Treasury Management 6 Month Performance Review 2024/25

Contents

1. Background

1.1 Capital Strategy

In December 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities 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.

1.2 Treasury management

The council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

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's risk or cost objectives.

Accordingly, treasury management is defined as:

> "The management of the local council'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."

2. Introduction

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 2021).
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/Board 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. (Quarterly

reports are also required for the periods ending April to June and October to December but may be assigned to a designated committee or panel as deemed appropriate to meet the Treasury Management governance and scrutiny aspects of the Council.)

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 Overview and Scrutiny Panel (Performance and Growth).

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 half 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.

3. Economics and Interest Rates

3.1 Economics Update

- The third quarter of 2024 (July to September) saw:
  - GDP growth stagnating in July following downwardly revised Q2 figures (0.5% quarter on quarter)
  - A further easing in wage growth as the headline 3 month year on year 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 (Purchase Managers Index) balance suggests non-retail services output grew by 0.5% quarter on quarter in Q3. Additionally, the services PMI future activity balance showed an increase in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.
- The 1.0% month on month jump in retail sales in August was stronger than the consensus forecast for a 0.4% month on month 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. Capital Economics (Link's economic partner) 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 3 month year on year 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 3m year on year 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 (European Central Bank) more than the Fed (Federal Reserve US Central Bank), 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, the Link 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, it is predicted 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.
- The Link 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 also the release of the Bank of England Quarterly Monetary Policy Report.
- Looking at gilt movements in the first half of 2024/25, 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 (basis points) 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 20th 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 (Federal Open Market Committee - US), 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.

3.2 Interest Rate Forecasts

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 Link forecast on 28 May set 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.

Our 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

4. Treasury Management Strategy Statement and Annual Investment Strategy

The Treasury Management Strategy Statement, (TMSS), for 2024/25 was approved by the Council on 21st February 2024.

- There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5. The Council's Capital Position and Prudential Indicators

This part of the report updates on:

- 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.

5.1 Prudential Indicator for Capital Expenditure

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

Capital Expenditure by Service	2024/25 Original Budget £000s	2024/25 Current Budget [1] £000s	2024/25 Forecast £000s
Finance and Corporate Resources	214	1,149	1,371
Community Services	1,748	1,610	1,556
Chief Planning Officer	3,228	3,228	3,574
Housing Manager	1,736	651	651
Customer Services	11	34	34
Leisure and Health	933	1,057	1,093
Operations	2,579	3,189	3,066
Insights and Delivery	2,749	3,626	2,324
ICT	340	792	518
Place	12,535	16,564	16,558
Total capital expenditure	**26,073**	**31,900**	**30,745**

[1]Includes rephased budgets from 2023/24

5.2 Changes to the Financing of the Capital Programme

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 Financing	2024/25 Original Budget £000s	2024/25 Current Budget £000s	2024/25 Forecast £000s
Total Capital expenditure	**26,073**	**31,900**	**30,745**
Financed by:			
Capital Grants	17,410	20,810	19,567
Capital Reserves	3,228	3,228	3,570
Capital Receipts	300	300	300
Total financing	**20,938**	**24,338**	**23,437**
Borrowing requirement	**5,135**	**7,562**	**7,308**

Capital is not charged directly to revenue, but there is an effect on revenue of capital expenditure. This is made up of the interest on any loans taken out to finance capital, and the annual Minimum Revenue Provision (MRP) charge. The MRP charge is based on the cost of each asset divided by the life of the asset, the result is charged to revenue each year. The table below shows the effect on the charge to revenue as a result of changes to the capital programme.

Proportion of Financing Costs to Net Revenue Stream	2024/25 Budget £000s	2024/25 Current Budget £000s	2024/25 Forecast £000s
Net Revenue Stream	26,004	26,310	24,395
Financing Costs	2,344	2,344	558
Proportion of Net Revenue Stream	**9%**	**9%**	**2%**

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

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 Indicator – Capital Financing Requirement

The CFR is forecast to be £0.959m less than original budget.

Prudential Indicator – the Operational Boundary for external debt

	2024/25 Original Budget £000s	2024/25 Current Budget £000s	2024/25 Forecast £000s
Prudential Indicator – Capital Financing Requirement			
Capital Financing Requirement[1]	**77,783**	**77,078**	**76,824**
Net Movement in CFR	**2,129**	**4,738**	**4,483[4]**
Prudential Indicator – the Operational Boundary for external debt			
Borrowing[2]	115,000	34,263	34,263
Other long-term liabilities[3]		544	544
Total debt (year-end position)	**115,000**	**34,807**	**34,807**

[1] Opening CFR 2024/25 £72.340m actual used for Current Budget. For the original budget £75.653m.
[2] £115m is the limit set in the 2024/25 Treasury Management Strategy.
[3] Finance lease for Phoenix Court.
[4] Borrowing Requirement – MRP = £7.308m - £2.825m = £4.483m

5.4 Limits to Borrowing Activity

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 purposes. 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.

