AUDIT & GOVERNANCE COMMITTEE

DATE	7 November 2024
REPORT OF	Sharon Wroot, Executive Director, Place and Resources
SUBJECT	Treasury H1 Outturn 2024-25
STATUS	Open

CONTRIBUTION TO OUR AIMS

Effective treasury management will provide support towards the achievement of Council Plan aims and objectives. Treasury management is an integral part of the Council's finances providing for cash flow management and financing of capital schemes. It therefore underpins all the Council's aims.

EXECUTIVE SUMMARY

The report contains details of treasury management arrangements, activity and performance during the 2024-25 financial year.

During the period covered, the Council complied with its legislative and regulatory requirements.

The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and Treasury Indicators	2024-25 Approved Budget £'m	H1 2024-25 £'m	Revised 2024-25 Estimate £'m
Capital Expenditure	**128.8**	**19.0**	**109.0**
Capital Financing Requirement	**246.5**	**225.3**	**239.1**
Authorised Borrowing Limit	**250.0**	**250.0**	**250.0**
Operational Boundary	**220.0**	**220.0**	**220.0**
External Borrowing	**212.6**	**162.0**	**181.9**
Investments >365 days	**21.0**	**0.0**	**21.0**

RECOMMENDATIONS

Audit & Governance Committee is requested to:

1) Consider the content of the report and make any recommendations to Cabinet as necessary in respect of treasury management activity during 2024-25.

REASONS FOR DECISION

The Council's treasury management activity is guided by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year with interim updates on performance against Prudential Indicators reported quarterly. We therefore report in full after Quarter 2 (this Report) and year end with Prudential Indicators being reported additionally after Quarters 1 and 3 in the Council Plan Resources and Finance Report.

1. BACKGROUND AND ISSUES

1.1. CIPFA has defined treasury management as:

The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

1.2. The Treasury Management Strategy Statement (TMSS) for 2024-25 was developed in consultation with our treasury management advisors, Link Asset Services Ltd. This statement also incorporates the Investment Strategy.

1.3 Whilst the Council has appointed advisors to support effective treasury management arrangements, the Council is ultimately responsible for its treasury decisions and activity. No treasury activity is without risk. The successful identification, monitoring and control of risk is therefore an important and integral element of treasury management activities.

1.4 The Council has nominated the Audit & Governance Committee as responsible for ensuring effective scrutiny of the treasury management arrangements.

1.5 Key points to note with specific regard to Treasury activity:

- The first half of 2024-25 saw:
    - Central Banks in most developed economies declare a tentative victory over inflation and move toward a more accommodative monetary environment as they looked to support their respective economies along a hoped-for smooth glide path into a soft landing.

- Short, medium and long-dated gilts (and therefore our future borrowing rates) have reduced as markets factored in an expectation of a series of rate cuts over the coming months.
- Moderate growth in Q1 (+0.5%) stalled during Q2 with the economy stagnating in June and July. However, this is viewed as being indicative more of a mild slowdown rather than a sign of an impending sudden drop back into recession.
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August.

- A small amount (£0.225m) of long-term debt was repaid early during the period as the Authority sought to take advantage of peak rates to exit its more expensive historic debt (priced at 6%+) as efficiently as possible. Further debt rescheduling will continue to be considered if it can deliver (net) long-term savings.

- The continuation of restrictive policy by the Bank of England as it sought to contain inflation, led to strong investment returns but also meant that borrowing remained significantly more expensive than our portfolio average rate. As a result, a strategy of deferring long-term commitment through use of reserves and short-term borrowing arrangements was adopted.

- Higher investment returns, even with our cautious approach, has generated surplus income (above budget) of £0.471m during the period, and we are on course to generate of £1m of investment income during the full financial year which is available to fund frontline services.

- The Treasury Management Strategy covers the Council's treasury aims and principles. The Council also considers direct 'commercial' investments from time-to-time with the aim of generating financial return. Although reference is made to these types of investments in the TMSS' these transactions are guided and limited by the Capital Strategy document.

2. RISKS AND OPPORTUNITIES

2.1 No Treasury activity is without risk. Specific risks include, but are not limited to, Counterparty Credit Risk (the risk of an investment not being repaid), liquidity risk (the risk that the Authority does not have its funds in the right place, at the right time and in the right amount to make it's payments as they fall due), interest rate risk (the risk that future rate movements have a revenue implication for the Authority) and reputational risk (see Section 4 below).

2.2 The attached Appendices define our approach toward mitigating these risks.

2.3 Treasury is an Authority-wide function and its environmental sustainability and equalities implications are the same as for the Council itself.

2.4 The Authority will have regard to the environmental and equality activities of its Counterparties (where reported) but

- Prioritises Security, Liquidity and Yield,
- Recognises that as large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and such exposures are small parts of their overall business.
- Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Authority's capacity to mitigate risk through diversification.

2.5 **General Data Protection Regulation 2018** – Relationships with external providers covered by the Treasury management Practices are governed by and operated in accordance with the act.

3. OTHER OPTIONS CONSIDERED

3.1 These were set out on Page 29 of the Treasury Management Strategy Statement.

4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS

4.1 As you would expect, with large sums of public money involved, any treasury activity carries a high degree of reputational risk. Any losses have not just financial but also significant, ongoing resource implications for the Council.

5. FINANCIAL CONSIDERATIONS

5.1 As set out in the Appendices.

6. CHILDREN AND YOUNG PEOPLE IMPLICATIONS

6.1. As an Authority-wide corporate function, the immediate impacts of day-to-day Treasury operations on children and young people are the same as for the Council as a whole. However, certain Treasury decisions, most notably those relating to Long-Term Borrowing transactions, will place a greater burden on young residents, over time, relevant to other demographics.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

7.1 In line with the Authority's declaration of a Climate Emergency, the S151 Officer will aim to assess and monitor, not just Environmental but all, Environmental, Social and Governance (ESG) factors when selecting investment options. Full assessment is however restricted by the fact that, at the time of writing, there is no consistent rating framework with which to measure and benchmark specific counterparty ESG metrics. Until this market data gap is fully resolved, our approach to managing the risks associated with the Environmental activities of our Counterparties is as follows:-:-

- As the Ratings Agencies headline ratings on our Counterparties now incorporate ESG risk assessments alongside more traditional financial risk metrics and so provide both an holistic risk measure and a proxy for ESG 'scoring' in the absence of anything more robust

- The Council will continue to Prioritise Security, Liquidity and Yield, in that order

- The Council recognises that as large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and as a result climate change considerations are an increasingly important and heavily scrutinised part of their overall business.

- Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Authority's capacity to mitigate risk through diversification.

- The Council notes that bonds issued by Supranational institutions offer strong ESG credentials, combined with the explicit underwriting support of all major developed countries. This results in excellent ratings (typically AA+ - AAA) being applied. As such, the Council actively seeks exposure to these assets (commensurate with its investment horizon) and in doing so, contributes to market liquidity and therefore capital raising abilities of these bodies who then deploy that capital in ESG positive schemes.

8. FINANCIAL IMPLICATIONS

8.1 As set out in the appendix.

9. MONITORING COMMENTS

9.1 In the opinion of the author, this report does not contain recommended changes to policy or resources (people, finance or physical assets). As a result no monitoring comments have been sought from the Council's Monitoring Officer (Chief Legal Officer) or AD People and OD.

10. BACKGROUND PAPERS

10.1 CIPFA Treasury Management Code and Guidance Notes

10.2 Treasury Management Strategy Statement 2024-25

10.3 Capital Strategy Statement 2024-25

11. CONTACT OFFICER(S)

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