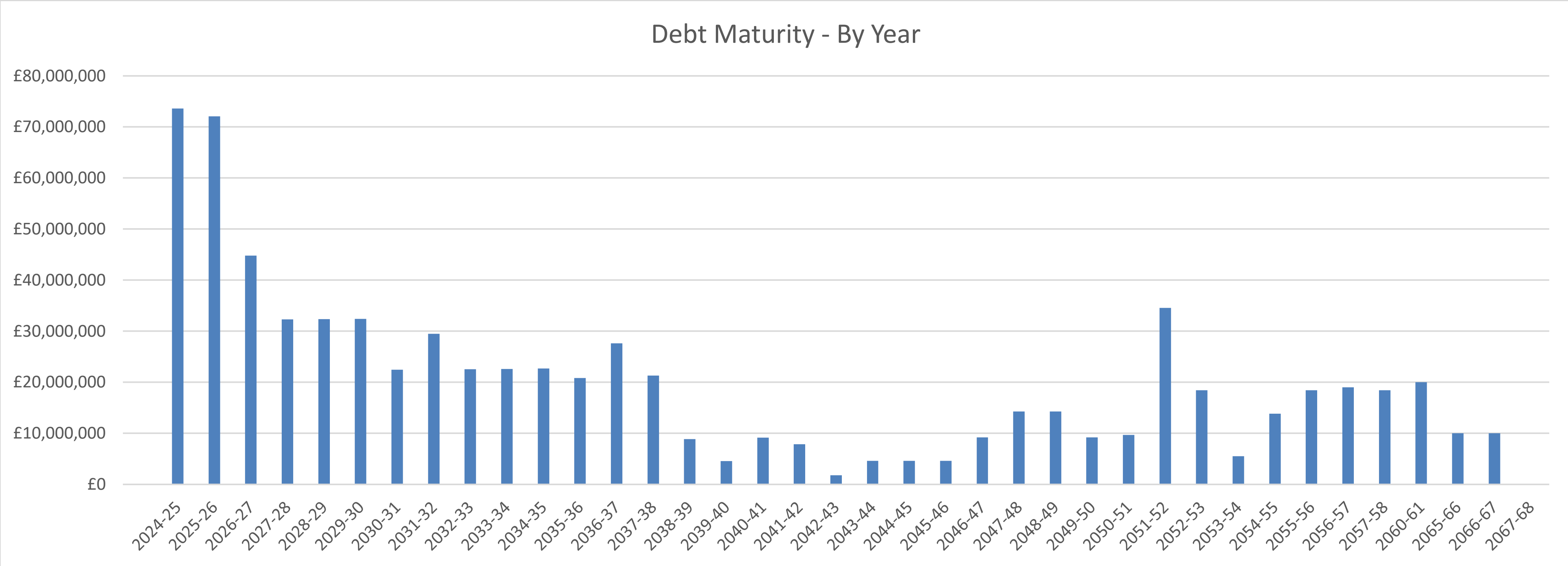
**MMF – Money Market Fund. These funds are domiciled in Ireland for tax reasons, but the funds are made up of numerous diverse investments with highly rated banks and other institutions. The credit risk is therefore spread over numerous countries, including the UK. The exception to this is the Aviva Government Liquidity Fund which invests directly in UK government securities and in short-term deposits secured on those securities.

***Specialised property fund available for Local Authority investors.

Key – Fitch's credit ratings: **Appendix 1 Continued**

		Long	Short
Investment Grade	Extremely Strong	AAA	F1+
	Very Strong	AA+	
		AA	
		AA-	
	Strong	A+	
		A	F1
		A-	
	Adequate	BBB+	F2
		BBB	
		BBB-	F3
Speculative Grade	Speculative	BB+	B
		BB	
		BB-	
	Very Speculative	B+	
		B	
		B-	
	Vulnerable	CCC+	C
		CCC	
		CCC-	
		CC	
		C	
	Defaulting	D	D

