Report to:	Audit and Governance Committee	**Date of Meeting:**	Wednesday 19 June 2024
Subject:	Treasury Management Position to May 2024		
Report of:	Executive Director of Corporate Resources and Customer Services	**Wards Affected:**	All Wards
Portfolio:	Cabinet Member – Corporate Services		
Is this a Key Decision:	No	**Included in Forward Plan:**	No
Exempt / Confidential Report:	No		

Summary:

This report provides Members with a review of the Treasury Management activities undertaken to 31st May 2024. This document is the first report of the ongoing quarterly monitoring provided to Audit & Governance Committee, whose role it is to carry out scrutiny of treasury management policies and practices.

Recommendation(s):

Members are requested to note the Treasury Management update to 31st May 2024, to review the effects of decisions taken in pursuit of the Treasury Management Strategy and to consider the implications of changes resulting from regulatory, economic and market factors affecting the Council's treasury management activities.

Reasons for the Recommendation(s):

To ensure that Members are fully appraised of the treasury activity undertaken to 31st May 2024 and to meet the reporting requirements set out in Sefton's Treasury Management Practices and those recommended by the CIPFA code.

Alternative Options Considered and Rejected: (including any Risk Implications)

N/A

What will it cost and how will it be financed?

(A) Revenue Costs
None.

(B) Capital Costs
None.

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): An increase in investment income has been forecast for 2024/25 financial year due to prevailing market conditions.
Legal Implications: The Council has a statutory duty under the Local Government Act 2003 to review its Prudential Indicators and Treasury Management Activities.
Equality Implications: There are no equality implications.
Impact on Children and Young People: No
Climate Emergency Implications: The recommendations within this report will

Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	N

The Council has during 2024/25, invested its reserves and balances short term with banks or overnight with money market funds in order to maintain high security and liquidity of such balances. It has not had the opportunity to invest in longer term financial instruments or investment funds for which there may be a chance to consider the impact on the Council's Climate Emergency motion.

In the event that the Council has more surplus balances available in future that may lead to longer term investing, the Council will take account of the climate emergency when discussing the options available with the Treasury Management Advisors.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: n/a
Facilitate confident and resilient communities: n/a
Commission, broker and provide core services: n/a
Place – leadership and influencer: Support strategic planning and promote innovative, affordable and sustainable capital investment projects through application of the CIPFA Prudential Code.
Drivers of change and reform: The Treasury Management function ensures that cash flow is adequately planned, and cash is available when needed by the Council for improvements to the borough through its service provision and the Capital Programme.

Facilitate sustainable economic prosperity: Pursuit of optimum performance on investments activities and minimising the cost of borrowing and the effective management of the associated risk continues to contribute to a balanced budget for the Council.
Greater income for social investment: n/a
Cleaner Greener: n/a

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD7677/24) is the author of the report.
The Chief Legal and Democratic Officer (LD5777/24) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

N/A

Implementation Date for the Decision

With immediate effect.

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Appendices:

There are no appendices to this report

Background Papers:

There are no background papers available for inspection.

1. Background to the Report

1.1. As recommended under CIPFA's 2021 Code of Practice on Treasury Management in Public Services, the Council's Treasury Management Policy and Strategy document for 2024/25 (approved by Council on 29th February 2024) included a requirement for regular updates to be provided on the investment activity of the Authority. This report is the first of such reports for the year and presents relevant Treasury Management information for the period ending 31st May 2024.

1.2. The report includes information on the investments held / entered into during the period and the interest rates obtained (with a comparison of performance against a standard benchmark figure). In addition, the report highlights whether there has been any variance from the Treasury Management Policy and Strategy and the Council's approved Prudential Indicators (the operational boundaries within which the Council aims to work).

2. Investments Held

2.1. Investments held at the 31/05/2024 comprise the following:

Institution	Deposit £m	Rate %	Maturity	Rating
Bank Deposits				
Lloyds	1.00	5.30	20.06.24	A+
Money Market Funds:				
Aberdeen	2.06	5.19	01.06.24	AAA
Aviva	2.06	5.26	01.06.24	AAA
BNP Paribas	2.06	5.25	01.06.24	AAA
Goldman-Sachs	0.21	5.12	01.06.24	AAA
Invesco	2.06	5.23	01.06.24	AAA
Morgan Stanley	2.06	5.18	01.06.24	AAA
Federated	2.06	5.25	01.06.24	AAA
Insight	2.06	5.24	01.06.24	AAA
Property Fund:				
CCLA	5.00	5.18	n/a	n/a
Total	5.00			
TOTAL INVESTMENTS	**20.63**			

2.2. The Authority holds significant invested funds, representing grant income received in advance of expenditure plus balances and reserves held. The cash is initially held in a number of highly liquid Money Market Funds to ensure security of the funds until they are required to be paid out. This approach is consistent with the Council's approved Treasury Management Policy and Strategy for 2024/25. The balance of investments is therefore expected to fall over the coming months as the income is fully expended.

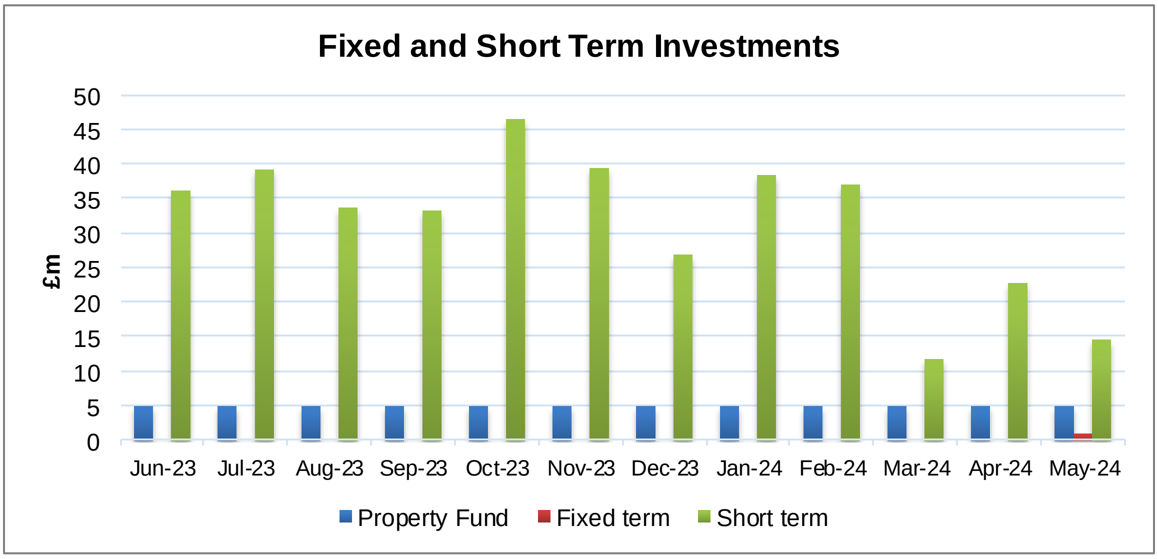
2.3. All of the investments made since April 2024 have been with organisations on the current counterparty list. The maximum level of investment permitted in the Treasury Management Strategy in any one institution, or banking group, is currently £15m. Whilst the maximum should be retained, in light of current economic conditions, a day-to-day operational maximum of 10% of the total portfolio is currently being imposed for investments. This will spread the risk for the Council but will have a small detrimental impact on the returns the Council will receive in the future. The Council has remained within that boundary during the year. At present, it is not expected that there will be any need to review this limit.

2.4. The Council will only invest in institutions that hold a minimum Fitch rating of A- for banking institutions, or AAA for money market funds. The ratings applied to investment grade institutions, and the much riskier speculative grade institutions, as defined by Fitch, have been placed into a risk matrix (paragraph 2.8).

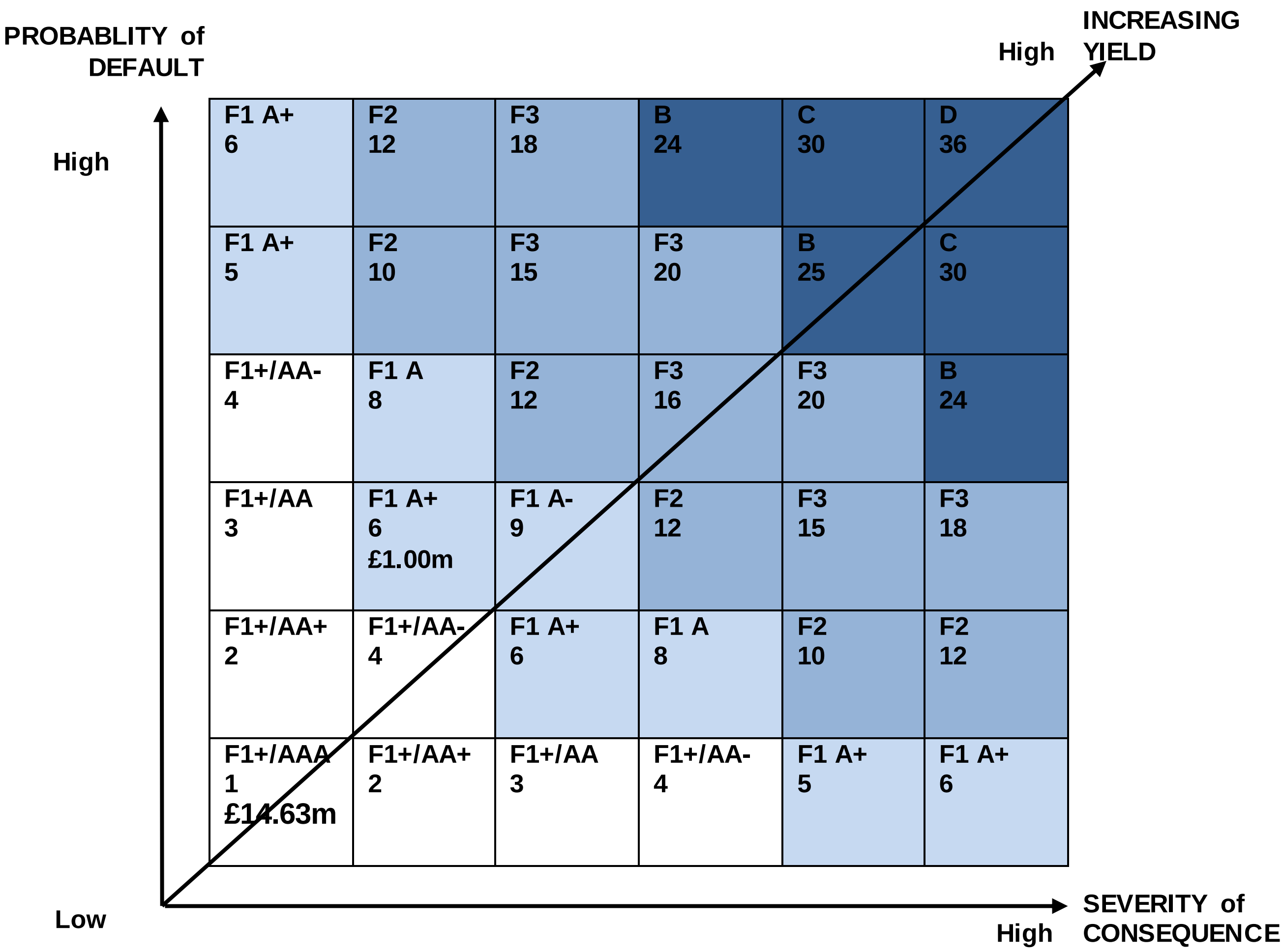
2.5. An investment has been made with the Church, Charities and Local Authority Investment Fund (CCLA) in June 2014. CCLA invest in commercial property which is rented out to enterprises such as retail units, warehousing, and offices. The majority of properties owned are in the south of the country where the market is often more buoyant than the north. The Council has in effect bought a share of the property portfolio and returns paid are in the region of 4%. This is seen as a long-term investment with the potential for the capital value of the investment to vary as property prices fluctuate.

