AGENDA ITEM

CRMG Scrutiny Committee — 3 September 2024
Cabinet Meeting — 18 September 2024

TREASURY MANAGEMENT Q1 REPORT 2024/25

Report of the Assistant Director for Finance (Interim Section 151 Officer)

1 INTRODUCTION AND PURPOSE OF REPORT

1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that Members be updated on treasury management activities regularly (annual, mid-year and quarterly reports). This report therefore ensures this council is implementing best practice in accordance with the Code.

2. ECONOMICS UPDATE

2.1 The first quarter of 2024/25 saw:

- Gross Domestic Product (GDP) growth flatlining in April following positive Q4 2023/24 growth figures of 0.7% quarter on quarter (q/q).
- A stalling in the downward trend in wage growth, with the headline 3-month year over year rate (3myy) staying at 5.9% in April.
- Consumer Price Index (CPI) inflation falling from 2.3% in April to 2.0% in May;
- Core CPI inflation[1] decreasing from 3.9% in April to 3.5% in May.
- The Bank of England holding rates at 5.25% in May and June.
- 10-year gilt yields climbing to 4.35% in April, before closing out at 4.32% in May.

2.2 The news that the economy grew by 0.7% q/q in Q4 2023/24 confirmed that it moved out of its very mild technical recession that prevailed at the back end of 2023. However, data released for April and May so far shows a slight stalling in the recovery, with GDP data for April coming out at 0.0% month over month (m/m), as very cold and wet weather weighed on activity. Moreover, the fall in the composite Purchasing Manager Index output balance from 53.0 in May to 51.7 in June confirms slower pace growth.

2.3 On a more positive note, the 2.9% m/m increase in retail sales volumes in May more than reversed the 1.8% m/m drop in April as rainfall returned to seasonal norms. The strength was broad-based across the retail sector, including online, (+5.9% m/m) suggesting an underlying strengthening in sales beyond weather effects. With inflation falling back to target, the Bank Rate is likely to be reduced soon and with consumer confidence improving, retail sales may well continue to strengthen.

2.4 Stronger consumer spending, as low inflation allows households' real incomes to strengthen and the drag from higher interest costs fades, suggests that real consumption will strengthen substantially over the next two years. However,

[1] Core inflation represents the long run trend in the price level. In measuring long run inflation, transitory price changes should be excluded. One way of accomplishing this is by excluding items frequently subject to volatile prices, like food and energy.

investment will only make a modest contribution to GDP growth. With the industrial sector still 12% smaller than in 2019, excess capacity will continue to cap the need for industrial firms to invest. But improving business sentiment should raise investment by services' firms. Further, a fall in mortgage rates should trigger a recovery in residential investment. Overall, strong consumer spending is likely to be the backbone of GDP growth, along with government consumption. Our colleagues at Capital Economics forecast that following GDP growth of 1.0% in 2024, activity will continue to surprise to the upside with GDP growth of 1.5% for both 2025 and 2026 (consensus forecasts are 1.2% and 1.4% respectively).

2.5 Nonetheless, the on-going stickiness of wage growth in April will be a lingering concern for the Bank of England. The 3myy rate of average earnings growth stayed at 5.9% in April (consensus 5.7%), whilst the timelier 3-month annualised rate rebounded from 5.9% to 9.3%. This stickiness partly reflected April's 9.8% increase in the minimum wage. This left the Bank of England's forecast for a fall back in regular private sector pay growth from 5.8% in April to 5.1% in June looking a challenge.

2.6 Despite the stickiness of wage growth in April, sharp falls in employment and a move up in unemployment suggests that wage growth will soon be back on a downward path. The 139,000 fall in employment in the 3 months to April was accompanied by a rise in the unemployment rate from 4.3% to 4.4%. This was the fourth increase in a row and took it to its highest level since September 2021. The rise would have been larger were it not for the 132,000 increase in inactivity in the three months to April as the UK's disappointing labour market participation performance since the pandemic continued. The vacancies data also paints a picture of a slowly cooling labour market. The number of job vacancies fell from an upwardly revised 908,000 to 904,000, leaving vacancies 31% below the peak in May 2022, but 11% above the pre-pandemic level.

2.7 The fall in CPI inflation in May back to the Bank's 2% target for the first time since July 2021 will have come as welcome news to the Bank. Furthermore, with CPI inflation of 3.3% in the US and 2.6% in the Euro-zone in May, the UK appears to have won the race to get CPI inflation back to 2.0%. A further easing in food inflation from 2.8% in April to 1.6% in May played a part in the fall in overall CPI inflation and with food producer price inflation at just 0.2% in May, food price inflation will probably soon fall to zero.