Appendix 2



Debt Maturity - By Year
£80,000,000
£70,000,000
£60,000,000
£50,000,000
£40,000,000
£30,000,000
£20,000,000
£10,000,000
£0
2024-25
2025-26
2026-27
2027-28
2028-29
2029-30
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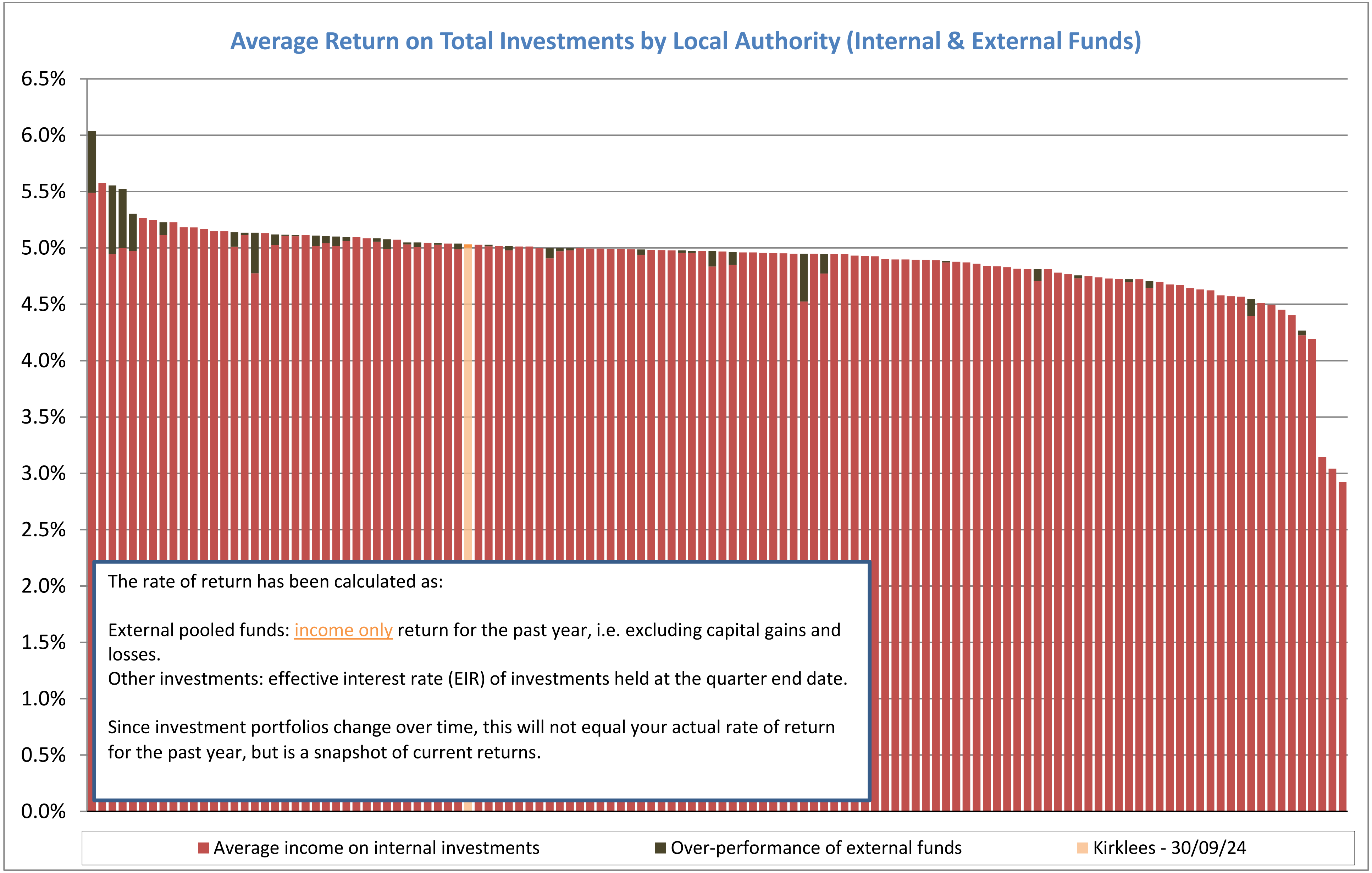
Appendix 3



Average Return on Total Investments by Local Authority (Internal & External Funds)
6.5%
6.0%
5.5%
5.0%
4.5%
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
The rate of return has been calculated as:
External pooled funds: income only return for the past year, i.e. excluding capital gains and losses.
Other investments: effective interest rate (EIR) of investments held at the quarter end date.
Since investment portfolios change over time, this will not equal your actual rate of return for the past year, but is a snapshot of current returns.
Average income on internal investments
Over-performance of external funds
Kirklees - 30/09/24

