MEETING:	**GOVERNANCE AND AUDIT COMMITTEE**
DATE:	**10 OCTOBER 2024**
TITLE:	**TREASURY MANAGEMENT QUARTERLY UPDATE**
PURPOSE:	**CIPFA's Code of Practice requires that the prudential indicators are reported on a quarterly basis**
RECOMMENDATION:	**RECEIVE THE REPORT FOR INFORMATION**
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1. Introduction

The Council has 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 quarterly report provides an additional update and includes the requirement in the 2021 Code of quarterly reporting of the treasury management prudential indicators.

The Council's Treasury Management Strategy for 2024/25 was approved at Full Council on 7th March 2024. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy.

2. Economic Background

UK headline consumer price inflation (CPI) continued to decline over the quarter, falling from an annual rate of 3.2% in March to 2.0% in May, in line with the Bank of England's target. The core measure of inflation, however, only declined from 4.2% to 3.5% over the same period, which, together with stubbornly services price inflation at 5.7% in May, helped contribute to the BoE maintaining Bank Rate at 5.25% during the period, a level unchanged since August 2023.

Data released during the period showed that the UK economy had emerged from the technical recession at the end of 2023 to expand by 0.7% (upwardly revised from the initial estimate of 0.6%) in the first quarter of the calendar year. Monthly GDP data showed zero growth in April following an expansion of 0.4% in the previous month.

Labour market data continued to provide mixed messages for policymakers, exacerbated by issues the Office for National Statistics is having compiling the labour force survey. In the three months between February and April 2024, unemployment was up, employment fell, while the decline in vacancies slowed and wage growth remained elevated. Unemployment rose to 4.4% (3mth/year) while average regular earnings (excluding bonuses) was 6.0% and total earnings (including bonuses) was 5.9%. Adjusting for inflation, real regular pay rose by 2.3% and total pay by 2.2%. Given how keenly the ‘second-round’ impact of inflation on wages is watched by the BoE, policymakers will likely want to see more downward movement before cutting interest rates.

Having started the financial year at 5.25%, the Bank of England’s Monetary Policy Committee (MPC) maintained Bank Rate at this level throughout the quarter. In line with expectations, at its June meeting, the Committee voted by a majority of 7-2 in favour of maintaining the status quo. The two dissenters preferred an immediate 0.25% reduction in Bank Rate to 5.0%. This continued dovish tilt by the Committee increased financial market expectations that the first cut in Bank Rate will likely be in August.

Earlier in May, in addition to an identical MPC rate decision and voting pattern, the Bank published the latest version of its Monetary Policy Report (MPR). Within the Report, the Committee noted that it expected four-quarter GDP growth to increase over the forecast period, reflecting the declining negative effects of past Bank Rate increases and the predicted downward path of interest rates which should provide support to economic activity. The trajectory of inflation was broadly similar to that in the previous MPR, albeit slightly lower towards the end of the forecast horizon due to the Committee’s revised assessment of falling external inflationary pressures from past import price increases. This meant the Committee expected headline inflation to hit the 2% target two quarters sooner than in the February MPR. As was highlighted earlier, inflation data published in June showed that CPI inflation fell to the 2% target in May.

Arlingclose, the authority’s treasury adviser, maintained its central view that 5.25% is the peak in Bank Rate and that interest rates will most likely be cut later in H2 2024. The risks over the medium term are deemed to be to the upside as while inflation has fallen to target, it is expected to pick up again later in the year and as services price inflation and wage growth are still on the firmer side, the MPC could well delay before delivering the first rate cut.

The US Federal Reserve also maintained interest rates over the period, holding the Fed Funds Rate at 5.25%-5.50% for the seventh consecutive month in June, as was expected. US policymakers have maintained a relatively dovish stance throughout the period but have steadily reduced their predictions around the pace and timing of rate cuts in the face of higher inflation and firmer economic growth. At the meeting, economic projections pointed to one rate cut in calendar 2024 and four in 2025.

The European Central Bank cut rates in June, reducing its main refinancing rate from 4.50% to 4.25%. Inflation in the region fell to 2.5% in May, having increased in the previous month, but since February has been fairly sticky at between 2.4% and 2.6%. Economic growth in the region has picked up but remains weak, and with inflation above the ECB’s target this continues put pressure on policymakers on how to balance these factors when setting monetary policy.

Arlingclose maintained its advised recommended maximum unsecured duration limit on all banks on its counterparty list at 100 days.

3. Treasury Management Summary

On 30th June 2024, the Council had net investments of £100.6m arising from its revenue and capital income and expenditure.

The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

	31.3.24 Balance £m	Movement £m	30.6.24 Balance £m
Long- term borrowing	94.0	(0.1)	93.9
Short-term borrowing	5.6	0.0	5.6
PFI	1.0	0	1.0
Total borrowing	**100.6**	(0.1)	**100.5**
Short-term investments	(97.6)	(46.1)	(143.7)
Cash and cash equivalents	(43.9)	(13.5)	(57.4)
Total investments	**(141.5)**	**(59.6)**	**(201.1)**
Net borrowing/ (investment)	**(40.9)**	**(59.7)**	**(100.6)**

Borrowing Strategy and Activity: No new long-term borrowing was undertaken in 2023/24 or the first quarter of 2024/25, with existing loans maturing without replacement. This strategy enabled the Council to reduce net borrowing costs (despite foregoing investment income) and reduce overall treasury risk.

