Report title	**Treasury Management Report – Mid-year 2024/25**
Report author	A Ismailov – Sr Accountant
Department	Finance
Exempt?	No

Purpose of report:

For information

Synopsis of report:

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. Under the Council's Constitution, the responsibility for scrutinising our treasury activity falls to the Overview and Scrutiny Select Committee.

This report sets out the Council's treasury management activity and performance during the half year ended 30 September 2024 focusing on financing, liquidity, cash and risk management.

The report also reviews the Council's treasury and investment strategies, along with prudential indicators, and compliance with the limits set for 2024/25.

1. Background Information

1.1. The Council's treasury management activity is underpinned by CIPFA's (Chartered Institute of Public Finance and Accountancy) Code of Practice on Treasury Management ("the Code"), and the CIPFA Prudential Code for Capital Finance in Local Authorities ("the Prudential Code"). These regulations require local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement for the financing and investment activities.

1.2. The Code also requires that the treasury management strategy and policies are effectively scrutinised, hence, this specific role has been delegated to the Overview & Scrutiny Select Committee. The Council's Treasury Management Strategy for 2024/25 was approved at Full Council on 09 February 2024.

1.3. The Code also recommends that members are informed of treasury management activities quarterly. Accordingly, this report outlines the Council's performance during the first half of the financial year against the criteria set in the Treasury Strategy.

1.4. Treasury management is defined 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."

1.5. No treasury management activity is without risk; The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities focuses on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

1.6. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report, therefore, provides details of the treasury activities and highlights compliance with the Council's policies previously approved by the members.

1.7. This report will be presented to both the Corporate Management Committee on 21 November 2024 and the Overview & Scrutiny Select Committee on 05 December 2024.

2. Prudential and Treasury Indicators and Compliance

2.1. In compliance with the requirements of the Code this report provides members with a summary report of the treasury management activity during the half year ended 30 September 2024 ("H1 2024/25"). Officers herewith confirm that during H1 2024/25, the Council complied with all its legislative and regulatory requirements and its Treasury Management Strategy Statement (including the respective treasury and prudential indicators) and Treasury Management Practices.

2.2. There are no proposed changes to the current Treasury Management Strategy.

2.3. A full set of prudential and treasury indicators for H1 2024/25 are set out in Appendix A

3. Risk management

3.1. The Council aims to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. The Treasury Management Strategy Statement ("TMSS") for 2024/25, which includes the Annual Investment Strategy, sets out the Council's investment priorities as being:

Credit risk
Counterparty credit quality is assessed and monitored with reference to credit ratings including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

Liquidity risk
In keeping with the Guidance on Investments as provided by Ministry of Housing, Communities and Local Government (MHCLG formerly known as DLUHC), the Council maintains a sufficient level of liquidity using Money Market Funds and call accounts.

Yield
The Council seeks to optimise returns commensurate with its objectives of security and liquidity.

3.2. Officers herewith confirm that during H1 2024/25 the Council followed the above approach in relation to its investment activities.

4. Economic update

4.1. In line with the Code' requirements, Appendix B sets out the economic context within which our treasury operations were working in during the period covered by this report. This economic update was provided by the Council's Treasury Advisors, LINK Group and reflects the market position at the beginning of October 2024.

5. Borrowing Activity in H1 2024/25

5.1. 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 H1 2024/25 unfinanced capital expenditure, and prior period's net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources. The Council's latest estimate for 2024/25 year-end CFR is £703.5m.

5.2. Part of the Council's treasury activities is to monitor cash position and organise financing against the borrowing needs. Financing is sourced through a combination of external 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.

5.3. No new borrowing was undertaken during H1 2024/25 meaning that the Council continued to maintain an under-borrowed position. This meant that the capital borrowing need, the CFR, was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure in the sharply rising interest rates environment and the period of low capital spend.

