Agenda Item No: 6

Treasury Management Quarter Two Update 2024-25

To:	Strategy, Resources and Performance Committee
Meeting Date:	17 December 2024
From:	Executive Director of Finance and Resources
Electoral division(s):	All
Key decision:	No
Forward Plan ref:	Not applicable
Executive Summary:	Through this report the committee supervises the council's treasury management, and ensures that public money across the council's cashflows, borrowing and investments is utilised and deployed effectively and in compliance with the Treasury Management Strategy (TMS). This fulfils the statutory requirement for Full Council to consider the treasury management position regularly.
Recommendation:	Strategy, Resources and Performance Committee is recommended to note the Treasury Management Quarter Two Update for 2024-25 and endorse it for consideration at Full Council.

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1. Creating a greener, fairer and more caring Cambridgeshire

1.1 This report sets out how the council is managing its treasury activity, including borrowing, lending and investments. This is a key enabling function that underpins all of the council's activities, with particular attention drawn to borrowing that funds the council's capital programme which delivers schools, highways maintenance, green energy schemes and other key projects.

2. Background

2.1 Treasury management is the coordination of the council's investments and cash flows, banking and deposits, and borrowings and money market transactions. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2021 requires reporting on prudential indicators linked to treasury management activity quarterly as part of the authority's integrated revenue, capital and balance sheet monitoring, and consideration in more detail several times a year.

2.2 Updates on treasury management activities are provided quarterly to this committee, either through the Integrated Finance Monitoring Report (IFMR) or through this more detailed biannual report, and are necessarily retrospective in describing the position at the end of a quarter. However, changes to the UK economy and corresponding implications for our treasury management activity can sometimes be fast paced, therefore some of the information relevant to this biannual report may be partially out of date by the time it is reported. Any significant live treasury management information is therefore presented on a regular basis to committee as part of the Integrated Finance Monitoring Reports.

2.3 As part of the council's Treasury Management Strategy, implementing the requirements of the Prudential Code, the detailed treasury report needs to be considered by Full Council twice annually. The key prudential indicators against which our treasury management activity is assessed are reviewed quarterly by Strategy, Resources and Performance Committee though the IFMR and these reports, and are set out in Appendix 1.

2.4 This report therefore forms the update on treasury management and is the first standalone report of 2024-25 for consideration by Council. The information presented is as at the end of the second quarter, so reflects a report made at a specific point in time. In the current environment where the economic context and loan rate projections can move quickly, it is possible that some of the wider context has moved on by the time this report is reviewed.

2.5 This report covers the management of the council's cash, investments and borrowing. All three affect the general council budget. This is principally through the level of capital financing costs that we pay as a council when we need to borrow, but also in the returns we get on managing our cash balances and in returns from investments.

2.6 Treasury management is a complex area of local authority financial management and governance. As such, the most recent revision of the Treasury Management Code has tightened its stipulations to require ongoing member training in this area, as well as the completion of self-assessments against the required competencies. Training for members of this committee with our external treasury management advisor will be delivered after Christmas and completion of self-assessments will be arranged.

2.7 The Treasury Management Strategy for 2024-25 will need restating before the end of the year to include the impacts of the council's accounting practices regarding leases shifting over to report on an IFRS 16 basis.

3. Compliance with Treasury and Prudential Limits

3.1 The council's treasury and prudential indicators are summarised in Table 1 and Figure 1 and are provided in detail in Appendix 1.

3.2 It is a statutory duty for the council to determine and keep under review the affordable borrowing limits. During the quarter ended 30 September 2024, the council has operated in compliance with and within all of the treasury and prudential indicators agreed by Full Council in the Treasury Management Strategy (TMS) for 2024-25, as demonstrated below:

Table 1: Treasury and prudential indicators quarter 2 (see appendix 1 for more explanation of these indicators)

Prudential and Treasury Indicators	2024-25 Planned TMS	31 Mar 2024 Actual	Q1 30 Jun 2024 Estimate	Q2 30 Sep 2024 Estimate
Annual capital expenditure	£198.6m	£177.0m	£158.8m	£166.4m
Annual capital financing	-£105.4m	-£122.1m	-£109.4m	-£108.3m
Annual Minimum Revenue Provision and loan repayments	-£22.6m	-£22.0m	-£23.0m	-£24.5m
In-year Capital Financing Requirement	**£70.6m**	**£32.9m**	**£26.5m**	**£33.6m**
Capital Financing Requirement (CFR) at 31 March[1]	£1,030.6m	£972.7	£999.2m	£1,006.2m
Authorised limit for external debt, and quarterly estimstes[1]	£1,160.0m	£778.7m	£758.6m	£779.4m
Operational boundary for external debt[1]	£1,130.0m	£778.7m	£758.6m	£779.4m
Ratio of financing costs to net revenue streams – yearly average	9.6%	7.2%	7.5%	7.6%
Ratio of net income from commercial and service investments to net revenue stream	5.5%	4.8%	4.4%	4.0%
Upper limit of fixed interest rates based on net debt[2]	150%	79%	81%	73%
Upper limit of variable interest rates based on net debt[2]	65%	21%	19%	27%
Principal sums invested over 365 days (excluding Third-Party Loans)	£50.0m	£32.3m	£32.8m	£33.4m
Maturity structure of borrowing limits[3]:				

