



## **TREASURY MANAGEMENT UPDATE: SECOND QUARTER STAGE**

### **1 PURPOSE OF REPORT**

- 1.1 This report provides an update on the Council's treasury management and investment activity for the period 1 July 2024 to 30 September 2024.

### **2 LINKS TO COUNCIL'S PRIORITIES AND OBJECTIVES**

- 2.1 Sound treasury management is an enabler, underpinning all of the Council's activity.

### **3 RECOMMENDATION**

- 3.1 It is proposed that the Committee **RESOLVES:**

To note the second quarter treasury management report and submit to Cabinet for their noting.

### **4 INTRODUCTION**

- 4.1 Treasury management is: "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 4.2 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly. This report therefore satisfies this recommendation.
- 4.3 The Code of Practice requires the Council to set annually a Treasury Management Strategy and Investment Strategy. The strategies for the 2024/25 financial year were approved by Council on 21 February 2024. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being the security of capital, liquidity and yield.

- 4.4 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs there is a benefit to seeking out investment periods of up to 12 months with high credit rated financial institutions, assessed using the Link suggested creditworthiness approach.
- 4.5 Investment rates have remained elevated during the first half of 2024/25 but are expected to fall back through the second half of the year as inflation remains much closer to the Bank of England's 2% target and the Bank loosens monetary policy.
- 4.6 This report confirms that Treasury Management activity during the year to date has been undertaken in accordance with the strategy and in consultation, where appropriate, with the Council's external adviser, Link Asset Services.

## **5 BORROWING**

- 5.1 A summary of the Council's external borrowing as at 30 September 2024 is shown at Appendix A. Appendix A also shows that interest paid on both General Fund and Housing Revenue Account (HRA) borrowings for the year to date is as budgeted. This comes as no surprise given the rates of interest are fixed and the Council has not taken out any new loans or repaid any existing loans ahead of schedule.
- 5.2 The Council's policy on capital expenditure and borrowing is set out in the Capital Strategy section of the annual Policy Framework and Budget Setting Report, and as part of this, the affordability of new capital proposals has to be demonstrated. Borrowing can only be undertaken for the purposes of capital expenditure, and not for day-to-day revenue expenditure. The financial impact on the longer-term budget positions for both the General Fund on the Medium-Term Financial Strategy and the HRA on the HRA Business Plan, would need to be taken into account. Any new borrowing would result in additional interest charges to either the General Fund or HRA, as well as the need to set aside sums from those funds for future repayment of the principal.
- 5.3 Any potential new borrowing would have to be fully justifiable in terms of the need to borrow. Additional borrowing would be considered for individual projects where for example the business case determines repayment of debt is affordable and can prudently be funded by new revenue generated. No borrowing was undertaken during the quarter ended 30 September 2024.
- 5.4 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 30 September 2024, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2024/25.

**6 INVESTMENTS**

- 6.1 The investment activity during the year to date conforms to the approved strategy, and the Council has had no liquidity issues. Investments are managed internally using only those institutions which meet the Council's strict investment criteria, within a permissible range of periods, depending on the Council's cash flow and the interest rates on offer.
- 6.2 Appendix B summarises the Council's temporary investment activities for the year to date. The amount available for investment varies daily according to the Council's aggregate financial position on all activities. At the end of September 2024, the amount invested was £27.8m and the average amount invested for the year to date was £31.1m.
- 6.3 Appendix B also shows that the amount of interest received on investments to date is £835,000, which is £95,000 less than originally estimated. Whilst the Bank of England base rate has not reduced as quickly as had been projected at the start of the year this has been offset by lower than projected investment balances. The revised interest receivable forecast for the full year is £1.6m.
- 6.4 The average rate earned is 5.35%, higher than the benchmark SONIA Overnight average of 5.12% (SONIA is the average of interest rates paid by banks to borrow overnight from other financial institutions).
- 6.5 As some of the Council's previous investments which were made at higher interest rates mature, the Council will be making new investments which will likely be at lower rates, as the available rates already take into account forecast reductions in the Bank of England base rate.

**7 BENCHMARKING**

- 7.1 The current position on three benchmark indicators for 2024/25, as explained in the annual Investment Strategy, is reported as follows:
- Security - Weighted Credit Rating Score for the quarter of 4.72 exceeds the target of 4. The measurement scale is as follows:

<b>Credit Rating</b>	<b>Score</b>
AAA	7
AA+	6
AA	5
AA-	4
A+	3
A	2
A-	1

- Liquidity – Weighted Average Life is at a reasonably liquid level, currently averaging **126 days**

- Yield – interest received on investments is below target as reported above, with a lower than projected average balance being partially offset by higher than forecast average returns.

