Rochford District Council

REPORT TITLE:	**Treasury Management Quarterly Review (Q3) 2024/25**
REPORT OF:	**Strategic Director Finance**

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 31 December 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 MUFG suggested creditworthiness approach.

As shown by the charts below and the interest rate forecasts in section 3, investment rates have remained relatively elevated during the third quarter of 2024/25 but are expected to fall back in due course if inflation falls through 2025 and the MPC loosens monetary policy more substantially.

The Treasury advisors for the authority have changed name from LINK to MUFG following its acquisition by Mitsubishi, so all references in this report have been amended.

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.

2.1 Investment counterparty criteria

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

2.2 Investment balances

The average level of funds available for investment purposes during the quarter was **£25.5m**. 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	5.02	4.96	91,059
1 month	5.05	5.05	580,325
3 month	5.12	5.16	367,313
6 month	5.20	5.60	21,625
12 month	5.25	5.55	8,667

The Council has outperformed its benchmark by **0.68 bps**. The Council's budgeted investment return for 2024/25 is **£650,000**, and performance for the year to date is **£1,068,989,** which is above budget. The predicted performance for the year is **£1,384,176**, which is **£734,176** above budget. This outperformance is a significant contributor to the Council's overall underspend for 2024/25. The excess return will be transferred to reserves at yearend and will help to fund the capital programme.

2.3.1 The breakdown of the investments held at 31 December 2024 are in the table below:

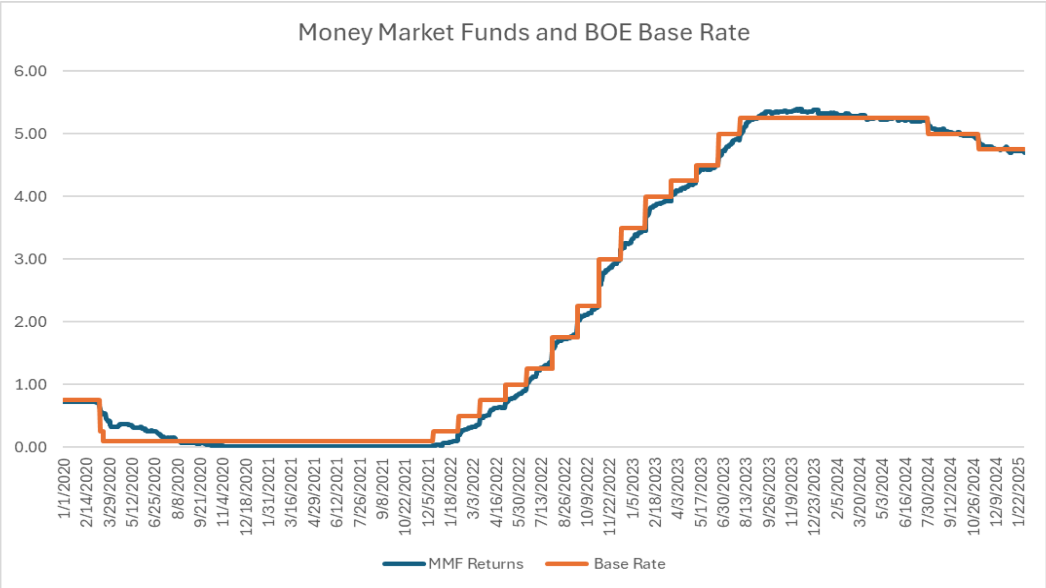
Investment held at 31st December 2024	Amount	Term	Interest
Handelsbanken	£3,000,000	3M Fixed	4.86%
Money Market – Federated Prime	£5,000,000	Instant	4.72%
Money Market – HSBC	£1,000,000	Instant	4.72%
Santander – 95-day notice	£3,000,000	95D Notice	4.50%
West Dunbartonshire Council	£3,000,000	1YR Fixed	5.55%
Blackpool Council	£3,000,000	7M Fixed	5.60%
South Ayrshire Council	£3,000,000	6M Fixed	5.55%
Moray Council	£3,000,000	9M Fixed	5.65%

2.4 Q3 Investments

Over the past few months, largely driven by a reduction in the Bank of England Base Rate (BR), returns from Money market Funds (MMFs) and Banks have reduced from around 5.35% to 4.72% at the end of December 2024, while rates from lending to local authorities have remained elevated, especially for durations of up to a year.

