



Title of meeting:	Governance and Audit and Standards Committee Cabinet Full Council
Date of meeting:	27 November 2024 (Governance and Audit and Standards Committee) 11 February 2025 (Cabinet) 25 February 2025 (Full Council)
Subject:	Treasury Management Mid-Year Review 2024/25
Report by:	Director of Finance & Resources
Cabinet Member:	Leader
Wards affected:	All
Key decision:	No
Full Council decision:	Yes

1. Executive Summary

- 1.1 This report outlines the Council's performance against the treasury management indicators approved by the City Council on 19 March 2024.
- 1.2 The Council's Treasury Management activities have remained within the Treasury Management Policy 2024/25 in the period up to 30 September 2024.
- 1.3 No borrowing has been undertaken in the first half of 2024/25 or is currently planned for the remainder of this year.
- 1.4 There have been no changes to the Council's risk appetite in its treatment of surplus cash. The overall return on investments has performed better to date than in previous years however the first interest rate reduction from the Bank of England for some time occurred in August 2024 and while preparing this report, the Bank of England announced a further 0.25% reduction in interest rates (to 4.75%) on 07 November. During the first half of this year investment returns have increased as the majority of investments held have been placed at times when higher returns have been available, and investments placed at lower rates have matured.

2. Purpose of report

- 2.1 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 September 2024 and of the risks attached to that position.

- 2.2 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 September 2024.
- 3.2 That the actual Treasury Management indicators at 30 September 2024 set out in Appendix A be noted.
- 3.3 That the report goes to Full Council on 25 February 2025.

4. Background

- 4.1 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)
- 4.2 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
- 4.3 The treasury management budget accounts for a significant proportion of the Council's overall budget.
- 4.4 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.

- 4.5 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

- 5.1 To highlight any variance from the approved Treasury Management Policy and to note any subsequent actions.
- 5.2 To provide assurance that the Council's treasury management activities are effectively managed.

6. Legal Implications

- 6.1 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.

7. Director of Finance's comments

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

8. City Solicitor's Comments

- 8.1 The City Solicitor is satisfied that it is within the Council's powers to approve the recommendations as set out.

9. Equalities Impact Assessment

- 9.1 An Equalities 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.

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Signed by:
Chris Ward
Director of Finance & Resources, S.151 Officer

Appendices: Appendix A - TREASURY MANAGEMENT MID-YEAR REVIEW FOR 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:

Title of document	Location
Treasury Management Records	Financial Services

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

.....
Signed by:

TREASURY MANAGEMENT MID-YEAR REVIEW FOR 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 September 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 September 2024 £m
Authorised Limit - the maximum amount of borrowing permitted by the Council	1,110	727
Operational Boundary Limit - the maximum amount of borrowing that is expected	1,077	727

The Council's borrowing consists of both fixed and variable rate loans. The maturity structure of the Council's fixed rate borrowing at 30 September 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%	14%	10%	29%	28%

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	1%	2%	7%	12%	25%	27%	11%	15%

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

Table 4: Council's Surplus Cash beyond 365 days

	Limit £m	Actual at 30 September 2024 £m
Maturing after 31/3/2025	130	8
Maturing after 31/3/2026	50	17
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 September 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 in Table 5 below.

Table 5: Latest Link Key Interest Rate Forecasts (PWLB is the Public Works Loans Board)

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

At the Bank of England's monetary policy meeting in August 2024, the first cut in the base rate since March 2020 was made, lowering the rate from 5.25% to 5.0%. This came about despite inflation increasing slightly to 2.2% in July and August, having previously fallen to the target level of 2% by the time of the June meeting. The cautious approach adopted by the Bank of England to not cut rates too quickly, led to the base rate being held at 5.0% in September 2024.

Despite no change in the rate at the September 2024 monetary policy meeting, forecasts of a steady decrease in the base rate were still highly anticipated and forecasts by Link were still predicting a fall in the base rate to 4.50% by the end of 2024 and 3.25% by the end of 2025.

However, more recent events, including the budget announced by the Government on the 30 October 2024, have led forecasters to revise their expectations around the likely scale and speed of future interest rate cuts. Whilst an expected reduction in the base rate to 4.75% went ahead at the November 2024 monetary policy meeting, further cuts this year have largely been ruled out along with a slower decline forecast for 2025 and beyond than previously anticipated. As a result, link have revised their interest rate forecasts, as shown in Table 5 above, to reflect these changes.

As well as the impact of the UK government budget, other key factors including inflation and employment data releases, the US election result and other geo-political events, will all impact the rate of change in interest rates for the remainder of 2024/25 and into 2025/26.

