**TO: GOVERNANCE AND AUDIT COMMITTEE**
**22 JANUARY 2025**

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# TREASURY MANAGEMENT REPORT 2025/26 AND 2024/25 MID-YEAR REVIEW
**(Executive Director: Finance)**

## 1 Purpose of Report

1.1 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).

1.2 CIPFA published the updated Treasury Management and Prudential Codes in December 2021. The Code of Practice requires the Council's annual Treasury Management Strategy (and associated documents) to be examined and reviewed by a responsible body to ensure compliance with the Prudential Code. 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.

1.3 This report seeks to achieve both these requirements of updating members on progress in 2024/25 and to review the Treasury Management Report for 2025/26.

## 2 Recommendations

**2.1 That the Committee reviews the Treasury Management Report for 2025/26 attached as Annex A and recommends it to Council for approval, amended as necessary by the Executive Director: Resources in consultation with the Chairman to reflect the Committee's considerations.**

## 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

5.1 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.

5.2 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.

**Mid-Year Review**

5.3 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 2024/25
- 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 2024/25
- A review of compliance with Treasury and Prudential Limits for 2024/25

**Economic Update**

5.4 For many years the Council was able to use internal resources to fund its annual capital programme, with borrowing reserved primarily for one-off large capital investments. However, since 2023/24 these resources were fully utilised, and the Council has increased its level of external borrowing to support past and current capital schemes. The level of external borrowing is likely to increase annually, however should remain substantially below the Capital Financing Requirement (as set out in the TMSS) over the next 3-years.

5.5 The Bank of England cut its Bank Rate by 25bps to 4.75% in November 2024, marking its second rate reduction in four years since starting this cycle in August. This decision mirrored slowing price growth in the UK, with inflation dropping to 1.7% in September, a three-year low.

5.6 Economists have revised central forecasts following the 30 October Budget, the US Presidential election on 6 November, and the recent Bank Rate movement. The Bank Rate forecast is now 50bps – 75bps higher, with PWLB forecasts materially increased due to inflation concerns and government borrowing levels. The 30 October Budget is expected to be inflationary in the short term, with the Office for Budgetary Responsibility and the Bank of England predicting CPI inflation to reach 2.5% y/y by late 2024 and remain high until at least 2026, eventually dropping to 1.8% in 2027.

5.7 Current monetary policy is tight enough to allow moderate loosening based on data. A further Bank Rate reduction is expected in February, potentially leading to quarterly cuts aligned with the release of the Bank's Quarterly Monetary Policy Reports.

5.8 Any drop below a 4% Bank Rate will depend heavily on inflation data from mid-2025. The 8-1 split vote in the November MPC decision indicates some inflation concerns, especially with rising public sector wages affecting average earnings data. The PWLB forecast suggests that short-to-medium term rates will stay elevated over the next year, depending on further Bank Rate adjustments and inflation factors. Long-term rates could be influenced by global debt issuance from major economies like the US and France, as well as domestic and international geopolitical risks. US policies, including tariffs, tax cuts, and budget deficits, could affect inflation and, consequently, UK gilt yields. While market pricing suggests that rates will generally decline, significant risks may prevent sharp reductions in actual borrowing rates. This is evidenced by the rise in government borrowing costs in the first few weeks of January 2025 that has seen Gilts spike by over 50 basis points (0.5%).

**Treasury Management Strategy Statement Review**

5.1 The Treasury Management Strategy Statement (TMSS) for 2024/25 was approved by the Council on 21st February 2024. There are no policy changes to the TMSS in 2024/25

**Review of Investment and Debt Portfolio 2024/25**

5.2 The Council held £29.640m of investments as at 31 December 2024 and the investment portfolio yield for the first nine months of the year is 5.04% against a benchmark (SONIA) of 5.01%.