5.4. Table 1 sets out the borrowing activity in H1 2024/25:

Table 1 – Borrowing activity H1 2024/25				
	Opening Balance £'000	New borrowing £'000	Borrowings repaid £'000	Closing balance £'000
HRA – PWLB	100,000	0	0	100,000
General Fund - PWLB	489,000	0	0	489,000
General Fund – Other	38,615	0	289	38,326
	627,615	**0**	**289**	**627,326**

5.5. A full list of Council borrowings held as of 30 September 2024 is set out in Appendix C

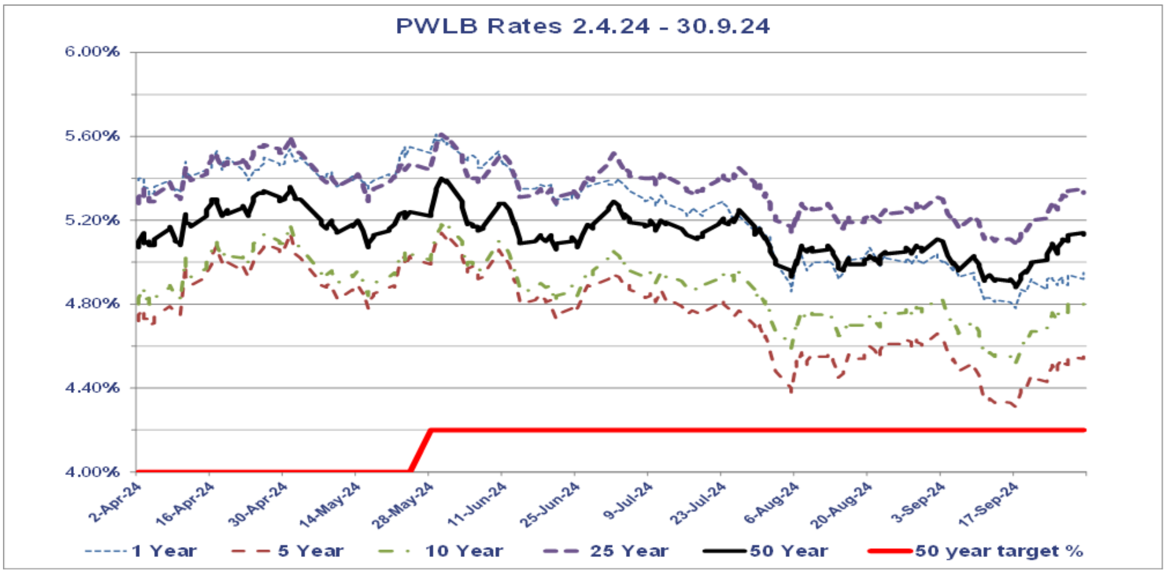
5.6. Subsequent to the end of September, the Council had a £10m PWLB loan maturing on 17 October 2024. In view of the current high-interest rate environment, this was repaid using existing cash resources to temporarily fill the gap (known as internal borrowing) which is in line with the 2024-25 Treasury Management Strategy.

5.7. PWLB rates are gilt (UK Government bonds) yields plus 0.8% (a margin determined by the HM Treasury). The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields.

5.8. 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. At this juncture, the rates are still expected to fall back gradually over the next two to three years as inflation dampens, although there is upside risk to the Bank Rate.

5.9. The CPI measure of inflation is expected to fall below 2% in the second half of 2025, however, the 50-year PWLB rates are anticipated to stand at 4.20% by the end of September 2026. The major caveats to this 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.

5.10. The actual PWLB rates in H1 2024/25 were as follows:



5.11. The MHCLG has policy responsibility for the Prudential Framework under which local authorities borrow and invest. In October 2023, the Government introduced The Levelling Up and Regeneration Act 2023 ("LURA"), which included new provisions that expand the Government's statutory powers to directly tackle excessive risk within local government capital system. A local authority comes into scope of the new powers when a 'trigger point' is breached with respect to any of the four capital risk metrics as set out in the LURA.

5.12. Further explanation on the impact of the LURA was provided in the Treasury and Capital Strategies which were approved in February 2024. At the time of writing, no further clarifications have been received from the Government on the trigger points, calculations or proposed sanctions.

5.13. In addition to the above, in late December 2023 the Council received a non-statutory Best Value Notice from MHCLG (then DLUHC). There is an ongoing dialogue with MHCLG focusing on the Council's risk management and resilience (including continued focus on existing borrowing levels, funding and liquidity risks and strengthening cash flows from operations through various cost saving initiatives).

5.14. In early October officers began exploring options with our treasury advisors LINK around the potential for early repayment of some of the loans. An early repayment could provide savings because of the shorter life of a replacement loan and by taking the advantage of potential discounts offered by lenders based on prevailing interest rates, subject to availability of supporting cashflows for refinancing (underlying liquidity).

Implementation of IFRS16: Leases

5.15. From 1 April 2024 the accounting standard which sets out the guidelines for accounting for leases changed from IAS 17 (International Accounting Standard) to IFRS 16 (International Financial Reporting Standard). This means from this date the way the Council accounts for assets it leases changed.

