



AGENDA ITEM:

**POLICY AND RESOURCES
COMMITTEE: 24 September 2024**

Report of: Director of Finance and Resources

Relevant Lead Member: Mark Anderson - Lead Member for Finance

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**SUBJECT: TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS Q1
MONITORING 2024-25**

Wards affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To set out details of Treasury Management operations for the first quarter of 2024/25 and to report on the Prudential Indicators, where available.

2.0 RECOMMENDATION TO P&R COMMITTEE

2.1 To note the Treasury Management activity and Prudential Indicator performance for the first quarter of 2024/25.

3.0 BACKGROUND

3.1 The Council has adopted the CIPFA Treasury Management Code of Practice in Local Authorities. One condition of the Code is that a report must be made quarterly to the Council on the activities of the Treasury Management function including the exercising of Treasury Management powers delegated to the Head of Finance, Procurement and Commercial Services.

3.2 The CIPFA Prudential Code for Capital Finance sets out a range of prudential indicators to assess whether an authority's financial position is prudent, affordable and sustainable. It is best practice that performance on these indicators is reported to Members on a regular basis.

4.0 ECONOMICS UPDATE AND INTEREST RATE FORECAST

- 4.1 The economy grew by 0.7% q/q in Q4 2023/24 confirming that it moved out of its very mild technical recession that prevailed at the back end of 2023. However, data released for April and May so far shows a slight stalling in the recovery, with GDP data for April coming out at 0.0% m/m, as inclement weather weighed on activity. Moreover, the fall in the composite Purchasing Manager Index output balance from 53.0 in May to 51.7 in June confirms tepid growth.
- 4.2 CPI inflation in May fell back to the Bank's 2% target for the first time since July 2021 which will have come as welcome news to the Bank. Furthermore, with CPI inflation of 3.3% in the US and 2.6% in the Euro-zone in May, the UK appears to have won the race to get CPI inflation back to 2.0%. A further easing in food inflation from 2.8% in April to 1.6% in May played a part in the fall in overall CPI inflation and with food producer price inflation at just 0.2% in May, food price inflation will probably soon fall to zero.
- 4.3 Accordingly, the Bank of England reduced the Base Rate by 25bps during its August meeting. Thereafter, the path and speed of rate cuts is similar to that which Link had previously forecast, with Base Rate eventually falling to a low of 3% by the second half of 2026.

Link Group Interest Rate View	28.05.24											
	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	5.30	5.00	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	5.30	4.90	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	5.10	4.80	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

- 4.4 Given the increased uncertainty surrounding Link's central gilt market forecasts, and the significant issuance that will be on-going from several of the major central banks, it has marginally increased its PWLB forecasts by c20 to 30 basis points across the whole curve since the previous quarter.

5.0 INVESTMENTS

- 5.1 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 28th 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 and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short-term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

5.2 As a result of the SORP review, there were several changes to the criteria used for deciding upon counterparties for investment purposes as set out below.

Type of Counterparty	Maximum loan by Council	Maximum Period
Major British Based Banks and Subsidiaries with at least A- credit rating.	£5m	Up to £5m 364 days Up to £3m 3 years
British Based Building Societies. – Only those with at least A- credit rating as advised by Link.	£5m	Up to £5m 364 days Up to £3m 3 years
Other Local Authorities, where agreed.	£5m	Up to 5 years
Property Funds, Corporate Bonds, Infrastructure Investments	£3m	Up to 3 years for Corporate, and 5 years for Property and Infrastructure
Money Market Funds AAA rated	£3m	N/A Callable deposits

5.3 The following table provides details on investment activity during the first 3 months of this year and last year.

INVESTMENT PORTFOLIO	31.3.24 Actual £000	31.3.24 Actual %	30.6.24 Actual £000	30.6.24 Actual %
Treasury investments				
Banks	2,700	100%	6,150	61%
Building Societies - rated		0%		0%
Building Societies – unrated		0%		0%
Local authorities		0%	4,000	39%
DMADF (H M Treasury)		0%		0%
etc				
Total managed in house	2,700	100%	10,150	100%
Bond funds				
Property funds				
Cash fund managers				
Total managed externally	0	0%	0	0%
TOTAL TREASURY INVESTMENTS	2,700	100%	10,150	100%

Non Treasury investments				
Third party loans				
Subsidiaries	1,300	100%	1,300	100%
Companies				
Property				
etc				
TOTAL NON TREASURY INVESTMENTS	1,300	100%	1,300	100%

Treasury investments	2,700	67.5%	10,150	89%
Non Treasury investments	1,300	32.5%	1,300	11%
TOTAL OF ALL INVESTMENTS	4,000	100%	11,450	100%

The maturity structure of the investment portfolio was as follows:

	31.3.24 Actual £000	30.6.24 Actual £000
Investments		
Longer than 1 year		
Up to 1 year	4,000	11,450
Total	4,000	11,450

The gross interest earned was as follows:

	31.3.24 Actual £	30.6.24 Actual £
Gross interest earned	785,220	115,679

- 5.4 The 2024/25 gross investment income budget was agreed at £638.8k in February 2024 which reflected the anticipated increase in interest rates during the year and resulting increase in investment returns.
- 5.5 As part of the ongoing work to achieve best value in Treasury Management, we continually monitor our performance against a benchmark figure of the average 3-month SONIA interest rate. The average rate of interest earned at the end of June 2024 was 5.063% which was less than the benchmark average of 5.23%.
- 5.6 At the end of Q1, it is projected that the overall surplus will be £10k, which it is all attributable to the GRA.

6.0 BORROWING

- 6.1 No long-term borrowing was undertaken during the first quarter of 2024/25, however, given the ongoing large scale capital investment it is almost certain that there will be a need to borrow during 2024/25.
- 6.2 The Treasury Management function has managed cash flows in such a way as to avoid incurring borrowing costs despite the Council's GRA capital financing requirement (CFR), i.e. its underlying need to borrow to finance capital expenditure, being £26.6m at the end of 2023/24 as per the table in 7.3 below. Based on current 50-year PWLB rates 5.18% this would have cost the Council £1.38m in interest per annum.
- 6.3 HM Treasury issued new guidance in November 2020 in relation to borrowing from the PWLB. It outlined permissible categories of local authority capital expenditure (service delivery, housing, regeneration, preventative action and treasury management). Any investment asset bought primarily for yield which was acquired after 26 November 2020 would result in the authority not being allowed to access PWLB borrowing in that financial year nor could they refinance the transaction at any point in the future.
- 6.4 The change in PWLB lending criteria is likely to impact the Commercial Property Strategy agreed at Council in July 2020 as part of the SORP process. It was agreed to invest up to £30m over three years for the purchase/construction of commercial properties. If the purchase is primarily for yield rather than for say regeneration, then PWLB borrowing to finance the Council capital programme would not be available.

7.0 PRUDENTIAL AND TREASURY INDICATORS

- 7.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 30th June 2024, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2024/25. The Director of Finance and Resources reports that no difficulties are envisaged for the current or future years in complying with these indicators.

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

7.3 The prudential and treasury indicators are shown below.

Treasury Indicators	31.03.24 Actual £'000	2024/25 Original Budget £'000	2024/25 Revised Budget £'000	2024/25 Forecast outturn £'000
Authorised limit for external debt	88,212	153,163	153,163	153,163
Operational boundary for external debt	0	142,663	142,663	142,663
Gross external debt	88,212	88,212	88,212	88,212

Prudential Indicators	31.03.24 Actual £'000	2024/25 Original Budget £'000	2024/25 Revised Budget £'000	2024/25 Forecast outturn £'000
Capital expenditure				
Non - HRA	7,191	12,322	12,744	7,774
HRA	11,581	27,164	28,480	18,797
Total	18,772	39,486	41,224	26,571
Capital Financing Requirement (CFR)				
Non - HRA	26,631	31,066	31,953	31,953
HRA	93,101	111,597	111,167	111,167
Total	119,732	142,663	143,120	143,120
Annual change in CFR				
Non - HRA	1,433	4,435	5,322	5,322
HRA	2,166	18,496	18,066	18,066
Total	3,599	22,931	23,388	23,388
In year borrowing requirement				
Non - HRA	1,833	4,841	5,854	5,854
HRA	2,540	18,884	18,454	18,454
Total	4,374	23,725	24,308	24,308
Ratio of financing costs to net revenue stream				
Non - HRA	-1.38%	-0.07%	-0.07%	-0.07%
HRA	10.85%	11.70%	11.70%	11.70%

8.0 SUSTAINABILITY IMPLICATIONS

8.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder. The report has no significant links with the Sustainable Community Strategy.

9.0 RISK ASSESSMENT

9.1 The formal reporting to Council of Prudential Indicators and Treasury Management performance is part of the overall framework set out in Codes of Practice to ensure that the risks associated with this area are effectively controlled. Given the Council's strict investment criteria the risk of loss of investment funds is low however the sums invested can be very large, so treasury management activities are included in the Council's Key Risk Register.

10.0 HEALTH AND WELLBEING IMPLICATIONS

10.1 There are no health and wellbeing implications arising from this report.

Background Documents

The following background documents (as defined in Section 100D (5) of the Local Government Act 1972) have been relied on to a material extent in preparing this Report.

<u>Date</u>	<u>Document</u>	<u>File Ref</u>
2021	CIPFA Updated Prudential Code for Capital Finance in Local Authorities	Accountancy Office
2021	CIPFA Updated Treasury Management Code of Practice	Accountancy Office

Equality Impact Assessment

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.