Total Debt	2024/25 Original Budget £000s	2024/25 Current Budget £000s	2024/25 Forecast £000s
Borrowing(1)	34,263	34,263	34,263
Other long-term liabilities(2)	544	544	544
Total debt	**34,807**	**34,807**	**34,807**
CFR (Year end position)	**77,783**	**77,078**	**76,824**

(1) A Salix loan repayment is due in February 2025 of £4k, current balance of borrowing is £34.267m see listing in Appendix A, at year end the balance will be £34.263m.

(2) Finance lease for Phoenix Court.

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 Indicator £000s	2024/25 Current Budget £000s	2024/25 Forecast £000s
General Debt and Other long-term liabilities	95,000	10,552	10,552
Service Loans	15,000	0	0
CIS Debt	25,000	24,255	24,255
Total	**135,000**	**34,807**	**34,807**

6. Borrowing

The council's forecast capital financing requirement (CFR) for 2024/25 is £76.8m. 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. The table in 5.4 shows the council has borrowings of £34.8m and has utilised £42m of cash flow and balance sheet funds in lieu of borrowing (CFR – external borrowing). This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring if gilt yields remain elevated, particularly at the longer-end of the yield curve (25 to 50 years).

It is anticipated that further borrowing will not be undertaken during this financial year.

Liability Benchmark

The Council is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum. See Appendix B for the Liability Benchmark chart

The Council is currently in an under-borrowed position (external borrowing is less than the CFR, internal borrowing is being used ie reserves and working capital to fund capital expenditure), this according to the liability benchmark will continue until the mid 2030s, although as plans evolve the CFR will likely move outwards. The CFR is being gradually reduced by application of the minimum revenue provision (MRP) charge to revenue, although as new expenditure plans are made the CFR line will reduce at a slower rate, and will not in reality reach zero.

The cash available to invest will increase as the MRP builds up in the cash balances. The liability benchmark line (dotted) is the cash available to invest less a liquidity buffer to meet any immediate cashflow needs.

PWLB maturity certainty rates (gilts plus 80bps) year to date to 30 September 2024

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.

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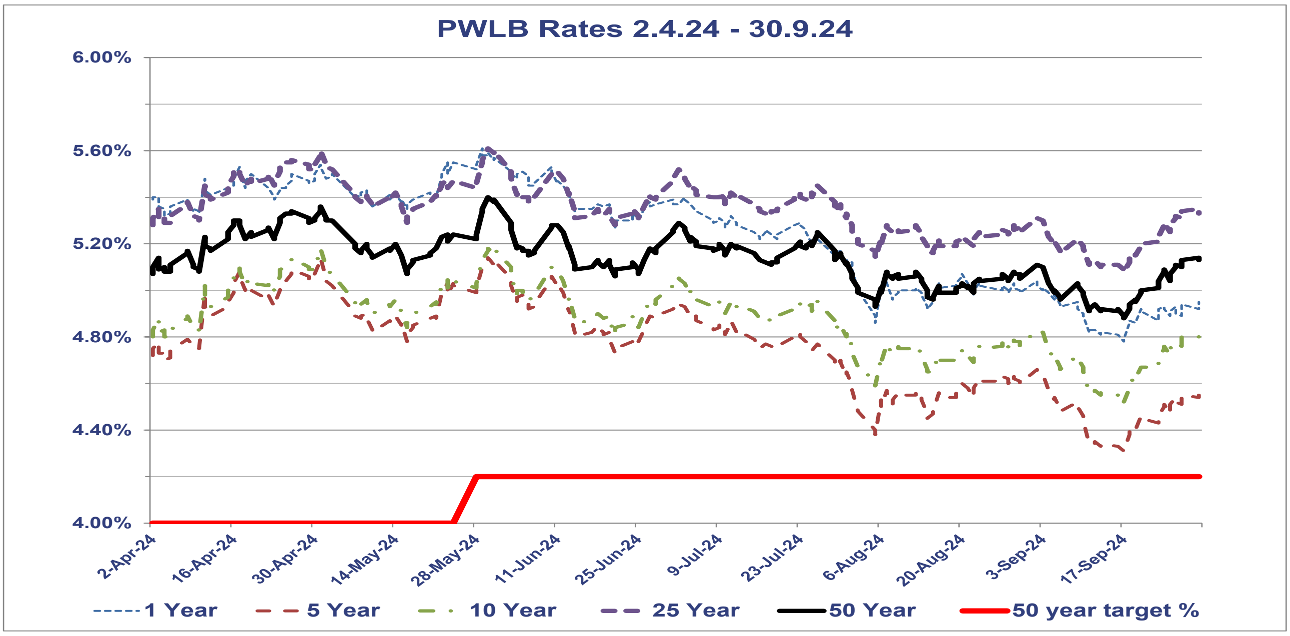
Conversely, 17 September saw the low point for the whole curve, with the 5-year certainty rate falling to 4.31% before rebounding to 4.55% by the end of the month. Similarly, the 50-year certainty rate fell to 4.88% but finished the month at 5.13%, slightly higher than at the start of April.

