CRMG Scrutiny Committee 4 March 2025
Cabinet Meeting 18 March 2025

TREASURY MANAGEMENT Q3 REPORT 2024/25

Report of the Director of Finance (Section 151 Officer)

1 INTRODUCTION AND PURPOSE OF REPORT

1.1 The Chartered Institute of Public Finance and Accountancy Code of Practice (CIPFA) 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. ECONOMIC UPDATE

2.1 Gross domestic product (GDP) estimates are the main measure of UK economic growth based on the value of goods and services produced during a given period. GDP estimates are produced monthly, quarterly and annually as part of the revisions cycle to ensure the timely release of data throughout the year.

2.2 Main points:

- Monthly real gross domestic product (GDP) is estimated to have grown by 0.1% in November 2024 largely because of a growth in services, following an unrevised fall of 0.1% in October 2024.
- Real GDP is estimated to have shown no growth in the three months to November 2024, compared with the three months to August 2024.
- Monthly services output grew by 0.1% in November 2024, after falling by 0.1% in October 2024 (revised down) but showed no growth in the three months to November 2024.
- Production output fell by 0.4% in November 2024, following an unrevised fall of 0.6% in October 2024; production fell by 0.7% in the three months to November 2024, driven by a decline in manufacturing.
- Construction output grew by 0.4% in November 2024, following a fall of 0.3% in October 2024 (revised up) construction also grew by 0.2% in the three months to November 2024.

2.3 After rising by 1.4% quarter on quarter (q/q) in July-September 2024, the retail sector had a difficult final quarter of the year. The bigger-than-expected 0.7% (month on month) m/m fall in retail sales in October suggested that households' concerns about expected tax rises announced in the October Budget, contributed to weaker retail spending at the start of the quarter. The monthly decline in retail sales volumes in October was reasonably broad based, with sales in five of the seven main sub sectors slipping.

2.4 The Government's October budget outlined plans for a significant £41.5bn (1.2% of GDP) increase in taxes by 2029/30, with £25bn derived from a 1.2% rise in employers' national insurance contributions. The taxes are more than

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offset by a £47bn (1.4% of GDP) rise in current day-to-day (d/d) spending by 2029/30 and a £24.6bn (0.7% of GDP) rise in public investment, with the latter being more than funded by a £32.5bn (1.0% of GDP) rise in public borrowing. The result is that the Budget loosens fiscal policy relative to the previous government's plans, although fiscal policy is still being tightened over the next five years.

2.5 December's pay data showed a rebound in wage growth that will likely add to the Bank of England's inflationary concerns.

2.6 The number of job vacancies also fell again from 828,000 in the three months to October to 818,000 in the three months to November. This marks the first time it has dropped below its pre-pandemic February 2020 level of 819,000 since May 2021. Despite this, the Bank of England remains concerned about the inflationary influence of high wage settlements as well as the risk of a major slowdown in labour market activity.

2.7 Consumer Price Index (CPI) inflation has been on the rise in Q3, with the annual growth rate increasing from 1.7% in September to 2.3% in October, before rising further to 2.6% in November. The wider measure of 'core' CPI inflation (excludes energy, food, alcohol and tobacco) rose from 3.3% to 3.5% in November. Both measure are at rates well above those consistent with Monetary Policy Committee's (MPC) 2.0% target and are moving in the wrong direction. Although CPI inflation is expected to be back at close to the 2.0% target by the end of 2025, the potential for a broader set of tariffs to arise from the US as well as the constant threat of geo-political factors to impact energy and food prices suggest risks remain very much to the upside.

2.8 Throughout the quarter gilt[1] yields (on which PWLB rates are based) have risen. The 10-year gilt yield increased from 3.94% at the start of October to 4.57% by the year end (and has subsequently risen to 4.64% early in 2025). As recently as mid-September 10-year gilt yields were at their low for the financial year, but since then, and specifically after the Budget at the end of October, yields have soared. Overall, the reaction to the UK Budget highlights how bond markets are both fragile and highly attentive to news about the fiscal outlook.

