THE VALE OF GLAMORGAN COUNCIL

GOVERNANCE AND AUDIT COMMITTEE: 16TH DECEMBER, 02024

REFERENCE FROM CABINET: 28TH NOVEMBER, 2024

C181 TREASURY MANAGEMENT MID-YEAR REPORT 2024/25 (EL/PR) (SCRUTINY – CORPORATE PERFORMANCE AND RESOURCES) –

The Leader presented the report to provide a mid-year report on the Authority's Treasury Management operations for the period 1st April 2024 to 30th September 2024.

The report considered an economic update which looked at the factors that drove the UK economy during the period under review and an analysis of interest rate forecast for the period December 2024 to March 2027. There were no policy changes to the Treasury Management Strategy for 2023/24 as at 30th September 2024.

Following advice all new loans would be borrowed over the shorter term as interest rates were forecast to fall.

This was a matter for referral to Full Council for decision.

Cabinet, having considered the report and all the issues and implications contained therein

RESOLVED –

(1) T H A T the Treasury Management mid-year report for the period 1st April 2024 to 30th September 2024 be approved and the same referred to Full Council on 2nd of December 2024, for consideration.

(2) T H A T the latest Treasury Management indicators as set out in Appendix 1 be approved and referred to Full Council on 2nd of December 2024, for consideration.

(3) T H A T notwithstanding Resolutions (1) and (2), the report also be forwarded to the next Governance and Audit Scrutiny Committee for consideration and discussion.

(4) T H A T use of the Council’s urgent decision procedure, as set out at section 15.14 of the Council’s Constitution be agreed to enable the matter to be considered by Full Council on 2nd December, 2024.

Reasons for decisions

(1) To present the Treasury Management mid-year report as required by the CIPFA Treasury Management in the Public Services: Code of Practice.

(2) To present an update of the Treasury Management indicators which were included in the Treasury Management Strategy.

(3) To present the report to the Governance and Audit Committee in accordance with the remit of the Committee.

(4) To allow consideration of the matter by Full Council.

Attached as Appendix: Report to Cabinet: 28th November, 2024

Appendix

Meeting of:	**Cabinet**
Date of Meeting:	**Thursday, 28 November 2024**
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Treasury Management Mid-Year Report 2024/25
Purpose of Report:	To provide a mid-year report on the Authority's Treasury Management operations for the period 1st April 2024 to 30th September 2024
Report Owner:	Executive Leader and Cabinet Member for Performance and Resources
Responsible Officer:	Matt Bowmer, Head of Finance/Section 151 Officer
Elected Member and Officer Consultation:	None
Policy Framework:	This report needs to be referred to Full Council for approval

Executive Summary:

- This interim report provides an update on the Authority's Treasury Management operations for the period 1st April to 30th September 2024. All activities were in accordance with the Authority's approved strategy on Treasury Management.
- Total external borrowing as of 30th September 2024 was £147.107M at an average rate of 4.33%.
- External borrowing undertaken during the first 6 months of 2024/25 was £15M at an average rate of 4.12%.
- The Council invested with the Debt Management Deposit Facility, Local Authorities and Money Market Funds together with a Lloyds Bank Call Account. Total investments as of 30th September 2024 stood at £15.380M at an average rate of 5.26% over the six-month period.
- This report contains a review of the UK economy together for the period April 2024 to September 2024 with forecasts for interest rates.
- The Authority must ensure compliance with the Prudential Code, which has been developed and written by CIPFA as a professional code of practice. To demonstrate the Authority has met the necessary requirements, the Code sets out prudential indicators that should be implemented and the factors that must be considered. The Council fully complied with these prudential indicators during the first six months of 2024/25.

- The Council’s latest Prudential and Treasury Indicators are set out in Appendix 1.
- New loans have been raised to finance the capital programme for 2024/25 totalling £30.370M of which £26.924M is prudential and £3.446M supported borrowing. As the costs of borrowing funds on the market are elevated at present external borrowing will be kept at a minimum and internal borrowing from the Council’s balances to a maximum. However, most of the Council’s reserves and balances have now been utilised and the Council is now funding part of the 2024/25 capital expenditure from external sources.
- Advice on any external borrowing will be sought from the Council's Treasury Management advisers.
- The Council repaid the LOBO loan for £4M held with an external bank in August 2024 as the opportunity arose to repay without penalty.
- The Council has maturing PWLB and other maturing debt totalling £7.959M during 2024/25. Due to the prevailing high interest rates no decision to refinance has been made to date.

Recommendations

1. That Cabinet approves the Treasury Management mid-year report for the period 1st April 2024 to 30th September 2024 and refers the same to Full Council on 2nd December 2024, for consideration.
2. That the latest Treasury Management indicators as set out in Appendix 1 be approved and referred to Full Council on 2nd December 2024, for consideration.
3. That, notwithstanding recommendations 1 and 2, the report also be forwarded to the next Governance and Audit Scrutiny Committee for consideration and discussion.

Reasons for Recommendations

1. To present the Treasury Management mid-year report as required by the CIPFA Treasury Management in the Public Services: Code of Practice.
2. To present an update of the Treasury Management indicators which are included in the Treasury Management Strategy.
3. To present this report to the Governance and Audit Committee in accordance with the remit of the Committee.

1. Background

Capital Strategy

1.1 In December 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes which 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, and
- The implications for future financial sustainability.

1.2 The Council's Capital Strategy for 2024/25 was approved by Council on 6th March 2024, minute 892 refers, and the Draft Capital Strategy 2025/26 and Initial Capital Programme Proposals 2025/26 to 2029/30 were taken to Cabinet on 24th October 2024 (minute C158).

1.3 The progress and revisions to the Capital Programme are reported as part of the regular capital monitoring reports to Cabinet and the most recent Capital Monitoring for Quarter 2 is included on the agenda for Cabinet for 28th November 2024 alongside this report.

Treasury Management

1.4 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 risk adverse counterparties, providing adequate liquidity initially before considering optimising investment return.

1.5 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.

1.6 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. Key Issues for Consideration

2.1 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).

2.2 The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the way the Council will seek to achieve those policies and objectives.
- Receipt by the full Council 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.

- 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.

- 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 Corporate Resources and Performance Scrutiny Committee.

2.3 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 for 2024/25.
- A review of the Council's capital expenditure 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 and
- A review of compliance with Treasury and Prudential Limits for 2024/25.