Prudential and Treasury Indicators	2024-25 Planned TMS	31 Mar 2024 Actual	Q1 30 Jun 2024 Estimate	Q2 30 Sep 2024 Estimate
Under 12 months	Max. 80%	26.1%	25.5%	27.6%
	Min. 0%			
12 months to 2 years	Max. 50%	10.3%	12.5%	12.0%
	Min. 0%			
2 years to 5 years	Max. 50%	14.3%	11.5%	12.1%
	Min. 0%			
5 years to 10 years	Max. 50%	13.2%	13.5%	13.2%
	Min. 0%			
10 years and above	Max. 100%	36.1%	37.0%	35.1%
	Min. 0%			

Note 1 - Excluding PFI and Finance Lease Liabilities but including loans raised to on-lend to This Land ltd
Note 2 - The interest rate exposure is calculated as a percentage of net debt. Due to the mathematical calculation exposures could be greater than 100% or below zero (i.e., negative) depending on the component parts of the formula.
Note 3 – the indicators relating to the maturity structure of borrowing limits is being reviewed as part of the draft treasury management strategy for the 2025-26 business plan

3.3 Indicators that currently appear in excess of the planned level set in the Treasury Management Strategy:

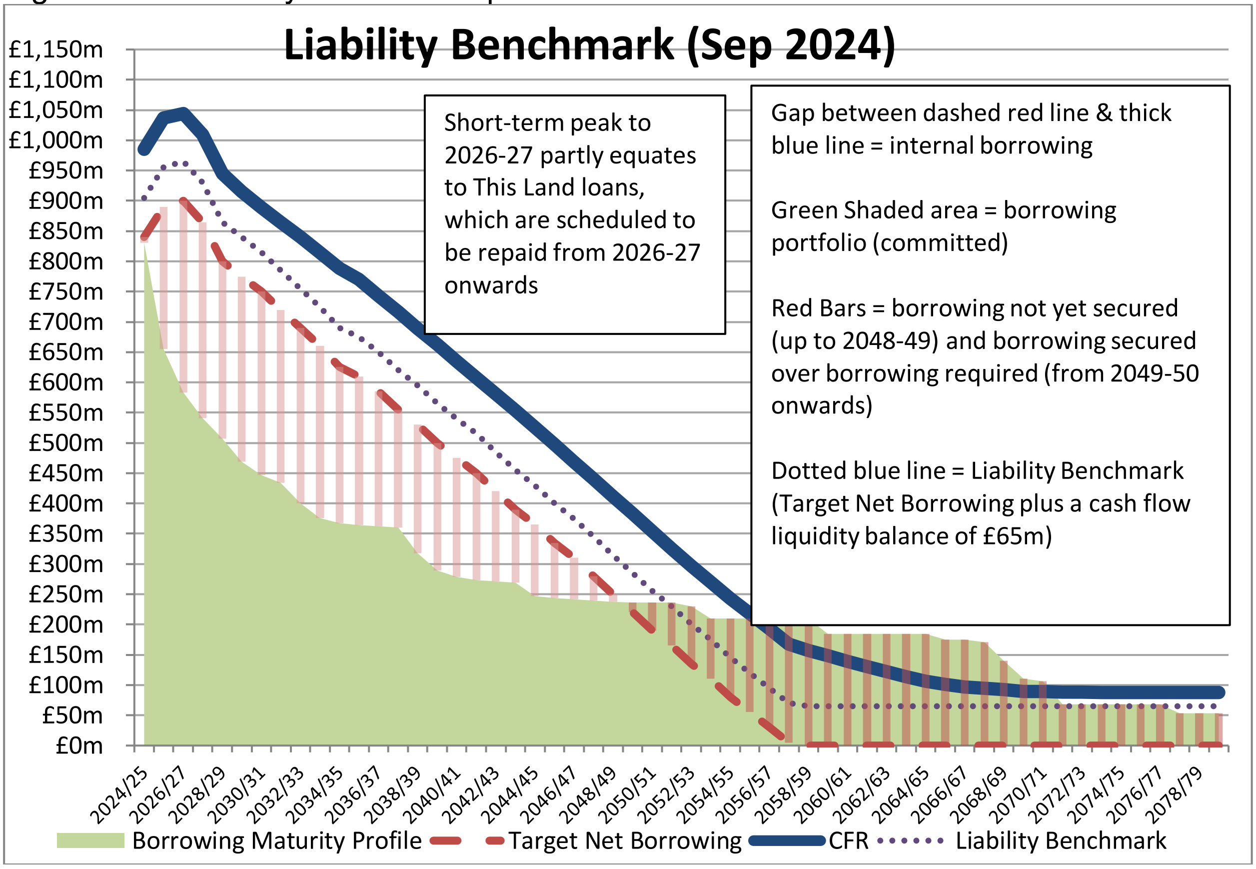
- Annual capital financing: higher levels of non-borrowing financing for capital spend is expected than when the budget was set (grants, contributions and capital receipts).
- Annual Minimum Revenue Provision (MRP): the planned MRP charge required for the coming year is an estimate at the time the business plan is set, and accordingly makes assumptions about the impact of capital spend on the necessary MRP for the following year. This higher charge is as a result of a larger number of significant capital assets becoming operational towards the end of 2023-24 than anticipated (there was an uptake of capital spend, particularly on highways, in the last quarter).

