

# Public Document Pack



**North East  
Derbyshire**  
District Council

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Date: Tuesday, 18 February 2025

To: **Members of the Audit Committee**

Please attend a special meeting of the Audit Committee to be held on **Wednesday, 26 February 2025 at 3.00 pm in Meeting Rooms 1 & 2**, District Council Offices, 2013 Mill Lane, Wingerworth, Chesterfield S42 6NG.

Yours sincerely

A handwritten signature in black ink that reads "Sarah Steenberg".

Assistant Director of Governance and Monitoring Officer

### **Members of the Committee**

| <b><u>Labour Group</u></b>   | <b><u>Conservative Group</u></b>                           |
|--|--|
| Councillor Christine Smith – Chair<br>Councillor David Cheetham<br>Councillor Tony Lacey | Councillor Alex Dale<br>Councillor Martin E Thacker MBE JP |

**For further information about this meeting please contact: Thomas Scott 01246 217045**

# **AGENDA**

## **1 Apologies for Absence**

## **2 Declarations of Interest**

Members are requested to declare the existence and nature of any disclosable pecuniary interests and/or other interests, not already on their register of interests, in any item on the agenda and withdraw from the meeting at the appropriate time.

## **3 Report of the External Auditors - Mazars**

### **a. External Auditor - Audit Completion Report 2024/25**

Report to follow.

## **4 Report of the Director of Finance & Resources and S151 Officer**

### **a. Treasury Management Quarter 3 (Pages 5 - 26)**

## **5 Report of the Assistant Director Governance & Monitoring Officer**

### **a. Work Programme (Pages 27 - 30)**

## **6 Urgent Matters**

To consider any other matter which the Chair of the Committee is of the opinion should be considered as a matter of urgency.

## **7 Date of Next Meeting**

The next meeting of the Audit Committee is scheduled to take place on 14 April 2025 at 3.00 pm.

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**North East  
Derbyshire**  
District Council

### **Access for All statement**

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## North East Derbyshire District Council

### Audit Committee

26 February 2025

#### Treasury Management Strategy Update April – December 2024 (Q3)

#### Report of the Director of Finance and Resources (Section 151 Officer)

Classification: This report is public

Report By: **Jayne Dethick, Director of Finance and Resources (S151 Officer)**

Contact Officer: **Jayne Dethick**

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#### PURPOSE / SUMMARY

To present to the Audit Committee a summary of the Treasury Management position for the third quarter of 2024/25.

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#### RECOMMENDATIONS

1. That Audit Committee note the report concerning the Council's Treasury Management report for Quarter 3.

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#### IMPLICATIONS

**Finance and Risk:** Yes  No

**Details:**

These are detailed in the attached report.

On Behalf of the Section 151 Officer

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**Legal (including Data Protection):** Yes  No

**Details:**

There are no legal issues arising directly from this report

On Behalf of the Solicitor to the Council

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**Staffing:** Yes  No

**Details:**

There are no staffing issues arising directly from this report.

**DECISION INFORMATION**

|   |   |
|---|---|
| <b>Decision Information</b>   |   |
| <p><b>Is the decision a Key Decision?</b><br/>                 A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:</p> <p><b>NEDDC:</b><br/>                 Revenue - £125,000 <input type="checkbox"/> Capital - £310,000 <input type="checkbox"/><br/> <input checked="" type="checkbox"/> Please indicate which threshold applies</p> | No  |
| <p><b>Is the decision subject to Call-In?</b><br/>                 (Only Key Decisions are subject to Call-In)</p>  | No  |
| <p><b>District Wards Significantly Affected</b></p>   | None  |
| <b>Equality Impact Assessment (EIA) details:</b>  |   |
| <p><b>Stage 1 screening undertaken</b></p> <ul style="list-style-type: none"> <li>Completed EIA stage 1 to be appended if not required to do a stage 2</li> </ul>   | No, not applicable, report for noting only. |
| <p><b>Stage 2 full assessment undertaken</b></p> <ul style="list-style-type: none"> <li>Completed EIA stage 2 needs to be appended to the report</li> </ul>   | No, not applicable                          |
| <p><b>Consultation:</b><br/>                 Leader / Deputy Leader <input checked="" type="checkbox"/> Cabinet <input type="checkbox"/><br/>                 SMT <input type="checkbox"/> Relevant Service Manager <input type="checkbox"/><br/>                 Members <input type="checkbox"/> Public <input type="checkbox"/> Other <input type="checkbox"/></p>   | Yes<br><br>Details:                         |

|   |
|---|
| <p><b>Links to Council Plan priorities;</b></p> <ul style="list-style-type: none"> <li>A great place that cares for the environment</li> <li>A great place to live well</li> <li>A great place to work</li> <li>A great place to access good public services</li> </ul> |
| All   |

**REPORT DETAILS**

1 **Background** (reasons for bringing the report)

- 1.1 In January 2023, the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual outturn reports.
- 1.2 As per the Code requirements, quarterly reporting of the treasury management indicators and the prudential indicators is now mandatory.