Economics and Interest Rates

UK Economic Review and Update as of 30th September 2024

2.4 The third quarter of 2024 (July to September) saw:

- GDP growth stagnating in July 2024 following downwardly revised Quarter 2 figures (0.5% quarter on quarter).
- A further easing in wage growth as the headline 3month year on year rate (including bonuses) fell from 4.6% in June to 4.0% in July 2024.
- Consumer Price Index (CPI inflation hitting its target in June 2024 before edging above it to 2.2% in July and August 2024.
- Core CPI inflation increasing from 3.3% in July to 3.6% in August 2024.
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August 2024 and holding them steady in its September 2024 meeting.
- 10-year gilt yields falling to 4.0% in September 2024.

2.5 The economy's stagnation in June and July 2024 points more to a mild slowdown in Gross Domestic Product (GDP) growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index (PMI), from 53.8 in August 2024 to 52.9, was still consistent with GDP growth of 0.3% to 0.4% for the summer months. This is in line with the Bank of England's view and was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% quarter on quarter in Quarter 3.

2.6 The 1.0% month on month jump in retail sales in August 2024 was stronger than the consensus forecast for a 0.4% month/month increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the Office for National Statistics (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.

2.7 The government's plans to raise public spending by around £16bn a year (0.6% of GDP) have caused concerns that a big rise in taxes will be announced in the October 2024 Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending that would mean the overall stance of fiscal policy would be like 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.

2.8 The further easing in wage growth signal that labour market conditions are continuing to cool. The 3 month year on year growth rate of average earnings fell from 4.6% in June to 4.0% in July 2024. 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 3month year on year rate fell from 5.4% to 5.1%.

2.9 Other labour market indicators also point to a further loosening in the labour market. The 59,000 reduction in the alternative PAYE measure of the number of employees in August 2024 marked the fourth reduction in the past five months. And the 77,000 decline in the three months to August 2024 was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Quarter 2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July 2024 to 857,000 in the three months to August 2024, leaving 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.

2.10 CPI inflation stayed at 2.2% in August 2024, but services inflation rose from a two-year low of 5.2% in July 2024 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 2024 to +11.9% in August 2024. 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.

2.11 The Bank of England initiated its loosening cycle in August 2024 with a 25-basis points rate cut, lowering bank rates from 5.25% to 5.0%. In its September 2024 meeting, the Bank of England, resembling the European Central Bank (ECB) more than the US Federal Bank (FED), opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. That meant the slim 5-4 vote in favour of a cut in August 2024 shifted to a solid 8-1 vote in favour of no change in September 2024.

2.12 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 in the Middle East may exert an upward pressure on inflation.

2.13 Market expectations are forecasting rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. The MPC have now cut rates to 4.75% at its November 2024 meeting but December 2024 may be more problematic for the Bank of England if CPI inflation spikes towards 3%.

2.14 In the second half of 2025 it is forecast that a more marked easing in inflation will prompt the Bank of England to speed up the money loosening cycle resulting in rates eventually reaching 3.25-3.50% which is currently being priced in by financial markets.

2.15 The ten-year gilt yield declined from 4.32% in May 2024 to 4.02% in August 2024 as the Bank of England's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September 2024 the market response was muted with the 10-year yield rising by only 5 basis points 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 and the yield had already increased by about 10 basis points in the days leading up to the meeting. 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%.

2.16 November 2024 saw bank 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.

Interest Rate Forecasts

2.17 The Council's 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 basis points) which has been accessible to most authorities since 1st November 2012.

2.18 Short, medium and long term rates are forecast to 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.

2.19 PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 basis points, calculated as gilts plus 80 basis points) which has been accessible to most local authorities since 1st November 2012.

Table 1 – PWLB Forecasts

	Dec 2024	Mar 2025	Jun 2025	Sep 2025	Dec 2025	Mar 2026	Jun 2026	Sept 2026	Dec 2026	Mar 2027
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
5yr PWLB	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10yr PWLB	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25yr PWLB	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50yr PWLB	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

PWLB maturity certainty rates (gilts plus 80bps) year to date to 30th September 2024

2.20 Gilt yields and PWLB certainty rates were less volatile than they were this time last year. Overall, the 10, 25 and 50-year part of the curve endured a little volatility but finished September 2024 very much as it started in April 2024.

2.21 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.

2.22 At the beginning of April 2024, 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 2024 saw yields at their highest across the whole curve.

2.23 Conversely, 17th September 2024 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 2024.

2.24 Rates are still forecast to fall back over the next two to three years as inflation dampens, although there is upside risk to the Bank Rate forecast at present. The CPI measure of inflation is expected to fall below 2% in the second half of 2025 and the forecast is that 50-year rates will stand at 4.20% by the end of September 2026. The major warnings are that there is considerable gilt issuance to be digested by the market over the next couple of years and the geo-political uncertainties (which are generally negative for inflation prospects) abound in Eastern Europe and the Middle East at present.