**8 ECONOMIC UNCERTAINTY**

8.1 The Bank of England base rate at end of 2023/24 was 5.25%. During the quarter, on 1 August, it decreased to 5.00% and has remained unchanged for the remainder of the quarter. The rate is decreased further after the quarter ended to 4.75% on 7 November, with markets at time of writing forecasting three further drops throughout 2025 to 4% by the end of the calendar year.

**9 FINANCIAL IMPLICATIONS**

9.1 There are no financial implications arising from this report.

**10 LEGAL IMPLICATIONS**

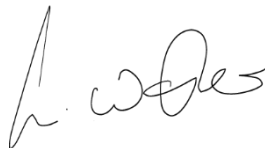
10.1 There are no legal implications arising from this report.

**11 HUMAN RESOURCES IMPLICATIONS**

11.1 There are no human resources implications arising from this report.

**12 EQUALITY AND DIVERSITY IMPLICATIONS**

12.1 An Equality Impact Assessment has not been completed as no decision is being made.



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**Background Papers:**

2024/25 Treasury Management and Investment Strategy.

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**APPENDIX A**

**SUMMARY OF BORROWING AND INTEREST PAYABLE FOR THE YEAR TO 30 SEPTEMBER 2024**

EXTERNAL BORROWING

	<b>1 April 2024</b>	<b>Principal Repaid</b>	<b>New Borrowing</b>	<b>30 Sept 2024</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
General Fund	5,400	450	0	4,950
HRA	27,000	6,000	0	21,000
<b>Total</b>	<b>32,400</b>	<b>6,450</b>	<b>0</b>	<b>25,950</b>

INTEREST PAYABLE YEAR TO DATE

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
General Fund	27	27	0
HRA	757	757	0
<b>Total</b>	<b>784</b>	<b>784</b>	<b>0</b>

INTEREST RATES ON BORROWING

	<b>From</b>	<b>To</b>	<b>Average</b>
	<b>%</b>	<b>%</b>	<b>%</b>
General Fund	1.08	1.08	1.08
HRA	3.05	3.43	3.28
<b>Combined</b>	<b>1.08</b>	<b>3.43</b>	<b>2.91</b>

BANK OF ENGLAND BASE RATE HISTORY

<b>From</b>	<b>To</b>	<b>%</b>
11 May 2023	21 June 2023	4.50
22 June 2023	2 Aug 2023	5.00
3 Aug 2023	31 July 2024	5.25
1 Aug 2024	6 Nov 2024	5.00
7 Nov 2024	Present	4.75

**APPENDIX B**

**SUMMARY OF INVESTMENTS AND INTEREST RECEIVABLE FOR THE YEAR TO 30 SEPTEMBER**

INVESTMENTS

<b>Investment Values</b>	<b>1 April 2024</b>	<b>Made</b>	<b>Repaid</b>	<b>30 Sept 2024</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Local Authorities	15,000	0	5,000	10,000
Money Market Funds	8,300	75,535	75,215	8,620
Debt Management Office	0	0	0	0
Notice Accounts	1,000	0	0	1,000
UK Bank Fixed Term Deposit	8,000	12,000	12,000	8,000
Lloyds Current Account	181	4	0	185
<b>Total</b>	<b>32,481</b>	<b>87,539</b>	<b>92,215</b>	<b>27,805</b>

<b>Number of Investments</b>	<b>1 April 2024</b>	<b>Made</b>	<b>Repaid</b>	<b>30 Sept 2024</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Local Authorities	3	0	1	2
Money Market Funds	2	183	182	3
Debt Management Office	0	0	0	0
Notice Accounts	1	0	0	1
UK Bank Fixed Term Deposit	2	3	3	2
Lloyds Current Account	1	0	0	1
<b>Total</b>	<b>9</b>	<b>186</b>	<b>186</b>	<b>9</b>

INTEREST RECEIVABLE

Average investment balance (£000)	31,135
Actual interest received (£000)	835
Average interest rate achieved	5.35%
Benchmark: Sterling Overnight Index Average (SONIA)	5.12%
Variance to benchmark	+0.23%