**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**COUNCIL – THURSDAY, 20 FEBRUARY 2025**

| **Title of Report** | **2024/25 MID-YEAR TREASURY MANAGEMENT REPORT** | |
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| **Presented by** | Councillor Nick Rushton<br>Corporate Portfolio Holder | |
| **Background Papers** | Capital Strategy, Treasury Management Strategy and Prudential Indicators – Council 22 February 2024<br><br>Treasury Management Update Report – Quarter 2 Audit and Governance Committee 20 November 2024 | **Public Report:** Yes |
| **Financial Implications** | There are no financial implications as a direct result of this report. | |
| | **Signed off by the Section 151 Officer**: Yes | |
| **Legal Implications** | There are no legal implications as a direct result of this report. | |
| | **Signed off by the Monitoring Officer**: Yes | |
| **Staffing and Corporate Implications** | There are no staffing or corporate implications as a direct result of this report. | |
| | **Signed off by the Head of Paid Service:** Yes | |
| **Purpose of Report** | To inform Council of the Council's Treasury Activity for the period April 2024 – September 2024. | |
| **Recommendations** | **THAT COUNCIL NOTES THE TREASURY MANAGEMENT HALF-YEARLY ACTIVITY REPORT 2024-25 (APPENDIX A).** | |

## 1.0 BACKGROUND

1.1 Treasury Management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), which requires local authorities to produce Prudential Indicators and a Treasury Management Strategy Statement annually on the likely financing and investment activity. The Treasury Management Strategy was approved by Council on 22 February 2024.

1.2 As a minimum, the Code requires that the Council reports on the performance of the Treasury Management function at least twice yearly (mid-year and at year end). Appendix A is the mid-year report for the financial year 2024/25 designed to inform Council of the Council's treasury activity and enable scrutiny of activity and performance.

## 2.0 TREASURY MANAGEMENT ADVISOR'S COMMENTARY – ARLINGCLOSE LTD

2.1 The commentary below has been provided by the Council's treasury management advisors:

2.1.1 The Council is currently taking a relatively low credit and liquidity risk approach to its investment strategy by investing mainly in deposits with UK central government, Money Market Funds (MMFs), UK local authorities, and a small number of UK banks, for short terms (up to 12 months). Most of these options avoid the direct bail-in risk[1] associated with bank deposits (although indirect exposure is held via the MMFs, this is highly diversified).

2.1.2 Interest rates set by central banks have started to be cut globally, with the Bank of England cutting UK Bank Rate to 5% in August 2024 and further reductions anticipated. The Council's investment returns have therefore fallen and will likely continue to do so, broadly in line with market rates. With inflation having fallen to below 2%, the Council is currently earning a positive real return (i.e. adjusting for inflation). The latest client investment benchmarking exercise that the Council took part in (September 2024) showed the Council's return was higher than the average for other local authorities and credit risk (as measured by credit ratings) was lower, for internally managed investments.

2.1.3 Other investment options that may fit with the Council's current risk appetite could include secured bank deposits (up to 12 months), longer-term loans to local authorities (the Council has done this before), covered or supranational bonds and loans to Registered Providers (housing associations), which may also require a longer investment horizon (three to five years).

2.1.4 Going beyond this would be an alternative approach – investing for the long-term (five years +) in asset classes such as property, bonds and equities which fluctuate in value, and carry a different and typically higher set of risks but offer the potential for higher long-term returns. The Council would need to identify a long-term investment horizon and/or these types of investments may need to be part of a documented strategy to manage liquidity, interest rate, exchange rate and/or inflation risks.

[1] Bail-ins are a way for banks to convert debt into equity to increase their capital requirements. Risks of bail-ins include: • Moral Hazards: by offering the institution a way out of financial trouble, bail-in clauses may encourage irrational and risky behaviour that can lead to turmoil in the future. • Higher costs of borrowing.

## 3.0 SUMMARY

3.1 In compliance with the requirements of the CIPFA Code, Appendix 1 provides Council with a summary report of the Treasury Management activity for the period April 2024 to September 2024. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

| **Policies and other considerations, as appropriate** | |
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| Council Priorities: | The Treasury Strategies and Prudential Indicators help the Council achieve all its priorities:<br>- Planning and Regeneration<br>- Communities and Housing<br>- Clean, Green and Zero Carbon<br>- A Well-Run Council |
| Policy Considerations: | Not applicable |
| Safeguarding: | Not applicable |
| Equalities/Diversity: | Not applicable |
| Customer Impact: | Not applicable |
| Economic and Social Impact: | Not applicable |
| Environment, Climate Change and zero carbon: | The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing. Where practical, when making investment decisions ESG will be considered and counterparties with integrated ESG policies and commitments to carbon reduction. |
| Consultation/Community Engagement: | Audit Committee – 20 November 2024 |
| Risks: | Borrowing and investment both carry an element of risk. This risk is mitigated through the adoption of the Treasury and Investment Strategies, compliance with the CIPFA Code of Treasury Management and the retention of Treasury Management advisors (Arlingclose) to proffer expert advice. |
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