TREASURY MANAGEMENT MID YEAR REPORT 2024/25

1. Introduction

1.1 This report is to provide the Audit and Governance Committee and the Council with a mid-year review of the Council's treasury management activities for the first 6 months to 30 September 2024.

1.2 The Council has borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

1.3 The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).

1.4 The report includes the requirement in the 2021 Code, of quarterly reporting of the treasury management prudential indicators. The non-treasury prudential indicators will be incorporated in the Authority's normal quarterly report.

1.5 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy and the Council's Treasury Management Strategy for 2024/25 were approved by full Council on 12 February 2024.

1.6 The Council contract with Arlingclose to provide Treasury Management advice which has been incorporated with external contexts below.

2. External Context October 2024

2.1 **Economic background**: UK headline consumer price inflation remained around the Bank of England (BoE) target later in the period, falling from an annual rate of 3.2% in March to 2.0% in May and then rebounding marginally to June to 2.2% in July and August, as was expected, due to base effects from energy prices. Core and services price inflation remained higher at 3.6% and 5.6% respectively in August.

2.2 The UK economy continued to expand over the period, albeit slowing from the 0.7% gain in the first calendar quarter to 0.5% (downwardly revised from 0.6%) in the second. Of the monthly figures, the economy was estimated to have registered no growth in July.

2.3 Labour market data was slightly better from a policymaker perspective, showing an easing in the tightness of the job market, with inactivity rates and vacancies declining. However, a degree of uncertainty remains given ongoing issues around the data collected for the labour force survey by the Office for National Statistics. Figures for the three months to July showed the unemployment rate fell to 4.1% (3mth/year) from 4.4% in the previous three-month period while the employment rate rose to 74.8% from 74.3%.

2.4 Over the same period average regular earnings (excluding bonuses) was 5.1%, down from 5.4% in the earlier period, and total earnings (including bonuses) was 4.0% (this figure was impacted by one-off payments made to NHS staff and civil servants in June and July 2023). Adjusting for inflation, real regular pay rose by 2.2% in May to July and total pay by 1.1%.

2.5 With headline inflation lower, the BoE cut Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. The decision was finely balanced, voted by a 5-4 majority with four members preferring to hold at 5.25%. At the September MPC meeting, committee members voted 8-1 for no change at 5.00%, with the lone dissenter preferring Bank Rate to be cut again to 4.75%. The meeting minutes and vote suggested a reasonably hawkish tilt to rates, with sticky inflation remaining a concern among policymakers.

2.6 The latest BoE Monetary Policy Report, published in August, showed policymakers expected GDP growth to continue expanding during 2024 before falling back and moderating from 2025 to 2027. Unemployment was forecast to stay around 4.5% while inflation was shown picking up in the latter part of 2024 as the previous years' energy price declines fell out of the figures before slipping below the 2% target in 2025 and remaining there until early 2027.

2.7 Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would steadily fall from the 5.25% peak, with the first cut in August being followed by a series of further cuts, with November 2024 the likely next one, taking Bank Rate down to around 3% by the end of 2025.

2.8 The US Federal Reserve (the Fed) also cut interest rates during the period, reducing the Federal Funds Rate by 0.50% to a range of 4.75%-5.00% at its policy meeting in September. The forecasts released at the same time by the central bank suggested a further 1.00% of easing is expected by the end of the calendar year, followed by the same amount in 2025 and then a final 0.50% of cuts during 2026.

2.9 Having first reduced interest rates in June, the European Central Bank (ECB) held steady in July before cutting again in September, reducing its main refinancing rate to 3.65% and its deposit rate to 3.50%. Unlike the Fed, the ECB has not outlined a likely future path of rates, but inflation projections remain in line with the central bank's previous forecasts where it will remain above its 2% target until 2026 on an annual basis.

2.10 **Financial markets:** Sentiment in financial markets continued to mostly improve over the period, but the ongoing trend of bond yield volatility remained. The general upward trend in yields in the early part of the period was reversed in the later part, and yields ended the half-year not too far from where they started. However, the volatility in response to economic, financial and geopolitical issues meant it was a bumpy ride for bond investors during that time.

2.11 Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at 4.00% but hit a high of 4.41% in May and a low of 3.76% in mid-September. While the 20-year gilt started at 4.40% and ended at 4.51% but hit a high of 4.82% in May and a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.12% over the period to 30th September.