<u>**Appendix 4**</u>

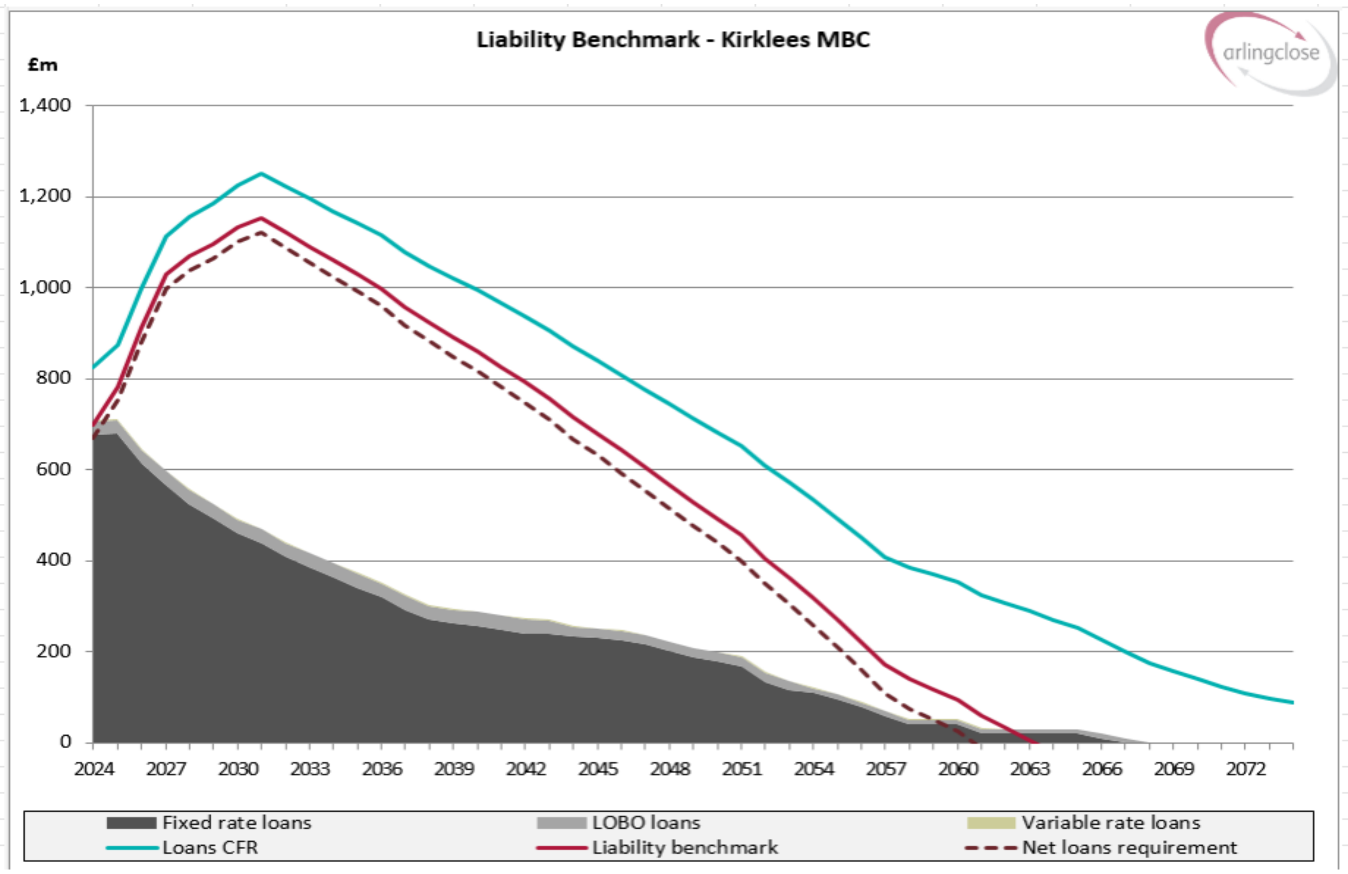
Treasury Management Prudential Indicators

<u>Liability Benchmark</u>

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 £30.0 million required to manage day-to-day cash flow.