Table 2 - PWLB Rate Movements

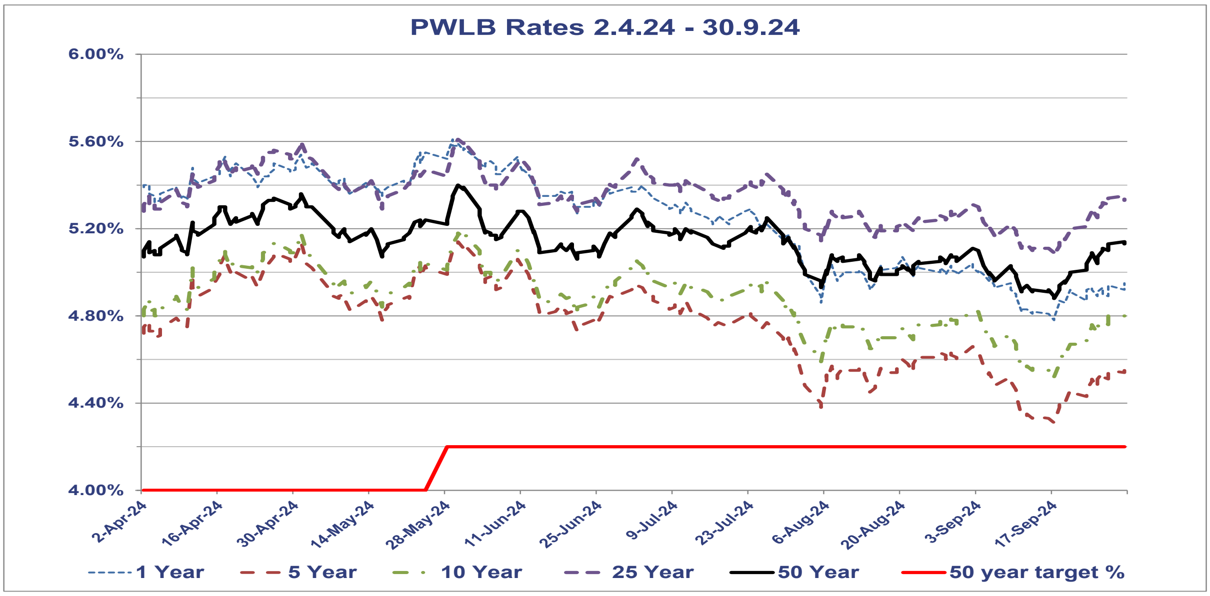

Table 3 - PWLB Certainty Rate Variations

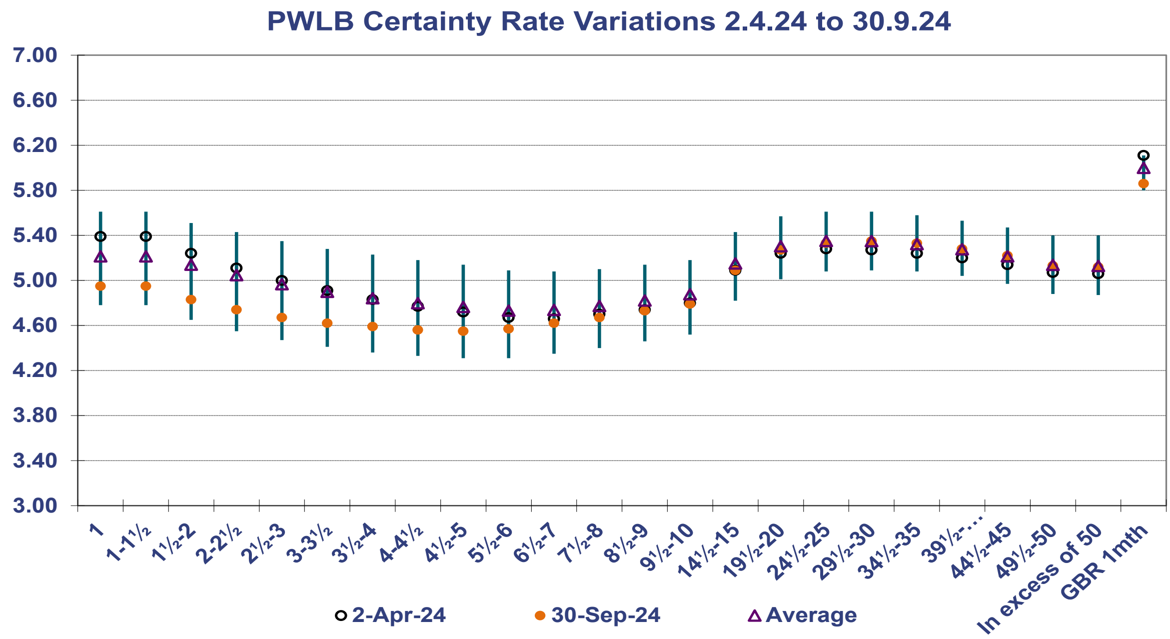

Table 4 - High/Low Average PWLB Rates

	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).

Treasury Management Strategy 2024/25

2.25 Council approved the 2023/24 Treasury Management Strategy Statement (TMSS) at its meeting on 6th March 2024 minute no 893.

2.26 The Authority's investment strategy is to secure the best return on its investments whilst having regard to capital security within the parameters laid down.

2.27 In line with the Authority's existing borrowing strategy the revised estimate for new loans required to support the capital programme for 2024/25 is £30.3704M which is both supported and prudential borrowing. In addition, £14.000M has been included to replace maturing debt.

2.28 The effects of the above on the capital programme objectives are being assessed, therefore, the Authority's borrowing strategy will be reviewed and then revised to achieve optimum value and risk exposure in the long term.

2.29 Council officers in conjunction with the treasury advisors continually monitor the prevailing interest rates and the market forecasts and adopt a pragmatic approach to changing circumstances in respect of its borrowing needs.

2.30 The Head of Finance (Section 151 Officer) can positively report that all Treasury Management activity undertaken during the period complied with the approved strategy, the CIPFA Code of Practice and the relevant legislative provisions.

2.31 Throughout the period under review funds available for investment have reduced as reserves and balances have been spent, therefore the Authority has only placed investments with other Local Authorities, the Debt Management Office (DMO), Money Market Funds (MMFs) and the instant access account held with Lloyds Bank PLC.

2.32 As of 30th September 2024, the underlying TMSS approved previously on 6th March 2024 requires revision in the light of economic and operational movements during the year. The proposed changes and supporting detail are set out in this report at 2.36 and 2.37.

2.33 The implementation of IFRS16 Leasing commenced from April 2024. The revision of the prudential indicators to include the additional financial liabilities brought onto the Council's balance sheet will be incorporated into the 2024/25 Treasury Management and Investment Strategy as soon as they are available. Work is still ongoing to establish values for the lease liabilities in accordance with the standard and to agree an acceptable low value lease policy with Audit Wales in accordance with this standard. Whilst it is not expected that the introduction of this standard will impact the bottom line of the Council's balance sheet the standard will attempt to quantify the additional debt that the Council commits to when it enters into leasing agreements which is set against a controllable asset for the period. A revised 2024/25 Strategy will be taken to Cabinet and Full Council as soon as this work is complete.

2.34 The Council is currently reviewing the current Minimum Revenue Provision (MRP) policy set out in the 2024/25 Strategy. In a report to the Governance and Audit Committee on 21st October 2024 it was proposed to amend this period to 50 years. At the Committee meeting further information was requested and a revised report will be taken to the Governance and Audit Committee on 16th December 2024. Any amendments to the Council's MRP Policy will require approval from Full Council. Minimum Revenue Provision (MRP) is the method that Local Authorities use to charge their revenue accounts over time with the cost of their capital expenditure that was originally funded by debt. For supported capital expenditure the Council currently operates the "Asset Life" Method when calculating MRP, by charging the expenditure over the expected useful life of the average assets' lives (40 years) of the (Non HRA) Council Assets in equal instalments, starting in the year after the asset becomes operational.