Rochford DC has maintained a cash balance of over £20m for a number of years, largely based on the reserves held by the Council. Current forecasts are for this cash balance will remain above £20m for 2025/26. As a result, and due to the reduced risk exposure of investing with Local Authorities, several loans were made with several local authorities in Q3. At the same time, exposure to MMFs and Banks were reduced.

The table below shows the impact of changes in the BR and MMF returns:



2.5 Protection is provided to the Council from lending to Local Authorities, with the specific legislation provided below:

Local Government Act 2003 - Sections 6 &13 which are provided below and is used to support lending to Local Authorities.

6 Protection of lenders
A person lending money to a local authority shall not be bound to enquire whether the authority has power to borrow the money and shall not be prejudiced by the absence of any such power.
No LA can offer Security to a Lender and there is specific regulation on loans to Local Authorities which makes clear that all loans are secured on future revenues and this includes the ability to take legal action if any debts are not repaid.

13 Security for money borrowed etc
(1) Except as provided by subsection (3), a local authority may not mortgage or charge any of its property as security for money which it has borrowed or which it otherwise owes.
(2) Security given in breach of subsection (1) shall be unenforceable.
(3) All money borrowed by a local authority (whether before or after the coming into force of this section), together with any interest on the money borrowed, shall be charged indifferently on all the revenues of the authority.
(4) All securities created by a local authority shall rank equally without any priority.
(5) The High Court may appoint a receiver on application by a person entitled to principal or interest due in respect of any borrowing by a local authority if the amount due remains unpaid for a period of two months after demand in writing.
(6) The High Court may appoint a receiver under subsection (5) on such terms, and confer on him such powers, as it thinks fit.
(7) The High Court may confer on a receiver appointed under subsection (5) any powers which the local authority has in relation to
(a) collecting, receiving or recovering the revenues of the local authority,
(b) issuing levies or precepts, or
(c) setting, collecting or recovering council tax.
(8) No application under subsection (5) may be made unless the sum due in respect of the borrowing concerned amounts to not less than £10,000.
(9) The Secretary of State may by order substitute a different sum for the one for the time being specified in subsection (8).

2.6 Maintaining an average return of over 5% for an average cash balance of £25m for 2025/26 will provide the Council with a return of approximately £1.25m, which is £390k above the budgeted target return for 2025/26 £860k and will also provide additional income for the 2024/25 budget. In addition; the overall risk profile for the Council for security of counterparties will be reduced.

2.7 Lending longer term does introduce liquidity risk, which is why a variety of durations have been used and also why the Council still maintains a relatively large short-term cash position with the MMFs. Lending to local authorities also has an element of reputation risk and therefore Councils who have required exceptional funding support have been excluded from the Council’s lending list.

2.8 Approved limits

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 31st December 2024. 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.

2.9 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.

2.10 The table below shows the forecast outturn for capital expenditure at 31 December 2024 compared to the budget agreed on 17 September 2024 plus approved capital roll forwards and in year additions.

Capital Expenditure	**2024/25 Original Estimate incl in year amendments**	**2024/25 End of Year Forecast**
	£'000s	**£'000s**
Total	**7,101**	**4,861**
Financed by:		
S106 income	210	210
Disabled Facilities Grant via Better Care Fund	540	540
Capital Finance Reserve	1,105	555
Capital Grants	903	903
Community Investment Plan	290	-
Other Revenue Reserves	149	215
Investment Reserve	3,904	2,438
Total Financing	**7,101**	**4,861**

2.7 The Council has not undertaken any external borrowing during the period 1 April to 31 December 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.

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. MUFG 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

2.7.1 The Council's current Treasury Management Advisors are MUFG Corporate Markets (formerly Link Asset Services). 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.

2.7.2 There is a requirement to produce a Liability Benchmark, however as the authority currently has no borrowing, there is no prudential indicator to publish at present.

3.0 ECONOMIC UPDATE

3.1 The third quarter of 2024/25 (October to December) saw:

- GDP growth contracting by 0.1% m/m in October following no growth in the quarter ending September;
- The 3myy rate of average earnings growth increase from 4.4% in September to 5.2% in October;
- CPI inflation increase to 2.6% in November;
- Core CPI inflation increase from 3.3% in October to 3.5% in November;
- The Bank of England cut interest rates from 5.0% to 4.75% in November and hold them steady in December;
- 10-year gilt yields starting October at 3.94% before finishing up at 4.57% at the end of December (peaking at 4.64%).

