3.0 **TREASURY MANAGEMENT**

**Overview**

3.1 This section of the report presents details of the Council's Treasury Management Activity during Q2 2024/25, changes to the Approved Lending List and other current policy issues and considerations.

3.2 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is the management of the Council's borrowing, cash flows, its banking and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Council has adopted the Code and complies with its requirements.

3.3 The CIPFA Code of Practice for Treasury Management recommends that Members should be informed of Treasury Management activities at least twice a year but preferably quarterly. This report ensures, therefore, that the Council is adopting Best Practice in accordance with CIPFA's Code of Practice.

**Economic Update**

3.4 The Council's treasury advisors, Link Group, summarised the key points associated with economic activity in Q2 2024/25 up to 30 September 2024**:**

- GDP growth stagnating in July following downwardly revised Q2 figures of 0.5% quarter on quarter;
- CPI inflation hitting its target in June before increasing 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 entered its easing cycle by lowering base rate to 5.0% in August and holding in September;
- 10-year gilt yields falling to 4.0% in September;
- Bank rate likely to be reduced to 4.5% by December 2024 with further cuts expected throughout 2025.

A more detailed economic commentary on developments during Q2 2024/25 is included in **Appendix E.**

## Interest Rate Forecasts

3.5 The current interest rate forecasts (28 May 2024) of Link Group are as follows

| 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 |

* PWLB Rates are shown net of certainty rate 0.2% discount

The latest forecast, updated on 28th May, sets out a view that both short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of a stubbornly robust economy and a tight labour market as well as the size of gilt assurance.

## Annual Investment Strategy

3.6 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 21 February 2024. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

3.7 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. 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 rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

3.8 The approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 September 2024.

3.9 The investment activity up to Q2 2024/25 was as follows:

- Balance invested at 30 September 2024 : £657.4m
- Average Daily Balance 2024/25 up to 30 September 2024: £679.2m
- Average Interest Rate Achieved up to 30 September 2024: 5.27%

These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of precept payments, receipt of grant and progress on the capital programme.

3.10 The average return to Q2 2024/25 compares with the backward looking SONIA rates as follows:

- 5.12% 7 day
- 5.15% 1 month
- 5.20% 3 months
- 5.25% 6 months
- 5.26% 12 months

3.11 It is also a key requirement of the CIPFA Code of Practice that annual Treasury Management Strategies should be kept under constant review throughout the year and reported to Members as appropriate. Although there continues to be uncertainty in the financial and banking market, both globally and in the UK, it is considered that the Strategy approved in February 2024 is still fit for purpose in the current economic climate. No changes are therefore considered necessary to the Strategy at this stage.

**Approved Lending List**

3.12 The Approved Lending List as at 30 September 2024 is attached as **Appendix B** with changes made during Q2 2024/25 being reported in **Appendix C**.

**Debt and borrowing**

3.13 The Council's external debt outstanding at 30 September 2024 and forecast position for 2024/25 is as follows:-

| Detail | PWLB | | Money Market Loans | | Total | |
|---|---|---|---|---|---|---|
| | £m | % | £m | % | £m | % |
| **At 31 March 2024** | **353.7** | **3.74** | **24.0** | **4.04** | **377.7** | **3.76** |
| Loan Repayments | 0.8 | | 5.0 | | 5.8 | |
| New Loans Taken | 0.0 | | 0.0 | | 0.0 | |
| **= Loans Outstanding at 30 September 2024** | **352.9** | **3.74** | **19.0** | **4.12** | **371.9** | **3.77** |
| Further Scheduled In Year Repayments | 0.8 | | 0.0 | | 0.8 | |
| Forecast Additional Loans to be Taken | 0.0 | | 0.0 | | 0.0 | |
| **= Estimated Loans Outstanding at 31 March 2025** | **352.1** | **3.74** | **19.0** | **4.12** | **371.1** | **3.76** |

3.14 Any change to the forecast debt outstanding by the end of 2024/25 will be largely determined by whether the borrowing requirement for 2024/25 is ultimately financed by external borrowing or internal borrowing.

