Treasury Management Report Q3 2024/25

Introduction

In April 24 the Corporate Joint Committee (CJC) adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the CJC to approve treasury management semi-annual and annual reports. This quarterly report provides an additional update.

This half yearly report provides an additional update and includes the requirement in the 2021 Code of quarterly reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the CJC's normal quarterly revenue and capital monitoring report.

The CJC's Treasury Management Strategy for 2024/25 was approved at a meeting on 18th March 2024. The CJC has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the CJC's Treasury Management Strategy.

External Context

Economic background: The Chancellor of the Exchequer delivered her Autumn Budget at the end of October. Based on the plans announced, the Office for Budget Responsibility reported they would provide a short-term boost to GDP growth before weakening it further out and push inflation higher over the medium-term. This change to the economic and inflation outlook caused financial markets to readjust expectations of Bank of England (BoE) Bank Rate and gilt yields higher. The council's treasury management advisor, Arlingclose, also revised its interest rate forecast upwards in November, with Bank Rate expected to eventually fall to 3.75%.

UK annual Consumer Price Index (CPI) inflation remained above the Bank of England (BoE) 2% target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices rose 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, and remained elevated at 3.6% in November against a forecast of 3.5% and compared to 3.3% in the previous month.

UK economy GDP registered no growth (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the ONS. Of the monthly GDP figures, the economy was estimated to have contracted by 0.1% in October, following the same size decline in September.

The labour market continued to loosen, but the ONS data still require treating with some caution. Recent figures reported the unemployment rate rose to 4.3% (3mth/year) in the three months to October 2024 and economic inactivity fell to 21.7%. The ONS reported pay growth over the same three-month period at 5.2% for both regular earnings (excluding bonuses) and for total earnings.

The BoE's Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting (5-4 vote to cut). At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%. The meeting minutes suggested a reasonably dovish tilt to rates with the outlook for economic growth a concern among policymakers as the Bank downgraded its Q4 GDP forecast from 0.3% to 0.0%.

The November Monetary Policy Report (MPR) showed the BoE expected GDP growth to pick up to around 1.75% (four-quarter GDP) in the early period of the forecast horizon before falling back. The impact from the government's Autumn Budget pushed GDP higher in 2025 than was expected in the August MPR, before becoming weaker. The outlook for CPI inflation showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. Over the medium-term, once the near-term pressures eased, inflation was expected to stabilise around the 2% target. The unemployment rate was expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

Arlingclose, the CJC's treasury adviser, maintained its central view that Bank Rate would continue to fall from the 5.25% peak. From the first cut in August 2024, followed by the next in November which took Bank Rate to 4.75%, February 2025 is deemed the likely month for the next reduction, with other cuts following steadily in line with MPR months to take Bank Rate down to around 3.75% by the end of 2025.

The US Federal Reserve continued cutting interest rates during the period, reducing the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. Further interest rate cuts are expected into 2025, but uncertainties around the potential inflationary impact of President-elect Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

The European Central Bank (ECB) also continued its rate cutting cycle, reducing its three key policy rates by 0.25% in December. Euro zone inflation rose above the ECB 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

Financial markets: Financial market sentiment was generally positive over the period, but economic, financial and geopolitical issues meant the ongoing trend of bond yield volatility very much remained. In the last few months of the period, there was a general rising trend in yields due to upwardly revised interest rate and inflation expectations, causing gilt yields to end the period at substantially higher levels to where they began.

Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at a high of 4.57%, having reached a low of 3.76% in mid-September. While the 20-year gilt started at 4.40%, ended at a high of at 5.08% and hit a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.01% over the period to 31st December.

Credit review: In October, Arlingclose revised its advised recommended maximum unsecured duration limit on most banks on its counterparty list to six months. Duration advice for the remaining five institutions, including the newly added Lloyds Bank Corporate Markets, was kept to a maximum of 100 days.

Fitch revised the outlooks on Royal Bank of Scotland, NatWest Markets PLC, and National Westminster Bank to positive from stable, while affirming their long-term ratings at A+.

Moody's upgraded the ratings on National Bank of Canada to Aa2 from Aa3, having previously had the entity on Rating Watch for a possible upgrade. Moody's also upgraded the ratings on The Co-operative Bank to A3 (from Baa3) and downgraded the ratings on Coventry Building Society to A3 (from A2) and Canada's Toronto-Dominion Bank to Aa2 (from Aa1).

S&P also downgraded Toronto-Dominion Bank, to A+ from AA-, but kept the outlook at stable.

Credit default swap prices were generally lower at the end of the period compared to the beginning for the vast majority of the names on UK and non-UK lists. Price volatility over the period also remained generally more muted compared to previous periods.

Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the CJC's counterparty list recommended by Arlingclose remain under constant review.

