Civic Centre, Riverside, Stafford

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Dear Members

Audit and Accounts Committee

A meeting of the Audit and Accounts Committee will be held in the **Craddock Room, Civic Centre, Riverside, Stafford on Tuesday 18 February 2025 at 6.30pm** to deal with the business as set out on the agenda.

Please note that this meeting will be recorded.

Members are reminded that contact officers are shown in each report and members are welcome to raise questions etc in advance of the meeting with the appropriate officer.

I. C

Head of Law and Governance

AUDIT AND ACCOUNTS COMMITTEE

18 FEBRUARY 2025

Chair - Councillor M G Dodson

AGENDA

1 Minutes of 20 November 2024 as circulated and published on 28 November 2024

2 Apologies

3 Officers' Reports

Chair - Councillor M G Dodson

K M Aspin	A M Loughran
M G Dodson	A R McNaughton
P A Leason	D P Rouxel

Agenda Item 3(a)

Annual Treasury Management Report 2023-24

Committee:	Audit and Accounts Committee
Date of Meeting:	18 February 2025
Report of:	S151 Officer and Deputy Chief Executive (Resources)
Portfolio:	Resources Portfolio

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1 Purpose of Report

1.1 To update members on treasury management activity and performance during the 2023/24 financial year.

2 Recommendations

2.1 To note the annual treasury management report for 2023/24; and

2.2 To approve the actual 2023/24 prudential and treasury indicators set out in **APPENDIX 1.**

Reasons for Recommendations

2.3 The committee is required to receive reports and approve information on treasury management activity during the year

3 Key Issues

3.1 Treasury management activity and performance report during the 2023/24 financial year.

4 Relationship to Corporate Priorities

4.1 Treasury management and investment activity link in with all of the Council's priorities and their spending plans.

5 Report Detail

Background

5.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2023/24. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

5.2 During 2023/24, the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year;
- a mid-year (minimum) treasury update report; and
- an annual review following the end of the year describing the activity compared to the strategy (this report)

5.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

5.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Accounts Committee before they were reported to the full Council. Training will be programmed in over the next twelve months.

The Council's Capital Expenditure and Financing

5.5 The Council undertakes capital expenditure on long-term assets. 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 resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

5.6 The actual capital expenditure forms one of the required prudential indicators. This is detailed in the **APPENDIX**.

The Council's Overall Borrowing Need

5.7 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 2023/24 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR (non HRA) - the Council's underlying borrowing need (CFR) 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 need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2023/24 MRP Policy, (as required by Ministry of Housing, Communities and Local Government [MHCLG] Guidance), was approved as part of the Treasury Management Strategy Report for 2023/24 on 21 February 2023.

The Council's CFR for the year is shown in the **APPENDIX** and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need.

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

5.8 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator would have allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2023/24. The table in **APPENDIX 1** highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

5.9 **The authorised limit** - the authorised limit is the "affordable borrowing limit" determined in compliance with section 3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table in the Appendix demonstrates that during 2023/24 the Council has maintained gross borrowing within its authorised limit.

5.10 **The operational boundary** - the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

5.11 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

Treasury Position as at 31 March 2024

5.12 The Council's treasury management debt and investment position is organised by the Treasury Team in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

At the end of 2023/24, the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

Debt Portfolio	31 March 2023 Principal	Average Annual Rate/ Return	Average Life (yrs)	31 March 2024 Principal	Average Annual Rate/ Return	Average Life (yrs)
Total debt (PWLB)	£0m			£0m		
CFR	£3.8m			£3.59m		
Over / (under) borrowing	(£3.8m)			(£3.59m)		
Total investments	£74.0m	2.01%	0.07	£60.49m	4.92%	0.08
Net investments	£74.0m			£60.49m		

5.12.1 The following table sets out the Council's investments held and their respective rate of returns at 31 March 2024:

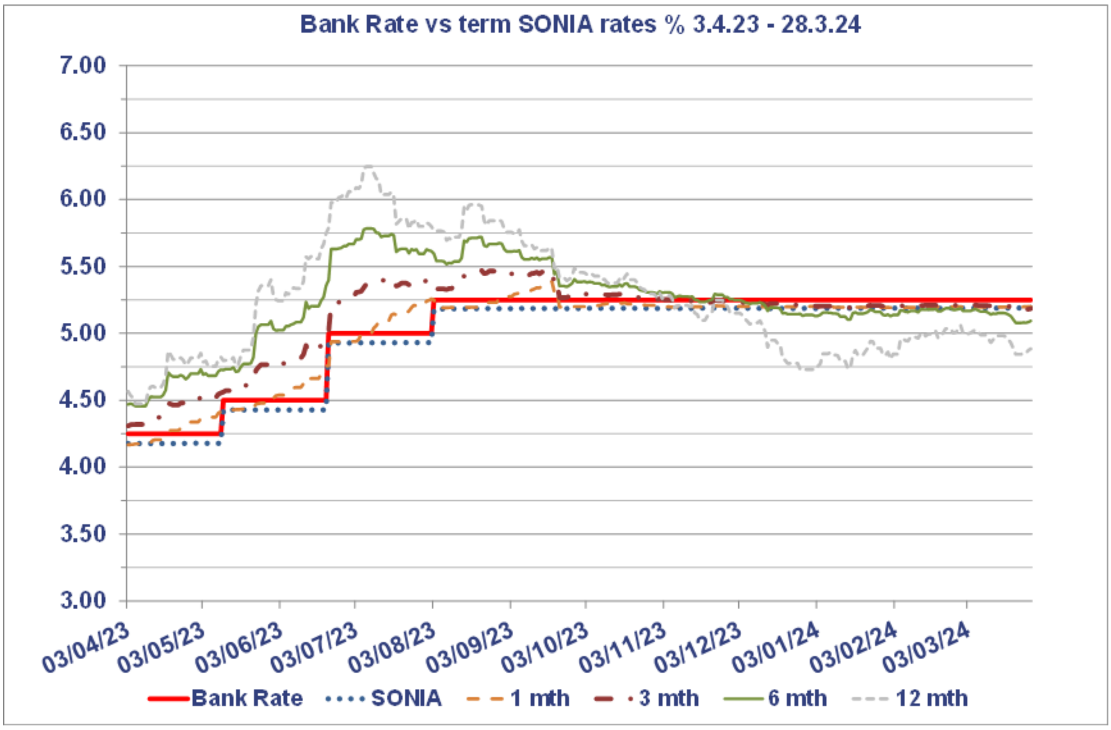
Counterparty	Start Date	End Date	Value (£)	Rate %
National Bank of Kuwait	04/03/2024	04/06/2024	4,000,000	5.42
Al Rayan Bank Plc	20/11/2023	20/05/2024	6,000,000	5.55
National Westminster Bank Plc (RFB)	18/12/2023	20/05/2024	2,000,000	5.35
Santander (180 days)	Call Notice Account		6,000,000	5.01
Svenska Handelsbanken	Call Account (Instant)		3,260,000	3.20
Bank of Scotland	Call Account (Instant)		3,380,000	5.14
Aberdeen GBP Liquidity Class L1	Money Market Fund		9,000,000	5.27

Counterparty	Start Date	End Date	Value (£)	Rate %
Deutsche Managed GBP LVNAV Platinum	Money Market Fund		8,850,000	5.25
Federated Hermes Short-Term GBP Prime Class 3	Money Market Fund		9,000,000	5.29
Morgan Stanley GBP Liquidity Institutional Plus	Money Market Fund		9,000,000	5.26
Total investments		**60,490,000**		

5.13 All investments in the portfolio have a maturity of under 1 year.

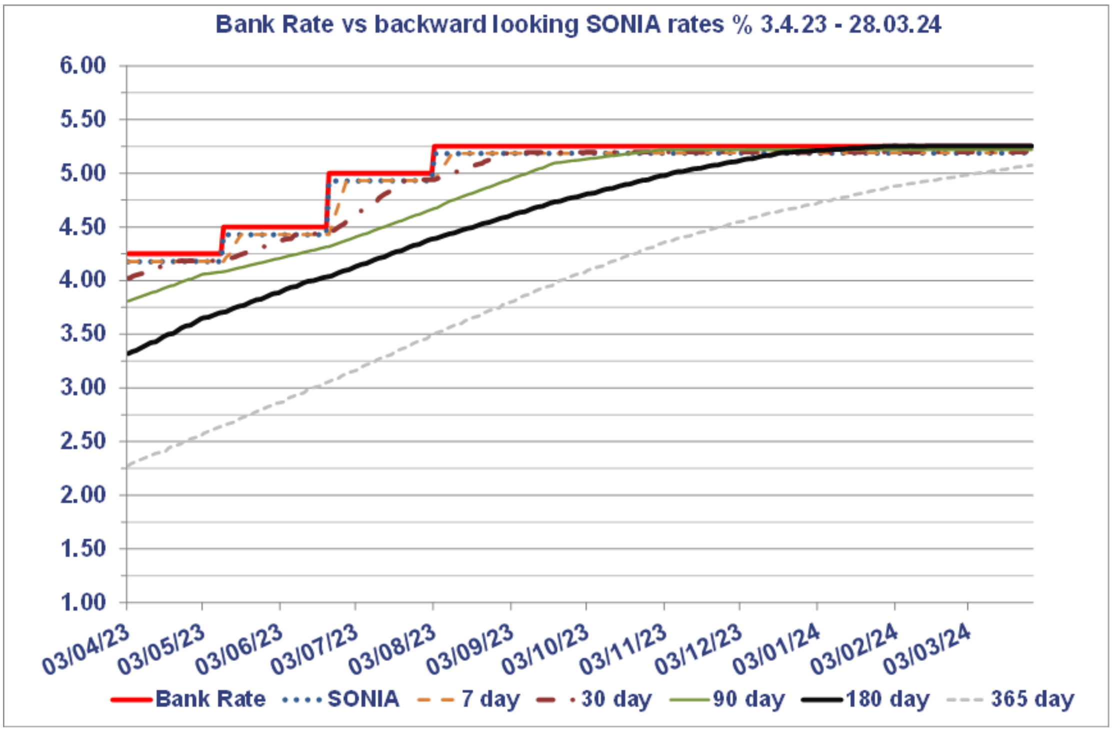
Investment strategy and control of interest rate risk

