



## Treasury Management Quarter 3 Report 2024-25

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

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

### 1 Summary

- 1.1 The quarterly Treasury Report is required by the Council's reporting procedures and provides a summary of the Treasury activities to the end of December 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

- 2.1 **Notes the Quarter 3 position on treasury activity for 2024-25**
- 2.2 **Notes the Quarter 3 position on Prudential Indicators for 2024-25**

## 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 3 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 in recent years has led to higher interest rates which, in turn, have helped to boost the Council's investment returns. However, since August 2024, the Monetary Policy Committee has cut the Bank Rate on three occasions, most recently to 4.5% on 6<sup>th</sup> February 2025. Despite those cuts, the Bank Rate remains higher than was anticipated when the Treasury Management Strategy was approved by Council in February 2024, when the average rate for the year was forecast at 4.25%.
- 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 above 5.5% 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 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, of which Melton is a member, at the end of Q3 the Council's average rate of return is 5.16%. Whilst this represents a fall in return from the previous quarter (5.34%), it remains above the benchmark average of 5.02% 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.
- 5.5 As regards the Council's £2m investment in the CCLA property fund the latest valuation has improved with the notional loss at 31<sup>st</sup> December 2024 reducing to £177k, compared with £205k at 30<sup>th</sup> September 2024. Due to the risks around this type of investment the Council has previously approved the establishment of a reserve to help offset any potential deficits that might arise in future should the statutory override be removed, as expected, on 31<sup>st</sup> March 2025. 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. By its very nature, a property fund is considered to be 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 £650k net of fees up to the end of December 2024, 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 Council's 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 Members 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 3 ending 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.

- 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 helps to mitigate other in-year financial pressures that have arisen. Current returns are averaging 5.16% which is above the benchmark and officers will continue to monitor interest rates with a view to maximising returns where possible (in accordance with the strategy) over the remainder of the financial year.

**Financial Implications reviewed by: Interim Assistant Director for Resources 27th February 2025**

## **10 Legal and Governance Implications**

- 10.1 The Local Government Act 2003 includes powers to invest and borrow together with introducing controls and limits on those activities. As referred to in the body of the report, those controls include the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 which 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.
- 10.2 The strategic approach referred to in this report reflects compliance with the Code.

**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 3 Treasury Management Review 2024-25