Rochford District Council

REPORT TITLE:	**Treasury Management Quarterly Review (Q1) 2024/25**
REPORT OF:	**Interim Director of Resources**

INFORMATION REPORT

REPORT SUMMARY

This report is to provide an update of the Council's Treasury Management activity for the period 1 April 2024 to 30 June 2024 in accordance with the Council's Treasury Management Policy and good practice in treasury management.

SUPPORTING INFORMATION

1.0 BACKGROUND INFORMATION

1.1 The council is required by the CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities to produce a quarterly review of its treasury management activities.

1.2 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 20 February 2024. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach.

As shown by the charts below and the interest rate forecasts in section 3, investment rates have remained consistent during the first quarter of 2024/25 but are expected to reduce over the course of the year as Bank Rate interest rates are expected to decline over each quarter.

2.2 Creditworthiness

There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

2.3 Investment counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

2.5 Investment balances

The average level of funds available for investment purposes during the quarter was **£24.5m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

Benchmark	Benchmark Return %	Council Performance %	Investment Interest Earned £
7 day	5.20	5.15	23,928
1 month	5.21	5.22	185,127
3 month	5.23	5.45	146,497
6 month	5.26	n/a	n/a
12 month	5.21	n/a	n/a

As illustrated, the Council outperformed the benchmark by 0.18 **bps**. The Council's budgeted investment return for 2024/25 is **£650,000**, and performance for the year to date is **£355,552** which is above budget for the quarter. Our predicted performance for the year is £737,515, which is £87,515 above budget.

2.5.1 The breakdown of the investments held at 30 June 2024 are shown in the table below:

Investment held at 30th June 2024	Amount	Term	Interest
Handelsbanken	£3,000,000	3M Fixed	5.30%
Handelsbanken	£3,000,000	3M Fixed	5.32%
Money Market – Prime	£3,000,000	Instant	5.22%
Money Market – Deutsche	£3,000,000	Instant	5.18%
Santander	£6,000,000	95 Day	5.70%

2.6 Approved limits

Officers can confirm that the approved limits within the Annual Investment Strategy were breached during the quarter ended 30th June 2024. This was due to an investment being returned into the bank account after the morning cashflow was performed. All decisions on borrowing, investment or financing are delegated to the Section 151 Officer as the Chief Finance Officer and this delegation is documented in the Financial Regulations.

2.7 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members. Member training on treasury management issues was undertaken during 2023/24 and further will be scheduled as required.

2.8 The table below shows the forecast outturn for capital expenditure at 30 June 2024 compared to the original budget agreed on 20 February 2024. There is a more detailed report going to the Strategy, Finance and Policy September meeting, revisiting the Capital Programme overall, below reflects the original budget set and the rolled forward budgets that are subject to approval.

Capital Expenditure	2024/25 Original Estimate £'000s	2024/25 End of Year Forecast £'000s
Total	**3,982**	**6,289**
Financed by:		
S106 income	30	210
Disabled Facilities Grant via Better Care Fund	540	540
Capital Finance Reserve	1,400	2,208
Capital Grants	478	514
Community Investment Plan	290	290
Investment Reserve	1,244	2,527
Total Financing	**3,982**	**6,289**

2.9 The Council has not undertaken any external borrowing during the period 1 April to 30 June 2024 and therefore no interest costs were incurred. Investment income remains a relatively small overall source of income to the Council; however, the Council continues to seek the best returns available within its agreed risk appetite.

1.1 Net external borrowing should not, except in the short term, exceed the total of Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2024/25 and next two financial years. LINK carried out a review of the historical CFR held on the Authority's balance sheet. (Reported to Audit and Governance on 2 July 2024). The estimates below incorporate their recommendations and account for the difference to the Annual Strategy taken to Council in February.

£000s	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
CFR	479	464	449	434

Movement in CFR	298	15	15	15

2.9.1 The Council's current Treasury Management Advisors are Link Asset Services (LAS). The contract cost for 2024/25 is £9,000 which represents good value for money via the provision of specialist advice and training to the Council officers and members which enables sound investment decisions to be made.

3.0 ECONOMIC UPDATE

3.1 The first quarter of 2024/25 saw:

- GDP growth flatlining in April following positive Q4 2023/24 growth figures of 0.7% q/q.
- A stalling in the downward trend in wage growth, with the headline 3myy rate staying at 5.9% in April.
- CPI inflation falling from 2.3% in April to 2.0% in May.
- Core CPI inflation decreasing from 3.9% in April to 3.5% in May.
- The Bank of England holding rates at 5.25% in May and June.
- 10-year gilt yields climbing to 4.35% in April, before closing out at 4.32% in May.