2.12 **Credit review:** Arlingclose maintained its advised recommended maximum unsecured duration limit on all banks on its counterparty list at 100 days.

2.13 Having had its outlook increased by Fitch and ratings by S&P earlier in the period, Moody's upgraded Transport for London's rating to A2 from A3 in July.

2.14 Moody's also placed National Bank of Canada on Rating Watch for a possible upgrade, revising the outlook on Standard Chartered to Positive, the outlook to Negative on Toronto Dominion Bank, and downgrading the rating on Close Brothers to A1 from Aa3.

2.15 S&P upgraded the rating on National Bank of Canada to A+ from A, and together with Fitch, the two rating agencies assigned Lancashire County Council with a rating of AA- and A+ respectively.

2.16 Credit default swap prices were generally lower at the end of the period compared to the beginning for the vast majority of the names on UK and non-UK lists. Price volatility over the period was also generally more muted compared to previous periods.

2.17 Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

3. Local Context

3.1 On 31st March 2024, the Authority had net borrowing of £650m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1a: Balance Sheet Summary

	31/03/24 Actual £m
General Fund CFR	866
Less: Other debt liabilities *	(104)
Borrowing CFR	**762**
Less: Usable reserves	(107)
Less: Working capital	(1)
Net borrowing	**656**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

3.2 At 31 March 2024 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £904m, with usable reserves £107m which is broken down in table below:

Table 1b: Usable Reserve Summary

	£m
General Fund Balance	9
Earmarked General Fund	44
Capital Receipts reserve	14
Capital Grants Unapplied	40
Balance as at 31 March 2024	107

3.3 The treasury management position on 30th September 2024 and the change over the six months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.24 Balance £m	Movement £m	30.9.24 Balance £m	Average Rate %
PWLB – Fixed Rate				
Short-term borrowing	483	0	483	3.32
	85	0	85	0.97
LOBO Loans	64	(5)	59	4.36
Long Term Borrowing	18	0	18	4.37
Total borrowing	**650**	**(5)**	**645**	**3.16**
Short-term Money Market funds	23	8	31	4.99
Other Pooled Funds	55	(1)	54	5.30
Cash and cash equivalents	1	0	1	1.88
Total investments	**79**	**7**	**86**	**5.17**
Net borrowing	**571**	**(12)**	**559**	

3.4 The Council has an increasing CFR over the next 5 years due to spending on the capital programme, but will maintain their investments and will therefore require borrowing of up to £50m over the current year based on capital monitoring as at 30 September 2024

4. Borrowing Strategy and Activity

4.1 As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. At the present time short term interest rates are higher than long term interest rates.

4.2 After substantial rises in interest rates since 2021 many central banks have now begun to reduce rates, albeit slowly. Gilt yields were volatile over the 6-month period and have reduced slightly between April and September 2024. Much of the downward pressure from lower inflation figures was counteracted by upward pressure from positive economic data. Data from the US continues to impact global bond markets including UK gilt yields.

4.3 The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the half year and 4.79% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.18%. Rates for 20-year maturity loans ranged from 5.01% to 5.57% during the half year, and 50-year maturity loans from 4.88% to 5.40%.

4.4 Whilst the cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024, primarily due a dearth of LA-LA lending/borrowing activity during the month, as expected shorter-term rates reverted to a more normal range and were generally around 5.00% - 5.25%.

4.5 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Authority has no new plans to borrow to invest primarily for financial return.

4.6 The Authority currently holds £200m+ in commercial investments primarily for financial return that were purchased prior to the change in the CIPFA Prudential Code. Before undertaking further additional borrowing the Authority will review the options for exiting these investments.

4.7 **Loans Portfolio:** At 30 September the Authority held £645m of loans, a decrease of £5m compared to 31st March 2024 . Outstanding loans on 30th September are summarised in Table 3 below.