2.8 The core rate also fell back from 3.9% to 3.5%. Within that, core goods CPI inflation slipped below zero for the first time since October 2016. As expected, clothing/footwear, recreation/culture and restaurants/hotels categories inflation declined, reflecting base effects from big increases last May. While services inflation fell from 5.9% to 5.7%, this decline was smaller than the Bank of England expected (forecast 5.3%). And the timelier 3-month annualised rate of services prices has rebounded from 8.5% to 9.2%. This suggests that the persistence in domestic inflation that the Bank is worried about is fading more slowly than it thought. Even so, there is scope for inflation to fall further.

2.9 There was little chance that the Bank would cut rates at its June meeting, given upside surprises on services CPI inflation and wage growth. But several developments implied a rate cut is getting closer ((rate cut to 5% at August Monetary Policy Committee (MPC) in Q2)). First, two members of the MPC, Ramsden and Dhingra voted again to reduce rates immediately to 5.00%. Second, despite the recent run of stronger inflation and activity, the minutes noted ‘indicators of inflation persistence had continued to moderate’ and that a range of indicators suggest pay growth had continued to ease. And there was new wording that members of the MPC will consider all the information available and how this affects the assessment that the risks from inflation persistence are receding ‘as part of the August forecast round’.

2.10 Throughout the quarter there was a degree of volatility in the gilt market and, by way of example, the 10-year gilt yield rose from 4.05% on 2nd April to finish at 4.15% on 28th June but it has exceeded 4.30% on several occasions. Overall, investors judged that interest rates will need to remain high for longer to keep inflation around the 2.0% target.

2.11 Meanwhile, the Financial Times Stock Exchange (FTSE) 100 broke through the 8,000 mark in April for the first time since its brief three-day flutter in February last year and reached a record closing high of 8,446 on 15th May. However, by the end of the quarter, despite artificial intelligence (AI)-fuelled rises in the US Standard & Poor’s (S&P) 500, it finished rather tamely and had fallen back to 8,164. Arguably, significant interest rate cuts and an on-going UK economic recovery will be required for a further resurgence to take hold.

2.12 **MPC meetings 9 May and 20 June 2024**

2.12.1 On 9 May, the Bank of England’s Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20 June.

2.12.2 Nonetheless, with UK CPI inflation now back at 2% and set to fall further over the coming months, Ramsden and Dhingra, who voted again to reduce rates immediately to 5.00% in June, may shortly be joined by some members in the no-change camp, for whom the June decision was ‘finely balanced’ as the upside news on services price inflation was more likely to be a reflection of one-off effects and volatile components rather than factors that would push up ‘medium-term inflation’.

3 <u>INTEREST RATE FORECASTS</u>

3.1 The council has appointed Link Group as its treasury advisors and part of their service is to assist the council to formulate a view on interest rates. The Public Works Loan Board (PWLB) rate forecasts below are based on the Certainty Rate ((the standard rate minus 20 basis points (bps)) which has been accessible to most authorities since 1 November 2012. For Housing Revenue Account authorities, the lower Housing Revenue Account (HRA) PWLB rate has also been available since 15 June 2023 (standard rate minus 60 bps) but is available for HRA borrowing only.

3.2 The latest forecast, made on 28 May, sets out a view that both short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of a stubbornly robust economy and a tight labour market.

3.3 Moreover, whatever the shape of domestic data, recent gilt market movements have been heavily influenced by the sentiment pertaining to US monetary policy. Again, inflation and labour data has proven sticky and the market’s expectation for rate cuts has gradually reduced throughout the course of the year, so that possibly rates may not be cut more than once, or possibly twice, before the end of 2024. In any event, even if the Bank of England starts to cut rates (first has started in Aug 2024), it may mean that the medium and longer parts of the curve take longer to fully reflect any such action until the US yield curve shifts lower too. Given the potential inflationary upside risk to US treasuries if the Republican party wins the presidential election in November (increased tariffs on imports from China for example), therein lies a further risk to yields remaining elevated for longer.

3.4 Closer to home, the General Election is not expected to have had a significant impact on UK monetary policy. There is minimal leeway for further tax cuts or added spending without negatively impacting market sentiment. It may be that the Government takes time to weigh up fiscal policy implications and market sentiment in the aftermath of the election.