At this juncture, we still 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 we forecast 50-year rates to stand at 4.20% by the end of September 2026. The major caveats are that there is considerable gilt issuance to be digested by the market over the next couple of years, and geo-political uncertainties – which are generally negative for inflation prospects – abound in Eastern Europe and the Middle East, in particular.

PWLB RATES 02.04.24 - 30.09.24



HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

	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%

- 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).

7. Debt Rescheduling

Debt repayment and rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt repayments or rescheduling have been undertaken to date in the current financial year.

8. Compliance with Treasury and Prudential Limits

It is a statutory duty for the council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2024, the council has operated within the treasury and prudential indicators set out in the council's Treasury Management Strategy Statement for 2024/25, and no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the council's Treasury Management Strategy and Practices.

See Appendix C for details of the Prudential and Treasury indicators.

9. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 21st February 2024. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

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. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit quality financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

Creditworthiness.
The UK's sovereign rating has proven robust through the first half of 2024/25. The new government is expected to outline in detail its future fiscal proposals in the Budget scheduled for 30 October 2024.

Investment Counterparty criteria
The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function. The portfolio of investments as at 30th September 2024 are listed in Appendix D.

Credit Default Swap prices
It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances. See Appendix D.

Investment balances
The average level of funds available for investment purposes during the first half of the financial year was **£69m**. These funds are available in the short-term to medium -term, the level of funds available was mainly dependent on the timing of precept payments, receipt of

grants and progress on the capital programme as well as balances on reserves (eg CIL reserve) and balance sheet working capital eg debtors and creditors.

Investment Performance

The following indicators are to be reported on as stated within the Treasury Management Strategy 2024/25. See also Appendix C.

- Portfolio risk score; **1.02**
- Average credit rating (security); **AA**
- Weighted average maturity (Fixed term deposits); **17 days** (as at 30/09/2024)
- Interest rate risk; **£596,000**
- Rate of return; **4.94%**
- Liquidity; **£73.4m**

The council's budgeted investment interest return for 2024/25 is £1.36m, and the current forecast for the year is £2.90m.

Proportionality of Investments

The Council is dependent on investment activity to achieve a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives of the Council is dependent on achieving the expected net investment income from investments, and how this has changed since the budget was set.

Proportionality of Investments	2024/25 Budget £000s	2024/25 Current Budget £000s	2024/25 Forecast £000s
Gross Service Expenditure	82,342	82,648	86,118
Net Investment income	3,450	3,448	3,011
Proportion	**4%**	**4%**	**3%**

Approved limits

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the half year ended 30 September 2024.

10. Other Treasury Issues

1. IFRS 9 Fair Value of Assets Statutory Override

Following the consultation undertaken by the Department of Levelling Up, Housing and Communities (DLUHC) on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. If the override is not extended then movements in the fund will a charge to revenue. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency. This mechanism applies to the CCLA Property Fund in which the council has £4m invested.

2. Changes in risk appetite

The 2021 CIPFA Codes and guidance notes place importance on risk management. Where an council changes its risk appetite e.g., for moving surplus cash into or out of certain types of investment funds or other types of investment instruments. During this half year the council has maintained its use of the Debt Management Officer (DMADF) and Money Market Funds as been its strategy over the last few years.

3. Sovereign limits

The Council has determined that it will only use approved counterparties from the UK, and from 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 E. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

11. Commercial Investment Strategy Indicators

Commercial Investment Indicators	2024/25 Original Forecast £000s	2024/25 Current Forecast £000s	2025/26 Forecast £000s
Interest Cover Ratio	2.1	1.7	1.7
Loan to Value Ratio	104.9%	104.9%	104.9%
Gross Rent Multiplier	13.6	12.9	14.0

Interest cover ratio (income/interest) is used to measure how readily a business can pay the interest due on loans. The reduction from Original Forecast to Current Forecast is due to vacant units at Fareham and Rowley. Loan to value is the value of the loan to the value of the property. If the percentage is over 100% that means the value of loan is more than the value of the property. Gross rent multiplier is the value of a property compared to its annual rental income, the lower the ratio the higher the yield.

Net income from Commercial and Service Investments	2024/25 Budget £000s	2024/25 Current Budget £000s	2024/25 Forecast £000s
Net income [(1)]	3,450	3,448	3,011
Net revenue stream	26,004	26,310	24,395
Proportion of net revenue stream	**13%**	**13%**	**12%**

(1) This is the total of CCLA Property Fund, Loans to Organisations and Commercial Estates. Forecast - £172k+£160k+£2,679k = £3,011k

The summary property listing is below, with valuations as at 31st March 2024. See Appendix F for the full detail.