A4. BORROWING ACTIVITY

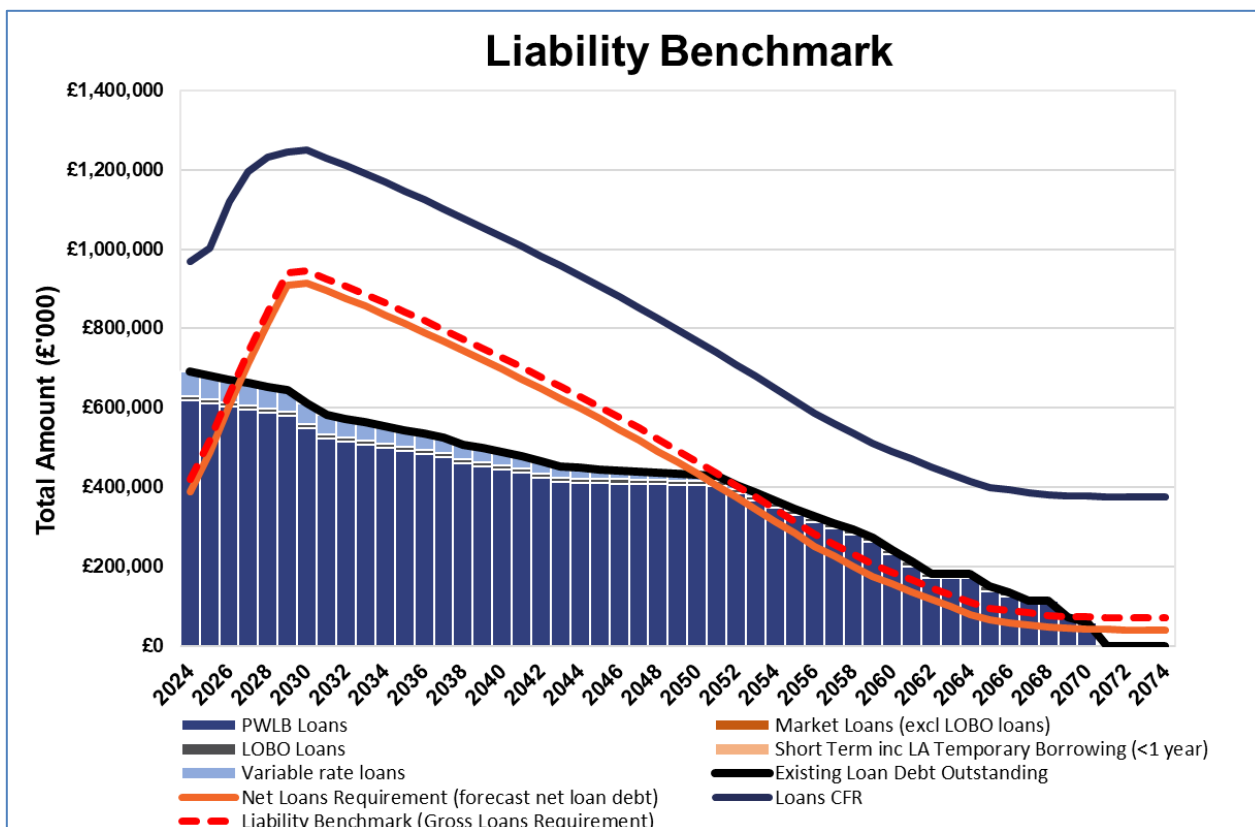
An updated forecast of the Council's capital financing requirement for 2024/25 is estimated to be £1,003m (original forecast of £1,077m was approved in February 2024). As Table 1A denotes, the Council's actual borrowing was £727m at 30 September 2024, with the difference of £276m being met from cash balances in lieu of borrowing.

No new borrowing was undertaken in the first half of 2024/25 and there is currently no intention to borrow for the remainder of 2024/25. This is considered a cost-effective

approach in the current economic climate, but cash flows and interest rates require ongoing monitoring to ensure that this remains prudent and achievable.

The Liability Benchmark shown in Figure 1, supports this intention as it shows that existing borrowing exceeds the liability benchmark until the end of 2025/26. However, a future borrowing requirement is indicated between 2026/27 and 2050/51 as the Council's actual loans are less than the liability benchmark in those years.

