

**TITLE OF REPORT:** Treasury Management Performance – 2024/25 Quarter 1 Review

**REPORT OF:** Darren Collins – Strategic Director, Resources & Digital

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### **Purpose of the Report**

1. The purpose of this report is to review Treasury Management 2024/25 performance for the three months to 30 June 2024, covering investments and borrowing. This is consistent with approved performance management arrangements.

### **Background**

2. The quarterly 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 (TMSS) which was approved by Council on 19 March 2024.
3. The primary objective of the Treasury Management 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.
4. The report provides an update on the Treasury Management performance in quarter 1, and an estimate of the projected outturn for net interest.

### **Summary of Treasury Management Performance 2024/25 Quarter 1**

5. The Council's investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Council, whilst maintaining the security of funds.
6. No new borrowing has been taken out to date during 2024/25, interest rates are monitored closely to inform the best timing to take new borrowing to minimise the revenue impact of financing the Council's Capital Programme.
7. Performance in the first three months of the financial year indicates a net General Fund budget saving of £1.177m.
8. Treasury Management Prudential Indicators are monitored throughout the year and the Council is within the limits set for all Treasury Management Prudential Indicators.
9. More detailed Treasury Management performance information is included in Appendix 1.

**Recommendation**

Committee is requested to note the Treasury Management Performance Review for Quarter 1 2024/25.

**Treasury Management Performance Report 2024/25 Quarter 1****Investment Performance**

1. The latest projection at 30 June 2024 of gross investment income for 2024/25 based on interest earned to date and expected interest to March 2025 is £4.838m, compared to an original estimate of £4.746m.
2. This gross investment interest is adjusted to account for £1.059m interest payable to third parties (budget £0.879m), temporary loans of £0.003m (budget £0.037m) and interest receivable of £0.878m from various third parties (budget £0.900m).
3. This gives a projected net interest to the General Fund 204/25 of £5.904m compared to the budget of £5.980m. The £0.076m variance to budget is mainly a result of lower levels of interest forecast due to anticipated reductions in the Bank of England base rate later in the financial year.

**The Economy**

4. The Bank of England's Monetary Policy Committee have not made any changes to the bank base rate so far in financial year 2024/25 and the rate remains at 5.25%. It is anticipated that base rate increases have peaked at 5.25% and rates are projected to reduce later in the current financial year.

**Rate of Return**

5. 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 5.58%, which is an improvement on the original estimate of 4.89%.
6. 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, which is used for comparison across regional Local Authorities. In the most recent report received 2 July 2024 the Council achieved a weighted average rate of return of 5.676% on its investments at Quarter 1 2024/25, which is above both the groups average return and the risk adjusted expectations defined in the Benchmarking Report for our Group.
7. As at 30 June 2024, the funds managed by the Council achieved a rate of return on its investments of 5.58% compared with the benchmark SONIA (Sterling Overnight Index Average) rate of 5.20%. Performance is above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council.
8. The average rate of return is forecast to reduce to 5.22% during the remainder of the financial year as higher interest investments mature, investment balances are projected to remain consistent but below budget and new deposits are placed with slightly lower yielding returns. Interest rates for new investments at 30 June 2024 are around 5.10% to 5.15% for 12 months and 5.15% to 5.25% for 6 months, which

should be sufficient to allow the Council to achieve the budgeted returns from investing cash balances.

## **Borrowing**

14. The total borrowing for the Council and HRA as at 30 June 2024 was £670.667m, which was within the operational borrowing limit of £872.000m. This borrowing is made up of £622.667m Public Works Loans Board (PWLB) loans and £48.000m market loans.
15. 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. The position at 30 June 2024 had a lower projected borrowing requirement of £39.004m, with £35.240m relating to the GF and £3.764 to the HRA.
16. Due to the current high long-term borrowing rates there has been no borrowing taken in the year to date. The timing of any further borrowing will depend on cash flow requirements to support the capital programme, pending borrowing rates reducing.
17. The Council's average interest rate on borrowing is low, currently 3.57%, and, as such, the Council already benefits from this lower cost of borrowing. Based on information from the Council's treasury advisor, performance continues to see the Council's rate of borrowing compare favourably to other authorities.
18. PWLB Borrowing costs have fluctuated in year, with borrowing rates at end of June at 5.18%. PWLB rates are currently higher than budgeted and will be monitored to ensure any 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.
19. 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:

|                           | <b>General Fund</b> | <b>HRA</b>       |
|---------------------------|---------------------|------------------|
| Budget Interest Payable   | £14.297m            | £12.402m         |
| Forecast Interest Payable | £13.044m            | £11.592m         |
| Variance                  | <b>(£1.253m)</b>    | <b>(£0.810m)</b> |
| Average rate of interest  | 3.41%               | 3.77%            |

## **Compliance with Treasury and Prudential Limits**

20. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the period to 30 June 2024, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2024/25 as demonstrated in Appendix 2.
21. The statutory limit under section 3 (1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £865.000m for 2024/25. The Council's maximum

external debt during the current financial year to date was £670.667m and is within this limit.

