

TITLE OF REPORT: Treasury Management – Performance to 30 September 2024

Report of: Darren Collins, Strategic Director, Resources & Digital

Purpose of the Report

1. The purpose of this report is to review Treasury Management performance for the six months to 30 September 2024, covering investments and borrowing. This is consistent with approved performance management arrangements.

Background

2. The mid-year performance of the Treasury Management Service is reported in line with CIPFA's Code of Practice on Treasury Management and the Council's Treasury Policy Statement and Treasury Strategy 2024/25 to 2028/29 which was approved by Council on 21 March 2024.
3. The Council operates a balanced approach, and this means broadly that cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing security and adequate liquidity initially before considering optimising investment return.
4. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations.
5. Accordingly, treasury management is defined as:

"The management of the Council'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."
6. The primary objective of the investment strategy is to safeguard the Council's assets with a secondary objective of obtaining an optimum rate of return on investments and minimising the costs of borrowing.

Treasury Management Strategy Statement

7. The Treasury Management Strategy Statement (TMSS) 2024/25 to 2028/29 was approved by Council on 21 March 2024. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Investment Performance

8. The latest projection of gross investment income for 2024/25 based on interest earned to date and expected interest to 31 March 2025 is £4.605m, compared to an original estimate of £4.746m.
9. The gross investment interest is then adjusted to include other financial transactions with interest payable to or receivable from external parties:

	Budget	Projected	Variance
	£m	Outturn	£m
	£m	£m	£m
Gross Investment Interest	(4.746)	(4.605)	0.141
Interest paid/(received) on revenue balances	0.879	0.656	(0.223)
Interest due on loan balances from third parties	(1.250)	(1.250)	0.000
Temporary Loans & Internal/Trust Funds	0.037	0.003	(0.034)
Interest Receivable from Newcastle Airport	(0.900)	(0.878)	0.022
General Fund Total	(5.980)	(6.074)	(0.094)

This gives a projected 2024/25 net interest to the General Fund of £6.074m compared to the budget of £5.980m, a projected surplus of £0.094m.

The Economy

10. Interest rates were on an upward curve from December 2021 until slightly reducing in the first half of 2024/25. The Bank of England's Monetary Policy Committee (MPC) have agreed the following bank base rates in 2024/25:

Date	Base Rate
01 April 2024	5.25%
19 May 2024	5.25%
19 June 2024	5.25%
01 August 2024	5.00%
19 September 2024	5.00%

Four further MPC meetings are scheduled in financial year 2024/25 and it is projected that the base rate will fall in the second half of the current financial year to around 4.00%.

Rate of Return

11. The average rate of return is monitored for each investment type the Council enters into and these are used to calculate an average rate of return for the year to date. The current rate of return is 5.47% and the projected rate for the

whole financial year is 5.12%, both an improvement on the original estimate of 4.89%.

12. The quarterly LINK Asset Services Investment Benchmarking report assesses both the rate of return and the risk of the counterparty to calculate a weighted average rate of return, for comparison across regional Local Authorities. In the most recent report received in June 2024 the Council achieved a weighted average rate of return of 5.676% on its investments for Quarter 1 2024/25, which is above the risk adjusted expectations defined in the Benchmarking Report for our comparator Group.
13. The average rate of return is expected to decrease during the remainder of the financial year as higher interest investments mature, further anticipated reductions in the bank base rates arise, investment balances are projected to remain consistent and new deposits placed with lower yielding returns.
14. In the current financial year the economic conditions in the investment market have stabilised and the Council will likely match levels of interest rates achieved in recent financial years. The majority of available interest rates up to 12 months duration are at or around 4.55% and 6 months duration at 4.65%, compared to the bank base rate of 5.00% (as at 30 September 2024). Some further reductions in the Bank Base Rate are forecast during the current financial year ending 31st March 2025, with counterparties beginning to build in expected reductions in their short and medium term offers.

