

# Treasury Management Update

Quarterly report  
31 December 2024 (Q3 2024-25)

# Contents

<b>Treasury Management Update .....</b>	<b>3</b>
<b>Quarter Ended 31<sup>st</sup> December 2024 (Q3 2024/25).....</b>	<b>3</b>
<b>1. Economics Update .....</b>	<b>3</b>
<b>2. Interest rate forecasts.....</b>	<b>3</b>
<b>3. Annual Investment Strategy.....</b>	<b>4</b>
<b>4. Borrowing .....</b>	<b>9</b>
<b>6. Compliance with Treasury and Prudential Limits .....</b>	<b>10</b>
<b>7. Other.....</b>	<b>11</b>
<b>APPENDIX 1: Prudential and Treasury Indicators for 2024-25 as of 31<sup>st</sup> December 2024.....</b>	<b>12</b>
<b>APPENDIX 2: Investment Portfolio .....</b>	<b>14</b>

# Treasury Management Update

## Quarter Ended 31<sup>st</sup> December 2024 (Q3 2024/25)

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

### 1. Economics Update

- 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 3month year on year 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%).

### 2. Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB (Public Works Loan Board) rate forecasts below are based on the Certainty Rate (the standard rate minus 0.2%) which has been accessible to most authorities since 1<sup>st</sup> November 2012.

The latest forecast, sets out a view that both short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of stubborn inflationary factors and a tight labour market.

Following the 30<sup>th</sup> October Budget, the outcome of the US Presidential election on 6<sup>th</sup> November, and the 0.25% Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7<sup>th</sup> November, Link significantly revised their central forecasts for the first time since May. In summary, the Bank Rate forecast is now 0.50% – 0.75% higher than was previously the case, whilst their PWLB forecasts have been materially lifted to not only reflect their increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

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
<b>BANK RATE</b>	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. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on **26<sup>th</sup> 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.

As shown by the charts below and the interest rate forecasts in section 2 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.