5.16. The adoption of IFRS16 results in bringing more lease liabilities on to the balance sheet (e.g. right of use, embedded, rolling and peppercorn leases) which will in turn have an impact on the Council's Prudential Indicators such as Capital Financing Requirement ("CFR"), Minimum Revenue Provision ("MRP") as well as indicators such as Authorised Borrowing Limit and Operational Boundary etc.

5.17. To avoid breaching the Authorised Limit, assumptions as to the effects of IFRS16 were built into the planned Prudential Indicators for 2024/25.

6. Interest rates

6.1. LINK's latest forecast, last updated on 28th May (see below) 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.

6.2. PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 0.20%, calculated as gilts plus 0.80%) which is available to local authorities who meet certain criteria (which Runnymede do).

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

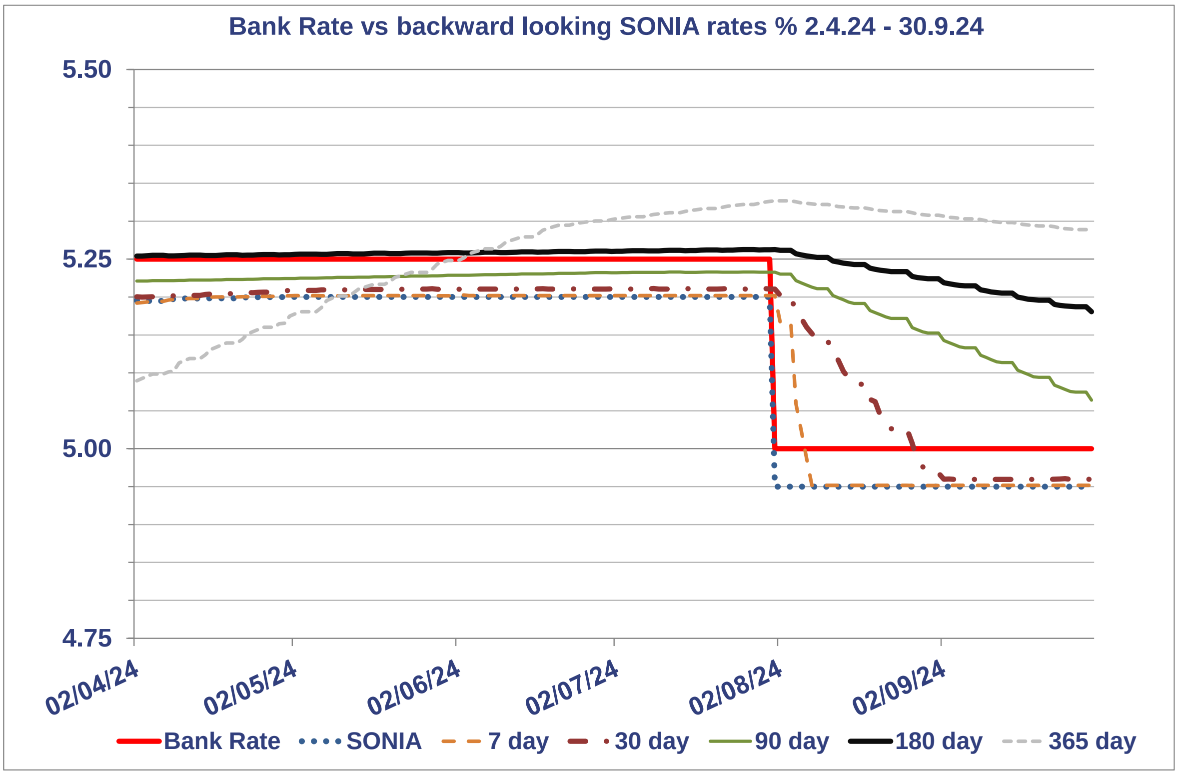
6.3. While the Council continues to take a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity.

6.4. Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates. This also provides benefits of reducing counterparty risk exposure, by limiting investments in the financial markets.

<u>Interest rate benchmark</u>

6.5. The Council uses the Sterling Overnight Index Average ("SONIA") as a benchmark interest rate. This is published daily and measures the cost of overnight borrowing on a backward-looking basis.

