

Title of meeting:	Governance and Audit and Standards Committee
Date of meeting:	2 October 2024
Subject:	Treasury Management Monitoring Report for the First Quarter of 2024/25
Report by:	Chris Ward, Director of Finance and Resources (Section 151 Officer)
Wards affected:	All
Key decision:	No
Full Council decision:	No

1. Executive Summary

This report outlines the Council's performance against the treasury management indicators approved by the City Council on 19 March 2024.

The Council's Treasury Management activities have remained within the Treasury Management Policy 2024/25 in the period up to 30 June 2024

No borrowing has been undertaken in the first quarter of 2024/25 or is currently planned for the remainder of this year.

There have been no changes to the Council's risk appetite in its treatment of surplus cash.

2. Purpose of report

The purpose of the report is to inform members and the wider community of the Council's Treasury Management position, i.e. its borrowing and cash investments at 30 June 2024 and of the risks attached to that position.

Whilst the Council has a portfolio of investment properties and some equity shares which were acquired through the capital programme, these do not in themselves form part of the treasury management function.

3. Recommendations

It is recommended that the following be noted:

- 3.1 That the Council's Treasury Management activities have remained within the Treasury Management Policy 2024/25 in the period up to 30 June 2024.
- 3.2 The actual Treasury Management indicators as at 30 June 2024 set out in Appendix A.

4. Background

The Council's treasury management operations encompass the following:

- Cash flow forecasting (both daily balances and longer-term forecasting)
- Investing surplus funds in approved cash investments
- Borrowing to finance short term cash deficits and capital payments
- Management of debt (including rescheduling and ensuring an even maturity profile)

The key risks associated with the Council's treasury management operations are:

- Credit risk - that the Council is not repaid, with due interest in full, on the day repayment is due
- Liquidity risk - that cash will not be available when it is needed, or that the ineffective management of liquidity creates additional, unbudgeted costs
- Interest rate risk - that the Council fails to get good value for its cash dealings (both when borrowing and investing) and the risk that interest costs incurred are in excess of those for which the Council has budgeted
- Maturity (or refinancing risk) - this relates to the Council's borrowing or capital financing activities, and is the risk that the Council is unable to repay or replace its maturing funding arrangements on appropriate terms
- Procedures (or systems) risk - that a treasury process, human or otherwise, will fail and planned actions are not carried out through fraud or error

The treasury management budget accounts for a significant proportion of the Council's overall budget.

The Council's Treasury Management Policy aims to manage risk whilst optimising costs and returns. The Council monitors and measures its treasury management position against the indicators described in this report. Treasury management monitoring reports are brought to the Governance and Audit and Standards Committee for scrutiny.

The Governance and Audit and Standards Committee noted the recommendations to Council contained within the Treasury Management Policy 2024/25 on 28 February

2024. The City Council approved the Treasury Management Policy 2024/25 on 19 March 2024.

5. Reasons for Recommendations

To highlight any variance from the approved Treasury Management Policy and to note any subsequent actions.

To provide assurance that the Council's treasury management activities are effectively managed.

6. Integrated impact assessment

An integrated impact assessment is not required as the recommendations do not directly impact on service or policy delivery. Any changes made arising from this report would be subject to investigation in their own right.

7. Legal Implications

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2015 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

8. Director of Finance and Resources (Section 151 Officer) comments

All financial considerations are contained within the body of the report and the attached appendices.

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Signed by Director of Finance and Resources (Section 151 Officer)

Appendices:

Appendix A: Treasury Management Report for the First Quarter of 2024/25

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

<u>Title of document</u>	Location
1 Treasury Management Records	Financial Services

APPENDIX A

TREASURY MANAGEMENT REPORT FOR THE FIRST QUARTER OF 2024/25

A1. SUMMARY OF TREASURY MANAGEMENT INDICATORS

The City Council approved the authorised limit (the maximum amount of borrowing permitted by the Council) and the operational boundary (the maximum amount of borrowing that is expected) when it considered the budget on 13 February 2024.

On 30 June 2024, the Council's outstanding debt was as shown in table 1.