#### **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.

#### **Investment counterparty criteria**

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

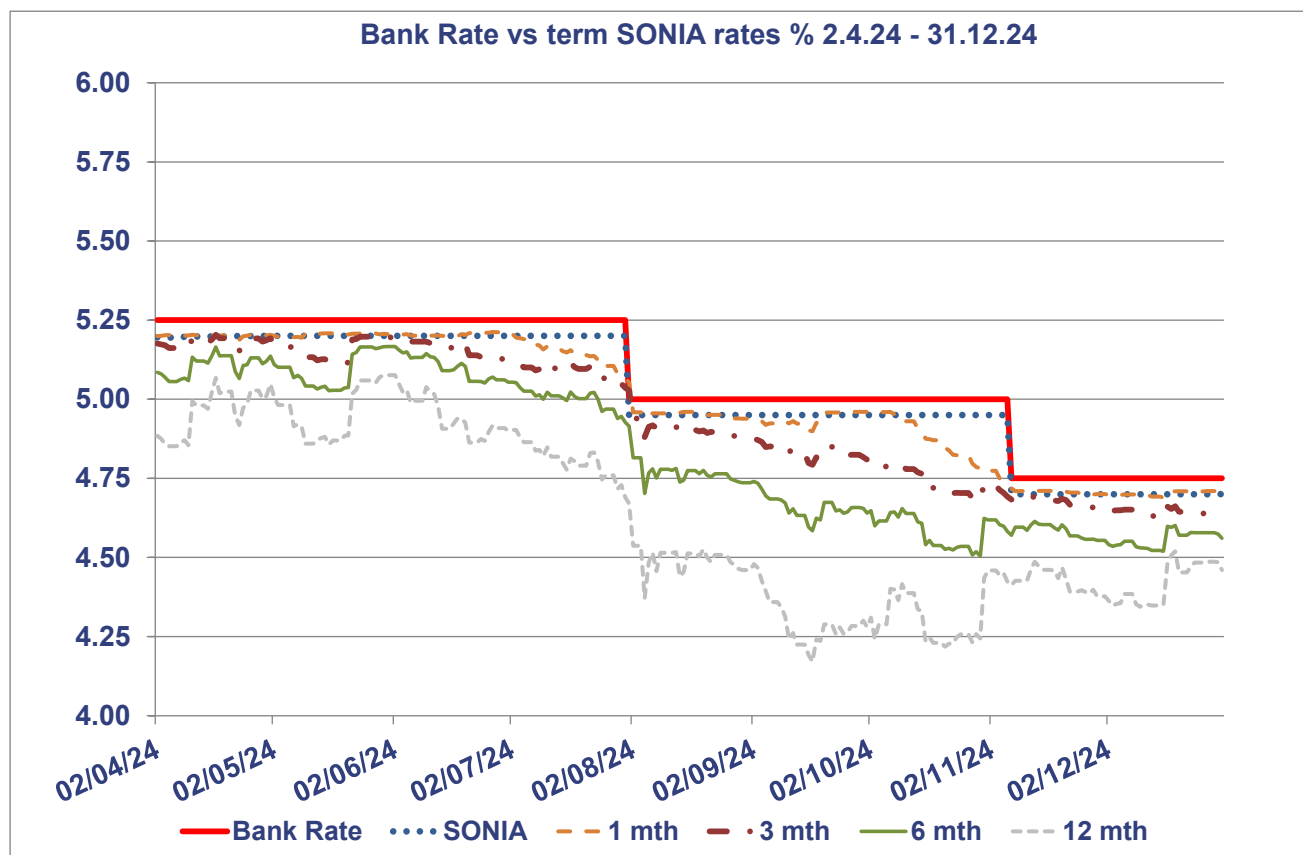
#### **CDS prices**

For UK banks, there are no underlying negative themes. Prices are not misaligned with other creditworthiness indicators, such as credit ratings. Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

#### **Investment balances**

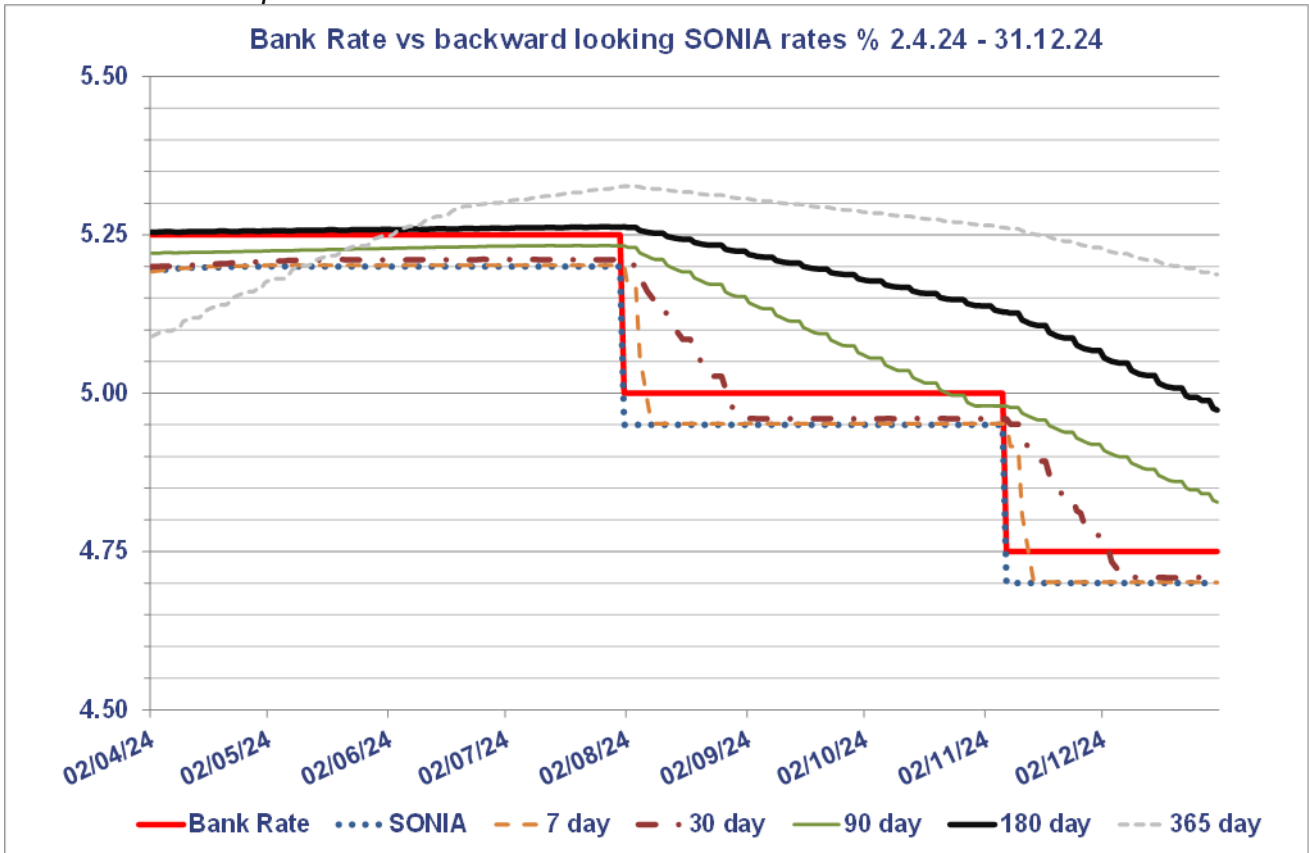
The average level of funds available for investment purposes during the quarter was **£28.8m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

