ISLE OF ANGLESEY COUNTY COUNCIL

Report to:	**GOVERNANCE AND AUDIT COMMITTEE**
Date:	**11 FEBRUARY 2025**
Subject:	**TREASURY MANAGEMENT MID-YEAR REVIEW 2024/25**
Portfolio Holder(s):	**COUNCILLOR R WILLIAMS, DEPUTY LEADER AND PORTFOLIO HOLDER FINANCE AND HOUSING**
Head of Service / Director:	**R MARC JONES, DIRECTOR OF FUNCTION (RESOURCES) & SECTION 151 OFFICER**
Report Author: Tel: E-mail:	**CLAIRE KLIMASZEWSKI** **01248 752133** **claire.klimaszewski@ynysmon.llyw.cymru**
Local Members:	**n/a**

A –Recommendation/s and reason/s

To recommend that the Governance and Audit Committee:-

1. Review and note the report, the treasury activity and the prudential indicators as at 30 September 2024.
2. To forward any comments onto the Executive.

B – What other options did you consider and why did you reject them and/or opt for this option?

The report is for scrutiny and information and the consideration of options is not applicable.

C – Why is this a decision for the Executive?

To comply with regulations issued under the Local Government Act 2003 and the CIPFA Prudential Code 2021.

CH – Is this decision consistent with policy approved by the full Council?

The report gives an update on the treasury management position, whereby borrowing and investments decisions have been taken in accordance with the Treasury Management Strategy that was approved by the full Council on 7 March 2024.

D – Is this decision within the budget approved by the Council?

No decision required in respect of this report which will impact on the budgetary position of the Council.

	DD – Who did you consult?	**What did they say?**
1	**Chief Executive / Leadership Team (LT)** (mandatory)	No additional comments.
2	**Finance / Section 151**(mandatory)	N/A - This is the Section 151 Officer’s report.
3	**Legal / Monitoring Officer** (mandatory)	No additional comments.
4	**Human Resources (HR)**	Not applicable
5	**Property**	Not applicable
6	**Information Communication Technology (ICT)**	Not applicable
7	**Procurement**	Not applicable
8	**Scrutiny**	This report is for scrutiny of the Governance and Audit Committee, 11 February 2025.
9	**Local Members**	Not applicable
10	**Other**	None

E – Assessing the potential impact (if relevant):		
1	**How does this decision impact on our long-term needs as an Island**	Treasury management is key to facilitating sustainability for the long-term needs of the Island, as borrowing plans help to fund capital expenditure to ensure assets are available now and into the future. Treasury plans must also be affordable to ensure that future generations are not disadvantaged by Treasury Management decisions taken in the short and medium term.
2	**Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority. If so, how:-**	The Treasury Management strategy and activity must be affordable to mitigate the impact on the future. Some capital expenditure funded by borrowing, such as Sustainable Communities for Learning, and other invest to save schemes funded by borrowing, may help to reduce future costs.
3	**Have we been working collaboratively with other organisations to come to this decision, if so, please advise whom:**	Treasury Management activities often fund capital projects in partnership with other organisations, such as Welsh Government. The 21st Century Schools Programme / Sustainable Communities for Learning new schools / extensions were / are funded with significant funding from Welsh Government.
4	**Have Anglesey citizens played a part in drafting this way forward? Please explain how:-**	Anglesey Citizens are consulted each year about the annual capital programme, some of which is dependent on Treasury Management activities. More in-depth consultation occurs on some capital projects, such as new school builds / school reorganisations.
5	**Note any potential impact that this decision would have on the groups protected under the Equality Act 2010.**	Newly built assets funded by borrowing will be compliant with the Equality Act and related regulations and guidance. Annual refurbishments and replacement programmes also help to increase accessibility and enable diversity.
6	**If this is a strategic decision, note any potential impact that the decision would have on those experiencing socio-economic disadvantage.**	This is statutory monitoring of Treasury Management activities, not a strategic decision.
7	**Note any potential impact that this decision would have on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.**	Some of the projects funded by borrowing have a positive impact on the development and increase of the Welsh Language, such as the Welsh medium schools built as part of the 21st Century Schools Programme / Sustainable Communities for Learning Programme.