Table 1: Council's Debt

Prudential Indicator	Approved 24/25 £m	Actual at 30 June 2024 £m
Authorised Limit - the maximum amount of borrowing permitted by the Council	1,100	730
Operational Boundary Limit - the maximum amount of borrowing that is expected	1,077	730

The Council's borrowing consists of both fixed and variable rate loans. The maturity structure of the Council's fixed rate borrowing at 30 June 2024 was:

Table 2: Council's Mature Fixed Rate Debt

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Minimum proportion of loans maturing	0%	0%	0%	0%	0%	0%	0%	0%
Maximum proportion of loans maturing	10%	10%	10%	20%	30%	40%	40%	40%
Actual proportion of loans maturing	1%	1%	4%	13%	15%	8%	31%	27%

The maturity structure of the Council's variable rate borrowing was:

Table 3: Council's Mature Variable Rate Debt

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Minimum proportion of loans maturing	0%	0%	0%	0%	0%	0%	0%	0%
Maximum proportion of loans maturing	10%	10%	20%	20%	30%	40%	40%	40%
Actual proportion of loans maturing	2%	2%	7%	11%	24%	26%	13%	15%

Surplus cash invested for periods longer than 365 days on 30 June 2024 was:

Table 4: Council's Surplus Cash beyond 365 days

	Limit	Quarter 3 Actual
	£m	£m
Maturing after 31/3/2025	130	8
Maturing after 31/3/2026	50	5
Maturing after 31/3/2027	50	0

A2. GOVERNANCE

The Treasury Management Policy approved by the City Council on 19 March 2024 provides the framework within which treasury management activities are undertaken.

There have been no breaches of these policies during 2024/25 for the quarter ending 30 June 2024.

A3. INTEREST RATE FORECASTS

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates.

The latest forecasts are shown below.

Table 5: PWLB is the Public Works Loans Board

Link Group Interest Rate View		28.05.24										
	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
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
3 month 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
6 month 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
12 month 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
5 yr 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
10 yr 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
25 yr PWLB	5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

At the Bank of England's monetary policy meetings in May and June 2024 interest rates were held at 5.25%, having been at this level since 3 August 2023. With inflation falling to the target level of 2% by the time of the June meeting, there followed strong expectations that the rate would be cut at the Bank's next meeting on 1 August 2024. This was realised with the first cut in rates since March 2020 which brought the base rate down to 5.0%.

The Bank of England have indicated that caution is required on rates being cut "too quickly or too much" whilst it ensures that inflationary pressures are easing as expected and these lower levels are maintained. However, this first cut in the rate at the August meeting was as expected by the market and has not changed the forecasts for future rate cuts as shown in Table 5 above. The table shows that Link are still expecting interest rates to fall to 4.50% by the end of 2024 and 3.25% by the end of 2025.

A4. BORROWING ACTIVITY

No borrowing was undertaken in the first quarter of 2024/25.

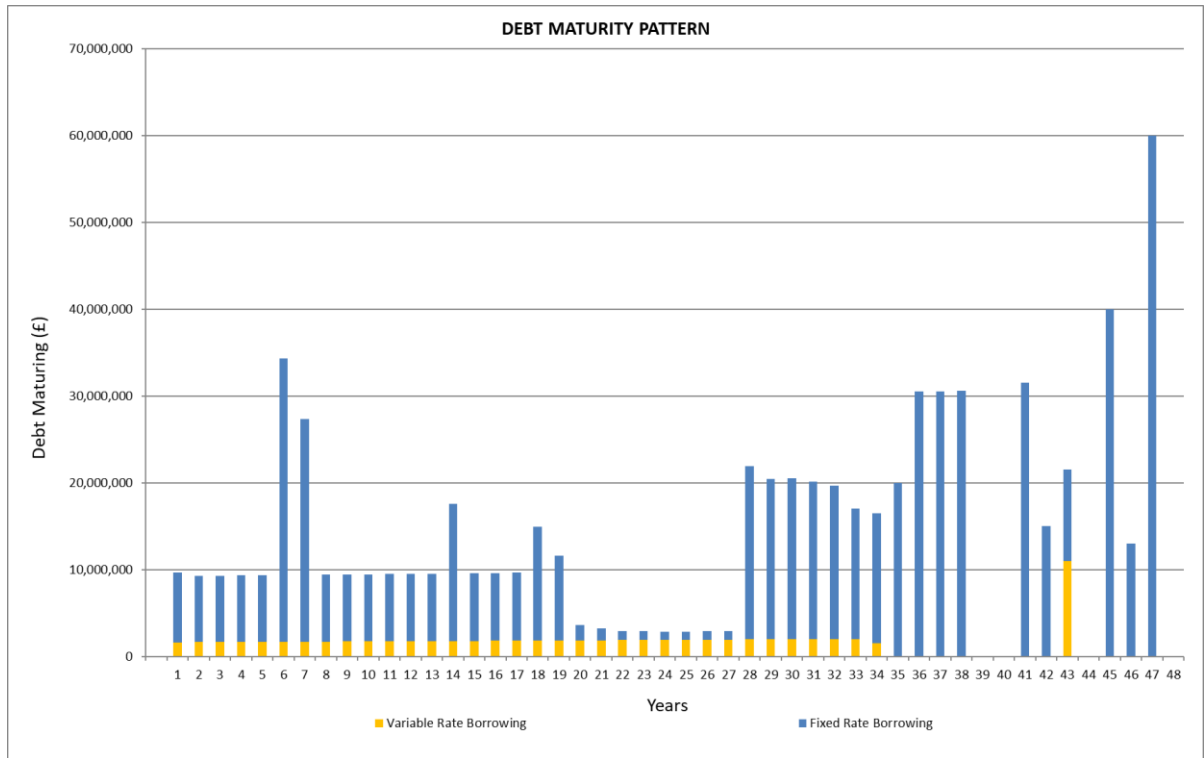
There is currently no intention to borrow for the remainder of 2024/25 and this is considered a cost-effective approach in the current economic climate but cash flows and interest rates will continue to be monitored to ensure that this remains prudent and achievable.