Table 3a: Borrowing Position

	31.3.24 Balance £m	Net Movement £m	30.9.24 Balance £m	30.9.24 Weighted Average Rate %
PWLB – Fixed Rate	483	0	483	3.32
Short-term borrowing	85	0	85	0.97
LOBO Loans	64	(5)	59	4.36
Long Term Borrowing	18	0	18	4.37
Total borrowing	**650**	**(5)**	**645**	**3.16**

4.8 The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing; this reduces risk and keeps interest costs lower.

4.9 The Council has not changed its PWLB borrowing since April. However, it has £72m borrowed for 12 months reaching maturity January - March 2025, plans are being developed to replace subject to competitive rates being secured and interest rate risk being mitigated. This borrowing will hold a refinancing risk which is being included within its medium term financial plan for 2025/26.

4.10 The Council draws down collateral against the hedging arrangement when valuations allow, this was used to repay short-term borrowing maturing in the same month.

4.11 The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing was maintained.

4.12 There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

4.13 The UK Infrastructure Bank is one alternative source of funding which offers funding at gilt yields + 0.40% (0.40% below the PWLB certainty rate) and the possibility of more flexible funding structures than the PWLB. Funding from UKIB is generally only available for certain types of projects that meet its criteria of green energy, transport, digital, water and waste. The minimum loan size is £5 million.

4.14 **LOBO loans**: On 1st April 2024 the Authority held £64m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate and terms or to repay the loan at no additional cost.

4.15 As market interest rates rose, it increased the probability of call options on the LOBOs being exercised by lenders. £10m of LOBO loans had annual/semi-annual call option dates during the six-month period to September 2024, lenders exercised options on the following of the Authority's loan:

Table 3b: LOBO's Called In

	Amount £m	Rate %	Final Maturity	New Rate Proposed	Action Taken by Authority
Dexia Credit Local	5	4.04	30/08/2077	5.52	repaid

4.16 The Authority has £34m LOBO loans with call dates within the next 12 months. The Authority has liaised with treasury management advisors Arlingclose over the likelihood of the options being exercised. If the option is exercised and an increased rate proposed, the Authority plans to repay the loan at no additional cost as accepting the revised terms would mean the Authority would still have refinancing risk in later years. If required, the Authority will repay the LOBO loans with available cash or by borrowing from other local authorities or the PWLB.

5. Treasury Management Budget 2024/25 and Latest Forecast

The Authority measures the financial performance of its treasury management activities in terms of its impact on the revenue budget as show in table below.

Currently a forecast underspend of £1.884m is projected due to securing new borrowing in first six months below the 5.5% set in Treasury Management Strategy together with higher balances invested in money market funds which have received higher than 5% interest target.

Table 5: Treasury Management revenue position

Position at 30 September 2024	2024/25 Budget	2024/25 Latest Forecast	Year End Variance
	£m	£m	£m
Interest Payable	24.331		
LOBO and other long term loans		3.461	
PWLB (Public Works Loan Board)		16.006	
Temporary loans		1.567	
Other Interest and charges		1.808	
Recharge to Departments for Unsupported Borrowing (in accordance with business cases)	(18.650)	(18.083)	
Total Interest Payable	**5.681**	**4.759**	**(0.922)**
Interest Receivable	(4.355)		
Pool Funds		(2.942)	
Money Market Fund		(1.842)	
Other Interest		(0.282)	
Total Interest Receivable	**(4.355)**	**(5.066)**	**(0.711)**
Other Payments	0.564	0.313	
Debt Management	0.160	0.160	
Transfer to Reserves - Miel			
Amortised Premiums	0.544	0.544	
Total Other Charges	**1.268**	**1.017**	**(0.251)**
Minimum Revenue Provision	**19.850**	**19.850**	**0.000**
TOTAL	**22.444**	**20.560**	**(1.884)**

Favourable variances in (brackets)

6. Treasury Investment Activity

6.1 The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use during business.

6.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the half year, the Authority's investment balances ranged between £79m and £86m due to timing differences between income and expenditure. The investment position during the half year is shown in the table below.

Table 6: Treasury Investment position

Investments	Balance 01/04/2024 £m	Movement £m	Balance 30/09/2024 £m	Weighted Average Rate %
Short Term Investments				
Banks and call accounts	1	0	1	1.88
Money Market Fund	23	8	31	4.99
Long Term Investments				
CCLA Pooled Funds	25	0	25	4.54
Other Funds	30	(1)	29	5.95
TOTAL INVESTMENTS	**79**	**7**	**86**	**5.17**

6.3 Both the CIPFA Code and government guidance requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

6.4 As demonstrated by the liability benchmark (14.6) in this report, the Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.

