Chorley Council

Report of	Meeting	Date
Director (Finance)	Governance Committee	Wednesday, 27 November 2024

Treasury Management Mid-Year Review 2024/25

Is this report confidential?	No

Is this decision key?	No

Purpose of the Report

1. To report on Treasury Management performance and compliance with Prudential Indicators for the period ended 30th September 2024.

2. To present monitoring figures for the six months ended 30th September 2024, including updated interest rate forecasts from Link Asset Services, our treasury management advisors.

Recommendations

3. Members are asked to note the content of the report.

Reasons for recommendations

4. Production of a Mid-Year Report is a requirement under the Treasury Management Code of Practice.

Other options considered and rejected

5. Not to update, but this was rejected as it is a requirement of the Code of Practice.

Corporate priorities

6. The report relates to the following corporate priorities:

Housing where residents can live well	**A green and sustainable borough**
An enterprising economy with vibrant local centres in urban and rural areas	**Healthy, safe and engaged communities**

Background to the report

7. At its meeting on 27th February 2024 Council approved the Treasury Management Policy Statement; Prudential Indicators; Investment Strategy; and the Annual Minimum Revenue Provision (MRP) Policy for 2024/25.

8. The Treasury Management Outturn Report for 2023/24 was presented to Governance Committee on 31st July 2024.

9. The Code of Practice for Treasury Management requires all councils to review their treasury strategies and activities half yearly. This report satisfies that requirement.

Capital Expenditure and Financing 2024/25

10. The Council undertakes capital expenditure on long-term activities. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts; capital grants; revenue contributions etc), which has no impact on the Council's borrowing need; or

- If sufficient financing is not available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

11. Capital expenditure is monitored monthly and reported to Executive Cabinet every quarter.

12. The Capital Programme and Balance Sheet Monitoring Report for the quarter ended 30th September 2024 was considered by Executive Cabinet on 14th November 2024 and highlighted a decreased forecast borrowing requirement for the year of £4.766m compared to an original forecast of £7.462m (£4.973m at July 2024).

Table 1 - Forecast Capital Expenditure	Budget 2024/25 Approved at Council Feb 2024 £'000	Budget 2024/25 Approved by Cabinet for the 4 months to July 2024 £'000	Slippage and reprofiling of budget (to)/from future years £'000	Quarter 2 2024/25 Variations £'000	Revised Budget 2024/25 as at 30 September 2024 £'000
COSTS					
An Enterprising Economy With Vibrant Local Centres In Urban and Local Areas	12,180	9,673	(3,426)	-	6,246
Green And Sustainable Borough	1,788	1,053	(137)	-	916
Housing Where Residents Live Well	5,480	5,420	-	654	6,074
Healthy, Safe and Engaged Communites	-	7	-	100	107
Total Forecast Expenditure	**19,448**	**16,152**	**(3,563)**	**754**	**13,343**
RESOURCES					
Disabled Facilities Grants	975	929	-		929
Brownfield Release Fund	900	1,077			1,077
Levelling Up	-	4,706	(3,356)		1,350
Rural Prosperity Fund	400	400			400
UK Shared Prosperity Fund		534	-	-	534
Defra Food Waste					-
Other Grants	285	188		754	942
Total Grants	**2,560**	**7,835**	**(3,356)**	**754**	**5,233**
External Contributions		-			-
Capital Receipts	7,400	45			45
Community Infrastructure Levy (CIL)	1,127	1,521			1,521
Reserves and Revenue	70	321			321
Section 106	829	1,457			1,457
Unsupported Borrowing	7,462	4,973	(206)		4,766
Total Forecast Resources	**19,448**	**16,152**	**(3,563)**	**754**	**13,343**

Full details are outlined in the report to Executive Cabinet 14th November 2024; 2024/25 Corporate Capital Programme and Balance Sheet Monitoring Report, Position at 30th September 2024.

Capital Financing Requirement 2024/25

13. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. It represents the unfinanced capital expenditure in 2024/25 plus unfinanced capital expenditure from prior years which has not yet been paid for by revenue or other resources.

14. The CFR is not matched in full by external borrowing, as the Council has "under borrowed" by using its own cash balances to finance capital expenditure. There is some loss of interest as a result, but had external loans been taken, then the interest payable would have been at a higher rate. Use of the Council's own cash balances helps to achieve savings in net interest.

