City of Westminster

Decision Maker:	Audit and Performance Committee
Date:	22 October 2024
Classification:	General Release
Title:	Treasury Management Strategy Mid-Year Review 2024-25
Wards Affected:	All
Policy Context:	To manage the Council's finances prudently and efficiently
Cabinet Member:	Cabinet Member for Finance and Council Reform
Financial Summary:	This report forms part of the monitoring of the treasury function as recommended in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice. It reviews the implementation of the strategy to date and allows for any changes to be made depending on market conditions.
Report of:	Gerald Almeroth, Executive Director for Finance and Resources
Report Author:	Kelly Martin, Treasury Manager

1. EXECUTIVE SUMMARY

1.1. The purpose of this report is to:

- Update Members on the delivery of the 2024/25 Treasury Management Strategy approved by Council on 6 March 2024; and

- Approve the recommendations in paragraph 2.1.

1.2. Treasury management comprises:

- Investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security of capital and liquidity. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially, before considering optimising investment return.

- Managing the City Council's borrowing to ensure funding of the Council's future capital programme is at optimal cost. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3. This report complies with CIPFA's Code of Practice on Treasury Management, and covers the following:

- A six-monthly review of the Council's investment portfolio for 2024/25 to include the treasury position as at 30 September 2024;

- A review of the Council's borrowing strategy for 2024/25;

- A review of compliance with Treasury and Prudential Limits for the first six months of 2024/25; and

- An economic update for the first part of the 2024/25 financial year.

1.4. The Council has complied with all elements of the Treasury Management Strategy Statement (TMSS).

2. RECOMMENDATIONS

2.1. The Committee is asked to note the annual treasury strategy mid-year review 2024/25.

3. TREASURY POSITION AS AT 30 SEPTEMBER 2024

3.1. As at 30 September 2024, the net cash position was £244.1m, an increase of £67.0m on the position at 31 March 2024 as shown below:

Net Cash Invested	30 September 2024 (£m)	31 March 2024 (£m)
Total Borrowing	(576.1)	(599.5)
Total Cash Invested	820.2	776.6
Net Cash Invested	**244.1**	**177.1**

3.2. The increase of £67.0m reflects the forecast pattern of the Council's cashflows and is mainly dependant on the timing of precept payments, receipt of grants, council tax and business rates, and progress on the capital expenditure programme.

Investments

3.3. The Council's Annual Investment Strategy, which forms part of the annual Treasury Management Strategy Statement (TMSS) for 2024/25, was approved by the Council on 6 March 2024. The Council's policy objective is the prudent investment of balances to achieve optimum returns on investments, subject to maintaining adequate security of capital and a level of liquidity appropriate to the Council's projected need for funds over time.

3.4. The table below provides a breakdown of investments with comparisons for the previous financial year end.

Investment type	Investment Balance 30 September 2024 (£m)	Investment Balance 31 March 2024 (£m)	Movement (£m)
Money Market Funds	201.1	200.6	0.5
Term Deposits	305.0	576.0	-271.0
UK Government Treasury Bills	314.1	0.0	314.1
Total	**820.2**	**776.6**	**43.6**

3.5. Despite a need to appropriately manage short term liquidity needs, there are attractive opportunities in the current economic climate for investments of up to 12 months in financial institutions with high credit ratings.

3.6. Liquid balances are managed through Money Market Funds, providing same day liquidity. Cash has been invested in alternative and less liquid instruments, particularly term deposits and UK Government Treasury Bills. The average level of funds available for investment in the first six months of 2024/25 was £951.4m.

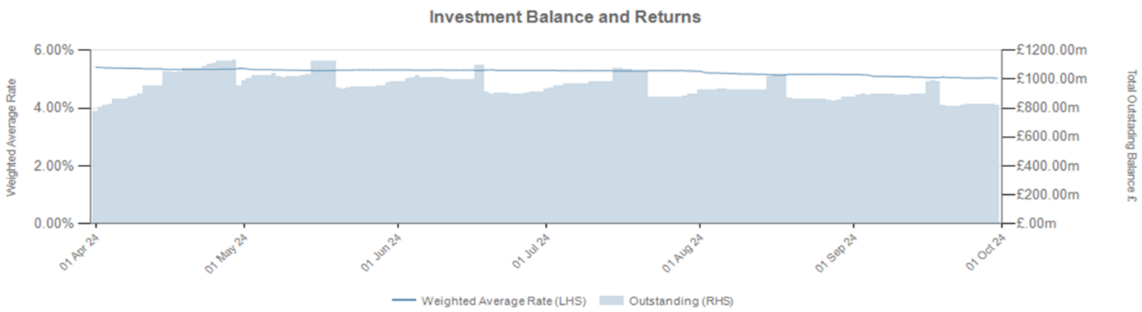
3.7. On 7 May 2024, a counterparty, Australia and New Zealand Bank (ANZ), failed to repay at maturity a four-month fixed term deposit. The overdue funds were credited to the council's bank account on the following morning, but this led to the Council being overdrawn for the one night. ANZ has accepted full responsibility for the delay with repayment and have covered the overdraft cost incurred by the Council. As at 30 September 2024, the Council has no investments with ANZ bank.