The Council's gross borrowing on 30 June 2024 of £730m is within the Council's Authorised Limit (the maximum amount of borrowing approved by City Council in February 2024) of £1,110m and within the Council's Operational Boundary (the limit beyond which borrowing is not expected to exceed) of £1,077m.

The Council plans for gross borrowing to have a reasonably even maturity profile. This is to ensure that the Council does not need to replace large amounts of maturing borrowing when interest rates could be unfavourable.

The actual maturity profile of the Council's borrowing is within the limits contained within the Council's Treasury Management Policy (see paragraph A1).

Table 6: Debt Maturity Pattern



Early Redemption of Borrowing

No debt rescheduling or early repayment of debt has been undertaken during the first quarter of 2024/25 as it has not been financially advantageous for the Council to do so.

A5. INVESTMENT ACTIVITY

In accordance with the Annual Investment Strategy which forms part of the Treasury Management Policy Statement approved by the Council on 19 March 2024, the investment priorities of security first, portfolio liquidity second and then yield are followed. The aim is to achieve the optimum yield that is commensurate with proper levels of security and liquidity within the Council's appetite for risk.

Once sufficient investments are kept short-term to cover cashflow requirements, there is a benefit to seek out value available in periods up to 12 months with highly creditworthy counterparties. These counterparties' credit ratings are monitored weekly to ensure that they continue to meet the Council's minimum requirements set in the Treasury Management Strategy. There have been few changes to counterparties' ratings during the current quarter and there have been no breaches of the Treasury Policy approved by Council in investments placed with them.

The average level of funds available for investments was £314m in the 3 months to 30 June 2024. The funds invested made an average annualized return of 5.16% during this period. This is compared with the performance to previous years in Table 7 below.