3.5 Accordingly, Link's central case is still for a rate cut before the end of September (which occurred in August). Thereafter, the path and speed of rate cuts is similar to that which we previously forecast, with Bank Rate eventually falling to a low of 3% by the second half of the year (H2) 2026. (Please note Bank rate was cut to 5% at the August MPC meeting occurring after the end of Q1 and at the time of writing Link had not made any amendments to its forecasts).

3.6 Given the increased uncertainty surrounding Link's central gilt market forecasts, and the significant issuance that will be on-going from several of the major central banks, it has marginally increased its PWLB forecasts by circa 20 to 30 basis points across the whole curve since the previous quarter.

3.7 In summary, regarding PWLB rates, movement in the short-end of the curve is expected to reflect Link's Bank Rate expectations to a large degree, whilst medium to longer-dated PWLB rates will remain influenced not only by the outlook for inflation, domestically and globally, but also by the market's appetite for significant gilt issuance ((£200billion (bn)+ for each of the next few years)). As noted at the Link March Strategic Issues webinars, there is upside risk to that part of our forecast despite the Debt Management Office skewing its issuance to the shorter part of the curve.

3.8 Current PWLB rate forecasts below are based on the Certainty Rate at 28.05.24:

	June 2024	**Sept 2024**	**Dec 2024**	**March 2025**	**June 2025**	**Sept 2025**	**Dec 2025**	**March 2026**	**June 2026**	**Sept 2026**	**Dec 2026**	**March 2027**
Bank Rate	5.25%	5.00%	4.50%	4.00%	3.50%	3.25%	3.25%	3.25%	3.25%	3.00%	3.00%	3.00%
3m ave earnings	5.30%	5.00%	4.50%	4.00%	3.50%	3.30%	3.30%	3.30%	3.30%	3.00%	3.00%	3.00%
6m ave earnings	5.30%	4.90%	4.40%	3.90%	3.50%	3.30%	3.30%	3.30%	3.30%	3.10%	3.10%	3.20%
12m ave earnings	5.10%	4.80%	4.30%	3.80%	3.50%	3.40%	3.40%	3.40%	3.40%	3.20%	3.30%	3.40%
5y PWLB	4.90%	4.70%	4.50%	4.30%	4.10%	4.00%	3.90%	3.90%	3.90%	3.90%	3.90%	3.80%
10y PWLB	5.00%	4.80%	4.60%	4.40%	4.30%	4.10%	4.10%	4.10%	4.00%	4.00%	4.00%	3.90%
25y PWLB	5.30%	5.20%	5.00%	4.80%	4.70%	4.50%	4.40%	4.40%	4.40%	4.40%	4.30%	4.30%
50y PWLB	5.10%	5.00%	4.80%	4.60%	4.50%	4.30%	4.20%	4.20%	4.20%	4.20%	4.10%	4.10%

Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months. The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

3.9 **A Summary Overview of the Future Path of Bank Rate**

- The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation continues to fall through 2024 and 2025. Our target borrowing rates are set two years forward (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out above.

- Bank rate is also expected to fall throughout the remainder of the financial year, although it is unclear how quickly at this stage.
- In the upcoming months, forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe.

4 TREASURY MANAGEMENT ACTIVITY

4.1 The overall treasury position as at 30 June 2024 is shown in the table below:

Treasury Position	**Financial Year 2024/25 Quarter 1**				Financial Year 2023/24 Quarter 4			
	General Fund (GF)		**HRA**		General Fund (GF)		HRA	
	£m	**%**	**£000**	**%**	£m	%	£000	%
	as at 30.06.24		**as at 30.06.24**		as at 31.03.24		as at 31.03.24	
Fixed Rate Funding:								
PWLB	**448.637**	**3.69%**	**71.096**	**4.75%**	448.636	3.69%	71.097	4.75%
Market (LOBO)	**4.690**	**4.95%**	**2.810**	**4.95%**	4.690	4.95%	2.810	4.95%
Market (converted LOBOs)	**37.517**	**3.89%**	**22.483**	**3.89%**	37.517	3.89%	22.483	3.89%
Market (other long-term loans)	**40.000**	**2.33%**	**0**	**0%**	40.000	2.33%	0	0%
Market (short-term fixed)	**93.000**	**5.28%**	**0**	**0%**	90.000	5.73%	0	0%
Market (short-term fixed, variable rate)	**0**	**0%**	**0**	**0%**	0	0%	0	0%
Market (short-term variable)	**10.000**	**5.25%**	**0**	**0%**	10.000	5.25%	0	0%
Salix loans	**2.371**	**0%**	**0**	**0%**	3.036	0%	0	0%
Sub-total	**636.215**		**96.389**		633.879		96.390	
Variable Rate Funding:								
Market (short-term)	**0.020**	**5.25%**	**0**	**0%**	0.020	5.25%	0	0%
Sub-total	**0.020**		**0**		0.020		0	
Total Debt	**636.235**	**3.92%**	**96.389**	**4.55%**	633.899	3.92%	96.390	4.55%
Total Investments	**49.550**	**5.28%**	**0**	**0%**	26.475	5.28%	0	0%
Net Debt	**586.685**		**96.389**		607.424		96.390	