Commercial Investment Property (Summary)	**31/03/2023 Value £000s**	**Gain/(Loss) Addition £000s**	**31/03/2024 Value[(1)] £000s**
Legacy Properties;			
Huntingdon	21,599	(7)	21,592
St Ives	1,415	29	1,444
St Neots	7,314	(36)	7,278
	30,328	**(14)**	**30,314**
CIS Properties			
2 Stonehill	2,481	(205)	2,276
80 Wilbury Way	1,873	35	1,908
Shawlands Retail Park	6,055	(273)	5,783
1400 & 1500 Parkway	4,037	0	4,037
Rowley Arts Centre, St Neots	6,641	269	6,910
Little End Road, St Neots	3,321	(33)	3,288
Tri-link, Wakefield	14,748	(62)	14,686
Alms Close	1,447	2	1,449
	40,603	**(267)**	**40,337**
Total	**70,931**	**(281)**	**70,651**

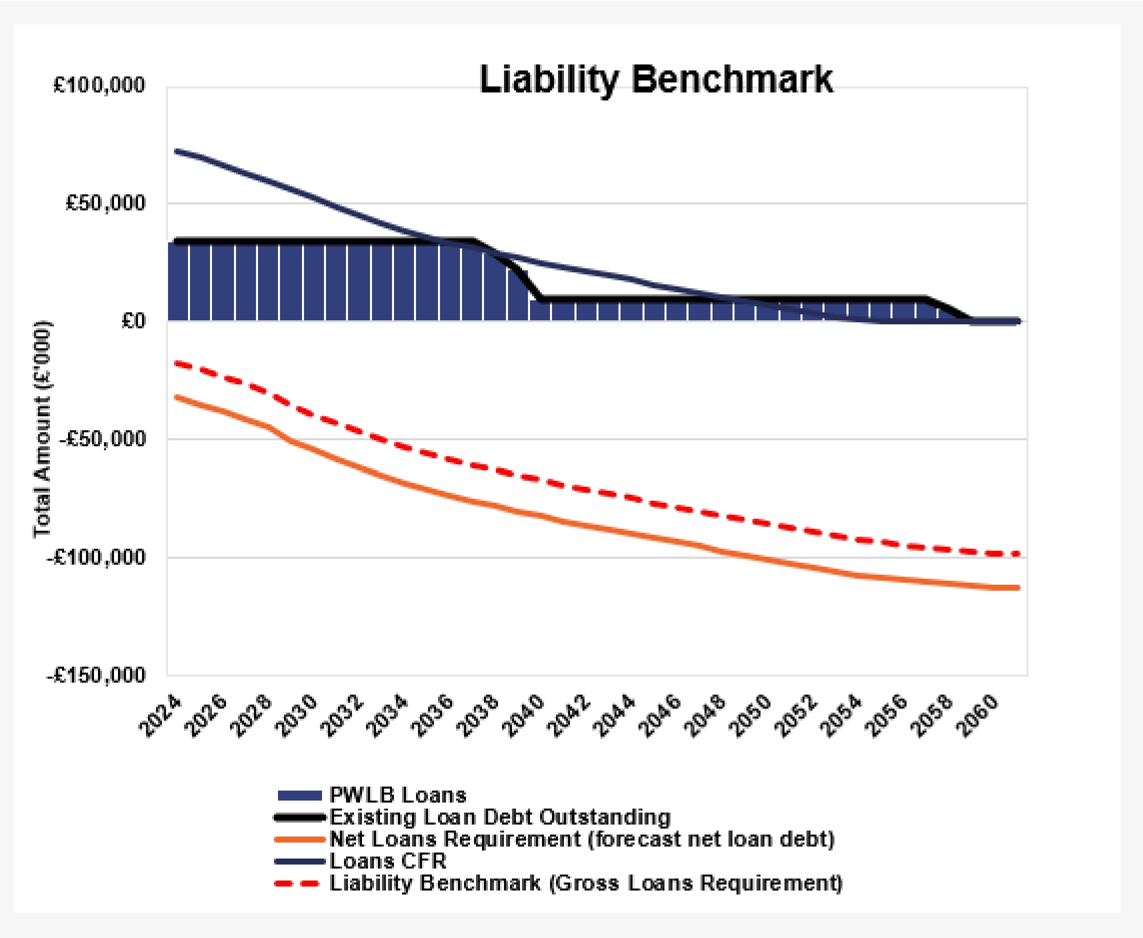
(1)The valuations are still subject to review and audi