**2. Details of Proposal or Information**

**Treasury Management**

- 2.1 The treasury management function covers the borrowing and investment of Council funds. All transactions are conducted in accordance with the Council's approved strategy and the CIPFA Code of Practice. Good treasury management plays an important role in the sound financial management of the Council's resources.
- 2.2 The Council approved the 2024/25 Treasury Management Strategy at its meeting on 29 January 2024. **Appendix 1** identifies the Treasury Management activity undertaken in the first quarter of 2024/25. This includes reporting on the treasury management indicators as required by the Code such as the maturity structure of borrowing.

**Prudential Indicators**

- 2.3 Since 1 April 2023 there has been a requirement that monitoring of prudential indicators should be reported quarterly. Prudential Indicators are a means of demonstrating that capital expenditure plans are affordable to aid decision making. **Appendix 2** identifies the impact on the Prudential Indicators from the treasury management activity in the first quarter of 2024/25.

**3 Reasons for Recommendation**

- 3.1 To ensure that the Committee is kept informed of the latest position concerning treasury management.

**4 Alternative Options and Reasons for Rejection**

- 4.1 This report is concerned with monitoring the position against the Council's previously approved treasury management strategy. Accordingly, the report does not set out any options where a decision is required by Members.

**DOCUMENT INFORMATION**

| Appendix No | Title                                       |
|-------------|---|
| Appendix 1  | Treasury Management Monitoring Q3 2024/25   |
| Appendix 2  | Prudential Indicators Monitoring Q3 2024/25 |
|             |   |

**Background Papers** (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet you must provide copies of the background papers)

**None**



## Treasury Management Report - Quarter 3 2024/25

### Introduction

In January 2023, the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports. This quarterly report provides an additional update.

This report includes the new requirement in the 2021 code, mandatory from 1<sup>st</sup> April 2023, of quarterly reporting of the treasury management prudential indicators.

The Council's treasury management strategy for 2024/25 was approved at a meeting on 29<sup>th</sup> January 2024. The Council has borrowed and 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 remains central to the Council's treasury management strategy.

### External Context

**Economic background:** The Chancellor of the Exchequer delivered her Autumn Budget at the end of October. Based on the plans announced, the Office for Budget Responsibility reported they would provide a short-term boost to GDP growth before weakening it further out and push inflation higher over the medium-term. This change to the economic and inflation outlook caused financial markets to readjust expectations of Bank of England (BoE) Bank Rate and gilt yields higher. The council's treasury management advisor, Arlingclose, also revised its interest rate forecast upwards in November, with Bank Rate expected to eventually fall to 3.75%.

UK annual Consumer Price Index (CPI) inflation remained above the Bank of England (BoE) 2% target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices rose 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, and remained elevated at 3.6% in November against a forecast of 3.5% and compared to 3.3% in the previous month.

UK economy GDP registered no growth (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the ONS. Of the monthly GDP figures, the economy was estimated to have contracted by 0.1% in October, following the same size decline in September.

The labour market continued to loosen, but the ONS data still require treating with some caution. Recent figures reported the unemployment rate rose to 4.3% (3mth/year) in the three months to October 2024 and economic inactivity fell to

21.7%. The ONS reported pay growth over the same three-month period at 5.2% for both regular earnings (excluding bonuses) and for total earnings.

The BoE's Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting (5-4 vote to cut). At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%. The meeting minutes suggested a reasonably dovish tilt to rates with the outlook for economic growth a concern among policymakers as the Bank downgraded its Q4 GDP forecast from 0.3% to 0.0%.

The November Monetary Policy Report (MPR) showed the BoE expected GDP growth to pick up to around 1.75% (four-quarter GDP) in the early period of the forecast horizon before falling back. The impact from the government's Autumn Budget pushed GDP higher in 2025 than was expected in the August MPR, before becoming weaker. The outlook for CPI inflation showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. Over the medium-term, once the near-term pressures eased, inflation was expected to stabilise around the 2% target. The unemployment rate was expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

Arlingclose, the Council's treasury adviser, maintained its central view that Bank Rate would continue to fall from the 5.25% peak. From the first cut in August 2024, followed by the next in November which took Bank Rate to 4.75%, February 2025 is deemed the likely month for the next reduction, with other cuts following steadily in line with MPR months to take Bank Rate down to around 3.75% by the end of 2025.

The US Federal Reserve continued cutting interest rates during the period, reducing the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. Further interest rate cuts are expected into 2025, but uncertainties around the potential inflationary impact of President-elect Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

The European Central Bank (ECB) also continued its rate cutting cycle, reducing its three key policy rates by 0.25% in December. Euro zone inflation rose above the ECB 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

**Financial markets:** Financial market sentiment was generally positive over the period, but economic, financial and geopolitical issues meant the ongoing trend of bond yield volatility very much remained. In the last few months of the period, there was a general rising trend in yields due to upwardly revised interest rate and inflation expectations, causing gilt yields to end the period at substantially higher levels to where they began.

Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at a high of 4.57%, having reached a low of 3.76% in mid-September. While the 20-year gilt started at 4.40%, ended at a high of 5.08% and hit a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.01% over the period to 31st December.

**Credit review:** In October, Arlingclose revised its advised recommended maximum unsecured duration limit on most banks on its counterparty list to six months. Duration advice for the remaining five institutions, including the newly added Lloyds Bank Corporate Markets, was kept to a maximum of 100 days.

Fitch revised the outlooks on Royal Bank of Scotland, NatWest Markets PLC, and National Westminster Bank to positive from stable, while affirming their long-term ratings at A+.