Investment Benchmarking Data - Sterling Overnight Index Averages (Term) 2023/24



FINANCIAL YEAR TO QUARTER ENDED 28/03/2024	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	5.25	5.19	5.39	5.48	5.78	6.25
High Date	03/08/2023	28/03/2024	19/09/2023	30/08/2023	07/07/2023	07/07/2023
Low	4.25	4.18	4.17	4.31	4.46	4.47
Low Date	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
Average	5.03	4.96	5.02	5.13	5.23	5.25
Spread	1.00	1.01	1.22	1.17	1.33	1.77

Investment Benchmarking Data - Sterling Overnight Index Averages (Backward-looking) 2023/24



FINANCIAL YEAR TO QUARTER ENDED 28/03/2024	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	5.25	5.19	5.19	5.20	5.22	5.25	5.08
High Date	03/08/2023	28/03/2024	28/03/2024	26/03/2024	25/03/2024	22/03/2024	28/03/2024
Low	4.25	4.18	4.18	4.02	3.81	3.32	2.27
Low Date	03/04/2023	04/04/2023	11/04/2023	03/04/2023	03/04/2023	03/04/2023	03/04/2023
Average	5.03	4.96	4.96	4.93	4.84	4.64	3.93
Spread	1.00	1.01	1.01	1.18	1.41	1.94	2.80

5.14 Investment returns picked up throughout the course of 2023/24 as Central Banks, including the Bank of England (BoE), realised that inflationary pressures were not transitory, and that tighter monetary policy were required.

The Bank of England opted to increase Bank Rate on 14 successive occasions, starting around mid-December 2021. At the beginning of April 2022, Bank Rate was set at 0.75% and moved up in stepped increases of either 0.25% or 0.5% thereafter, reaching 4.25% by the end of 2022/23 and peaked at 5.25% on 3rd August 2023. By the end of the financial year, no further increases were anticipated and accordingly held at 5.25%, However, there was indeed market expectation that the first reduction in Bank Rate would occur in either June or August 2024. Consistent with this expectation, the BoE announced its first Bank Rate. On 1st August 2024, interest rates dropped by 25 basis points (i.e. 0.25%), thereby becoming 5%. Such announcement represented the first cut to rates since March 2020.

Against this backdrop of market volatility, the sea-change in investment rates meant local authorities were faced with the challenge of proactive investment of surplus cash for the first time in over a decade. This emphasised the need for a detailed working knowledge of cashflow projections, so that the appropriate balance between the conflicting needs for security and liquidity of funds whilst maximising the return on investments could be struck. The Council's Treasury Team were able to achieve such balance through the diversification of different financial assets and other interest-bearing instruments, and "rode the yield curve" with fixed-term deposits by adopting shorter durations on a rolling basis in order to lock-in the increase in investment rates whilst maintaining the security of investment.

With bond markets selling off, UK equity market valuations struggled to make progress, as did property funds, although there have been some spirited, if temporary, market rallies from time to time - including in November and December 2023. However, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration), have continued to be at the forefront of most local authority investment strategies, particularly given Money Market Funds (MMFs) have also provided decent returns in close proximity to Bank Rate for liquidity purposes. In the latter part of 2023/24, the local authority-to-local authority market lacked any meaningful measure of depth, forcing short-term investment rates above 7% in the last week of March.

5.15 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

5.16 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

Borrowing strategy and control of interest rate risk

5.17 During 2023/24, the Council maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

5.18 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost - the difference between (higher) borrowing costs and (lower) investment returns.

5.19 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

5.20 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The S151 Officer and Deputy Chief Executive (Resources) therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp FALL in long- and short-term rates, (e.g., due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

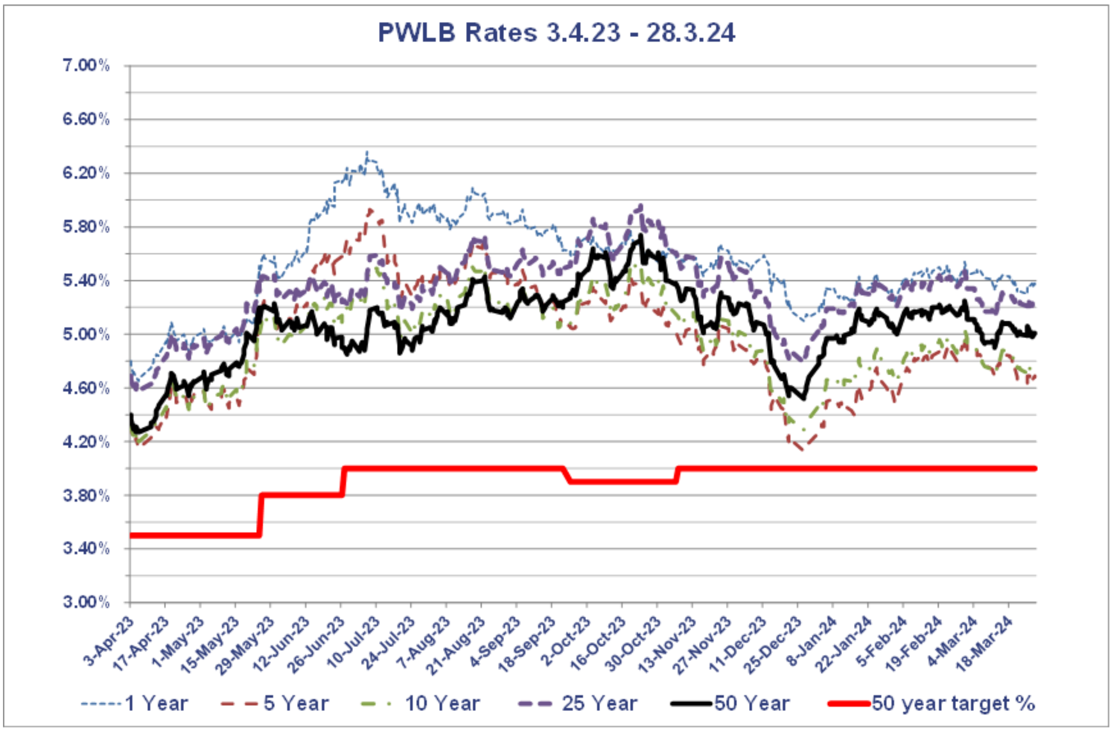
- if it had been felt that there was a significant risk of a much sharper RISE in long and short-term rates than initially expected, perhaps arising from the stickiness of inflation in the major developed economies, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

5.21 During 23/24, interest rate forecasts initially suggested further gradual rises in short, medium and longer-term fixed borrowing rates. Bank Rate had initially been forecast to peak at 4.5% but, in fact, it peaked at 5.25% on 3rd August 2023. By January, it had become clear that inflation was moving down significantly from its 40-year double-digit highs, and the Bank of England signalled in March 2024 that the next move in Bank Rate would be down, so long as upcoming inflation and employment data underpinned that view.

As highlighted above, the Bank of England opted to increase Bank Rate on 14 successive occasions, starting around mid-December 2021. At the beginning of April 2022, Bank Rate was set at 0.75% and moved up in stepped increases of either 0.25% or 0.5% thereafter, reaching 4.25% by the end of 2022/23 and peaked at 5.25% on 3 August 2023. By the end of the financial year, no further increases were anticipated and accordingly held at 5.25%, However, there was indeed market expectation that the first in Bank Rate would occur in either June or August 2024. Consistent with this expectation, the BoE announced its first Bank Rate. On 1 August 2024, interest rates dropped by 25 basis points (i.e. 0.25%), thereby becoming 5%. Such announcement represented the first cut to rates since March 2020, therefore. The second rates cut occurred 7 November, lowering base rate by another 25 basis points to 4.75%. Based on current market conditions and intelligence, it is anticipated that continuing gradual fall in inflation will, in turn, lead to a fall in Bank Rate. It is projected that Bank Rate could decline as far as 3.50% by the tail-end of 2027.

Link Group Interest Rate View	08.01.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

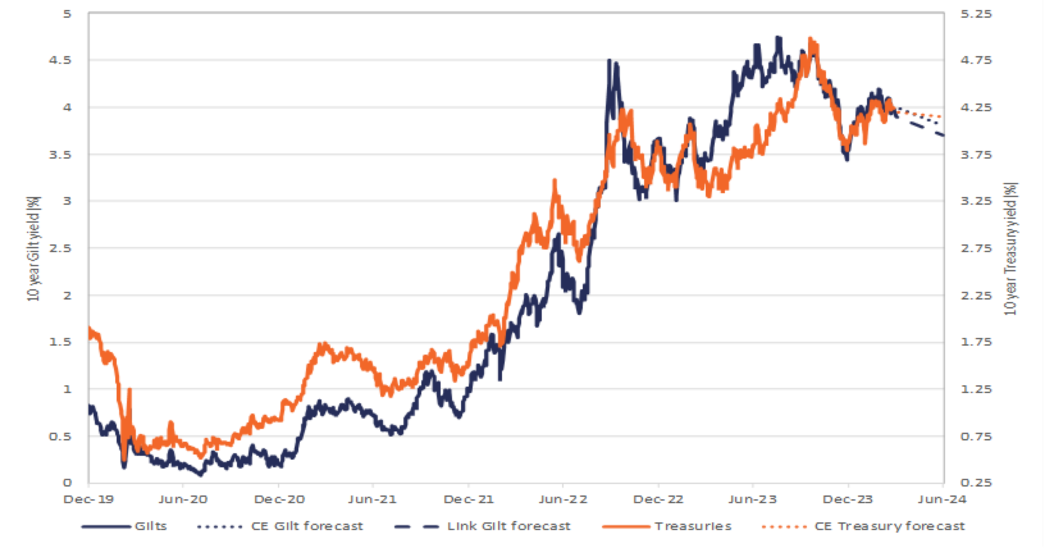
PWLB RATES 2023/24



5.22 PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by levels of persistent inflation that are exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

Graph of UK gilt yields v. US treasury yields



5.23 Gilt yields have generally been on a continual rise since the start of 2021, peaking in the autumn of 2023. Currently, yields are broadly range bound between 3.5% and 4.25%.

