

Treasury Management Mid-Year
Review 2024/25

Introduction

In March 2021 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve, as a minimum, treasury management semi-annual and annual outturn reports.

The Authority's treasury management strategy for 2024/25 was approved at a meeting on 28th February 2024. The Authority has borrowed and invested 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 Authority's treasury management strategy.

External Context

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.

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.

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%.

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%.

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.

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.

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.

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.

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.

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.

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.

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

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.

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.

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.

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.

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.

Local Context

On 31st March 2024, the Authority had net borrowing of £16.1m 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 balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.24 Actual £'000	31.3.25 Forecast £'000
General Fund CFR	60,522	62,899
Less: *Other debt liabilities	-	-
External borrowing**	46,500	60,500
Internal borrowing	14,022	2,399
Less: Balance sheet resources	(21,144)	(18,204)
Net investments	7,122	15,805

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

** shows only loans to which the Authority is committed and excludes optional refinancing

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

Table 2: Treasury Management Summary

	31.3.24 Balance £'000	Movement £'000	30.9.24 Balance £'000	30.9.24 Average Rate %
Long-term borrowing				
- PWLB	(1,500)	-	(1,500)	8.875
- LOBOs	-	-	-	-
- Other	-	-	-	-
Short-term borrowing				
- PWLB	(15,000)	-	(15,000)	5.37
- Other	(30,000)	-	(30,000)	5.00
Total borrowing	(46,500)	-	(46,500)	-
Long-term investments	17,840	(5,570)	12,270	4.89
Short-term investments	-	-	-	-
Cash and cash equivalents	12,575	(5,885)	6,690	4.91
Total investments	30,415	(11,455)	18,960	-
Net borrowing	(16,085)	(11,455)	(27,540)	-

Borrowing Strategy and Activity

As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately risk balance between securing lower 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.

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.

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%.

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%.

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 reviewed its capital programme in light of the Prudential Code 2021 requirements and PWLB lending arrangements to ensure that borrowing to invest primarily for commercial return is no longer undertaken.

The Authority currently holds £4.9m in Millstream Property Investments Ltd, a wholly owned company, formed in February 2018, by the council and £7.8m in investment property, primarily for financial return. These investments were made prior to the change in the CIPFA Prudential Code. Before undertaking further additional borrowing the Authority will review the options for exiting these investments.

At 30th September 2024 the Authority held £46.5m of loans, with no change compared to 31st March 2024. Even though capital spend has continued, no additional borrowing was required in that period due to an increased use of investments, (including the property fund draw down) and a reduction in the minimum cash and investment balance requirement, for cashflow / liquidity purposes from £10m to £5m. This is achievable now that major capital project spend has reduced. However, borrowing is still expected to increase by year end. Outstanding loans on 30th September are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.24 Balance £'000	Net Movement £'000	30.9.24 Balance £'000	30.9.24 Weighted Average Rate %	30.9.24 Weighted Average Maturity (years)
Public Works Loan Board (long-term)	1,500	-	1,500	8.875	30
Public Works Loan Board (short-term)	15,000	-	15,000	5.37	<1
Banks (LOBO)	-	-	-	-	-
Banks (fixed-term)	-	-	-	-	-
Local authorities (long-term)	-	-	-	-	-
Local authorities (short-term)	30,000	-	30,000	5.00	<1
Total borrowing	46,500	-	46,500	-	-

The Authority's short-term borrowing cost has remained high with the current high Base Rate and short-dated market rates. The average rate on the Authority's short-term loans (excluding PWLB) at 30th September 2024 of 30.0m was 5.00%, this compares with 5.41% on £30.0m loans 6 months ago.

The Authority's borrowing decisions are not predicated on any one outcome for interest rates, a portfolio of short-term borrowing is being maintained, alongside the one historic long term loan until long term rates start to fall.

Forward starting loans: To enable certainty of cost to be achieved without suffering a cost of carry in the intervening period, the Authority arranged many of the above Local authority (short-term) loans as forward starting loans with fixed interest rates. This resulted in interest rate savings.

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.

Debt Rescheduling: No long-term debt rescheduling has been undertaken to date in the current financial year.

Treasury Investment Activity

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 in the course of business.

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the half year, the Authority's short term investment balances ranged between £6m and £18 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.24 Balance £'000	Net Movement £'000	30.9.24 Balance £'000	30.9.24 Income Return %
Banks & building societies	7,000	(2,330)	4,670	4.88
Covered bonds (secured)	-	-	-	-
Government	-	-	-	-
Local authorities and other govt entities	-	-	-	-
Corporate bonds and loans	-	-	-	-
Money Market Funds	5,600	(3,580)	2,020	4.94
Property Funds	17,840	(5,570)	12,270	4.89
Total investments	30,440	(11,480)	18,960	-

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority'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.

As demonstrated by the liability benchmark 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.

Bank Rate reduced from 5.25% to 5.00% in August 2024 with short term interest rates largely being around these levels. The rates on DMADF deposits ranged between 4.94% and 5.20% and money market rates between [5.03% and 5.33%]

£17.8m longer-term investments, invested in property funds, have produced significantly higher returns than other investments in previous years, however these returns and fund value have dipped due to the current climate. We are currently in the process of drawing down on of these funds.

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.

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.

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.

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.