The impact of both of these increases above the planned level is positive in this context, as it has the effect of reducing the estimated in-year Capital Financing Requirement.

3.4 The liability benchmark is a projection of the amount of loan debt outstanding that an authority needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows.

The peak in the blue CFR line in 2026-27 is £5m higher than set out in the 2024-25 TMS due to updated capital expenditure plans, however the peak in the dotted red external borrowing line is £80m lower across 2025-26 and 2026-27, due to an expectation of higher cash balances and therefore lower external borrowing required. As the Business Plan 2025-26 continues to be refined, these estimates will be updated accordingly.

Figure 1: The liability benchmark quarter 2



3.5 All treasury management operations have also been conducted in full compliance with the council's Treasury Management Practices.

4. Summary Treasury Management Position

4.1 The level of net debt borrowing (including third-party loans) expected to be required set in the Treasury Management Strategy (TMS) for 31 March 2025 was £745.0m. On 1 April 2024, net debt (excluding 3rd party loans and equity) was £684.7m; by 30 September 2024 this has increased to £686.2m. This reflects a small increase in borrowing during the year so far, but it is anticipated this will increase more substantially over the remainder of the year as more of the council's loans become due for refinancing, and the capital programme continues to spend.

4.2 Table 2 summarises the council's debt and investment position. For more in-depth information on investment and borrowing, please refer to sections 5 and 6.

Table 2: Net borrowing quarter 2

	Actual as at 1 Apr 2024 £m	Actual as at 30 Jun 2024 £m	Actual as at 30 Sep 2024 £m	Change 1 Apr 24 to 30 Sep 24 £m
Borrowing repayable in <12mth	203.2	193.2	215.2	12.0
Borrowing repayable in >12mth	575.4	565.3	564.2	-11.2
Total Borrowings	**778.7**	**758.6**	**779.4**	**0.8**
Treasury Investment	-93.9	-151.6	-93.2	0.8
Total Net Debt/Borrowings	**684.7**	**607.0**	**686.2**	**1.5**
Third-Party Loans and Equity	-124.1	-124.0	-125.0	- 0.9
Total Net Debt/Borrowings (allowing for 3rd party loans and equity)	**560.6**	**483.0**	**561.2**	**0.6**

Note – the large balance in treasury investments at the end of June was due to a high cash balance at the start of the year, which is quite common due to timing of income.

4.3 The council also reviews its treasury performance alongside near neighbours using CIPFA's financial resilience index. While the information in this is lagging the council's gross external debt (equivalent to the total borrowings line in table 2) was rated as higher risk relative to the benchmarking group. This is likely due to relatively high gross borrowing resulting from loans to This Land Ltd as well as cumulative levels of investment in infrastructure in a high growth county. However, we are relatively more average in terms of risk in respect of the 'interest payable divided by net revenue expenditure' indicator, showing that despite the high level of borrowing, we are in a relatively more sustainable position to service that debt.

5. Investments

5.1 The Treasury Management Strategy for 2024-25, including the Annual Investment Strategy for financial assets, was approved by Council in February 2024. It sets out the council's investment priorities as being:

1. Security of capital;
2. Liquidity; and then
3. Yield

5.2 The council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. Money Market Fund (MMF) and Call Account rates have plateaued and are now starting to decrease in line with Bank Rate decreases, therefore the council continues to ladder investments in order to balance the need to have liquid available cash, against securing higher rates for longer on slightly longer-term fixed deposits.