5.24 At the close of the day on 28 March 2024, all gilt yields from 1 to 50 years were between 3.81% and 4.56%, with the 1 year being the highest and 6-7 years being the lowest yield.

5.25 Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows:-

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)
- HRA Borrowing rate is gilt plus 40 40bps (G+40bps)

Borrowing Outturn

5.26 Borrowing - Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

Investment Outturn

5.27 Investment Policy - the Council's investment policy is governed by MHCLG guidance, which has been implemented in the approved annual investment strategy. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc).

5.28 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

5.29 Resources - the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources (£m)	**31-Mar-23**	**31-Mar-24**
	£'000	£'000
Earmarked Fund balances / reserves	32,415	38,499
Unallocated Reserves	1,569	1,907
Capital receipts	1,443	1,055
Capital grants	15,860	10,983
Provisions	3,374	2,501
Other S106 capital	3,689	3,763
Other S106 revenue	2,495	2,454
Total	**60,845**	**61,162**

5.30 **Investments held by the Council:**

- The Council maintained an average balance of £80.3m of internally managed funds.

- The internally managed funds earned an average annualised rate of return of 4.92%.

- Total investment income was £3,950,881.45 compared to a revised budget of £3,180,000.

6 Implications

6.1 Financial

Included in this report.

6.2 Legal

None

6.3 Human Resources

None

6.4 Risk Management

None

6.5 Equalities and Diversity

None

6.6 Health

None

6.7 Climate Change

None

7 Appendices

Appendix 1: Prudential Indicators

Appendix 2: Investment Analysis

8 Previous Consideration

None

9 Background Papers

Held in Finance.

Contact Officer:	Chris Forrester
Telephone Number:	01543 464334
Ward Interest:	Nil
Report Track:	Audit and Accounts 18 February 2025 (Only)
Key Decision:	N/A

Appendix 1

Annual Treasury Management Report 2023-24

1 PRUDENTIAL INDICATORS	2022/23 Actual £'000	2023/24 Estimate £'000	2023/24 Actual £'000
Capital Expenditure	2,369	19,888	9,773
Ratio of financing costs to net revenue stream	-8.6%	-1.8%	-19.9%
Gross borrowing requirement - Finance leases	1,580	1,477	1,477
Gross debt	0	0	0
Capital Financing Requirement as at 31 March	3,778	3,586	3,586
Annual change in Cap. Financing Requirement	-299	-191	-191

2 TREASURY MANAGEMENT INDICATORS	2022/23 Actual £'000	2023/24 Estimate £'000	2023/24 Actual £'000
Authorised Limit for external debt -	6,965	6,862	6,862
Operational Boundary for external debt	3,965	3,862	3,862
Actual external debt	0	0	0

Maturity structure of fixed rate borrowing during 2023/24	upper limit	lower limit
under 12 months	100%	0%

Maturity structure of fixed rate borrowing during 2023/24	**upper limit**	**lower limit**
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Appendix 2

Annual Treasury Management Report 2023-24

The following table sets out an analysis of investments held 31 March 2024 (together with a comparator at 31 March 2023).

INVESTMENT PORTFOLIO	Actual 31.3.23	Actual 31.3.23 %	Actual 31.3.24	Actual 31.3.24 %
Money Market Funds	£38.0m	51%	£35.9m	59%
Banks	£36.0m	49%	£24.6m	41%
Local authorities	£0.0m	0%	£0.0m	0%
TOTAL TREASURY INVESTMENTS	**£74.0m**	**100%**	**£60.5m**	**100%**

Agenda Item 3(b)

Treasury Management Mid-Year Report 2024-25

Committee:	Audit and Accounts Committee
Date of Meeting:	18 February 2025
Report of:	S151 Officer and Deputy Chief Executive (Resources)
Portfolio:	Resources Portfolio

1 Purpose of Report

1.1 To update members on Treasury Management activity and performance during the first half of the 2024/25 financial year.

1.2 To provide an economic update and a background to the latest economic forecasts of interest rates. Both are detailed in the **APPENDIX**.

2 Recommendations

2.1 To note the report, the treasury activity and the Prudential Indicators for 2024/25.

Reasons for Recommendations

2.2 The treasury management strategy sets out the activity for the year and update reports are required to be produced during the year.

3 Key Issues

3.1 To report the Treasury Management activity and performance during the first half of the 2024/25 financial year.

4 Relationship to Corporate Priorities

4.1 Treasury Management and investment activity link in with all of the Council's priorities and their spending plans.

5 Report Detail

Background

5.1 **Capital Strategy**

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2020/21, all local authorities have been required to prepare a Capital Strategy which is to provide the following:-

- a high-level overview of how capital expenditure, capital financing and Treasury Management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

5.2 **Treasury Management**

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Accordingly, a significant function of Treasury Management is ensuring that cash flows are adequately planned and controlled to meet this objective. Any surplus monies are invested with low risk counterparties, and managed appropriately so that sufficient levels of liquid cash are available to meet any payment obligations as well as offer headroom for unexpected circumstances. Such considerations underpin the day-to-day operations of Treasury Management when determining investment-related outcomes rather than the sole factor of yield that aims to generate higher return on investments with little or no regards to financial risks.

5.3 The second main function of the Treasury Management service is the funding of the Council's capital plans. 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.

5.4 Accordingly, CIPFA defines "Treasury Management" as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Introduction

5.5 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows

1 Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities.

2 Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3 Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.

4 Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions.

5 Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body. For this Council the delegated body is the Audit and Accounts Committee.

5.6 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2024/25 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and Prudential Indicators;
- A review of the Council's investment portfolio for 2024/25;
- A review of the Council's borrowing strategy for 2024/25;
- A review of any debt rescheduling undertaken during 2024/25;

- A review of compliance with Treasury and Prudential Limits for 2024/25.

Treasury Management Strategy Statement and Annual Investment Update

5.7 The Treasury Management Strategy Statement, (TMSS), for 2024/25 was approved by this Council on 27 February 2024. There has been no policy change since the TMSS came into force. All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

Prudential Indicator 2024/25	Original Prudential Indicator £'000	Revised Prudential Indicator £'000
Authorised Limit	23,285	6,785
Operational Boundary	20,285	3,785
Capital Financing Requirement	4,925	3,425

The Council's Capital Position (Prudential Indicators)

5.8 This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the Prudential Indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

5.9 This table shows the estimates for capital expenditure and the changes since the capital programme was agreed at Budget time.

Capital Expenditure by Portfolio	2024/25 Original Estimate £'000	2024/25 Revised Estimate £'000
Community	2,017	2,590

Capital Expenditure by Portfolio	2024/25 Original Estimate £'000	2024/25 Revised Estimate £'000
Environment	317	985
Leisure and Culture	541	1,972
Economic Development and Planning	8,242	10,329
Resources	50	306
Total	**11,167**	**16,182**

5.10 The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2024/25 Original Estimate £'000	2024/25 Revised Estimate £'000
Total Spend	**11,167**	**16,182**
Financed by:		
Capital Receipts	320	542
Capital Grants/contributions	6,929	14,219
Revenue	3,918	1,421
Total Financing	**11,167**	**16,182**
Borrowing Need	**0**	**0**

Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

5.11 The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicators - CFR and Operational Boundary

5.12 We are on target to achieve the original forecast Capital Financing Requirement.

Prudential Indicator - Capital Financing Requirement

	2024/25 Original Estimate £'000	**2024/25 Revised Estimate £'000**
Total CFR	4,925	3,425
Net movement in CFR	**1,338**	**(162)**

Prudential Indicator - the Operational Boundary for external debt

	2024/25 Original Estimate £'000	**2024/25 Revised Estimate £'000**
Operational Boundary	**20,285**	**3,785**
Borrowing	0	0
Other long-term liabilities	2,900	1,400
Headroom	**17,385**	**2,385**

** On balance sheet finance leases etc.*

Limits to Borrowing Activity

5.13 The first key control over the treasury activity is a Prudential Indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2024/25 Original Estimate £'000	**2024/25 Revised Estimate £'000**
Borrowing	0	0
Other long-term liabilities	2,900	1,400
Total debt	**2,900**	**1,400**
CFR* (year-end position)	**4,925**	**3,425**

** Includes on balance sheet finance leases etc.*

5.14 The section 151 officer reports that no challenges are envisaged for the current or future years in complying with this Prudential Indicator.

