

Report for: Audit Committee – 08 October 2024

Item number: 11

Title: Treasury Management Report Q1-2024/25

Report authorised by: Josephine Lyseight, Assistant Director of Finance (Deputy S151 Officer)

Lead Officer: Tim Mpofu, Head of Finance – Pensions and Treasury
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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** N/A

1. Describe the issue under consideration

- 1.1. The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve treasury management reports on a semi-annual and annual basis.
- 1.2. The Council's Treasury Management Strategy for 2024/25 was approved at a full Council meeting on 4 March 2024. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.
- 1.3. This report provides an update to the Audit Committee on the Council's treasury management activities and performance during the quarter ending 30 June 2024, in accordance with the CIPFA Code.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

The Audit Committee is requested:

- 3.1. To note the treasury management activity undertaken during the financial year to 30 June 2024 and the performance achieved which is attached as Appendix 1 to this report.
- 3.2. To note that all treasury activities were undertaken in line with the approved Treasury Management Strategy.

4. Reason for Decision

4.1. Not applicable.

5. Other options considered

5.1. Not applicable.

6. Background information

6.1. The Council's treasury management activity is underpinned by CIPFA's Treasury Management in Public Services: Code of Practice (the CIPFA Code), which requires local authorities to produce annually, Prudential Indicators and a Treasury Management Strategy Statement.

6.2. CIPFA has defined Treasury management as: "The management of the authority's 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."

6.3. The CIPFA Code recommends that members are informed of treasury management activities at least twice a year. Following an amendment to the Council's constitution in 2023, it was determined that the reviewing and monitoring of treasury policy, strategy and activity is delegated to the Audit Committee. This Committee receives quarterly treasury management update reports, including a mid-year and annual report.

6.4. However, overall responsibility for treasury management remains with full Council, and the Council approved the Treasury Management Strategy Statement and set the Prudential Indicators for 2024/25 on 4 March 2024.

6.5. Government guidance on local authority treasury management states that local authorities should consider the following factors in the order they are stated:

Security → Liquidity → Yield

6.6. The Treasury Management Strategy reflects these factors and is explicit that the priority for the Council is the security of its funds. However, no treasury activity is without risk and the effective identification and management of risk are integral to the Council's treasury management activities.

Economic Background

6.7. During the quarter, UK inflation (CPI) rates continued to decline, reaching the Bank of England's target rate of 2.0% by June 2024. The Bank of England maintained the Bank rate at 5.25% until August 2024, when it lowered the percentage points to 5.00%.

6.8. Financial markets have adjusted their interest rate expectations downward. Arlingclose, the Council's treasury advisor, maintains its central view that the Bank Rate has peaked at 5.25%, with potential rate cuts expected later in 2024.

	Sep-23	Dec-23	Mar-24	Jun-24	Current Rate
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BoE Bank Rate	5.25%	5.25%	5.25%	5.25%	5.00%
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6.9. Further details can be found in section 2 of Appendix 1 to this report.

Borrowing Activity

6.10. The Council's primary objective when borrowing is to strike an appropriately low-risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

6.11. There has been a significant increase in the cost of both short-term and long-term borrowing over the past two years, although these increases are now stabilising.

6.12. The table below shows the movement in rates offered across the various PWLB maturities on 30 June 2024. The rates shown are included the 0.20% certainty discount rate offered by the PWLB to qualifying authorities.

PWLB Maturity	Sep-23	Dec-23	Mar-24	Mar-24
10 year	5.26%	4.19%	4.74%	4.96%
20 year	5.64%	4.90%	5.18%	5.37%
50 year	5.43%	4.67%	5.01%	5.15%

6.13. As part of its strategy for funding previous and current years' capital programmes, the Council held £832.9 million in loans on 30 June 2024. The Council has a significant capital programme which will largely be financed by new borrowing in the upcoming years. The Council plans to maintain a balanced portfolio of short and long-term borrowing.

6.14. Further details on the borrowing activity of the Council over the period can be found in section 4 of Appendix 1 to this report.

Treasury Investment Activity

6.15. In accordance with the CIPFA Code and government guidance, the Council aims to strike an appropriate balance between risk and return, when making treasury investments. The aim is to prioritise the security and liquidity of its investments before seeking the optimum rate of return or yield.

6.16. Throughout the period, the Council's investment balances ranged between £33.9 million and £83.0 million due to timing differences between income and expenditure, ending at £33.9m on 30 June 2024.

6.17. Overnight deposit rates for the Debt Management Account Deposit Facility and Money Market Funds held steady at around 5.20% throughout the quarter.

6.18. The following table shows how the Council's current Treasury investments compare with other local authorities.

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Ave. Maturity (Days)	Rate of Return
31.03.2024	3.67	AA-	0%	1	5.19%
30.06.2024	3.79	AA-	0%	1	5.19%
Similar Local Authorities	4.70	A+	70%	12	5.20%
All Local Authorities	4.66	A+	62%	6	5.07%

6.19. Further details on the Council's treasury investment activity over the period can be found in section 5 of Appendix 1 to this report.

Treasury Management Prudential Indicators

6.20. The Council measures and manages its exposures to treasury management risks using several indicators that are set when the Treasury Management Strategy is approved in advance of the new financial year.

6.21. The Chief Finance Officer reports that all treasury management activities carried out during the year were fully compliant with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

6.22. A detailed assessment of the Council's compliance with the agreed upon Treasury Management Indicators can be found in section 8 of Appendix 1 to this report.

7. Contribution to Strategic Outcomes

7.1. Not applicable.

8. Carbon and Climate Change

8.1. Not applicable.

9. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Legal and Governance, Equalities)

Finance and Procurement

8.1. Finance comments are included throughout the attached report.

Assistant Director of Legal and Governance [Benita Edwards, Head of Legal Services]

8.2. The Head of Legal Services has been consulted on the content of this report which is consistent with legislation governing the financial affairs of the Council. In particular, the Council must comply with the requirements of the Local Government Act 2003, the Local Authorities (Capital Financing & Accounting – England) Regulations 2003 and the CIPFA Treasury Management code.

8.3. In considering the report Members must take into account the expert financial advice available to it and any further oral advice given at the meeting of the Committee.

Equalities

8.4. There are no equalities issues arising from this report.

10. Use of Appendices

10.1. Appendix 1 – Treasury Management Update Report – Q1 2024/25

11. Background Papers

11.1. None