5.3 At 30 September 2024, the council's investment balances totalled £93.2m; this is split between Money Market Funds, Call/Notice accounts, Collective Investment Funds and

Deposit funds (see Table 3 below). This balance excludes Third-Party Loans and Share Capital (Equity) of £125.0m.

Collective Investment Funds

The revised Prudential Code 2021 states that authorities with an expected need to borrow must review any existing commercial investments annually; this requirement is undertaken as part of the quarter 4 report. Two of the council's collective investment funds have continued to struggle to maintain capital value in the current economic climate; however, they have stayed fairly static during the last few months and the fund managers anticipate the values will recover in the medium-term. The drop in value is tempered by a strong dividend position overall. The dividends are forecast to deliver £1.5m in 2024-25, compared to a budget of £1.2m. The finance team and our external treasury management advisors keep these funds under close review.

5.4 **Property Fund:** The Property Fund's investment capital value in quarter 2 was £10.2m compared to the original investment of £12m. The portfolio is actively managed to achieve high income and long-term capital appreciation. The latest dividend rate of return for this fund was 4.57%, against a target of 4.35%. This is a longstanding investment fund with many local authorities as members and we would expect capital values to return to the level expected over the medium-term.

5.5 **Better World Cautious Fund:** At the end of quarter 2, the capital value of the investment was £2.3m compared to an original investment value of £2.5m. The investment objective of the fund is to provide a total return (the combination of capital growth and income) after costs, of inflation plus 2% per annum over any rolling 5-year period. The fund invests in a broad range of assets including fixed/floating income securities (bonds) and global equities (shares of companies). The latest dividend rate of return for this fund was 4.18%, which is higher than expected and is therefore forecast to deliver £13k additional income this year.

5.6 **Multi-Class Credit Fund:** At the end of quarter 2, the valuation of the council's share of the fund stood at £14.8m compared to an original investment value of £14.5m. The fund aims to generate positive returns throughout the interest rate and economic cycles by allocating to different credit asset classes and through bottom-up security selection. The latest dividend rate of return for this fund was 5.08%, which is higher than expected and is therefore forecast to deliver £207k additional income this year.

5.7 **Infrastructure Income Fund:** At the end of quarter 2, the valuation of the council's share of the fund stood at £6.1m, compared to an original investment value of £8m. The fund's objective is to deliver a regular income, whilst preserving investor's capital throughout market cycles and with the potential for growth. The fund invests in a diversified portal of global listed securities and offers exposure to companies engaged in the provision, storage, supply and consumption of clean energy. The capital value of the fund has struggled over the last 18 months; however, the council receives monthly detailed updates from the fund managers and the performance of the fund (in terms of capital value) is expected to increase over the medium to long term once interest rates start to fall. The fund performance generally sits between the two sector benchmarks but is also less volatile. The latest dividend rate of return has held up well at 4.75%, against a target of 4.5%.

5.8 The average investment balance during quarter 2 (excluding Third-Party Loans and Equity) was £114.6m, which carried a weighted average rate of 4.79%. The level of investment funds varies dependent on the timing of precept receipts, grants, the progress of the capital programme and decisions made about timing of borrowing. Table 3 below shows the investment by counterparty at 30 September 2024 (excluding Third-Party Loans and Equity).

Table 3: Investments allocation by counterparty quarter 2

Counterparty as at 30 Sep 2024	Liquidity	Principal £m	Principal %
Allianz Global Investors	Notice Period 14 days	14.8	15.9
Handelsbanken	Instant Access	14.7	15.7
CCLA Local Authorities Property Fund	Notice Period 6m	10.1	10.9
SMBC Bank International plc	Fixed 3-6 mths	10.0	10.7
Goldman Sachs International Bank	Fixed 3-6 mths	10.0	10.7
Goldman Sachs International Bank	Fixed 3-6 mths	10.0	10.7
Valu-Trac Administration Services	Same Day	6.1	6.6
Aberdeen Liquidity Fund - Sterling Fund Class L-1	Same-Day	3.2	3.4
Insight Liquidity Sterling C3	Same-Day	3.0	3.2
Barclays Bank plc	Instant Access	3.0	3.3
National Westminster Bank plc	Instant Access	3.0	3.2
CCLA Better World Cautious Fund	Notice Period 6m	2.3	2.5
Deutsche Managed Sterling Platinum	Same-Day	1.9	2.0
Santander UK plc	Instant Access	1.0	1.1
Total		93.2	100