5.15 A further Prudential Indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

Authorised limit for external debt	**2024/25 Original Estimate £'000**	**2024/25 Revised Estimate £'000**
Authorised limit	**23,285**	**6,785**
Borrowing	0	0
Other long-term liabilities	2,900	1,400
Headroom	**20,385**	**5,385**

** Includes on balance sheet finance leases etc.*

Annual Investment Strategy 2024/25

5.16 In accordance with CIPFA's Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown in **APPENDIX 2** with the accompanying forecast interest rate in near time horizon, there is a relationship with inflation and interest rates. A rise in inflation will invariably lead to a rise in interests. The same wisdom holds true from the opposite situation. Holding true to this relationship, The Bank of England opted to increase Bank Rate on 14 successive occasions, starting around mid-December 2021. At the beginning of April 2022, Bank Rate was set at 0.75% and moved up in stepped increases of either 0.25% or 0.5% thereafter, reaching 4.25% by the end of 2022/23 and peaked at 5.25% on 3rd August 2023. By the end of the financial year, no further increases were anticipated and accordingly held at 5.25%, However, there was indeed market expectation that the first reduction in Bank Rate would occur in either June or August 2024. Consistent with this expectation, the BoE announced its first Bank Rate. On 1 August 2024, interest rates dropped by 25 basis points (i.e. 0.25%), thereby becoming 5%. Such announcement represented the first cut to rates since March 2020, therefore. The second rates cut occurred 7 November, lowering base rate by another 25 basis points to 4.75%. Based on current market conditions and intelligence, it is anticipated that continuing gradual fall in inflation will, in turn, lead to a fall in Bank Rate. It is projected that Bank Rate could decline as far as 3.50% by the tail-end of 2027.

5.17 Against this backdrop of market volatility, the sea-change in investment rates before the expectation of rates cuts meant local authorities were faced with the challenge of proactive investment of surplus cash for the first time in over a decade. This emphasised the need for a detailed working knowledge of cashflow projections, so that the appropriate balance between the conflicting needs for security and liquidity of funds whilst maximising the return on investments could be struck. The Council's Treasury Team were able to achieve such balance through the diversification of different financial assets and other interest-bearing instruments, and "rode the yield curve" with fixed-term deposits by adopting shorter durations on a rolling basis in order to lock-in the increase in investment rates whilst maintaining the security of investment.

5.18 However, the landscape of the financial market for investors has changed since June and August 2024, following the anticipation of the first rate cut. The yield curve became "inverted". By way of background, the yield curve represents the rational investor's expected rate of return on investments for investing their funds into high-quality financial instruments such as Government for a given time horizon. In general terms, the yield curve is usually upwards trending: Longer-date instruments attract higher rate of returns than short-terms. In an inverted yield curve however, which typically occurs during economy slowdown and expectation of inflation decline, very short-term financial instruments are more favourable for investors seeking to generate the highest return on investments. Whereas long-duration maturities are less so. The Council's Treasury Team foresaw changes to the yield curve and, accordingly, adapted its approach towards its management of cash surpluses. Cash concentration is one of the main strategies adopted, meaning that higher fund balances in short-term financial assets like Call Accounts and Money Market Funds are being held. Another approach employed is that the Council entered into suitable fixed-term deposits before or near to the first rate cut occurred. Thus, the Council has "locked" into more favourable rates and maintained a balance between diversification and liquidity.

5.19 The Council held £81.01m of investments as at 30 September 2024 (£60.49m at 31 March 2024).

5.20 A full list of investments held as at 30 September 2024 is in APPENDIX 1.

Investment Counterparty criteria

5.21 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the Treasury Management function.

Borrowing

5.22 The Council's capital financing requirement (CFR) for 2024/25 is £3.425m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

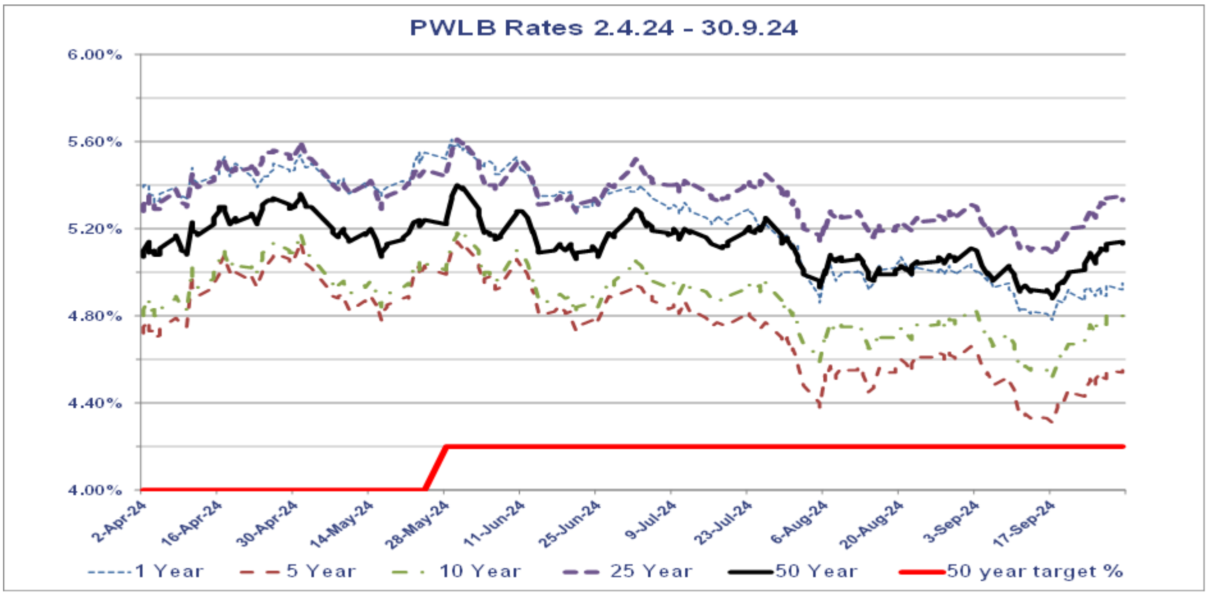
5.23 It is not currently anticipated that borrowing will be undertaken during this financial year, subject to capital slippage into 2024-25 and the trajectory of borrowing rates for the remainder of 24/25.

PWLB maturity certainty rates (gilts plus 80bps) year to date to 29th September 2024

5.24 Gilt yields and PWLB certainty rates were less volatile than at this time last year. Overall, the 10, 25 and 50-year part of the curve endured a little volatility but finished September very much as it started in April. Where there was some movement downwards, this came in the shorter part of the curve as markets positioned themselves for Bank Rate cuts in the second half of 2024 and into 2025, although the continued stickiness of inflation and the prevailing tight labour market is a concern for those looking for more sizeable falls ahead. At the beginning of April, the 5-year certainty rate was the cheapest part of the curve at 4.72% whilst the 25-year rate was relatively expensive at 5.28%. May saw yields at their highest across the whole curve. Conversely, 17 September saw the low point for the whole curve, with the 5-year certainty rate falling to 4.31% before rebounding to 4.55% by the end of the month. Similarly, the 50-year certainty rate fell to 4.88% but finished the month at 5.13%, slightly higher than at the start of April.

The Council's external treasury advisors, Link Group, forecast rates to fall back over the next two to three years as inflation dampens, although there is upside risk to our Bank Rate forecast at present. The CPI measure of inflation is expected to fall below 2% in the second half of 2025, however, and Link forecast 50-year rates to stand at 4.20% by the end of September 2026. Nonetheless, there remains significant risks to that central forecast due to national and international factors. At the national level, this author takes the view that such risks are twofold: (1) Chancellor Rachel Reeves' October's Budget which sets out the Labour Government's future spending and borrowing plans changed market expectations; more notably arising from the increase to minimum wage and the amount of National Insurance to be paid by employers; and (2) the very tight labour market putting upward pressure on wages which, invariably, can potentially contribute to the rising levels of unemployment in the UK. In addition to the continuing geo-political inflationary risks arising from the prevailing Middle East crisis and the Russian invasion of Ukraine, the return of President Trump and his post-inauguration speech at the international level will impact market performance and the extent of the falling interest rate environment.

PWLB Rates 1 April 2024 - 29 September 2024



High/Low/Average PWLB Rates For 1 April 2024 – 29 September 2024

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
30/09/2024	4.95%	4.55%	4.79%	5.33%	5.13%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
High date	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

5.25 The current PWLB rates are set as margins over gilt yields as follows:-

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate (GF) is gilt plus 80 basis points (G+80bps)
- PWLB Local Infrastructure Rate is gilt plus 60 basis points (G+60bps)
- PWLB Certainty Rate (HRA) is gilt plus 40bps (G+40bps)

The UK Infrastructure Bank will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 40bps (G+40bps).

6 Implications

6.1 Financial

Included in this Report.

6.2 Legal

None

6.3 Human Resources

None

6.4 Risk Management

None

6.5 Equalities and Diversity

None

6.6 Health

None

6.7 Climate Change

None

7 Appendices

Appendix 1: Current Investment List as at 30 September 2024.

Appendix 2: Economic Update (provided by Link Asset Services as of 30 September 2024)

Appendix 3: Interest Rate Forecast (provided by Link Asset Services as of 30 September 2024)

8 Previous Consideration

None

9 Background Papers

Held with Finance

Contact Officer:	Chris Forrester
Telephone Number:	01543 464334
Ward Interest:	None
Report Track:	Audit and Accounts Committee 18 February 2025 (Only)
Key Decision:	N/A

Appendix 1

Treasury Management Mid-Year Report 2024/25

Current Investment List and their respective rate of return as of 30 September 2024

Counterparty	Start Date	Maturity	Value (£)	Rate (%)
National Bank of Kuwait	4-Jun-24	4-Mar-25	4,000,000	5.35
Al Rayan Bank Plc	20-May-24	20-Nov-24	6,000,000	5.30
National Bank of Kuwait	03-Jun-24	19-Dec-24	2,000,000	5.35
Helaba Bank	30-Aug-24	31-Oct-24	2,500,000	4.90
Helaba Bank	17-Sep-24	01-Oct-24	850,000	4.92
UK Debt Management Account Deposit Facility (DMADF)**** - Deal No:762655	19-Sep-24	21-Oct-24	1,300,000	4.91
UK Debt Management Account Deposit Facility (DMADF)***** - Deal No:763609	24-Sep-24	21-Oct-24	700,000	4.94
UK Debt Management Account Deposit Facility (DMADF)***** - Deal No:764238	26-Sep-24	21-Oct-24	2,150,000	4.94
UK Debt Management Account Deposit Facility (DMADF)***** - Deal No:764933	30-Sep-24	21-Oct-24	2,800,000	4.94
Santander (180 days)		**Call180	6,000,000	4.76
Handelsbanken		***Call	2,710,000	3.20
Bank of Scotland		***Call	5,000,000	4.88
Aberdeen GBP Liquidity Class L1		*MMF	9,000,000	5.01
Deutsche Managed GBP LVNAV Platinum		*MMF	9,000,000	5.00

Counterparty	Start Date	Maturity	Value (£)	Rate (%)
Federated Hermes Short-Term GBP Prime Class 3		*MMF	9,000,000	5.03
Invesco Liquidity GBP Institutional		*MMF	9,000,000	5.00
Morgan Stanley GBP Liquidity Institutional Plus		*MMF	9,000,000	5.00
Total Investments			**81,010,000**	

*MMF - Money Market Fund (Instant Access)

**Call 180 days' Notice Account

***Call Account (No Notice. Instant Access)

**** UK Government Debt Management Account Deposit Facility (DMADF) is the Debt Management Office of the HM Treasury

Appendix 2

Treasury Management Mid-Year Report 2024/25

Economics Update

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

  - GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)

  - A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;

  - 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, 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% 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% 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 from -10.4% in July to +11.9% 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 with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.