6.5 Bank Rate reduced from 5.25% to 5.00% in August 2024 with short term interest rates largely being around these levels.

Externally Managed Pooled Funds:

6.6 £55m of the Authority's investments is invested in externally managed strategic pooled bond, equity, multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

6.7 The first six months of 2024/25 were marked by ongoing market volatility, with global bond yields remaining elevated, although trending downward as policymakers kept rates at a restrictive level in light of persistent core inflation until nearly the end of the period, when the MPC, Federal Reserve, and ECB began to deliver rate cuts and signal a shift towards loosening monetary policy.

6.8 Stock markets across the UK, Europe, and US were buoyed by hopes of rate cuts over the first half of the period. UK equities saw growth in small and mid-sized companies while the US continued to be supported by its strong IT sector, especially growth in AI companies which continued to outperform. IT names performed well in the Eurozone as well while consumer discretionary stocks declined. Towards the end of the period, market volatility spiked after worries about a US recession coincided with Japan's central bank cutting interest rates, leading to the unwinding of the popular Yen 'carry trade'. This saw a huge selloff in equities globally, but markets quickly recovered without lasting impact. Slowdown in the Chinese economy and ongoing geopolitical tension in the Middle East and Europe continue to weigh on investor sentiment but are somewhat offset by the loosening of monetary policy and prospect of further rate cuts. The FTSE All Share index was marginally lower at the end of the 6-month period at 4529 on 30/9/24 v 4338 on 31/3/24. The MSCI All Countries World Index was higher at 3,723 on 30/9/24 v 3438 on 31/3/24.

6.9 After a sustained period of high interest rates, central banks began to reverse course towards second half of the year. The European Central Bank began to cut rates in June, the Bank of England delivered its first rate cut in August, and the Federal Reserve surprised markets with an outsized rate cut of 50bps in September. The stabilisation in interest rates and well telegraphed move towards rate cuts, albeit at a much more conservative pace than previously expected, has allowed fund managers to position for a falling rate environment. This in turn has led to some improvement in capital values of the Authority's longer-dated bond funds during the six-month period and, to a lesser extent, the multi-asset funds.

6.10 UK commercial property values started to stabilise, then improve slightly towards the end of the period, with interest rates being cut from their peak and investor attention turning to the timing of further interest rate cuts. Transaction activity remains somewhat subdued but signs of recovery in the occupier and rental markets as well as moderate economic growth and further falling interest rates are hoped to be favourable for an improving property sector outlook over the medium term. Capital growth is expected to be gradual while income levels remain strong for many sub-sectors.

6.11 The combination of the above had a marginal effect on the combined value of the Authority's strategic funds since March 2024. Income from the Authority's cash plus / short bond funds has stayed broadly stable.

6.12 The change in the Authority's funds' capital values and income return over the 6-month period is shown in Table 4.

6.13 Income returns remained above budget at 5.17%. The Authority had budgeted £4.355m income from these investments in 2024/25 and are now forecasting £5.067m.

6.14 Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year minimum period total returns will exceed cash interest rates.

6.15 **Statutory override**: In April 2023 the Ministry for Housing, Communities and Local Government published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for 2 years until 31st March 2025 but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not

7. Non-Treasury Investments

7.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the Governments Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

7.2 The Council also holds £200m+ of investments in directly owned property as part of the Property Regeneration Fund as at 30th September 2024.

7.3 The non-treasury investments in the Property Regeneration Fund (completed projects) are forecast to generate £3.138m of investment income for the Council after taking account of direct costs and service borrowing, representing a rate of return of 1.5%.

8. Other Debt Activity

8.1 Although not classed as borrowing, the Council also raises capital finance via Private Finance Initiative (PFI) and finance leases etc. As at 30 September 2024, the total debt was £113m including PFI £93m, Tamar Bridge and Torpoint Ferry (PCC's share) £19m and Finance leases £1m. The Council has raised no additional PFI borrowing during the period to 30 September 2024.

9. MRP Regulations

9.1 On 10th April 2024 amended legislation and revised statutory guidance were published on Minimum Revenue Provision (MRP). The majority of the changes take effect from the 2025/26 financial year, although there is a requirement that for capital loans given on or after 7th May 2024 sufficient MRP must be charged so that the outstanding CFR in respect of the loan is no higher than the principal outstanding less the Expected Credit Loss (ECL) charge for that loan.