APPENDIX A: Borrowing Schedule

Counterparty	Type	Amount £	Rate %	Start Date	Maturity Date
PWLB	Maturity	5,000,000	3.91	19/12/2008	19/12/2057
PWLB	Maturity	5,000,000	3.90	19/12/2008	19/12/2058
PWLB	Maturity	5,000,000	2.78	02/10/2017	02/10/2037
PWLB	Maturity	7,291,685	2.49	11/03/2019	11/03/2039
PWLB	Maturity	11,963,000	2.18	26/06/2019	26/06/2039
Salix	Repayment	13,162	0.00	17/02/2021	17/02/2026
		34,267,847			

APPENDIX B: CFR, Liability Benchmark and Borrowing

The Council is required to estimate and measure the Liability Benchmark (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 Council'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. This includes only current borrowing not future unplanned borrowing.
3. **Net loans requirement**: this will show the Council'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. In practice this is the amount required to pay the regular precept payments.

The Council is currently in an under-borrowed position (external borrowing is less than the CFR, internal borrowing is being used ie reserves and working capital to fund capital expenditure), this according to the liability benchmark will continue until the mid 2030s, although as plans evolve the CFR will likely move outwards. The CFR is being gradually reduced by application of the minimum revenue provision (MRP) charge to revenue, although as new expenditure plans are made the CFR line will reduce at a slower rate, and will not in reality reach zero.

The cash available to invest will increase as the MRP builds up in the cash balances. The liability benchmark line (dotted) is the cash available to invest less a liquidity buffer to meet any immediate cashflow needs

APPENDIX C: Prudential and Treasury Indicators

Treasury Indicators	2024/25 Limit £'000	30.09.24 Actual £'000
Authorised limit for external debt	135,000	34,263
Operational boundary for external debt	115,000	34,263
Gross external debt		34,263
Investments		80,323
Net investment		46,060
Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	0%/80%	0.0%
12 months to 2 years	0%/80%	0.1%
2 years to 5 years	0%/80%	0.0%
5 years to 10 years	0%/100%	0.0%
10 years to 20 years	0%/100%	70.7%
20 years to 30 years	0%/100%	0.0%
30 years to 40 years	0%/100%	29.2%
40 years to 50 years	0%/100%	0.0%
Upper limit for principal sums invested over 365 days Year 1 Year 2 Year 3	 10,000 9,000 8,000	 4,000 4,000 4,000
Minimum Total Cash Available (3 month rolling – July to September)	15,000	73,400

Interest Rate Risk (Impact of 1% rise/fall)	630	596
Average Credit Rating[1] of investments[2]	A-	AA
Portfolio Average Risk[3]		1.02

[1]Credit ratings (Fitch, investment grade) are in descending order AAA, AA+, AA, AA-,A+,A,A-,BBB+,BBB,BBB-.

[2] Includes MMFs, DMO and Banks

[3]Score is on scale 1 to 7, with 7 the highest risk, this is calculated by Link from a return made monthly

[4]30/09/2023 = 1.03, 31/03/2024 = 1.02, 30/06/2024 = 1.01

Prudential Indicators	2024/25 Budget £'000	30.09.24 Forecast £'000
Capital expenditure		
Capital Financing Requirement (CFR)	77,783	76,824
Annual change in CFR	2,129	4,483
In year borrowing requirement	0	0
Ratio of financing costs to net revenue stream	9%	2%

APPENDIX D: Investment Portfolio

Investments held as of 30 September 2024 compared to the 2024/25 counterparty list:

Counterparty	30/09/2024 Actual £m	2024/25 Limit £m
Deposit Accounts		
Natwest Business Reserve Account	0.57	4.00
Barclays Interest Bearing Account	.0001	4.00
Debt Management Office (DMO)	62.50	Unlimited
Money Market Funds		
Aberdeen Liquidity Fund	0.50	5.00
BlackRock Institutional sterling liquidity Fund	1.95	5.00
CCLA Public Sector Deposit Fund	2.45	5.00
Federated Short Term Prime Fund	2.50	5.00
HSBC Global Liquidity Funds ESG	2.60	5.00
Insight Liquidity Fund	1.20	5.00
Invesco Liquidity Fund	0.85	5.00
Legal & General Sterling Liquidity Fund	1.20	5.00
Property Fund		
CCLA Property Fund	4.00	5.00
Total Investments	**80.32**	

Counterparty	Balance 01/04/2024 £m	Movement £m	Balance 30/09/2024 £m	Weighted Average Rate[(1)] %	Weighted Average Maturity (Days)[(1)]
Banks	0.553	0.020	0.573	3.25	1
Debt Mgt Office	45.600	16.900	62.500	4.93	17
Money Market Funds	16.200	(2.950)	13.250	4.99	1
Property Fund	4.00	0.000	4.000[(6)]	5.21[(3)]	>365
Total Investments	**66.353**	**13.97**	**80.323[(2)]**	**4.94[(4)]**	
Loans	1.988	(0.002)	1.986	8.1	1,473
Total	**68.341**	**13.968**	**82.309[(5)]**	**5.02**	

[(1)]At month end

[(2)]This is a net movement, invested was £461.985 and repaid £381.662m.