- 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, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. 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%.

- The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to see who is elected the next US President, and how events in the Middle East (and Ukraine) unfold. The catalyst for any further rally (or not) is likely to be the degree of investors' faith in AI.

MPC meetings: 9 May, 20 June, 1 August, 19 September 2024

- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20 June.

- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.

- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.

- Nonetheless, November still looks most likely to be the next month to see a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

Appendix 3

Treasury Management Mid-Year Report 2024/25

Interest Rate Forecast

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012.

The latest forecast on 28 May sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.

Link's PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1 November 2012.

Link Group Interest Rate View	28.05.24									
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

Agenda Item 3(c)

Treasury Management Strategy, Minimum Revenue Provision Policy, Annual Investment Strategy 2025-26

Committee: Audit and Accounts Committee

Date of Meeting: 18 February 2025

Report of: S151 Officer and Deputy Chief Executive - Resources

Portfolio: Resources Portfolio

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1 Purpose of Report

This report is presented to obtain the Council's approval to:-

1.1 Prudential and Treasury Indicators - setting of indicators to ensure that the capital investment plans of the Council are affordable, prudent and sustainable;

1.2 The Minimum Revenue Provision (MRP) Policy;

1.3 Treasury Management Strategy Statement for 2025/26 - to set treasury limits for 2025/26 to 2027/28 and to provide a background to the latest economic forecasts of interest rates; and

1.4 Annual Investment Strategy 2025/26 - to set out the strategy of investment of surplus funds.

2 Recommendations

2.1 That the following be approved:-

(a) The Prudential and Treasury Indicators;

(b) The MRP Policy Statement;

(c) The Treasury Management Policy;

(d) The Annual Investment Strategy for 2025/26.

Reasons for Recommendations

2.2 To note that indicators may change in accordance with the final recommendations from Cabinet to Council in relation to both the General Fund Revenue Budget and the Capital Programme.

3 Key Issues

3.1 The Council is required to approve its treasury management, investment and capital strategies to ensure that cash flow is adequately planned and that surplus monies are invested appropriately.

4 Relationship to Corporate Priorities

4.1 Treasury management and investment activities are interwoven with all of the Council's priorities and their spending plans.

5 Report Detail

Background

5.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Accordingly, a significant function of Treasury Management is ensuring that cash flows are adequately planned and controlled to meet this objective. Any surplus monies are invested with low-risk counterparties, and managed appropriately so that sufficient levels of liquid cash are available to meet any payment obligations as well as offer headroom for unexpected circumstances. Such considerations underpin the day-to-day operations of Treasury Management when determining investment-related outcomes rather than the sole factor of yield that aims to generate higher return on investments with little or no regards to financial risks.

5.2 The second main function of the Treasury Management service is the funding of the Council's capital plans. 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.

5.3 The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

5.4 CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

5.5 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

This Council has not engaged in any commercial investments and has no non-treasury investments.

Reporting Requirements

Capital Strategy

5.6 The CIPFA 2021 Prudential and Treasury Management Codes require all Local Authorities to prepare a Capital Strategy report which will provide the following:-

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

5.7 The aim of this capital strategy is to ensure that all elected Members on the Full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

5.8 The capital strategy is in the process of being updated and will then come to a Cabinet and Council meeting for adoption.

Treasury Management Reporting

5.9 The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

5.10 **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report covers:-

- the capital plans (including Prudential Indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an Investment Strategy (the parameters on how investments are to be managed).

5.11 **A mid-year treasury management report** - This is primarily a progress report and will update members on the capital position, amending Prudential Indicators as necessary, and whether any policies require revision.

5.12 **An annual treasury report** - This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

5.13 **Scrutiny** - The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Accounts Committee.

5.14 The Council has adopted the following reporting arrangements in accordance with the requirements of the CIPFA Code of Practice:-

Area of Responsibility	Council/Committee	Frequency
Treasury Management Strategy/ Annual Investment Strategy/ MRP policy	Full Council	Annually in January/February each year
Treasury Management Strategy/ Annual Investment Strategy/ MRP policy/Monitoring of Prudential Indicators	Full Council	Mid-year

Area of Responsibility	Council/Committee	Frequency
Treasury Management Strategy/ Annual Investment Strategy/ MRP policy - updates or revisions at other times	Full Council	As required
Annual Treasury Outturn Report	Audit and Accounts Committee and Council	Annually by 30 September after the end of the year
Scrutiny of treasury management strategy	Audit and Accounts Committee	Annually in February before the start of the year

Treasury Management Strategy for 2025/26

5.15 The Strategy for 2025/26 covers two main areas:-

Capital issues

- the capital expenditure plans and the associated Prudential Indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

5.16 These elements cover the requirements of the Local Government Act 2003, MHCLG(now MHCLG) Investment Guidance, MHCLG(now MHCLG) MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

Training

5.17 The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and board/council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis."

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

5.18 Training has been undertaken by members of the Audit and Accounts Committee in January 2020 but there has been a gap in training due to the Covid pandemic and lockdown restrictions since. Training is planned to be delivered over the next twelve months.

Treasury Management Consultants

5.19 The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

5.20 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The Capital Prudential Indicators 2025/26 - 2027/28

5.21 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in Prudential Indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital expenditure

5.22 This Prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts, which include a review of current schemes together with the continuation of the applicable rolling programme schemes, but to note these may change as part of the scrutiny process and finalisation of the Budget.

5.23 Any change to the forecast and any new growth bids will be separately identified in future Budget Reports and reflected in this indicator as reported to Full Council.

Capital Expenditure	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
Community Portfolio	1,361	2,590	1,522	1,522	1,522	3,434
Environment Portfolio	190	985	2,087	50	50	101
Leisure and Culture Portfolio	1,544	1,972	91	0	0	16
Economic Development and Planning	6,673	10,329	7,930	0	0	3,500
Resources Portfolio	5	306	156	50	0	750
Total	**9,773**	**16,182**	**11,786**	**1,622**	**1,572**	**7,801**

5.24 In addition to the above Capital Programme, the expenditure and borrowing of the Council may increase as a result of match funding requirements for bids in relation to such projects like the Future High Streets Fund. Such capital schemes and business cases will be subject to reports to Cabinet and Council and their respective approvals. If a borrowing requirement emerges, the Council shall consider the use of the Public Works Loan Board (PWLB) discount rate as well other sources of funding as prescribed under paragraph 5.65. An appraisal will be undertaken to determine and ensure that, amongst other things, any new borrowings are affordable and work within the Prudential Indicators limits before entering into such borrowing facilities.

5.25 Other long-term liabilities - The financing need excludes other long-term liabilities, such leasing arrangements which already include borrowing instruments.

5.26 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	Unallocated £'000
Total Spend	9,773	16,182	11,786	1,622	1,572	7,801
Financed by:						
Capital receipts	737	542	134	0	50	6
Capital grants/ contributions	8,969	14,219	6,596	1,603	1,522	3,478
Revenue	67	1,421	5,056	19	0	4,317
Net financing need for the year	0	0	0	0	0	0

5.27 The capital financing of the programme will similarly be reviewed as part of the Budget process and any change will be separately identified in future Budget Reports and reflected in this indicator.

The Council's borrowing need (the Capital Financing Requirement)

5.28 The second Prudential Indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so it's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

5.29 The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life and so charges the economic consumption of capital assets as they are used.

5.30 The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PPP lease provider and so the Council is not required to separately borrow for these schemes. As at the end of 2023/24, the Council currently has £1.477m of such Finance Leases within the CFR. However, it is anticipated that this figure will rise during 2025/26 in respect of the new IFRS 16 leasing requirements. Further work will be undertaken to ensure that this is reflected in the calculations when appropriate.