15. The Council's underlying borrowing need is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need.

16. The Council's CFR for the year is shown below and represents a key prudential indicator.

Table 2 – Capital Financing Requirement	2023/24 Outturn £'000	2024/25 Forecast as at 30/9/24 £'000
Opening CFR	102,335	110,753
Increase in borrowing (Table 1)	9,860	4,766
Less MRP	-1,442	-1,687
Closing CFR (forecast at 30th September 2024)	**110,753**	**113,832**

The CFR and Gross Debt

17. In order to ensure that borrowing levels are prudent over the medium term and are only for capital purposes, the Council ensures that its gross external borrowing does not exceed the total of the CFR.

18. The borrowing position is summarised below. Planned Capital Expenditure will be contained within the Council's overall Treasury position where possible, however further borrowing is likely to be required in the future to fund the planned Capital Programme.

Table 3 – Actual Debt: CFR	2023/24 Outturn £'000	2024/25 As at 30/9/24 £'000
Debt < 12 month	21,750	23,688
Debt > 12 month	64,763	63,953
Gross Debt	**86,513**	**87,641**
Capital Financing Requirement (Table 2)	110,753	113,832
Under / (Over) Borrowing	**24,240**	**26,191**

19. A detailed analysis of external borrowing as at 30th September 2024 is presented in ***Appendix A***.

20. **The authorised limit**. This is the "affordable borrowing limit" and is required by Section 3 of the Local Government Act 2003. Once this has been set, it is not possible to borrow above this level unless specific full Council approval is given. The limit set for 2024/25 by the Council on 27th February was £99.693m; actual debt is currently £87.641m.

21. **The operational boundary**. This is the expected borrowing position of the Council during the year. The operational boundary set for 2024/25 was £90.630m and actual debt is currently £87.641m. The Council has remained within its operational boundary throughout the 6 months to 30th September 2024.

Investments

22. The council's investment policy is governed by the Ministry of Housing, Communities & Local Government (MHCLG) investment guidance, which has been implemented in the annual investment strategy approved by the Council for 2024/25. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, Standard and Poor's, Moody's and Fitch Group, supplemented

by additional market data. Link Asset Services, the Council's Treasury Advisors, provide suggested investment durations for the approved counterparties.

23. The approved Counterparties for 2024/25 are outlined at ***Appendix B.***

24. As at 30th September 2024, £8m has been invested in term deposits for a period of 17 days. To manage the Council's cash flow, balances were held primarily in highly liquid accounts, specifically in call accounts and Money Market Funds (MMFs), so that money can be made available at short notice.

25. Investment returns have been consistently strong through 2024/25 to 30th September. The average yield shows a return of 4.54%, compared with 4.28% in 2023/24.

26. Average investment performance for the 6 months to September 2024 is summarised below.

Table 4 - Average Investment Yield	**Average Daily Investment £**	**Earnings 01.04.24 to 30.09.24 £**	**Average Yield %**
Debt Management Office (DMO)	3,604,918	93,741	5.187%
Other Fixed Term Deposits	819,672	21,740	5.290%
Notice Accounts	-	-	0.000%
Call Accounts - BPA	885,502	6,482	2.000%
Call Accounts - Lloyds	1,836,230	46,454	5.046%
Money Market Funds	3,434,973	89,213	5.180%
Total	**10,581,294**	**257,629**	**4.541%**

The average yield does not reflect the earnings, but rather the individual rates achieved per investment.

27. Actual investments as at 30th September 2024 are summarised below.

Table 5 - Actual Investments as at 30/09/2024	Type	Amount £'000	Rate %	Date	Maturity
DMO	FTD	8,000	4.94%	30/09/2024	17/10/2024
Fixed Term Deposits sub total		**8,000**			
Barclays BPA Deposit Account	Call	465	2.00%	On call	
Lloyds/BOS	Call	1,800	4.88%	On call	
Call Accounts sub total		**2,265**			
Federated	MMF	3,750	5.08%	On call	
Blackrock	MMF	-		On call	
Aberdeen	MMF	-		On call	
Money Market Funds sub total		**3,750**			
Total Investments as at 30/09/2024		**14,015**			

These investments are within the approved Counterparty Limits outlined at ***Appendix B.***

Advice of Link Asset Services

28. Link Asset Services' assessment of the Economy and Interest Rates is presented at ***Appendices C and D.***

29. Latest forecasts show Public Works Loan Board (PWLB) borrowing rates are gradually reducing from December 2024. However, the volatility of world and domestic markets must be stressed and may impact upon this forecast.