3.15 Based on the Q2 Capital Plan update the total external borrowing requirement for 2024/25 is currently forecast to be:-

| Detail | £m |
|---|---|
| 2024/25 Borrowing Requirement Borrowing | |
| Capital Plan Borrowing Requirement | 22.8 |
| Adjustment for Company Loans | -5.5 |
| Revenue Provision for General Fund Debt Repayment (MRP) | -15.1 |
| Revenue Provision for HRA Debt Repayment (MRP) | -1.1 |
| External Borrowing Loan Repayments | -6.6 |
| **= Total 2024/25 Borrowing Requirement** | **-5.5** |

3.16 A value for money assessment would therefore indicate that value could be best obtained by avoiding/delaying new borrowing and continuing to use internal cash balances to finance new capital expenditure or to replace maturing external debt. This would maximise short term revenue savings and produce other benefits, but is not risk free.

3.17 This Internal capital financing option will therefore continue to be actively adopted on an ongoing basis in order to achieve short term revenue savings and mitigate the credit risk incurred by holding investments in the market.

3.18 New external borrowing rates (fixed interest maturity rates from the PWLB reflecting the 0.2% 'certainty discounts') during Q2 2024/25 were as follows:-

| | 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% |

3.19 In September 2024, upon receipt of a proposed notification to increase the Interest Charge on one of the Council's £5m Market Loans, a decision was taken by the Assistant Director of Resources, to repay this Loan, following advice from the Council's Treasury Advisors, Link Group. Further opportunities for Debt Restructuring will continue to be closely monitored.

**Treasury and Prudential Indicators**

3.20 It is a statutory duty for the Council to determine and keep under review its Affordable Borrowing Limits.

3.21 During the quarter 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 Direct - Resources reports that no difficulties are envisaged for the current or future years in complying with these indicators.

3.22 The prudential and treasury Indicators are shown in Appendix F.

**Impact of Treasury Management Activities on the Revenue Budget**

3.23 Based on the Treasury Management activity at Q2 2024/25 and a forecast for the remainder of the year, the revenue impact is as follows:

At the close of Q2, the total Interest and Dividends forecast to be received at the end of the year is £33.1m, £2.7m in excess of budget. This variance has been primarily driven by the Cash Balances that have been invested over the year as part of the Treasury Pool, which have exceeded budgeted expectations. This is due to slippage on the council’s Capital Programme, meaning funds are being held for longer. Further, Interest rates over the quarter have been slightly higher than expectations at the time the budgets were set.

The forecast outturn for interest paid on long term borrowing is £14.1m, comprising of £10.8m General Fund Debt, and £3.3m HRA Debt

The forecast outturn for the Minimum Revenue Provision (MRP) is £15.1m.

**Capital Strategy**

3.24 The Capital Strategy was included as part of the Council’s Annual Treasury Management and Investment Strategy 2024/25, approved in February 2024. The Capital Strategy sets out how capital expenditure, capital financing and treasury management contribute to the provision of Corporate and service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

3.25 Alternative non-treasury investments are considered as part of the Capital Strategy. Given the technical nature of potential alternative investments and strong linkages to the Council’s Treasury Management function, appropriate governance and decision making arrangements are needed to ensure robust due diligence in order to make recommendations for implementation. As a result, all investments are subject to consideration and where necessary recommendations of the Commercial Investment Board.

3.26 The alternative investments considered by the Commercial Investment Board are as follows:

| Type of Investment | Invested as at 30/09/2024 £m | Rate of Return % |
|---|---|---|
| **Alternative Treasury Instruments** | | |
| Money Market Funds | 0.0 | 0.00 |
| Enhanced Cash Funds | 0.0 | 0.00 |
| Certificates of Deposit (CDs) | 0.0 | 0.00 |
| Property Funds | 15.9 | 3.8 |
| **Total Alternative Treasury Instruments** | **15.9** | **3.8** |
| **Alternative Investments** | | |
| **Loans to Council Companies** | | |
| - Yorwaste | 3.7 | 9.00 |
| - Brierley | 21.0 | 11.00 |
| - First North Law | 0.1 | 9.00 |
| - NY Highways | 9.5 | 11.50 |
| - Broadacres Housing Association | 33.6 | 4.30 |
| - Bracewell Housing Ltd | 0.7 | 10.00 |
| - Align Property Services | 0.5 | 11.00 |
| **Total Loans to Council Companies** | **69.1** | **7.67** |
| **Other Alternative Investments** | | |
| Spend to Save | 0.0 | 0.00 |
| Loans to Housing Associations | 0.0 | 0.00 |
| Local Economic Growth Projects | 0.0 | 0.00 |
| Solar Farm (or similar) Projects | 0.0 | 0.00 |
| Commercial Investments | 28.7 | 5.26 |
| **Total Other Alternative Investments** | **28.7** | **5.26** |
| **Total Alternative Investments*** | **111.4** | **6.98** |