Moody's upgraded the ratings on National Bank of Canada to Aa2 from Aa3, having previously had the entity on Rating Watch for a possible upgrade. Moody's also upgraded the ratings on The Co-operative Bank to A3 (from Baa3) and downgraded the ratings on Coventry Building Society to A3 (from A2) and Canada's Toronto-Dominion Bank to Aa2 (from Aa1).

S&P also downgraded Toronto-Dominion Bank, to A+ from AA-, but kept the outlook at stable.

Credit default swap prices were generally lower at the end of the period compared to the beginning for the vast majority of the names on UK and non-UK lists. Price volatility over the period also remained generally more muted compared to previous periods.

Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remain under constant review.

### **Local Context**

On 31<sup>st</sup> March 2024, the Council had net borrowing of £127.4m 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

|                               | <b>31.3.24<br/>Actual<br/>£m</b> | <b>31.3.25<br/>Forecast<br/>£m</b> |
|-------------------------------|----------------------------------|------------------------------------|
| General Fund CFR              | 21.7                             | 40.1                               |
| HRA CFR                       | 177.3                            | 189.1                              |
| <b>Total CFR</b>              | <b>199.0</b>                     | <b>229.2</b>                       |
| Less: *Other debt liabilities | 0                                | (0.8)                              |
| <b>Borrowing CFR</b>          | <b>199.0</b>                     | <b>228.4</b>                       |
| External borrowing**          | (142.8)                          | (157.0)                            |
| <b>Internal borrowing</b>     | <b>56.2</b>                      | <b>71.4</b>                        |
| Less: Balance sheet resources | (70.2)                           | (81.4)                             |
| <b>Net</b>                    | <b>14.0</b>                      | <b>10.0</b>                        |

\* finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

\*\* shows only loans to which the Council is committed and excludes optional refinancing

The treasury management position at 31<sup>st</sup> December and the change over the quarter is shown in Table 2 below.

Table 2: Treasury Management Summary

|                            | <b>31.3.24<br/>Balance<br/>£m</b> | <b>Movement<br/>£m</b> | <b>31.12.24<br/>Balance<br/>£m</b> | <b>31.12.24<br/>Rate<br/>%</b> |
|----------------------------|-----------------------------------|------------------------|------------------------------------|--------------------------------|
| Long Term Borrowing – PWLB | 142.8                             | 7.7                    | 150.5                              | 3.91                           |
| <b>Total Borrowing</b>     | <b>142.8</b>                      | <b>7.7</b>             | <b>150.5</b>                       | <b>3.91</b>                    |
| Short-Term Investments     | (14.0)                            | (4.0)                  | (18.0)                             | (4.77)                         |
| Cash and cash Equivalents  | (1.4)                             | (3.3)                  | (4.7)                              | (4.65)                         |
| <b>Total Investments</b>   | <b>(15.4)</b>                     | <b>(7.3)</b>           | <b>(22.7)</b>                      | <b>(4.74)</b>                  |
| <b>Net Borrowing</b>       | <b>127.4</b>                      | <b>0.4</b>             | <b>127.80</b>                      |                                |

### **Borrowing strategy and activity**

As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriately 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 Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. During the period short term interest rates have been higher than long term interest rates.

After substantial rises in interest rates since 2021 many central banks have now begun to reduce their policy rates, albeit slowly. Gilt yields were volatile but have increased overall during the period. Much of the increase has been in response to market concerns that policies introduced by the Labour government will be inflationary and lead to higher levels of government borrowing. The election of Donald Trump in the US in November is also expected to lead to inflationary trade policies.

The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the period and 5.40% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.44%. Rates for 20-year maturity loans ranged from 5.01% to 5.87% during the period, and 50-year maturity loans from 4.88% to 5.69%.

Whilst the cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024, primarily due a dearth of LA-LA lending/borrowing activity during that month, as expected shorter-term rates reverted to a more market-consistent range and were generally around 5.00% - 5.5%. Rising rates were seen towards the end of the period in the LA-LA market.

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 decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Authority has no new plans to borrow to invest primarily for financial return.

On 31<sup>st</sup> December the Council held £150.5m of loans, an increase of £7.7m since 31<sup>st</sup> March 2024, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31<sup>st</sup> December are summarised in Table 3A below.

Table 3A: Borrowing Position

| <b>PWLB Borrowing</b>  | <b>Maturity Profile<br/>31 March 2024<br/>£'000</b> | <b>Net<br/>Movement<br/>£'000</b> | <b>Maturity Profile<br/>31 December<br/>2024<br/>£'000</b> |
|------------------------|---|-----------------------------------|--|
| <b>Term</b>            |   |                                   |  |
| 12 Months              | 6,109   | (5,906)                           | 203  |
| 1 - 2 years            | 9,000   | 800                               | 9,800  |
| 2 - 5 years            | 10,284  | 2,400                             | 12,684   |
| 5 - 10 years           | 28,326  | 4,000                             | 32,326   |
| 10 - 15 years          | 42,000  | 400                               | 42,400   |
| Over 15 years          | 47,090  | 6,000                             | 53,090   |
| <b>Total PWLB Debt</b> | <b>142,809</b>                                      | <b>7,694</b>                      | <b>150,503</b>   |

The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short-term and long-term borrowing was maintained.