22. More details of the Treasury Management Prudential Indicators are set out in Appendix 2 for information.
23. 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 3 shows the current position as 30 June 2024.

### Summary of Mid-Year Performance

24. The projected net impact of investment and borrowing activity on the revenue budget in 2024/25 is an underspend of £1.987m, comprising £1.177m General Fund underspend and £0.810m HRA overspend.

|                     | General Fund   |                            |                | HRA            |                            |                |
|---------------------|----------------|----------------------------|----------------|----------------|----------------------------|----------------|
|                     | Estimate<br>£m | Projected<br>Outturn<br>£m | Variance<br>£m | Estimate<br>£m | Projected<br>Outturn<br>£m | Variance<br>£m |
| Investments         | (5.980)        | (5.904)                    | 0.076          | 0.000          | 0.000                      | 0.000          |
| Borrowing           | 14.297         | 13.044                     | (1.253)        | 12.402         | 11.592                     | (0.810)        |
| Premia              | 0.462          | 0.462                      | 0.000          | 0.000          | 0.000                      | 0.000          |
| <b>Net Position</b> | <b>8.779</b>   | <b>7.602</b>               | <b>(1.177)</b> | <b>12.402</b>  | <b>11.592</b>              | <b>(0.810)</b> |

25. Interest rates for investments will continue to be monitored to allow the council to maintain existing returns from investing cash balances.
26. 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.

### 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.

| <b>Fixed Rate Borrowing</b> |              |              |                                 |                               |
|-----------------------------|--------------|--------------|---------------------------------|-------------------------------|
|                             | <b>Lower</b> | <b>Upper</b> | <b>Actual @<br/>3 June 2024</b> | <b>Max Actual to<br/>date</b> |
| <b>&lt; 1 yr</b>            | 0%           | 16%          | 1.56%                           | 1.56%                         |
| <b>1 – 2 yrs</b>            | 0%           | 16%          | 2.24%                           | 3.09%                         |
| <b>2 – 5 yrs</b>            | 0%           | 22%          | 9.34%                           | 9.34%                         |
| <b>5 – 10 yrs</b>           | 0%           | 23%          | 10.47%                          | 11.96%                        |
| <b>10 – 20 yrs</b>          | 0%           | 17%          | 4.40%                           | 4.40%                         |
| <b>20 – 30 yrs</b>          | 0%           | 21%          | 6.79%                           | 6.79%                         |
| <b>30 – 40 yrs</b>          | 0%           | 46%          | 35.67%                          | 35.67%                        |
| <b>40 – 50 yrs</b>          | 0%           | 39%          | 28.03%                          | 29.52%                        |
| <b>50 yrs +</b>             | 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.

| <b>Variable Rate Borrowing</b> |              |              |                                  |                               |
|--------------------------------|--------------|--------------|----------------------------------|-------------------------------|
|                                | <b>Lower</b> | <b>Upper</b> | <b>Actual @<br/>30 June 2024</b> | <b>Max Actual to<br/>date</b> |
| <b>&lt; 1 yr</b>               | 0%           | 18%          | 1.49%                            | 1.49%                         |
| <b>1 – 2 yrs</b>               | 0%           | 13%          | 0.00%                            | 0.00%                         |
| <b>2 – 5 yrs</b>               | 0%           | 13%          | 0.00%                            | 0.00%                         |
| <b>5 – 10 yrs</b>              | 0%           | 13%          | 0.00%                            | 0.00%                         |
| <b>10 – 20 yrs</b>             | 0%           | 13%          | 0.00%                            | 0.00%                         |
| <b>20 – 30 yrs</b>             | 0%           | 13%          | 0.00%                            | 0.00%                         |
| <b>30 – 40 yrs</b>             | 0%           | 13%          | 0.00%                            | 0.00%                         |
| <b>40 – 50 yrs</b>             | 0%           | 13%          | 0.00%                            | 0.00%                         |
| <b>50 yrs +</b>                | 0%           | 13%          | 0.00%                            | 0.00%                         |