4.2 Net debt has fallen between the start of 2024/25 and the end of Q1, falling from £730.289m to £683.075m due to the authority holding a higher level of investments. The overall cost of borrowing (GF and HRA) has moved from 4.01% at the end of March to 3.96% at 30 June 2024.

5 ANNUAL INVESTMENT STRATEGY (AIS)

5.1 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the council on 22 February 2024. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the council's investment priorities as being, Security of Capital, Liquidity and Yield.

5.2 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 seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

5.3 As shown by the charts in 5.8 below and the interest rate forecasts in Section 3, 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.

5.4 **Creditworthiness.**
There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

5.5 **Investment counterparty criteria**
The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

5.6 **Credit Default Swap (CDS) prices[2]**
For UK banks, these have remained low, and prices are not misaligned with other creditworthiness indicators, such as credit ratings. Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

5.7 **Investment balances**
The average level of funds available for investment purposes during the quarter was £40.376m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The council does not hold core cash balances for investment purposes (i.e., funds available for more than one year).

5.8 The council uses the Sterling Overnight Index Averages (SONIA) to benchmark its investment returns. There is a choice of using the forward looking (term) benchmarks and the backward-looking benchmarks. The forward-looking benchmark reflects where the market has moved to over time,

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- [2] A Credit Default Swap (CDS) is a contract between two parties in which one party purchases protection from another party against losses from the default of a borrower for a defined period of time. CDS prices are often quoted in terms of credit spreads, the implied number of basis points that the credit protection seller receives from the credit protection buyer to justify providing the protection. A credit default swap (CDS) is a financial derivative that allows an investor to swap or offset their credit risk with that of another investor. To swap the risk of default, the lender buys a CDS from another investor who agrees to reimburse them if the borrower defaults.
- Most CDS contracts are maintained via an ongoing premium payment similar to the regular premiums due on an insurance policy. A lender who is worried about a borrower defaulting on a loan often uses a CDS to offset or swap that risk.

whereas the council uses the backward-looking benchmark as this reflects where the market was positioned when investments were placed.

Investment Performance (year to date) quarter ended 30 June 2024 Bank Rate vs backward looking SONIA.

	Bank Rate	**SONIA**	**7 day**	**30 day**	**90 day**	**180 day**	**365 day**
High	5.25%	5.20%	5.20%	5.21%	5.23%	5.26%	5.30%
High Date	02.04.24	03.05.24	13.05.24	26.06.24	28.06.24	28.06.24	28.06.24
Low	5.25%	5.19%	5.19%	5.20%	5.22%	5.25%	5.09%
Low Date	02.04.24	04.04.24	02.04.24	03.04.24	02.04.24	02.04.24	02.04.24
Average	**5.25%**	**5.20%**	**5.20%**	**5.21%**	**5.23%**	**5.26%**	**5.21%**
Spread	0.00%	0.01%	0.01%	0.01%	0.01%	0.01%	0.21%

5.9 The table below illustrates the investment returns achieved during the first quarter of 2024/25 split by time duration.

Q1 2024/25	**COUNCIL PERFORMANCE**			
		Ave Balance Invested	% Return	Ave Duration (days)
Combined Investments	April 2024	£33.232m	5.27%	21.12
	May 2024	£37.263m	5.34%	13.85
	June 2024	£50.737m	5.27%	16.56
Weighted Average Q1		**£40.376m**	**5.29%**	**16.95**

5.10 As illustrated in the table above, the council's return for Q1 has outperformed the benchmark in all periods.

5.11 The budgeted investment return given in the initial Annual Investment Strategy Report for 2024/25 was 4.55%, assuming an average investment duration of up to 3 months (this represents the council's typical investment duration which is predominantly at the short end of the curve and fairly liquid to cater for cashflow needs). This was based on the interest rate forecast in February 2024 which assumed Bank rate would stay at 5.25% in Q1 to June 2024 and then fall to 4.75% by Sept and 4.25% by December 2024. It was then expected to reach 3.75% by March 2025. Bank rate has followed initial forecasts for Q1 however further falls during this financial year are now expected to be more gradual, reaching 4% by March 2025. The return for Q1 of 5.29% therefore reflects the current Bank rate and can be expected to fall along with Bank rate cuts later in the year.