There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Council will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

The National Wealth Fund (formerly the UK Infrastructure Bank) is one alternative source of funding which offers funding at gilt yields + 0.40% (0.40% below the PWLB certainty rate) and the possibility of more flexible funding structures than the PWLB. Funding from the National Wealth Fund is generally only available for certain types of projects that meet its criteria of green energy, transport, digital, water and waste. The minimum loan size is £5 million.

### **Treasury Management Investment Activity**

CIPFA revised TM Code defines treasury management investments as those which arise from the Council's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £10.0 and £29.0 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

| Bank Name                       | Duration of Loan | B/Fwd 01/04/24 £000's | Amount Invested 2024/25 £000's | Amount Returned 2024/25 £000's | Balance Invested 31/12/24 £000's | Interest Received 31/12/24 £000's |
|---------------------------------|------------------|-----------------------|--------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| Federated Fund 3                | Call             | 3,000                 | 20,604                         | (18,604)                       | 5,000                            | (104)                             |
| Aberdeen Standard               | Call             | 0                     | 7,007                          | (7,007)                        | 0                                | (7)                               |
| CCLA Public Sector Deposit Fund | 1 Day Call       | 0                     | 11,524                         | (8,524)                        | 3,000                            | (24)                              |
| Aviva                           | Call             | 0                     | 28,122                         | (23,122)                       | 5,000                            | (122)                             |
| Invesco                         | Call             | 1,000                 | 5,016                          | (1,016)                        | 5,000                            | (16)                              |
| JP Morgan                       | Call             | 0                     | 0                              | (0)                            | 0                                | (0)                               |
| Goldman Sachs                   | Call             | 0                     | 0                              | (0)                            | 0                                | (0)                               |
| SSGA                            | Call             | 0                     | 5,007                          | (5,007)                        | 0                                | (7)                               |
| Lancashire County Council       | 12 Months        | 5,000                 | 163                            | (5,163)                        | 0                                | (163)                             |
| Aberdeen County Council         | 12 Months        | 5,000                 | 197                            | (5,197)                        | 0                                | (197)                             |
| <b>Total</b>                    |                  | <b>14,000</b>         | <b>77,640</b>                  | <b>(73,640)</b>                | <b>18,000</b>                    | <b>(640)</b>                      |

### Overnight Investments

The balance of the daily surplus funds can be placed as overnight investments with the Councils bank which is Lloyds. The maximum amount invested with Lloyds in the first three quarters of the financial year was £4.788m. There has been no breach of the £5m limit set in the Treasury Management Strategy. For clarity, this limit relates to the amount invested and doesn't include interest accruing as a result. The interest earned from daily balances up to 31 December 2024 is £77,420.44.

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.

As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different

asset classes and boost investment income.

Bank Rate reduced from 5.25% to 5.00% in August 2024 and again to 4.75% in November 2024 with short term interest rates largely being around these levels. Money Market Rates ranged between 5.25% and 5.25%.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

|                          | Credit Score | Credit Rating | Bail-in Exposure | Weighted Average Maturity (days) | Rate of Return % |
|--------------------------|--------------|---------------|------------------|----------------------------------|------------------|
| 31.03.2024<br>31.03.2024 | 5.35         | A+            | 25%              | 34                               | 5.58             |
| Similar Las/All LAs      | 4.62         | A+            | 60%              | 52                               | 4.92             |

\*Weighted average maturity

**Statutory override:** In April 2023 the Ministry for Housing, Communities and Local Government (MHCLG) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. A further consultation on the override was included in MHCLG's annual consultation on the provisional local government finance settlement published in December 2024: the consultation closes on 15th January 2025 with the outcome expecting to be published in February 2025. So far the override has been extended until 31st March 2025; whether the override will be extended beyond this date is unknown but commentary from both consultations suggests an extension is unlikely. The Council has set up a reserve of £0 to mitigate the impact of the statutory override not being extended and unrealised losses on pooled investment funds are required to be recognised.

**ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's strategy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.



## Non-Treasury Investments

The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

The Council also held £15.853m of such investments in

- Loans to Rykneld Homes Ltd £6.501m
- Loans to Mypad £9.352m

The Council held £21.8m of investments made for commercial purposes

- Directly owned property £21.8m

These investments generated £0.449m of investment income for the Council after taking account of direct costs, representing a rate of return of 2.06% as at 31<sup>st</sup> December 2024.

## Treasury Performance

The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

|                                   | <b>Actual<br/>£m</b> | <b>Budget<br/>£m</b> | <b>Over/<br/>under</b> | <b>Actual<br/>%</b> | <b>Benchmark<br/>%</b> | <b>Over/<br/>under</b> |
|-----------------------------------|----------------------|----------------------|------------------------|---------------------|------------------------|------------------------|
| PWLB Borrowing                    | 150.5                | 157.0                | Under                  | 3.91                | 5.69                   | Under                  |
| <b>Total borrowing</b>            | 150.5                | 157.0                | Under                  | 3.91                | 5.69                   | Under                  |
| <b>Total debt</b>                 | 150.5                | 157.0                | Under                  | 3.91                | 5.69                   | Under                  |
| Investments (see table 4)         | 18.0                 | 10.0                 | Over                   | 4.74                | 4.25                   | Over                   |
| <b>Total treasury investments</b> | 18.0                 | 10.0                 | Over                   | 4.74                | 4.25                   | Over                   |

## **MRP Regulations**

On 10<sup>th</sup> April 2024 amended legislation and revised statutory guidance were published on Minimum Revenue Provision (MRP). The majority of the changes take effect from the 2025/26 financial year, although there is a requirement that for capital loans given on or after 7th May 2024 sufficient MRP must be charged so that the outstanding Capital Financing Requirement (CFR) in respect of the loan is no higher than the principal outstanding less the Expected Credit Loss (ECL) charge for that loan.