### Operation and Authorised Limits (External Debt)

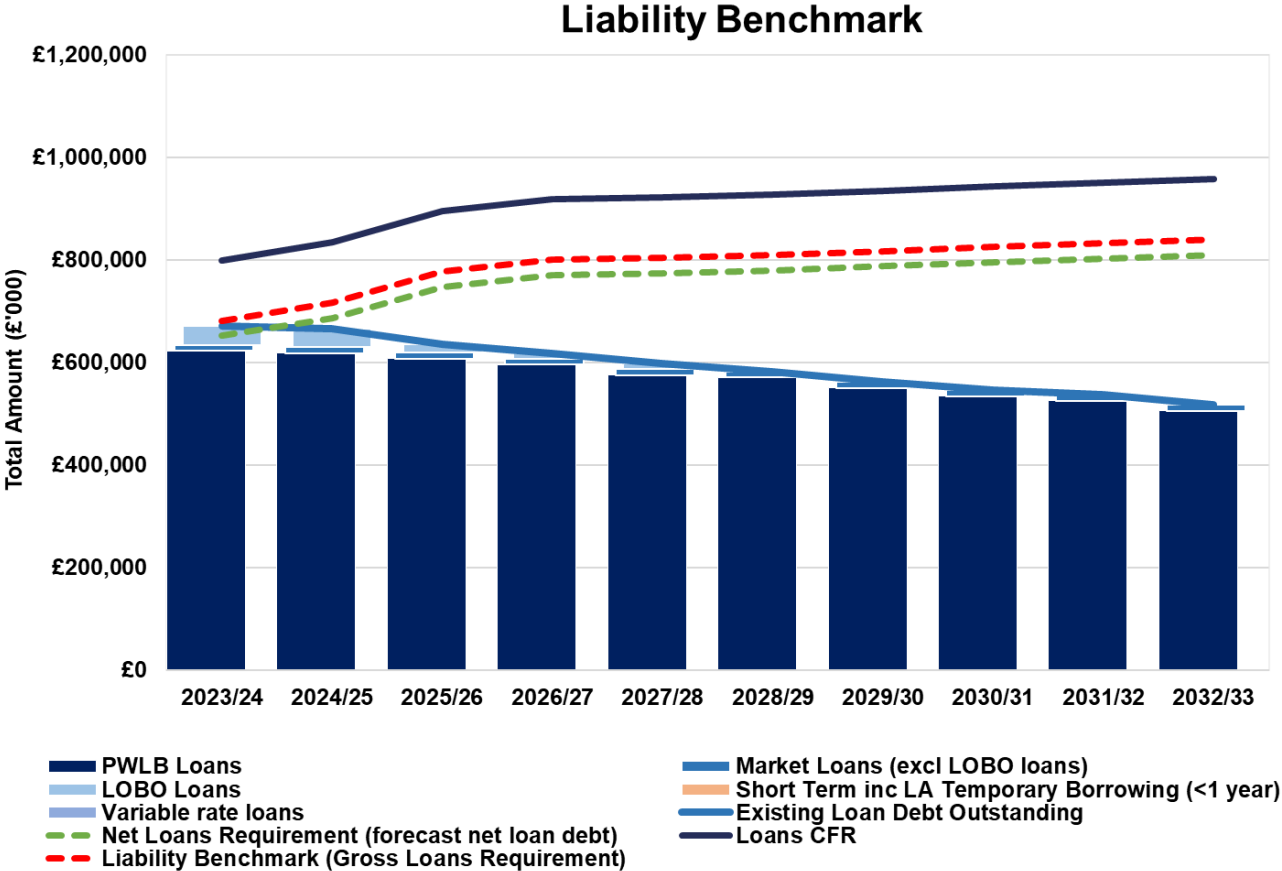
|   |                      |
|---|----------------------|
| Operational Limit 2024/25                     | <b>£m</b><br>872.000 |
| Authorised Limit 2024/25                      | 865.000              |
| Actual External Debt Outstanding 30 June 2024 | 670.667              |
| Maximum Debt Outstanding to 30 June 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<br>2024/25 | Actual Levels<br>30 June 2024 | Maximum to<br>date |
|----------------------------------|-------------------|-------------------------------|--------------------|
| Rated Not High                   | 25.00%            | 0.00%                         | 0.00%              |
| Not Rated                        | 0.00%             | 0.00%                         | 0.00%              |
| Over 364 days<br>(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 a liquidity allowance in Treasury Management investments, indicates external debt is below the benchmark.