Melton Borough Council

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Cabinet

13 November 2024

Treasury Management Mid-Year Report 2024-25

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Lead Member/Relevant Portfolio Holder	**Councillor Sarah Cox**, Portfolio Holder for Corporate Finance, Property and Resources

Corporate Priority:	Ensuring the right conditions to support delivery (inward)
Relevant Ward Member(s):	N/A
Date of consultation with Ward Member(s):	N/A
Exempt Information:	No
Key Decision:	No
Subject to call-in:	No Not key decision

1 Summary

1.1 The Mid-Year Treasury Report is a requirement of the Council's reporting procedures and provides a summary of the Treasury activities to the end of September 2024. The report also covers the actual position to date on the Prudential Indicators in accordance with the Prudential Code.

1.2 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management 2021 and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes through Regulations issued under the Local Government Act 2003.

2 Recommendations

That Cabinet recommends to Council:
2.1 **That the Mid-Year position on treasury activity for 2024-25 be noted.**
2.2 **That the Mid-Year position on Prudential Indicators for 2024-25 be noted**

3 Reason for Recommendations

3.1 The Prudential Code requires the Council to monitor and report performance on Treasury Management activities at least quarterly. As a minimum full Council need to receive an annual report on the strategy and plan for the coming financial year, a mid year review and an annual report on performance of the treasury management function. In addition monitoring reports should be received at least quarterly alongside revenue and capital monitoring by the cabinet as the body delegated responsibility for treasury management functions.

3.2 To facilitate the decision making process and support capital investment decisions the Prudential Code requires the Council to agree and monitor a minimum number of prudential indicators.

4 Background

4.1 The Treasury Management & Prudential Indicators quarter Mid-year report for 2024-25 is attached at Appendix A. The report covers:

- Economics, Interest and borrowing rate updates
- Investment and Borrowing Strategies
- Compliance with Treasury and Prudential Limits

4.2 The underlying purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance/Investment regulations. These state that Members receive and adequately scrutinise Treasury Management services.

5 Main Considerations

5.1 The underlying economic environment has improved in recent years with higher interest rates helping investment returns with the base rate being currently 5% following the 0.25% reduction in August 2024. These higher levels were mainly linked to the increased levels of inflation but as this has started to reduce with CPI down to 1.7% at the end of September, it has finally had a knock on effect to the base rate. Current forecasts suggest November could see a further reduction in bank rate to 4.75%.

5.2 Following a long period of previously suppressed interest rates there has been a period of continued positivity with some rates being around 6% over the past 12 months but as the markets started to price in the expected base rate reduction we have seen this reduce in recent months to 12 months rates being around 4.7%.

5.3 The forward interest rate forecasts used for budget setting had forecast a drop in interest rates which has been built in but as part of the council's maturity laddering approach there are still some investments held at 5.7% which is anticipated to lead to an increase in investment returns during this financial year. Officers will continue to maximise returns where possible with the latest forecast for 2024/25 predicting a surplus of £258k against a budgeted income level of £940k (across General Fund and HRA). This will help to support some of the other in year pressures the Council is facing.

5.4 In terms of performance in comparison to the benchmarking group Melton is part of, at the end of Q1 (latest data available) the council is outperforming all benchmarks achieving an average return of 5.51% which is above the benchmark average of 5.19% which includes county level authorities as well. This is a positive achievement as the Council looks to maximise its returns whilst striving to balance risk and return. At the Mid-year position the average rate of return has dropped slightly to 5.43%.

5.5 As regards the Councils £2m investment in the CCLA property fund the latest valuation has marginally improved with the notional loss at June 2024 reducing from £205k to £203k at September 2024. Due to the risks around this type of investment the Council has previously approved the establishment of a reserve in order to help offset any potential deficits that might arise in future should the statutory override be removed. At the end of 2024-25 the balance in the reserve is expected to be £190k. Officers will continue to monitor the fund valuation against the reserve levels required. A property fund by its very nature is a long-term investment in terms of potential fluctuations in asset values but since the initial investment was made in 2017 the council has received investment income of £629k which has supported the revenue budget during that time

5.6 The report shows that the basis of the treasury management strategy, the investment strategy and the PI's have not materially changed, except where shown.