The regulations also require that local authorities cannot exclude any amount of their CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP (there are specific exceptions for capital loans and leased assets).

## **Compliance**

The S151 Officer reports that all treasury management activities undertaken during the quarter 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 table 7 below.

**Table 7: Investment Limits**

|   | <b>2024/25<br/>Maximum<br/>per<br/>counterparty</b> | <b>31.12.24<br/>Actual</b> | <b>2024/25<br/>Limit</b> | <b>Complied?</b> |
|---|---|----------------------------|--------------------------|------------------|
| The UK Government                             | Unlimited   | £0m                        | n/a                      | Yes              |
| Local authorities & other government entities | £5m   | £0m                        | Unlimited                | Yes              |
| Secured investments                           | £5m   | £0m                        | Unlimited                | Yes              |
| Banks (unsecured)                             | £5m   | £0m                        | Unlimited                | Yes              |
| Building societies (unsecured)                | £5m   | £0m                        | £20m                     | Yes              |
| Registered providers (unsecured)              | £5m   | £0m                        | £20m                     | Yes              |
| Money market funds                            | £5m   | £18.0m                     | Unlimited                | Yes              |
| Strategic pooled funds                        | £5m   | £0m                        | £20m                     | Yes              |
| Real Estate Investment Trusts                 | £5m   | £0m                        | £20m                     | Yes              |
| Other investments                             | £5m   | £0m                        | £20m                     | Yes              |

Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 8 below.

Table 8: Debt and the Authorised Limit and Operational Boundary

|                   | Q1<br>2024/25<br>Maximum<br>£m | 31.12.24<br>Actual<br>£m | 2024/25<br>Operational<br>Boundary<br>£m | 2024/25<br>Authorised<br>Limit<br>£m | Complied? |
|-------------------|--------------------------------|--------------------------|--|--------------------------------------|-----------|
| Borrowing         | 157.0                          | 150.5                    | 234.2                                    | 239.2                                | Yes       |
| <b>Total debt</b> | <b>157.0</b>                   | <b>150.5</b>             | <b>234.2</b>                             | <b>239.2</b>                         | Yes       |

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.

### Treasury Management Prudential Indicators

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

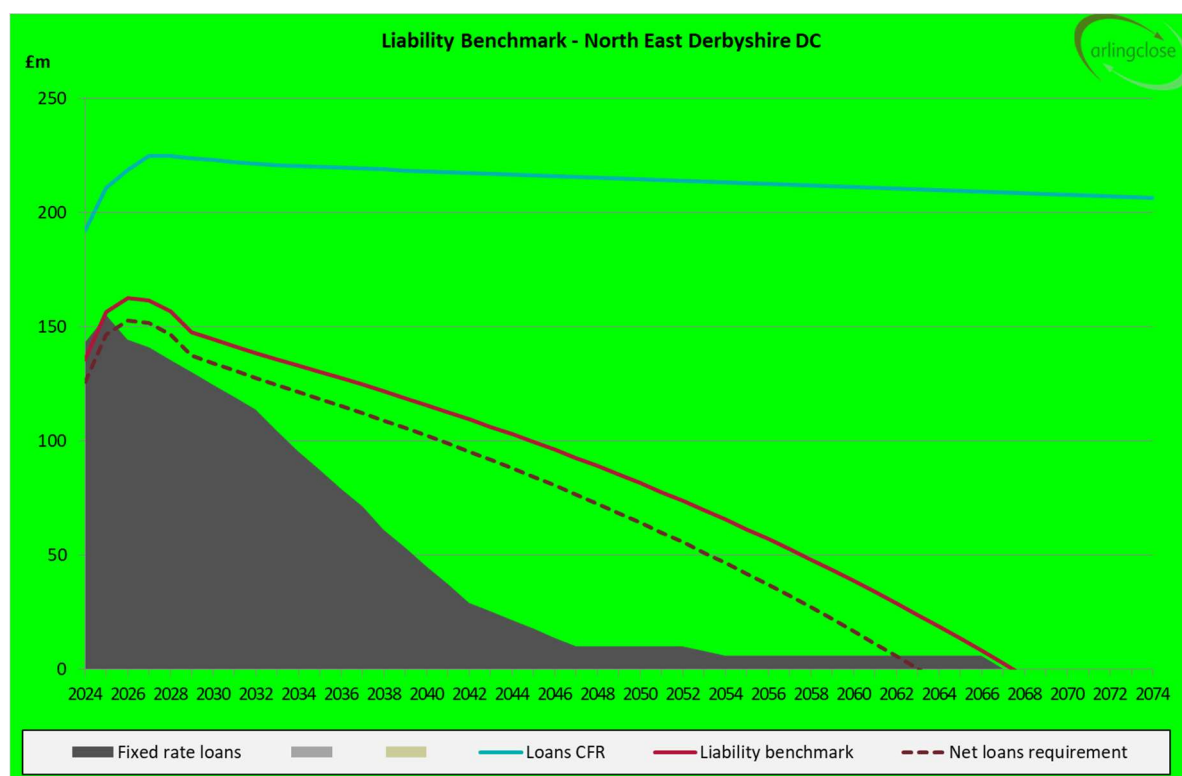
#### 1. Liability Benchmark:

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 £10m required to manage day-to-day cash flow.

|                               | 31.3.24<br>Actual | 31.3.25<br>Forecast | 31.3.26<br>Forecast | 31.3.27<br>Forecast |
|-------------------------------|-------------------|---------------------|---------------------|---------------------|
| Loans CFR                     | 199.0             | 229.2               | 233.8               | 236.6               |
| Less: Balance sheet resources | (73.7)            | (81.4)              | (87.2)              | (90.3)              |
| <b>Net loans requirement</b>  | <b>125.3</b>      | <b>147.8</b>        | <b>146.6</b>        | <b>146.3</b>        |
| Plus: Liquidity allowance     | 10.0              | 10.0                | 10.0                | 10.0                |
| <b>Liability benchmark</b>    | <b>135.3</b>      | <b>157.8</b>        | <b>156.7</b>        | <b>156.3</b>        |
| <b>Existing borrowing</b>     | <b>142.8</b>      | <b>157.0</b>        | <b>156.0</b>        | <b>155.9</b>        |

Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £18.5m in 2024/25, minimum revenue provision on new capital expenditure based on a 50-year asset life. This is

shown in the chart below together with the maturity profile of the Council's existing borrowing.



Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.

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

|                                | Upper Limit | Lower Limit | 31.12.24 Actual | Complied? |
|--------------------------------|-------------|-------------|-----------------|-----------|
| Under 12 months                | 20%         | 0%          | 0.13%           | Yes       |
| 12 months and within 24 months | 20%         | 0%          | 6.51%           | Yes       |
| 24 months and within 5 years   | 40%         | 0%          | 8.43%           | Yes       |
| 5 years and within 10 years    | 40%         | 0%          | 21.48%          | Yes       |
| 10 years and above             | 90%         | 0%          | 63.45%          | 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.

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:

|   | 2024/25 | 2025/26 | 2026/27 | No fixed date |
|---|---------|---------|---------|---------------|
| Limit on principal invested beyond year end | £20m    | £20m    | £20m    | £20m          |
| Actual principal invested beyond year end   | £0m     | £0m     | £0m     | £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.

#### Additional indicators

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.

|                                 | 2024/25 Target | 31.12.24 Actual | Complied? |
|---------------------------------|----------------|-----------------|-----------|
| Portfolio average credit rating | <3.0           | 1.00            | Yes       |

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing / it can borrow each period without giving prior notice.

|                                      | 2024/25 Target £m | 31.12.24 Actual £m | Complied? |
|--------------------------------------|-------------------|--------------------|-----------|
| Total cash available within 3 months | 10.0              | 18.0               | Yes       |

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk.

| Interest rate risk indicator   | 2024/25 Target | 31.12.24 Actual | Complied |
|--|----------------|-----------------|----------|
| Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates | £1.5m          | £0.0m           | Yes      |
| Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates | (£1.5m)        | (£0.0m)         | Yes      |

For context, the changes in interest rates during the half year were:

|   | <u>31/03/24</u> | <u>31/12/24</u> |
|---|-----------------|-----------------|
| Bank Rate                                   | 5.25%           | 4.75%           |
| 1-year PWLB certainty rate, maturity loans  | 5.36%           | 5.19%           |
| 5-year PWLB certainty rate, maturity loans  | 4.68%           | 5.10%           |
| 10-year PWLB certainty rate, maturity loans | 4.74%           | 5.40%           |
| 20-year PWLB certainty rate, maturity loans | 5.18%           | 5.84%           |
| 50-year PWLB certainty rate, maturity loans | 5.01%           | 5.66%           |

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.

**Appendix 2****Prudential Indicators - Quarter 3 2024/25**

The Council measures and manages its capital expenditure, borrowing and commercial and service investments with references to the following indicators.

It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis.

**Capital Expenditure:**

The Council has undertaken and is planning capital expenditure as summarised below.

|                       | <b>2023/24<br/>actual<br/>£m</b> | <b>2024/25<br/>forecast<br/>£m</b> | <b>2025/26<br/>budget *<br/>£m</b> | <b>2026/27<br/>budget<br/>£m</b> |
|-----------------------|----------------------------------|------------------------------------|------------------------------------|----------------------------------|
| General Fund services | £15.429                          | £33.430                            | £8.084                             | £2.004                           |
| Council housing (HRA) | £30.387                          | £35.601                            | £27.276                            | £24.717                          |
| Capital investments   | £0.000                           | £0.000                             | £0.000                             | £0.000                           |
| <b>Total</b>          | <b>£45.816</b>                   | <b>£69.031</b>                     | <b>£35.360</b>                     | <b>£26.721</b>                   |

\* £0m of capital expenditure in arises from a change in the accounting for leases and does not represent cash expenditure.