6.6. The SONIA (backward-looking) rates in H1 2024/25 were as follows:



	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	5.25	5.20	5.20	5.21	5.23	5.26	5.33
High Date	02/04/2024	03/05/2024	13/05/2024	26/06/2024	26/07/2024	26/07/2024	01/08/2024
Low	5.00	4.95	4.95	4.96	5.06	5.18	5.09
Low Date	01/08/2024	01/08/2024	27/08/2024	04/09/2024	30/09/2024	30/09/2024	02/04/2024
Average	5.17	5.12	5.12	5.15	5.20	5.25	5.26
Spread	0.25	0.25	0.25	0.25	0.17	0.08	0.24

The table above covers the first half of 2024/25 financial year.

6.7. The Council's actual deposit interest rate performance during H1 2024/25 of 5.22% (or 5.19% including dividends from CCLA pooled funds) compares favourably with the average SONIA rates as can be seen in the above table.

6.8. The Council's Treasury Management Strategy sets out a lower rate of interest for the Housing Revenue Account based on the risk-free nature of the account. This lower rate is achieved by deducting the credit risk margin from the actual rate achieved by the Council. The applicable rate benchmark as a proxy to a risk-free rate is the average 90-day backward looking SONIA rate which averaged 5.20% during H1 2024/25.

6.9. At the last meeting of the Overview & Scrutiny committee members asked about benchmarking with other local authorities. Benchmarking could be very useful, however, the scope for it needs to be designed carefully to provide meaningful insight. Risk appetite, investment policies and strategies vary between the local authorities depending on their size, financial standing and many other factors as endorsed by their respective councils. Furthermore, obtaining transparent independent benchmarking information has some cost implications.

6.10 The Surrey borough and district level authorities (including Runnymede) collect and share amongst themselves some limited information on their investment return rates on a voluntary basis at the end of each year. We expect to have access to such local benchmarking information in time for the Annual Outturn Treasury Management Report where we will collate this information and include it in the report.

7. Investments in H1 2024/25

7.1. The Council's investment policy is reflected in the Annual Investment Strategy approved by the Council each year. 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.). The investment activity during the first half of financial year of 2024/25 conformed to the approved strategy, and the Council had no liquidity issues.

7.2. Investments of £71.2million were held by the Council as of 30 September 2024 with investment turnover principally driven by the availability of counterparties that meet the criteria set out in the Annual Investment Strategy. Tables 2 below summarises investment activity during the first half of the financial year, split between the sectors of the counterparties that the funds were invested with.

Table 2 - Investment activity in H1 2024/25

	Opening Balance	New Investments	Investments Recalled	Closing Balance
	£000	£000	£000	£000
Specified Investments				
Banking sector	33,000	54,000	44,000	43,000
Building societies	0	0	0	0
Local Authorities	5,000	5,000	10,000	0
Money Market Funds	7,600	98,350	81,750	24,200
Unspecified Investments				

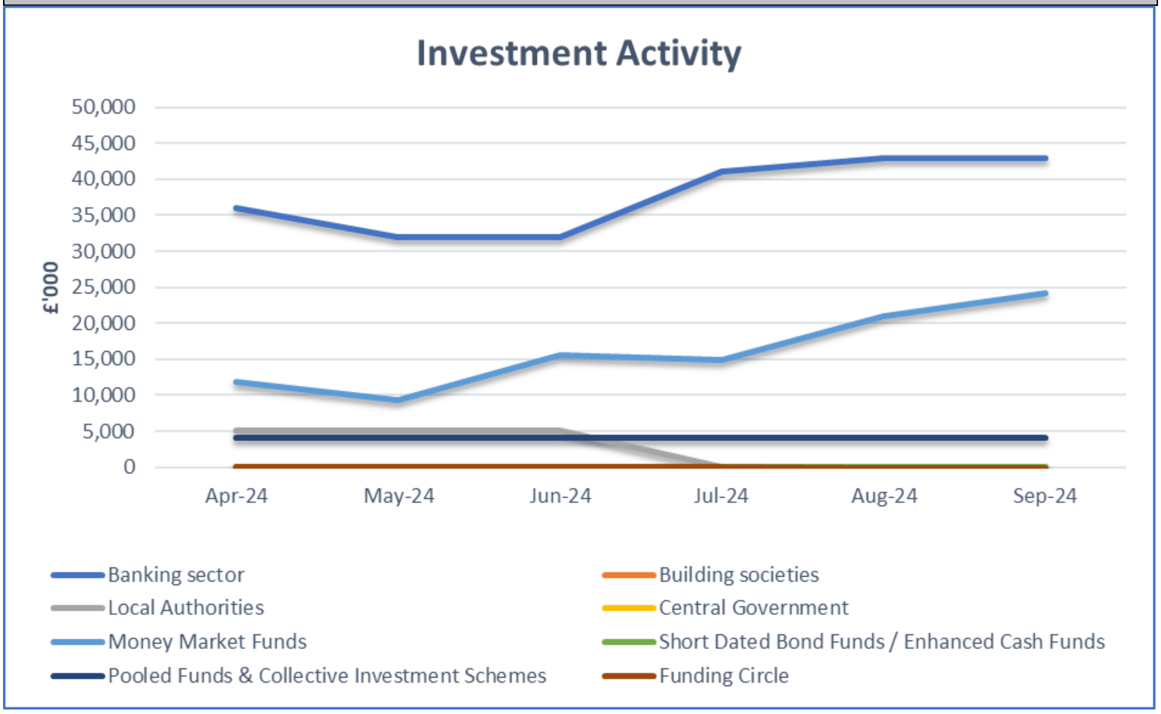
Pooled Funds & Investment Schemes	4,000	0	0	4,000
Funding Circle	14	0	10	4
	49,614	**157,350**	**135,760**	**71,204**