31st December 2024

| Investment | Maturity | Amount (£'000) | Rate (%) |
|---|---|---|---|
| **Money Market Funds** | | | |
| Aberdeen | 1 Day | 9,995 | 4.73 |
| Black Rock | 1 Day | 9,600 | 4.66 |
| Federated | 1 Day | 9,995 | 4.70 |
| Goldman Sachs | 1 Day | 25 | 4.63 |
| Deutsche | 1 Day | 25 | 4.66 |
| **Total Investments** | | **29,640** | |

5.3 The 2024/25 interest budget assumed that an average interest rate of 4.85% would be earned on the Council's investment portfolio. This was based on an assumption that the MPC would hold rates until September 2024 and then begin a series of reductions reducing rates to close to 4.00% by March 2025. However, economic tailwinds and uncertainty surrounding sustainable reductions in inflation and the impact of national debt on government borrowing levels as paused the reduction in the latter half of the year. This will benefit the Council through marginally higher investment returns

5.4 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. This pattern appears to be worsening, likely linked to the overall financial pressures faced in local government as more authorities are required to use reserves to balance their budgets. Current 3-month offers between local authorities are trading at 5.3% - a premium of 55 basis points and reflecting one of the widest spreads between borrowing and investment rates in the last 5 years.

5.5 Officers took the decision in September 2024 to put in place sufficient short-term borrowing to minimise the liquidity risk identified above and secured borrowing significantly below the current prevailing rates.

5.6 As at 31 December 2024 the Council's debt portfolio was as follows

## Short Term Market Loans

| Counterparty | Amount | Rate | Start Date | Maturity Date |
|---|---|---|---|---|
| NORTH SOMERSET | 5,000,000 | 4.850 | 17/07/2024 | 16/07/2025 |
| NORTH YORKSHIRE | 5,000,000 | 4.750 | 15/10/2024 | 14/10/2025 |
| NORTH YORKSHIRE | 5,000,000 | 4.750 | 29/10/2024 | 28/10/2025 |
| BLACKBURN WITH DARWEN BOROUGH COUNCIL | 5,000,000 | 4.700 | 31/10/2024 | 30/10/2025 |
| NORTH KESTEVEN DISTRICT COUNCIL | 5,000,000 | 4.700 | 02/10/2024 | 01/10/2025 |
| LONDON BOROUGH OF ISLINGTON | 5,000,000 | 4.750 | 23/09/2024 | 22/09/2025 |
| CAMBRIDGE AND PETERBOROUGH CA | 5,000,000 | 4.800 | 27/09/2024 | 27/01/2026 |
| NORTH YORKSHIRE COUNCIL | 10,000,000 | 4.850 | 05/11/2024 | 05/11/2025 |
| | **£45,000,000** | | | |

## PWLB Loans

| PWLB | Amount | Rate | Start Date | Maturity Date |
|---|---|---|---|---|
| PWLB | 10,000,000 | 2.60% | 09/02/2017 | 31/03/2062 |
| PWLB | 10,000,000 | 2.60% | 09/02/2017 | 31/03/2066 |
| PWLB | 10,000,000 | 2.42% | 20/06/2017 | 31/03/2063 |
| PWLB | 10,000,000 | 2.41% | 20/06/2017 | 31/03/2064 |
| PWLB | 10,000,000 | 2.50% | 21/11/2017 | 21/11/2062 |
| PWLB | 10,000,000 | 2.14% | 03/12/2018 | 03/12/2028 |
| | **£60,000,000** | | | |

**Compliance with Treasury and Prudential Limits for 2024/25**

5.7 The Executive Director:Finance can confirm that the approved limits within the Annual Investment Strategy were not breached during the first nine months of 2024/25 and no changes to these limits are proposed for the remaining 3 months.

**Treasury Management Report 2025/26**

5.8 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.

5.9 The attached Treasury Management Report 2025/26 (Annex A) was approved by the Cabinet, as a part of the Council’s overall budget proposals, on 10 December 2024 and outlines the Council’s Prudential Indicators for 2025/26 to 2027/28 in addition to setting out the expected treasury strategy and operations for this period. The Cabinet 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 26 February 2025.

## 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 2025.

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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