Summary

30. Members are asked to note that the Council has:

- Remained within its Prudential Indicators.
- Adhered to its approved Counterparty Limits.
- Entered into borrowing in 2024/25, however further borrowing is likely.
- Retained its "under borrowed" position.
- Has achieved an increased average investment yield of 4.541%, compared to 4.28% in 2023/24.

Climate Change and Air Quality

31. The work noted in this report does not impact the climate change and sustainability targets of the Council's Green Agenda and all environmental considerations are in place.

Equality and Diversity

32. Not applicable.

Risk

33. Regular monitoring and reporting of the Council's Treasury Management position ensure compliance with Prudential Indicators and the Treasury Management Code of Practice.

Comments of the Statutory Finance Officer

34. There are no direct financial implications arising from this report. All financial implications in respect of treasury management activity arise as a result of the annual Treasury Strategy for 2024/25, previously approved by Council. This report presents details of actual performance achieved as a result of implementing the approved strategies.

35. The Council is compliant with its Prudential Indicators, Counterparty limits and the latest PWLB reforms.

Comments of the Monitoring Officer

36. Presentation of this report is required to comply with the CIPFA Code of Practice on Treasury Management.

Background Documents

- CIPFA Treasury Management in the Public Services: Code of Practice & Guidance Notes
- Treasury Management Policy Statement 2024/25 to 2026/27 (Council 27th February 2024)
- Treasury Management Outturn Report 2023/24 (Governance Committee 31st July 2024)
- 2024/25 Corporate Capital Programme and Balance Sheet Monitoring Report Position at 30th September 2024 (executive Cabinet 14th November 2024)

Appendices

Appendix A: External Borrowing as at 30th September 2024

Appendix B: Approved Counterparty limits 2024/25

Appendix C: Link Commentary – Economic Outlook

Appendix D: Link Interest Rate Forecast

Appendix E: Glossary of Terms

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APPENDIX A

External Borrowing as at 30th September 2024

Type of Loan	Loan Number	Start Date	Maturity Date	Interest Rate %	Total £'000
PWLB Loan - Annuity	502694	29/11/2013	26/11/2063	4.34	1,544
PWLB Loan - Annuity	502695	29/11/2013	26/11/2043	4.18	1,516
PWLB Loan - Annuity	502696	29/11/2013	26/11/2038	4.02	1,353
PWLB Loan - Annuity	502697	29/11/2013	26/05/2033	3.69	1,070
PWLB Loan - Annuity	502698	29/11/2013	26/05/2028	3.18	628
PWLB Loan - Annuity	502699	29/11/2013	26/05/2023	2.42	-
PWLB Loan - Maturity	506764	21/12/2017	21/12/2067	2.31	2,500
PWLB Loan - EIP	506766	21/12/2017	21/12/2031	1.76	1,339
PWLB Loan - EIP	508381	17/01/2019	17/01/2054	2.51	2,529
PWLB Loan - EIP	508382	17/01/2019	17/01/2059	2.58	2,588
PWLB Loan - EIP	509178	24/04/2019	24/04/2044	2.23	2,000
PWLB Loan - Annuity	509641	09/08/2019	09/08/2059	1.87	29,177
PWLB Loan - Annuity	509689	16/08/2019	16/08/2059	1.86	1,823
PWLB Loan - EIP	509691	16/08/2019	16/08/2039	1.32	2,250
PWLB Loan - EIP	165470	28/02/2020	28/02/2060	2.71	5,325
PWLB Loan - Maturity	490068	01/03/2022	01/03/2072	2.02	10,000
Public Works Loan Board Total					65,641
Local Authorities Total					22,000
External Borrowing Total					**87,641**

