

**REPORT TO:** Executive Board

**DATE:** 14 November 2024

**REPORTING OFFICER:** Director of Finance

**PORTFOLIO:** Corporate Services

**TITLE:** Treasury Management 2024-25 Half Year Update

**WARDS:** Borough-wide

## **1.0 PURPOSE OF REPORT**

1.1 The purpose of this report is to provide an update regarding activities undertaken on the money market during the first half of the financial year to 30 September 2024, as required by the Treasury Management Policy.

## **2.0 RECOMMENDED: That the report be noted.**

## **3.0 SUPPORTING INFORMATION**

### **Economic Outlook**

3.1 The following analysis of the economic situation has been provided by Link Asset Services, the Council's treasury management advisors.

3.2 During the six months ended 30 September 2024 the highlights have been as follows;

- GDP growth stagnating for the first six months of the year
- CPI Inflation falling from 2.3% in April to 2% in June before increasing to 2.2% in July
- The bank of England began its easing cycle by lowering interest rates from 5.25 to 5.0% in August, then holding them steady in the September meeting.
- 10-year gilts climbed to 4.35% in April before falling to 4.00% in September

3.3 The economy's stagnation in June and July points more to a mild slowdown in GDP growth rather than a sudden drop back into a recession.

3.4 The 1.0% month on month (m/m) jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual

weather and end of season sales. As a result, some of that strength is probably temporary.

- 3.5 The Government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e. by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Colleagues at Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.
- 3.6 The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3m growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023.
- 3.7 CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation. As a result, core inflation crept back up from 3.3% to 3.6%.
- 3.8 The Bank initiated its loosening cycle in August with a 0.25 rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts.
- 3.9 Looking at gilt movements in the first half of 2024/25, you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement.

### Interest Rate Forecast

- 3.10 The following forecast has been provided by Link Asset Services.

Link Group Interest Rate View	28.05.24											
	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
<b>BANK RATE</b>	5.25	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	5.30	5.00	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	5.30	4.90	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	5.10	4.80	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

### Short Term Borrowing Rates

3.11 The bank base rate has dropped 0.25% on 1<sup>st</sup> August 24 from 5.25% to 5.00.

	Mar	Apr	May	Jun	Jul	Aug	Sep
	%	%	%	%	%	%	%
Base Rate	5.25	5.25	5.25	5.25	5.25	5.00	5.00
Call Money (Market)	5.10	5.20	5.15	5.20	5.25	4.90	5.00
1 Month (Market)	5.25	5.20	5.20	5.20	5.15	4.95	4.95
3 Month (Market)	5.20	5.25	5.20	5.15	5.10	4.95	4.95

### Longer Term Borrowing Rates

	Mar	Apr	May	Jun	Jul	Aug	Sep
	%	%	%	%	%	%	%
1 Year (Market)	5.10	5.25	5.35	5.20	4.95	4.75	4.55
10 Year (PWLB)	4.79	4.76	4.82	4.96	5.18	5.11	4.74
25 Year (PWLB)	5.33	5.25	5.33	5.40	5.60	5.54	5.22

3.12 Market rates are based on suggested rates provided by Link Asset Services. The PWLB rate shown is the Fixed Term Certainty Rate for a new loan with the principal repayable on maturity.

## Borrowing and Investments

### Turnover during the period

	No of deals	Turnover £m
Short Term Borrowing	8	37
Short Term Investments	17	139

### Position at month-end

	Mar £m	Apr £m	May £m	Jun £m	Jul £m	Aug £m	Sep £m
Total Borrowing	207	207	192	187	187	187	197
Total Investments	(92)	(88)	(108)	(110)	(115)	(112)	(112)
Call Account Balance	(13)	(26)	(21)	(20)	(6)	(10)	(8)

### Investment benchmarking

Benchmark	Benchmark Return %	Performance Apr - Sep %	Investment Interest Earned £000
7 day	5.10	4.94	384
1 month	5.13	5.25	154
3 months	5.11	5.18	708
6 months	5.07	5.44	1,036
12 months	5.02	5.60	188
Over 12 months	-	4.27	344
Property Fund	-	4.26	426
<b>Total</b>			<b>3,241</b>

- 3.13 The above table shows the Council has over-achieved on most benchmarks over the first six months of the year. This is due to the figures above showing the interest earned over the last six months, whereas the benchmarks are based on new investments. As we are moving into a falling rate environment, this will cause a lag in the drop in interest rates received, especially for longer duration investments. There are no benchmarks available for the Council's investment in the CCLA property fund, or for investments held over 12 months.

