

Blaby District Council

Cabinet Executive

Date of Meeting	24 February 2025
Title of Report	Quarter 3 Treasury Management Update 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 This report provides Members with an update on the Council's treasury activities for the quarter ended 31st December 2024, and the economic factors that have affected those activities. This is an additional report stemming from the 2023/24 Prudential Code, which requires that treasury management updates should be reported on a quarterly basis from 1st April 2023 onwards. The Code stipulates that the additional two quarterly reports (Quarters 1 and 3) need to be adequately scrutinised but do not need to be reported to full Council
- 1.2 The report also demonstrates compliance with the prudential indicators that were approved by Council on 27th February 2024.

2. Recommendation(s) to Cabinet Executive

- 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 2023/24 edition of the Prudential Code added a requirement for quarterly reporting of treasury management activities and prudential indicators. 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.

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 management activities at least quarterly. This report, therefore, ensures that the Council is following best practice in accordance with the Code. The financial year 2024/25 is the second year in which Cabinet will receive quarterly treasury updates.

Whilst it is a requirement of the Code that the annual and mid-year reports on treasury activity must be ratified by full Council, the reports for the first and third quarters of the financial year only need to be presented to Cabinet.

4.2 Economic Update

The economic update for the third quarter of 2024/25, provided by MUFG Corporate Markets Treasury Limited (previously named Link Treasury Services Limited), 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 7th November, the Monetary Policy Committee (MPC) voted in favour of a 0.25% decrease in Bank Rate, taking it down 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.

4.3 Interest Rate Forecasts

The Council appointed MUFG Corporate Markets as its treasury management advisors and part of their service is to assist the Council to formulate a view on interest rates. The Public Works Loans Board (PWLB) rate forecasts below are based on the Certainty Rate (the standard rate minus 0.20%) which has been accessible to most local authorities since 1st November 2012.

The latest forecast at Appendix B, 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.

Following the 30th October Budget, the outcome of the US Presidential election on 6th November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7th November, a revision has been undertaken of the central forecasts for the first time since May. In summary, MUFG Corporate Markets Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst PWLB forecasts have been materially lifted to not only reflect their increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

MUFG forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby 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.

In summary, regarding PWLB rates, movement in the short-end of the curve is expected to reflect their 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).

4.4 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.

Investment rates have remained relatively elevated during the third quarter of 2024/25 but are expected to fall back in due course if inflation falls through 2025 and the MPC loosens monetary policy more substantially.

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.

Investment counterparty criteria

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

CDS prices

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.

Investment balances

The funds available for investment purposes as at 31st December was £35.4m.

These 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.

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 quarter ended 31st December 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	4.75	4.70	4.70	5.71	4.83	4.97	5.09
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

The Council's revised budget for in-house investment income in 2024/25 profiled to Quarter three is £975,000 (£1.3m full year). On 31st December, the Council had already secured a return of £1,176,557.

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). As at 31st December 2024 the remaining balance within the Lothbury Fund still to be distributed was £263,371. A further Capital distribution was undertaken on the 10th January 2025 totalling £161,264.98.

As at 31st December 2024 the UBS Triton Property Fund LP investment value stood at £496,605.34.

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 31st December 2024. A full list of investments held at the end of the quarter is shown at Appendix C.

4.5 Borrowing

The Council can raise cash through borrowing to fund expenditure on its capital programme. The amount of borrowing needed each year is determined by capital expenditure plans, the underlying borrowing requirement, the availability of other capital resources, and prevailing economic conditions.

In Quarter three of 2024/25 no new borrowing has been undertaken and there have been no scheduled loan repayments, meaning that the outstanding debt is £5,365,603 on 31st December 2024.

For a number of 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 also 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.

No rescheduling of borrowing was undertaken in the third quarter. Opportunities to do so are limited in the current economic climate because the difference between new borrowing rates and early redemption rates would lead to substantial exit costs (premiums) being incurred.

4.6 Compliance with Treasury and Prudential Limits

The Council's treasury and prudential indicators are shown in Appendix D.

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 31st December 2024, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

4.7 Relevant Consultations

The Council's Treasury Management advisors MUFG Corporate Markets Treasury Limited (previously named Link Treasury Services Limited), have been consulted in the drafting of this report.

4.8 Significant Issues

None. In preparing this report, the author has considered issues related to Human Rights, Legal Matters, Human Resources, Equalities, Public Health Inequalities and there are no areas of concern.

5. Environmental impact

- 5.1 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.

No Net Zero and Climate Impact Assessment (NZCIA) is required for this report.

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

- 6.1 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.

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

7.1

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, MUFG Corporate Markets Treasury Limited, 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 investment if property values continue to fall	The Property Fund should be seen as a 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 last year and the winding up of the Lothbury Property Fund, the move to the UBS Triton Property Fund LP was instigated.

8. Other options considered

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

9. Appendix

9.1 Appendix A – Economic Update

9.2 Appendix B – Interest Rate Forecast

9.3 Appendix C – Investments Held at 31st December 2024

9.4 Appendix D – Treasury and Prudential Indicators

10. Background paper(s)

10.1 None

11. Report author's contact details

Katie Hollis	Finance Group Manager
Katie.Hollis@blaby.gov.uk	0116 272 7739