Investment performance year to date as of end-December 2024 the forward-looking benchmark reflects where the market has moved to over time



FINANCIAL YEAR TO QUARTER ENDED 31/12/2024						
	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
<b>High</b>	5.25	5.20	5.21	5.20	5.17	5.08
<b>High Date</b>	02/04/2024	03/05/2024	27/06/2024	17/04/2024	31/05/2024	30/05/2024
<b>Low</b>	4.75	4.70	4.69	4.62	4.50	4.17
<b>Low Date</b>	07/11/2024	07/11/2024	16/12/2024	31/12/2024	30/10/2024	17/09/2024
<b>Average</b>	5.06	5.01	4.99	4.93	4.83	4.62
<b>Spread</b>	0.50	0.50	0.52	0.58	0.66	0.91

The backward-looking benchmark reflects where the market was positioned when investments were placed.



FINANCIAL YEAR TO QUARTER ENDED 31/12/2024							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
<b>High</b>	5.25	5.20	5.20	5.21	5.23	5.26	5.33
<b>High Date</b>	02/04/2024	03/05/2024	13/05/2024	26/06/2024	26/07/2024	26/07/2024	01/08/2024
<b>Low</b>	4.75	4.70	4.70	4.71	4.83	4.97	5.09
<b>Low Date</b>	07/11/2024	07/11/2024	27/12/2024	11/12/2024	31/12/2024	31/12/2024	02/04/2024
<b>Average</b>	5.06	5.01	5.02	5.05	5.12	5.20	5.25
<b>Spread</b>	0.50	0.50	0.50	0.50	0.41	0.29	0.24