[(3)]Dividend yield on net asset value.

[(4)]The weighted average rate for Q1 was 5.17%

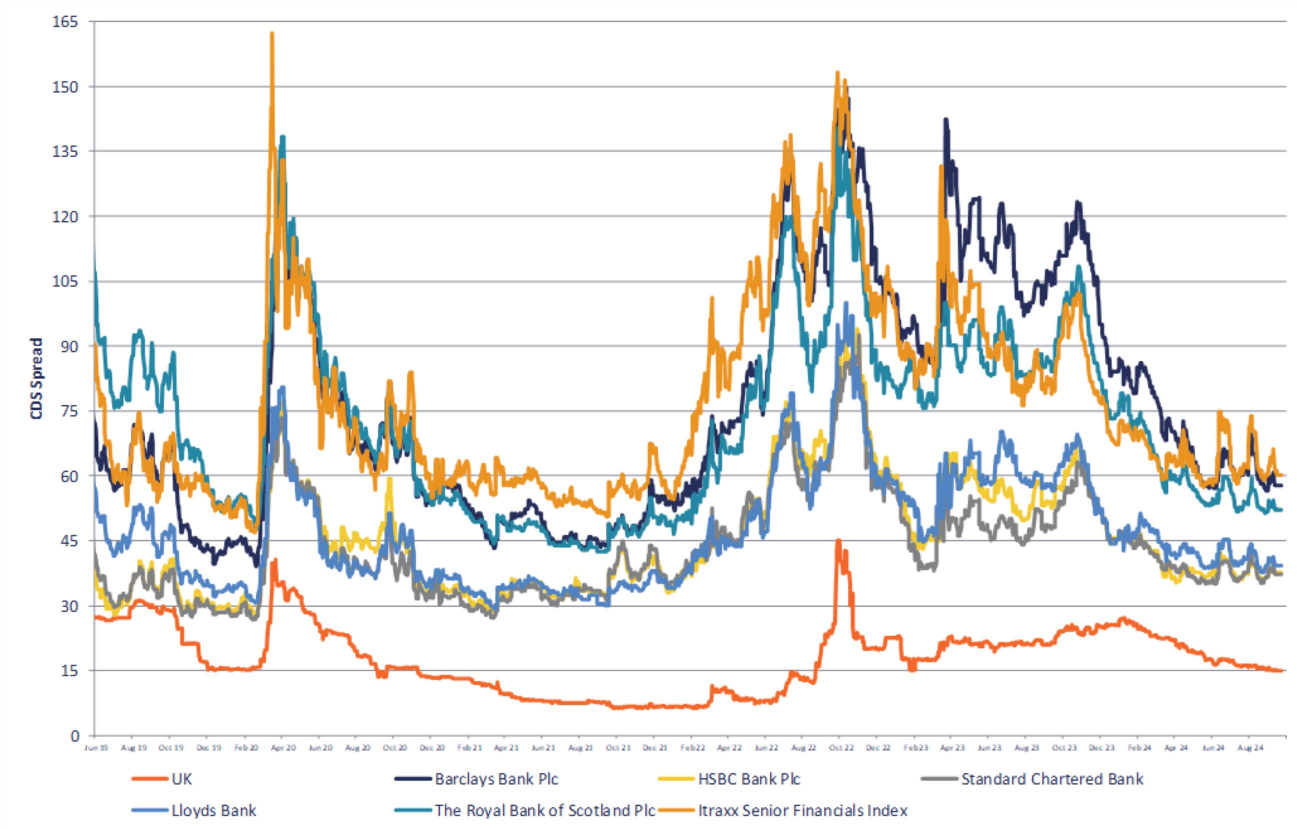
[(5)]The total investment balance at the end of Q1 was £71.976m

[(6)]The Net Asset Valuation as at 31/09/2024 is £3.569m

UK Banks 5 Year Senior Debt Credit Default Swaps (CDS) Spreads as of 30 September 2024

The cost of insuring against default low in historic terms, this cover is available to large financial institutions only. The chart below shows the cost in basis points of ensuring against the prospect of default on 5 year "paper" issued by major UK banks v the ITRAXX Senior Financials Index.

The price paid for CDS swaps by institutions is an indicator of risk within that institution, and so it is often used as in addition to credit rating to assess counterparty risk.