Treasury Investment Activity: The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held for the North Wales Economic Ambition Board and Pension Fund. During the year, the Council's investment balances ranged between £106.8m and £235.8m due to timing differences between income and expenditure.

Treasury Investment Position

	31.3.24 Balance £m	Movement £m	30.06.24 Balance £m
Banks & building societies (unsecured)	5.9	6.5	12.4
Local Authorities	81.0	22.0	103.0
Money Market Funds	43.0	12.0	55.0
Debt Management Office	0.0	19.1	19.1
Pooled Funds	11.6	0.0	11.6
Total investments	**141.5**	**59.6**	**201.1**

4. Treasury Management Prudential Indicators

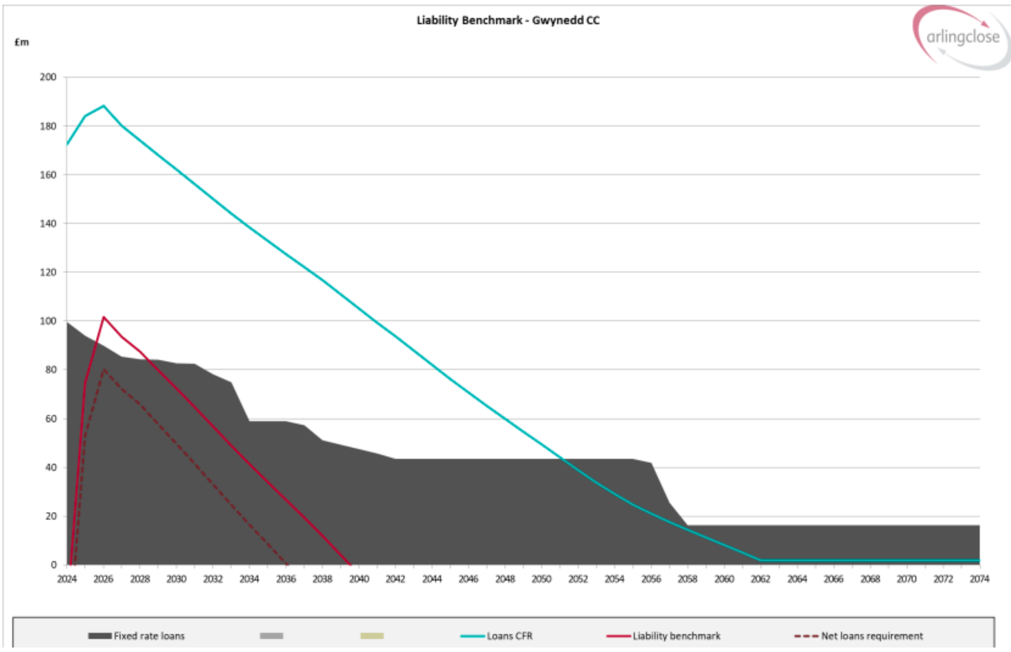
As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

1. **Liability Benchmarking:** This new indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £21.5m required to manage day-to-day cash flow.

	31.3.24 Actual	**31.3.25 Estimate**	**31.3.26 Estimate**	**31.3.27 Estimate**
Loans CFR	172.5	184.1	188.4	180.1
Less: Balance Sheet resources	(214.0)	(131.1)	(108.1)	(108.1)
Net loans requirements	(41.5)	53.0	80.3	72.0
Plus: Liquidity allowance	21.5	21.5	21.5	21.5
Liability benchmark	**(20.0)**	**74.5**	**101.8**	**93.5**
Existing borrowing	**100.0**	**94.5**	**90.4**	**94.3**

The table shows that the Council expects to remain borrowed above its liability benchmark up until 2025. This is because the Council holds reserves, and cash outflows to date have been below the assumptions made when the loans were borrowed.

Following on from the medium-term forecast above, the long-term liability benchmark assumes no new capital expenditure funded by borrowing, minimum revenue provision on new capital expenditure based on a 50 year straight line method. This is shown in the chart below together with the maturity profile of the Council's existing borrowing.



The chart shows that there is no need to borrow long- term based on current projections, but maybe in the short term in the near future.

2. **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	30.6.24 Actual	**Upper Limit**	**Lower Limit**	**Complied**
Under 12 months	5.62%	25%	0%	✓
12 months and within 24 months	4.04%	25%	0%	✓
24 months and within 5 years	5.86%	50%	0%	✓
5 years and within 10 years	25.19%	75%	0%	✓
10 years and above	59.30%	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

3. **Long-term Treasury Management Investments:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

	2024/25	**2025/26**	**2026/27**	**No precise date**
Actual principal invested beyond year end	£13m	£0	£0	£0
Limit on principal invested beyond year end	£40m	£20m	£20m	£20m

Complied	✓	✓	✓	✓

Additional indicators:
The Council measures and manages its exposures to treasury management risks using the following indicators:

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the time-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment and taking the arithmetic average, weighted by the length of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.06.24 Actual	2024/25 Target	Complied
Portfolio average credit score	5.18	A score of 6 or lower	✓

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	30.6.24 Actual	2024/25 Target	Complied
Total cash available within 3 months	£159m	£10m	✓

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates was:

	30.6.24 Actual	2024/25 Limit	Complied
Upper limit on one year revenue impact of a 1% rise in interest rates	£1,586,340	£2,290,000	✓
Upper limit on one year revenue impact of a 1% fall in interest rates	£1,586,340	£2,290,000	✓

5. Recommendation

To receive the report for information.