5.31 The Council is asked to approve the following CFR projections, subject to any changes arising from the budget process:-

Capital Financing Requirement (CFR)

	2023/24 Actual £'000	**2024/25** Estimate £'000	**2025/26** Estimate £'000	**2026/27** Estimate £'000	**2027/28** Estimate £'000
Total CFR	3,587	3,425	4,765	4,633	4,555
Movement in CFR		(162)	1,340	(132)	(78)

Movement in CFR represented by

	2023/24 Actual £'000	**2024/25** Estimate £'000	**2025/26** Estimate £'000	**2026/27** Estimate £'000	**2027/28** Estimate £'000
Net financing need for the year	0	0	0	0	0
Less MRP and other financing movements	(191)	(162)	1,340	(132)	(78)
Movement in CFR	(191)	(162)	1,340	(132)	(78)

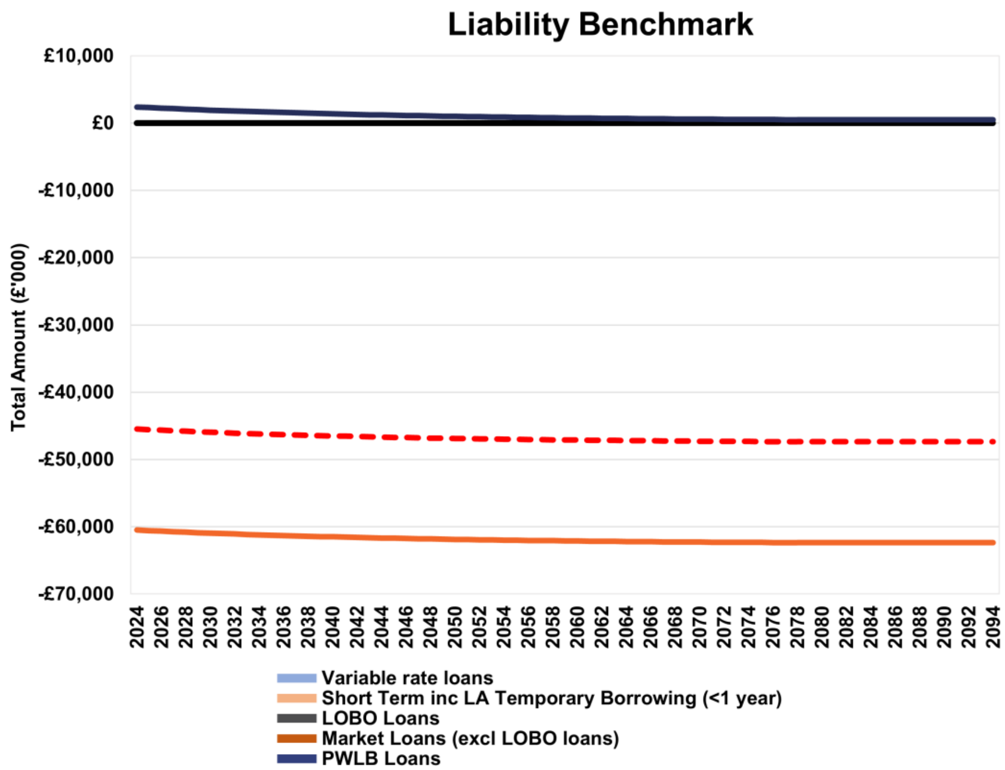
Liability Benchmark

5.32 A third Prudential Indicator for 2025/26 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB:-

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.



As the Council's Treasury position is debt-free across the entire forecast period, the Council's Liability Benchmark is also negative across the same time horizon. The Graph therefore indicates that there is no present need to borrow given the Council's current resources and capital intentions.

Core funds and expected investment balances

5.33 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources (£m)	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Fund balances / reserves	38,499	40,607	38,132	39,468	33,731
Unallocated Reserves	1,569	1,983	2,045	852	852
Capital receipts	1,055	550	416	416	360
Capital grants unapplied	10,983	9,370	5,572	2,069	2,125
Provisions	2,363	1,862	-	-	-
Section 106 (Other) 6000-7853	3,785	2,352	1,352	1,352	1,352
Section 106 (Other) Revenue	2,454	1,455	1,455	1,455	1,455
Total core funds	**60,708**	**58,179**	**48,972**	**45,612**	**39,875**
Working capital*	(1,892)	5,000	5,000	5,000	5,000
Under/over borrowing	2,110	2,025	1,944	1,866	1,791
Expected investments	**60,490**	**51,154**	**42,028**	**38,746**	**33,084**

*Working cashflow requirement shown are estimated year-end; these may be higher mid-year.

Minimum revenue provision (MRP) Policy Statement

5.34 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing, it is required to make a provision each year through a revenue charge (the Minimum Revenue Provision - MRP).

5.35 The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2024) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent. The Government considers that the methods of making prudent provision include the options set out in the statutory guidance. However, this does not rule out or otherwise preclude an authority from using an alternative method should it decide that is more appropriate. Any method used is subject to the conditions in paragraphs 61 to 65 of the Guidance as far as these are relevant. The MRP Policy Statement requires Full Council approval in advance of each financial year.

5.36 The Authority is recommended to approve the following MRP Statement:

Under powers delegated to the Section 151 Officer, the Council's Annual MRP provision for expenditure incurred after 1 April 2008 which forms part of supported capital expenditure will be based on either the uniform rate of 4% of the Capital Financing Requirement (CFR) or as the principal repayment on an annuity basis with an appropriate annual interest rate, starting in the year after the asset becomes operational

The Council's Annual MRP provision for all unsupported capital expenditure incurred on or after 1 April 2008 will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments or as the principal repayment on an annuity with an appropriate annual interest rate , starting in the year after the asset becomes operational.

5.37 Capital expenditure incurred during 2025/26 will not be subject to an MRP charge until 2026/27, or in the year after the asset becomes operational.

5.38 The Authority will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

5.39 In the case of leases where a right-of-use asset is on the balance sheet, the prudent charge to revenue can be regarded being equal to the element of the rent/charge that goes to write down the balance sheet liability. Where a lease (or part of a lease) is brought onto the balance sheet, having previously been accounted for off-balance sheet, the MRP requirement would be regarded as having been met by the inclusion in the charge for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.

5.40 The Council are satisfied that the policy for calculating MRP set out in this Policy Statement will result in the Council continuing to make prudent provision for the repayment of debt, over a period that is on average reasonably commensurate with that over which the expenditure provides benefit.

5.41 The Section 151 Officer will, where it is prudent to do so, use discretion to review the overall financing of the Capital Programme and the opportunities afforded by the regulations, to maximise the benefit to the Council whilst ensuring the Council meets its duty to charge a prudent provision.

5.42 (i) **Capital Loans**: Regulation 27(4) allows a local authority to exclude capital loans that are financed by debt from the requirement to make MRP, provided the loan is not a commercial loan.

A commercial loan is defined in regulation 27(5) as a loan from the authority to another entity for a purpose which, if the authority were to undertake itself, would be primarily for financial return; or, where the loan is itself capital expenditure undertaken primarily for financial return.

Local authorities must make MRP with respect to any debt used to finance a commercial capital loan.

A local authority may choose not to charge MRP in respect of the financing by debt of a loan issued by an authority to any person or body, where -

(a) the loan is treated as capital expenditure in accordance with regulation 25(1)(b); that is to say, loans and grants towards capital expenditure by third parties.

(b) the loan is not a commercial loan, and

(c) the local authority has not recognised, in accordance with proper practices, any expected or actual credit loss in respect of that loan.

This Council has not issued capital loans that are categorised as commercial and, accordingly, is not required to make MRP on this basis.

(ii) **Capital Receipts:** For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

5.43 **MRP Overpayments**: Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

The Council has previously not made any VRP overpayments.

Affordability Prudential Indicators

5.44 The previous sections cover the overall capital and control of borrowing Prudential Indicators, but within this framework Prudential Indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council’s overall finances. The Council is asked to approve the following indicators:-

Ratio of financing costs to net revenue stream

5.45 This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream. The figures below show a negative ratio due to the investment income being recevied by the council on its treasury investments.

%	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Ratio of financing costs	-19.9%	-16.7%	-11.9%	-11.7%	-10.6%

Borrowing

5.46 The capital expenditure plans above provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / Prudential Indicators, the current and projected debt positions, and the Annual Investment Strategy.

Current portfolio position

5.47 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
External Debt:					
PWLB debt at 1 April	0	0	0	0	0
Expected change in Debt	0	0	0	0	0
Other long-term liabilities (OLTL)	1,580	1,477	1,400	2,821	2,767
Expected in-year change in OLTL	(103)	(77)	1,421	(54)	(3)
Actual gross debt at 31 March	1,477	1,400	2,821	2,767	2,764
The Capital Financing Requirement	3,587	3,425	4,765	4,633	4,555
Under / (over) borrowing	**2,110**	**2,025**	**1,944**	**1,866**	**1,791**

5.48 Within the range of Prudential Indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

5.49 The Deputy Chief Executive Resources reports that the Authority complied with this Prudential Indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

Treasury Indicators: limits to borrowing activity

5.50 **The Operational Boundary**. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Debt	2,385	2,385	17,385	17,385	17,385
Other long-term liabilities	1,477	1,400	2,821	2,767	2,764
Total	3,862	3,785	20,206	20,152	20,149

5.51 **The Authorised Limit for External Debt**. This is a key Prudential Indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

2. The Council is asked to approve the following authorised limit:-

Authorised limit	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Debt	5,385	5,385	20,385	20,385	20,385
Other long-term liabilities	1,477	1,400	2,821	2,767	2,764
Total	6,862	6,785	23,206	23,152	23,149

Prospects for interest rates

5.52 The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 11 November 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

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

5.53 Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, we have significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

If we reflect on the 30 October Budget, Link's central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing and tax rises, and a tepid GDP performance.

Link's central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.

5.54 **PWLB rates:** Regarding Link's PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

Thus far, little has been mentioned on US President election. Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.

Link's revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note that the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps).

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are to the upsides.

Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below:-

PWLB debt	Current borrowing rate as at 11.11.24 p.m.	Target borrowing rate now (end of Q3 2026)	Target borrowing rate previous (end of Q3 2026)
5 years	5.02%	4.30%	3.90%
10 years	5.23%	4.50%	4.10%
25 years	5.66%	4.90%	4.40%
50 years	5.42%	4.70%	4.20%

5.55 **Borrowing advice:** Link's long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3%). As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

The advisors suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below.