3.1.1 The 0.1% m/m fall in GDP in October was the second such decline in a row and meant that GDP would need to rise by 0.1% m/m or more in November and December, for the economy to grow in Q4 as a whole rather than contract. With on-going concern over the impact of the October budget and drags from higher interest rates and weak activity in the euro zone, our colleagues at Capital Economics have revised down their forecast for GDP growth in 2025 to 1.3% (it was initially 1.8% in the immediate wake of the Budget).

3.1.2 This quarter saw the composite activity Purchasing Manager Index (PMI) dip below the level of 50 that separates expansion from contraction for the first time since October 2023. Although December's composite PMI came in above this level, at 50.5, this was still consistent with the 0% rise in real GDP in Q3 being followed by a flat-lining, or potential contraction, in the final quarter of 2024. However, the economy is unlikely to be quite as weak as that given that the PMIs do not capture rises in government spending, but the data does underline the continued divergence in trends between the manufacturing and services sectors. The manufacturing PMI fell for its fourth consecutive month in December, from 48.0 in November to 47.3. That's consistent with manufacturing output falling by 1.5% q/q in the final quarter of 2024 after flatlining through the summer months. This weakness in the manufacturing sector was offset by a rebound in the services sector. The services PMI rose from 50.8 in November to 51.4 in December, which is consistent with non-retail services output growth increasing from +0.1% q/q to +0.3% for October - December. This suggests that more of the recent slowdown in GDP is being driven by the weakness in activity overseas rather than just domestic factors. Additionally, the services output prices balance rose for the third consecutive month, from 55.4 in November to 56.9, showing signs that price pressures are reaccelerating.

3.1.3 After rising by 1.4% q/q in July - September, the retail sector had a difficult final quarter of the year. Indeed, the bigger-than-expected 0.7% m/m fall in retail sales in October (consensus forecast -0.3% m/m) suggested that households' concerns about expected tax rises announced in the Budget on 30th October contributed to weaker retail spending at the start of the quarter. The monthly decline in retail sales volumes in October was reasonably broad based, with sales in five of the seven main sub sectors slipping. However, the potential for seasonally adjusted sales to rise in November - if October's figures were impacted by the timing of the school half term – combined with a rebound in consumer confidence and rising real incomes, points to some promise to the final quarter of 2024.

3.1.4 The Government's October budget outlined plans for a significant £41.5bn (1.2% of GDP) increase in taxes by 2029/30, with £25bn derived from a 1.2% rise in employers' national insurance contributions. The taxes are more than offset by a £47bn (1.4% of GDP) rise in current (day-to-day) spending by 2029/30 and a £24.6bn (0.7% of GDP) rise in public investment, with the latter being more than funded by a £32.5bn (1.0% of GDP) rise in public borrowing. The result is that the Budget loosens fiscal policy relative to the previous government's plans - although fiscal policy is still being tightened over the next five years – and that GDP growth is somewhat stronger over the coming years than had previously been forecasted. By way of comparison, the Bank of England forecasts four-quarter GDP growth to pick up to almost 1¾% through 2025 (previously forecast to be 0.9%) before falling back to just over 1% in 2026.

3.1.5 December's pay data showed a rebound in wage growth that will likely add to the Bank of England's inflationary concerns. The 3myy rate of average earnings growth increased from 4.4% in September (revised up from 4.3%) to 5.2% in October (consensus forecast 4.6%) and was mainly due to a rebound in private sector pay growth from 4.6% to 5.4%. Excluding bonuses, public sector pay stagnated in October and the 3myy rate fell from 4.7% to 4.3%.

3.1.6 The number of job vacancies also fell again from 828,000 in the three months to October to 818,000 in the three months to November. This marks the first time it has dropped below its pre-pandemic February 2020 level of 819,000 since May 2021. Despite this, the Bank of England remains concerned about the inflationary influence of high wage settlements as well as the risk of a major slowdown in labour market activity.

3.1.7 CPI inflation has been on the rise this quarter, with the annual growth rate increasing from 1.7% in September to 2.3% in October, before rising further to 2.6% in November.