The main General Fund capital projects to date have included General Asset Refurbishment Schemes, Mill Lane Asset Refurbishment Scheme, Coney Green Telephony System Replacement, Vehicle Replacement, Clay Cross Towns Fund Projects and the rebuilding of Sharley Park Active Community Hub. HRA capital expenditure is recorded separately and to date includes capital works on Council Dwellings, North Wingfield New build Project and Stonebroom replacement housing and a stock purchase programme.

**Capital Financing Requirement:**

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP/loans fund repayments and capital receipts used to replace debt.

|                       | <b>31.3.2024<br/>actual<br/>£m</b> | <b>31.3.2025<br/>forecast *<br/>£m</b> | <b>31.3.2026<br/>budget<br/>£m</b> | <b>31.3.2027<br/>budget<br/>£m</b> |
|-----------------------|------------------------------------|--|------------------------------------|------------------------------------|
| General Fund services | £21.697                            | £37.264                                | £35.930                            | £31.745                            |
| Council housing (HRA) | £177.291                           | £189.773                               | £198.326                           | £205.320                           |
| Capital investments   | £0.000                             | £0.000                                 | £0.000                             | £0.000                             |
| <b>TOTAL CFR</b>      | <b>£198.988</b>                    | <b>£227.037</b>                        | <b>£234.256</b>                    | <b>£237.065</b>                    |

\* £0.285m of the CFR increase in 2024/25 arises from a change in the accounting for leases

### **Gross Debt and the Capital Financing Requirement:**

Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Council has complied and expects to continue to comply with this requirement in the medium term as is shown below.

|                               | <b>31.3.2024<br/>actual<br/>£m</b> | <b>31.3.2025<br/>forecast<br/>£m</b> | <b>31.3.2026<br/>budget<br/>£m</b> | <b>31.3.2027<br/>budget<br/>£m</b> | <b>Debt at<br/>31.12.2024<br/>£m</b> |
|-------------------------------|------------------------------------|--------------------------------------|------------------------------------|------------------------------------|--------------------------------------|
| Debt (incl. PFI & leases)     | £142.809                           | £159.300                             | £168.500                           | £175.103                           | £150.503                             |
| Capital Financing Requirement | £198.988                           | £227.037                             | £234.256                           | £237.065                           |                                      |

### **Debt and the Authorised Limit and Operational Boundary:**

The Authority is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

|                   | <b>Maximum<br/>debt Q3<br/>2024/25<br/>£m</b> | <b>Debt at<br/>31.12.24<br/>£m</b> | <b>2024/25<br/>Authorised<br/>Limit<br/>£m</b> | <b>2024/25<br/>Operational<br/>Boundary<br/>£m</b> | <b>Complied?</b> |
|-------------------|---|------------------------------------|--|--|------------------|
| Borrowing         | £156.995                                      | £150.503                           | £239.200                                       | £234.200   | Yes              |
| <b>Total debt</b> | <b>£156.995</b>                               | <b>£150.503</b>                    | <b>£239.200</b>                                | <b>£234.200</b>                                    | Yes              |

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



**Net Income from Commercial and Service Investments to Net Revenue Stream:**

The Council's income from commercial and service investments as a proportion of its net revenue stream has been and is expected to be as indicated below.

|  | <b>2023/24<br/>actual<br/>£m</b> | <b>2024/25<br/>forecast<br/>£m</b> | <b>2025/26<br/>budget<br/>£m</b> | <b>2026/27<br/>budget<br/>£m</b> |
|--|----------------------------------|------------------------------------|----------------------------------|----------------------------------|
| Total net income from service and commercial investments | 1.247                            | 1.120                              | 0.970                            | 0.820                            |
| Proportion of net revenue stream                         | 7.97%                            | 5.92%                              | 4.96%                            | 4.15%                            |

**Proportion of Financing Costs to Net Revenue Stream:**

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue.

The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

|                                  | <b>2023/24<br/>actual</b> | <b>2024/25<br/>forecast *</b> | <b>2025/26<br/>budget</b> | <b>2026/27<br/>budget</b> |
|----------------------------------|---------------------------|-------------------------------|---------------------------|---------------------------|
| Financing costs (£m)             | (0.791)                   | (0.270)                       | 0.720                     | 1.100                     |
| Proportion of net revenue stream | (5.06%)                   | (1.45%)                       | 3.68%                     | 5.56%                     |

\* £0m of the increase in financing costs in 2024/25 arises from a change in the accounting for leases and does not represent additional cost to the Authority.

**Treasury Management Indicators:**

These indicators (Liability Benchmark, Maturity Structure of Borrowing, Long-Term Treasury Management Investments) are within the TM Appendix 1 Treasury Management Q3 Monitoring 2024/25.



## North East Derbyshire District Council

### Audit Committee

26 February 2025

### Committee Work Programme 2024/2025

#### Report of the Assistant Director of Governance and Monitoring Officer

Classification: This report is public

Report By: Tom Scott – Governance and Scrutiny Officer

Contact Officer: Tom Scott [thomas.scott@ne-derbyshire.gov.uk](mailto:thomas.scott@ne-derbyshire.gov.uk) 01246 217045

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#### **PURPOSE / SUMMARY**

To enable the Audit Committee to review the proposed Work Programme for the municipal year 2024/2025.

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#### **RECOMMENDATIONS**

1. That the Committee notes and approves the proposed Audit Committee Work Programme for the 2024/2025 municipal year as set out in the attached **Appendix 1**.

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#### **IMPLICATIONS**

Finance and Risk: Yes  No

**Details:**

Risk - the development of a Work Programme for the Audit Committee will provide an appropriate structure to assist and support the Committee's work. This will help to ensure that the Committee continues to operate effectively and that the Council's governance and accountability arrangements remain robust. The Programme is designed to allow the Audit Committee to continue its flexible approach to its and consider work the range of matters which are within its remit. There are no financial issues arising from the report.

On Behalf of the Section 151 Officer

**Legal (including Data Protection):** Yes  No

**Details:**

There are no legal issues or Data Protection matters arising directly from this report.

On Behalf of the Solicitor to the Council

**Staffing:** Yes  No

**Details:**

There are no staffing issues arising from the report.

On behalf of the Head of Paid Service

## DECISION INFORMATION

| Decision Information  |   |
|---|---|
| <b>Is the decision a Key Decision?</b><br>A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:<br><br><b>NEDDC:</b><br><b>Revenue - £100,000</b> <input type="checkbox"/> <b>Capital - £250,000</b> <input type="checkbox"/><br><input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i> | No  |
| <b>Is the decision subject to Call-In?</b><br>(Only Key Decisions are subject to Call-In)   | No  |
| <b>District Wards Significantly Affected</b>  | None  |
| <b>Consultation:</b><br><b>Leader / Deputy Leader</b> <input type="checkbox"/> <b>Cabinet</b> <input type="checkbox"/><br><b>SAMT</b> <input type="checkbox"/> <b>Relevant Service Manager</b> <input type="checkbox"/><br><b>Members</b> <input checked="" type="checkbox"/> <b>Public</b> <input type="checkbox"/> <b>Other</b> <input type="checkbox"/>  | Yes<br><br>Details:<br>Members of the Audit Committee |

**Links to Council Ambition (NED) priorities or Policy Framework including Climate Change, Equalities, and Economics and Health implications.**

None.

## REPORT DETAILS

### 1 Background

- 1.1 The Audit Committee considers a range of financial and governance issues on a regular basis. Given the number of matters that are examined by the Committee it is appropriate that an Annual Work Programme continues to be in place.
- 1.2 The Work Programme is set out in the attached **Appendix 1**. It should be recognised that the work plan is a live document to which matters may be added or removed as appropriate and approved by the Committee, including standing items.
- 1.3 The Work Programme enables Members to give structured consideration as to whether the proposed agenda items are appropriate and serve to meet the objectives of the Committee. That question needs to be considered in the light of the Council's Constitution, Chartered Institute of Public Finance and Accountancy (CIPFA) Guidance on the role of an Audit Committee and established good practice.

### 2. Details of Proposal or Information

- 2.1 To enable the Audit Committee to review the Work Programme for the municipal year 2024/25.

### 3 Reasons for Recommendation

- 3.1 To enable the Committee to consider the Work Programme for the 2024/25 municipal year.

### 4 Alternative Options and Reasons for Rejection

- 4.1 There are no other options proposed.

## DOCUMENT INFORMATION

| Appendix No   | Title                            |
|---|----------------------------------|
| 1   | Committee Work Programme 2024/25 |
| <b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) you must provide copies of the background papers) |                                  |
|   |                                  |

**AUDIT COMMITTEE: PROPOSED WORK PROGRAMME 2024/25**

| <u>DATE OF MEETING</u>   | <u>ITEM</u>   |
|--|---|
| 8 July 2024  | <ul style="list-style-type: none"> <li>• External Audit Progress Report</li> <li>• Risk Management Update</li> <li>• Treasury Management Update (Q4)</li> <li>• Annual Governance Statement and Code of Corporate Governance</li> <li>• Statement of Accounts 2023/24 draft</li> <li>• Going Concern 2023/24 draft</li> <li>• IA reports</li> </ul>   |
| 30 September 2024  | <ul style="list-style-type: none"> <li>• External Audit Progress Report</li> <li>• Internal Audit Progress Report</li> <li>• Monitoring the implementation of Internal Audit recommendations</li> <li>• Treasury Management update Q1</li> <li>• Audit Committee Self Assessment</li> <li>• Risk Management Update</li> <li>• Safeguarding update</li> <li>• Cyber Security presentation</li> </ul> |
| 20 January 2025  | <ul style="list-style-type: none"> <li>• Treasury Management Training</li> <li>• Treasury Management Strategies 2025/26 – 2028/29</li> <li>• External Audit Progress Report (verbal)</li> <li>• Internal Audit Progress Update</li> <li>• Risk Management Update</li> <li>• Proposed Accounting Policies 2024/25</li> <li>• Global Internal Audit Standards</li> </ul>                              |
| <b>Accounts Sign off<br/>Special Meeting</b> 26<br>February 2025 | <ul style="list-style-type: none"> <li>• Audit Completion Report 2024/25</li> <li>• Treasury Management Update Q3</li> </ul>  |
| 14 April 2025  | <ul style="list-style-type: none"> <li>• Annual Review of Effectiveness of Internal Audit</li> <li>• Internal Audit Progress Update</li> <li>• Monitoring the implementation of Internal Audit recommendations</li> <li>• External Audit Progress Update</li> <li>• Internal Audit Plan 2025/26</li> <li>• Risk Management update</li> <li>• Devolution Risks</li> </ul>                            |