Figure 1: Liability Benchmark

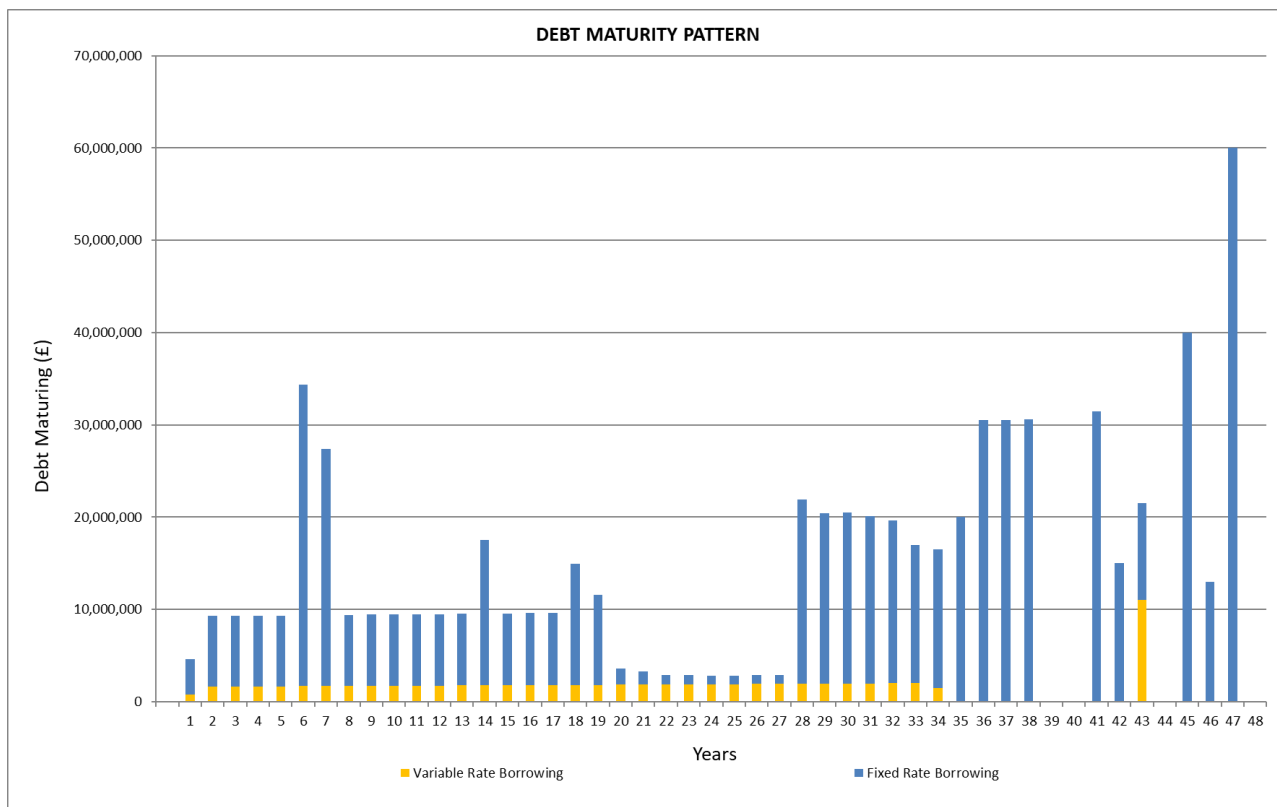


The Council's gross borrowing on 30 September 2024 of £727m is within the Council's Authorised Limit (the maximum amount of borrowing approved by City Council in February 2024) of £1,110m and within the Council's Operational Boundary (the limit beyond which borrowing is not expected to exceed) of £1,077m.

The Council plans for gross borrowing to have a reasonably even maturity profile, the current profile is shown in Figure 2. 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).

Figure 2: Debt Maturity Pattern



Early Redemption of Borrowing

No debt rescheduling or early repayment of debt has been undertaken during the first half 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 first half of the year 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 £331m in the 6 months to 30 September 2024. The funds invested made an average annualized return of 5.48% during this period. This is compared with the performance to previous periods in Table 6 below.

Table 6: Average Return on Investments

	Average Value (Proportion) of Portfolio at 30 September 2024	Annual Return at 31 March 2024	Annualised Return at 30 June 2024	Annualised Return at 30 September 2024
Externally Managed Funds -Tradable Instruments	£12M (4%)	5.47%	-1.66%	5.26%
Tradable Structured Interest-Bearing Deposit	£10M (3%)	3.03%	2.66%	5.53%
Vanilla Interest Bearing Deposits	£309M (93%)	5.02%	5.52%	5.55%
Overall Return	100%	4.98%	5.16%	5.48%

At the end of this quarter, the value of the tradable structured notes and externally managed funds have both improved when compared with the values reported at the end of June 2024 to a level that is on par with vanilla deposits. 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 and are beginning to decline, 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. The two structured notes currently held are due to mature in December 2024.