	31.03.24 actual £m	**31.03.25 forecast £m**	**31.03.26 forecast £m**	**31.03.27 forecast £m**
Loans CFR	**823.5**	**874.2**	**996.8**	**1113.0**
Less: Balance sheet resources	155.3	122.6	116.7	115.5
Net loans requirement	**668.2**	**751.6**	**880.1**	**997.5**
Plus: Liquidity allowance	30.0	30.0	30.0	30.0
Liability benchmark	**698.2**	**781.6**	**910.1**	**1027.5**
Existing borrowing	**707.3**	**711.4**	**644.3**	**599.6**

Following on from the medium term forecast above, the long the long-term liability benchmark assumes capital expenditure funded by borrowing of £55 million in 2024/25, minimum revenue provision based on asset life and reduction in balance sheet resources of £33 million.



The total liability benchmark is shown in the chart above together with the maturity profile of the Council's existing borrowing. The red line is the liability benchmark reaching a peak in 2032 highlighting the gap between current borrowing identified in grey, which is reducing over time with repayments, and the additional borrowing required to fund the capital plan.

Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Upper limit	Lower limit	30.09.24 actual	Complied
Under 12 months	20%	0%	17%	Yes
12 months and within 24 months	20%	0%	6%	Yes
24 months and within 5 years	60%	0%	14%	Yes
5 years and within 10 years	80%	0%	16%	Yes
10 years and above	100%	20%	47%	Yes

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. LOBO options of £30 million have a potential repayment date during 2024/25 and have been included in the under 12 months line.

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:

	2023/24	2024/25	2025/26	No fixed date
Limit on principal invested beyond year end	n/a	n/a	n/a	n/a
Actual principal invested beyond year end	£10.0m	£10.0m	£10.0m	£10.0m
Complied	Yes	Yes	Yes	Yes

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.

Interest Rate Exposures

Bank Rate reduced by 0.25% from 5.25% to 5.0% in August 2024.
For context, the changes in interest rates during the quarter were:

	31.03.24	**30.09.24**
Bank Rate	5.25%	5.00%
1-year PWLB certainty rate, maturity loans	5.36%	4.95%
5-year PWLB certainty rate, maturity loans	4.68%	4.55%
10-year PWLB certainty rate, maturity loans	4.74%	4.79%
20-year PWLB certainty rate, maturity loans	5.18%	5.27%
50-year PWLB certainty rate, maturity loans	5.01%	5.13%

Appendix 5

Long-term loans repaid during the period 01/04/24 to 30/09/24

Counterparty	Amount £000s	Rate %	Date repaid
Salix (Annuity)	139	0.00%	01-Apr-24
Salix (Annuity)	182	0.00%	01-Apr-24
Salix (Annuity)	168	0.00%	01-Apr-24
PWLB (Annuity) 496956	432	4.58%	02-Apr-24
Crawley Borough Council	5,000	0.50%	02-Apr-24
Leicester City Council	5,000	0.75%	12-Apr-24
PWLB (EIP) 674705	333	5.02%	15-Apr-24
PWLB (EIP) 711011	2,000	5.42%	15-Apr-24
PWLB (EIP) 340221	250	1.63%	27-Apr-24
PWLB (EIP) 439173	250	1.66%	17-May-24
PWLB (EIP) 677193	333	4.85%	22-May-24
PWLB (EIP) 680811	833	4.83%	06-Jun-24
PWLB (EIP) 685435	769	4.59%	20-Jun-24
PWLB (EIP) 685834	769	4.37%	21-Jun-24
PWLB (EIP) 373440	250	1.46%	12-Jul-24
PWLB (EIP) 643579	278	5.01%	29-Jul-24
PWLB (EIP) 594601	500	4.10%	31-Jul-24
PWLB (EIP) 594848	536	3.99%	01-Aug-24
PWLB (EIP) 538379	500	2.60%	09-Aug-24
PWLB (EIP) 487385	250	2.28%	21-Aug-24
Salix (Annuity)	186	0.00%	01-Sep-24
PWLB (EIP) 313112	250	1.64%	04-Sep-24
PWLB (EIP) 493145	250	1.98%	09-Sep-24
PWLB (EIP) 711013	385	4.75%	13-Sep-24
PWLB (EIP) 712740	357	4.59%	19-Sep-24
PWLB (EIP) 713074	357	4.64%	20-Sep-24
PWLB (EIP) 608189	667	4.15%	21-Sep-24
PWLB (EIP) 659904	333	5.06%	23-Sep-24
PWLB (EIP) 660447	333	5.08%	23-Sep-24
PWLB (EIP) 661522	357	5.00%	27-Sep-24
PWLB (Annuity) 496956	442	4.58%	29-Sep-24
Total	22,692		