5.12 Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below. These have increased slightly from the forecasts earlier in the year in the Treasury Strategy Report 2024/25 due to Bank rate cuts expected to now be less aggressive in this financial year than previously estimated.

	Q1 2024/25	**TMSS (AIS) 2024/25)**
2024/25	4.70%	4.55%
2025/26	3.35%	3.10%
2026/27	3.10%	3.00%
2027/28	3.25%	3.25%
2028/29	3.25%	3.25%
Longer-term	3.25%	3.25%

5.13 **Approved limits**

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 June 2024.

6 BORROWING

6.1 PWLB maturity Certainty Rates 1 April to 30 June 2024

6.1.1 Gilt yields and PWLB rates remained relatively stable between 1st April and 30 June. Having said that, the spread between the low and high points during the quarter was between 0.3% and 0.45% across the curve.

6.1.2 The 50-year PWLB Certainty Rate target for new long-term borrowing (the low point of our forecast on a two-year timeline) started 2024/25 at 4.00% and increased to 4.20% on 28 May. As can be seen, with rates remaining elevated across the whole of the curve, it is advised to not borrow long-term unless the Authority wants certainty of rate and judges the cost to be affordable.

6.2 PWLB Rates Q1

The following table summarises movements in PWLB Certainty rates from 1 year out to 50 years in Q1 2024/25.

PWLB	1 Year	5 Year	10 Year	25 Year	50 Year
Low	5.27%	4.70%	4.80%	5.28%	5.06%
Date	21.06.24	04.04.24	02.04.24	02.04.24	21.06.24
High	5.61%	5.14%	5.18%	5.61%	5.40%
Date	29.05.24	01.05.24	01.05.24	30.05.24	30.05.24
Average	5.43%	4.92%	4.98%	5.42%	5.20%
Spread	0.34%	0.44%	0.38%	0.33%	0.34%

6.3 Revised PWLB Borrowing trigger rates.

The table below provides revised PWLB Certainty trigger borrowing rates.

	Current Borrowing Rate end of Q1	Target Borrowing Rate now in Q1 2026	Previous Target included in TMSS 2024/25
5 years	5.09%	3.60%	3.70%
10 years	5.16%	3.70%	3.90%
25 years	5.60%	4.00%	4.20%
50 years	5.38%	3.80%	4.00%

Please note, the council has now set trigger rates two years forward from now (this assumes that ideally long-term borrowing will not be taken for the next two years) and so trigger rates look at the forecasts for new PWLB long-term borrowing in 2026. This is because two years forward is when we expect rates to have fallen back, and you will note that trigger levels are therefore way below where borrowing levels currently are.

6.4 The long-term (beyond 10 years) forecast for Bank Rate remains at 3%. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed Local Authorities

(LA) to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

6.5 During Q1 2024/25 the council has taken borrowing where needed from other councils and liquidity issues in the short-term markets which were evident at the start of the year have somewhat disappeared. As illustrated in 4.1 above, short-term borrowing has remained fairly consistent in Q1 and has largely focused on refinancing existing loans. Investment balances have increased over the quarter due to the council's natural cash flow cycle and in turn has reduced the need to take on more borrowing. This will change throughout the remainder of the year when investments balances start to reduce, spending on Capital Schemes gets underway and usual liquidity issues return to the markets around Christmas and year-end.

6.6 In the event that PWLB borrowing is undertaken in 2024/25 probably due to liquidity shortages that may become entrenched in the short-term market, trigger rates for new borrowing have been set in the table below and represent the lowest forecast rate in each period for each quarter. Please note these are based on PWLB certainty rates however if new borrowing was undertaken at the HRA rate, levels would be 40 basis points lower.