Average earnings in each year	Now	Previously
2024/25 (residual)	4.60%	4.25%
2025/26	4.10%	3.35%
2026/27	3.70%	3.10%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Years 6 to 10	3.50%	3.25%

Average earnings in each year	Now	Previously
Years 10+	3.50%	3.50%

Link will continue to monitor economic and market developments as they unfold. Typically, we formally review our forecasts following the quarterly release of the Bank of England's Monetary Policy Report but will consider our position on an ad hoc basis as required.

5.56 As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Link's interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of +/- 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

Borrowing Strategy

5.57 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy. That is, Bank Rate remains relatively elevated in 2025 even if some rate cuts arise.

5.58 Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Deputy Chief Executive Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.*
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

5.59 Any decisions will be reported to Members appropriately at the next available opportunity.

Treasury management limits on activity

5.60 **Maturity structure of borrowing**. These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

5.61 The Council is asked to approve the following treasury indicators and limits:-

Maturity structure of fixed interest rate borrowing 2025/26

	Lower	**Upper**
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

Maturity structure of variable interest rate borrowing 2025/26

	Lower	Upper
Under 12 months	0%	75%
12 months to 2 years	0%	75%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years and above	0%	75%

Policy on borrowing in advance of need

5.62 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

5.63 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Rescheduling

5.64 Debt rescheduling of external borrowing can help with migitating against exposure to the risk of interest rate movements, lower the cost of servicing debt and alter the maturity profile to avoid refinancing risk.

The Council's current debt portfolio does not consist of borrowing but of leases and, accordingly, debt rescheduling will not occur.

New Financial Institutions as a Source of Borrowing and/or Types of Borrowing

5.65 Currently, the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so - generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).
- UK Municipal Bonds Agency
- UK Infrastructure Bank - where the project meets its investment principles (namely, economic regeneration and tackling climate change), the Infrastructure Bank offers loans at the relevant Gilts rate + 60 basis points (20 basis points lower than the PWLB Certainty rate) and can match the length of the loan and repayment profile to needs of the project.

Our treasury advisors will keep us informed as to the relative merits of each of these alternative funding sources.

Annual Investment Strategy

Investment policy - management of risk

5.66 The Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

The Authority’s investment policy has regard to the following:-

- MHCLG’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2021

5.67 The Council’s investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council’s risk appetite. Consistent with the spirit of the Code’s treaury management practices (namely, TMP1 on credit and counterparty risk management), the Council shall be mindful of environmental, social and governance (ESG) considerations in its decision-making outcomes. To that end, the Council will not knowingly invest directly with financial participants whose activities and practices pose a risk of serious damage or whose activities are inconsistent with the Council’s mission and values. In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider “laddering” investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

5.68 The above guidance from the MHCLG and CIPFA places a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:-

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

5.69 This Authority has defined the list of types of investment instruments that the Treasury Management Team are authorised to use, as per **APPENDIX 2**. This Authority has defined the list of types of investment instruments that the Treasury Management Team are authorised to use, as per **APPENDIX 2**. These financial instruments can be separated into two categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.

5.70 **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 50% of the total investment portfolio.

5.71 **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in the **APPENDIX 2**.

5.72 **Transaction limits** are set for each type of investment in **APPENDIX 2**.

5.73 The Council will set a limit for the amount of its investments which are invested for longer than 365 days.

5.74 Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.

5.75 The Council has engaged external consultants, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

5.76 All investments will be denominated in sterling.

5.77 As a result of the change in accounting standards for 2023/24 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. More recently, a further extension to the over-ride to 31.3.25 has been agreed by Government.

5.78 However, this Authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the financial year.

Creditworthiness policy

5.79 The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard and Poor’s. The credit ratings of counterparties are supplemented with the following overlays:-

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

5.80 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:-

- Yellow - 5 years *

- Dark pink - 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25

- Light pink - 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5

- Purple - 2 years

- Blue - 1 year (only applies to nationalised or semi nationalised UK Banks)

- Orange - 1 year

- Red - 6 months

- Green - 100 days

- No colour - not to be used

5.81 The Link creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

5.82 Typically, the minimum credit ratings criteria the Council uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

5.83 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of our creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

5.84 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on any external support for banks to help support its decision making process.

5.85 The Council has determined that it will only use approved counterparties from the UK and countries with a minimum sovereign credit rating of AA- from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in **APPENDIX 3**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Creditworthiness

5.86 Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS Prices

5.87 Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government in the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

Investment Strategy

5.88 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that the risks are relatively balanced between Bank Rate staying higher for longer, if inflation picks up markedly through 2025 post the 30 October 2024 Budget, or it may be cut quicker than expected if the economy stagnates. The economy only grew 0.1% in Q3 2024, but the Consumer Price Index (CPI) measure of inflation is now markedly above the 2% target rate set by the Bank of England's Monetary Policy Committee two to three years forward.

5.89 Accordingly, while most cash balances are required in order to manage the peaks and troughs of cash flows, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

5.90 **Investment returns expectations.** It should be observed that there is a relationship with inflation and interest rates. Rise in inflation will invariably lead to a rise in interests. The same wisdom holds turn from the opposite situation. Holding true to this relationship, the Bank of England opted to increase Bank Rate on 14 successive occasions, starting around mid-December 2021. At the beginning of April 2022, Bank Rate was set at 0.75% and moved up in stepped increases of either 0.25% or 0.5% thereafter, reaching 4.25% by the end of 2022/23 and peaked at 5.25% on 3 August 2023. By the end of the financial year, no further increases were anticipated and accordingly held at 5.25%, However, there was indeed market expectation that the first in Bank Rate would occur in either June or August 2024. Consistent with this expectation, the BoE announced its first Bank Rate. On 1 August 2024, interest rates dropped by 25 basis points (i.e. 0.25%), thereby becoming 5%. Such announcement represented the first cut to rates since March 2020, therefore. The second rates cut occurred 7 November, lowering base rate by another 25 basis points to 4.75%. Based on current market conditions and intelligence, it is anticipated that continuing gradual fall in inflation will, in turn, lead to a fall in Bank Rate. It is projected that Bank Rate could decline as far as 3.50% by the tail-end of 2027.

5.91 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:-

Average earnings in each year	Now	Previously
2024/25 (residual)	4.60%	4.25%
2025/26	4.10%	3.35%
2026/27	3.70%	3.10%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Years 6 to 10	3.50%	3.25%
Years 10+	3.50%	3.50%

It should be observed, however, that as there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

5.92 **Investment treasury indicator and limit** - Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Authority is asked to approve the Treasury Indicator and limit:-

Maximum principal sums invested > 365 days

	2025/26	2026/27	2027/28
Principal sums invested > 365 days	£10m	£10m	£10m

5.93 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 365 days) in order to benefit from the compounding of interest whilst preserving the security of invested funds and liquidity.

Investment risk benchmarking

5.94 This Council will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7 day, 1, 3, 6 or 12 month compounded/SONIA.

End of year investment report

5.95 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

6 Implications

6.1 Financial

Included in this Report

6.2 Legal

None

6.3 Human Resources

None

6.4 Risk Management

The Council regards security of the sums it invests to be the key objective of its Treasury Management activity. Close management of counterparty risk is therefore a key element of day-to-day management of treasury activity. The practices designed to ensure that risks are managed effectively are set out in the Treasury Management Practices available on the Council's website.

6.5 Equalities and Diversity

The Council considers the effect of its actions on all sections of our community and has addressed all of the following Equality Strands in the production of this report, as appropriate:-

Age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation.

None

6.6 Health

None

6.7 Climate Change

None

7 Appendices

Appendix 1: Economic Update (provided by Link Asset Services as of 12 December 2024)

Appendix 2: Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management

Appendix 3: Approved Countries for Investment

Appendix 4: Treasury Management Scheme of Delegation

Appendix 5: The Treasury Management Role of The Section 151 Officer

8 Previous Consideration

None

9 Background Papers

Available in Financial Services

Contact Officer:	Chris Forrester
Telephone Number:	01543 464334
Ward Interest:	Nil
Report Track:	Audit and Accounts Committee 18 February 2025
	Council 25 February 2025
Key Decision:	Yes

Appendix 1

Economic Update (Provided by Link Asset Services as of 12 December 2024)

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

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- 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.

Over the aforementioned period, the economy's stagnation in June and July pointed more to a mild slowdown in UK GDP growth than a sudden drop back into a recession. However, in the interim period, to 12 December, arguably the biggest impact on the economy's performance has been the negative market sentiment in respect of the fallout from the Chancellor's Budget on 30 October.

If we reflect on the 30 October Budget, our central case is that those policy announcements will prove to be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be elevated at 2.7% y/y (Q4 2025) before dropping back to sub-2% in 2027. Nonetheless, since the Budget, the October inflation print has shown the CPI measure of inflation bouncing up to 2.3% y/y with the prospect that it will be close to 3% by the end of the year before falling back slowly through 2025. The RPI measure has also increased significantly to 3.4% y/y.

How high inflation goes will primarily be determined by several key factors. First amongst those is that the major investment in the public sector, according to the Bank of England, will lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing and tax rises in the June 2025 Spending Review (pushed back from the end of March), and a tepid GDP performance.

Regarding having a sufficiently large pool of flexible and healthy workers, the initial outlook does not look bright. Research from Capital Economics has alluded to an increase of some 500,000 construction workers being needed to provide any chance of the Government hitting its target of 300,000 new homes being built in each of the next five years (234,000 net additional dwellings in England in 2022/23). But the last time such an increase was needed, and construction employment is currently at a nine-year low, it took 12 years to get there (1996 to 2008). Also note, as of October 2024, job vacancies in the construction sector were still higher than at any time in the 20 years preceding the pandemic.