Local Context

On 31st March 2024, the CJC had net investment of £67.88 m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.24 Actual £m	**31.3.25 Forecast £m**
General Fund CFR	0	0
Less: *Other debt liabilities	0	0
Loans CFR	**0**	**0**
External borrowing**	0	0
Internal borrowing	0	0
Less: Balance sheet resources	68m	71m
Net investments	**68m**	**71m**

* finance leases, PFI liabilities and transferred debt that form part of the CJC's total debt
** shows only loans to which the CJC is committed and excludes option refinancing

The treasury management position on 31st December 2024 and the change during over the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.24 Balance £m	Movement £m	31.12.24 Balance £m	31.12.24 Rate %
Long-term borrowing				
- PWLB	0	0	0	0
- LOBOs	0	0	0	0
- Other	0	0	0	0
Short-term borrowing	0	0	0	0
Total borrowing	**0**	**0**	**0**	**0**
Long-term investments				
Short-term investments	67.88	18.24	86.12	4.70%
Cash and cash equivalents	0.21	0.06	0.27	1.50%
Total investments	**68.09**	**18.30**	**86.39**	**4.69%**
Net investments	**68.09**	**18.30**	**86.39**	**4.69%**

In Q3 CJC received grant money from the HM Treasury towards CCRCD activities for financial year 24-25.

Borrowing Strategy and Activity

Whilst the CJC's Treasury Management Strategy sets out a clear process for borrowing, to date the CJC has not undertaken any borrowing.

Treasury Management Investment Activity

The CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (revised in 2021) defines treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The CJC holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the CJC's investment balances ranged between £39 and £92 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.24 Balance £m	Net Movement £m	31.12.24 Balance £m	31.12.24 Income Return %	31.12.24 Weighted Average Maturity days
Banks & building societies(unsecured)	0.21	0.06	0.27	1.50%	1 day
- Government	67.88	18.24	86.12	4.70%	7 days
Total investments	**68.09**	**18.30**	**86.39**	**4.69%**	**7 days**

**Weighted average maturity will apply to the first five categories above and to cash plus and bond funds.*

Both the CIPFA Code and government guidance require the CJC to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The CJC's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

As demonstrated by the liability benchmark in this report, the CJC expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.

Bank Rate reduced from 5.25% to 5.00% in August 2024 and again to 4.75% in November 2024 with short term interest rates largely being around these levels. The rates on DMADF deposits ranged between 4.70% and 4.94% and money market rates between 4.6% and 5.3%.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.12.2024	3.70	AA-	0.31%	7 days	4.69%
Similar LAs All LAs	**4.59**	**A+**	**61%**	**10 days**	**4.74%**

*Weighted average maturity

Treasury Performance

The CJC measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	At 31.12.24			
	Over/ under	Actual %	Benchmark %	Over/ under
	0	**0**	**0**	**0**
Total borrowing	**0**	**0**	**0**	**0**
PFI and Finance leases	0	0	0	0
Total debt	0	0	0	0
DMO	86.24	4.70%	4.70%	0
Total treasury investments	**86.24**	**4.70%**	**4.70%**	**0**

Compliance

The Section 151 Officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the CJC's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 8: Investment Limits

	Q1 – Q3 Maximum	**31.12.24 Actual**	**2024/25 Limit**	**Complied?** Yes/No
The UK Government	91.7m	86.1m	Unlimited	Yes
Local authorities & other government entities	0m	0m	5m	Yes
Secured investments *	0m	0m	5m	Yes
Banks (unsecured) *	3.3m	0.27m	5m	Yes
Building societies (unsecured) *	0m	0m	5m	Yes
Registered providers (unsecured) *	0m	0m	5m	Yes
Money market funds *	0m	0m	5m	Yes
Strategic pooled funds	0m	0m	5m	Yes
Real Estate Investment Trusts	0m	0m	5m	Yes
Other investments	0m	0m	3m	Yes

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Treasury Management Indicators

As required by the 2021 CIPFA Treasury Management Code, the CJC monitors and measures the following treasury management prudential indicators.

1. Liability Benchmark**:**
   This indicator compares the CJC's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. As the CJC currently has no borrowing and is not forecasted to borrow in the medium-term, this indicator is not applicable.

2. Long-term Treasury Management Investments: The purpose of this indicator is to control the CJC's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

	2024/25	**2025/26**	**2026/27**	**No fixed date**
Limit on principal invested beyond year end	£0m	£0m	£0m	£0m
Actual principal invested beyond year end	£0m	£0m	£0m	£0m
Complied?	n/a	n/a	n/a	n/a

Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Additional indicators

Security: The CJC has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	2024/25 Target	31.12.24 Actual	Complied?
Portfolio average credit rating	A	AA-	Yes

Liquidity: The CJC has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	31.12.24 Actual	2024/25 Target	Complied?
Total cash available within 3 months	£86m	£5m	Yes

Interest Rate Exposures: This indicator is set to control the CJC's exposure to interest rate risk.

Interest rate risk indicator	2024/25 Target	31.12.24 Actual	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	£0.5m	£0m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.5m	£0m	Yes

For context, the changes in interest rates during the quarter were:

	31/3/24	31/12/24
Bank Rate	5.25%	4.75%
1-year PWLB certainty rate, maturity loans	5.36%	5.19%
5-year PWLB certainty rate, maturity loans	4.68%	5.10%
10-year PWLB certainty rate, maturity loans	4.74%	5.40%
20-year PWLB certainty rate, maturity loans	5.18%	5.84%
50-year PWLB certainty rate, maturity loans	5.01%	5.66%

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.