The Authority's Capital Position (Prudential Indicators)

2.35 This part of the report is structured to update:

- The Authority'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.

- Compliance with the limits in place for borrowing activity**.**

2.36 The Treasury Management prudential indicators are based on the 2024/25 capital programme included in the Quarter 2 Capital Monitoring report which is on the same agenda as this report. The revised Prudential and Treasury indicators are set out in Appendix 1 of this report.

2.37 It is a statutory duty for the Authority to determine and keep under review it's affordable borrowing limits. During the half year ended 30th 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. A review of the Council's position at the mid year point of the year is included in Appendix 1 to this report. The Head of Finance (Section 151 Officer), reports that no difficulties are envisaged for the current or future years in complying with these indicators.

Investments

2.38 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

2.39 The Authority has made the following investments for the period 1st April 2024 to 30th September 2024 as set out below:

Table 5 - Investments

Investment Counterparty	**Opening Balance**	**Invested**	**Returned**	**Closing Balance**
	01/04/2024			**30/09/2024**
	£m	**£m**	**£m**	**£m**
UK Local Authorities	27.500	16.000	(39.500)	4.000
Debt Management Office	0.000	296.625	(295.625)	1.000
Money Market Funds (MMF)	6.675	45.875	(43.350)	9.200
Lloyds Deposit Accounts	0.020	3.970	(2.810)	1.180
Total	**34.195**	**362.470**	**(381.285)**	**15.380**

2.40 Interest, at an average rate of 5.225% and amounting to £872,229 including interest accrued has been received from these investments during the first 6 months of 2024/25.

2.41 This strategy is considered prudent considering the continuing pressures in the financial markets caused by the Russian Invasion of Ukraine, the Israeli invasion into the Gaza Strip and the escalation to the Middle East, the cost-of-living crisis, the threat of bail in for fixed term investments with banks and still the remaining uncertainty with Brexit. The Head of Finance (Section 151 Officer) will continue to have regard to the security and liquidity of the investments before seeking the highest rate of return or yield.

Borrowing

2.42 The Council's current estimated revised CFR for 2024/25 is £223.216M. This will be revised further when the Council's lease liability is be added to the balance sheet. 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).

2.43 In 2021 the PWLB introduced revised guidance that prevented Local Authorities borrowing for commercial purposes. The guidance set out several permitted purposes these were primarily for Service Capital Investment, Economic Regeneration and Debt Refinancing.

2.44 The following table sets out the funds externally borrowed and repaid during the period.

Table 6 - External Debt

Loan Type	**Opening Balance**	**Received**	**Repaid**	**Closing Balance**
	01/04/2024			**30/09/2024**
	£m	**£m**	**£m**	**£m**
PWLB	137.075	15.000	(7.036)	145.039
LOBO	4.000	0.000	(4.000)	0.000
Salix Loans	1.187	0.000	(0.169)	1.018
WG Loans	1.050	0.000	(0.000)	1.050
Total	**143.312**	**15.000**	**(11.205)**	**147.107**

- Loans borrowed from the PWLB are intended to assist Local Authorities in meeting their longer-term borrowing requirements. The above PWLB loans are all at fixed rates of interest. The rate paid on each loan is largely dependent upon the original duration of the loan and date taken out. The loans taken out for the Housing Revenue Account Subsidy buyout were at a predetermined range of rates specified by HM Treasury. The Council has a significant repayment schedule over the next five years that will see the Council repay some historical debt at high interest rates with the opportunity to refinance at the current lower PWLB rates after considering cost of carry considerations.

- External borrowing undertaken from the PWLB during the first 6 months of 2024/25 was £15M at an average rate of 4.12%.
- Maturing PWLB Debt repaid during the first 6 months of 2024/25 totalled £7.036M at an average rate of 4.84%.
- Other longer-term loans represent those non PWLB loans that are repayable at least 1 year or more from the date they are advanced. This debt was represented by a single LOBO loan of £4M. This debt, borrowed from an external bank was repaid in August 2024 when the opportunity arose to repay without penalty.
- Two loans are included for Salix with balances outstanding totalling £1.018M which have been borrowed, interest free, for energy management schemes primarily Street Lighting. The Authority made Principal repayments of £0.169M on these loans over the last 6 months.
- Welsh Government (WG) Loan is made up of two interest free loans provided by WG, a concessionary loan for £500K and a Town Centre Loan for £550K.

2.45 External interest at an average rate of 4.34% and amounting to £3.212M been paid on these loans during the first 6 months of 2024/25.

2.46 The Council has where possible been self-financing new capital expenditure and maturing debt. However, available balances and reserves are now practically exhausted, and the Council are now starting to borrow externally from the Public Works Loan Board (PWLB). Due to current high borrowing costs the Council are borrowing shorter term (up to 7 years) in a hope that rates will fall during this period. In the period under review the Council has borrowed £15m to fund Housing Revenue Account (HRA) as currently there is a project rate available, 60 basis points below the standard rate.

2.47 However, it is the Council's intention that external borrowing will still be kept to a minimum during 2024/2025. The Council will maximise internal borrowing where possible. The Section 151 Officer will continue to liaise with Link Asset Management in respect of the Council's borrowing strategy and will keep all potential PWLB borrowing under review.

2.48 As of 31st March 2024, the Authority internally borrowed £55.480M to finance the capital programme. This position will be kept under review by the Section 151 Officer, and advice sought from Link as required. The Council needs to keep this approach under review in the context surety of borrowing and use of reserves to ensure internal borrowing does not exceed a prudent proportion of reserves and core cash is maintained for operational purposes.

2.49 Internal borrowing, borrowing that is not supported by a revenue stream is charged using the 3 month Sterling Overnight Interest Average rate (SONIA). The average rate calculated to 30th September 2024 is 5.11%.

2.50 SONIA rates were introduced in the March 1997 were reformed by the Bank of England in 2018 to provide a benchmark that complies with the international best practice. Sonia replaces the 3 month London Interbank Bid Rate (LIBID) previously used by Council which was phased out in the financial markets in 2021. Link Group Market Services, the Councils Treasury Management Advisors have stated that they would expect that most investors may well use the Term SONIA rates as their investment benchmarks, as these would reflect their own circumstances (cash flow, liquidity requirements, their own interest rate outlook etc.) as well as market expectations of policy rates as at the point of investment.