5.9 The table below summarises the maturity profile of the council's investment portfolio at the end of quarter 2 (excluding Third-Party Loans and Equity):

Table 4: Investment maturity profile at end of quarter 2

Product	Access Type	Daily £m	0-3m £m	3-6m £m	~5yrs £m	Total £m	%
Money Market Funds	Same-Day	8.1				**8.1**	*8.7*
Bank Call Account	Instant Access	21.7				**21.7**	*23.3*
Fixed Deposit Account	3-6 Months			30.0		**30.0**	*32.2*
Pooled Property Fund	Redemption Period Applies				10.1	**10.1**	*10.9*
Pooled Diversified Income Fund	Redemption Period Applies				2.3	**2.3**	*2.5*
Pooled Multi-class credit Fund	Redemption Period Applies				14.8	**14.8**	*15.9*
Income Fund (Energy)	Same-Day				6.1	**6.1**	*6.6*
	Total	**29.8**	**0.0**	**30.0**	**33.4**	**93.2**	***100.0***
	%	*32.0*	*0.0*	*32.2*	*35.8*	***100.0***	

5.10 The tables below set out details of the amounts outstanding on loans and share capital investments classed as capital expenditure advanced to third-party organisations at the end of quarter 2. Unless otherwise stated, the original loan value is the outstanding amount. Where appropriate, the council holds security over these loans in the form of property charges (fixed and/or floating).

Table 5: Loans/equity holdings in This Land companies end of quarter 2

Loan Summary	Amount Outstanding (£m)	Repayment Year
Land, Construction & Development loans	114.851	2026-27, 2027-28 and 2028-29
Equity holding	5.851	N/A
Total Loans/Equity in This Land Ltd	120.702	

Note: £13.3m of individual loans to This Land ltd in addition to the above have been repaid in full.

Table 6: Loans/equity holdings in Pathfinder Legal Services end of quarter 2

Loan Summary	Amount Outstanding (£m)	Repayment Year
Cashflow loan	0.325	2029-30

Loan Summary	Amount Outstanding (£m)	Repayment Year
Equity holding	0.475	-
Total Loans/Equity in Pathfinder Legal Services	0.800	

Table 7: Other Third-Party Loans principal outstanding end of quarter 2

Loan Counterparty	Original Amount (£m)	Amount Outstanding (£m)	Repayment Year
Arthur Rank Hospice Charity	4.000	2.880	2042-43
Estover Playing Field 2015 Community Interest Company (Guaranteed by March Town Council)	0.350	0.042	2024-25
Wisbech Town Council	0.150	0.150	2043-44
VIVA Arts & Community Group	0.300	0.029	2031-32
Total Third-Party Loans	4.800	3.100	

5.11 Investment returns compared to benchmark returns are shown in Table 8 below. The preferred benchmark is SONIA (Sterling Overnight Index Average), which is the risk-free rate for sterling markets administered by the Bank of England. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. The council uses the 30-day backward looking rate on a SONIA basis, as this most accurately reflects the type and length of investments (excluding Collective Investment Funds) that the council holds. The decision to use backward looking is because this reflects the rates at the time of decision-making, rather than forward looking rates at the time of reporting.

Table 8: Average benchmark versus Council performance (excluding Collective Investment Funds) for quarter 2

	Benchmark	Benchmark Return	Council Performance
Quarter 1	**30-day backward SONIA**	5.2%	5.0%
Quarters 1-2	**30-day backward SONIA**	5.1%	4.8%

5.12 Market conditions aside, the council’s return on investments is influenced by several factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument:

- Credit risk is the consideration of the likelihood of default and is controlled through the creditworthiness policy approved by Council.
- The duration of an investment introduces liquidity risk; the risk that funds cannot be accessed when required.
- Interest rate risk, arising from fluctuating market interest rates.

These factors and associated risks are actively managed by the council's finance team. Given the recent volatility of the financial markets, the finance team is keeping a close eye on the credit ratings of institutions we have deposits with, as well as looking to spread deposits across a range of institutions and is also considering the mix of type and duration of deposits.