7.3. Other than the parameters set in the Annual Investment Strategy, the main factors that determine the amount of investment income are the levels of cash balances, interest rates and timing of cash flows (including capital expenditure or sale projects).

7.4. As discussed in previous reports, the Funding Circle balance is slowly being wound down as loans mature following the decision of the company to close reinvestments for retail customers for which the Council is one.

7.5. The monthly movement in balances between these categories during H1 2024/25 is set out in Table 3 below and reflects the available counterparties and investment rates at that time.

Table 3 - Movement between investments during H1 2024/25



7.6. The Council invests in two Pooled Funds (operated by CCLA (Churches, Charities and Local Authorities) Investment Management Limited). These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Investments in these funds are long term in nature and over long-term horizons they provide investors with relatively strong levels of interest (in the form of dividends). However, the capital values of these assets can be subject to large fluctuations (both up and down) over relatively short time frames. The movement of the Council's two CCLA pooled funds is as follows:

Table 4 – Pooled Funds in H1 2024/25

	Original Investment £'000	Value 31 Mar 2024 £'000	Value 30 Sep 2024 £'000	Annualised Return %
CCLA Property Fund	2,000	2,175	2,167	5.63
CCLA Better World Cautious Fund	2,000	1,988	2,041	3.69

7.7. The differences between the Original Sums invested and the Values on 30 September 2024 are held on the Council's Balance Sheet in the Pooled Investments Adjustment Account.

7.8. From April 2018, local authorities were required to comply with the standard IFRS 9: Financial Instruments, following its adoption in full by the Code. Changes brought by IFRS 9 meant that more financial assets would be required to have any annual changes in value (known as "fair value movements") recognised as profit or loss, whereas before movements for such instruments may have been held in a reserve with any movement in value only affecting general fund balances when sold. Local authorities raised concerns with the government at the time, particularly with respect to collective investment vehicles ("pooled investment funds") that would fall within the requirements of IFRS 9. The government had consulted and responded with a statutory override for full application of IFRS9 which after the latest extension is due to expire on 31 March 2025.

7.9. With IFRS 9 potentially coming into full application for Pooled Investments with effect from the next financial year (2025/26) officers, as part of their continuing assessment of our CCLA investments against the adopted investment strategy, are reviewing whether to redeem the investments or potentially build up a new dedicated reserve to smooth out any fluctuations in future values to protect the General Fund position.

7.10. A full list of Council's investments held as of 30 September 2024 is set out in Appendix D.

8. Non-treasury Investments

8.1. The Prudential Code, TM Code and the government regulations include guidance on what is termed "non-treasury" investments. These are predominantly investments for commercial return such as:

- commercial loans to companies and other organisations, and
- holding property for a financial return (investment property).

The Council owns a significant investment property portfolio which is now managed through its developing Asset Management Strategy and provided loans to its wholly owned companies and local community groups.

Loans to Subsidiaries

8.2. The Council has funded its three wholly owned companies via Loan Facilities (that have been approved by the Full Council at rates set in accordance with the competition rules) which enabled them to buy certain properties resulting from the Council's past regeneration schemes. There are no plans in the current Capital Programme to further increase such investments. The table below sets out the list of loan facilities and their outstanding balances at the end of H1 2024-25.