2.51 Internal Borrowing currently still represents a cheaper alternative to longer term borrowing from external sources, although the margins are diminishing. The estimated total interest to be charged to revenue for internal borrowing for pooled loans in 2024/25 is estimated to be £1.362M.

2.52 When pooling the interest charges for external and internal borrowing, the average rate charged to the Council to deliver the capital programme is estimated to be 4.52%.

2.53 In addition, the Council has previously internally borrowed for the Local Government Borrowing Initiative (LGBI) for 21st Century Schools, Affordable Housing and Highways initiatives. The interest to be charged for this element of the internal borrowing for 2024/25 is £0.307M.

Debt Rescheduling

2.54 Debt rescheduling opportunities have been very limited in the current economic climate. No debt rescheduling has therefore been undertaken to date in the current financial year. However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

2.55 The Head of Finance/Section 151 officer will liaise with the Council's advisors concerning any opportunities that may arise.

Changes in Risk Appetite

2.56 The CIPFA Codes and guidance notes have placed enhanced 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.

Treasury Bills

2.57 The return on Treasury Bills have been an uncompetitive option throughout the period under review.

Money Market Funds

2.58 The 2018 No.325 (W.61) Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2018 introduced changes to accounting practice for Money Market Funds (MMFs) and they are no longer treated as capital expenditure.

2.59 The Authority uses this investment tool regularly and has accounts with CCLA and Federated Hermes. Instant access to the funds deposited has proved invaluable where revenue streams and outgoings have not been easily identifiable.

2.60 Both funds are domiciled in the UK and their funds rated 'AAAmmf' (highest credit quality) by the Fitch credit rating agency. Funds to a maximum of £10.000M may be invested in each fund in accordance with the Council's revised counterparty limits.

Lloyds Deposit Accounts

2.61 In December 2003 the two interest earning deposit accounts held with Lloyds Bank were merged into one with a more favourable yield. As instant access to the funds deposited is available at any time during business hours this is a very practical investment tool with only a marginally lower rate of return. In addition, investing with the Council’s banker does not incur any transaction fees.

2.62 As part of the agreement with Lloyds Bank, the Council is asked on an annual basis to sign a set off agreement. The agreement gives the bank the right at any time and without notice to combine or consolidate all these accounts with any of our liabilities and set off or transfer any credit balance towards setting off a liability.

2.63 The accounts covered by this agreement are managed daily by the Council so that the total balance of these accounts remains positive. Following advice from the Council’s bankers Lloyds TSB Bank the Authority no longer has a £2m overdraft facility opting to notify the bank in advance of any forecast overdrawn balances at the end of the working day. This is the most cost-effective way to manage the bank accounts.

Non-Treasury Investment

Big Fresh Catering Company

2.64 On 1st January 2020, the Council set up a Local Authority Trading Company to deliver catering services called Big Fresh Catering Company. The Council owns 100% of the company shares. Profits from the venture will be given to local schools or reinvested back into the business. In accordance with WG Guidance this will be classified as a Non-Treasury Investment. The value of the Council’s investment is £1.

Service Investment Strategy

2.65 In February 2022 a new Non Treasury Investment Strategy to support Recovery and Regeneration through Economic Development schemes and development of Green Infrastructure was approved. Under the proposals up to £12M of PWLB borrowing could be utilised. These schemes are expected to recover the cost of financing any borrowing, however, they would increase the Council's Capital Financing Requirement, External Borrowing and Minimum Revenue Provision requirements. A specialist investment Committee would be set up to ensure sufficient oversight and scrutiny of any proposals. Further work is being carried out to identify potential opportunities, refine governance proposals and criteria for approving and monitoring funding proposals.

3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

3.1 The Treasury Management and Investment Strategy ensures that the financial plans of the Council are sustainable into the future and do not adversely impact on future generations.

3.2 The Treasury Management and Investment Strategy underpins the financial management of the Council and its ability to achieve its Well Being objectives as set out in the Corporate Plan.

4. Climate Change and Nature Implications

4.1 Councils and the UK Government are widely implemented on policy on the response the Climate change.

4.2 Money Market Funds selected by the Council regularly monitor the environmental, social and governance (ESG) risk management activities with whom they invest.

5. Resources and Legal Considerations

Financial

5.1 Money is borrowed for capital purposes and interest charged to revenue accounts.

5.2 The Council is required to consider the ESG position of its investments as part of its Treasury Management Strategy.

5.3 Most of the Council’s investments are placed with the UK Government (DMADF and Treasury Bills) or Local Authorities. As most of these counterparties have declared a climate and nature emergency, the Council are accepting that they are following ESG principles and therefore will continue to place investments with them. Should the Council become aware of any Local Authority that goes against these principles the Council will raise the matter at Cabinet so Members can consider whether or the Council should continue to use that counterparty for investment purposes.

5.4 Some investments are held with the Money Market Fund CCLA. CCLA believe that investment markets and in turn, investment returns will only be as healthy as the environment and communities that support them. We therefore focus on some of the world's most pressing challenges to build a future that can continue to support sustainable returns for our clients, and outcomes for our planet. CCLA has a long track record of investing responsibly to deliver positive change in company practice and performance, and of pushing for progress to meet the world's sustainability challenges. CCLA aim to be a catalyst for change in the investment industry and to invest responsibly for their clients, and for the planet.

5.5 Some investments are held with the Money Market Fund Federated Hermes. Federated Hermes consider that they take a pragmatic view of the investment universe to identifying stocks with the most attractive combinations of fundamental characteristics. They look for companies with sustainable business models and competitive advantages. In addition, it is important that companies behave responsibly, which leads us to companies that are well governed and treat their responsibilities to society and the environment seriously. At Federated Hermes they consider that companies less exposed to ESG risks will outperform over the long term and that companies improving their ESG profiles can unlock significant shareholder value. Their investment philosophy can be encapsulated in three words: Pragmatism, Sustainability and Responsibility.

Employment

5.6 There are no direct employment issues relating to this report.

Legal (Including Equalities)

5.7 Compliance with the Local Government Act and CIPFA'S Code of Practice for Treasury Management in the Public Services is mandatory.

6. Background Papers

6.1 CIPFA'S Code of Practice for Treasury Management in the Public Services (2021 Edition), and WG guidance on Local Authority investments.