2.9 The Financial Times Stock Exchange (FTSE) 100 started off this quarter at 8,276, before finishing up at 8,121. In particular, UK markets have continued to fall further behind US equities, a trend which has accelerated since US presidential election in November, partly due to the UK stock market being less exposed to AI hype, and it being weighed down by its relatively large exposure to the energy and materials sectors.

2.10 **MPC meetings November and December 2024**

2.10.1 On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut, but the language used by the MPC emphasised 'gradual' reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

[1] A gilt is a UK Government liability denominated in sterling, issued by HM Treasury and listed on the London Stock Exchange. Conventional gilts are the simplest form of UK government bond and constitute the largest proportion of the gilts in issue. A conventional gilt is a liability of the government under which it guarantees to pay the holder of the gilt a fixed cash payment (coupon) every six months until the maturity date.

2.10.2 At the 18 December meeting, another split vote arose. Members voted 6-3 to keep Bank Rate on hold at 4.75%, but dissenters (Dhingra, Ramsden and Taylor) were keen for rates to be cut further as concerns over the slowing down of the UK economy took root, despite near-term inflation fears remaining.

2.10.3 The MPC again stated that 'a gradual approach' to rate cuts 'remains appropriate' and that policy will 'remain restrictive for sufficiently long'.

2.10.4 Please note that Bank rate has been subsequently cut to 4.5% in February 2025 following Q3 end.

3 INTEREST RATE FORECASTS

3.1 The council has appointed Link Group, renamed MUFG Corporate Markets Treasury Ltd, a division of Mitsubishi UFJ Pension & Market Services in 2025, as its external treasury management advisors. For the purpose of this report, reference will be made to the Link Group as it was during Q3. 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, i.e. -0.2%) 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, updated on 11 November, 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 stubborn inflationary factors and a tight labour market.

3.3 Following the October Budget, the outcome of the US Presidential election on 6 November, and the 25bps (0.25%) Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, Link significantly revised their central forecasts for the first time since May. In summary, their Bank Rate forecast is now 50bps-75bps higher than was previously the case, whilst PWLB forecasts have been materially lifted to not only reflect increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

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3.4 If we reflect on the October Budget, Link's central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility (OBR) and the Bank of England concur with that view.

3.5 The anticipated major investment in the public sector, may lift UK real GDP in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

3.6 There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.

3.7 Link's view is that monetary policy is sufficiently tight at present (interest rates high enough) to cater for some further moderate loosening (cutting of rates), the extent of which, however, will continue to be data dependent. The next reduction in Bank Rate is forecast to be made (and was made) in February 2025 and for a pattern to evolve whereby further rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November). Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025.

3.8 Regarding PWLB forecasts, the short to medium part of the curve (short to medium term interest rates) is forecast to remain elevated over the course of 2025, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening. The longer part of the curve (longer-term rates, i.e. up to 50 years) will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward. Moreover, the US President election paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of any further tax cuts and an expansion of the current US budget deficit.

3.9 Invariably the direction of US Treasury yields in reaction to the President's core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound.

3.10 In summary, regarding PWLB rates, movement in the short-end of the curve is expected to reflect 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 (£200bn+ for each of the next few years). Gilts are UK government bonds, which are issued to help finance public spending. There is upside risk to that part of the forecast despite the Debt Management Office skewing its issuance to the shorter part of the curve.