9.2 The regulations also require that local authorities cannot exclude any amount of their CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP (there are specific exceptions for capital loans and leased assets).

10. Compliance with Prudential Indicators

10.1 The Chief Finance Officer reports that all treasury management activities undertaken during the half year complied fully with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy or explain the areas of non-compliance. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	30.9.24 Actual	2024/25 Limit	Complied
Any group of funds under the same management	£25m	£25m	✓
Investments held in a broker's nominee account	£0	£25m	✓
Foreign countries	£0	£0m	✓
Registered Providers	£0	£10m	✓
Unsecured investments with Building Societies	£0m	£10m	✓
Loans to unrated corporates	£0m	£20m	✓
Money Market Funds (maximum held)	£62m	unlimited	✓

10.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table below.

Table 8: Debt & Authorised Limit and Operational Boundary

Operational Boundary	30.09.24 Actual £m	2024/25 Limit £m	Complied
Borrowing	645	850	✓
Other long-term liabilities	113	219	✓
Total Debt	758	1069	✓

Authorised Limit	30.09.24 Actual £m	2024/25 Limit £m	Complied
Borrowing	645	900	✓
Other long-term liabilities	113	269	✓
Total Debt	758	1169	✓

10.3 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

11. Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

11.1 **Security**:

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio.

	30.09.24 Actual	2024/25 Target	Complied
Portfolio average credit rating	A	A	✓

11.2 **Liquidity**

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments.

11.3 **Interest Rate Exposures:**

This indicator is set to control the Authority's exposure to interest rate risk. Bank Rate dropped by 0.25% from 5.25% on 1st April to 5.00% by 30th September. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed was:

	30.09.24 Actual	2024/25 Target	Complied
Upper limit on fixed interest rate exposure	87%	85%	X
Upper limit on variable interest rate exposure	13%	45%	✓

The Council continued with decisions to reduce its exposure to interest rate risk during 2023/24 and 2024/25 by continuing to use fixed rate borrowing arrangements through PWLB where rates compared competitively to other local authorities.

Fixed rate investments and borrowings are those where the rate of interest is fixed for more than 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Due to shortage of LA to LA borrowing in last quarter of 2023/24 planned borrowing through this route became more affordable through PWLB.

11.4 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	30.09.24 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	28%	50%	20%	✓
12 months and within 24 months	2%	25%	0%	✓
24 months and within 5 years	14%	25%	0%	✓
5 years and within 10 years	1%	25%	0%	✓
10 years and above	55%	80%	50%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

11.5 **Principal Sums Invested for Periods Longer than 365 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

