Subject:	**TREASURY MANAGEMENT QUARTER ONE REPORT 2024/25**
Meeting and Date:	**Governance Committee - 26 September 2024**
Report of:	**Helen Lamb - Head of Finance and Investment**
Portfolio Holder:	**Councillor S B Blair - Portfolio Holder for Finance, Governance, Climate Change & Environment**
Decision Type:	**Non-Key Decision**
Classification:	**Unrestricted**
Purpose of the report:	To provide details of the Council's treasury management for the period ended 30 June 2024
Recommendation:	That the report is received.

1. Summary

1.1 For the quarter to 30th June 2024 a total income of £597k was generated by the £50m long-term investments in externally managed strategic pooled bond, multi-asset and property funds. The Council's investments generated a return for the period 30 June of 7.46% (annualised) which outperformed the SONIA[1] (Sterling Overnight Index Average) benchmark by 2.26%. This return includes changes to capital values in the funds which are not recognised in the revenue budget. These long-term investments generated a reasonable return despite the volatility of the market.

1.2 The Council remained within its Treasury Management guidelines and complied with the Prudential Code guidelines during the period, except for the maturity structure of borrowing. This is due to short term borrowing (under 12 months) exceeding the upper limit due to pressures on cash flow due to the postponement of long-term borrowing for projects following the increases in interest rates. The position continues to be monitored and arrangements for longer term borrowing will be put in place when appropriate.

2. Introduction and Background

2.1 In March 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve, as a minimum, treasury management semi-annual and annual outturn reports. This report is part of implementing best practice in accordance with the Code.

2.2 Council adopted the 2024/25 Treasury Management Strategy (TMS) on 6th March 2024 as part of the 2024/25-2027/28 Budget and Medium-Term Financial Plan.

[1] SONIA is administered by the Bank of England. It is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

2.3 To comply with the CIPFA code referred to above, a brief summary is provided below, and Appendix 1A contains a full report from the Council's Treasury Management Advisors, Arlingclose.

2.4 Members are asked to note that in order to minimise the resource requirements in producing this report, Arlingclose's report has been taken verbatim. Treasury advisors generally use a more journalistic style than is used by our officers, but to avoid changing the meaning or sense of Arlingclose's work, this has not been edited out.

3. **Economic Background**

3.1 The reports attached (Appendices 1A & 1B) contains information up to the end of June 2024; since then, we have received the following update from Arlingclose (in italics). Please note that any of their references to quarters are based on *calendar* years:

“Main points since June:

i. *In a ‘finely balanced’ decision, the Bank of England cut Bank Rate in August by 25bps to 5.00%, in line with Arlingclose’s forecast held since September 2023. In a 5-4 vote, a majority of MPC members thought inflationary pressures had eased enough to justify a rate cut, while others continued to maintain caution over underlying inflationary persistence and voted for no change.*

ii. *Arlingclose expects that the MPC will continue to cut rates to stimulate the UK economy but will be reluctant to do so significantly until it is sure there will be no lingering second-round effects. We see rate cuts continuing in Q4 2024 to a low of around 3% by late 2025. Upside risks to inflation remain which could limit the extent of monetary easing.*

iii. *Long-term gilt yields have fallen following fears of a US recession. Arlingclose’s central case is for yields to be volatile around a relatively narrow range, reflecting the likelihood for monetary policy loosening in the Eurozone, UK and US.*

iv. *CPI rose by 2.2% in the 12 months to July 2024, increasing from 2.0% in June 2024. On a monthly basis, CPI decreased by 0.2% in July 2024, while in July 2023 there was a fall of 0.4%. A rise in CPI inflation driven by energy price-related base effects had been widely anticipated, however the increase to 2.2% was smaller than expected, with the Bank of England forecasting 2.4%. Additionally, and likely reassuringly for the MPC, services inflation fell by much more than predicted to a two-year low of 5.2%. Within this, a big drop in restaurant and hotels inflation perhaps suggests an unwinding of one-off impacts such as the ‘Taylor Swift’ effect. The softening in underlying inflationary pressures should help convince the MPC that further rate cuts are appropriate this year. However, the committee remain concerned about the upside risks from stronger economic activity, so this data alone seems unlikely to prompt another rate cut immediately in September.*

v. *UK GDP continued its solid expansion so far this year, with a 0.6% growth rate in Q2 2024. The service sector was the main driver, offset by drags from both construction and services. Interestingly consumer-facing services failed to follow Q1’s 0.6% growth, falling 0.1% in Q2. On the expenditure side, household consumption was relatively weak, while business investment contracted, suggesting private sector spending struggled. Government spending was up 1.4%, contributing half of the overall quarterly GDP growth rate. Overall, a further recovery in economic growth, but June’s GDP growth rate of 0.0%, underlying* *weakness in private sector spending and early data for Q3 suggest that coming quarters are unlikely to remain at this pace.*

vi. The UK unemployment rate for April to June 2024 was 4.2% (down from 4.4% in the three months leading to May). UK employment rate was estimated at 74.5% in April to June 2024, increasing in the latest quarter, but still down from the same period last year. The annual decrease was largely because of part-time workers, although this number did increase on the quarter. The latest set of data points to the labour market continuing to loosen. Although the rise in employment was above consensus and vacancies fell, the further drop in average earnings growth is encouraging. Wage growth has been easing in line with expectations, including private sector pay, the latter fairly close to the Bank of England's forecast. Downward pressure on wage-led inflation over the coming months will need to be maintained as well as a softening in a wider set of inflation indicators for MPC members to be convinced at their forthcoming meetings that further rate cuts are appropriate."

4. Annual Investment Strategy

4.1 The investment portfolio, as at the end of June 2024, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £60.69m increasing to £63.26 at the end of August (see Appendix 4). The increase reflects normal cashflow fluctuations arising from the timing of 'major preceptor' payments, which are made over twelve months, while the Council Tax receipts that fund them typically come in over the ten months to January and then decline.

4.2 As at 30 June 2024, the Council's investment portfolio totalled £50m (see Appendix 2). Cashflow funds were higher than anticipated at £10.69m on 30 June 2024, (see Appendix 2).

4.3 Cashflow funds have since increased to £13.26m at 31 August 2024, (see Appendix 4) due to normal cashflow fluctuations. Short term borrowing will be used to cover fluctuations in the cash flow requirements as needed, instead of holding excess funds in call accounts.

5. New Borrowing

5.1 The Council's borrowing portfolio is attached at Appendix 3. At the end of June 2024, the Council had outstanding short-term loans of £52 million with other Local Authorities as part of the Council's strategic cash management objectives.

5.2 This high level of short term borrowing is due to the strategic management of cash flow and option for converting this to longer term borrowing are currently under review.

6. Debt Rescheduling

6.1 Currently, it is not considered of benefit to the Council to undertake any further rescheduling of its long-term debt.

7. Compliance with Treasury and Prudential Limits

7.1 The Council has operated within the Prudential Indicators in compliance with the Council's Treasury Management Practices.

8. Climate Change and Environmental Implications

8.1 There are no climate change or environmental implications.

9. Appendices

Appendix 1A –Arlingclose Treasury Management Report for 1st Qtr 2024

Appendix 1B –Arlingclose Outturn 1st Qtr FY24/25 Prudential Indicators

Appendix 2 – Investment portfolio as at 30 June 2024

Appendix 3 – Borrowing portfolio as at 30 June 2024

Appendix 4 – Investment portfolio as at 31 August 2024

10. Background Papers

Medium Term Financial Plan 2024/25 – 2027/28

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