



TREASURY MANAGEMENT UPDATE: FIRST QUARTER STAGE

1 PURPOSE OF REPORT

- 1.1 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, ensures this Council is implementing best practice in accordance with the Code.

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**
- (1) to note the first 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 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.

- 4.3 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.
- 4.4 Investment rates have remained elevated during the first quarter of 2024/25 but are expected to fall back through the second half of 2024 as inflation reduces and the MPC starts to loosen monetary policy.
- 4.5 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 June 2024 is shown at **Annexe A. Annex A** also shows that interest paid on both General Fund and 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 Housing Revenue Account 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 June 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 June 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 **Annexe 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 June 2024, the amount invested was £27.4m and the average amount invested for the year to date was £32.7m.
- 6.3 **Annexe B** also shows that the amount of interest received on investments to date is £447,000, £15,000 less than original estimate. This is due to the bank rate holding on to 5.25% longer than anticipated with the expectation of rates to start falling in September and lower investment balances. The revised forecast for the full year is £1.163m.
- 6.4 The average rate earned is 5.48%, higher than the benchmark SONIA Overnight average of 5.20% (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 made at higher interest rates mature, the Council will be making new investments which will likely be at lower rates, as the 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 year to date of **5.12** exceeds the target of 4 (the scale goes from 0 to 7)
 - Liquidity – Weighted Average Life is at a reasonably liquid level, currently averaging **161 days**
 - Yield – interest received on investments is below target as reported above, with a lower than forecast 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% and has remained unchanged to 30 June 2024. The rate is expected to decrease to 5.0% in August, with markets at time of writing forecasting further drops throughout the financial year to 3.50% by end of Q1 2025

9 FINANCIAL IMPLICATIONS

9.1 There are no financial implications arising from this report.

10 LEGAL IMPLICATIONS

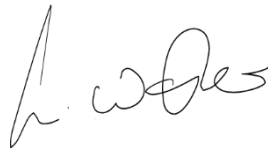
10.1 There are no legal implications arising from this report.

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.



Lance Wosko

Assistant Director, Finance & Procurement (Section 151 officer)

Background Papers:

2024/25 Treasury Management and Investment Strategy.

For further information please contact Nancy Kariwo on:

Phone: 01268 882389

Email: nkariwo@castlepoint.gov.uk

**Summary of Loan Transactions and Interest Payable (accrued daily)
for the year to 30th June 2024**

Loan transactions activity for the year

	Amount o/s 01/04/2024 £000's	Loans Repaid £000's	Amount o/s 30/06/2024 £000's
Public Works Loan Board			
General Fund	5,400	450	4,950
HRA	27,000	6,000	21,000
Totals for the Council	32,400	6,450	25,950

**Interest payable
Comparison of estimate with actual**

Budget Profile to 30/06/2024 £000's	Actual Interest to 30/06/2024 £000's	Variance 30/06/2024 £000's	
27	27	0	0.0%
1,433	1,433	0	0.0%
1,460	1,460	0	0.0%

Interest rates for the year

	Range of loans From	To	Average
General Fund	1.08%	1.08%	1.08%
HRA	2.76%	3.43%	3.11%
Totals for the Council	1.08%	3.43%	2.78%

Base rate history

02/02/2023	4.00%
23/03/2023	4.25%
11/05/2023	4.50%
22/06/2023	5.00%
03/08/2023	5.25%
31/03/2024	5.25%
30/06/2024	5.25%

Summary of Temporary Investments and Interest Received (accrued daily) for the year to June 2024

Type of Borrower	Amount Invested 01/04/2024 £	Made £	Repaid £	Amount Invested 30/06/2024 £
Investments by Value:				
Treasury bills	0	0	0	0
Local Authorities	15,000,000	5,000,000	5,000,000	15,000,000
Money Market Funds	8,300,000	37,970,000	38,920,000	7,350,000
Debt Management Office	0		0	0
Notice accounts	1,000,000	0	0	1,000,000
Uk Banks-Fixed Deposit Account	8,000,000	4,000,000	8,000,000	4,000,000
Investments	32,300,000	46,970,000	51,920,000	27,350,000
Lloyds current account	180,633	0	12,070	168,562
Cash equivalents	180,633	0	12,070	168,562
Total	32,480,633	46,970,000	51,932,070	27,518,562
	Number	Number	Number	Number
Number of Investment Transactions:				
Treasury bills	0	0	0	0
Local Authorities	3	1	1	3
Money Market Funds	2	21	21	2
Debt Management Office	0	0	0	0
Notice accounts	1	0	0	1
Uk Banks-Fixed Deposit Account	2	1	2	1
Investments	8	23	24	7
Lloyds current account	1	0	0	1
Cash equivalents	1	0	0	1
Total	9	23	24	8

Interest Received on Temporary Investments for the period to 30th June 2024

	£
Actual Interest Received	447,342
Original estimate	462,230.1
Variance	-14,888 -3%

Temporary Investments

Average Balance for the Period	32,727,854
Average Interest Rate for the Period	5.48%
Benchmark: Average Sonia 3 Month	5.17%
Benchmark: Average Sonia Overnight(O/N)	5.20%