Long-term loans to be repaid during the period 01/10/24 to 31/03/25 (excludes LOBO options)

	Amount £000s	Rate %	Date to be repaid
Salix (Annuity)	182	0.00%	01-Oct-24
Salix (Annuity)	168	0.00%	01-Oct-24
PWLB (EIP) 674705	333	5.02%	14-Oct-24
PWLB (EIP) 711011	2,000	5.42%	14-Oct-24
PWLB (EIP) 340221	250	1.63%	27-Oct-24
Wealden District Council	5,000	5.35%	15-Nov-24
PWLB (EIP) 439173	250	1.66%	17-Nov-24
PWLB (EIP) 677193	333	4.85%	22-Nov-24
PCC for West Yorkshire	10,000	5.10%	02-Dec-24
PWLB (EIP) 680811	833	4.83%	06-Dec-24
West Midlands Combined Authority	5,000	4.50%	12-Dec-24
Preston City Council	3,500	5.20%	16-Dec-24
PWLB (EIP) 685435	769	4.59%	20-Dec-24
PWLB (EIP) 685834	769	4.37%	23-Dec-24
PWLB (EIP) 739810	833	4.67%	30-Dec-24
PWLB (EIP) 373440	250	1.46%	13-Jan-25
PWLB (EIP) 643579	278	5.01%	27-Jan-25
PWLB (EIP) 594601	500	4.10%	31-Jan-25
West Midlands Combined Authority	5,000	4.50%	31-Jan-25
PWLB (EIP) 594848	536	3.99%	01-Feb-25
West Midlands Combined Authority	5,000	4.50%	03-Feb-25
PWLB (EIP) 538379	500	2.60%	09-Feb-25
PWLB (EIP) 751915	455	4.37%	12-Feb-25
PWLB (EIP) 487385	250	2.28%	21-Feb-25
Salix (Annuity)	186	0.00%	01-Mar-25
PWLB (EIP) 313112	250	1.64%	04-Mar-25
PWLB (EIP) 493145	250	1.98%	09-Mar-25
PWLB (EIP) 759388	208	4.52%	12-Mar-25
PWLB (EIP) 711013	385	4.75%	13-Mar-25
Vale of White Horse District Council	5,000	0.80%	18-Mar-25
PWLB (EIP) 712740	357	4.59%	19-Mar-25
PWLB (EIP) 713074	357	4.64%	20-Mar-25
PWLB (EIP) 608189	667	4.15%	21-Mar-25
PWLB (EIP) 659904	333	5.06%	21-Mar-25
PWLB (EIP) 660447	333	5.08%	24-Mar-25
PWLB (EIP) 661522	357	5.00%	27-Mar-25
PWLB (Annuity) 496956	452	4.58%	29-Mar-25
Total	52,126		

Medium and Long-term loans taken during the period 01/04/24 to 30/09/24

	Loan Period	Amount £m	Rate %	Date to be repaid
PWLB 739810 – EIP	12 years	20.0	4.67%	28/06/2036*
PWLB 751915 – EIP	11 years	10.0	4.37%	12/08/2035*
PWLB 759388 – EIP	12 years	5.0	4.52%	12/09/2036*
Oxfordshire County Council	3 years	5.0	5.00%	17/03/2027
West Yorkshire Combined Authority	11 months	5.0	5.15%	30/04/2025
Cambridgeshire & Peterborough Combined Authority	2 years	5.0	4.70%	06/08/2026
Elmbridge Borough Council	2 years	5.0	4.50%	14/09/2026
Total		**55.0**		

*Final EIP payment date

Appendix 6

MINIMUM REVENUE PROVISION (MRP)

MRP for debt repayment

- In accordance with the Local Government Act 2003, the Council is required to pay off an element of accumulated General Fund capital expenditure each year through a revenue charge known as the Minimum Revenue Provision (MRP).