F - Appendices

Appendix A –Treasury Management Quarter 2 Report 2024/25
Appendix B – Analysis of the Isle of Anglesey County Council PWLB Loans by year of Maturity
Appendix C – Economic Analysis – MUFG Corporate Markets Treasury Limited
Appendix CH – PWLB Analysis – MUFG Corporate Markets Treasury Limited

FF - Background papers:

- Treasury Management Strategy Statement 2024/25 – Isle of Anglesey County Council 7 March 2024

APPENDIX A

1. PURPOSE OF TREASURY MANAGEMENT

1.1 The Treasury Management Strategy Statement (TMSS) 2024/25 provides the framework for day-to-day and medium-term treasury management. The TMSS is a key part of the Council's strategic planning processes to help identify what the Council's key priorities and objectives are for the next year and into the future.

1.2 Treasury management activity, in line with the TMSS, is key for implementation of the priorities of the Council Plan 2023/28 and the Capital Strategy 2024/25, and several related strategic and operational plans. Capital expenditure is fundamental to ensure the Council has long-term assets, such as Council offices, schools, social care facilities, Council dwellings, ICT infrastructure, software and equipment, vehicles and equipment needed to deliver Council services and functions, and to help achieve the priorities of the Council Plan 2023/28. This includes ensuring the Council's current assets are refurbished, extended or replaced as needed and new assets built to deliver Council priorities, such as new schools.

1.3 Capital funding is limited, therefore, the Council funds some capital projects by means of supported borrowing, for which the Council receives funding in the annual revenue support grant from Welsh Government (WG), or unsupported borrowing, where the annual financing costs are funded in full by the Council. Borrowing is usually fulfilled by taking out loans from the Public Works Loans Board (PWLB). This is a key part of treasury management, hence the important link to the Capital Strategy 2024/25 and implementation of the capital programme.

1.4 The Treasury Management Code of Practice 2021, which is statutory guidance, defines treasury management 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. BACKGROUND INFORMATION

2.1 Treasury management involves tasks which ensure that there is enough cash in the Council general account to pay day-to-day bills and the investment of surplus cash, over what is needed in the general account. These investments must be in highly secure accounts, such as UK banks with high credit ratings, as defined in the TMSS. The Council prioritises security of its funds, in line with the Code, and ensures that enough cash is instantly accessible so that the Council is able to pay suppliers, staff and benefits at the required payment dates. The last consideration is yield, the Council invests to get the highest interest rate possible within the pool of organisations that are secure and meet the criteria in the TMSS 2024/25. The final element of Treasury Management is managing the Council's loan portfolio, to ensure that the Council's borrowing is not too high and that the revenue costs of borrowing are affordable.

2.2 A key 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. The Capital Strategy 2024/25, Capital Programme 2024/25 and quarterly capital budget monitoring reports are closely linked to the Council's treasury management activity. In accordance with legislation, the Council is only able to borrow for capital expenditure, not revenue costs, with the exception of when WG provides a capitalisation directive for specific exceptional revenue expenditure, such as the capitalisation of equal pay back pay. The capital strategy, the annual capital programme and TMSS all support the Council's key priorities in the Council Plan 2023/28. This report is part of the monitoring of treasury management activities during the period 1 April 2024 to 30 September 2024, to help ensure that the TMSS is complied with.

3. ECONOMIC UPDATE

3.1 The Council's external treasury management advisers, MUFG Corporate Markets Treasury Limited (MUFG), sends several updates, such as economic and credit reports, each week, to help Council officers and Members to make the best decisions on treasury management activities. MUFG provided an economic update for the second quarter, which can be found in Appendix C. MUFG has also recently provided the following interest rate forecast:-

Table 1
Forecast Bank Base Rate, inflation and PWLB Rates - March 2025 to December 2026

	Mar 2025	Jun 2025	Sep 2025	Dec 2025	Mar 2026	June 2026	Sept. 2026	Dec 2026
Bank Rate (%)	4.50%	4.25%	4.00%	4.00%	3.75%	3.75%	3.75%	3.50%
Inflation (OBR October 2024)	2.60%	2.60%	2.60%	2.60%	2.30%	2.30%	2.30%	2.30%
5yr PWLB rate (%)	.4.90%	4.80%	4.60%	4.50%	4.50%	4.40%	4.30%	4.20%
10yr PWLB rate (%)	5.10%	5.00%	4.80%	4.80%	4.70%	4.50%	4.50%	4.40%
25yr PWLB rate (%)	5.50%	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%
50yr PWLB rate (%)	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%

3.2 The Bank of England's (BoE) target inflation, set by the Government, is 2%. Inflation started to creep up beyond this from August 2021, with the CPI rate reaching a high of 11.1% in October 2022 due to the impact of the invasion of Ukraine, which caused significant energy and food price increases. Inflation remained high for longer than anticipated, but started to decrease in April 2023 to 8.7%, with CPI reducing to 7.9% at the end of the first quarter of 2023/24. In 2024/25, inflation has reduced significantly to the BoE target of 2%, achieved in June 2024. Inflation rates continued to decrease in the second quarter, with CPI at 1.7% at 30 September 2024. While the forecasts of CPI for 2025 and 2026 are higher than the 2% target (see Inflation forecast by OBR, October 2024 above in Table 1), these rates are significantly better than in 2022 and 2023.

3.3 At the start of the pandemic, the base rate was reduced to its lowest point at 0.1%, in support of the economy. In December 2021, the BoE increased the rate to 0.25%, and then increased the base rate at each meeting of the Monetary Policy Committee (MPC) between 0.25% to 0.75% at its highest increase. In August 2023, the MPC increased the base rate to 5.25%. The rate of 5.25% remained unchanged until 1 August 2024, when the base rate was reduced for the first time since 2020, to 5%, which was also the rate at 30 September 2024. The base rate has since reduced to 4.75%, and the markets are expecting two or 3 further incremental reductions in the base rate during 2025.

3.4 The Council benefits from a higher base rate for investment of surplus cash, which has helped the Council earn more than £1m in interest receivable. However, loans to the Council are more expensive since the BoE started raising interest rates to try to control inflation. External borrowing is, therefore, delayed until cash balances can no longer sustain the use of Council balances to fund capital expenditure (internal borrowing).

4. POSITION AS AT 30 SEPTEMBER 2024

4.1 Borrowing PWLB – The Council did not take out any new borrowing from the PWLB during the period 1 April 2024 to 30 September 2024. This is due to the need to avoid borrowing while interest rates are increasing. Instead, Council cash balances have been used to fund capital expenditure. This is in line with MUFG Corporate Markets' advice on borrowing in the current economic climate. The opportunity cost of this is that there are less balances to invest, however, borrowing costs are higher than investment yields. To ensure the Council has enough cash to pay creditors and salaries, sufficient cash must remain in instant call accounts. Typically, the interest rates on these are much lower, so the Council is still able to make reasonable savings on interest payable while using cash balances.

4.2 Appendix B shows the full list of PWLB loans taken out and still payable. The oldest loan dates to 1969, and the majority of the loans have higher interest rates than the current rates, despite the recent rise in interest rates. These are organised by the financial year the loans are due to be repaid.

Table 2
PWLB Loans Outstanding - 30 September 2024

PWLB Loans at 30 September 2024			
	PWLB Maturity £'000	PWLB EIP £'000	Total PWLB Loans at 30 September 2024 £'000
Loan Outstanding	117,546	153	117,699
Percentage of maturity and annuity loans	99.87%	0.13%	100.00%
Average life (years)	31.14	3.66	31.10
Average rate (%)	4.47%	9.42%	4.48%

4.3 Borrowing Salix – Salix is a WG organisation which provides interest free loans and, more recently, grants for projects which support the environment and to help public sector bodies in Wales to work towards achieving their net zero target by 2030. The Council held £4.570m of Salix loans at 30 September 2024. These loans are repaid over a period of 8 or 10 years, depending on the agreement, with 2 repayments made per year, per loan. These loans have funded LED street lighting, LED lighting in schools and leisure centres and various other sustainable projects. Table 3 shows the remaining Salix loans at 30 September and the year of the last repayment for each loan. The loan repayments for the Salix loans are shown in Appendix C.

Table 3
Salix Loans at 30 September 2024

Salix Loans at 30 September 2024						
	Salix Loan 2 £'000	Salix Loan 3 £'000	Salix Loan 4 £'000	Salix Loan 5 £'000	Salix Loan 6 £'000	TOTAL £'000
Outstanding Balance	68	287	132	1,653	2,431	**4,571**
Repayment Date	2025/26	2027/28	2029/30	2031/32	2035/36	
Interest rate (%)	-	-	-	-	-	**-**

5. ANNUAL INVESTMENT STRATEGY

5.1 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the full Council on 7 March 2024.

5.2 The Council continues to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite.

5.3 **Creditworthiness –** There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these and other measures of creditworthiness, to ensure that only appropriate counterparties are considered for investment purposes.

5.4 **Investment Counterparty Criteria –** The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

5.5 **Investment Balance –** The total balance of investments at 30 September 2024 was £39.451m, as shown in Table 4 below. The yield from these investments from 1 April 2024 to 30 September 2024 was £924k, with the total interest receivable on the below listed investments expected to be £1.322m for 2024/25. This figure is likely to be higher as new investments are made when these mature. However, cash balances are reducing as the financial year progresses, so not all these investments will be viable to renew on maturity.

5.6 Investment rates started to decrease in August 2024, as the base rate was reduced from 5.25% to 5% on 1 August 2024. However, all the fixed term investments for the half year to 30 September 2024 were organised before this decrease. The Bank of Scotland call account, which has variable interest rates, was reduced from 5.14% to 4.88% in August 2024. However, even at reduced rates, the Council's interest receivable for 2024/25 is higher than budgeted .The Council Fund is forecast to receive a total of £833k interest from the investments, which is £163k higher than the budget of £670k, £304k interest receivable is expected for the HRA, £119k for schools and £66k for third parties where the Council hold funds belonging to others, including the Trusts which the Council is trustee for.

Table 4
Investments held 1 April 2024 to 30 September 2024

Counterparty	Start Date	End Date	Interest Rate %	Investment Amounts 1 April to 30 September 2024 £	Investment Principal at 30 September 2024 £	Estimated Interest earned to 30 September 2024 £	Estimated Total Interest 2024/25 on these Investments £
Natwest Call Account - estimate for period	01/04/2024	31/03/2025	Variable	11,758,959	11,758,959	266,374	426,038
Nationwide Building Society	08/01/2024	08/04/2024	5.11%	5,000,000	-	5,600	5,600
Santander Uk Plc	09/02/2024	09/05/2024	5.19%	5,000,000	-	27,727	27,727
National Westminster	11/03/2024	11/06/2024	5.23%	5,000,000	-	51,584	51,584
Bank of Scotland Call Account - Lloyds	01/04/2024	31/03/2025	Variable	7,692,214	7,692,214	198,489	352,676
Goldmansachs International Bank	08/04/2024	08/10/2024	5.29%	5,000,000	5,000,000	127,540	133,337
Santander	09/05/2024	08/11/2024	5.07%	5,000,000	5,000,000	100,705	127,792
National Westminster Fixed	09/05/2024	09/08/2024	5.14%	5,000,000	5,000,000	65,482	65,482
National Westminster Fixed	11/06/2024	11/12/2024	5.23%	5,000,000	5,000,000	80,241	131,825
					39,451,173	**923,743**	**1,322,060**

5.7 Approved Limits – Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 September 2024.

6. PRUDENTIAL INDICATOR FOR CAPITAL EXPENDITURE

6.1 The Council's Capital Position

Table 5 below shows the revised estimates for capital expenditure in comparison to the capital budget at quarter 2:-

Table 5
Capital Expenditure

Capital Expenditure 2024/25	Annual Budget £'000	Projected Expenditure £'000	Projected (Under) / Over Expenditure £'000
Council Fund	42,904	36,384	(6,520)
Housing HRA	29,573	30,596	1,023
	72,477	**66,980**	**(5,497)**

6.1.1 The revised capital budget for 2024/25 at quarter 2 was £72.477m. The projected expenditure for 2024/25 is £66.980m. Projects for the Council are expected to underspend by £6.520m, though most of this will be carried forward into 2025/26, along with the funding. The HRA is expecting to overspend by £1.023m, which will be funded by the HRA.

6.2 Changes to the Financing of the Capital Programme

6.2.1 There are some changes to the financing of the capital programme, as can be seen in Table 6 below, arising from the changes to the capital budget noted in 6.1.1.

6.2.2 Table 6 below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original funding of the capital programme, and the expected funding 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). The source of funding for projects might also change at year end as funding is allocated in the most cost-effective way to mitigate capital financing pressures. This also allows increased flexibility to respond to later offers of external grant funding where the Council is asked to displace the funding in year, but to ensure there is funding in the next year to fulfill the conditions of the grant being offered.

Table 6
Estimated Funding of Capital Expenditure

Capital Funding	2024/25 Annual Budget £'000	2024/25 Revised Estimate £'000
Capital Grants	43,171	38,638
Capital Receipts	1,032	931
Reserves	1,205	1,002
Revenue Contribution	15,381	15,017
Supported Borrowing	5,867	5,925
Unsupported Borrowing	5,805	5,451
Loan	16	16
Total	**72,477**	**66,980**

6.3 Prudential Indicator – Capital Financing Requirement (CFR)

6.3.1 Table 7 below shows the CFR, which is the underlying need to incur borrowing to fund capital expenditure. The CFR is expected to be £15.534m lower than the original estimate provided in the TMSS 2024/25. This mainly relates to the HRA. Changes are expected as the TMSS is produced before the capital programme for the year has been finalised. Capital projects can also slip due to a variety of reasons, or alternative funding is found to reduce the amount of borrowing needed.

Table 7
Change in the Capital Financing Requirements 2024/25 at 30 September 2024

Prudential Indicator – CFR	2024/25 Original Estimate £'000	2024/25 Revised Estimate £'000
CFR – Council Fund	116,485	115,695
CFR – HRA	55,506	40,762
Total CFR	**171,991**	**156,457**
Net movement in CFR		(15,534)

6.3.2 Analysis of borrowing

The table above shows that the revised forecast CFR for 2024/25 is £156.457m. The difference between the CFR, which is the amount of capital expenditure to be funded by borrowing, and the external / actual borrowing taken out, is the internal borrowing. This is where the Council has used cash balances to fund capital expenditure to delay the actual borrowing for as long as possible, to save interest payable charges. This is in line with the TMSS 2024/25, and is the approach recommended by the Council's treasury management consultants, MUFG Corporate Markets Treasury Limited. This is due to the impact of the economy on interest rates and gilts which PWLB interest rates are based on. When cash balances become too low, this borrowing will be externalised by taking out new loans from the PWLB. To reduce the capital financing charges, it is likely that shorter-term loans would be taken out, as interest rates are expected to reduce in the future along with inflation.

Table 8 below shows that the balance of external borrowing and internal borrowing is expected to change in the last quarter, with £2.751m of PWLB borrowing expected for the HRA. This will be at a discounted rate for HRAs.

Table 8
Profile of borrowing between external borrowing and internal borrowing (use of cash balances)

	Current Position at 30 September 2024 £'000	Revised Estimated CFR 31 March 2025 £'000
External Borrowing	122,270	125,021
Internal Borrowing	34,187	31,436
Other long-term liabilities	-	-
Year-end position	**156,457**	**156,457**

7. OTHER PRUDENTIAL INDICATORS

7.1 The Treasury Management Strategy sets out a number of prudential indicators and authorised limits. The current forecast position against each of the relevant indicators and limits are shown in Table 9 below:-

Table 9
Prudential Indicators 2024/25 at Quarter 2

PRUDENTIAL INDICATORS			
Indicator Group	**Description**	**TMS 2024/25**	**Estimated Position at end of Q2**
Affordability	Ratio of Financing Costs to Net Revenue Stream – General Fund	3.12%	3.00%
	Ratio of Financing Costs to Net Revenue Stream – Housing Revenue Account	10.38%	6.04%
Capital Financing Requirement	Council Fund & HRA	£171.991m	£156.457m
AUTHORISED LIMITS			
Prudence	Gross debt must be lower than the CFR plus any additional CFR in the next two years	<198.521m	122.270m
External Debt	Authorised Limit	< £198.521m	£122.270m
	Operational Boundary	< £193.521m	£122.270m
Maturity of Debt		Under 12 months	0.178m - 0.15%
		12 months and within 24 months	1.105m - 0.9%
		24 months and within 5 years	5.595m – 4.58%
		5 years and within 10 years	6.722m - 5.50%
		10 years and above	108.674m - 88%
	Total borrowing		**122.270m - 100%**

7.2 The table above shows that the performance indicators in respect of affordability and the level of CFR are better than the original forecast and that none of the authorised debt limits have been exceeded. The ratio of financing costs to net revenue stream for the Council Fund, is less than that proposed in the TMSS 2024/25 at 3.00%, similarly the capital financing costs for the HRA are also much lower than at 6.04%. For the Council Fund, this is due to using internal borrowing for as long as possible to save interest payable. The HRA has been using its surplus income and HRA reserve to fund its capital programme. However, these balances are now too low and the HRA is likely to take out short-term borrowing shortly due to the success of its HRA developments, house purchases and works to existing homes to ensure they meet the Welsh Housing Quality Standards (WHQS).