APPENDIX E: Approved Countries for Investments as of 30 September 2024

The UK will remain on the list of approved countries even if its credit rating drops below AA-.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Qatar (upgraded from AA- 20/3/24)

AA-

- Belgium
- France
- **U.K.**

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Appendix F: Commercial Estates Property Listing

Commercial Investment Property	31/03/2023 Value £000s	Gain/(Loss) Additions £000s	31/03/2024 Value £000s
Legacy Properties;			
Huntingdon			
Cinema and Shops	540	12	552
Oak Drive Shops	977	134	1,111
Mayfield Road Shops	750	(8)	742
Pub Site Sapley Square	193	0	193
Oak Tree Health Centre	11,786	0	11786
Clifton Road Industrial Units	1,825	0	1825
Alms Close Industrial Units	1,453	102	1,555
Land Clifton Road	144	0	144
Land St Peters Road	2,930	0	2,930
Land Redwongs Way	380	5	385
Phoenix Court Units	621	(252)	369
	21,599	**(7)**	**21,592**
St Ives			
Library Row Shops	532	29	561
Enterprise Centre	883	0	883
	1,415	**29**	**1,444**
St Neots			
Queens Gardens Shops	430	78	508
Naseby Gardens Shops	273	0	273
Leys Road Shops	117	9	126
Cambridge Street Shops	140	(8)	132
Cambridge Street Warehouse and Yard	719	0	719
Levellers Lane Industrial Units	5,220	(115)	5,105
Caravan Site Rush Meadows	257	0	257
Café Riverside Park	158	0	158
	7,314	**(36)**	**7,278**
Total	**30,328**	**(14)**	**30,314**
CIS Properties			
2 Stonehill, Huntingdon	2,481	(205)	2,276
80 Wilbury Way, Hitchin	1,873	35	1,908
Shawlands Retail Park, Sudbury	6,055	(273)	5,783
1400 & 1500 Parkway, Fareham	4,037	0	4,037
Rowley Arts Centre, St Neots	6,641	269	6,910
Little End Road, St Neots	3,321	(33)	3,288
Tri-link, Wakefield	14,748	(62)	14,686
Alms Close, Huntingdon	1,447	2	1,449
	40,603	**(267)**	**40,337**
Total	**70,931**	**(281)**	**70,651**

GLOSSARY

Bail in Risk
Bail in risk arises from the failure of a bank. Bondholders or investors in the bank would be expected to suffer losses on their investments, as opposed to the bank being bailed out by government.

Bank Equity Buffer
The mandatory capital that financial institutions are required to hold, in order to provide a cushion against financial downturns, to ensure the institution can continue to meet it liquidity requirements.

Bank Rate
The official interest rate of the Bank of England, this rate is charged by the bank on loans to commercial banks.

Bank Stress Tests
Tests carried out by the European Central Bank on 51 banks across the EU. The tests put banks under a number of scenarios and analyse how the bank's capital holds up under each of the scenarios. The scenarios include a sharp rise in bond yields, a low growth environment, rising debt, and adverse action in the unregulated financial sector.

Basis Point
1/100th of 1% ie 0.01%. 10 basis points is 0.1%.

Bonds
A bond is a form of loan, the holder of the bonder is entitled to a fixed rate of interest (coupon) at fixed intervals. The bond has a fixed life and can be traded.

Call Account
A bank account that offers a rate of return and the funds are available to withdraw on a daily basis.

Capital Financing Requirement (CFR)
The CFR is a measure of the capital expenditure incurred historically but has yet to be financed; by for example capital receipts or grants funding. The current CFR balance is therefore financed by external borrowing, and internal borrowing (i.e. use of working capital on the balance sheet – creditors, cash etc).

Capital Receipts
Funds received when an asset is sold. This can be used to fund new capital expenditure.

Certificate of Deposit
Evidence of a deposit with a financial institution repayable on a fixed date. They are negotiable instruments, and have a secondary market, and can be sold before maturity.

Collar (Money Market Fund)

The fund "collar" forms part of the valuation mechanism for the fund. LVNAV funds allow investors to purchase and redeem shares at a constant NAV calculated to 2 decimal places, i.e. £1.00. This is achieved by the fund using amortised cost for valuation purposes, subject to the variation against the marked-to-market NAV being no greater than 20 basis points (0.2%). (This compares to current Prime CNAV funds which round to 50 basis points, or 0.5%, of the NAV.)

Constant Net Asset Value (CNAV)
Constant Net Asset Value refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a Net Asset Value (NAV), or value of a share of the fund at £1 and calculate their price to 2 decimal places.

Counterparty
Another organisation with which the Council has entered into a financial transaction with, for example, invested with or borrowed from. There will be an exposure of risk with a counterparty.

Credit Default Swaps (CDS)
A financial agreement that the seller of the CDS will compensate the buyer in the event of a loan default. The seller insures the buyer against a loan defaulting.

Credit Ratings
A credit rating is the evaluation of a credit risk of a debtor and predicting their ability to pay back the debt. The rating represents an evaluation of a credit rating agency of the qualitative and quantitative information, this result in a score, denoted usually by the letters A to D and including +/-.