3.8. The table below provides a more detailed breakdown of the Council's treasury investment position and interest rate generated as at 30 September 2024.

Investment Type	Investment Balance (£m)	Interest Rate (%)
Money Market Funds	201.1	5.02
UK Banks	150.0	4.98
Non UK Banks	100.0	5.01
UK Government	314.1	5.03
Local Authorities	55.0	5.26
Total:	**820.2**	**5.03**

3.9. The shaded area in the chart below shows the daily investment balance from 1 April 2024 to 30 September 2024. The line shows the weighted average return of the investment portfolio, which has decreased throughout the first half of 2024/25. The daily investment balance is shown by the grey shaded area. This balance rises and falls over each month but follows a general downwards trend over the period.

3.10. Daily investment balances have increased from £776.6m at 1 April 2024 to £820.2m at 30 September 2024. Investment returns which had been higher during 2023/24, have decreased slightly during 2024/25 and the Council's average return on the portfolio as at 30 September 2024 was 5.03%. The current UK base rate in 5.00%.



3.11. On 7 November 2024, the Bank of England's Monetary Policy Committee (MPC) voted 8-1 for a cut in the base rate from 5.00% to 4.75%. The MPC chose to cut rates whilst the headline CPI measure is 1.7%.

3.12. UK Chancellor Rachel Reeves held her autumn budget on 30 October 2024. As was widely expected, this featured significant tax increases, as well as large increases to borrowing and capital spending.

3.13. For now, the MPC has estimated CPI inflation will increase to 2.5% by the end of the year as weaker energy prices fall out of the calculation. Off the back of the UK budget they added 0.75% to their estimate for GDP, and 0.5% to their estimate for inflation, signalling a slower trajectory of rate cuts over the coming year. Governor Bailey pushed back against questions on the US election, suggesting they act on policy announcements, not speculation.

3.14. The table below shows the forecast investment income to be achieved in the year: budget versus actual and the variance. The Council's budgeted investment return for 2024/25 is £41.5m, and performance for the year is expected to be £2.5m above budget. The total portfolio weighted average yield performance for the first half of 2024/25 to 30 September 2024 was 5.26%.

Year 2024/25	Budget £000	Actual £000	Variance £000
Investment Income	41.5	44.0	2.5

3.15. Appendix 1 provides a full list of the Council's limits and exposures as at 30 September 2024.

Borrowing

3.16. 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. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2024/25 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

3.17. Standing at £576.1m, the Council's borrowing was well within the Prudential Indicator for external borrowing, namely, that borrowing should not exceed the budgeted CFR for 2024/25 of £1,425m.

3.18. During 2024/25, the Council maintained an under-borrowed position of £704.0m. This meant that the capital borrowing need (the CFR) was not fully funded with loan debt, as internal cash supporting the Council's reserves, balances and cash flow was used as an interim funding measure. These reserves are expected to remain part of the Council's balance sheet throughout the remainder of 2024/25.

3.19. The table below shows the details around the Council's external borrowing as at 30 September 2024, split between the General Fund and the Housing Revenue Account (HRA).

Total Borrowing	30 September 2024 (£m)	31 March 2024 (£m)
HRA	145.6	155.6
General Fund	430.5	443.9
Total Borrowing	**576.1**	**599.5**

3.20. The breakdown of the existing loans is shown below:

Borrowing Type	Loan Balance 30 September 2024 (£m)	Loan Balance 31 March 2024 (£m)	Movement (£m)
PWLB	120.6	130.6	10.0
LOBO	40.0	50.0	10.0
Private Placement	394.1	396.6	2.5
Amber MEEF/ Abundance	21.4	22.3	0.9
Total	**576.1**	**599.5**	**23.4**

3.21. During 2024/25, the Council repaid a £10.0m PWLB maturity loan (interest rate 4.75%) with duration of 25 years and £2.540m private placement annuity loans using internal investment balances. In May 2024, notification was received from FMS Wertmanagement of its intention to increase the borrowing rate on its £10m loan from

3.65% to 6.94%. The Council therefore repaid this LOBO in full on 6 June 2024. This results in a current LOBO value of £40.0m.