Borrowing

15. The total borrowing for the Council and HRA as at 30 September 2024 was £665.901m, which was within the operational borrowing limit of £872.000m. This borrowing consisted of £617.901m Public Works Loans Board (PWLB) loans and £48.000m market loans.
16. The Treasury Strategy estimates for the 2024/25 financial year were based on a total borrowing requirement of £94.189m with £72.131m relating to the GF and £22.058m the HRA. Due to the council maintaining its cash reserves and a reduction in the Capital Financing Requirement (CFR) there has been no borrowing taken in the year to date.
17. The borrowing strategy will be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the long-term. The timing of any further borrowing will depend on cash flow requirements to support the capital programme.
18. The current forecast for interest payable on borrowing is allocated to the General Fund and the Housing Revenue Account (HRA) as shown in the following table:

Interest Payable	General Fund	HRA
Forecast	£12.350m	£11.643m
Budget	£14.297m	£12.402m
Saving	£1.947m	£0.759m
Average rate of interest	3.33%	3.77%

This represents a gross saving of £2.706m on the original estimate.

Compliance with Treasury and Prudential Limits

19. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2024, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2024/25 to 2028/29 as demonstrated in Appendix 1.

Liability Benchmark

20. The Council is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum and Appendix 2 shows the current position as 30 September 2024.

Summary of Mid-Year Performance

21. The projected net impact of investment and borrowing activity on the revenue budget in 2024/25 is an underspend of £2.800m, comprising £2.041m General Fund underspend and £0.759m HRA underspend.

Net Position			
	Estimate £m	Projected Outturn £m	Variance £m
General Fund			
Investments	(5.980)	(6.074)	(0.094)
Borrowing	14.297	12.350	(1.947)
Premia	0.462	0.462	0.000
Net Position	8.779	6.738	(2.041)
HRA			
Investments	(0.000)	(0.000)	0.000
Borrowing	12.402	11.643	(0.759)
Premia	0.000	0.000	0.000
Net Position	12.402	11.643	(0.759)
Combined			
Net Position	21.181	18.381	(2.800)

22. Current and projected interest rates for investments indicate that the council will maintain existing returns from investing cash balances. PWLB rates are currently higher than budgeted and will be monitored to ensure borrowing is

taken at the optimum time to minimise the number of long term loans entered into at the current higher level of interest rates.

23. The balance of external and internal borrowing is generally driven by market conditions. The council will continue to monitor the market to identify any opportunity to repay borrowing earlier than planned, subject to any discounts received.

Recommendation

The Committee is requested to note the Treasury Management Performance to 30 September 2024, prior to submission to Cabinet 15 November.

Maturity Profile of Fixed Rate Borrowing

The following table shows that Gateshead is within the prudential limits set for the maturity profiles of fixed rate borrowing.

Fixed Rate Borrowing				
	Lower	Upper	Actual @ 30 September	Max Actual to date
< 1 yr	0%	16%	0.86%	1.56%
1 – 2 yrs	0%	16%	0.75%	3.09%
2 – 5 yrs	0%	22%	10.91%	10.91%
5 – 10 yrs	0%	23%	9.64%	11.96%
10 – 20 yrs	0%	17%	3.83%	4.43%
20 – 30 yrs	0%	21%	6.84%	6.84%
30 – 40 yrs	0%	46%	37.43%	37.43%
40 – 50 yrs	0%	39%	26.73%	29.52%
50 yrs +	0%	13%	0.00%	0.00%

Maturity Profile of Variable Rate Borrowing

The following table shows that Gateshead is within the prudential limits set for the maturity profiles of variable rate borrowing.

Variable Rate Borrowing				
	Lower	Upper	Actual @ 30 September	Max Actual to date
< 1 yr	0%	18%	3.00%	3.00%
1 – 2 yrs	0%	13%	0.00%	0.00%
2 – 5 yrs	0%	13%	0.00%	0.00%
5 – 10 yrs	0%	13%	0.00%	0.00%
10 – 20 yrs	0%	13%	0.00%	0.00%
20 – 30 yrs	0%	13%	0.00%	0.00%
30 – 40 yrs	0%	13%	0.00%	0.00%
40 – 50 yrs	0%	13%	0.00%	0.00%
50 yrs +	0%	13%	0.00%	0.00%

Operation and Authorised Limits (External Debt)