## Budget Monitoring

	<b>Net Interest at 30th September 2024</b>		
	<b>Budget to Date £000</b>	<b>Actual to Date £000</b>	<b>Variance (o/spend) £000</b>
<b>Investments</b>	(1,311)	(3,241)	1,930
<b>Borrowings</b>	550	898	(349)
<b>Net Total</b>	<b>(762)</b>	<b>(2,343)</b>	<b>1,581</b>

- 3.14 Due to having larger than expected investment balances over the first six months of the year, the Council has generated an additional £1.9m in interest over the budgeted figure of £1.3m. The borrowings costs have also increased due to the repayment of the Council's LOBO (Lender's Option Borrowers Option) in February 2024, after the budget was set for the 2024/25 year, and due to some short-term borrow taken due to cash flow needs.

### **New Long-Term Borrowing**

- 3.15 No new long-term borrowing has been taken in this period.

### **Policy Guidelines**

- 3.16 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by Council on 06 March 2024. It sets out the Council's investment priorities as being:
- Security of capital
  - Liquidity
  - Yield
- 3.17 The Council will therefore aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate and the heightened credit concerns it is considered appropriate to keep the majority of investments short term and to ensure all investments are in line with Sector's credit rating methodology.

### **Treasury Management Indicators**

- 3.18 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators were set out in the Treasury Management Strategy Statement and are reviewed in Appendix 1.

### **Debt Rescheduling**

- 3.19 No debt rescheduling was undertaken during the quarter.

#### **4.0 POLICY IMPLICATIONS**

4.1 None.

#### **5.0 FINANCIAL IMPLICATIONS**

5.1 The financial implications are as set out in the report.

#### **6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

6.1 **Improving Health, Promoting Wellbeing and Supporting Greater Independence**

6.2 **Building a Strong, Sustainable Local Economy**

6.3 **Supporting Children, Young People and Families**

6.4 **Tackling Inequality and Helping Those Who Are Most In Need**

6.5 **Working Towards a Greener Future**

6.6 **Valuing and Appreciating Halton and Our Community**

There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

#### **7.0 RISK ANALYSIS**

7.1 The main risks with Treasury Management are security of investment and volatility of return. To combat this, the Council operates within a clearly defined Treasury Management Policy and annual borrowing and investment strategy, which sets out the control framework

#### **8.0 EQUALITY AND DIVERSITY ISSUES**

8.1 None.

#### **9.0 CLIMATE CHANGE IMPLICATIONS**

9.1 None

#### **10.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

10.1 There are no background papers under the meaning of the Act.

## Treasury and Prudential Indicators – 2024/25 – Quarter 2

Prudential Indicators	2023/24	2024/25	
	Full Year Actual £000	Original Estimate £000	Quarter 2 Estimate £000
Capital Expenditure	26,761	53,671	87,283
Net Financing Need for the Year <i>(Borrowing Requirement)</i>	7,311	32,512	34,922
Increase / (Decrease) in CFR <i>(Capital Financing Requirement)</i>	(2,412)	20,202	22,163
Ratio of Financing Costs to Net Revenue Stream <i>(Proportion of cost of borrowing to Council's net revenue)</i>	3.2%	3.4%	3.9%
External Debt <i>(Borrowing plus PFI and lease liabilities)</i>	552,408	533,269	533,269
Operational Boundary <i>(Limit of which external debit is not expected to exceed)</i>	559,675	552,679	552,679
Authorised Limit <i>(Limit beyond which external debit is prohibited)</i>	630,824	627,133	627,133

Maximum Principal invested > 365 days	Investment	2023/24	2024/25
	Limit £000	Actual £000	Estimate £000
Principal Sums Invested over 365 days	40,000	31,700	25,000