3.27 The position on Property Funds at 30 September is as follows:-

In Year Performance

| | | | In Year Performance Q2 2024/25 | | | |
|---|---|---|---|---|---|---|
| Fund | Bwd Investment Valuation | Valuation as at 30/09/24 | Capital Gain / (Loss) | | Revenue Return | |
| | £000 | £000 | £000 | % | £000 | % |
| Blackrock | 4,760.3 | 4,784.1 | 23.8 | 0.5% | 86.1 | 3.2% |
| Threadneedle | 4,559.5 | 4,661.0 | 101.6 | 2.2% | 103.1 | 4.3% |
| Hermes | 1,777.9 | 1,730.3 | -47.6 | -2.7% | 40.7 | 3.5% |
| Fidelity | 2,633.4 | 2,674.3 | 40.9 | 1.6% | 61.1 | 4.2% |
| Total | 13,731.1 | 13,849.7 | 118.7 | 0.9% | 290.9 | 3.8% |

Total Fund Performance

| Fund | Investment £k | Valuation as at 30/09/2024 | Total Performance | | | |
|---|---|---|---|---|---|---|
| | | | Capital Gain / (Loss) | | Forecasted Revenue Return | |
| | £000 | £000 | £000 | % | £000 | % |
| Blackrock | 5,505.5 | 4,784.1 | -721.4 | -13.1% | 658.2 | 12.0% |
| Threadneedle | 5,366.3 | 4,661.0 | -705.3 | -13.1% | 901.4 | 16.8% |
| Hermes | 2,000.0 | 1,730.3 | -269.7 | -13.5% | 342.6 | 17.1% |
| Fidelity | 3,000.0 | 2,674.3 | -325.7 | -10.9% | 609.2 | 20.3% |
| Total | 15,871.8 | 13,849.7 | -2,022.1 | -12.7% | 2,511.4 | 15.8% |

3.28 While Property Funds continue to provide a revenue return as noted in the table above, the funds have experienced some capital losses.

3.29 Property funds are long term investments and valuations can, therefore, rise as well as fall, over the period they are held. In order to mitigate any potential future loss, funds will be set aside to ensure there is no impact on the General Fund until units in the funds are sold.

3.30 During Q2 notification was received that dealing in Shares of the Federated Hermes Property Unit Trust had been temporarily suspended, due to a large Quantum of redemption notices received. At the end of Q2 the total amount of redemption orders received stood at 69% of the Fund. This notification comes following a similar notification received in Q1 with regards to the Council’s holdings in the Fidelity UK Real Estate Fund

Both measures were implemented by the Fund Manager to secure the best interests of all investors of the Fund, and to allow the Fund Manager to effectively work through the existing redemption queue. Both suspensions remain ongoing, and we will continue to engage with the Fund Manager and the Council's Treasury Advisors with regards to future developments

3.31 Given the volatility and risk within the market, all property funds will be reviewed in terms of their strategies to mitigate risk within their portfolios, in the context of the longer term nature of these investments. Should any changes to these investments be considered necessary, these will be reported to the Executive and to Council if required.

3.32 The position on Commercial Property investments and Alternative Property Investments at 30 September 2024 is as follows:-

| Commercial Properties | | | Performance | | |
|---|---|---|---|---|---|
| Property | Investment £k | Valuation as at 31/03/24* | Total Capital Gain / (Loss) | | Forecasted Return |
| | £000 | £000 | £000 | % | % |
| Bank Unit in Stafford Town | 876.0 | 719.0 | (157.5) | (17.9) | 6.1 |

| | | | | | |
|---|---|---|---|---|---|
| Centre | | | | | |
| Co-op Store in Somercotes | 1,497.3 | 1,270.0 | (277.3) | (15.2) | 6.0 |
| Total | 2,373.3 | 1,989.0 | (384.4) | (16.2) | 6.0 |

| Alternative Property Investments | | | Performance | | |
|---|---|---|---|---|---|
| Property | Investment £k | Valuation as at 31/03/24 | Total Capital Gain / (Loss) | | Forecasted Return |
| | £000 | £000 | £000 | % | % |
| Harrogate Royal Baths | 9,504.0 | 6,520.0 | (2,984.0) | (31.4) | 1.4 |
| Scarborough Travelodge | 14,828.0 | 15,300.0 | 472.0 | 3.2 | 7.8 |
| Shopping centre – Harrogate | 1,550.0 | 2,080.0 | 530.0 | 34.2 | 3.2 |
| Secondary industrial land - Harrogate | 410.0 | 352.0 | (58.0) | (14.2) | 7.8 |
| Total | 26,292.0 | 24,252.0 | (2,040.0) | (7.8) | 5.2 |

3.33 Commercial Property is a long term investment and valuations can, therefore, rise as well as fall, over the period they are held. In order to mitigate any potential future loss funds will be set aside to ensure that there is no impact on the General Fund at the point of any future sale.