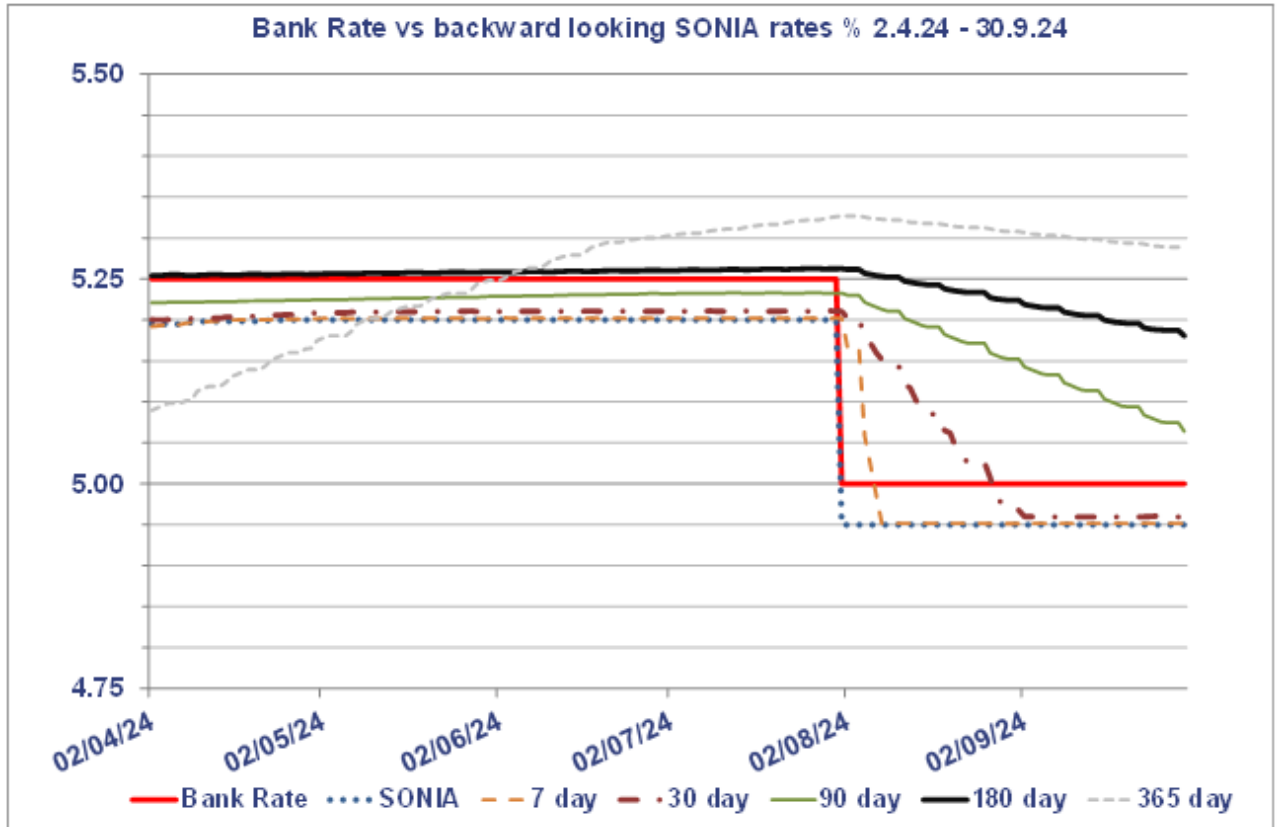
¹ Externally Managed Funds are traded on the open market and managed by an external asset management company

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

The returns in Table 6, can be compared to the backward-looking rates in the graph below, Figure 3, which reflects where average market rates were positioned when investments were placed.

Figure 3: Bank Overnight Rates



As market interest rates remained elevated during the majority of the first half of 2024/25, the returns achieved on the Council's "Vanilla Interest Bearing Deposits" has reached an average rate of 5.55%.

With the only changes in the base rate over the past year occurring in recent months, and the large majority of the Council's investments having been made over the entire course of the last 12 months, the higher rates that have been available to investors are now fully reflected in the average return for this year to date. However, the rates at which any surplus funds can be reinvested for the remainder of 2024/25 have begun to fall and are expected to continue to fall gradually for the remainder of this year and into future years.

A6. COMBINED BORROWING AND INVESTMENT POSITION (NET DEBT)

The Council's net debt position on 30 September 2024 is summarised in the table below.

Table 7: Combined Borrowing and Investments

	Principal	Average Interest Rate	Interest to 30 September 2024
Borrowing (including finance leases & private finance initiative (PFI) schemes)	£727m	3.36%	£12.2m
Investments	(£325m) *	(5.48%)	(£9.1m)
Net Debt / Net Interest	£402m		£3.1m

*Although the Council's investments were £325m on 30 September 2024 the average sum invested over this period was £331m.