DMADF
The Debt Management Account Deposit Facility. This is run by the UK's Debt Management Office and provides investors with the ability to invest with UK central government.

ECB
The European Central Bank, one of the institutions that makes up the EU. Its main function is to maintain price stability across the Eurozone.

ESG
Environmental, society, and governance investing, makes reference to a set of standards for an organisation's behaviour, which can be used by a socially aware investor to make investment decisions. Environmental factors include how an organisation safeguards the environment, social criteria look at how the organisation manages its relationships with the community, employees, suppliers, and customers, and governance deals with leadership, internal controls and audits.

Federal Reserve (Fed)
The central bank of the United States.

Forward Deal
The act of agreeing today to deposit/loan funds for an agreed time limit at an agreed date and rate.

Gilts
Bonds issued by the Government in Sterling.

Link Group
The council's treasury advisors, who took over from Arlingclose in March 2023.
Liquidity
The degree to which an asset can be bought or sold quickly.

LVNAV Money Market Fund
Low volatility net asset value. The fund will have at least 10% of its assets maturing on a daily basis and at least 30% of assets maturing on a weekly basis.

MiFID
Markets in Financial Instruments Directive, is a regulation that increases the transparency across the EU's financial markets and standardises the regulatory disclosures required. In force since 2008.

Minimum Revenue Provision (MRP)
An amount set aside annually from revenue to repay external debt.

Monetary Policy Committee (MPC)
A committee of the Bank of England that meets to decide on the UK interest rate.

Monetary Policy
A policy adopted by government to affect monetary and financial conditions in the economy.

Money Market Funds
An open-ended mutual fund that invests in short-term debt securities. A deposit will earn a rate of interest, whilst maintaining the net asset value of the investment. Deposits are generally available for withdrawal on the day.

Prudential Code
The CIPFA code of practice which ensures local authorities spending plans are affordable, prudent and sustainable.

Public Works Loans Board (PWLB)
The PWLB is an agency of the Treasury, it lends to public bodies at fixed rates for periods up to 50 years. Interest rates are determined by gilt yields.

REFCUS
Revenue Expenditure Funded from Capital Under Statute. Expenditure which would normally be considered revenue expenditure, but has been statutorily defined as capital expenditure, including the giving of a loan, grant or other financial assistance to any person, whether for use by that person or by a third party, towards expenditure which would, if incurred by the authority, be capital expenditure. Or expenditure incurred on the acquisition, production or construction of assets for use by, or disposal to, a person other than the local authority which would be capital expenditure if those assets were acquired, produced or constructed for use by the local authority.

Reserves
The accumulation of past revenue surpluses and contributions, which can be used to meet future expenditure. The reserves can be general reserves, or earmarked for a specific purpose.

Security, Liquidity, Yield (SLY)
The factors taken into account when investing and are prioritised in the order.

SONIA
Sterling overnight index average interest rate. On each London business day, SONIA is measured as the trimmed mean, rounded to four decimal places, of interest rates paid on eligible sterling denominated deposit transactions.

Transactional Banking
Use of a bank for day-to-day banking requirement, e.g. provision of current accounts, deposit accounts and on-line banking.

UN Principles for Responsible Banking
Are a unique framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement.

The framework consists of 6 Principles designed to bring purpose, vision and ambition to sustainable finance. They were created in 2019 through a partnership between founding banks and the United Nations. Signatory banks commit to embedding these 6 principles across all business areas, at the strategic, portfolio and transactional levels.

- **Principle 1:** Alignment, align business strategy with individual's goals as expressed in the sustainable development goals, the Paris Climate Agreement and national and regional frameworks.
- **Principle 2:** Impact and Target Setting, increase positive impacts and reduce negative impacts on, and managing the risks to people and environment.
- **Principle 3:** Clients and Customers, work with clients and customers to encourage sustainable practices and enable economic activities that create shared prosperity.
- **Principle 4:** Stakeholders, engage with stakeholders to achieve society's goals.
- **Principle 5:** Governance and Culture, implement the commitment to these principles through effective governance.
- **Principle 6:** Transparency and Accountability, periodic review of the implementation of these principles, and be transparent about and accountable for the positive and negative impacts, and the contribution to society's goals.

A 3-step process guides signatories through implementing their commitment:
1. Impact Analysis: identifying the most significant impacts of products and services on the societies, economies and environments that the bank operates in.
2. Target Setting: setting and achieving measurable targets in a banks' areas of most significant impact.
3. Reporting: publicly report on progress on implementing the Principles, being transparent about impacts and contributions.

UN Principles for Responsible Investments

The 6 principles for responsible investments offer possible actions for incorporating ESG issues into investment practice.

The principles that the signatories sign up to are;

- **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
- **Principle 2**: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- **Principle 3**: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5**: We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.