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

Income returns have averaged at 4.9%. The Authority has budgeted £1,200,000 gross income from these investments in 2024/25. Gross income received up to 30th September was £871,080, however, interest income receivable in the remaining six months will be less, due to the draw downs on the long term investments (property funds) and a reduced short-term investment balance.

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.

Lothbury Property Fund, one out of the two funds held, is currently in the process of being wound down. This is a long process, which involves selling off the assets belonging to the fund and then distributing the cash, net of expenses, to the unit holders, in line with their percentage holding. As at 30th September 2024, 59.1% of the funds final NAV value had been distributed.

Hermes Property Fund, is still held in full, with distributions as normal and the unit price still fluctuating according the NAV value. However, the fund is currently frozen in way of withdrawals and further investments, as a potential merger is being proposed for part of the fund, but this will only include pension fund investments. Details are currently being worked on and an update will be provided in the outturn report.

Statutory override: In April 2023 the Department for Levelling Up, Housing and Communities 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 two 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. The Authority will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

Non-Treasury Investments

The definition of investments in the Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

The Authority also held £12.8m of such investments in

- directly owned property £7.8m
- shareholding in subsidiaries £4.9m
- loans to subsidiaries £0.1m

These investments are estimated to generate £405.8k of investment income for the Authority after taking account of direct costs, representing a rate of return of 5.20%. This is lower than expected due to vacancies.

MRP Regulations

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.

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).

Compliance

The Head of Strategic Finance and property 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.

Table 5: Investment Limits

	2024/25 Maximum £'000	30.9.24 Actual £'000	2024/25 Limit	Complied? Yes/No
The UK Government	12,900	0	Unlimited	Yes
Local authorities & other government entities	0	0	£20m	Yes
Secured investments *	0	0	£20m	Yes
Banks (unsecured) *	10,000	7,000	£20m	Yes
Building societies (unsecured) *	6,300	0	£20m	Yes

Registered providers (unsecured) *	0	0	£5m	Yes
Money market funds *	9,570	5,600	£20m	Yes
Strategic pooled funds	0	0	£20m	Yes
Real estate investment trusts	17,840	12,270	n/a	Yes
Other investments *	0	0	£1m	Yes

*This table must read in conjunction with the notes below.

Minimum credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £500,000 per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. 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 investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1 million per bank except the council's banker, Nat West, where the balance will be kept below £50 million. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- a. no new investments will be made,
- b. any existing investments that can be recalled or sold at no cost will be, and
- c. full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

Reputational aspects: The Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: The Authority’s revenue reserves available to cover investment losses are forecast to be £18 million on 31st March 2025. In order that no more than 60% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £20 in operational bank accounts count against the relevant investment limits.

Limits are also placed on fund managers, investments in brokers’ nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 6: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker’s nominee account	£20m per broker
Foreign countries	£5 m per country

Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 7 below.

Table 7: Debt and the Authorised Limit and Operational Boundary

	30.9.24 Actual £’000	2024/25 Operational Boundary £’000	2024/25 Authorised Limit £’000	Complied? Yes/No
Borrowing	46,500	75,000	150,000	Yes
PFI and Finance Leases	-	10,000	10,000	Yes
Total debt	46,500	85,000	160,000	Yes

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.

Treasury Management Prudential Indicators

As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

1. Liability Benchmark:

This 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 £5m required to manage day-to-day cash flow.

	31.3.24 Actual £'000	31.3.25 Forecast £'000	31.3.26 Forecast £'000	31.3.27 Forecast £'000
Loans CFR	60,522	62,899	69,163	63,231
Less: Balance sheet resources	(21,144)	(18,204)	(18,968)	(9,231)
Net loans requirement	39,378	44,695	50,195	54,000
Plus: Liquidity allowance	10,000	5,000	5,000	5,000
Liability benchmark	49,378	49,695	55,195	59,000
Existing borrowing	46,500	60,500	66,000	60,000

Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing of a maximum £66m, minimum revenue provision on new capital expenditure based the Useful Economic Lives of the individual assets ranging from 3 years to 50 years with income, expenditure reserves all increasing by inflation of 2.5% a year.

Borrowing is expected to be above the liability benchmark for the next couple of years, mainly due to the lead time on drawing down on the long-term investments / property funds. Borrowing will start to be brought back in line with the liability benchmark from 2027.

2. Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Upper Limit	Lower Limit	30.9.24 Actual	Complied?
Under 12 months	100%	0%	96.77%	Yes
12 months and within 24 months	100%	0%	0%	Yes
24 months and within 5 years	30%	0%	0%	Yes
5 years and within 10 years	30%	0%	0%	Yes
10 years and above	35%	0%	3.23%	Yes

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.

3. Long-term Treasury Management Investments: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

	2024/25	2025/26	2026/27
Limit on principal invested beyond year end	£30m	£30m	£30]m
Actual principal invested beyond year end	£20m	-	-
Complied?	Yes	-	-

Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Additional information:

The changes in interest rates during the half year were:

	<u>31/3/24</u>	<u>30/9/24</u>
Bank Rate	5.25%	5.00%
1-year PWLB certainty rate, maturity loans	5.36%	4.95%
5-year PWLB certainty rate, maturity loans	4.68%	4.55%
10-year PWLB certainty rate, maturity loans	4.74%	4.79%
20-year PWLB certainty rate, maturity loans	5.18%	5.27%
50-year PWLB certainty rate, maturity loans	5.01%	5.13%