2.6. The Net Asset Value (NAV) of the Property Fund has decreased over a 12-month period to April 2024 from 289.20p per unit to 276.09p per unit, a decrease of 4.5%. The fund is considered to be a long-term investment and fluctuations in value are to be expected with this type of asset. The situation will continue to be monitored closely however, and advice taken from the Council's treasury advisers should its position in the fund need to be reviewed. The income yield on the Property fund at the end of April 2024 was 5.18% which, is higher than returns received in the past and represents a reasonable return on the Council's investment.

2.7. The ratio of overnight deposits (short term) to fixed term investments and the property fund is shown below:



2.8. The matrix below shows how the Council has set its risk appetite by being risk averse and putting security and liquidity before yield when investing:



SEFTON RISK TOLERANCE:

Risk Level	Score	Grade	Amount Invested
LOW	1 - 4	Investment Grade	**£14.63m**
LOW - MEDIUM	5 - 9	Investment Grade	**£1.00m**
MEDIUM	10 - 20	Investment Grade	-
HIGH	21 - 36	Speculative Grade	-

2.9. The Council will continue to maximise any investment opportunities as they arise although it is not envisaged that any substantial increase in returns can be achieved for the remainder of the current financial year as balances available for investment will be held in short term deposits to allow the council to respond to any exceptional demands for cash as they arise. The security and availability of cash will be prioritised over improved yields as per the agreed Treasury Management Strategy and advice received from Sefton’s treasury management advisors.

3. Interest Earned

3.1. The actual performance of investments against the profiled budget to the end of May 2024 and the forecast performance of investments against total budget at year end is shown below:

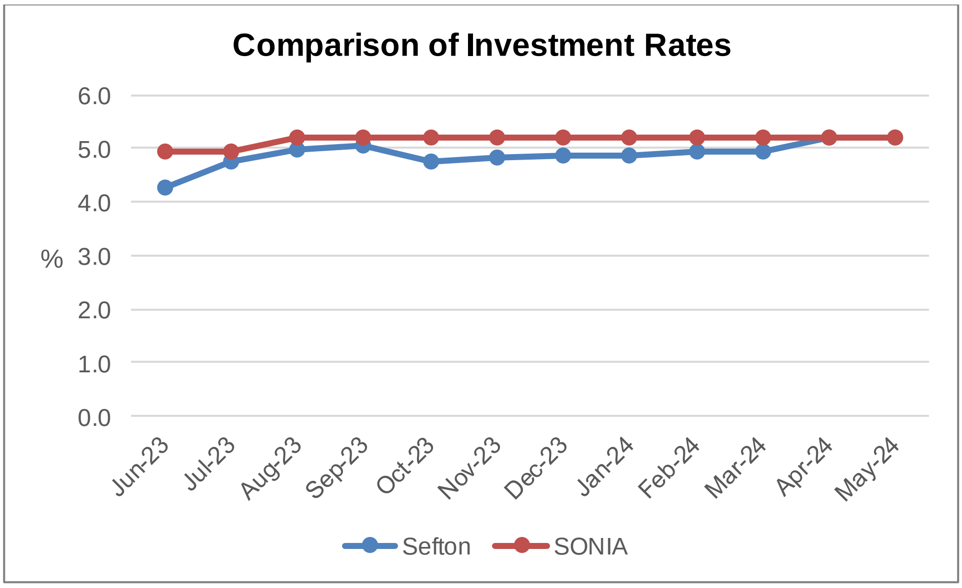
	Budget £m	Actual £m	Variance £m
May-24	0.179	0.228	0.049

	Budget £m	Forecast £m	Variance £m
Outturn 2024/25	1.343	1.674	0.331

3.2. The forecast outturn for investment income shows the level of income to be above target against the budget for 2024/25. Investment rates have remained at a higher level over the past twelve months (see 3.4. below) when compared to previous years largely in response to rises in interest rates. The budgeted income for 2024/25 has therefore been set at a higher level when compared to previous financial years.

3.3. As mentioned in paragraph 2.9, it is not envisaged that improved rates will lead to a significant increase over and above the current forecast income from investments during 2024/25 as cash balances are diminishing and held in short term deposits.

3.4. The Council has achieved an average rate of return on its investments of 5.20%. The chart below shows the average rate of return plotted against the SONIA benchmark.



3.5. As can be seen from the chart above, the performance of Sefton’s investments is in line with the SONIA benchmark rate to the end of May 2024.

4. Borrowing Strategy

4.1. As outlined in the Treasury Management Strategy approved by Council in February, the Authority’s chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority’s long-term plans change being a secondary objective. The Authority’s borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

4.2. Interest rates have seen substantial rises over the last two years, although these rises have now begun to plateau. The Bank Rate rose by 1% from 4.25% at the beginning of April 2023 to its current level of 5.25% by the end of September 2023. The Bank Rate was 2% higher than at the end of September 2022.

4.3. The Council has PWLB loan maturities of £8.846m scheduled during 2024/25 comprising several historic loans. The Council pursues a strategy of internal borrowing as per the Treasury Management Strategy approved by Council. Cash balances have therefore been reduced to replace maturing loans where possible and when interest rates on deposits remain lower than PWLB borrowing rates.

4.4. Following consultation with the Council’s treasury advisers, it is considered prudent to continue to pursue the above strategy in view of recent interest rate rises. The borrowing position will be kept under review however and further advice sought should the need arise to take out external borrowing from the PWLB for the maturities scheduled during 2024/25 and any new borrowing approved by Council for the capital programme.

5. Interest Rate Forecast

5.1. Arlingclose, the Council’s treasury advisors, have provide the following interest rate view as at May 2024:

	Current	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	5.25	5.25	5.00	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00
Downside risk	0.00	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00

Underlying assumptions:

• The Bank of England is now biased towards reductions in Bank Rate, and the upcoming data will determine the timing of the start of the easing cycle and its extent. The UK economy started the year stronger than expected, and wage growth, core and services inflation remain high, so there remains uncertainty around the start of the cycle, but it will be a surprise not to see one cut this summer.

• In May, the MPC continued its dovish tilt. Another committee member, Dave Ramsden joined Swati Dhingra in voting for a rate cut. For the remaining seven members the focus remains on the persistence of inflation, specifically in wages and services.
• UK GDP growth rebounded in Q1 2024 after the technical recession in H2 2023. Survey data suggests that this recovery continued in April, but the UK economy remains relatively weak, with GDP only 0.2% higher in Q1 compared to a year ago and consumer spending barely growing.
• Employment has started to decline, although vacancy levels stabilised suggesting that demand for new labour remains relatively resilient. Anecdotal evidence suggests lower pay growth, and we expect unemployment to rise, which will lead to some deterioration in consumer sentiment. Household and business spending will therefore remain relatively soft. Stronger demand in Q1, however, raises some upside risks to this view.
• Inflation rates will move lower over the next 12 months. The headline CPI rate for April will be at or below the 2% target. There are upside risks from geo-political issues and now stronger domestic activity. With policymaker fears around the persistence of underlying inflationary pressure, particularly services inflation, we believe Bank Rate will remain unchanged until August and initially reduce slowly.
• The MPC minutes suggest that some committee members may not need to see much more evidence on falling inflation before changing their minds, so there is certainly a chance of an earlier rate cut in June.
• We expect that the continuation of restrictive monetary policy will bear down on activity and will require substantial loosening in 2025 to boost activity and inflation.
• Global bond yields will remain volatile and investors' positioning for the timing of US monetary loosening will continue to influence movements in gilt yields. Moreover, there is a heightened risk of fiscal policy, credit events and/or geo-political events causing substantial volatility in yields.

Forecast:

• The MPC held Bank Rate at 5.25% in May.
• The MPC will cut rates to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by late 2025.
• The risks around Bank Rate are initially to the downside, as a rate cut in June is a possibility, before shifting to the upside from the start of 2025. The developing Upside risks to inflation could limit the extent of monetary easing.
• Long-term gilt yields have dipped a little following softer US data and less hawkish signals from US policymakers. Arlingclose's central case is for yields to be volatile around a relatively narrow range, reflecting the likelihood for monetary loosening in the Eurozone, UK and US.

6. Compliance with Treasury and Prudential Limits

6.1. As at the end of May 2024, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.