Term	Q2	Q3	Q4
5 year	4.70%	4.50%	4.30%
10 year	4.80%	4.60%	4.40%
25 year	5.20%	5.00%	4.80%
50 years	5.00%	4.80%	4.60%

6.7 It is evident from the table above that levels in the 25-year period are generally the peak of the yield curve. In the UK Pension Funds buy up long dated gilts to match the investment term they are looking for; hence the price of the 50 year rises (because it is in demand) and the yield for that reason is lower. It therefore follows that the 30-year gilt yields in comparison are higher than the 50 year (they are not as sought). The same goes for the short end. In essence, there is less demand for the medium term than there is for the short and long end. Since there is an inverse relationship between the price and yield it leaves the medium term with the highest yields which in turn, the PWLB rates are derived from.

6.8 In all likelihood if PWLB borrowing is taken in this financial year it will be kept to the shortest possible duration (1 year and above) to minimise the amount of time loans are taken when long-term borrowing levels (over 1 year) are expected to fall going forward. PWLB levels in the 1-year period are more reflective of the Bank rate.

7 DEBT RESCHEDULING

7.1 Debt rescheduling opportunities have remained a possibility in the current quarter, however as the council does not have significant surplus cash or a flat or falling Capital Financing Requirement in future years, it is not in a position to prematurely repay debt. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio going forward but this is felt unlikely.

8 COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

8.1 The prudential and treasury Indicators are shown in Appendix 1.

8.2 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. The Assistant Director for Finance (Interim Section 151 Officer) reports that no difficulties are envisaged for the current or future years in complying with these indicators.

8.3 All treasury management operations have also been conducted in full compliance with the council's Treasury Management Practices.

OTHER CONSIDERATIONS

9.1 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

9.1.1 The financial implications are covered in the body of the report.

9.1.2 There are no further financial and risk considerations arising from the report. This report is produced as a finance report and discusses in detail risk mitigation processes which are at the heart of Treasury Management Policy. Treasury Management Risk Management is the practice of planning for unexpected expenditures. It is primarily about mitigating and avoiding the impact of the changing financial environment on the council’s cash flow objectives.

9.1.3 It is confirmed that the Interim Section 151 Officer has signed off the financial implications detailed within the report.

9.2 LEGAL CONSIDERATIONS

9.2.1 There are no Legal and Governance implications to consider as a result of the report and recommendations.

9.2.2 The council will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements. In framing its credit and counterparty policy under Treasury Management Practice (TMP1) Counterparty credit 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, particularly with regard to duty of care and fees charged.

9.2.3 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 manage the risk of these impacting adversely on the council.

9.3 HUMAN RESOURCES IMPACT

9.3.1 There is no impact to the workforce or the workforce of partner organisations as a result of the report and recommendations.

9.3.2 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.

9.3.3 The council will also ensure that Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

9.3.4 The present arrangements, including a knowledge and skills schedule, are detailed in the relevant Treasury Management Practice (TMP). This Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the TM Code) revision for 2021 introduces strengthened requirements for skills and training.

9.4 EQUALITIES IMPACT

9.4.1 A full Equalities Impact Assessment was undertaken with the initial Treasury Management Strategy Report for 2024/25 that went to Council on 22 February 2024. This is a backward-looking performance report on that Strategy.

9.5 ENVIRONMENTAL IMPACT

9.5.1 The council's Treasury Management Policy Statement and Treasury Management Practices (TMPs) will provide further clarification of the way the council is looking to incorporate environmental considerations in the council's Investment Strategy.

9.5.2 Environmental, social and governance (ESG) issues are increasingly significant for investors and investment managers. This is better developed in equity and bond markets than for short-term cash deposits and there is a diversity of market approaches to ESG classification and analysis.

9.5.3 This means that a consistent and developed approach to ESG for the council in its treasury management dealings is challenging. The council will consider its credit and counterparty policies in light of ESG information and develop ESG investment policies and treasury management practices consistent with the council's own relevant policies where possible, for example, climate change policies. It is not expected that the council's ESG policy will include ESG scoring or other real-time ESG criteria at individual investment level.

9.5.4 As detailed in the Annual Investment Strategy for 2024/25 Link Asset Services are looking at ways in which to incorporate these factors into their creditworthiness assessment service which the council uses; measuring ESG ratings/metrics is by far the biggest issue for Treasury incorporating ESG into its investment process. They are continuing to review the market in terms of providers, their methodologies, and outputs, as well as waiting on the outcome of an FCA consultation process, which could conceivably have a material impact on the market going forward.

9.5.5 Members will be updated on the progress of this and the feasibility of including these investments as part of the council's investment portfolio in the Treasury mid-year review report for 2024/25 where hopefully some progress will have been made by Link.