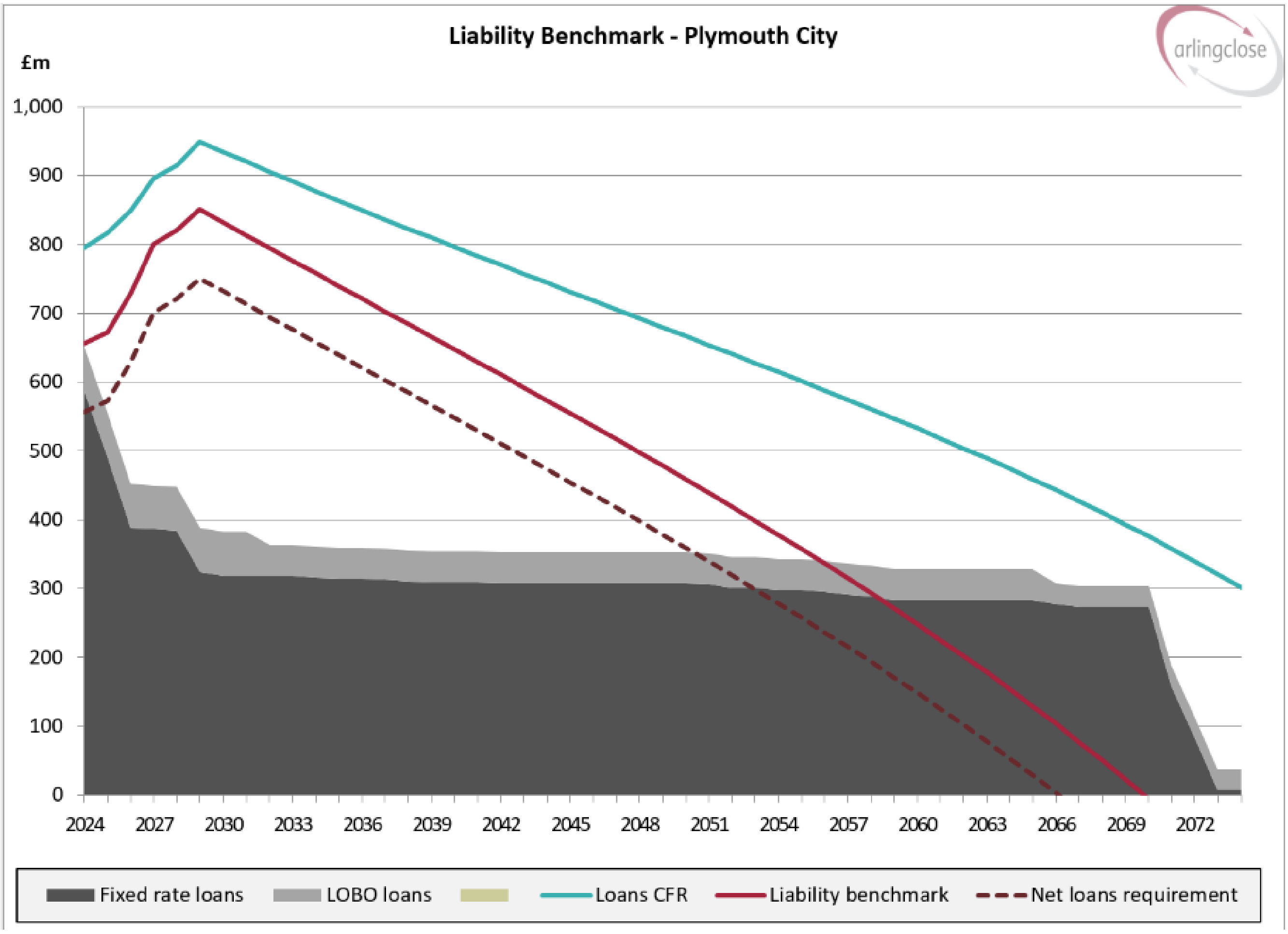
	30.09.24 Actual	Maximum Target	Complied
Limit on principal invested beyond year end	£0m	£10m	✓

The Council does, however, has £27m invested in the CCLA Pooled Funds £25m in other pooled investment funds which the Council is holding the investment for the long term. However, these investments are classified as a short-term investment because it can be called upon at any point.

11.6 **Liability Benchmark**: This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £45m required to manage day-to-day cash flow.

	31.3.24 Actual £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
Loans CFR	795.2	816.8	849.1	895.4
Less: Balance sheet resources	(239.5)	(244.5)	(219.5)	(194.5)
Net loans requirement	555.7	572.4	629.6	700.9
Plus: Liquidity allowance	100.0	100.0	100.0	100.0
Liability benchmark	655.7	672.4	729.6	800.9
Existing Borrowing	664.1	572.1	467.1	464.5

Liability Benchmark chart



12 Investment Training

During the period to 30 September 2024 officers have attended the following Treasury Management training:

- Arlingclose Meetings – The Council's joint party Treasury Management Board Meetings with members and officers
- CIPFA – Treasury Management workshop
- Grant Thornton – Statement of Accounts closedown workshop
- Arlingclose weekly Treasury Management

13 Arlingclose's Economic and Interest rate Forecast as at 23 September 2024

	Current	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	5.00	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Downside risk	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

13.1 In line with our forecast, the MPC held Bank Rate at 5% in September.

13.2 The MPC will continue to cut rates to stimulate the UK economy but will initially be cautious given lingering domestic inflationary pressure. We see another rate cut in 2024 (Q4), but more significant monetary easing in 2025, with Bank Rate falling to a low of around 3%.

14 Recommendations

1. To note the Treasury Management Mid-Year Report 2024/25.
2. Note non-compliance to Prudential indicator for interest rate exposure through upper limit on fixed interest rate exposure being exceeded..