Blaby District Council

Council

Date of Meeting	19 November 2024
Title of Report	**Recommendations of the Cabinet Executive: Treasury Management Mid Year Monitoring Report 2024/25**
	This is not a Key Decision and is on the Forward Plan
Lead Member	**Cllr. Maggie Wright - Finance, People & Performance (Deputy Leader)**
Report Author	Finance Group Manager
Strategic Themes	Ambitious and well managed Council, valuing our people

1. What is this report about?

1.1 To provide members with an update on the Council's Treasury activities for the half year ended 30th September 2024, and the economic factors which have affected those activities.

1.2 The report also demonstrates compliance with the prudential indicators that were approved by Council on 27th February 2024.

2. Recommendation(s) to Council

2.1 That the latest position in respect of treasury activities, and the prudential indicators, are accepted.

3. Reason for Decisions Recommended

3.1 The regulatory framework governing treasury management activities includes a requirement that the Council should, as a minimum, receive quarterly treasury monitoring reports in addition to the forward-looking annual treasury strategy and the backward-looking annual treasury report. Whilst quarters 1 and 3 do not need to be formally reported to full Council, there is an implicit understanding that they should be adequately scrutinised by Cabinet Executive.

3.2 This report fulfils the requirement above and incorporates the needs of the Prudential Code to ensure adequate monitoring of capital expenditure plans and the Council's prudential indicators. The treasury strategy and prudential indicators for 2024/25 were contained in the report approved by Council on 27th February 2024.

4. Matters to consider

4.1 Background

The Chartered Institute of Public Finance Accountancy (CIPFA) Code of Practice for Treasury Management 2021 recommends that Members are updated on treasury activities at least quarterly. This report, therefore, ensures that the Council is following best practice in accordance with the Code. It is the second quarterly report to be presented to Cabinet Executive but the first which requires ratification by full Council.

As part of the February strategy report Council also approved a range of Prudential Indicators for 2024/25 which are designed to ensure that the Council's capital expenditure plans are prudent, affordable, and sustainable. Officers monitor performance against these indicators on a quarterly basis, and the results are shown at Appendix D, compared with the original estimate and the forecast outturn position. As well as reviewing treasury activity to date, this report provides an explanation for any divergence from the original estimates.

4.2 Economic Update

The economic update for the first 6 months of 2024/25, provided by Link Group, the Council's treasury management advisors, is included at Appendix A.

It should be noted that changes to the UK economy, and their resulting implications for the Council's treasury activities, can often be fast-paced and, therefore, some of the economic data may be partially out of date by the time it is reported.

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 20th June. However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
Nonetheless, November still looks most likely to be the next month to see a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

4.3 Interest Rate Forecasts

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

The latest forecast at Appendix B, sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance

4.4 Prudential Indicators

The Annual Treasury Management Strategy for 2024/25, including the Annual Investment Strategy, was approved by Council on 27th February 2024. There have been no policy changes to the strategy to date this financial year, and so the details in this report are an update to the original plans based on the latest economic position and budgetary changes which have already been approved.

The Council's treasury and prudential indicators are set out in Appendix D. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the first half year the Council has operated within the treasury and prudential indicators that were approved in February.

Capital Expenditure & Financing
The Council's capital expenditure plans and sources of finance is the first Prudential Indicator appearing at Appendix D. The original approved programme for 2024/25 was £3.827m of which it was planned that £1.666m would be financed through borrowing.

Since February further additions have been made to the programme, including £4.528m unspent budgets brought forward from the previous financial year.

As a result of these changes, the 2024/25 Capital Programme totalled £8.436m on 30th September.

Capital Financing Requirement
Another key Prudential Indicator is the Capital Financing Requirement (CFR) which is a measure of the Council's underlying need to borrow for capital purposes. If the latest Capital Programme is fully spent the CFR will rise to £19.629m by 31st March 2025, compared with the original estimate of £20.525m. It is probable that the CFR will exceed actual debt for the foreseeable future due to the Council's ongoing practice of borrowing internally to finance capital investment. However, over time, the gap

between the CFR and external debt will gradually close as reserves and balances are utilised, and further borrowing is undertaken.

Borrowing Limits
Appendix A shows the Operational Boundary for External Debt, and the Authorised Limit for External Debt as approved by Council in February. The first of these represents the level of external debt that the Council would not normally expect to exceed. It is normally a similar figure to the CFR but can vary according to the actual level of external debt. The Authorised Limit is the maximum level of borrowing permitted. Even if the Council fully spends its Capital Programme and borrows to fund expenditure, external debt will remain below the Authorised Limit. However, this is highly unlikely and it this point in time it is not recommended that the borrowing limits need to be increased.

4.5 Borrowing

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In the first six months of 2024/25, no new borrowing has been undertaken. However, there have been scheduled loan repayments of £802,700, meaning that the outstanding debt is £4,910,739 on 30th September 2024.

For several years, the Council has been an internally borrowed cash position, and balances will need to be replenished at some point in the future, subject to expenditure demands. This strategy is prudent whilst investment rates are lower than borrowing rates and serves to mitigate counterparty risk. In the short-term it is planned to maintain internal borrowing, but officers will closely monitor the reserves, balances and cashflows that support this position.

Debt repayment and rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt repayments or rescheduling have been undertaken to date in the current financial year.

Gilt yields and PWLB certainty rates were less volatile than at this time last year. Overall, the 10, 25 and 50-year part of the curve endured a little volatility but finished September very much as it started in April.