Table 5 –Loans to Runnymede Companies as of 30 September 2024		
	Principal Balance £'000	**Interest Rate %**
Development Loans - Addlestone One	25,326	5.04
Development Loans – Magna Square	11,838	4.22
Development Loans – Other	1,000	4.86
Working Capital Loans	445	7.54
Working Capital Loans	300	7.36
Working Capital Loans	3,000	7.40
Totals	**41,909**	

Property performance measurement

8.3. To better describe the role the investment property portfolio plays in the Council's capital and revenue strategies a set of performance reporting measures was approved as part of both the Annual Asset Management Strategy and the Capital & Investment Strategy.

8.4. The key performance indicators for the property investments in H1 2024-25 have been excluded from the treasury management report and are subject of a separate report set out elsewhere on this agenda to aid transparency and provide more focus on this important area.

9. Legal Implications

9.1. The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code, the Government Investments Guidance and the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out their treasury management functions.

10. Environmental/Sustainability/Biodiversity implications

10.1. Ethical or Sustainable investing is becoming a more commonplace discussion within the wider investment community. There are currently a small, but growing number of financial institutions and fund managers promoting Environmental, Social and Governance (ESG) products however the types of products we can invest in are constrained to those set out in our Investment Strategy which is driven by investment guidance, both statutory and from CIPFA, making it clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues must play a subordinate role to those priorities.

10.2. The Council does not invest directly in any companies – other than our own - and our investments are primarily limited to investments with the banking sector and other authorities (term deposits etc) and investments in property (our investment properties).

10.3. The Council does have two pooled funds both managed by CCLA and their approach to ESG can be found on their website: https://www.ccla.co.uk/sustainability/corporate-governance/approach-esg

11. Council Policy

11.1. This is set out in the Treasury Management Policy Statement, the Annual Investment Strategy, and associated Practices and Schedules.

11.2. The Council's treasury management policy statement states:
"The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks."

11.3. It is the security of investments that has always been the main emphasis of our treasury strategy. In balancing risk against return, Officers continue to place emphasis on the control of risk over yield following investment guidance, both statutory and from CIPFA, which make it clear that all investing must adopt SLY principles – security, liquidity and yield in that order.

12. Risk Implications

12.1. The risks associated with Treasury Management activities are set out in the Council's Treasury Management Strategy approved in February 2024 and in the Councils Statement of Accounts.

12.2. The risks associated with Non-Treasury Investments are set out in the Council's Capital and Investment Strategy approved in February 2024 and in the Annual Asset Management Strategy.

13. Conclusions

13.1. The first half of 2024/25 financial year continued the challenging economic and political environment with counterparty credit risk management remaining our main priority. The criteria for investment counterparties in the Annual Investment Strategy are continuously reviewed to minimise risk wherever practical whilst retaining the ability to invest securely.

13.2. 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. The Corporate Head of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

13.3. All treasury management operations have been conducted in full compliance with the Council's Treasury Management Practices.

14. Appendices

- Appendix A - Treasury and Prudential Indicators 2024/25 as of 30 Sep 2024
- Appendix B – Economic update for the period
- Appendix C - Borrowings as of 30 Sep 2024
- Appendix D - Investments as of 30 Sep 2024
- Appendix E – Abbreviations

Treasury and Prudential Indicators 2024/25 as of 30 September 2024

Treasury Indicators	2024/25 Budget (Year End) £'000	30.06.24 Actual £'000	30.09.24 Actual £'000
Authorised limit for external debt	723,443	723,443	723,443
Operational boundary for external debt	698,443	698,443	698,443
Gross external debt	638,861	627,326	627,326
Investments	52,028	56,614	71,204
Net borrowing	586,833	570,712	556,122

Upper limit for principal sums invested over 365 days *(split by financial years beyond current year end):*	3,000	0	0

Maturity structure of fixed rate borrowing - upper and lower limits*	Fixed Rate Maximum Level	Variable Rate Debt Proportion	Fixed Rate Debt Proportion
Under 12 months**	25%	1.64%	0
12 months to 2 years	25%	0	1.69%
2 years to 5 years	25%	0	3.49%
5 years to 10 years	50%	0	7.74%
10 years and above	100%	0	85.44%

** Note1 borrowing limits exclude lease liabilities arising under IFRS16*
***Note2 borrowing due within 1 year is considered as variable rate borrowing even though in Council's case it is 100% fixed rate borrowing.*

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.

The authorised limit for external borrowing. – A further key prudential indicator represents a control on the maximum level of borrowing. This represents a 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. 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.