## Investment Balances and Returns 1<sup>st</sup> April until 31<sup>st</sup> December 2024

Class	Category	Deal Type Description	Counterparty Name	Opening 000's	Movement 000's	Closing 000's	Rate		
Investments	Short Term	Call	Barclays Bank plc	(£2,246)	£975	(£1,271)	1.90%		
		Fixed	DMADF (Debt Management Account Deposit Facility)		(£4,300)	(£4,300)	5.01%		
			Lloyds Bank plc		(£3,000)	(£3,000)	5.09%		
	MMF	Aviva Investors Sterling Liquidity Fund 3 GBP Inc		(£2,000)	(£2,850)	(£4,850)	5.08%		
		BlackRock ICS Institutional Sterling Liquidity Heritage Dis		(£5,000)	£5,000	£0	5.02%		
		Invesco STIC Sterling Liquidity Inst Inc		(£2,000)	£1,700	(£300)	5.05%		
		Morg Stnly Sterling Liquidity Inst		(£1,000)	£1,000	£0	4.95%		
	<b>Total</b>				<b>(£12,246)</b>	<b>(£1,474)</b>	<b>(£13,721)</b>	<b>4.98%</b>	
	Borrowings	Short Term	Fixed	North Yorkshire County Council	£10,000.00	(£10,000.00)		5.60%	
			<b>Total</b>				<b>£10,000.00</b>	<b>(£10,000.00)</b>	<b>5.60%</b>
Long Term		Fixed	PWLB	£134,304.00	(£3,379.00)	£130,925.00	3.88%		
		<b>Total</b>				<b>£134,304.00</b>	<b>(£3,379.00)</b>	<b>£130,925.00</b>	<b>3.88%</b>
		<b>Total</b>				<b>£144,304.00</b>	<b>(£13,379.00)</b>	<b>£130,925.00</b>	<b>3.98%</b>

The Council slightly *underperformed* the SONIA benchmark by **0.03%**. Over the period from quarter 1 to 3 the average SONIA rate was 5.01%, Council investments achieved 4.98%.

The Council's budgeted investment return for 2023/24 is **£0.800m**, the investment return to 31<sup>st</sup> December 2024 is **£1.522m** and the forecast for the year is **£1.620m**.

### Fund investments as at 30<sup>th</sup> December 2024

- Money Market Funds (MMFs) £ 5,150,000.00
- Call Accounts £ 1,271,051.05
- Fixed Deposits (UK Bank) £ 3,000,000.00
- DMO £ 4,300,000.00

### Approved limits

The approved limits within the Annual Investment Strategy were not breached during the quarter ended 31<sup>st</sup> December 2024.

A full list of investments held as of 31<sup>st</sup> December 2024 is in appendix 2.

#### 4. Borrowing

No borrowing was undertaken during the quarter ended 31st December 2024. It is anticipated that further borrowing will be undertaken during this financial year as we are expecting cash balances and reserves to reduce and to fund capital investments.

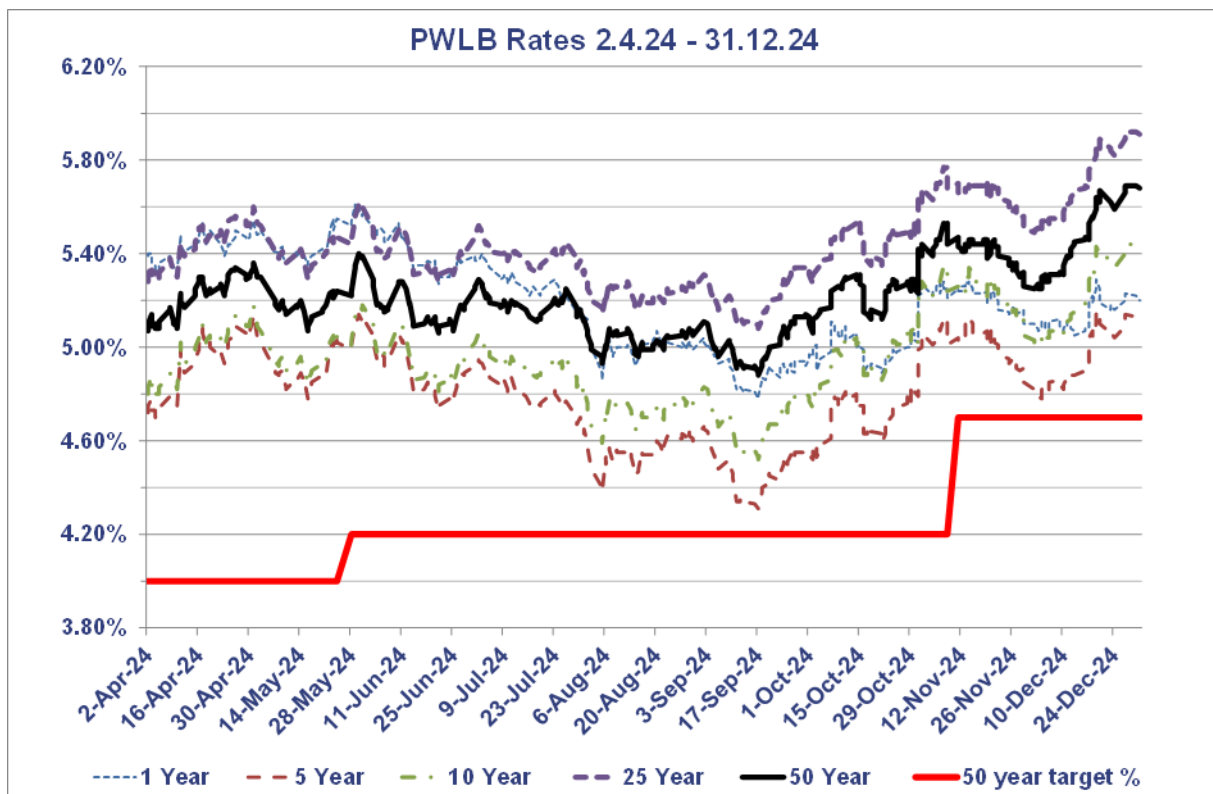
In line with the repayment schedule of existing debt the Council has reduced the overall debt liability by repaying £13.4m of external debt.