Currently, it also seems likely that net inward migration is set to fall, so there is likely to be a smaller pool of migrant workers available who, in the past, have filled the requirement for construction worker demand. The Government plans to heavily promote training schemes, particularly to the one million 16- to 24-year-olds who are neither in education nor work. But it is arguable as to whether the employee shortfall can be made up from this source in the requisite time, even if more do enter the workforce.

Against, this backdrop, there may be a near-term boost to inflation caused by a wave of public sector cash chasing the same construction providers over the course of the next year or so, whilst wages remain higher than the Bank currently forecasts because of general labour shortages, including in social care where Government accepts there is a 150,000 shortfall at present.

Unemployment stands at a low 4.3% (September), whilst wages are rising at 4.3% y/y (including bonuses) and 4.8% (excluding bonuses). The Bank would ideally like to see further wage moderation to underpin any further gradual relaxing of monetary policy. Indeed, over the next six months, the market is currently only pricing in Bank Rate reductions in February and May - which would see Bank Rate fall to 4.25% - but further cuts, thereafter, are highly likely to be even more data-dependent.

If we focus on borrowing, a term we are likely to hear throughout 2025 is “bond vigilante”. Essentially, this represents a generic term for when the market is ill at ease with the level of government borrowing and demands a higher return for holding debt issuance. In the UK, we do not need to go back too far to recall the negative market reaction to the Truss/Kwarteng budget of 2022. But long-term borrowing rates have already gradually moved back to those levels since their recent low point in the middle of September 2024. Of course, the UK is not alone in this respect. Concerns prevail as to what the size of the budget deficit will be in the US, following the election of Donald Trump as President, and in France there are on-going struggles to form a government to address a large budget deficit problem too. Throw into the mix the uncertain outcome to German elections, and there is plenty of bond investor concern to be seen.

Staying with the US, Donald Trump’s victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks continue to abound in Europe, the Middle East and Asia.

In the past month, the US Core CPI measure of inflation has indicated that inflation is still a concern (3.3% y/y, 0.3% m/m), as has the November Producer Prices Data (up 3.0 y/y v a market estimate of 2.6% y/y, 0.4% m/m v an estimate of 0.2% m/m) albeit probably insufficient to deter the FOMC from cutting US rates a further 0.25% at its December meeting. However, with Trump’s inauguration as President being held on 20 January, further rate reductions and their timing will very much be determined by his policy announcements and their implications for both inflation and Treasury issuance.

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. More recently, however, 10 year gilt yields have spiked back up to 4.35%.

The FTSE 100 reached a peak of 8,380 in the third quarter of 2024 (currently 8.304), but its performance is firmly in the shade of the US S&P500, which has breached the 6,000 threshold on several occasions recently, delivering returns upwards of 25% y/y. The catalyst for any further rally (or not) is likely to be the breadth of AI’s impact on business growth and performance.

MPC meetings: 9 May, 20 June, 1 August, 19 September, 7 November 2024

- On 9 May, the Bank of England’s Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20 June.

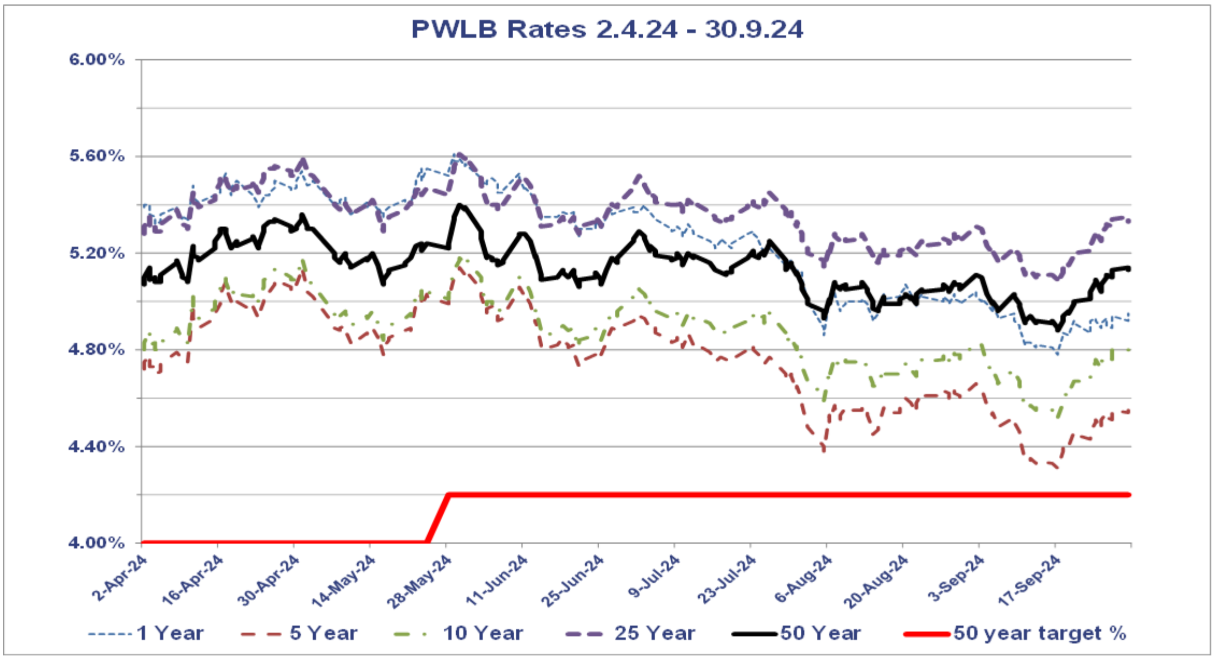
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.

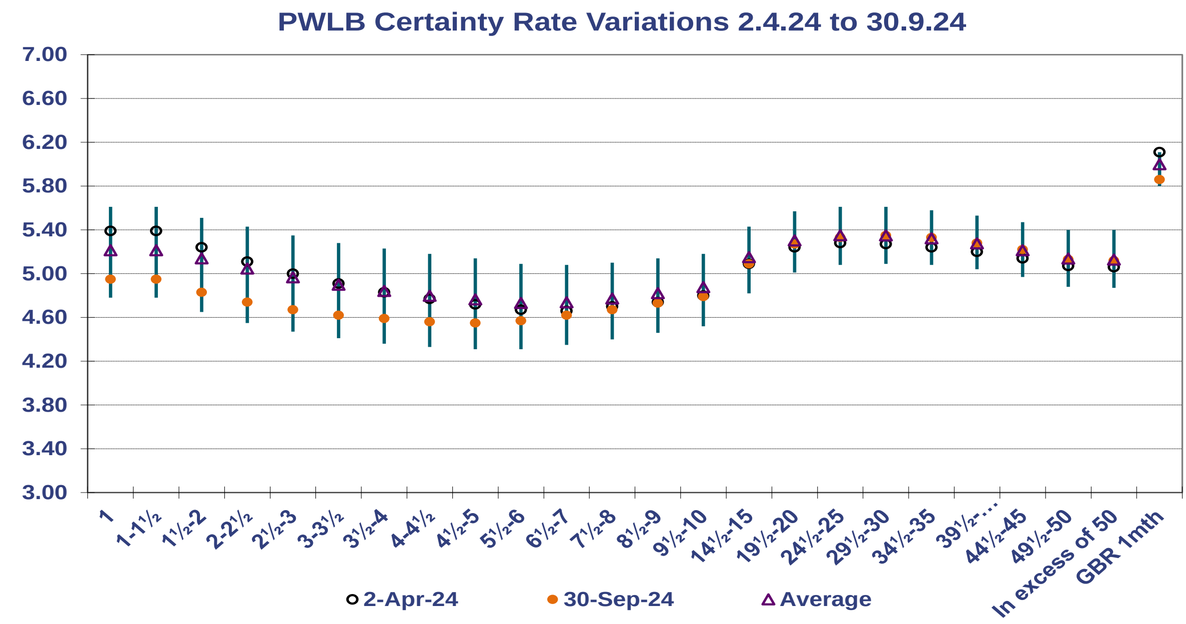
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.

- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

In the chart below, despite a considerable gilt market rally in mid-September, rates started and finished the six-month period under review in broadly the same position.

PWLB RATES 2 APRIL 2024 - 30 SEPTEMBER 2024





HIGH/LOW/AVERAGE PWLB RATES FOR 2 APRIL 2024 – 30 SEPTEMBER 2024

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
30/09/2024	4.95%	4.55%	4.79%	5.33%	5.13%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
High date	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

Appendix 2

Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 50% will be held in aggregate in non-specified investments.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:-

	Minimum credit criteria / colour band	**Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government	Yellow	100%	6 months (max. is set by the DMO*)
UK Government gilts	UK sovereign rating	£6 million	5 years
UK Government Treasury bills	UK sovereign rating	£6 million	12 months
Bonds issued by multilateral development banks	AAA	£6 million	5 years
Money Market Funds CNAV	AAA	£9 million	Liquid
Money Market Funds LNVAV	AAA	£9 million	Liquid

	Minimum credit criteria / colour band	Max % of total investments/ £ limit per institution	Max. maturity period
Money Market Funds VNAV	AAA	£9 million	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	£6 million	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	£6 million	Liquid
Local authorities	N/A	£3 million	12 months
Call Accounts	N/A	£6 million	Liquid
Term deposits with housing associations	Blue Orange Red Green No Colour	£3 million	12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£6 million	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£6 million	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£6 million	12 months

* DMO – is the Debt Management Office of HM Treasury

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Appendix 3

Approved Countries For Investments

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA

Australia

Denmark

Germany

Netherlands

Norway

Singapore

Sweden

Switzerland

AA+

Canada

Finland

U.S.A.

AA

Abu Dhabi (UAE)

AA-

Belgium

France

U.K.

Appendix 4

Treasury Management Scheme of Delegation

Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

Committees/Council

- approval of/amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

Body/person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

Appendix 5

The Treasury Management Role of the Section 151 Officer

The s151 (responsible) officer:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe;