TO: GOVERNANCE AND AUDIT COMMITTEE
24 JANUARY 2024

TREASURY MANAGEMENT REPORT 2024/25 AND 2023/24 MID-YEAR REVIEW
(Director of Finance)

1 PURPOSE OF DECISION

1.1 The Council must operate a balanced budget, which broadly means cash raised during the year plus any use of reserves will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity before considering maximising investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the longer-term cash flow planning needs to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short term loans or using longer term cash flow surpluses.

1.3 The Local Government Act 2003 requires a local authority to "have regard to" guidance issued by, or specified by, the Secretary of State. As such, the Council is required to have regard to the Prudential Code and the Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.4 CIPFA published the updated Treasury Management and Prudential Codes on 20th December 2021. The Council is updating its Capital Strategy and the new prudential indicators and these will be included in the final Treasury Management Strategy Statement published in March 2024.

1.5 The Code of Practice requires the Council's annual Treasury Management Strategy (and associated documents) to be examined and reviewed by a responsible body. An additional primary requirement of the code is for the receipt by Full Council of a Mid-Year Review of the Treasury Management activities of the authority.

1.6 This report seeks to achieve both these requirements of updating Members on progress in 2023/24 and to review the Treasury Management Report for 2024/25.

2 RECOMMENDATIONS

2.1 That the Committee consider and review the Mid-Year Review Report.

2.2 That the Committee agree that the Mid-Year Review Report be circulated to all Members of the Council.

2.3 That the Committee review the Treasury Management Report in Annex A for 2024/25 prior to its approval by Council.

3 REASONS FOR RECOMMENDATIONS

3.1 The reasons for the recommendations are set out in the report.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 The Code of Practice requires the Council's annual Treasury Strategy to be examined and reviewed by a responsible body and for that body to review progress of the Council's treasury management activities. The Governance and Audit Committee has been nominated by Council to be that body.

5 SUPPORTING INFORMATION

Mid-Year Review

5.1 This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first nine months of 2023/24
- A review of the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy
- The Council's capital expenditure
- A review of the Council's investment portfolio for 2023/24
- A review of compliance with Treasury and Prudential Limits for 2023/24

Economic Update

5.2 Whilst the Council is in no longer debt-free the level of internal resources has enabled the Council to avoid any new long-term external borrowing since 2018. However, this position is no longer sustainable and additional external borrowing will be required in 2024/25 onwards to support the Capital Programme.

5.3 The prolonged period of low global interest rates changed markedly from April 2022 onwards, with central banks around the world increasing rates. The first half of 2023/24 saw interest rates rise by a further 100bps, taking the Bank Rate from 4.25% to 5.25% and possibly the peak in the tightening cycle. Short- and Medium-term gilts remain elevated as inflation continually surprised on the upside. Whilst CPI Inflation has fallen from 8.7% in April to 3.9% in November, its lowest rate since February 2022, it is still significantly above the Bank of England target rate of 2.5%. Further, a cooling in labour market conditions has not led to any easing of wage growth, which is still rising at over 7%. The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year with output falling in 10 out of the 17 sectors.

5.4 As the growing drag from higher interest rates intensifies over the next six months, the economy may continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government support have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession.

5.5 But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. The Bank of England is expected to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

5.6 In its latest monetary policy meeting on 14 December, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation it was noted that the risks to its inflation projection were still skewed to the upside such that the mean projection for CPI inflation was 2.2% at a two-year horizon. In terms of current market view, pricing suggests that rates will be on hold for some months to come, with easing in the latter half of the financial year.

Treasury Management Strategy Statement Review

5.7 The Treasury Management Strategy Statement (TMSS) for 2023/24 was approved by the Council on 24th February 2023. There are no policy changes to the TMSS in 2023/24

Review of Investment and Debt Portfolio 2023/24

5.8 The Council held £18.400m of investments as at 31 December 2023 and the investment portfolio yield for the first nine months of the year is 4.85% against a benchmark (SONIA) of 4.88%.

Investment	Maturity	Amount (£'000)	Rate (%)
Money Market Funds			
Aberdeen	1 Day	3,800	5.27
Black Rock	1 Day	4,575	5.30
Federated	1 Day	9,975	5.32
Goldman Sachs	1 Day	25	5.20
Deutsche	1 Day	25	5.27
Total Investments		**18,400**	

5.9 The 2023/24 interest budget assumed that an average interest rate of 4% would be earned on the Council's investment portfolio. This was based on an assumption that the MPC would begin to increase interest rates during 2023 from the base of 3% in November 2022. However, as noted above, events over the last 10 months have resulted in an unanticipated sharper rise in rates beyond anything that was foreseen 12 months ago. Whilst this has benefitted the Council's investment yield it has also increased the short-term borrowing costs that the Council has incurred to ensure sufficient liquidity during the year.

5.10 The normal cash-flow for a local authority is characterised by surplus cash at the start of the financial year (as Council Tax and Business Rates are paid in usually over a 10-month cycle) and a deficit in the final 3 months of the year as expenditure increases and income falls. This creates pressure during the last quarter of the year in the money markets available to local authorities. In the last two years demand has outstripped supply and as such the interest rate on short-term borrowing has increased significantly. These pressures were noted earlier this year and as such a decision was taken in late October to secure borrowing early to ensure the Council has sufficient liquidity through February and March 2024.

5.11 As such the level of short-term borrowing is higher at this point in the year than in previous years. Furthermore, as noted above, the Council no longer holds sufficient surplus cash to avoid borrowing long-term to fund its Capital Programme (as it has done in past years) therefore it will be necessary to extend its long-term borrowing with the PWLB. However, with interest rates expected to fall through 2024, short-term loans will be used prior to entering into long-term fixed borrowing rates.

5.12 As at 31 December 2023 the Council's debt portfolio was as follows

Short Term Market Loans

Counterparty	**Amount £'000**	**Rate**	**Start Date**	**Maturity Date**
NORTH KESTEVEN FC	£5,000	5.650	25/09/2023	02/04/2024
BLACKBURN WITH DARWEN BC	£5,000	5.600	31/10/2023	30/04/2024
NORTH YORKSHIRE COUNCIL	£5,000	5.500	27/10/2023	29/04/2024
WAKEFIELD WEST YORKSHIRE	£5,000	5.750	15/12/2023	26/02/2024
GREATER MANCHESTER CA	£5,000	5.700	14/12/2023	28/03/2024
WEST MERCIA POLICE	£5,000	5.600	21/12/2023	28/03/2024
	£30,000			

PWLB Loans

PWLB	**Amount £'000**	**Rate**	**Start Date**	**Maturity Date**
PWLB	10,000	2.60%	09/02/2017	31/03/2062
PWLB	10,000	2.60%	09/02/2017	31/03/2066
PWLB	10,000	2.42%	20/06/2017	31/03/2063
PWLB	10,000	2.41%	20/06/2017	31/03/2064
PWLB	20,000	1.85%	21/11/2017	21/11/2024
PWLB	10,000	2.50%	21/11/2017	21/11/2062
PWLB	10,000	2.14%	03/12/2018	03/12/2028
	80,000			

Compliance with Treasury and Prudential Limits for 2023/24

5.13 The Director of Finance can confirm that the approved limits within the Annual Investment Strategy were not breached during the first nine months of 2023/24 and no changes to these limits are proposed for the remaining 3 months.

Treasury Management Report 2024/25

5.14 The Council is required to have regard to the Prudential Code and Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Under these requirements the Council must set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. At its meeting on 2 March 2011 Council nominated the Governance and Audit Committee as the responsible body to examine and assess the effectiveness of the treasury management strategy and policies and recommend them to Council.

5.15 The attached Treasury Management Report 2024/25 (Annex A) was approved by the Executive, as a part of the Council's overall budget proposals, on 12 December 2023 and outlines the Council's Prudential Indicators for 2024/25 to 2026/27 in addition to setting out the expected treasury strategy and operations for this period. The Executive requested that the Governance and Audit Committee review each of the key elements. Following this review, the Treasury Management Report and associated documents will be presented to Council for approval on 28 February 2024.

6 Consultation and Other Considerations

Legal Advice

6.1 The Treasury Management Activities by local authorities must have regard to the CIPFA Code of Practice.

Financial Advice

6.2 The financial implications are contained within the report.

Other Consultation Responses

6.3 The Overview & Scrutiny Commission was consulted on the budget proposals, including the Treasury Management Strategy, in January 2024.

Equalities Impact Assessment

6.3 None.

Climate Change and Ecological Impacts

6.4 The recommendations in Section 2 above will have no immediate impact on emissions of CO_2.

Background Papers

None

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