3.11 Current PWLB rate forecasts below are based on the Certainty Rate.

	March 2025	**June 2025**	**Sept 2025**	**Dec 2025**	**March 2026**	**June 2026**	**Sept 2026**	**Dec 2026**	**March 2027**	**June 2027**	**Sept 2027**	**Dec 2027**
Bank Rate	4.50%	4.25%	4.00%	4.00%	3.75%	3.75%	3.75%	3.50%	3.50%	3.50%	3.50%	3.50%
3m ave earn *	4.50%	4.30%	4.00%	4.00%	4.00%	3.80%	3.80%	3.80%	3.50%	3.50%	3.50%	3.50%
6m ave earn *	4.40%	4.20%	3.90%	3.90%	3.90%	3.80%	3.80%	3.80%	3.50%	3.50%	3.50%	3.50%
12m ave earn *	4.40%	4.20%	3.90%	3.90%	3.90%	3.80%	3.80%	3.80%	3.50%	3.50%	3.50%	3.50%
5y PWLB	4.90%	4.80%	4.60%	4.50%	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	4.00%	3.90%
10y PWLB	5.10%	5.00%	4.80%	4.80%	4.70%	4.50%	4.50%	4.40%	4.30%	4.20%	4.20%	4.10%
25y PWLB	5.50%	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%	4.50%	4.50%
50y PWLB	5.30%	5.20%	5.10%	5.10%	4.90%	4.80%	4.70%	4.60%	4.50%	4.40%	4.30%	4.30%

* 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.

4 TREASURY MANAGEMENT ACTIVITY

4.1 The overall treasury position as at 31 December 2024 is shown in the table below:

Treasury Position	Financial Year 2024/25 Mid-Year Position				Financial Year 2024/25 Q3 Position			
	General Fund		HRA		General Fund		HRA	
	£m	%	£m	%	£m	%	£m	%
	as at 30.09.24		as at 30.09.24		as at 31.12.24		as at 31.12.24	
Fixed Rate Funding:								
PWLB	448.636	3.69%	71.097	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)	98.200	4.83%	0	0%	115.000	4.85%	0	0%
Salix loans	2.371	0%	0	0%	1.818	0%	0	0%
Sub-total	**631,414**		**96.390**		**647,661**		**96.390**	
Variable Rate Funding:								
Market (short-term)	10.021	5.00%	0	0%	10.021	4.75%	0	0%
Sub-total	**10.021**		**0**		**10.021**		**0**	
Total Debt	641.435	3.81%	96.390	4.55%	657.682	3.84%	96.390	4.55%
Total Investments	38.075	5.10%	0	0%	29.835	4.92%	0	0%
Net Debt	603.360		96.390		627.847		96.390	

4.2 Net debt has increased between the mid-year point of 2024/25 and the end of Q3, from £699.750m to £724.237m. The overall cost of borrowing (GF and HRA) is 3.92% average year to date which is broadly unchanged from the mid-year position.

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 (SLY)'.

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 2024/25 but are now expected to have peaked.

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 **CDS prices[2]**

For UK banks and international 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 £33.371m. 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, 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 31 December 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%	5.25%	5.33%
High Date	02.04.24	03.05.24	13.05.24	26.06.24	26.07.24	26.07.24	01.08.24
Low	4.75%	4.70%	4.70%	4.71%	4.83%	4.97%	5.09%
Low Date	07.11.24	07.11.24	27.12.24	11.12.24	13.12.24	31.12.24	02.04.24
Average	**5.06%**	**5.01%**	**5.02%**	**5.05%**	**5.12%**	**5.20%**	**5.25%**
Spread	0.50%	0.50%	0.50%	0.50%	0.41%	0.29%	0.24%

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

- [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.

Q1 2024/25	COUNCIL PERFORMANCE			
		Ave Balance Invested	% Return	Ave Duration (days)
Combined Investments	April 2024	£33.232	5.27%	21.12
	May 2024	£37.263	5.34%	13.85
	June 2024	£50.737	5.27%	16.56
Average Q1		**£40.376**	**5.29%**	**16.95**
	July 2024	£55.678	5.26%	26.85
	Aug 2024	£44.297	5.17%	18.99
	Sept 2024	£33.633	5.11%	8.10
Average Q2		**£46.285**	**5.18%**	**19.21**
	Oct 2024	£32.233	4.99%	0.24
	Nov 2024	£32.542	4.84%	0.00
	Dec 2024	£35.321	4.82%	4.16
Average Q3		**£33.371**	**4.88%**	**1.56**
Average Year to Date		**£40.009**	**5.14%**	**13.53**

5.10 As illustrated in the table above, the council's return for Q3 has *outperformed* the benchmark in in periods up to 90 days compared to the average duration of the portfolio only being 13.53 days.