3.22. The Council also received scheme specific loans to help fund a range of energy efficiency measures from the Mayor of London's Energy Efficiency Fund (MEEF) and Abundance Investment. The Council secured three loans from MEEF totalling £22.1m to finance new electric refuse collection vehicles and charging infrastructure, electric street cleansing vehicles, and to support the LED rollout programme. The other loan resulted from the partnership with Abundance Investment, where the Council raised £1m from the general public and local residents to help finance energy efficiency projects and carbon reduction measures on Council owned buildings. £0.857m of the Amber MEEF and Abundance loans were repaid during 2024/25.

3.23. The capital programme is being kept under regular review due to the current effects of CPI inflationary pressures, shortages of materials and labour resource. The Council's borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure over the long term.

3.24. The Council began the process of applying for a global credit rating from Moody's rating agency in 2023/24 to demonstrate its financial position within local government and the wider credit market. Ratings assigned on Moody's Ratings global rating scales are forward-looking opinions of the relative credit risks of financial obligations issued by non-financial corporates, financial institutions, structured finance vehicles, project finance vehicles, and public sector entities.

3.25. On 22 July 2024, Moody's issued the council with a credit profile rating of Aa3, stable. This credit profile reflects the Council's exceptional economic status and diversity, considerable financial strength and income generating power, moderate debt levels and low risk debt structure, and strong governance and prudent financial planning. The credit profile also reflects current spending pressures on temporary accommodation and the Council's large and ambitious capital programme. In addition, the credit profile benefits from Moody's assumption of a high likelihood that the government of the United Kingdom (also rated Aa3 stable) would act in a timely manner to prevent unlikely default.

Forward Borrowing

3.26. As anticipated in the 2024/25 TMSS, the Council took no additional general and council wide long-term borrowing for the financial year due to the high level of cash holdings. Officers are monitoring market conditions and reviewing the need to borrow if a requirement is identified for either the General Fund or Housing Revenue Account (HRA). The monitoring process includes the setting of various trigger points, the breaking of which will require officer consideration of borrowing requirements and market conditions.

3.27. Due to the overall financial position and the underlying need to borrow for capital purposes, it is prudent for the Council to continually monitor its borrowing options.

3.28. During the financial year 2019/20, the Council arranged forward borrowing loans totalling £400m. These loans have enabled the Council to agree competitive rates in advance of need which eliminates the "cost of carry", i.e., the difference between loan interest cost and the rate of return on cash investments. The loans for 2022 and 2023 have all been received and are included in the borrowing figures detailed above.

3.29. An analysis of these loans can be found in the table below.

Counterparty	Initial Amount (£m)	Balance Outstanding at 30 Sept 2024 (£m)	Start Date	Maturity Date	Rate (%)	Profile
Phoenix Group	37.5	36.1	15 March 2022	15 March 2062	2.706	Annuity
Barings LLC	150.0	150.0	15 August 2022	15 August 2052	1.970	Maturity
Phoenix Group	12.5	12.2	15 March 2023	15 March 2063	2.751	Annuity
Rothesay Life Plc	200.0	195.8	08 May 2023	08 May 2063	2.887	Equal Instalment of Principal
Weighted average interest rate	**400.0**	**394.1**			**2.579**	

4. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

4.1. During the financial year to 30 September 2024, the Council operated within the Treasury Limits and Prudential Indicators set out in the TMSS approved by Council on 6 March 2024 as set out below.

4.2. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2024, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2024. The Executive Director of Finance and Resources reports that no difficulties are envisaged for the current or future years in complying with these indicators.

PI Ref		2024/25 Indicator	2024/25 Forecast
1	Capital expenditure	£635m	£520m
2	Capital Financing Requirement (CFR)	£1,425m	£1,280m
3	Net debt vs CFR	£863m underborrowing	£704m underborrowing
4	Ratio of financing costs to revenue stream	GF 9.83% HRA 62.95%	GF 10.12% HRA 60.48%
5a	Authorised limit for external debt	£1,472m	£1,327m
5b	Operational debt boundary	£609m	£623m
6	Working Capital Balance	£0m	£0m
7	Limit on surplus funds invested for more than 364 days (i.e. non specified investments)	£450m	£0m
8	Maturity structure of borrowing	Upper limit under 12 months: 40% Lower limit 10 years and above: 35%	Upper limit under 12 months: 1% Lower limit 10 years and above: 73%

Capital expenditure and borrowing limits

4.3. The capital expenditure forecast to 31 March 2025 totals £520m for both the General Fund and the HRA. The initial capital expenditure budget at the time of the approval of the annual Treasury Management Strategy Statement 2024/25 was £635m.