7.3 Given the current levels of interest, the Council has utilised its own cash balances to fund capital expenditure, rather than externally borrowing, as discussed above. However, as cash balances fall, it will be necessary to borrow around the end of the 2024/25 financial year or early 2025/26. The external debt information in Table 9 aboveshows that the Council is well below the affordability prudential limit, which is also the authorised limit and the operational boundary.

8. DEBT RESCHEDULING

8.1 Debt rescheduling opportunities have increased significantly in the current period, where gilt yields, which underpin PWLB rates and market loans, have risen materially. An exercise was completed which demonstrated that replacing existing loans with new loans would attract discounts but, due to higher interest rates, total interest payable until the loans mature would be significantly higher and would, therefore, not be affordable as revenue capital financing costs would increase.

9. COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

9.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the period ended 30 September 2024, the Council has operated within the treasury and prudential indicators set out in the Council’s Treasury Management Strategy Statement for 2024/25. The Director of Function (Resources) reports that no difficulties are envisaged for the current or future years in complying with these indicators.

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

10. CONCLUSION

10.1 During the period 1 April 2024 to 30 September 2024, the Council has been proactive with depositing surplus cash balances in secure UK banks and local authorities. The Council has benefitted from the favourable interest rate during the period, with £924k in interest receivable on these deposits. The estimated interest receivable for the full year on the investments active during the period is forecast at £1.322m. The HRA, schools and organisations for which the Council holds funds on behalf of, will receive a share of the interest receivable based on their balances on 31 March 2025, at the average interest rate from all deposits. Also of note, is the Council’s cash balances are reducing, along with interest rates, therefore, future interest receivable might not achieve the levels in 2023/24 or 2024/25.

10.2 The Council has not applied for any PWLB loans during the period, to minimise interest payable and defer the borrowing identified for funding specific capital projects until necessary. The Council has borrowed interest free loans from Salix for energy efficiency / low carbon capital projects.

10.3 In summary, the Council’s Treasury Management position remains stable, with better than forecast investment returns and all prudential indicators remaining within the boundaries and targets set in the Treasury Management Strategy Statement for 2024/25. No new external borrowing has taken place, with the Council’s strategy continuing to use internal borrowing to fund capital expenditure, but, as cash reserves are utilised (balance the budget, winding down of school balances, use of HRA reserve to fund capital expenditure), the amount of surplus cash reduces, which has reduced the sums available to invest and the level of internal borrowing that can be supported. This will invariably require a change in strategy in the future, with additional external borrowing having to be undertaken.

APPENDIX B

PWLB LOAN REPAYMENTS

Financial year	Loan Maturing Date	Interest Rate %	Repayment Amount £
2026/27	01/04/2026	3.67	527,601
	30/09/2026	8.63	853,800
2026/27 Total			1,381,401
2027/28	01/04/2027	3.73	490,601
	19/08/2027	5.20	1,000,000
	30/09/2027	7.00	674,502
2027/28 Total			2,165,103
2028/29	01/04/2028	3.80	262,440
	01/03/2029	9.50	17,135
2028/29 Total			279,575
2029/30	01/04/2029	3.85	684,697
	09/05/2029	9.25	3,652
	06/06/2029	9.38	12,087
	01/09/2029	9.25	6,210
	30/09/2029	8.63	853,800
	06/12/2029	9.25	11,782
2029/30 Total			1,572,228
2030/31	01/04/2030	3.91	450,706
	09/05/2030	9.38	8,462
	01/09/2030	9.75	12,901
	09/11/2030	9.75	4,628
	06/12/2030	9.75	9,622
	01/03/2031	9.25	7,140
2030/31 Total			493,459
2031/32	01/04/2031	3.96	660,449
	30/09/2031	8.63	1,280,700
2031/32 Total			1,941,149
2032/33	01/04/2032	4.01	314,886
	06/06/2032	9.25	25,858
	06/12/2032	9.50	32,229
	01/03/2033	9.88	1,168
2032/33 Total			374,140
2033/34	01/04/2033	4.05	636,565
2033/34 Total			636,565
2034/35	01/04/2034	4.09	623,834
2034/35 Total			623,834
2035/36	01/04/2035	4.13	611,357
2035/36 Total			611,357
2036/37	01/04/2036	4.16	599,130
2036/37 Total			599,130
2037/38	01/04/2037	4.18	587,147
2037/38 Total			587,147
2038/39	01/04/2038	4.20	225,467
2038/39 Total			225,467
2039/40	15/04/2039	4.95	5,000,000
2039/40 Total			5,000,000
2040/41	15/04/2040	4.95	3,500,000
2040/41 Total			3,500,000

Financial year	Loan Maturing Date	Interest Rate %	Repayment Amount £
2042/43	01/04/2042	4.25	999,781
2042/43 Total			999,781
2043/44	01/04/2043	4.25	1,020,120
2043/44 Total			1,020,120
2044/45	01/04/2044	4.25	1,009,718
2044/45 Total			1,009,718
2045/46	01/04/2045	4.25	11,464,215
2045/46 Total			11,464,215
2050/51	16/01/2051	4.15	2,000,000
2050/51 Total			2,000,000
2052/53	19/05/2052	4.05	5,000,000
	12/10/2052	4.55	4,300,000
	09/11/2052	4.55	6,138,400
	20/11/2052	4.20	6,800,000
	11/12/2052	4.25	6,000,000
2052/53 Total			28,238,400
2054/55	06/05/2054	8.38	3,000,000
2054/55 Total			3,000,000
2055/56	15/11/2055	8.00	1,500,000
	15/12/2055	7.88	2,000,000
2055/56 Total			3,500,000
2056/57	15/04/2056	7.13	3,000,000
	10/10/2056	7.88	2,000,000
2056/57 Total			5,000,000
2057/58	15/04/2057	7.13	6,000,000
	15/10/2057	6.50	2,512,854
2057/58 Total			8,512,854
2059/60	22/06/2059	4.25	1,763,308
2059/60 Total			1,763,308
2064/65	25/03/2065	2.24	10,000,000
2064/65 Total			10,000,000
2066/67	30/03/2067	2.20	6,200,000
2066/67 Total			6,200,000
2068/69	16/01/2069	2.49	15,000,000
2068/69 Total			15,000,000
Grand Total			**117,698,952**

APPENDIX C

SALIX LOAN REPAYMENTS

Financial year	Salix Loan Repayments £000
2024/25	178
2025/26	577
2026/27	531
2027/28	531
2028/29	531
2029/30	455
2030/31	441
2031/32	441
2032/33	221
2033/34	221
2034/35	221
2035/36	221
Total	**4,571**

Economic Update & Forecasts – produced by Link Group

- The second quarter of 2024 (July to September) saw:
  - GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
  - A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
  - CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
  - Core CPI inflation increasing from 3.3% in July to 3.6% in August;
  - The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
  - 10-year gilt yields falling to 4.0% in September.
- The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an uptick in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.
- The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.
- The government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Our colleagues at Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.
- The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.
- Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.
- CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.

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

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

- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- Nonetheless, November still looks most likely to be the next month to see a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

APPENDIX D

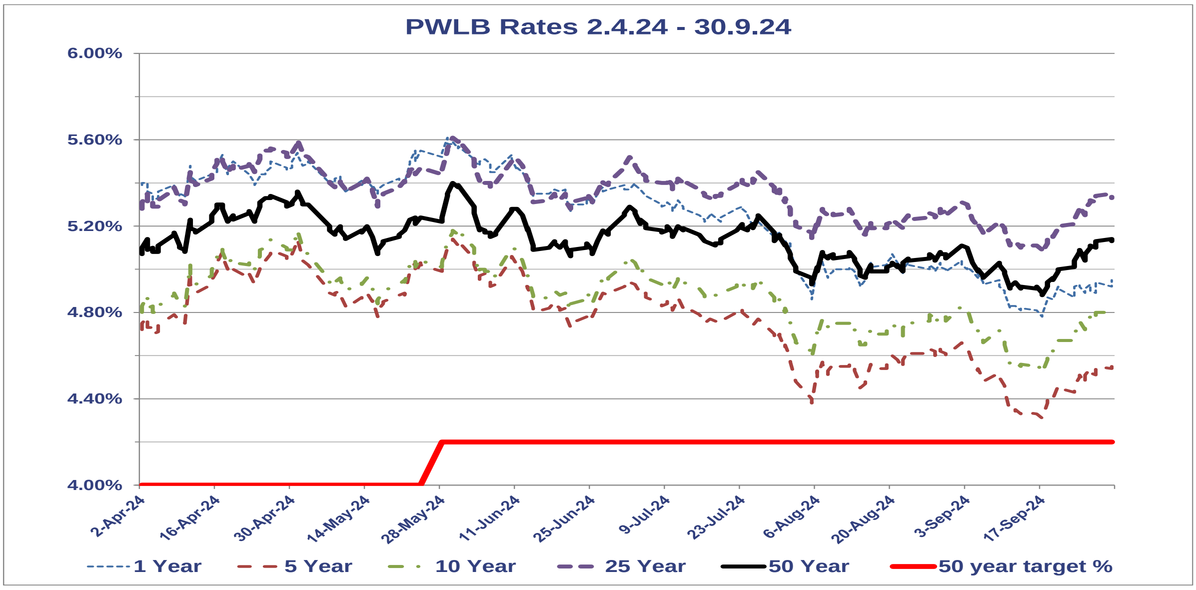
INTEREST RATE FORECASTS AND PWLB RATES – PRODUCED BY LINK GROUP

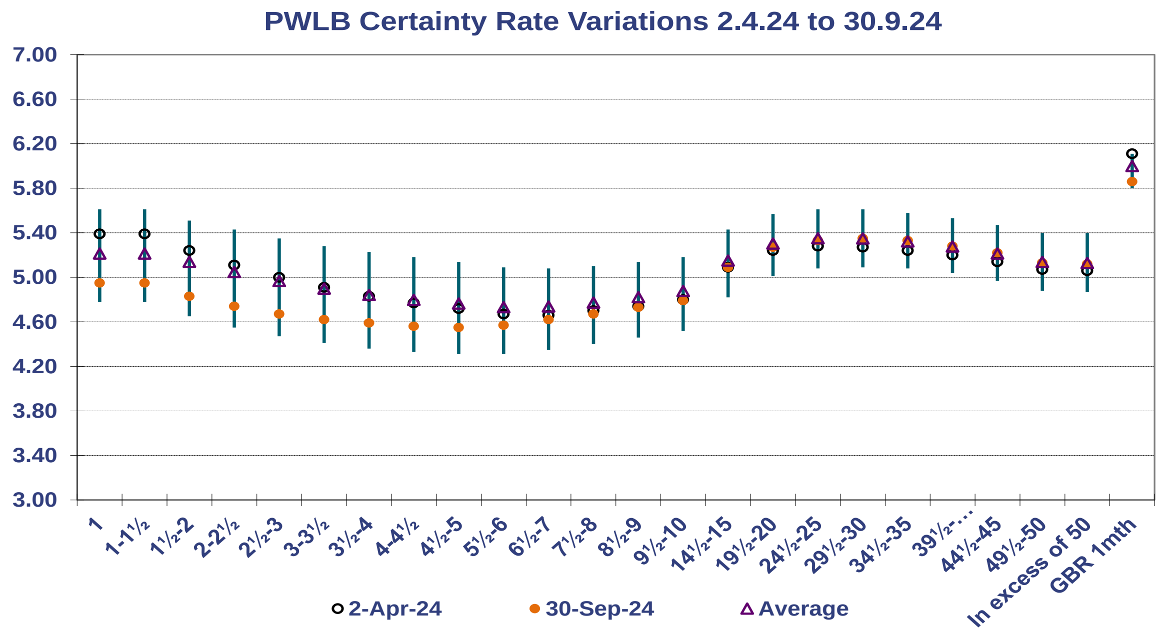
The Authority has appointed Link Group as its treasury advisors and part of their service is to assist the Authority to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012.

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

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

Link Group Interest Rate View	28.05.24									
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10





HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
30/09/2024	4.95%	4.55%	4.79%	5.33%	5.13%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
High date	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

- The current PWLB rates are set as margins over gilt yields as follows: -.
  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate (GF)** is gilt plus 80 basis points (G+80bps)
  - **PWLB Local Infrastructure Rate** is gilt plus 60 basis points (G+60bps)
  - **PWLB Certainty Rate (HRA)** is gilt plus 40bps (G+40bps)

- The **UK Infrastructure Bank** will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 40bps (G+40bps).