#### PWLB maturity Certainty Rates 1st April to 31st December 2024

Medium and longer-dated gilt yields, and therein PWLB rates, have moved significantly higher over the course of the financial year, culminating in long-term rates approaching levels last seen in 1998. The rise in medium to long-term yields has arisen because of several factors. Namely, the inflation outlook has become stickier than the market anticipated earlier in the year, with wages remaining somewhat elevated (currently increases are c5% y/y) and the labour market tight (unemployment a little above 4% and job vacancies more than 800,000).

The quarter ending 30th September saw UK GDP stagnate and the prospects for 2025 are somewhat opaque at present. With the UK public finances seemingly under pressure too (as of 7th January, it is estimated that the Chancellor's October Budget contingency is less than £1bn following the recent rise in gilt yields), and historic buyers of longer-dated gilts – pension funds and insurance companies – targeting shorter-dated maturities of late.

#### PWLB RATES 02.04.24 – 31.12.2024 (note: the 1st April was a bank holiday)





## HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 31.12.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
31/12/2024	5.20%	5.12%	5.43%	5.91%	5.68%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.16%	5.44%	5.92%	5.69%
High date	29/05/2024	19/12/2024	19/12/2024	19/12/2024	27/12/2024
Average	5.22%	4.80%	4.96%	5.43%	5.21%
Spread	0.83%	0.85%	0.92%	0.84%	0.81%

### 5. Debt rescheduling

Debt rescheduling opportunities have increased significantly in the current quarter where gilt yields, which underpin PWLB rates and market loans, have risen materially. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio.

### 6. Compliance with Treasury and Prudential Limits

The prudential and treasury Indicators are shown in Appendix 1.

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the *quarter ended* 31<sup>st</sup> December 2024, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2024/25. The Chief Financial Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

### 7. Other

The CIPFA LAASAC Local Authority Accounting Code Board deferred implementation of IFRS16 until 1<sup>st</sup> April 2024, the 2024/25 financial year. The Council will be required to adjust figures as at 1<sup>st</sup> April 2024 and in year, for Capital Financing Requirement, external debt (other long-term liabilities), the Authorised Limit and Operational Boundary, to allow for those leases which were previously off-balance sheet, being brought onto the balance sheet at 31<sup>st</sup> March 2025. A detailed data gathering exercise is underway, and limits may need to be amended once the detailed impact is confirmed.