Although services CPI inflation stayed at 5.0% in November, the Bank had expected a dip to 4.9%, while the timelier three-month annualised rate of services CPI rose from 5.0% to 5.1%. That shows that there currently isn't much downward momentum. Moreover, the wider measure of core CPI inflation rose from 3.3% to 3.5% in November. Both services and core inflation are currently at rates well above those consistent with the 2.0% target and are moving in the wrong direction. Capital Economics forecast that after dipping to 2.5% in December, CPI inflation will rise further in January, perhaps to 2.8%. Although CPI inflation is expected to be back at close to the 2.0% target by the end of 2025, given that a lot of the rise in inflation in the coming months will be due to base effects that won't persist, the potential for a broader set of tariffs to arise from the US as well as the constant threat of geo-political factors to impact energy and food prices suggest risks remain very much to the upside.

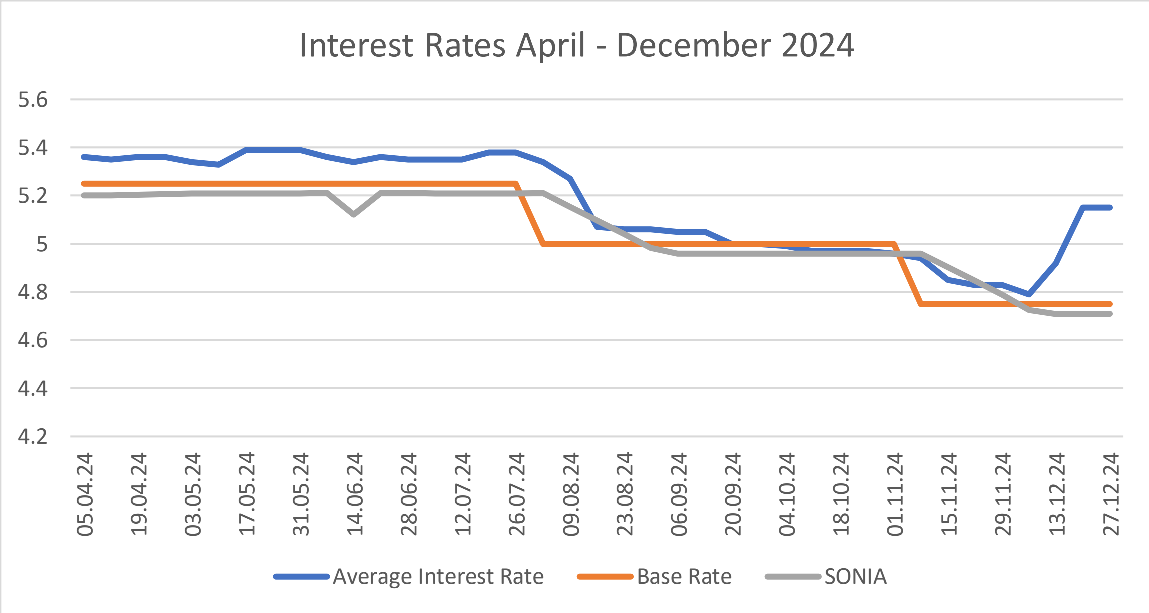
3.1.8 Throughout the quarter gilt yields have risen. The 10-year gilt yield increased from 3.94% at the start of October to 4.57% by the year end (and has subsequently risen to 4.64% early in 2025). As recently as mid-September 10-year gilt yields were at their low for the financial year, but since then, and specifically after the Budget at the end of October, yields have soared. Overall, the reaction to the UK Budget highlights how bond markets are both fragile and highly attentive to news about the fiscal outlook.

3.1.9 The FTSE 100 started off this quarter at 8,276, before finishing up at 8,121. In particular, UK markets have continued to fall further behind US equities, a trend which has accelerated since Trump's election victory in November, partly due to the UK stock market being less exposed to AI hype, and it being weighed down by its relatively large exposure to the energy and materials sectors.

3.1.10 LAS' current PWLB rate forecasts below are based on the Certainty Rate:

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

3.1.11 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 dropped to 5.0% in August, followed by a further decrease to 4.75 in November.



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 Bank of England Base Rate decreased in November.

8.0 LEGAL/GOVERNANCE IMPLICATIONS

8.1 **Name & Title: Nichola Mann, Director – People & Governance & Monitoring Officer Tel & Email 01277 312500 / nichola.mann@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 Goodings, Director – Place Tel & Email 01277 312500 / emma.goodings@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
Audit and Governance – Treasury Management Quarter 1 update	3/9/2024
Audit and Governance – Mid Year Treasury Monitoring	3/12/2024