6. Borrowing

6.1 The council can borrow money to fund its capital programme to deliver on its strategic ambitions. The amount of borrowing required each year is based on plans for capital expenditure, projections of the Capital Financing Requirement, underlying borrowing requirements, forecasted cash reserves, and current and future economic conditions. The following table shows the highest, lowest (with dates) and average Public Works Loan Board (PWLB) rates for 2024-25 at the end of quarter 2:

Table 9: Highest / Lowest / Average PWLB Rates for 2024-25 at the end of quarter 2

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.78%	4.31%	4.52%	5.08%	4.88%
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%
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%

6.2 The council continues to utilise short to medium-term borrowing from other local authorities and authorised brokers, particularly in the current environment of higher interest rates which we expect to reduce over the medium-term, and whilst rates are more competitive compared to PWLB. In addition, the council will supplement borrowing from local authorities with loans from PWLB, particularly as we enter the second half of the financial year and market loans start to become less available. The council intends to continue with the strategy of keeping a reasonable proportion of the borrowing portfolio short-dated to avoid fixing in the current higher interest rates and is able to do so having taken advantage of the low-interest rate environment of pre-2022 to extend the average duration of loans in the portfolio during that time by fixing loans for extended maturities at historically low levels. This does present a risk that we will see higher costs over the medium-term if interest rates do not fall in line with current predictions. We take advice on our borrowing strategy from our external treasury management advisors. The council's average interest rate for borrowing was still relatively low at 3.7% during quarter 2, despite facing higher rates on new loans as a result of higher Base Rates, as well as higher rates on a number of historic debts. This average will continue to rise, as we continue to have to refinance historic loans at higher rates.

6.3 During quarter 2, the council has repaid a total of £49.2m upon maturity. Out of this amount, £33.0m was short-term loans from other local authorities and £15.0m longer-term loans, and £1.2m was longer-term PWLB. The council has raised £70.0m in loans from during this period; all from other local authorities of which £45.0m was short-term borrowing and £25.0m was for longer-term loans. The following table shows the movement in borrowing over the year to date:

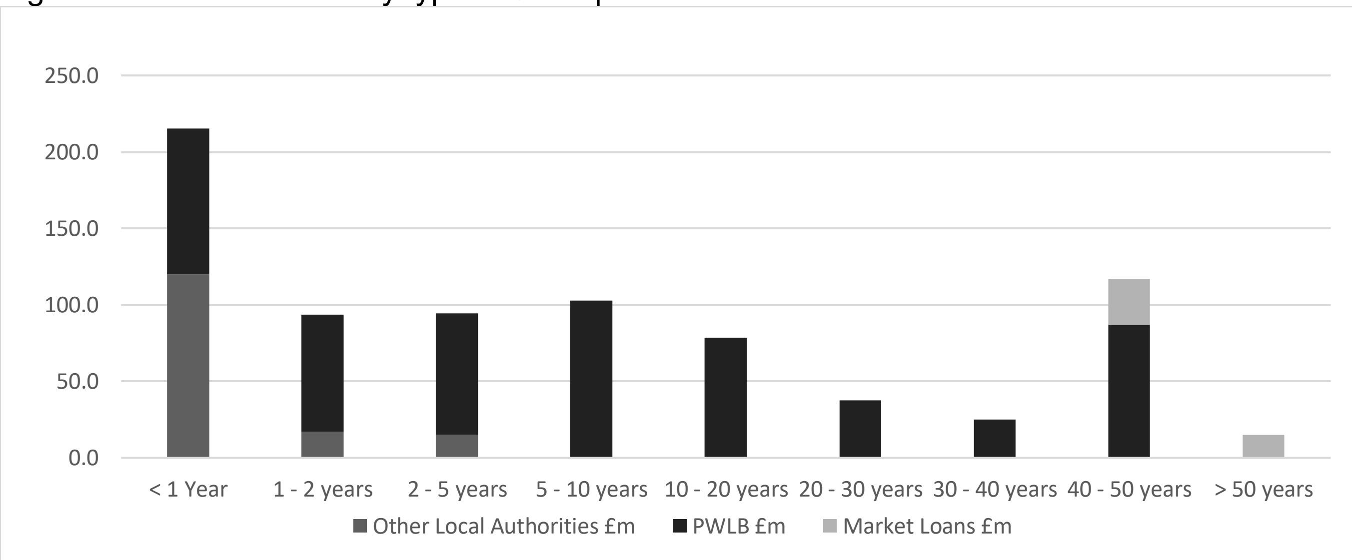
Table 10: Movement in borrowing during 2024-25

Actual as at 1 Apr 2024 £m	Repaid During 2024-25 £m	Raised During 2024-25 £m	Actual as at 30 Sep 2024 £m
778.7	-84.2	85.0	779.4

6.4 At the end of quarter 2, the council held £779.4m in borrowing, with £215.2m due to mature within a year. The council continues to be able to re-finance loans as required, albeit now at higher rates than the maturity loan in the case of some loans that were taken out during the period of historically low interest rates. Refinancing of maturing PWLB loans is also no longer possible at a lower rate in most cases, as current rates are now comparable to some of the older loans that were also fixed at a time of higher interest rates. Therefore, an increase in our revenue capital financing budget is built into the business plan.