- The Council is required to determine a level of MRP it considers to be prudent, whilst having regard to the current MRP Guidance issued by MCLG in 2018. The Guidance gives four ready-made options for determining MRP which it considers to be prudent but does not rule out alternative approaches.

- The overriding requirement of the Guidance is to set a prudent provision which ensures that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

- The Guidance provides suggested methods for the calculation of MRP; however, the Guidance and legislation do not define what is prudent. It is for each Local Authority to determine a prudent repayment based on its own individual circumstances, considering the medium and long-term financial plans, current budgetary pressures, future capital expenditure plans and funding needs.

Review

- During 2023/24 the interim S151 requested an independent review of the current MRP strategy.

- The objective of the review was to identify opportunities to move to a more suitable and cost effective MRP strategy whilst ensuring that the provision remains prudent and compliant with statutory guidance.

- The review identified various options for supported and unsupported borrowing which could be implemented within the Guidance; the Council has chosen within these options to adopt the methodologies which are deemed best suited to Kirklees Council.

- The Council applies an annuity method for calculating MRP for both supported and unsupported borrowing.

- The Council is currently using an annuity rate of 4.79% on its supported borrowing. This is based on the average 50-year PWLB annuity rate in 2007/08, the year in which the annuity policy has been applied from.

- The Council has opted to continue with the current methodology and use a 34-year period, which is the remainder of the 50-year life which was applied in 2007/08.

- On unsupported borrowing, the Council applied an annuity approach in the MRP calculation based on grouping projects according to asset lives.

- Following the review, the Council has opted to use a single annuity calculation for all outstanding historic expenditure at 31 March 2023, which combines each historic year on a weighted average life basis. This option re-profiles the MRP charges into future years, however this option repays the debt liability much earlier than the existing charges profile and can therefore be viewed as more prudent. From 2024/25 any borrowing for capital expenditure, the weighted live of the assets will be applied to the annuity rather than individual lives and grouping assets together.

- The review identified a 5-year total overprovision of £53.5 million between 2023/24 and 2027/28 (£34.2 whole life NPV).

Benefits of the review

- Provides the Council with the flexibility and scope to manage the release of the revenue savings identified by making additional MRP through Voluntary Revenue Provision ("VRP"), which can be used to offset future years charges or provide a short term funding source to deal with unexpected costs or fund transformational activity. However, Members need to be aware that should reserves be used in this manner, they will need to be replenished in the medium term when the over provision unwinds and base budgets require a reset.

- The outstanding unsupported debt liability will be written off in full earlier than under the current method.

- The weighted average method of calculation for unsupported borrowing is a much simpler calculation than the current method, providing for more concise and user-friendly working papers.

- It is important to note that all the options identified are prospective and do not amend any previous year's calculations.

Appendix 7

TREASURY MANAGEMENT PRACTICES

The following Treasury Management Practices (TMPs) set out the manner in which the Council aims to achieve its treasury management policies and objectives, and how it will manage and control those activities.

1. TMP 1 Risk management

The Service Director - Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

(i) Credit and counterparty risk management

The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments, methods and techniques are listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

(ii) Liquidity risk management

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

(iii) Interest rate risk management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements.

It will achieve these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

(iv) Exchange rate risk management

The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

(v) Refinancing risk management

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

(vi) Legal and regulatory risk management

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1(i) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the Council.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

(vii) Fraud, error and corruption, and contingency management

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption, or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

(viii) Market risk management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

2. TMP2 Performance measurement

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery and of other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

3. TMP3 Decision-making and analysis

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

4. TMP4 Approved instruments, methods and techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 Risk management.

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Council will seek proper advice when entering into arrangements to use such products.

5. **<u>TMP5</u> Organisation, clarity and segregation of responsibilities, and dealing arrangements**

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principles on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Service Director - Finance will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The Service Director - Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The present arrangements are detailed in the schedule to this document.

The Service Director - Finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegation to the Service Director - Finance in respect of treasury management is set out in the schedule to this document. The Service Director - Finance will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and, as a CIPFA member, the Standard of Professional Practice on Treasury Management.

6. **<u>TMP6</u> Reporting requirements and management information arrangements**

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the Council will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.