10 CONCLUSIONS AND RECOMMENDATIONS

10.1 The council's treasury management function has functioned well in Q1 2024/25; investment performance has achieved a return of 5.28% for Q1 and debt costs have been minimised at an overall average rate of 4%.

10.2 During the quarter the council operated within the treasury limits and Prudential Indicators set out in the council’s Treasury Management Strategy Statement and in compliance with the council's Treasury Management Practices.

10.3 The council has had as its first priority the security of invested funds and its policy to place appropriate parameters (in terms of credit quality), to organisations with whom it invests. This has safeguarded the council's investments during Q1 2024/25.

10.4 Monetary policy will continue to dominate in the near-term as discussions on rate cuts will now be at the forefront across all major Western economies. Inflation is expected to trend lower with an increased potential of reaching central bank targets. As we have seen reflected in market (and our own expectations) through the start of 2024, the timing of the first rate cut in the UK (August 2024) and the pace of these cuts is expected to be more modest than that seen in the upcycle. It is important to remember that broader markets with a longer-term focus are always reflective of a multitude of economic, environmental, political and geopolitical risks, thus typically more volatile when reviewed over short-term periods.

10.5 Sentiment remains largely volatile as markets continue to try and secondguess the MPC as to when the downside shift in Bank Rate will continue. Therefore, as with the MPC and markets themselves, the council will continue to review its own forecast on a regular basis as economic and market conditions dictate.

10.6 From a Treasury standpoint the council whilst looking to borrow during 2024/25 will continually need to focus on optimising its cashflow forecasts and given the elevated level of PWLB rates across the curve, carry on funding either temporarily from local authorities or possibly with short-dated loans from the PWLB. Members will see from the latest forecast that we still expect both short and longer-term rates to be somewhat lower over the duration of the forecast. Nonetheless, if certainty becomes paramount within the council’s Debt Management Strategy, we will look to optimise any longer dated borrowing requirements.

10.7 Members will note that the Treasury Management Annual Report for 2023/24 elsewhere on this Agenda, described the liquidity problems and inherent difficulties the council had in raising loans from other local authorities during the last financial year, which began prior to Christmas 2023. Although this is not presently the case it is very likely that the same issues will arise in the local-to-local market later in 2024/25 as the market is purely led by supply and demand. The council’s borrowing will therefore require some careful planning in the coming months, particularly in relation to the refinancing of one-year PWLB loans take in February and March 2024.

10.8 Treasury investments will centre around liquidity requirements in the coming months. With the pace of future Bank Rate cuts expected to be more modest than that seen in the upcycle, the need to add ‘lag’ to performance by maturity extension may not be so pressing. Moreover, a falling environment may also see the relative benefits of Money Market Funds increase, given they can potentially provide elevated performance combined with a shorter profile compared to longer-term fixed deposits. We continue to review these as part of our decisions in the coming months.

10.9 The Cabinet is asked to:

- Note the report and treasury activity and approve any changes to the prudential indicators.

BACKGROUND PAPERS

There are none.

Anyone wishing to inspect the above background papers or requiring further information should contact Lorna Soufian