5.11 For 2024/25 the council's Medium Term Financial Plan and Annual Investment Strategy budgeted for an investment return of 4.55%, assuming an average investment duration of up to three 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 peak at 5.25% in Q4 2023 and a fall to 4.75% by September 2024, 4.25% by December and finish the financial year at 3.75%. As Bank rate was still at 4.75% in Q3 with future falls expected to be slower than thought in the initial strategy, the target annual return at Q3 is estimated to be 4.60% (unchanged from the mid-year point). This is purely based on current expectations for Bank rate and not an expectation that the council will place significant investments for longer periods than 3 months later in the year. Although the current return is higher than this at 5.14% cuts to Bank Rate expected in Q4 will see this return fall further.

5.12 **Approved limits**
Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 31 December 2024.

6 BORROWING STRATEGY

6.1 PWLB maturity Certainty Rates to 31 December 2024

6.1.1 Medium and longer-dated gilt yields, and therein PWLB rates, have moved significantly higher over the course of the financial year, culminating in long-term rates approaching levels last seen in 1998. The rise in medium to long-term yields has arisen because of several factors. Namely, the inflation outlook has become more entrenched than the market anticipated earlier in the year, with wages remaining somewhat elevated and the labour market tight.

6.1.2 Moreover, the Government has not fully convinced the markets that the UK economy is about to undergo a material increase in productivity and growth.

The quarter ending 30 September saw UK GDP stagnate and the prospects for 2025 are somewhat opaque at present. With the UK public finances seemingly under pressure too (as of 7 January, it is estimated that the October Budget contingency is less than £1bn following the recent rise in gilt yields), and historic buyers of longer-dated gilts, i.e. pension funds and insurance companies, targeting shorter-dated maturities of late, it is not that great a surprise that yields have risen in the longer dates even as the Debt Management Office has sought to issue debt with shorter durations than might normally have been the case.

6.1.3 US Treasury yields also rose prior to the US Presidential inauguration on 20 January. Markets being nervous as to what the effect of possible deportations, tariffs and tax-cutting policies will have on inflation. Given the impact US markets have globally, this is another contributing factor to the near-term rise in UK yields. The hope is that when the 'unknowns' become known, markets will behave in a calmer fashion and yields fall back. But that is not certain.

6.2 **PWLB Rates Q3**

The following table summarises movements in PWLB Certainty rates from 1 year out to 50 years up to the end of Q3 2024/25.

PWLB	1 Year	5 Year	10 Year	25 Year	50 Year
02.04.24	5.39%	4.72%	4.80%	5.28%	5.07%
31.12.24	5.20%	5.12%	5.43%	5.91%	5.68%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Date	17.09.24	17.09.24	17.09.24	17.09.24	17.09.24
High	5.61%	5.16%	5.44%	5.92%	5.69%
Date	29.05.24	19.12.24	19.12.24	19.12.24	27.12.24
Average	5.22%	4.80%	4.96%	5.43%	5.21%
Spread	0.83%	0.85%	0.92%	0.84%	0.81%

6.3 **Revised PWLB Borrowing trigger rates**

The table below provides revised PWLB Certainty trigger borrowing rates.

Term	Target Borrowing Rate (end of Q3 2026
5 year	4.30%
10 year	4.50%
25 year	4.90%
50 year	4.70%

Please note, the council has now set trigger rates 24 months forward (this assumes that ideally long-term borrowing will not be until the end of 2026) and so trigger rates look at the forecasts for new PWLB long-term borrowing in Q3 2026. This is because inflation is expected to start to fall later in 2025 and therefore long-term rates by 2026 are expected to be lower. This forward period is when we expect rates to have fallen back, and you will note that trigger levels are therefore significantly below where borrowing levels currently are.

6.4 It is unlikely that the council will take long-term PWLB borrowing in Q4 of 2024/25 but certain that short duration PWLB loans (1-3 years) will be taken due to enduring liquidity shortages in the short-term market and significant maturing 1-year PWLB loans. At the time of writing the 1-year PWLB Certainty rate was 4.90% (12 February).

