

Item: 4

Investments Sub-committee: 21 November 2024.

Treasury Management – Mid-year Update 2024/25.

Report by Head of Finance.



1. Overview

- 1.1. Regulation 21 of the Council's Financial Regulations confirms that the Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in the Public Services (the Code).
- 1.2. The Code defines treasury management to include investment activities.
- 1.3. The Council's investment priorities can be summarised as maintaining:
 - The security of capital.
 - The liquidity of its investments.
- 1.4. The Council aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the Council is low in order to give priority to security of its investments. This is in keeping with the nature of the Strategic Reserve Fund, which is to provide for the benefit of Orkney and its inhabitants, whilst having regard to the Fund's long-term obligations in terms of the decommissioning of the Flotta Oil Terminal in the future.
- 1.5. The Financial Regulations refer to maintenance of the Treasury Management Policy Statement and Treasury Management Practices as the cornerstone for effective treasury management and the requirement to report annually on the Treasury Management function.
- 1.6. A detailed analysis of the Treasury Management Performance for the six-month period to 30 September 2024, is attached as Appendix 1 to this report, and covers the following activities:
 - Borrowing activity.
 - Temporary loans.
 - Strategic Reserve Fund.

- 1.7. The conclusion of the analysis of performance is that existing treasury management practices have operated effectively over the first six months of financial year 2024/25.

2. Recommendations

- 2.1. It is recommended that members of the Sub-committee:
 - i. Scrutinise the mid-year update, attached as Appendix 1 to this report, prepared by Link Treasury Services, the Council's Treasury Adviser, which covers the following elements of treasury management, in order to obtain assurance that the Treasury Management Practices are operating effectively:
 - 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 compliance with Treasury and Prudential Limits for 2024/25.

3. Treasury Management Performance

- 3.1. As at 30 September 2024, the Council's debt portfolio stood at £55,014,000 with loan maturities ranging over periods from 1 to 46.2 years. Overall, this represents an average cost of borrowing of 3.67% per annum, with an average weighted duration of 24.39 years.
- 3.2. The cost of this debt is managed as part of the loan charges associated with the capital programme and has been offset in the short term with surplus funds placed on deposit for periods of up to one year at an average rate of 5.13% for the first half of financial year 2024/25.
- 3.3. The prime objective for the managed funds remains to maintain or increase their real value over time, while at the same time generating an annual return which meets the targets set by the Council. These objectives normally require to be measured over a number of years while acknowledging that abnormal fluctuations in the short term do create a cause for concern.

For Further Information please contact:

Shonagh Merriman, Service Manager (Corporate Finance), extension 2105, Email shonagh.merriman@orkney.gov.uk.

Implications of Report

1. **Financial:** The Financial Regulations refer to maintenance of the Treasury Management Policy Statement and Treasury Management Practices as the cornerstone for effective treasury management and the requirement to report annually on the Treasury Management function.
2. **Legal:**
 - Treasury Management arrangements help the Council meet its statutory obligation to secure best value.
 - Section 40 of the Local Government in Scotland Act 2003 provides local authorities with the power to invest money. This power may be exercised in accordance with regulations made by Scottish Ministers under this section.
 - Section 95 of the Local Government (Scotland) Act 1973 states that every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer has responsibility for the administration of those affairs.
3. **Corporate Governance:** On 20 February 2024, the Policy and Resources Committee noted that, from 2024/25 onwards, the Investments Sub-committee would be responsible for ongoing monitoring and scrutiny of the approved Treasury Management Strategy Statement, including a mid-year review and annual review.
4. **Human Resources:** None directly related to the recommendations in this report.
5. **Equalities:** Equality Impact Assessment is not required for financial monitoring.
6. **Island Communities Impact:** Island Communities Impact Assessment is not required for financial monitoring.
7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
 - Growing our economy.
 - Strengthening our Communities.
 - Developing our Infrastructure.
 - Transforming our Council.
8. **Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
 - Cost of Living.
 - Sustainable Development.
 - Local Equality.

9. **Environmental and Climate Risk:** Environmental, Social and Governance factors are recognised as having the potential to impact the Fund.
10. **Risk:** Reviewing the performance quarterly ensures that the treasury management processes are being adhered to and provides assurance that associated risks are being managed effectively.
11. **Procurement:** None directly related to the recommendations in this report.
12. **Health and Safety:** None directly related to the recommendations in this report.
13. **Property and Assets:** None directly related to the recommendations in this report.
14. **Information Technology:** None directly related to the recommendations in this report.
15. **Cost of Living:** None directly related to the recommendations in this report.

List of Background Papers

Policy and Resources 20 February 2024 – Treasury Management Strategy Statement 2024/25.

Appendix

Appendix 1 – Treasury Management Update – Mid-year review 2024/25.

Treasury Management Strategy Statement and Annual Investment Strategy

**Mid-Year Review Report
2024/25**

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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 risk or cost objectives.

Accordingly, 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.”

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 the Policy and Resources Committee.

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% 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 rather than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an uptick in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.
- The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.
- The government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Our colleagues at Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.
- The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.
- Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.

- CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.
- The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.
- Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.
- Our forecast is next due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November MPC meeting and the release of the Bank of England Quarterly Monetary Policy Report.
- Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.
- The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to see who is elected the next US President, and how events in the Middle East (and Ukraine) unfold. The catalyst for any further rally (or not) is likely to be the degree of investors' faith in AI.

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

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

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

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 Update

The Treasury Management Strategy Statement, (TMSS), for 2024/25 was approved by this Council on 20 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 (Prudential Indicators)

This part of the report is structured to update:

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

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 for 2024/25.

Capital Expenditure by Service	2024/25 Original Estimate £m	Current Position £m	2024/25 Revised Estimate £m
Social Care	1.625	1.354	2.900
Roads and Transportation	1.067	0.680	3.546
Education and Leisure	0.337	0.358	2.616
Marine Services	1.255	0.208	0.744
Other Services	13.624	1.316	5.515
Non-HRA	17.908	3.916	15.321
HRA	1.346	1.078	0.770
Total capital expenditure	19.254	4.994	16.091

The revised budget for 2024/25 reflects the following changes since the TMSS was approved in February 2024:

- Slippage of £16.477M from 2023/24 added to the capital programme for 2024/25.
- £2.258M reprofiled to 2025/26 for new care facility.
- £11.157M removed from capital programme in relation to Integrated Waste Facility, Soullisquoy Other Housing Infrastructure, and HRA design and build.
- Addition of £1.133M for Ness Campsite, Shipwreck Tank, Viking Gallery, Bridge Maintenance Fund, Community Bus Fund, IT Replacement-CV19 recovery funding, Plant & Vehicle Replacement Programme R&R fund, and Kirkwall Breakwater Tank.
- £0.097M removal of the Cycling Walking and Safer Routes Scheme, replaced with Active Travel.
- £7.647M reprofiling of Reclamation of Hatston Pier.
- Addition of £0.460M for Active Travel Scottish Government funding, Coastal Change Adaptation, and School Kitchen Improvements.
- £0.074M reversal of 2023/24 slippage.

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 Expenditure	2024/25 Original Estimate £m	2024/25 Revised Estimate £m
Total capital expenditure	19.254	16.091
Financed by:		
Capital receipts	0.235	0.235
Capital grants	11.864	6.873
Capital reserves	8.198	2.447
Revenue	0.569	0.819
Total financing	20.866	10.374
Borrowing requirement	(1.612)	5.717

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

We are no longer on target to achieve the forecast Capital Financing Requirement with current estimates for slippage on the capital programme being £0.588M by 31 March 2025, against a revised budget for financial year 2024/25 of £16.091M.

Prudential Indicator – the Operational Boundary for external debt

	2024/25 Original Estimate £m	2024/25 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement		
CFR – non housing	64.928	55.178
CFR – housing	10.718	8.947
Total CFR	75.646	64.125
Net movement in CFR	(4.537)	(11.521)
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	75.000	75.000
Total debt (year end position)	55.000	55.014

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 purpose*. **Gross external borrowing** should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2024/25 Original Estimate £m	2024/25 Revised Estimate £m
Borrowing	0	0
Total debt	55.000	55.014
CFR* (year end position)	75.646	64.125

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	2024/25 Revised Indicator
Borrowing	85.000	85.000
Total	85.000	85.000

6. Borrowing

The Council's capital financing requirement (CFR) for 2024/25 is £64.125m. 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. Table 5.4 shows the Council has borrowings of £55.014m and has utilised £9.111m of cash flow funds in lieu of 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).

Due to the overall financial position and the underlying need to borrow for capital purposes (the CFR), new external borrowing of £10m was undertaken. The capital programme is being kept under regular review due to the effects of on-going budgetary pressures. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the long-term.

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

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.

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 capital expenditure 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. The Head of Finance reports that 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 Practices.

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 20 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 Labour 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.

CDS 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.

Investment balances

The average level of funds available for investment purposes during the first half of the financial year was £15.697m. The temporary loans portfolio has operated within policy during financial year 2024/25 and has realised a return of 5.13% as at 30 September 2024. This is ahead of the 30-day Sterling Overnight Index Average rate performance benchmark (4.96%).

Treasury Portfolio investments held at 30 September 2024:

Treasury Investments – Managed in house	Principal (£m)	Interest Rate	Maturity Date
DMADF	1.500	4.94%	09/10/2024
Bank of Scotland	0.500	4.92%	14/10/2024
DMADF	2.000	4.91%	15/10/2024
Bank of Scotland	2.100	4.93%	11/11/2024
DMADF	1.300	4.86%	15/11/2024
DMADF	0.700	4.89%	15/11/2024
Aberdeen Standard Investments Money Market Fund	4.600	5.01%	Call
Blackrock ICS Heritage Shared Money Market Fund	1.700	4.97%	Call
Insight Liquidity Funds PLC	4.600	4.99%	Call
The Royal Bank of Scotland	0.212	3.00%	Call
Total investments	19.212		

Non-Treasury Strategic Reserve Fund Local Investments – Managed in-house	Actual (£m)	Performance in 23/24
Fishing Quota	5.000	3.74%
Private Companies	3.816	5.0%
Other	0.013	0.0%
Total Strategic Reserve Fund Investments – Managed in-house	8.829	

Treasury Strategic Reserve Fund – Managed externally	Actual (£m)	Performance Quarter ending 30/09/24	Benchmark
Equity Portfolio	49.569	1.0%	0.9%
Global Equity Portfolio	54.045	-0.3%	1.6%
Diversified Growth Fund	30.954	-1.8%	2.0%
High Yield Credit Strategies Fund	24.451	2.8%	2.5%
Private Loan Fund	7.609	n/a	n/a
UK Property Fund	23.345	1.0%	1.2%
Secured Income Fund	30.342	n/a	n/a
Corporate Bonds Fund	42.672	2.2%	2.3%
Total investments	262.987	1.0%	1.4%

Approved limits

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

No performance figures are provided where full drawdown of the Council's commitment has not been concluded.

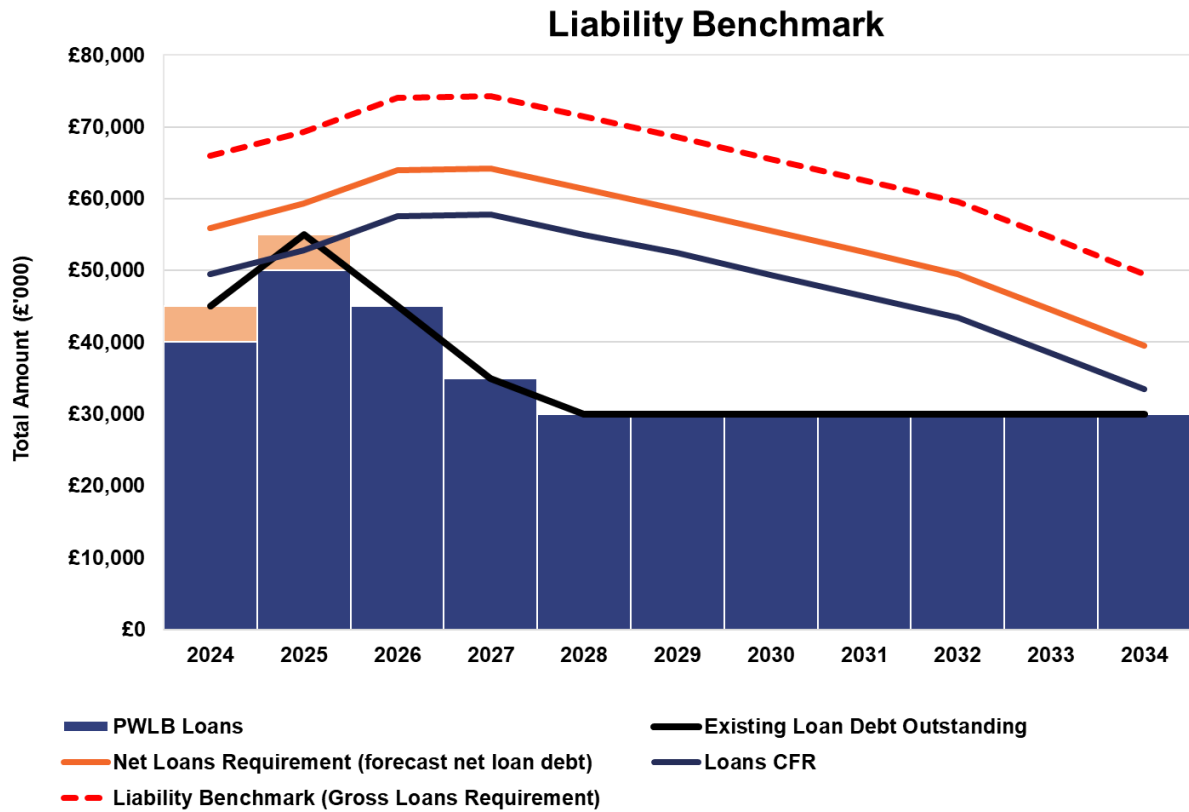
10. Other

1. Changes in risk appetite

The 2021 CIPFA Codes and guidance notes place importance on risk management. Where an authority 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, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

APPENDIX 1: the CFR, Liability Benchmark and Borrowing

Comparison of borrowing parameters to actual external borrowing are shown in the graph below:



APPENDIX 2: Approved Countries for Investments as of 30 September 2024

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.**