6.5 Figure 2 below sets out the maturity profile of the council's borrowing portfolio at the end of quarter 2; £582.4m is held with PWLB, £152.0m from other local authorities and £45.0m in market loans.

Figure 2: Loan maturities by type at 30 September 2024



6.6 The council is in an internally borrowed cash position. This means that we are utilising cash balances held (for example from grants received in advance of linked expenditure) to defer the need to borrow. Balances will need to be replenished at some point in the future (subject to expenditure demands), which is in accordance with our Treasury Management Strategy. This strategy is prudent while investment returns are no higher than the cost of servicing debt and serves to mitigate counterparty risk. The council therefore plans to maintain this internal borrowing position but will closely monitor those reserves, balances and cashflows supporting this approach.

6.7 No rescheduling of borrowing has taken place up to 30 September 2024. The council's loan portfolio limits opportunities for rescheduling. In the case of PWLB loans, early redemption rates exceed the carrying rate of existing borrowing for many loans, resulting in substantial exit costs. Similarly, market borrowing lenders hedge against forecast interest rate movements using the loans cashflow profile, passing on the cost of unwinding these instruments as an exit premium to the council. Officers are closely monitoring the situation as there are a minimal number of PWLB loans that could deliver a short-term benefit from rescheduling, but this would substantially reduce the portfolio's maturity profile.

7. Capital Financing Budget

7.1 The capital financing budget is held as a central budget and complies with the reporting requirement in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Treasury Management Practice. The outturn forecast at the end of quarter 2 is a balanced budget.

Table 11: Debt financing budget quarter 2

	Budget (£m)	Outturn (£m)	Variance (£m)
Interest payable	28.5	29.5	1.0
Interest charged to Other Funds	-9.8	-9.8	0.0
Interest receivable	-13.8	-11.0	2.8
Interest receivable charged from Other Funds	14.3	9.8	-4.5
Capitalisation of interest cost	-1.7	-2.9	-1.2
Technical & Other	0.2	0.2	0.0
Minimum Revenue Provision (MRP)	22.4	24.3	1.9
Total	40.1	40.1	0.0

7.2 The forecast is comprised of the following elements:

- The council has been required to take out some refinancing of loans earlier in the year than anticipated, due to both changes in the levels of cash balances available to undertake internal instead of external borrowing, whilst also trying to secure market loans which tend to be more readily available earlier in the year rather than later. This, combined with interest rates not dropping as quickly as anticipated, has resulted in higher levels of interest payable.

- Interest receivable and interest receivable recharges net out to an overachievement of income of £1.7m. Again, this is partly due to sustained higher rates compared to what was originally anticipated.

- The council is required to repay an element of the capital spend funded by borrowing each year through a revenue charge (MRP), so that over the course of the usable life of the asset we have provided for enough funding to repay the associated borrowing. Following analysis of capital schemes completed in 2023-24 and how they were funded, we are anticipating that the MRP payment for 2024-25 will be £1.9m higher than budgeted. This is largely due to a few particularly large schemes funded by borrowing that completed during 2023-24.

8. Economic Position for 2024-25 and Interest Rate Forecasts

8.1 The economic position for 2024-25 provides context for the monetary policy strategy of central banks, which in turn impacts on historic interest rate movements and forward-looking forecasts. The following summarises the key economic impacts of 2024-25 to the end of quarter 2:

- GDP growth stagnated in July following downwardly revised figures for the quarter. However, this points more to a mild slowdown in GDP growth than a sudden drop back into a recession.
- CPI inflation hit its target in June before edging above it to 2.2% in July and August. CPI inflation is likely to rise in the coming months before it falls back to its target of 2.0% in mid-2025.
- The Bank of England has initiated its easing cycle by lowering interest rates from 5.25% to 5.0% in August, however held them steady in its September meeting, signalling a preference for a more gradual approach to rate cuts. However, Link's central forecast was still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This now seems unlikely and has been updated mid-November following the 30 October budget, 5 November US presidential election and 7 November Monetary Policy Committee meeting, all of which have had a significant impact on future projections.

8.2 Whilst it is anticipated that the peak in the Base Rate has now been reached and that rates are starting to fall, there are numerous factors that influence this position, and the speed with which this will happen, and therefore caution over interest rate forecasts should be exercised.

9. Significant Implications

9.1 Finance Implications

This report provides information on performance against the Treasury Management Strategy. Decisions on treasury management, which are driven by the capital programme and the council's overall financial position, will impact the capital financing budget and are also reported through the financial monitoring process.

9.2 Legal Implications

There are no significant implications for this category.

9.3 Risk Implications

The council continues to operate within the statutory requirements for borrowing and investments.

9.4 Equality and Diversity Implications

There are no significant implications for this category.