## APPENDIX 1: Prudential and Treasury Indicators for 2024-25 as of 31<sup>st</sup> December 2024

### Treasury and Affordability Indicators

Prudential Indicator 2024/25	2024/25 Original Estimate (£m)	Position at Q3 (£m)
Authorised Limit External Debt		
Borrowing	238.4	144.3
Other long-term liabilities*	20.0	7.5
Operational Boundary External Debt		
Borrowing	228.4	144.3
Other long-term liabilities*	10.0	7.5
Capital Financing Requirement**	273.4	263.9
In year change is CFR	9.2	7.3
Gross external debt	172.6	130.9
Investments	17.0	13.7
Net Borrowing	155.6	117.2
Ratio of financing costs to net revenue stream	7.3%	7.2%

\*Including leases on balance sheet from 1/4/2024 in- line with IFRS16.

\*\* excluded IFRS16 leases (will be included in outturn report)

Maturity structure of fixed rate borrowing - upper and lower limits	Lower Limit %	Upper Limit %	Q3 %	Q3 £m
Under 12 months	0%	30%	5%	7.0
12 months to 2 years	0%	30%	11%	15.0
2 years to 5 years	0%	40%	15%	19.5
5 years to 10 years	0%	45%	40%	52.0
10 years to 20 years	0%	50%	10%	12.9
20 years to 30 years	0%	75%	14%	18.9
30 years to 40 years	0%	60%	3%	3.9
40 years to 50 years	0%	25%	0%	0.0

## **Capital Indicators**

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

<b>Capital Expenditure by Service</b>	<b>2024/25 Revised Budget (Q2) £m</b>	<b>Spend to date Q3 £m</b>	<b>2024/25 Revised Estimate £m</b>
People are Safe and Well	8.296	4.185	9.310
Resilient and Flourishing Communities	26.693	15.748	24.892
Economic Growth	13.279	6.875	11.416
Well Led Council	6.949	3.785	5.950
<b>Total capital expenditure</b>	<b>55.217</b>	<b>30.593</b>	<b>51.568</b>

*(provisional position pending Q3 report to Cabinet 17 March 2025)*

<b>Capital Expenditure</b>	<b>2024/25 Revised Budget (Q2) £m</b>	<b>2024/25 Revised Estimate £m</b>
Total capital expenditure	55.217	51.568
Financed by:		
Capital receipts	0.000	0.500
Capital grants	41.165	36.626
Revenue	0.110	0.140
Total financing	41.275	36.266
In year borrowing requirement	14.052	14.302

*(provisional position pending Q3 report to Cabinet 17 March 2025)*

## APPENDIX 2: Investment Portfolio

Investments held as of 31<sup>st</sup> December 2024 compared to our counterparty list:

BORROWER	PRINCIPAL (£)	INTEREST RATE %	START DATE	MATURITY DATE	LOWEST LT/ FUND RATING	Suggested Duration
Bank of Scotland PLC (FFB)	£3,000,000.00	4.75	13/12/2024	15/01/2025	AA-	60 Months
Barclays Bank PLC (NRFB)	£1,271,051.05	1.90		Call	A+	24 Months
MMF Aviva	£4,850,000.00	4.78		MMF	AAAm	12 Months
MMF Invesco Sterling Liquidity	£300,000.00	4.76		MMF	AAAm	6 Month
DMO	£3,800,000.00	4.71	25/10/2024	21/01/2025	AA-	100 Days
DMO	£500,000.00	4.71	04/11/2024	04/02/2025	AA-	0 Months
<b>Total Investments</b>	<b>£13,721,051.05</b>					

## UK Banks 5 Year Senior Debt CDS Spreads as of 31<sup>st</sup> December 2024

This graph shows the assessment of creditworthiness risk of key banks. The cost of insuring against default is shown in basis points down the left-hand axis. Credit risk has reduced markedly in recent weeks. The cost of insuring against the prospect of default is still low in historic terms. (The chart below shows the cost in basis points of ensuring against the prospect of default on 5 year “paper” issued by major UK banks v the ITRAXX Senior Financials Index.)