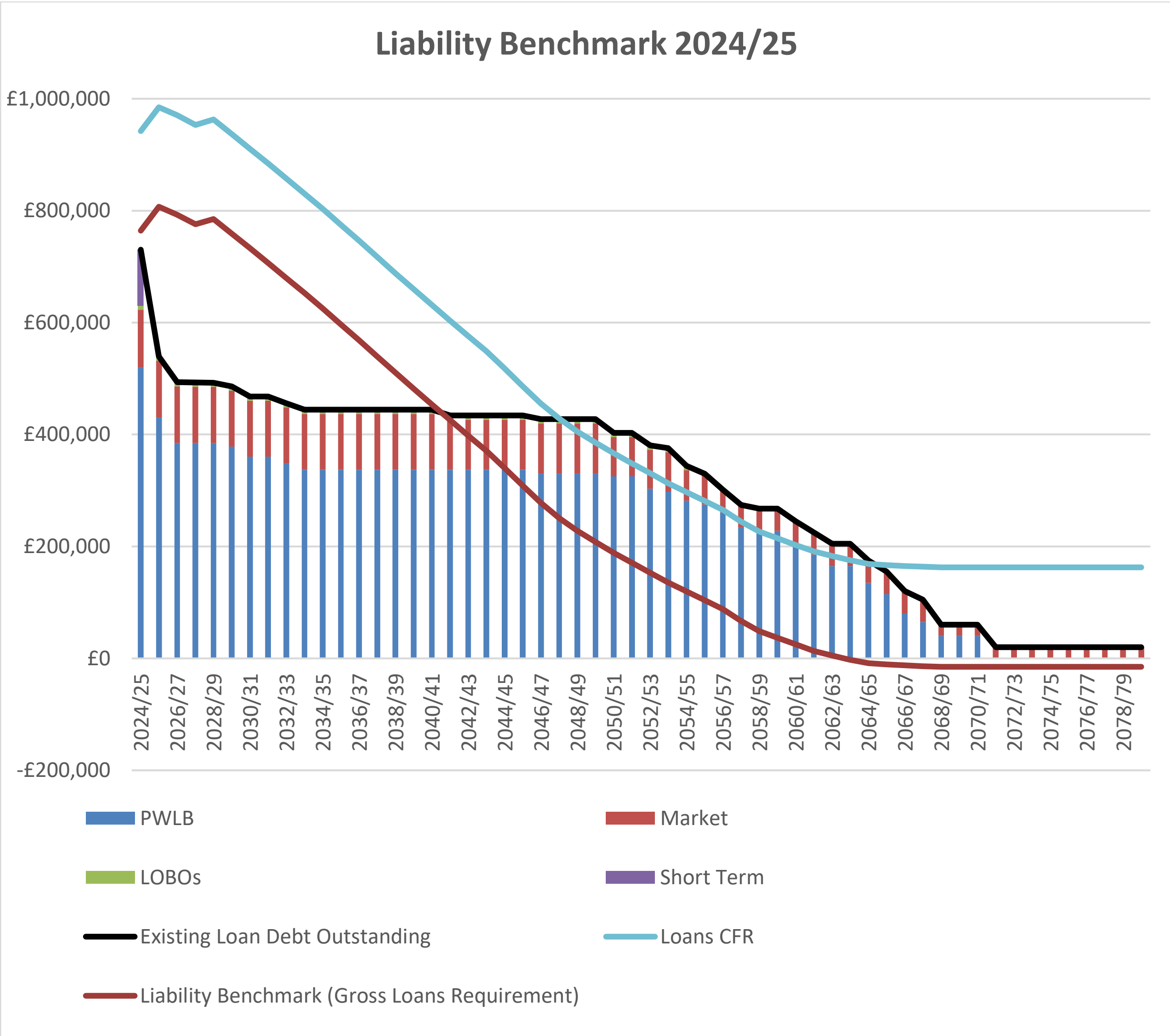
Lorna Soufian on Tel: 0161 474 4026 or by email

APPENDIX 1

Prudential and Treasury Indicators 2024/25 Q1

Capital Indicators

	Budget 2024/25 £M	Q1 2024/25 £M
Capital expenditure	155.255	168.168
Capital Financing Requirement (CFR)	943.762	941.955
Annual change in CFR	41.111	40.446
In-year borrowing requirement (excluding MRP)	72.097	71.410
Ratio of financing costs to net revenue stream (non HRA)	10.71%	11.31%
Ratio of financing costs to net revenue stream (HRA)	9.91%	9.15%
Incremental impact of capital investment decisions:		
Increase in council tax (band change) per annum	£30.78	£33.97
Increase in average housing rent per week	£2.28	£1.52



Treasury Indicators

	2024/25 Budget £M	2024/25 Q1 £M
Authorised limit for external debt	974.000	974.000
Operational boundary for external debt	954.000	954.000
Gross external debt (maximum Q1)	829.785	744.625

Maturity Structure of fixed rate borrowing upper and lower limits

Period	2024/25 Lower	2024/25 Upper	Actual 30.06.24
Under 12 months	0%	40%	24.46%
12 months to 2 years	0%	40%	6.16%
2 years to 5 years	0%	40%	0.18%
5 years to 10 years	0%	45%	6.50%
10 years to 20 years	0%	40%	2.21%
20 years to 30 years	0%	50%	10.80%
30 years to 40 years	0%	60%	20.88%
40 years to 50 years	0%	60%	24.79%
50 years and above	0%	60%	2.68%
			98.66%

Interest Rate Limits

	2024/25 Budget %	2024/25 Q1 Actual %
Upper limit of variable interest rates based on gross debt	40%	**1.34%**

Principal Sums

	2024/25 Budget £M	2024/25 Actual Q1 £M
Upper limit for principal sums invested over 365 days	80	0