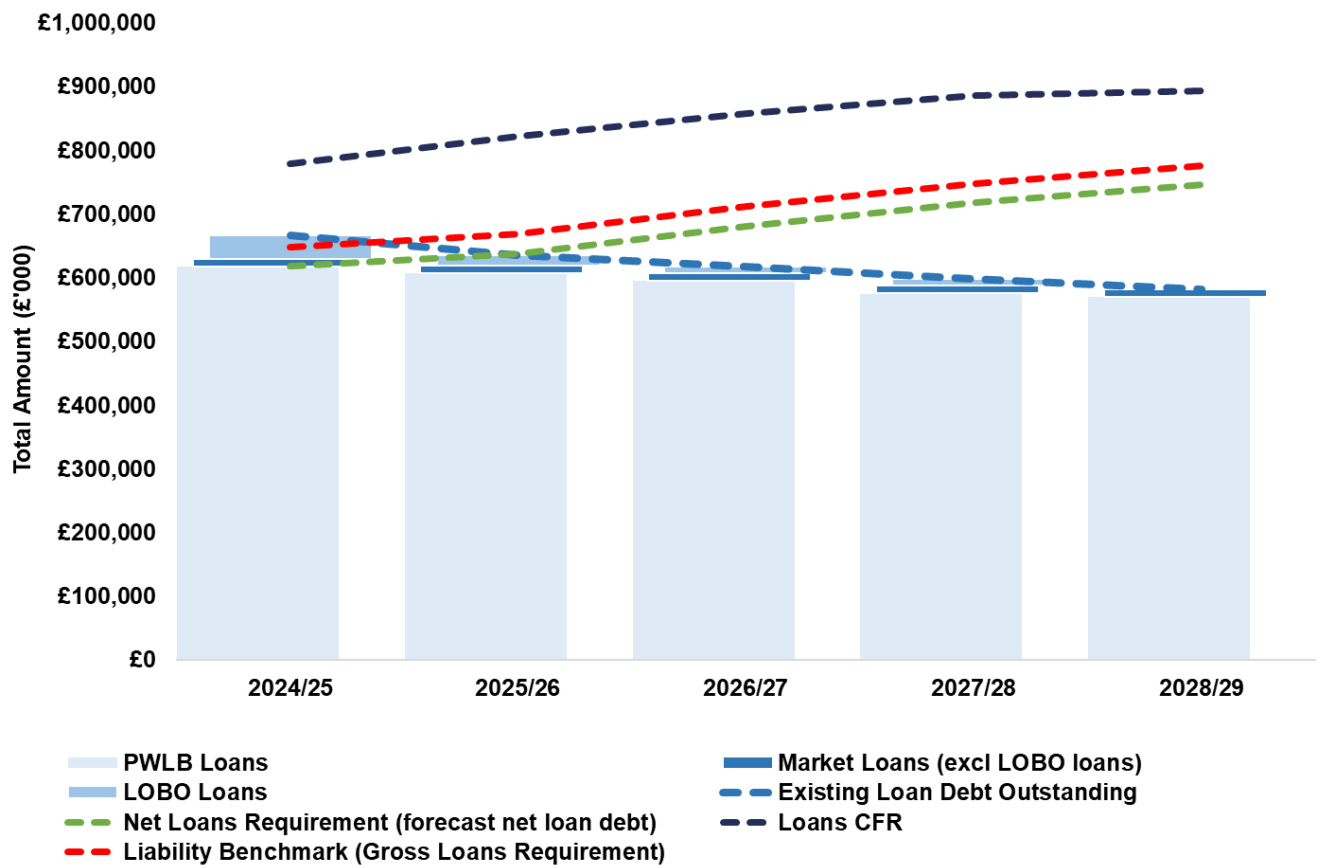
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Operational Limit 2024/25	872.000
Authorised Limit 2024/25	865.000
Actual External Debt Outstanding 30 Sept 2024	665.901
Maximum Debt Outstanding to 30 Sept 2024	670.667

Non-Specified Investments

As part of the Annual Investment Strategy, the approved limits in respect of non-specified investments have been agreed. The limits and actual performance are detailed below for counterparties with ratings which fall short of the Council's high credit rating. Investments over 364 days are also classed as non-specified.

	Limits 2024/25	Actual Levels 30 Sep 2024	Maximum to date
Rated Not High	25.00%	0.00%	0.00%
Not Rated	0.00%	0.00%	0.00%
Over 364 days (max of 3 yrs.)	£15m / 20.00%	£0m / 0.00%	£0m / 0.00%

Liability Benchmark



The Liability Benchmark Gross Loans Requirement, subject to using internal borrowing and maintaining £30m (liquidity allowance) in Treasury Management investments, is currently £648m compared to the existing loan debt of £666m, so external debt is circa £18m above the benchmark. This reflects the councils current position of having cash available to invest.

Future years indicate the Liability Benchmark will be above the existing loan debt outstanding, confirming future borrowing will be required.