APPENDIX B

Investment Counterparties 2024/25

Category	Institutions	Maximum Period	Limit per institution
Banks & Building Societies: Call Accounts/Term Deposits/Certificates of Deposit (CDs)			
Government related/guaranteed entities	DMADF (DMO) UK Local Authority	6 Months 1 year 2 years	Unlimited £3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	1 year	£4m per group
UK-incorporated Insitutions	UK banks and building societies of high credit quality	1 year 6 months 3 months	£5m per group (or institution if independent)
Money Market Funds			
Money Market Funds	MMFs of high credit quality - AAA rated	Instant Access	£5m per fund

- DMADF – Debt Management Account Deposit Facility
- DMO – Debt Management Office

APPENDIX C

Summarised View from Link Treasury Advisors – The Economy and Interest Rates 2024/25

The third quarter of 2024 (July to September) saw:

- Gross Domestic Product (GDP) growth stagnating in July following downwardly revised Q2 figures;
- A further easing in wage growth as the headline rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- Consumer Price Index (CPI) inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index (PMI), from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% quarter-on-quarter (q/q) in Q3. Additionally, the services PMI future activity balance showed an uptick in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.

The 1.0% month-on-month (m/m) jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.

The government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e. by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Our colleagues at Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.

The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.

Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.

CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.

The Bank initiated its loosening cycle in August, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts.

Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.

Our forecast is next due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November MPC meeting and the release of the Bank of England Quarterly Monetary Policy Report

Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.

APPENDIX D

Updated Interest Rate Forecasts (as at 11/11/24) supplied by Link Asset Services (%)

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

Glossary of Terms

Authorised Limit –represents the limit beyond which borrowing is prohibited and needs to be set and revised by the Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

Bank Rate – the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

Capital expenditure – material expenditure on capital assets, such as land and buildings, capitalised in accordance with regulations.

Capital Financing Requirement (CFR) – the level of capital expenditure to be financed from borrowing. This requirement will eventually be met by revenue resources through the Minimum Revenue Provision (MRP) mechanism.

CIPFA – Chartered Institute of Public Finance and Accountancy

Counterparty – the other party involved in a borrowing or investment transaction.

Credit Rating – a qualified assessment and formal evaluation of the credit history and capability of repaying obligations of an institution (bank or building society). It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time. Ratings are prepared by Finch, Moody’s and Standard & Poor’s, and these are monitored by Link Asset Services.

Gilt - is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock exchange.

Liquidity – the ability of an asset to be converted into cash quickly and without any price discount. The more liquid an organisation is, the better able it is to meet short-term financial obligations.

LIBID – London Interbank Bid Rate - the interest rate at which London banks ask to pay for borrowing Eurocurrencies from other banks. Unlike LIBOR, which is the rate at which banks lend money, LIBID is the rate at which banks ask to borrow. It is not set by anybody or organisation but is calculated as the average of the interest rates at which London banks bid for borrowed Eurocurrency funds from other banks. It is also the interest rate London banks pay for deposits from other banks.

LVNAV MMF (Low Volatility Net Asset Value MMF) - a type of fund categorised as a Short Term MMF. Units in the fund are purchased or redeemed at a constant price, as long as the value of the assets in the fund do not deviate by more than 0.2% from par.

MHCLG – Ministry of Housing, Communities & Local Government (formerly DLUHC)

Minimum Revenue Provision (MRP) - is a provision the council has set-aside from revenue to repay loans arising from capital expenditure financed by borrowing. MRP is required even when borrowing is internal rather than external.

Monetary Policy Committee (MPC) – independent body which determines the Bank Rate.

Money Market Fund (MMF) - mutual fund that invests only in highly liquid instruments such as cash, cash equivalent securities, and high credit rating debt-based securities with a short-term, maturity—less than 13 months. As a result, these funds offer high liquidity with a very low level of risk.

Operational Boundary – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an early warning indicator to ensure the Authorised Limit is not breached.

Prudential Code – the Local Government Act 2003 requires the Council to 'have due regard' to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Prudential Code is published by CIPFA.

PWLB – Public Works Loan Board. An institution managed by the Government to provide loans to public bodies at rates which reflect the rates at which the government is able to sell gilts.

Revenue expenditure – day to day items which may not be capitalised without a Government direction, including employees' pay, transport and premise costs, supplies and services and benefits**.**