6.5 The long-term (beyond 10 years) forecast for Bank Rate stands at 3.25%. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to remain within that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed local authority to local authority monies will continue to be the best option, although supply issues are prevalent at present. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2025 and 2026.

7 DEBT RESCHEDULING

7.1 Debt rescheduling opportunities have increased significantly in the current quarter where gilt yields, which underpin PWLB rates and market loans, have risen materially. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio.

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 December 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 Director of Finance - 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 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 effect 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 Treasury Management Strategy, Annual Investment Strategy and Minimum Review Policy Report 2024/25 provided detailed 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. Previous Treasury Management Reports have outlined in detail current considerations, thinking and approach and also emphasised the difficulties in establishing ESG ratings further. This is the most prevalent issue to resolve in embodying ESG within Treasury Management investments.

9.5.4 The council will still consider ESG investments as part of its investment portfolio going forward, however until its treasury advisors are able to provide some meaningful way of assessing counterparties this is not realistic at the current time. This is particularly the case given that the council predominantly makes investments to cater for cashflow needs, which has to be the main focus. Investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt Security, Liquidity and Yield (SLY) principles. As such, ESG issues must play a subordinate role to those priorities

9.5.5 Any ESG investment policies and treasury management practices will be consistent with the council’s own relevant policies where possible, for example, climate change policies.

10 CONCLUSIONS AND RECOMMENDATIONS

10.1 The council's treasury management function has functioned well in Q3 2024/25; investment performance has achieved a return of 5.14% and debt costs have been minimised at an overall rate of 3.92% (year to date Q1-Q3).

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 Q3 2024/25.

10.4 **Gilt yields and PWLB rates:**
The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are generally to the upsides. Our target borrowing rates are set two years forward (as we expect rates to fall back).

10.5 Bank Rate and therefore short-term borrowing and investment rates are expected to fall in Q4 2024/25.

10.10 From a Treasury standpoint in Q4 the council will need to continue to focus on optimising its cashflow forecasts and given the elevated level of rates right across the curve at present, seek to continue to fund either temporarily from local authorities or with short-dated loans from the PWLB and by drawing back on short-term treasury investments.

10.11 The Cabinet is asked to:

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

BACKGROUND PAPERS

There are none.

