Subject:	**TREASURY MANAGEMENT YEAR END REPORT 2023/24**
Meeting and Date:	**Governance Committee - 26 September 2024** **Council - 16 October 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 quarter ended 31 March 2024 (Q4) and an update of activity to date.
Recommendation:	That the report is received.

1. Summary

1.1 £50m of the Council's investments is invested in externally managed strategic pooled bond, multi-asset and property funds. The Council's long-term investment return for the period to 31 March was 7.10% (annualised), which outperformed the benchmark[1] by 1.87%. The long-term investments have been generating a reasonable income return despite the volatility of the market. The total interest and dividend returns for the year £2,395k, is £460k higher than the original budget estimate of £1,935k.

1.2 Additional short-term borrowing was undertaken in the year due to fluctuations in the cash flow requirements. A reduction in available funds for inter-authority lending and increased interest rates caused an increase in the cost of short-term borrowing in 2023/24 of £916k from the original budget estimate of £315k. This pressure was offset by the increase in investment income.

1.3 The Council remained within its Treasury Management guidelines and complied with the Prudential Code guidelines during the period.

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 therefore ensures this Council is implementing best practice in accordance with the Code.

1 The "benchmark" is the interest rate against which performance is assessed. DDC use the 3 month SONIA rate and this averaged 5.23% in the year to 31/03/2024. Sterling Overnight Index Average (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.

2.2 Council adopted the 2023/24 Treasury Management Strategy (TMS) on 1st March 2023 as part of the 2023/24-2026/27 Budget and Medium-Term Financial Plan.

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

2.4 Members are asked to note that 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 March 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 March:

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 March 2024, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £51.2m, increasing to £63.3m 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 31 March 2024, the Council's investment portfolio totalled £50m (see Appendix 2). Cashflow funds were lower than anticipated £1.2m at 31 March 2024 (see Appendix 2).

4.3 Cashflow funds have since increased to £13.3m 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 March 2024, the Council had £40.5 million in short term loans with other Local Authorities as part of the Council's strategic cash management objectives.

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 Year End 2023/24

Appendix 1B –Arlingclose Outturn 2023-24 Prudential Indicators

Appendix 2 – Investment portfolio as at 31 March 2024

Appendix 3 – Borrowing portfolio as at 31 March 2024

Appendix 4 – Investment portfolio as at 31 August 2024

10. **Background Papers**

Medium Term Financial Plan 2023/24 – 2026/27

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