10. Source documents guidance

10.1 The council's 2024-25 Treasury Management Strategy

10.2 Financial Reporting and Related Matters Update (which includes a section on the impact of the introduction of IFRS 16 Leases)

Appendix 1 – Prudential and Treasury Indicators at 30 September 2024

In this section, we will monitor Prudential and Treasury Indicators to ensure they align with the indicators approved by the council in February 2024, as outlined in the Treasury Management Strategy.

Did the council adopt the CIPFA code of practice for Treasury Management in Public Services?

Yes, the council has adopted the CIPFA's Treasury Management in the Public Services: Code of Practices and Cross-sectoral Guidance Notes.

1. The capital prudential indicators

Capital expenditure.

	2024-25 TMS £m	**Q1 24-25 £m**	**Q2 24-25 £m**
Total Capital Expenditure	198.6	158.8	166.4
Capital Financing	-105.4	-109.4	-108.3
Net Capital Financing Need	**93.2**	**49.5**	**58.1**
MRP and other financing movements	-22.6	-23.0	-24.5
Capital Financing Requirement	**70.6**	**26.5**	**33.6**

For the detail of capital expenditure and funding please refer to the capital forecast outturn in the Integrated Finance Monitoring Report.

The council's borrowing need (The Capital Financing Requirement (CFR))

Capital Financing Requirement in 2024-25 TMS £m	**Actual Borrowings (1 April 24) £m**	**Actual Gross Borrowings (30 Sep 24) £m**	**Increase in borrowing during 2024-25 £m**	**Difference between CFR & Borrowings (30 Sep 24) £m**
1,030.6	778.7	779.4	0.7	-251.2

Liability benchmark

There are four components to the liability benchmark:

1. **Existing loan debt outstanding**: existing loans that are still outstanding in future years.
2. **Loans CFR**: calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. Only approved borrowing should be included.

3. **Net loans requirement**: the council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement)**: this equals net loans requirement plus short-term liquidity allowance.

The authorised limit for external borrowing

2024-25 TMS Limit £m	Actual Borrowings 30 Sep 24 £m	Headroom compared to Authorised Limit £m
1,160.0	779.4	380.6

The Authorised Limit is the legal cap on the amount of debt the council can have, and it must not be exceeded. This means that the council cannot have more debt than this limit in any given year.

The operational boundary

2024-25 TMS Limit £m	Actual Borrowings 30 Sep 24 £m	Headroom compared to Operational Boundary £m
1,130.0	779.4	350.6

The operational boundary serves as a warning that the debt is approaching the authorised. limit and requires close monitoring.

2. Treasury management limits on activity

Interest rate exposure

	2024-25 TMS Limit	Q1 24-25	Q2 24-25
Fixed rate	150%	81%	73%
Variable rate	65%	19%	27%

The interest rate exposure is calculated as a percentage of net debt. Due to the mathematical calculation, exposures could be greater than 100% or below zero (i.e., negative) depending on the component parts of the formula. Where the indicator is negative, it is due to investment income of that category exceeding debt of that category. The formulas are shown below:

Fixed rate calculation:

$$\frac{\text{Fixed rate borrowing* – fixed rate investments}}{\text{Total borrowing – total investments}}$$

Variable rate calculation:

Variable rate borrowing** – variable rate investments
Total borrowing – total investments

* Defined as greater than 1 year to run
** Defined as less than 1 year to remaining to maturity or, in the case of LOBO borrowing, the next call date falling within 12 months – to reflect the risk of fluctuation of short-term borrowing costs

Maturity structure of borrowing

	2024-25 TMS Upper Limit	**Q1 24-25**	**Q2 24-25**
< 1 Year	80%	25.5%	27.6%
1 - 2 years	50%	12.5%	12.0%
2 - 5 years	50%	11.5%	12.1%
7.5 - 10 years	50%	13.5%	13.2%
>10 years	100%	37.0%	35.1%

Note: The guidance for calculation of this indicator requires that LOBO loans are shown as maturing at the next possible call date rather than at final maturity.

Total principal funds invested for the periods longer than 365 days

	2024-25 TMS Limit	**Q1 24-25**	**Q2 24-25**
Investment longer than 354 days to run*	£50.0m	£32.8m	£33.4m

**Treasury Management Investment only*

3. Affordability Indicators

Ratio of financing costs to net revenue stream.

2024-25 TMS	**Q1 24-25**	**Q2 24-25**
9.6%	7.5%	7.6%

Ratio of net income from commercial and service investments to net revenue stream

2024-25 TMS	**Q1 24-25**	**Q2 24-25**
5.5%	4.4%	4.0%