The present arrangements and the form of these reports are detailed in the schedule to this document.

7. **<u>TMP7</u> Budgeting, accounting and audit arrangements**

The Service Director - Finance will prepare, and the Council will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with the TMPs. Budgeting procedures are set out in the schedule to this document. The Service Director - Finance will exercise effective controls over this budget, and will report any major variations.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of this function's accounts is set out in the schedule to this document.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed in the schedule to this document.

8. **TMP8 Cash and cash flow management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Service Director - Finance and, with the exception of Secondary Schools' bank accounts, will be aggregated for cash flow purposes. Cash flow projections will be prepared on a regular and timely basis, and the Service Director - Finance will ensure that these are adequate for the purposes of monitoring compliance with TMP1(i) Liquidity risk management. The present arrangements for preparing cash flow projections are set out in the schedule to this document.

9. **TMP9 Money laundering**

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will ensure that staff involved in treasury management activities are fully aware of their responsibilities with regards this. The present safeguards, including the name of the officer to whom any suspicions should be reported, are detailed in the schedule to this document.

10. **TMP10 Training and qualifications**

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The present arrangements are detailed in the schedule to this document.

The Service Director - Finance will ensure that Members of the committee providing a scrutiny function have access to regular training relevant to their responsibilities.

11. **TMP11 Use of external service providers**

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. However, it also recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources.

When it employs such service providers, it will ensure it does so for reasons which will have been submitted to full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies.

Where services are subject to formal tender or re-tender arrangements, legislative requirements and the Council's Contract Procedure Rules will always be observed. The monitoring of such arrangement’s rests with the Service Director - Finance, and details of the current arrangements are set out in the schedule to this document.

12. **TMP12 Corporate governance**

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Service Director - Finance will monitor and, if necessary, report upon the effectiveness of these arrangements.

Management Practices for Non-Treasury Investments

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Council will ensure that all investments are covered in the Capital and Investment Strategies, and will set out where appropriate, the Councils risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that of treasury management.

The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisations risk exposure.

Appendix 8

PWLB Borrowing Rates %

	30/09/2024	28/03/2024	29/09/2023	31/03/2023	30/09/2022	31/03/2022	30/09/2021
Annuity							
15 years	4.90	4.86	5.39	4.46	5.17	2.54	1.87
20 years	5.10	5.04	5.54	4.60	5.14	2.67	2.07
30 years	5.43	5.35	5.81	4.87	5.15	2.84	2.31
50 years	5.53	5.39	5.80	4.83	4.80	2.79	2.38
Maturity							
15 years	5.29	5.23	5.70	4.78	5.15	2.81	2.28
20 years	5.47	5.38	5.83	4.90	5.11	2.86	2.38
30 years	5.55	5.41	5.84	4.86	4.85	2.78	2.36
50 years	5.33	5.21	5.61	4.61	4.41	2.59	2.17
EIP							
15 years	4.86	4.83	5.36	4.45	5.20	2.54	1.86
20 years	5.01	4.96	5.46	4.54	5.14	2.65	2.04
30 years	5.30	5.24	5.71	4.79	5.15	2.82	2.28
50 years	5.54	5.42	5.86	4.90	4.99	2.83	2.39

Appendix 9

Glossary of Treasury Terms

Authorised Limit	The affordable borrowing limit determined in compliance with the Local Government Act 2003 (English and Welsh authorities) and the Local Government in Scotland Act 2003. This Prudential Indicator is a statutory limit for total external debt. It is set by the Authority and needs to be consistent with the Authority's plans for capital expenditure financing and funding. The Authorised Limit provides headroom over and above the *Operational Boundary* to accommodate expected cash movements. Affordability and prudence are matters which must be taken into account when setting this limit.
Balances and Reserves	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Basis Point	1/100th of 1%, i.e. 0.01%
Bill	A certificate of short-term debt issued by a company, government or other institution, tradable on the financial market
Bond	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets.
Capital Financing Requirement (CFR)	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
Capital growth	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund).
Capital receipts	Money obtained on the sale of a capital asset.
Certainty Rate	The government has reduced by 20 basis points (0.20%) the interest rates on loans via the Public Works Loan Board (PWLB) to principal local authorities who provide information as specified on their plans for long-term borrowing and associated capital spending.
CIPFA	Chartered Institute of Public Finance and Accountancy
Collective Investment Schemes	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes/pooled funds.
Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Corporate Bond Funds	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
CPI ***Also see RPI***	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
Cost of carry	When a loan is borrowed in advance of requirement, this is the difference between the interest rate and (other associated costs) on the loan and the income earned from investing the cash in the interim.
Counterparty List	List of approved financial institutions with which the Council can place investments.
Credit Default Swap (CDS)	A Credit Default Swap is similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. Naked CDS, i.e. one which is not linked to an underlying security, can lead to speculative trading.
Credit Rating	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.