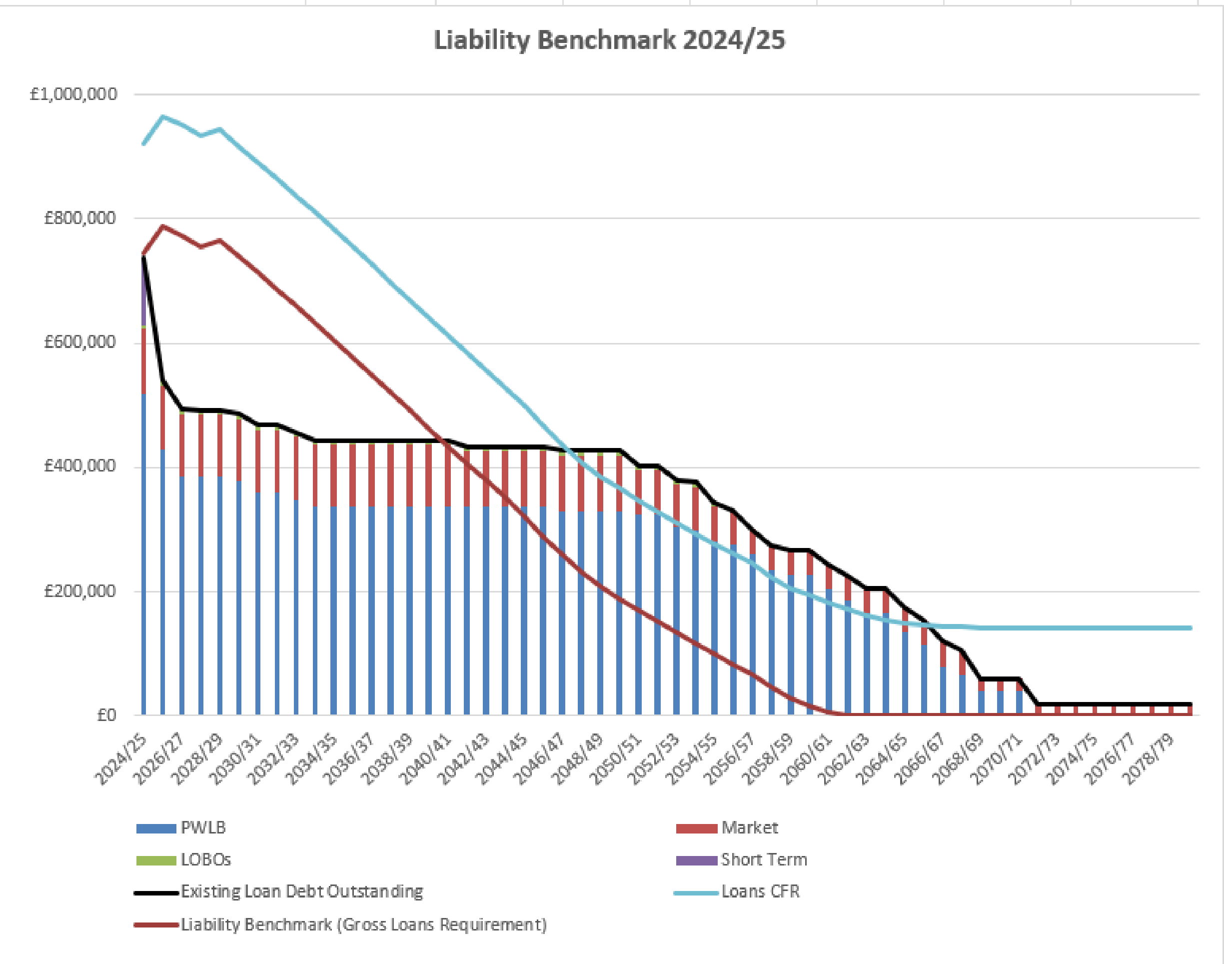
Anyone wishing to inspect the above background papers or requiring further information should contact Lorna Soufian on Tel: 0161 474 4026 or by email.

APPENDIX 1

Prudential and Treasury Indicators 2024/25 Q3

Capital Indicators

	Budget 2024/25 £M	Q3 2024/25 £M
Capital expenditure	155.255	128.578
Capital Financing Requirement (CFR)	943.762	922.030
Annual change in CFR	41.111	20.521
In-year borrowing requirement (excluding MRP)	72.097	42.724
Ratio of financing costs to net revenue stream (non HRA)	10.71%	10.32%
Ratio of financing costs to net revenue stream (HRA)	9.91%	9.58%
Incremental impact of capital investment decisions:		
Increase in council tax (band change) per annum	£30.78	£22.68
Increase in average housing rent per week	£2.28	£0.61



Treasury Indicators

	2024/25 Budget £M	2024/25 Q3 £M
Authorised limit for external debt	974.000	974.000
Operational boundary for external debt	954.000	954.000
Gross external debt (maximum Q3)	829.785	754.072

Maturity Structure of fixed rate borrowing upper and lower limits

Period	2024/25 Lower	2024/25 Upper	Actual 31.12.24
Under 12 months	0%	30%	18%
12 months to 2 years	0%	20%	14%
2 years to 5 years	0%	20%	%
5 years to 10 years	0%	20%	6%
10 years to 20 years	0%	20%	2%
20 years to 30 years	5%	30%	11%
30 years to 40 years	20%	50%	21%
40 years to 50 years	20%	50%	25%
50 years and above	0%	40%	3%

Interest Rate Limits

	2024/25 Budget %	2024/25 Q3 Actual %
Upper limit of variable interest rates based on gross debt	40%	1%

Principal Sums

	2024/25 Budget £M	2024/25 Actual Q3 £M
Upper limit for principal sums invested over 365 days	80	0