This limit includes a "cushion" to allow for the non-repayment of any borrowing at the required time and headroom for rescheduling of debts (i.e. borrowing new money in advance of repayment of existing). This was not required during the quarter.

Maturity structure of fixed interest rate borrowing (Upper Limit) As the Council does not borrow at variable rates of interest, the upper limit on this type of debt will always be nil, therefore no table has been produced for variable interest rate borrowing.

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.

There were no investments made for a period of greater than 365 days as of 30 Sep 2024.

Prudential Indicators	2024/25 Budget £'000	30.06.24 Actual £'000	30.09.24 Actual £'000
Capital expenditure	41,015	684	2,605
Capital Financing Requirement (CFR)	703,443	703,443	703,443
In-year borrowing requirement (Relates to Leased assets under IFRS16 rules)	6,000	0	0

Capital Expenditure – This prudential indicator is a summary of the Council's capital expenditure plans, and financing requirements. Any shortfall of resources results in a funding borrowing need.

The Council's borrowing need (the Capital Financing Requirement) - The Council's Capital Financing Requirement (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 underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR.

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 asset's life and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes.

In-year borrowing requirement for non-financial investments is any capital expenditure that has not been financed in the year.

Economic Update (as provided by LINK Group in early October 2024)

- 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 balance suggests non-retail services output grew by 0.5% quarter on quarter 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% 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. 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 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 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.

<u>MPC meetings: 9 May, 20 June, 1 August, 19 September 2024</u>

- 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 25 basis points 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.

Borrowings as of 30 Sep 2024

	Principal Sum £'000	Original Term (Years)	Annual Interest £	MATURITY	%
Housing Revenue Account					
PWLB - 500495	10,000	15	301,000	28 Mar 2027	3.01%
PWLB - 500498	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500500	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500501	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500493	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500496	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500503	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500494	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500497	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500499	10,000	30	350,000	28 Mar 2042	3.50%
	100,000		**3,379,000**	**Average Rate:**	**3.38%**
General Fund					
PWLB - 507920	10,000	6	205,000	17 Oct 2024	2.05%
PWLB - 504312	10,000	10	256,000	17 Aug 2025	2.56%
PWLB - 506855	10,000	10	219,000	23 Jan 2028	2.19%
PWLB - 505012	4,000	12	86,400	08 Jun 2028	2.16%
PWLB - 144641	6,000	9	150,000	22 Dec 2028	2.50%
PWLB - 504520	15,000	15	414,000	04 Dec 2030	2.76%
PWLB - 176998	10,000	11	226,000	30 Mar 2031	2.26%
PWLB - 410351	10,000	11	167,000	28 Sep 2032	1.67%
PWLB - 505233	10,000	30	244,000	12 Jul 2046	2.44%
Phoenix Life Limited	38,326	40	1,125,858	02 May 2061	2.88%
PWLB - 505335	20,000	45	376,000	01 Sep 2061	1.88%
PWLB - 508328	10,000	43	247,000	31 Dec 2061	2.47%
PWLB - 508377	10,000	43	249,000	18 Jan 2062	2.49%
PWLB - 505968	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505969	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505972	20,000	46	470,000	05 Apr 2063	2.35%
PWLB - 505433	10,000	47	207,000	29 Sep 2063	2.07%
PWLB - 508192	10,000	45	243,000	12 Dec 2063	2.43%
PWLB - 508226	10,000	45	239,000	13 Dec 2063	2.39%
PWLB - 505434	14,000	48	289,800	29 Sep 2064	2.07%
PWLB - 505668	20,000	48	514,000	20 Jan 2065	2.57%
PWLB - 507420	40,000	47	980,000	29 May 2065	2.45%
PWLB - 507145	10,000	48	228,000	27 Mar 2066	2.28%
PWLB - 507416	40,000	48	984,000	25 May 2066	2.46%
PWLB - 505611	20,000	50	524,000	16 Dec 2066	2.62%
PWLB - 506991	10,000	50	240,000	05 Mar 2067	2.40%
PWLB - 507425	20,000	49	480,000	30 May 2067	2.40%
PWLB - 506125	10,000	50	230,000	12 Jun 2067	2.30%
PWLB - 506887	15,000	50	367,500	08 Feb 2068	2.45%
PWLB - 506888	15,000	50	367,500	08 Feb 2068	2.45%
PWLB - 507407	20,000	50	490,000	23 May 2068	2.45%
PWLB - 177081	40,000	50	932,000	30 Mar 2070	2.33%
PWLB - 434500	10,000	50	167,000	09 Nov 2071	1.67%
	527,326		**12,620,058**	**Average Rate:**	**2.39%**
Total Borrowings	**627,326**		**15,999,058**	**Annual Interest:**	**2.55%**