Appendix 1

Mid Year Treasury Management Prudential Indicators 2024/25

1. Capital Expenditure

- The purpose of this indicator is to provide a summary of the Council's capital expenditure. It reflects the capital programme that is being requested to be approved within the quarter 2 Capital Monitoring report which is on the same agenda as this report. A supplementary table is included detailing the resources to be applied to finance the capital spend and so highlight any net financing need over the reporting period.

- This table shows a comparison of the capital programme as agreed by Cabinet with the latest updated Capital Programme which is reported as part of the Quarter 2 Capital Monitoring.

Table 1 – Capital Expenditure

Capital Expenditure	2024/25 Original Estimate £m	2024/25 Revised Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Non HRA	73.599	51.434	53.133	46.712	32.483
HRA	38.745	38.609	45.428	41.970	39.634
Total Capital Expenditure	**112.344**	**90.043**	**98.561**	**88.682**	**72.117**

Capital Expenditure by Service	2024/25 Original Estimate £m	2024/25 Revised Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Learning & Skills	25.430	17.741	17.835	4.059	4.435
Social Services	1.731	2.021	0.975	0.100	0.100
Environment & Housing	11.916	18.075	9.195	3.685	3.685
Place	4.335	8.361	1.967	1.305	1.305
Corporate Resources	0.992	2.288	0.312	0.355	0.544
City Deal	0.697	0.697	0.810	2.286	0.807
Pipeline Schemes	28.498	2.251	22.039	34.922	21.607
Housing Revenue Account (HRA)	38.745	38.609	45.428	41.970	39.634
Total Capital Expenditure	**112.344**	**90.043**	**98.561**	**88.682**	**72.117**

Changes to the Financing of the Capital Programme

- The table below shows the main sources of funding for the capital expenditure plans of the Authority shown 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 (MRP). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 2 – Net Financing Need

Sources of Capital Financing	**2024/25 Original Estimate £m**	**2024/25 Revised Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**	**2027/28 Estimate £m**
Total Capital Expenditure	112.344	90.043	98.561	88.682	72.117
Financed by:					
GCF Grant	3.828	5.965	3.485	3.431	3.379
General Fund Reserves & Revenue	6.547	9.215	4.049	0.800	0.800
HRA Reserves & Revenue	8.197	8.031	6.655	7.062	6.660
S106	1.937	3.999	1.290	2.350	2.535
Grants	49.996	30.044	35.877	36.199	20.209
Capital Receipts (General & HRA)	4.086	2.419	4.895	1.166	2.346
Total Financing	74.591	59.673	56.251	51.008	35.929
Net Financing need for the year	**37.753**	**30.370**	**42.310**	**37.674**	**36.188**
Prudential Borrowing Requirement	**34.307**	**26.924**	**38.917**	**34.333**	**32.899**
Supported Borrowing Requirement	**3.446**	**3.446**	**3.393**	**3.341**	**3.289**
Total	**112.344**	**90.043**	**98.561**	**88.682**	**72.117**

Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

2. Capital Financing Requirement

- The table below shows the CFR, which is the underlying external need for the Council to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary. The Authority has revised the Capital Financing Requirement estimate for 2024/25 downwards which primarily reflects a decrease in the estimated borrowing for the Housing Revenue Account (HRA), Vehicles, City Deal & The Sustainable Communities for Learning Programme.

Table 3 – Capital Financing Requirement

	2024/25 Original Estimate £m	2024/25 Revised Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Prudential Indicator – the Capital Financing Requirement					
CFR – Non-Housing	127.907	120.198	126.338	131.845	138.497
CFR - HRA	108.346	103.018	132.798	157.670	179.369
Total CFR	**236.253**	**223.216**	**259.136**	**289.515**	**317.866**
Net Financing Need for the Year	37.753	30.370	42.310	37.674	36.188
Less Minimum Revenue Provision	(6.092)	(5.944)	(6.390)	(7.295)	(7.837)
Net movement in CFR	**31.661**	**24.426**	**35.920**	**30.379**	**28.351**

Table 4 – General Fund Capital Financing Requirement

Non HRA Capital Financing Requirement	2024/25 Original Estimate £m	2024/25 Revised Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Opening CFR	118.708	118.465	120.198	126.338	131.845
Net Financing Need for the Year	13.446	5.945	10.307	9.935	11.064
Less Minimum Revenue Provision	(4.247)	(4.212)	(4.167)	(4.428)	(4.412)
Closing Non HRA CFR	**127.907**	**120.198**	**126.338**	**131.845**	**138.497**

Table 5 Housing Revenue Account Capital Financing Requirement

HRA Capital Financing Requirement	2024/25 Original Estimate £m	2024/25 Revised Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Opening CFR	85.884	80.327	103.018	132.798	157.670
Net Financing Need for the Year	24.307	24.425	32.003	27.739	25.124
Less Minimum Revenue Provision	(1.845)	(1.734)	(2.223)	(2.867)	(3.425)
Closing HRA CFR	**108.346**	**103.018**	**132.798**	**157.670**	**179.369**

3. Borrowing Activity

- A 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. In line with CIPFA guidance the Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed.

- Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. The figure shown below reflects the Council's current strategy in respect of maximising internal borrowing. This will be kept under review in consultation with the Council's Treasury Management advisers.

4. The Authorised Limit

- The Authorised Limit represents that limit beyond which borrowing is prohibited, and this 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.

Table 6 Authorised Limit

Authorised limit for external debt	2024/25 Original Estimate £m	2024/25 Revised Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Borrowing	271.200	263.653	295.242	329.794	357.881
Other long-term liabilities	0	0	0	0	0
Total	**271.200**	**263.653**	**295.242**	**329.794**	**357.881**

5. Operational Boundary

- The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. Unlike the Authorised Limit, the Operational Boundary is not an absolute limit, but it reflects the Authority's expectations of the level at which external debt would not ordinarily be expected to exceed.

- The Council will also set for the forthcoming financial year and the following two financial years an Operational boundary for its total gross external debt, separately identifying borrowing from other long-term liabilities.

Table 7 Operational Boundary

Operational Boundary for External Debt	2024/25 Original Estimate £m	2024/25 Revised Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Borrowing	255.687	247.914	278.866	312.883	340.553
Other Long-Term Liabilities	0	0	0	0	0
Total Debt (Year End Position)	**255.687**	**247.914**	**278.866**	**312.883**	**340.553**

6. Gross Debt and the Capital Financing Requirement

- An authority should only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes.