5.7 The report is structured to highlight the key changes to the Councils capital activity (the prudential indicators), the economic outlook and the actual and forecast treasury management activity (borrowing and investment).

6 Options Considered

6.1 No other options considered. If the report was not provided councillors would not be aware of the ongoing management of the treasury functions and appropriate scrutiny would not be undertaken in accordance with the treasury framework.

7 Consultation

7.1 Consultation has been undertaken with the portfolio holder regarding the position for the 2024-25 financial year

8 Next Steps – Implementation and Communication

8.1 As this is a monitoring report there are no further steps required.

9 Financial Implications

9.1 The Treasury Management Strategy and Policy are core financial policies which underpin all the work of the Treasury Management function and incorporate any implications arising from the capital programme.

9.2 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During quarter 2 ending 30th September 2024, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2024-25.

9.3 The Director for Corporate Services can confirm that no difficulties are envisaged for the current or future years in complying with these indicators and that all treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

9.4 Despite the recent interest rate reduction, due to the council's investment approach and focus on maximising longer term rates where possible, officers are forecasting additional investment income during the year of £258k. This is a welcome benefit to help offset other in-year financial pressures that may arise. Current returns are averaging 5.43% which is above the benchmark and officers will continue to monitor are further interest rate changes with a view to maximising returns where possible (in accordance with the strategy) over the remainder of the financial year.

Financial Implications reviewed by: Director for Corporate Services

10 Legal and Governance Implications

10.1 The Local Government Act 2003 (the 2003 Act) provides powers for the Council to invest and borrow as well as imposing controls and limits on these activities. As indicated in the body of the report, the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 made under the 2003 Act require the Council to comply with the prudential code published by CIPFA. Failure to follow the Code of Practice and Strategy could increase the risk of financial loss.

Legal Implications reviewed by: Monitoring Officer.

11 Equality and Safeguarding Implications

11.1 There are no direct equality or safeguarding issues arising from this report.

12 Data Protection Implications (Mandatory)

A Data Protection Impact Assessments (DPIA) has not been completed as there are no risks/issues to the rights and freedoms of natural persons.

13 Community Safety Implications

13.1 There are no direct links to community safety arising from this report.

14 Environmental and Climate Change Implications

14.1 No implications have been identified but members may wish to note the council has an investment in a green and sustainable product that is focused around sustainable economic growth investment.

15 Other Implications (where significant)

15.1 No other implications have been identified.

16 Risk & Mitigation

16.1 These are assessed as part of the Corporate Services Directorate Risk Register

Risk No	Risk Description	Likelihood	Impact	Risk
1	Loss of investment income during 2024-25 as result of changed in interest rates	Low	Marginal	Low Risk
2	Reduction in the valuation of the Councils Property Fund investment resulting in an actual loss should the regulations change to charge the loss to revenue account.	Significant	Marginal	Medium Risk

		Impact / Consequences			
		Negligible	Marginal	Critical	Catastrophic
Likelihood	Score/ definition	1	2	3	4
	6 Very High				
	5 High				
	4 Significant		**2**		
	3 Low		**1**		
	2 Very Low				
	1 Almost impossible				

Risk No	Mitigation
1	Continue to maximise returns in line with the Treasury management investment strategy
2	Continue to monitor property fund reserve balance to help mitigate any losses in the future should the statutory override be removed and there is a need to be charged direct to the revenue account in line with any change in accounting rules.

17 Background Papers

17.1 Treasury Management Strategy Statement 2024-25

18 Appendices

18.1 Appendix A – Quarter 2 Mid Year Treasury Management Review 2024-25