4.4. The long-term capital investment plan is underpinned by the Council's policy objectives. Capital proposals are considered within the Council's overall medium to long-term priorities, and the preparation of the capital programme is an integral part of the financial planning process. This includes taking account of the revenue implications of the projects as part of the revenue budget setting process.

4.5. The Council continues to set aside additional revenue funding each year to cover the financing costs of the programme in accordance with previously stated plans. Earmarked reserves are also maintained to support the financing of the capital programme and provide a sustainable approach to funding through the Medium Term Financial Plan.

4.6. External borrowing was well within the Capital Financing Requirement, Authorised Borrowing Limit and the Operational Boundary as shown in the table above:

- The Authorised Limit is a level for which the external borrowing cannot be exceeded without reporting back to Full Council. It therefore provides sufficient headroom such that if the planned capital programme required new borrowing to be raised over the medium term, interest rates were deemed favourable and the cost of carry was appropriate, this borrowing could be raised ahead of when the spend took place.

- The Operational Boundary is set at a lower level and should take account of the most likely level of external borrowing. Operationally, in accordance with CIPFA best practice for Treasury Risk Management, a liability benchmark is used to determine the point at which any new external borrowing should take place.

4.7. The purpose of the maturity structure of borrowing indicator is to highlight any potential refinancing risk that the Council may be facing if, in any one particular financial period, there was a disproportionate level of external loans maturing. The table below shows that the maturity structure of the Council's borrowing as at 30 September 2024 was within the Treasury limits set and does not highlight any serious, significant issues.

Actual Maturity at 30 September 2024	Duration	Upper Limit	Lower Limit
1	Under 12 Months	40	0
2	12 Months and within 24 Months	35	0
8	24 Months and within 5 Years	35	0
16	5 Years and within 10 Years	50	0
73	10 Years and Above	100	35

4.8. The Council is not subject to any adverse movement in interest rates in its current loans portfolio as it only holds fixed interest borrowing.

4.9. The average rate on the fixed interest borrowing is 2.89% with an average redemption period of 20 years. This reflects the historical legacy of borrowing taken out some years ago. Debt rescheduling opportunities have become more common in the current economic climate. No debt rescheduling has been undertaken to date in the current financial year.

4.10. The Council's borrowing portfolio contains £40m of Lender Option Borrower Option loans (LOBOs). These are long-term loans of up to 60 years, which are subject to periodic rate re-pricing. The rates are comparable with loans for similar durations provided by the PWLB. There is some refinancing risk associated with these loans because of the lender option to increase interest rates. Some banks are offering premature repayment or loan conversion for LOBOs to fixed term loans and officers will remain alert to such opportunities as they arise.

Investment limits

4.11. Investment in non-specified investments at zero does not break into the limit of £450.0m for such investments. This reflects the fact that all of the Council's investments have a life of less than 12 months. The highest level of non-specified investments during the year was zero.

4.12. While the short duration is within approved limits, there is scope within the Investment Strategy to extend the duration of investments for up to five years. Using longer duration investments and marginally lower credit ratings is likely to increase the yield the Council generates from its investments.

5. THE ECONOMY AND INTEREST RATES

5.1. The news that the economy grew by 0.7% q/q in Q4 2023/24 confirmed that it moved out of its very mild technical recession that prevailed at the end of 2023. However, data released for April and May 2024 showed a slight stalling in the recovery, with GDP data for April 2024 coming out at 0.0% m/m, as inclement weather weighed on activity. Moreover, the fall in the composite Purchasing Manager Index output balance from 53.0 in May to 51.7 in June confirms tepid UK growth.

5.2. On a more positive note, the 2.9% m/m increase in retail sales volumes in May 2024 more than reversed the 1.8% m/m drop in April as rainfall returned to seasonal norms. The strength was broad-based across the retail sector, including online, (+5.9% m/m) suggesting an underlying strengthening in sales beyond weather effects.