- To ensure that over the medium-term debt will only be for a capital purpose the Council should ensure that debt does not, expect in the short term, exceed the total Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for the current and next two financial years.

- The Council must disclose the closing balance for actual gross borrowing in respect of the financial period just ended. This will clarify to Members the Authority's overall level of external debt and allow comparison to the Authority's actual borrowing need as provided by the Gross debt and the CFR Indicator.

Table 8 Gross Debt and CFR

	2024/25	2024/25	2025/26	2026/27	2027/28
	Original Estimate	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
CFR	236.253	223.216	259.136	289.515	317.866
Gross borrowing	199.607	175.723	218.680	255.897	291.727
Under/(over) borrowing	**36.646**	**47.493**	**40.456**	**33.618**	**26.139**

Table 9 Gross Borrowing at Year End

	2024/25	2024/25	2025/26	2026/27	2027/28
	Original Estimate	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Loans at start of year	155.412	143.312	175.723	218.680	255.897
Lease/PFI liabilities at start of year	0	0	0	0	0
Total gross borrowing at start of year	**155.412**	**143.312**	**175.723**	**218.680**	**255.897**
New borrowing for capital spends	37.754	30.370	42.311	37.674	36.188
New borrowing for maturing debt	14.000	14.000	7.000	9.000	8.000
New lease/PFI liabilities	0	0	0	0	0
Loan repayments	(7.559)	(11.959)	(6.354)	(9.457)	(8.358)
Lease & PFI repayments	0	0	0	0	0
Loans at end of year	**199.607**	**175.723**	**218.680**	**255.897**	**291.727**
Lease/PFI liabilities at end of year	0	0	0	0	0
Total gross borrowing at end of year	**199.607**	**175.723**	**218.680**	**255.897**	**291.727**

Table 10 Gross Debt / Internal Borrowing

	2024/25 Original Estimate £m	2024/25 Revised Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
External Net Borrowing	199.607	175.723	218.680	255.897	291.727
Other Long-Term Liabilities	0	0	0	0	0
Total Debt	199.607	175.723	218.680	255.897	291.727
CFR (Year End Position)	**236.253**	**223.216**	**259.136**	**289.515**	**317.866**
Estimated Internal Borrowing	**36.646**	**47.493**	**40.456**	**33.618**	**26.139**

- No difficulties are envisaged for the current or future years in complying with this prudential indicator.

7. Ratio of Relevant Financing Costs to Net Revenue Stream

- This Indicator shows the trend in the cost of capital borrowing and other longterm obligation costs against the net revenue stream i.e., Council Tax and Social Housing rent income.

  - The higher the ratio, the higher the proportion of resources tied up just to service net capital costs and which represent a potential affordability risk.
  - The Council will estimate for the forthcoming year and the following two financial years the proportion of financing costs to net revenue stream.
  - After the year end, the proportion of financing costs to net revenue stream will be calculated directly from the Council's income and expenditure statement.

Table 9 Ratio of Financing Costs to Net Revenue Stream

	2024/25 Original Estimate	2024/25 Revised Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	%	%	%	%	%
Non-HRA	**2.78**	**2.73**	**2.74**	**2.77**	**2.67**
HRA	**21.74**	**21.20**	**25.95**	**31.11**	**35.09**

- The analysis above shows the Council Fund implications remain relatively stable throughout the period. The HRA cost is increasing over the period in line with the aspirations for maintenance and regeneration set out in the draft Housing Business Plan. The plan demonstrates that this level of investment is affordable over the 30 year period of the plan.

8. The Liability Benchmark

- The revised prudential code (December 2021) requires the Council to adopt a debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement.
- The Council is required to provide a comparison of the existing loan portfolio against the committed borrowing needs. This is to provide evidence that it has a strong grasp of both its existing debt maturity profile and how MRP and other cash flows affect the future debt requirement.
- This indicator should cover as a minimum the forthcoming financial year and the following two years. However, CIPFA strongly recommend that it is produced for at least ten years and should ideally cover the full debt maturity profile.

- The presentation should be in the form of a chart covering the following four areas:
- Existing Loan Debt (current external debt borrowing portfolio split by type of loan and presented as a stacked bar chart).
- Loans CFR (excluding any part of the CFR relating to other long-term liabilities.
- Net loans requirement (loan debt less Treasury Management Investments at the last financial year end and projected into the future based on approved prudential borrowing, planned MRP and other major cash flow forecasts).
- Liability Benchmark (net loans requirement plus any short term liquidity allowance).

- The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of resources available for investment on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day to day cash flow.

- CIPFA recommends that the optimum position for external borrowing should be at the level of the Liability Benchmark where all balance sheet resources are used to maximise internal borrowing.

- The chart below shows the long-term borrowing impact of the current 30 year capital programme. For illustration, the assumption here is that no new external borrowing is undertaken during this period under review which would not be the case.