3.34 The Council continues to review potential commercial investments, but will now consider any potential investment opportunities alongside the implications for PWLB borrowing going forward, however, the 2024/25 Capital Plan does not include any plans to purchase commercial assets primarily for yield.

**Other Loans**

3.35 The Council has also provided the following loan facilities:-

| Lender | Date Advanced | Original Loan | Interest Rate | Loan Outstanding as at 30/09/24 | Revenue Return (as at 30/09/24) | |
|---|---|---|---|---|---|---|
| | | £000 | % | % | £000 | % |
| Ryedale Learning Trust | Feb-21 | 1,455.0 | 8.10 | 533.5 | 39.9 | 5.67 |
| Settle Pool | Sep-22 | 135.0 | 6.00 | 101.2 | 5.0 | 6.0 |

3.36 Arete Learning Trust

The Ryedale Federation of four schools (Ryedale School, Helmsley CPS, Sinnington CPS and Kirkbymoorside CPS) converted to a new Multi Academy Trust, The Ryedale Learning Trust, in February 2021. As part of the conversion process, a novation was agreed to transfer the school loans currently in place with the federated schools to the Multi Academy Trust on commercial terms. Ryedale Learning Trust subsequently merged with Areté Learning Trust in April 2024 and the loans were novated once again. In September 2024 Areté Learning Trust made a one-off loan repayment for £500k thereby reducing the amount owed to the council.

Local authorities are prohibited from using resources to financially support academy schools by regulation and, consequently, the loan was funded from General Reserves (not Schools Block Reserves) at a commercial rate of 3.1% + Base Rate. The loan is to be repaid in line with an agreed schedule and fully repaid by 2032/33.

3.37 Settle Pool

Settle Area Swimming Pool is a charity run swimming pool, service the local Settle area. In December 2023, discussions with the charity operating the pool led to a revision of the payment plan on the Long Term Loan provided by the council to support the operation of the pool. The revised arrangement has been provided at a commercial rate of 6%, and schedules the loan to be fully repaid by 2032/33.

**RECOMMENDATIONS**

3.38 That Executive

i. notes the position on the Council’s Treasury Management activities during the second quarter of 2024/25

ii. refers this report to the Audit Committee for their consideration as part of the overall monitoring arrangements for Treasury Management.

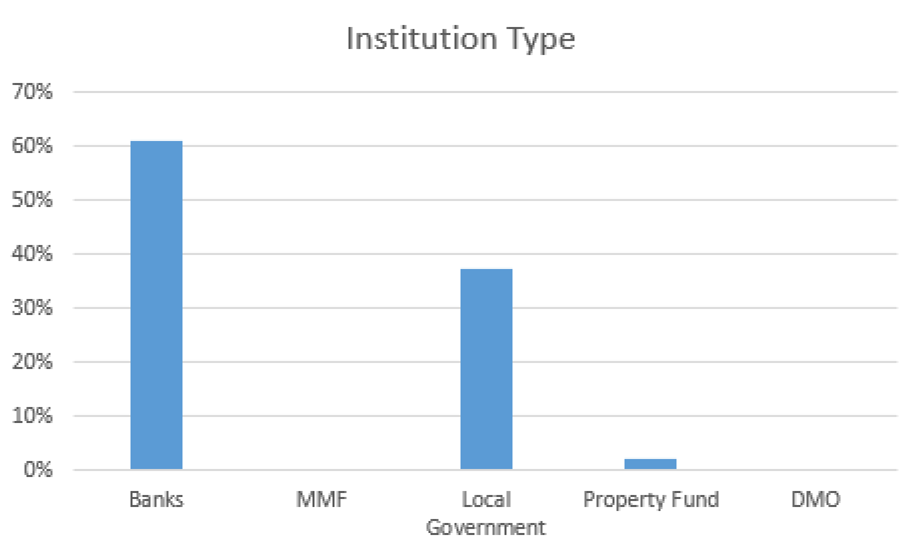
# TREASURY MANAGEMENT APPENDICES

## Analysis of loans outstanding as at 30 September 2024

| Actual Loans Outstanding – Summarised by Organisation | £m |
|---|---|
| Local Authority | 249.5 |
| Santander | 62.0 |
| Goldman Sachs | 80.0 |
| National Westminster | 5.0 |
| Helaba | 40.0 |
| National Bank of Canada | 40.0 |
| DBS | 40.0 |
| Sumitomo Mitsui BCE | 80.0 |
| Handelsbanken | 10.0 |
| Barclays | 10.9 |
| Bank of Scotland | 40.0 |
| **Total** | **657.4** |

| Other Bodies | 30-Sep-24 | | 31-Mar-24 | |
|---|---|---|---|---|
| | £m | % | £m | % |
| NY Pension Fund | -0.5 | | 2.1 | 0.4 |
| NY Fire and Rescue Authority | 15.3 | | 1.2 | 0.2 |
| Yorkshire Dales National Park | 4.5 | | 4.8 | 0.9 |
| North York Moors National Park | 8.3 | | 8.0 | 1.5 |
| Peak District National Park | 8.6 | | 9.1 | 1.7 |
| Align Property Services | 1.7 | | 0.0 | 0.0 |
| First North Law | 0.1 | | 0.0 | 0.0 |
| National Parks England | 0.4 | | 0.3 | 0.1 |
| Align Property Partners | 1.3 | | 2.7 | 0.5 |
| NYnet Limited | 19.1 | | 14.0 | 7.9 |
| Y&NY Combined Authority | 30.0 | | 0.0 | 0.0 |
| **Total Other Bodies** | 88.8 | 13.5 | 42.2 | 7.9 |
| Cash Balances held by NYC | 568.6 | 86.5 | 491.0 | 92.1 |
| **Total Investment** | **657.4** | **100.0** | **533.2** | **100.0** |

| Rates as at 30 September 2024 | % |
|---|---|
| Bank Rate | 5.0 |
| Investment Rates | |
| - NYC overnight (on call) | 4.55 |
| - 1 month | 4.70 |
| - 6 months | 4.60 |
| - 1 year | 4.50 |
| - Government Debt Management Office Account | 4.94 |


Institution Type
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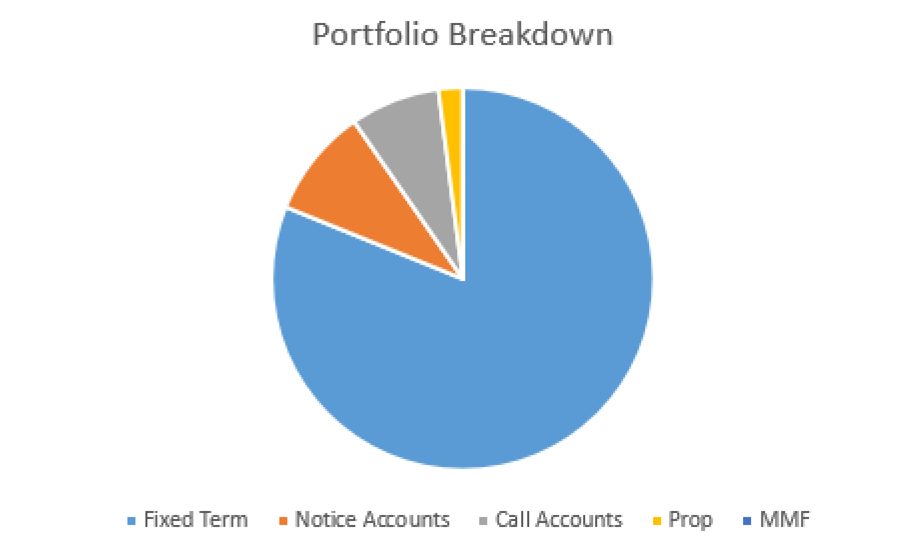
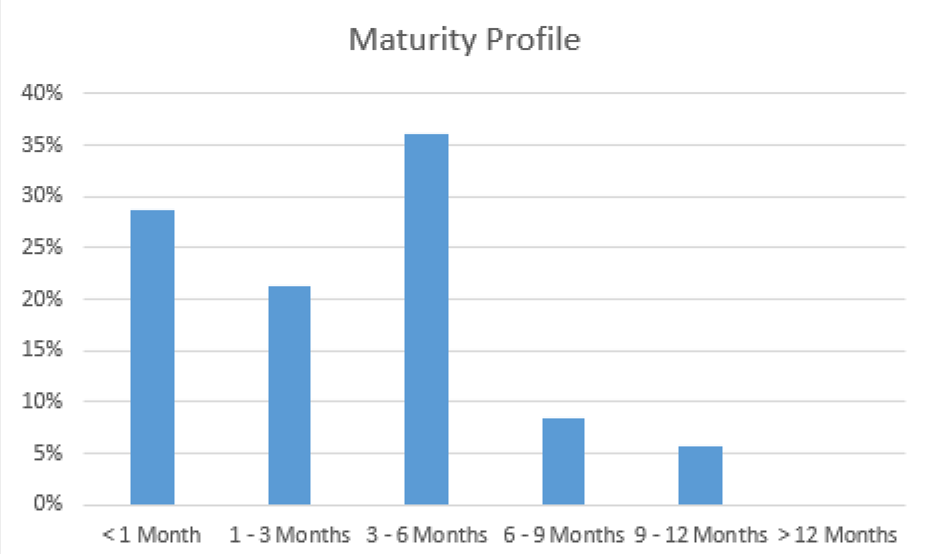
60%
50%
40%
30%
20%
10%
0%
Banks
MMF
Local Government
Property Fund
DMO


Portfolio Breakdown
Fixed Term
Notice Accounts
Call Accounts
Prop
MMF


Maturity Profile
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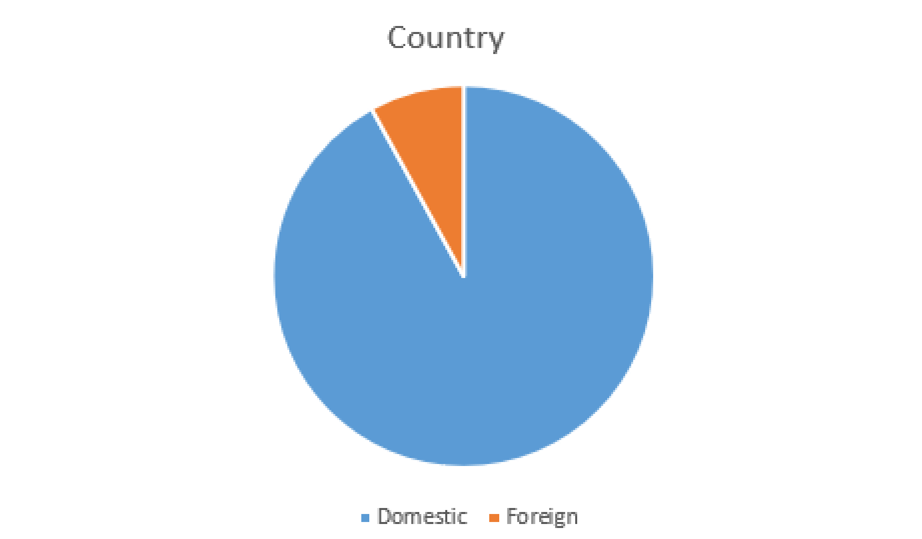

Country
Domestic
Foreign

**Appendix B**

## APPROVED LENDING LIST Q2

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

| | Country | Specified Investments (up to 1 year) | | Non-Specified Investments (> 1 year £40m limit) | |
|---|---|---|---|---|---|
| | | Total Exposure £m | Time Limit * | Total Exposure £m | Time Limit * |
| **UK "Nationalised" banks / UK banks with UK Central Government involvement** | | | | | |
| Royal Bank of Scotland PLC (RFB) | GBR | 90.0 | 365 days | - | - |
| National Westminster Bank PLC (RFB) | GBR | | | | |
| **UK "Clearing Banks", other UK based banks and Building Societies** | | | | | |
| Santander UK PLC (includes Cater Allen) | GBR | 80.0 | 6 months | - | - |
| Barclays Bank PLC (NRFB) | GBR | 90.0 | 100 days | - | - |
| Barclays Bank UK PLC (RFB) | GBR | | 6 months | | |
| Bank of Scotland PLC (RFB) | GBR | 80.0 | 6 months | - | - |
| Lloyds Bank PLC (RFB) | GBR | | | | |
| Lloyds Bank Corporate Markets PLC (NRFB) | GBR | | | | |
| Goldman Sachs International Bank | GBR | 80.0 | 6 months | - | - |
| Sumitomo Mitsui | GBR | 80.0 | 6 months | - | - |
| Standard Chartered Bank | GBR | 80.0 | 6 months | - | - |
| Handlesbanken | GBR | 80.0 | 365 days | - | - |
| Nationwide Building Society | GBR | 40.0 | 6 months | - | - |
| Leeds Building Society | GBR | 40.0 | 3 months | - | - |
| Coventry Building Society | GBR | 40.0 | 6 months | - | - |
| **High Quality Foreign Banks** | | | | | |
| National Australia Bank | AUS | 40.0 | 365 days | - | - |
| Credit Industriel et Commercial | FRA | 40.0 | 365 days | - | - |
| Landesbank Hessen-Thueringen Girozentrale (Helaba) | GER | 40.0 | 365 days | - | - |
| DBS (Singapore) | SING | 40.0 | 365 days | - | - |
| Bayerische Landesbank | GER | 40.0 | 365 days | - | - |
| National Bank of Canada | CAN | 40.0 | 6 months | - | - |
| **Local Authorities** | | | | | |
| County / Unitary / Metropolitan / District Councils | | 30.0 | 365 days | 5.0 | 5 years |
| Police / Fire Authorities | | 30.0 | 365 days | 5.0 | 5 years |
| National Park Authorities | | 30.0 | 365 days | 5.0 | 5 years |
| **Other Deposit Takers** | | | | | |

| | | | | |
|---|---|---|---|---|
| Money Market Funds | 40.0 | n/a liquid | - | - |
| Property Funds | 5.0 | 365 days | 5.0 | 10 years |
| UK Debt Management Account | 150.0 | 365 days | - | - |

* Based on data 30 September 2024

**Appendix C**

## CHANGES TO THE APPROVED LENDING LIST DURING Q2

There has been one change to the lending list during Q2.

| Organisation | Original Investment Limit / Term | Date Amended | Revised Investment Limit / Term | Reason |
|---|---|---|---|---|
| Bayerische Landesbank | 6 months | 08/07/2024 | 12 months | Positive reforms in German savings bank sector leading to increased likelihood of owner support. |

It should be noted, however, that changes can be made on a daily basis in reaction to market sentiment, with maximum investment durations being adjusted accordingly.

Maximum investment durations for other organisations may have, therefore, been changed during this quarter, but have since returned to the level at 1 April 2024.

## Treasury Management and Reporting Arrangements

The current monitoring and reporting arrangements in relation to Treasury Management activities are as follows:

(a) an annual report to Executive and Full Council as part of the Budget/MTFS process that sets out the Council's **Treasury Management and Investment Strategy and Policy** for the forthcoming financial year. For 2024/25 this report was submitted to Executive on 23 January 2024 followed by Full Council on 21 February 2024;

(b) an annual report to Executive and Full Council as part of the Budget/MTFS process that sets the various **Prudential Indicators** (submitted to Executive on 23 January 2024 and Full Council on 21 February 2024)

(c) **annual outturn reports** to the Executive for both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year. The outturn reports for 2023/24 were submitted to Executive on 28 May 2024;

(d) a quarterly report on Treasury Management to the Executive (this report) as part of the **Quarterly Performance Monitoring** report;

(e) **periodic meetings** between the Corporate Director – Resources, the Corporate Affairs Portfolio Holder and the Chairman of the Audit Committee to discuss issues arising from the day to day management of Treasury Management activities;

(f) reports on proposed changes to the Council's Treasury Management activities are submitted to the **Audit Committee** for consideration and comment. A copy of this report is also provided to Audit Committee Members.

**Appendix E**

## Detailed Economic Commentary on Developments during Q2 2024/25

### Economic Background - UK

The first quarter of 2024/25 saw:

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months.

The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales.

The government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that increases in taxation 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.

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 continued conflict. 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 central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025.

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%.

# Prudential and Treasury Indicators for 2024-25 as of 30 September 2024

## Capital Expenditure

| | 2024/25 TM Strategy £m | 2024/25 Forecast £m |
|---|---|---|
| | | |
| New Capital Expenditure | 274.8 | 274.1 |
| New Finance Leases and PFI | 0.0 | 0.0 |
| **Total Capital Expenditure** | **274.8** | **274.1** |
| Financed by | | |
| - Capital grants and contributions | 200.8 | 189.6 |
| - Direct Revenue Funding | 52.1 | 57.0 |
| - Capital receipts | 18.0 | 4.6 |
| **Capital Borrowing Requirement** | **3.7** | **22.8** |

## Capital Financing Requirement (CFR)

| | 2024/25 TM Strategy | | | 2024/25 Forecast | | |
|---|---|---|---|---|---|---|
| | Borrowing £m | Other Long Term Liabilities £m | Total £m | Borrowing £m | Other Long Term Liabilities £m | Total £m |
| **Total CFR** | **578.2** | **160.6** | **738.8** | **585.9** | **136.4** | **722.3** |
| Net Financing need for year | **3.7** | **0.0** | **3.7** | **22.8** | **0.0** | **22.8** |
| MRP | **-16.5** | **-5.5** | **-22.0** | **-16.2** | **-3.8** | **-20.0** |
| **Movement in CFR** | **-12.8** | **-5.5** | **-18.3** | **6.6** | **-3.8** | **2.8** |

## Authorised Limit, Operational Boundary and Actual Debt

| | 2024/25 TM Strategy | | | 2024/25 Forecast | | |
|---|---|---|---|---|---|---|
| | Borrowing £m | Other Long Term Liabilities £m | Total £m | Borrowing £m | Other Long Term Liabilities £m | Total £m |
| Authorised Limit | 449.8 | 211.0 | 660.8 | 447.7 | 181.8 | 629.5 |
| Operational Boundary | 427.7 | 205.6 | 633.3 | 427.7 | 181.8 | 609.5 |
| External Debt | 371.1 | 160.6 | 531.7 | 371.1 | 136.4 | 507.5 |

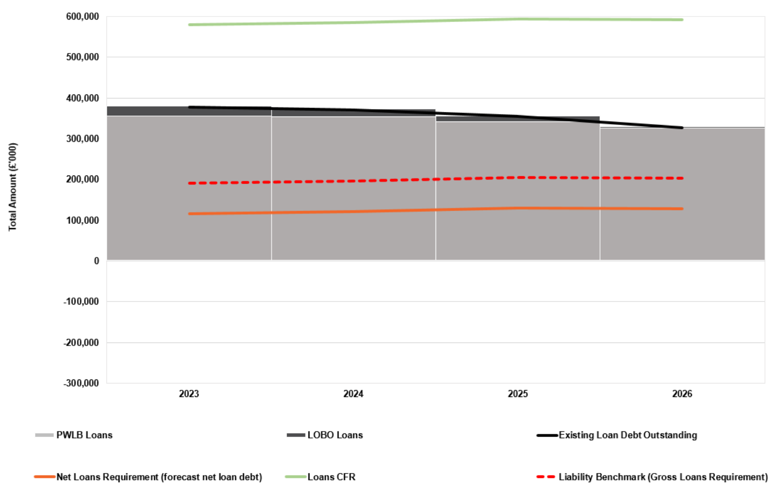
## Gross Debt and the CFR

| | 2024/25 TM Strategy | | | 2024/25 Forecast | | |
|---|---|---|---|---|---|---|
| | Borrowing £m | Other Long Term Liabilities £m | Total £m | Borrowing £m | Other Long Term Liabilities £m | Total £m |
| CFR | 578.2 | 160.6 | 738.8 | 585.9 | 136.4 | 722.3 |
| Gross Borrowing | 371.1 | 160.6 | 531.7 | 371.1 | 136.4 | 507.5 |
| Under / (over) borrowing | 207.1 | 0.0 | 207.1 | 214.8 | 0.0 | 214.8 |

## Ratios

| | 2024/25 TM Strategy % | 2024/25 Forecast % |
|---|---|---|
| Financing costs to net revenue stream (Non-HRA) | 3.06 | 2.38 |
| Financing costs to net revenue stream (HRA) | 13.62 | 11.61 |
| Net income from commercial and service investments to net revenue stream | 0.79 | 0.99 |

## Liability Benchmark




## Maturity Structure of Borrowing

| | 2024/25 Forecast | | |
|---|---|---|---|
| | Lower Limit % | Upper Limit % | Forecast % |
| Under 12 months | 0 | 15 | 2 |
| 12 months to 2 years | 0 | 15 | 4 |
| 2 years to 5 years | 0 | 15 | 8 |
| 5 years to 10 years | 0 | 25 | 15 |
| 10 years to 20 years | 0 | 25 | 11 |
| 20 years to 30 years | 0 | 45 | 40 |
| 30 years to 40 years | 0 | 45 | 16 |
| 40 years to 50 years | 0 | 45 | 4 |

## Limits for Long Term Treasury Management Investments

| | 2024/25 Forecast | |
|---|---|---|
| | Limit £m | Forecast £m |
| Limit on investments > 1 year | 60.0 | 0.0 |