5.3. Stronger consumer spending, as low inflation allows households' real incomes to strengthen and the drag from higher interest costs fades, suggests that real consumption will strengthen substantially over the next two years. However, investment will only make a modest contribution to GDP growth. With the industrial sector still 12% smaller than in 2019, excess capacity will continue to cap the need for industrial firms to invest.

5.4. Improving business sentiment should raise investment by services firms. Further, a fall in mortgage rates should trigger a recovery in residential investment. Overall, strong consumer spending is likely to be the backbone of UK GDP growth, along with government consumption. Capital Economics forecasts that, following GDP growth of 1.0% in 2024, activity will continue to surprise to the upside with GDP growth of 1.5% for both 2025 and 2026 (consensus forecasts are 1.2% and 1.4% respectively).

5.5. Despite the stickiness of wage growth in April 2024, sharp falls in employment and a move up in unemployment suggests that wage growth will soon be back on a downward path. The 139,000 fall in employment in the three months to April 2024 was accompanied by a rise in the unemployment rate from 4.3% to 4.4%. This was the fourth increase in a row and took it to its highest level since September 2021. The rise would have been larger were it not for the 132,000 increase in inactivity in the three months to April 2024 as the UK's disappointing labour market participation performance since the pandemic continued.

5.6. The fall in CPI inflation in May 2024 back to the Bank's 2.0% target for the first time since July 2021 will have come as welcome news to the Bank. Furthermore, with CPI inflation of 3.3% in the US and 2.6% in the Euro-zone in May 2024, the UK appears to have won the race to get CPI inflation back to 2.0%. A further easing in food inflation from 2.8% in April 2024 to 1.6% in May played a part in the fall in overall CPI inflation and with food producer price inflation at just 0.2% in May, food price inflation will probably soon fall to zero.

5.7. The core inflation rate also fell back from 3.9% to 3.5%. Within that, core goods CPI inflation slipped below zero for the first time since October 2016. As expected, clothing/footwear, recreation/culture and restaurants/hotels categories inflation declined, reflecting base effects from big increases in May 2023.

6. BACKGROUND

6.1. The Local Government Act 2003 ("the Act") and the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 require the Council to 'have 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. These are contained within this report.

7. FINANCIAL IMPLICATIONS

7.1. Financial implications are contained in the body of this report.

8. LEGAL IMPLICATIONS

8.1. The legislation above requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. This report assists the Council in fulfilling its statutory obligation under the Act to monitor its borrowing and investment activities.

9. BACKGROUND PAPERS

Full Council Report

Treasury Management – Annual Strategy for 2024/25, including Prudential Indicators and Statutory Borrowing Determinations – 6 March 2024.

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

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Limits and exposures as at 30 September 2024 **Appendix 1**

Category	Limit per Counterparty (£m)	Duration Limit	Counterparty Name	Current Exposure (£m)	Interest Rate (%)
UK Local Authorities	£100m per local authority; £500m in aggregate	3 years	Dundee City Council	10.0	5.18
			Moray Council	5.0	5.90
			North Lanarkshire Council	10.0	4.80
			North Lanarkshire Council	10.0	4.80
			Telford and Wrekin Council	10.0	4.85
			Wrexham County Council	10.0	6.35
Money Market Funds	£70m per fund. £300m in aggregate.	Three day notice	Aberdeen Sterling Liquidity Fund	61.1	
			Federated Sterling Liquidity Fund	70.0	
			Morgan Stanley Sterling Liquidity Fund	70.0	
UK Government	Unlimited	Unlimited	Treasury Bill	39.5	5.20
			Treasury Bill	39.5	5.19
			Treasury Bill	39.0	5.12
			Treasury Bill	39.0	5.12
			Treasury Bill	39.5	5.02
			Treasury Bill	39.0	4.93
			Treasury Bill	39.5	4.92
			Treasury Bill	39.1	4.76
UK Banks (A-/A3/A)	£50m	3 years	Goldman Sachs International	25.0	5.34
			Goldman Sachs International	25.0	4.85
			National Westminster Bank	25.0	5.25
			National Westminster Bank	25.0	4.80
			Santander Bank	25.0	4.95
			Santander Bank	25.0	4.72
Non-UK Banks (AA-/Aa2/ AA-)	£50m	5 years	Svenska Handelsbanken	25.0	5.36
			Svenska Handelsbanken	25.0	5.00
			Toronto Dominion Bank	25.0	4.90
			Toronto Dominion Bank	25.0	4.77
TOTAL				**820.2**	**5.03**