Debt Management Office (DMO)	The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the Debt Management Account Deposit Fund (DMADF). All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
Derivatives	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded ‘over the counter’.
ECB	European Central Bank
Fair Value	Fair value is defined as a sale price agreed to by a willing buyer and seller, assuming both parties enter the transaction freely. Many investments have a fair value determined by a market where the security is traded.
Federal Reserve	The US central bank. (Often referred to as “the Fed”)
Floating Rate Notes	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting.
GDP	Gross domestic product – also termed as “growth” in the economy. The value of the national aggregate production of goods and services in the economy.
General Fund	This includes most of the day-to-day spending and income. (All spending and income related to the management and maintenance of the housing stock is kept separately in the Housing Revenue Account).
Gilts (UK Govt)	Gilts are bonds issued by the UK Government. They take their name from ‘gilt-edged’: being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
Housing Revenue Account (HRA)	A ring-fenced account of all housing income and expenditure, required by statute.
IFRS	International Financial Reporting Standards.
Income Distribution	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a ‘dividend’.
Local Authority Property Fund (LAPF)	A pooled property collective investment scheme for Churches, Charities and Local Authorities. (see Collective Investment Scheme).
Liability Benchmark	Term in CIPFA’s Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero).
LOBOs	LOBO stands for ‘Lender’s Option Borrower’s Option’. The underlying loan facility is typically long term and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the ‘option’ to either accept the new imposed fixed rate or repay the loan facility.
Maturity	The date when an investment or borrowing is repaid.
Maturity profile	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.
MiFID II	MiFID II replaced the Markets in Financial Instruments Directive (MiFID I) from 3 January 2018. It is a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
Minimum Revenue Provision (MRP)	An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.
Money Market Funds (MMF)	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.

Net Asset Value (NAV)	A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.
Operational Boundary	This is the limit set by the Authority as its most likely, i.e. prudent, estimate level of external debt, but not the worst case scenario. This limit links directly to the Authority's plans for capital expenditure, the estimates of the Capital Financing Requirement (CFR) and the estimate of cashflow requirements for the year.
Pooled funds	See Collective Investment Schemes (above).
Premiums and Discounts	In the context of local authority borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. If on a £1 million loan, it is calculated* that a £100,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,100,000 plus accrued interest. If on a £1 million loan, it is calculated that a £100,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £900,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate. *The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.
Private Finance Initiative (PFI)	Private Finance Initiative (PFI) provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. Contracts can typically last for 30 years, during which time the asset is leased by a public authority.
Investment Property	Property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.
Prudential Code	Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators between authorities.
PWLB	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
Risk	**Credit and counterparty risk** The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. **Liquidity risk** The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised. **Refinancing risk** The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time. **Interest Rate risk**

	The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. **Legal risk** The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly. **Operational risk** The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk. **Market Risk** The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.
RPI	Retail Prices Index. A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the CPI index.
SORP	Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United Kingdom).
Specified Investments	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
Supported Borrowing	Borrowing for which the costs are supported by the government or third party.
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (interest).
Treasury (T) -Bills	Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. Treasury Bills (T-Bills) are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have a AAA-rating.
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services. The current Code is the edition released in 2021.
Treasury Management Practices (TMP)	Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.
Unsupported Borrowing	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Usable Reserves	Resources available to finance future revenue and capital expenditure.
Variable Net Asset Value (VNAV)	A term used in relation to the valuation of 1 share in a fund. This means that the net asset value (NAV) of these funds is calculated daily based on market prices.
Working Capital	Timing differences between income/expenditure and receipts/payments
Yield	The measure of the return on an investment instrument.