Investments as of 30 Sep 2024

	£'000		ORIGINAL TERM	MATURITY	%
Banks					
Term Deposits					
First Abu Dhabi Bank	3,000		6 months	04 Oct 2024	5.230
Oversea-Chinese Banking Corp	3,000		4 months	08 Nov 2024	5.150
DBS Bank	3,000		4 months	22 Nov 2024	5.220
Sumitomo Mitsui Banking Corp	4,000		3 months	04 Dec 2024	4.990
National Bank of Kuwait	5,000		6 months	30 Dec 2024	5.260
Al Rayan Bank	5,000		6 months	02 Jan 2025	5.200
Qatar National Bank	2,000		9 months	03 Jan 2025	5.520
Handelsbanken	5,000		6 months	17 Jan 2025	5.210
Lloyds Bank	3,000		5 months	06 Feb 2025	4.890
National Bank of Canada	1,000		6 months	07 Feb 2025	4.760
Certificates of Deposit					
Goldman Sachs International	5,000		6 months	11 Oct 2024	5.290
Skandinaviska Enskilda Banken	2,000		1 year	11 Apr 2025	5.110
Rabobank	2,000		1 year	22 Aug 2025	4.720
Total Banks	**43,000**	**60%**			
Building Societies					
	-				
Total Building Society	**-**	**0%**	(50% Limit)		
Money Market Funds					
Aberdeen Liquidity Sterling Fund	10,000		********** On Call **********		Variable
Aviva Investors Sterling Liquidity Fund	10,000		********** On Call **********		Variable
Goldman Sachs Sterling Liquid Reserves	1,000		********** On Call **********		Variable
Insight Liquidity Fund PLC	3,200		********** On Call **********		Variable
Total Money Market Funds	**24,200**	**34%**			
Pooled Funds & Collective Investment Schemes					
CCLA Property Fund	2,000		*** 3 months settlement ***		Variable
CCLA Better World Cautious Fund	2,000		*** 3 months settlement ***		Variable
Total Pooled Funds	**4,000**	**6%**			
Funding Circle					
Lending to small and medium sized companies	4		*** up to 5 years ***		Variable
Total Other Investments	**4**	**0%**	(with the ability to sell loans)		
Total Investments	**71,204**				

Abbreviations Used

CE: Capital Economics - is the economics consultancy that provides Link Group, Treasury solutions, with independent economic forecasts, briefings and research.

CFR: Capital Financing Requirement - the Council's annual underlying borrowing need to finance capital expenditure and a measure of the Council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: Consumer Price Index – the official measure of inflation adopted as a common standard by the UK and countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

DLUHC: the Department for Levelling Up, Housing and Communities - renamed into MHCLG after July 2024 elections.

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

EZ: Eurozone -those countries in the EU which use the euro as their currency

Fed: The Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing/tightening policy. It is composed of 12 members - the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: Gross Domestic Product – a measure of the growth and total size of the economy.

G7: The group of seven countries that form an informal bloc of industrialised democracies - the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom - that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: Gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e., a rise in the price of a gilt will mean that its yield will fall.

HRA: Housing Revenue Account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

Laddering of Fixed Term Deposits: As its name suggests, fixed deposit laddering is a strategy where an investor creates a ladder of fixed term deposits. How do you do that? By spreading your deposit investments across multiple fixed term deposits and tenures rather than a single investment in a long-term fixed term deposit. This helps to optimise your returns whilst maintaining better liquidity and increasing the safety of cash. This strategy is particularly useful in times of higher inflation and rising or high interest rates.

MHCLG: Ministry of Housing, Communities and Local Government (formerly also known as DLUHC) - a ministerial department of the Government of the United Kingdom that is responsible for housing, communities, and local government in England.

MPC: The Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing/tightening.

MRP: Minimum Revenue Provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e., not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE/QT: Quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. This is called quantitative tightening. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to ‘cool’ the economy.

RPI: The Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

SONIA: The Sterling Overnight Index Average. Generally, a set of indices for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

TMSS: The Annual Treasury Management Strategy statement reports that all local authorities are required to submit for approval by the Full Council before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).