At the beginning of April, the 5-year rate was the cheapest part of the curve at 4.72% whilst the 25-year rate was relatively expensive at 5.28%. May saw yields at their highest across the whole curve.

Conversely, 17 September saw the low point for the whole curve, with the 5-year certainty rate falling to 4.31% before rebounding to 4.55% by the end of the month. Similarly, the 50-year certainty rate fell to 4.88% but finished the month at 5.13%, slightly higher than at the start of April.

Our treasury advisor forecast rates to fall back over the next two to three years as inflation dampens, although there is upside risk to our Bank Rate forecast at present. The CPI measure of inflation is expected to fall below 2% in the second half of 2025, however, and we forecast 50-year rates to stand at 4.20% by the end of September 2026. The major caveats are that there is considerable gilt issuance to be digested by the market over the next couple of years, and geo-political uncertainties – which are generally negative for inflation prospects – abound in Eastern Europe and the Middle East, in particular.

4.6 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 27th 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
- Yield

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.

Creditworthiness.
The UK's sovereign rating has proven robust through the first half of 2024/25. The new Labour Government is expected to outline in detail its future fiscal proposals in the Budget scheduled for 30 October 2024.

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

CDS prices
It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment balances
The funds available over the first half of the financial year were a mixture of temporary, cashflow funds where the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme, and longer-term core funds. The funds available for investment purposes as at 30th September was £27.077m.

In terms of investment performance, the Council measures its rate of return against the Sterling Overnight Index Averages (SONIA). The following table reflects the backward-looking benchmark, which reflects where the market was positioned when investments were placed.

Financial year to 30th September 2024

	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	5.33
Low	5.00	4.95	4.95	4.96	5.06	5.18	5.09
Average	5.17	5.12	5.12	5.15	5.20	5.25	5.26
Spread	0.25	0.25	0.25	0.25	0.17	0.08	0.24

The Council's approved budget for in-house investment income in 2024/25 is £1m. On 30th September, the Council had already secured a return of £0.754m.

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the half year to 30th September 2024. A full list of investments held at the end of the quarter is shown at Appendix C.

Property Fund

The Council invested £1m in the Lothbury Property Trust in December 2019. On 30th June 2023 the Net Asset Value (NAV) of this investment was £0.739m.
Following the winding up of this fund on the 30th May 2024 Lothbury are in the process of disposing of all assets and making distributions to investors.

As noted in the Treasury Management Report to Council on 16th July 2024, the investment is being transferred as capital distributions to UBS (UBS Triton property fund LP). In the first quarter of the year there were three distributions from the former Lothbury Property Trust into the Council's investments totalling £0.437m. The 4th distribution is expected to be made in November.

4.7 Relevant Consultations

The Council's Treasury Management advisors Link Group have been consulted in the drafting of this report.

4.8 Significant Issues

None

5. What will it cost and are there opportunities for savings?

5.1 Treasury management decisions and activities are driven by the capital programme and the Council's overall financial position and will impact on the interest payable and receivable budgets which are included in the quarterly budget monitoring report elsewhere on the agenda.

6. What are the risks and how can they be reduced?

6.1

Current Risk	Actions to reduce the risks
That external borrowing might not be undertaken at the most advantageous rate	Treasury officers maintain regular contact with the Council's advisors, Link Group, who monitor movements in interest rates on our behalf. The aim is always to drawdown loans when interest rates are at their lowest point.
Credit risk – the risk that other parties might fail to pay amounts due, e.g., deposits with banks etc.	The Annual Investment Strategy sets the criteria through which the Council decides with whom it may invest. The lending list is updated regularly to reflect changes in credit ratings.
Liquidity risk – the Council might not have sufficient funds to meet its commitments	Daily monitoring of cash flow balances. Access to the money markets to cover any short-term cash shortfall.
Refinancing and maturity risk – the risk that the Council might need to renew a loan or investment at disadvantageous interest rates	Monitoring of the maturity profile of debt to make sure that loans do not all mature in the same period. Monitoring the maturity profile of investments to ensure there is sufficient liquidity to meet day to day cash flow needs.
Market risk – losses may arise because of changes in interest rates etc	Maximum limits are set for exposure to fixed and variable interest rates. The Finance team will monitor market rates and forecast interest rates to limit exposure
Loss on the Property Fund	The Property Fund should be seen as a

investment if property values continue to fall	longer-term investment where the value of the fund can fluctuate both upwards and downwards. Historically, property prices tend to rise over time. Due to concerns reported to Council in July, officers are closely monitoring the proposed restructuring of the fund which is designed to ensure its future viability.

7. Other options considered

7.1 None, this report is a requirement of the 2024/25 Prudential Code.

8. Environmental impact

8.1 There is no direct environmental impact arising from this report. However, the Council continues to utilise sustainable investment opportunities in line with its approved investment criteria.

9. Other significant issues

9.1 In preparing this report, the author has considered issues related to Human Rights, Legal Matters, Human Resources, Equalities, Public Health Inequalities, and Climate Local and there are no areas of concern.

10. Appendix

10.1 Appendix A – Economic Update

10.2 Appendix B – Interest Rate Forecast

10.3 Appendix C – Investments Held at 30th September 2024

10.4 Appendix D – Treasury and Prudential Indicators

11. Background paper(s)

11.1 None

12. Report author's contact details

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