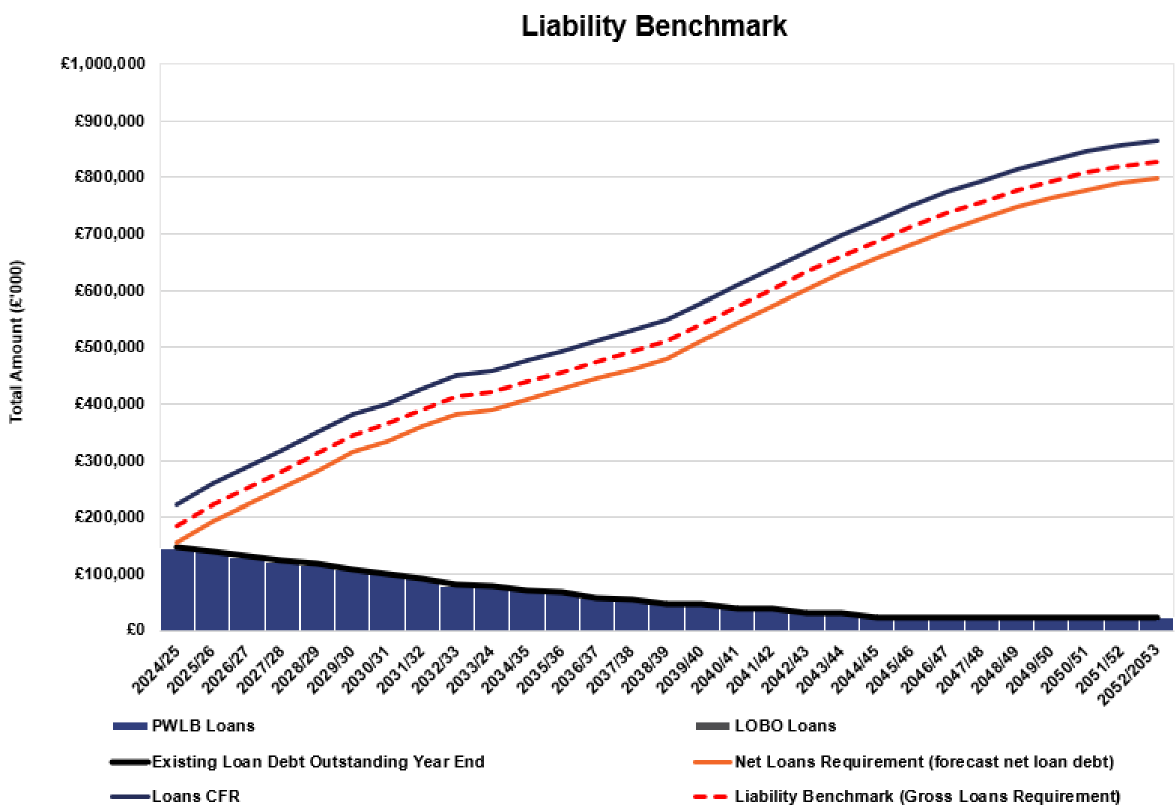

Table 10 – Liability Benchmark

Year	Projected CFR	Projected External debt	Under/Over Borrowing
	£m	£m	£m
2024/25	223.216	147.107	76.109
2025/26	259.138	140.085	119.053
2026/27	289.516	130.749	158.767
2027/28	317.867	122.570	195.297
2028/29	348.508	117.505	231.003
2029/30	381.930	107.440	274.490
2030/31	401.301	100.386	300.915
2031/32	426.298	92.176	334.122
2032/33	449.528	80.128	369.400
2033/34	457.502	79.064	378.438
2034/35	476.252	69.448	406.804
2035/36	494.113	67.283	426.830
2036/37	512.135	56.227	455.908
2037/38	529.352	54.148	475.204
2038/39	547.530	48.067	499.463
2039/40	579.218	45.984	533.234

2040/41	610.245	37.889	572.356
2041/42	639.696	37.812	601.884
2042/43	669.629	29.772	639.857
2043/44	698.661	29.630	669.031
2044/45	724.867	21.536	703.331
2045/46	749.786	21.536	728.250
2046/47	773.368	21.536	751.832
2047/48	793.858	21.536	722.322
2048/49	814.066	21.536	792.530
2049/50	831.920	21.536	810.384
2050/51	845.468	21.536	823.932
2051/52	858.169	21.536	836.633
2052/53	865.682	21.536	844.146
2053/54	872.277	17.293	854.984

- Over the 30 year period the chart shows that external borrowing falls significantly below the Council's Capital Financing Requirement. For as long as usable reserve balances are available the Council will maintain this under borrowed position.

- This means that the capital borrowing need was not fully funded with external loan debt as cash supporting the Council's reserves, balances and cash flow were used as an interim measure to finance the Council's borrowing requirement. This allows the Council to mitigate the volatility of the financial market and interest rates.

- These reserves are projected to reduce over the period under review and the Council is expected to externally borrow up to the CFR at the end of the period.

- The Council's investment balance has reduced significantly as of 30th September 2024, current investments balances are detailed later in this report. These investments are expected to reduce further as reserves are utilised.

- The Council have forecast that in the worst-case scenario a buffer of £20M will be required to manage the day-to-day cash flow and therefore this amount is included as part of the treasury management liquidity benchmark. The value of this buffer will need to be kept under review in the context of the current inflationary factors.

9. Maturity Structure of Borrowing

- The Council is required to set gross limits on maturities for the periods shown and covers both fixed and variable rate borrowings. The reason being to try and control the Council's exposure to large sums falling due for refinancing.

- The Council will set for the forthcoming year both upper and lower limits with respect to the maturity structure of external borrowing. The periods to which these limits will apply are as follows:

  - Under 12 months
  - 12 Months and within 24 months
  - 24 months and within 5 years
  - 5years and within 10 years
  - 10 years and above

- As of 30th September 2024, the maturity breakdown of the Council's borrowing is set out in the table below.

Table 11 Maturity Structure of Borrowing

	Actual	Lower Limit	Upper Limit
	%	%	%
Under 12 months	**0.51**	0	10
12 months and within 24 months	**4.32**	0	10
24 months and within 5 years	**15.35**	0	20
5 years and within 10 years	**26.13**	0	20
10 years and above	**53.69**	0	100

- Due to the elevated levels in interest rates currently prevailing in the market the Council as advised by its treasury consultants, Link Asset Services, has borrowed externally over shorter maturity dates as interest rates are forecast to fall in the shorter term. This has temporarily resulted in a breach of this treasury indicator in the "5 years and within 10 years range". This is considered a prudent course of action which will benefit the Council in the longer term.

10. Limits for Long Term Treasury Management Investments

- This Indicator is seeking to support control of liquidity risk. The limits should be set regarding the Authority's liquidity needs and also reduce the potential need to have to make early exit from an investment in order to recover funds.

- The indicator relates solely to the Authority's investments for treasury management purposes.

- Where a Council invests, or plans to invest, for periods longer than a year, the Council will set an upper limit for each forward financial year period for the maturing of such investments**.**

Table 12 – Limits for Long Term Treasury Management Investments

	2024/25 Estimate £m	2025/26 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Limit for investments > a year	**£10m**	**£10m**	**£10m**	**£10m**

11. Investment Yields

- The averagely monthly yields from the Council's investments for July 2024 to September 2024 are set out below. The 25-basis point fall in the bank base rate to 5% in August 2024 is reflected in the returns from the Council's investments in September 2024.

Table 14 – Average Monthly Interest

Average Monthly Interest	Local Authorities	Debt Management Office	Money Market Funds	Lloyds
	%	%	%	%
Jul-24	**5.35**	**5.19**	**5.19**	**5.14**
Aug-24	**5.36**	**4.94**	**5.06**	**4.95**
Sep-24	**5.11**	**4.94**	**5.01**	**4.88**