3.1.1 The news that the economy grew by 0.7% q/q in Q4 2023/24 confirmed that it moved out of its very mild technical recession that prevailed at the back end of 2023. However, data released for April and May so far shows a slight stalling in the recovery, with GDP data for April coming out at 0.0% m/m, as inclement weather weighed on activity. Moreover, the fall in the composite Purchasing Manager Index output balance from 53.0 in May to 51.7 in June confirms tepid growth.

3.1.2 On a more positive note, the 2.9% m/m increase in retail sales volumes in May more than reversed the 1.8% m/m drop in April as rainfall returned to seasonal norms. The strength was broad-based across the retail sector, including online, (+5.9% m/m) suggesting an underlying strengthening in sales beyond weather effects. With inflation falling back to target, Bank Rate likely to be reduced soon and with consumer confidence improving, retail sales may well continue to strengthen.

3.1.3 Stronger consumer spending, as low inflation allows households' real incomes to strengthen and the drag from higher interest costs fades, suggests that real consumption will strengthen substantially over the next two years. However, investment will only make a modest contribution to GDP growth. With the industrial sector still 12% smaller than in 2019, excess capacity will continue to cap the need for industrial firms to invest. But improving business sentiment should raise investment by services firms. Further, a fall in mortgage rates should trigger a recovery in residential investment. Overall, strong consumer spending is likely to be the backbone of GDP growth, along with government consumption. Capital Economics forecast that following GDP growth of 1.0% in 2024, activity will continue to surprise to the upside with GDP growth of 1.5% for both 2025 and 2026 (consensus forecasts are 1.2% and 1.4% respectively).

3.1.4 Nonetheless, the on-going stickiness of wage growth in April will be a lingering concern for the Bank of England. The 3myy rate of average earnings growth stayed at 5.9% in April (consensus 5.7%), whilst the more timely 3m annualised rate rebounded from 5.9% to 9.3%. This stickiness partly reflected April's 9.8% increase in the minimum wage. This leaves the Bank of England's forecast for a fall back in regular private sector pay growth from 5.8% in April to 5.1% in June looking a challenge.

3.1.5 Despite the stickiness of wage growth in April, sharp falls in employment and a move up in unemployment suggests that wage growth will soon be back on a downward path. The 139,000 fall in employment in the three months to April was accompanied by a rise in the unemployment rate from 4.3% to 4.4%. This was the fourth increase in a row and took it to its highest level since September 2021. The rise would have been larger were it not for the 132,000 increase in inactivity in the three months to April as the UK's disappointing labour market participation performance since the pandemic continued. The vacancies data also paint a picture of a slowly cooling labour market. The number of job vacancies fell from an upwardly revised 908,000 to 904,000, leaving vacancies 31% below the peak in May 2022, but 11% above the pre-pandemic level.

3.1.6 The fall in CPI inflation in May back to the Bank's 2% target for the first time since July 2021 will have come as welcome news to the Bank. Furthermore, with CPI inflation of 3.3% in the US and 2.6% in the Euro-zone in May, the UK appears to have won the race to get CPI inflation back to 2.0%. A further easing in food inflation from 2.8% in April to 1.6% in May played a part in the fall in overall CPI inflation and with food producer price inflation at just 0.2% in May, food price inflation will probably soon fall to zero.

3.1.7 The core rate also fell back from 3.9% to 3.5%. Within that, core goods CPI inflation slipped below zero for the first time since October 2016. As expected, clothing/footwear, recreation/culture and restaurants/hotels categories inflation declined, reflecting base effects from big increases last May. While services inflation fell from 5.9% to 5.7%, this decline was smaller than the Bank of England expected (forecast 5.3%). And the timelier three-month annualised rate of services prices has rebounded from 8.5% to 9.2%. This suggests that the persistence in domestic inflation that the Bank is worried about is fading more slowly than it thought. Even so, there is scope for inflation to fall further.

3.1.8 There was little chance that the Bank would cut rates at its June meeting, given upside surprises on services CPI inflation and wage growth. But several developments implied a rate cut is getting close, likely in August. First, two members of the MPC, Ramsden and Dhingra voted again to reduce rates immediately to 5.00%. Second, despite the recent run of stronger inflation and activity, the minutes noted “indicators of inflation persistence had continued to moderate” and that a range of indicators suggest pay growth had continued to ease. And there was new wording that members of the MPC will consider all the information available and how this affects the assessment that the risks from inflation persistence are receding “as part of the August forecast round”.

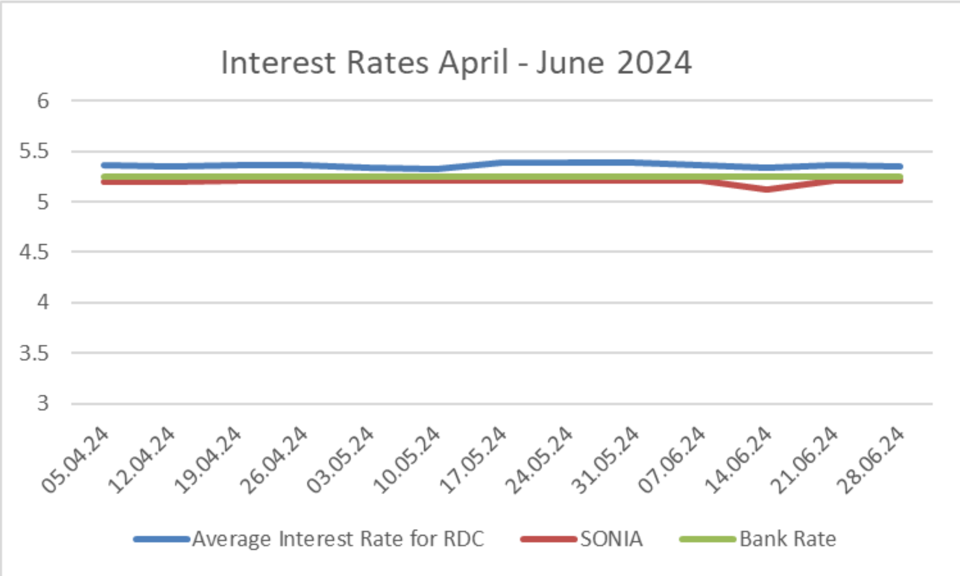
3.1.9 Throughout the quarter there was a degree of volatility in the gilt market and, by way of example, the 10-year gilt yield rose from 4.05% on 2nd April to finish at 4.15% on 28th June but it has exceeded 4.30% on several occasions. Overall, investors judged that interest rates will need to remain high for longer to keep inflation around the 2.0% target.

3.1.10 Meanwhile, the FTSE 100 broke through the 8,000 mark in April for the first time since its brief three-day flutter in February last year and reached a record closing high of 8,446 on 15th May. However, by the end of the quarter, despite AI-fuelled rises in the US S&P500, it finished rather tamely and had fallen back to 8,164. Arguably, significant interest rate cuts and an on-going UK economic recovery will be required for a further resurgence to take hold.

3.1.11 Link Asset Service’s current PWLB rate forecasts below are based on the Certainty Rate:

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
BANK RATE	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

3.1.12 The following graph shows a comparison of average rate of interest earned, Bank base rate and the benchmark (7-day London Interbank Rate); this shows the correlation in the average interest rate the Council achieved compared to the Bank of England Base rate. Starting April at 5.25%, Bank Rate has remained the same for the quarter but is anticipated to decrease each quarter for the remainder of the year.



4.0 OTHER OPTIONS CONSIDERED

4.1 Not applicable

5.0 RELEVANT RISKS

5.1 The Council's agreed Treasury Management Strategy sets out in detail the risks involved in making investments and in particular the risk that a counter party may fail during the duration of an investment. The Authority is responsible for managing the investment of public funds and must adopt a prudent approach.

6.0 ENGAGEMENT/CONSULTATION

6.1 Not applicable

7.0 FINANCIAL IMPLICATIONS

7.1 Interest rates are set to decrease from August in 2024/25

8.0 LEGAL/GOVERNANCE IMPLICATIONS

8.1 **Name & Title: Claire Mayhew, Acting Joint Director – People & Governance & Monitoring Officer Tel & Email 01277 312500 / claire.mayhew@brentwood.rochford.gov.uk**

The Council is obliged under Section 151 of the Local Government Act 1972 to make proper arrangements for the management of its financial affairs.

9.0 EQUALITY & HEALTH IMPLICATIONS

Name & Title: Paul Brace, Interim Director – Communities & Health Tel & Email 01277 312500 paul.brace@brentwood.rochford.gov.uk

None

10.0 ENVIRONMENT & CLIMATE IMPLICATIONS

Name & Title: Marcus Hotten, Director – Environment Tel & Email 01702 546366 marcus.hotten@brentwood.rochford.gov.uk

None

11.0 ECONOMIC IMPLICATIONS

Name & Title: Emma Gooding, Director – Place Tel & Email 01277 312500 / emma.gooding@brentwood.rochford.gov.uk

None

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APPENDICES

None

BACKGROUND PAPERS

None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Council – Capital and Treasury Management Strategy 2024/25	20/02/2024