Table 7: Average Return on Investments

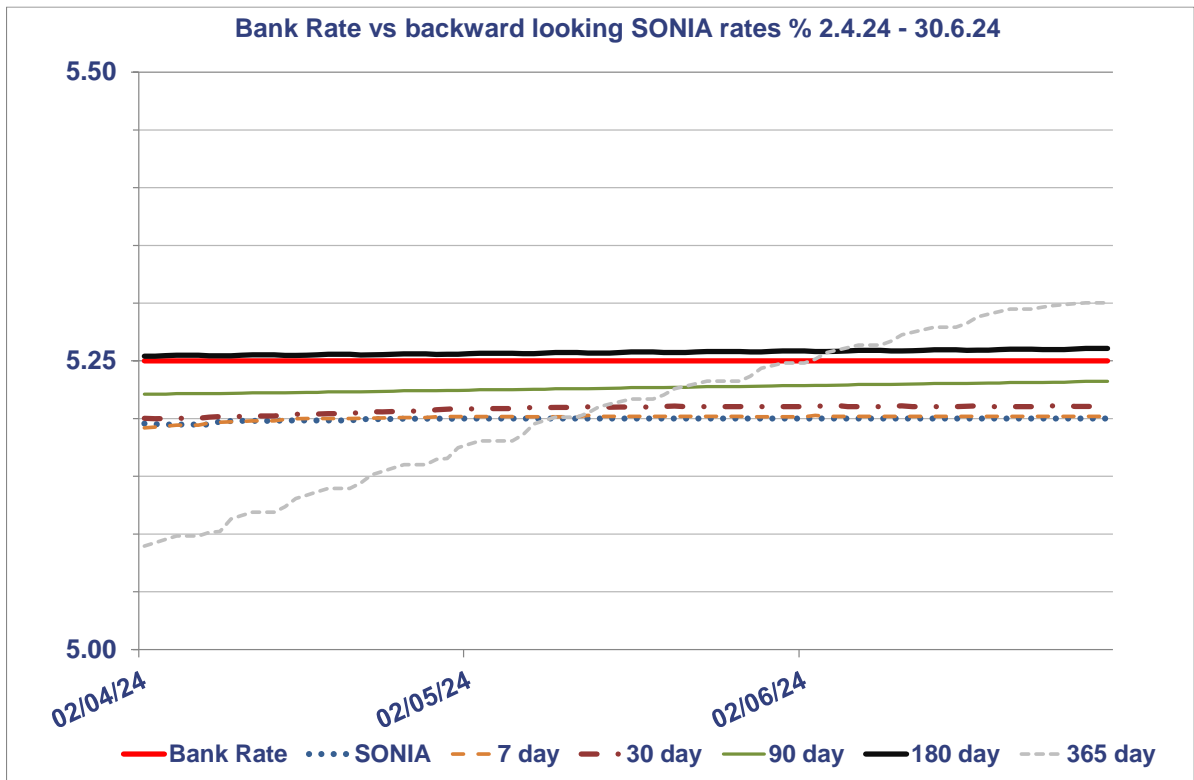
	Average Value (Proportion) of Portfolio at 30 June 2024	Annual Return at 31 March 2023	Annual Return at 31 March 2024	Annualised Return at 30 June 2024
Externally Managed Funds -Tradable Instruments	£12M (4%)	-6.52%	5.47%	-1.66%
Tradable Structured Interest-Bearing Deposit	£10M (3%)	-0.10%	3.03%	2.66%
Vanilla Interest Bearing Deposits	£292M (93%)	1.72%	5.02%	5.52%
Overall Return	100%	1.42%	4.98%	5.16%

At the end of this first quarter, the value of the tradable structured notes has remained fairly steady when compared with the value reported at the end of March 2024. When interest rates are increasing, the returns on tradable structured notes often move in the opposite direction but as interest rates are now considered to have peaked, these investments are starting to maintain more positive returns. The tradable investment returns are based on market prices if sold but the Council's intention is not to sell but hold until they reach their maturity when we will receive the full repayment of the investment. Despite an improvement in the externally managed funds during 2023/24, there has been a slight decline as at 30 June 2024.

The above returns in Table 7, can be compared to the backward-looking rates in the graph below, Table 8, which reflects where average market rates were positioned when investments were placed.

¹ Externally Managed Funds are traded on the open market and managed by an external asset management company
 Tradable Structured Interest Bearing Deposit - are placed with financial institutions, are deposit accounts and may include complex structured financial instruments
 Vanilla Interest Bearing Deposits are cash deposits that just earn interest, they are easily accessible and less complex

Table 8: Bank Overnight Rates



As market interest rates have remained elevated during the first quarter of 2024/25, the returns achieved on the Council's "Vanilla Interest Bearing Deposits" has reached an average rate of 5.52%.

With the stability in the base rate over the past year and the large majority of the Council's investments having been made during this elevated period, the higher rates achieved are now being reflected in the average return for this quarter. This is because almost all loans made 1 year ago or more at lower rates, when the base rate was still rising, have now matured. However, with the first base rate cut taking place in the second quarter of 2024 and further cuts expected to follow, the rates at which any surplus funds can be reinvested for the remainder of 2024/25 have already fallen and are expected to continue to fall further.

A6. COMBINED BORROWING AND INVESTMENT POSITION (NET DEBT)

The Councils net debt position on 30 June 2024 is summarised in the table below.

Table 9: Combined Borrowing and Investments

	Principal	Average Interest Rate	Interest to 30 June 2024
Borrowing (including finance leases & private finance initiative (PFI) schemes)	£730m	3.35%	£6.1m
Investments	(£306m) *	(5.16%)	(£4.0m)
Net Debt / Net Interest	£424m		£2.1m

*Although the Council's investments were £306m on 30 June 2024 the average sum invested over this period was £314m.