CABINET

THURSDAY 21st NOVEMBER 2024

COUNCIL

TUESDAY 10th DECEMBER 2024

REPORT OF THE LEADER

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY MID-YEAR REVIEW REPORT 2024/25

EXEMPT INFORMATION

None

PURPOSE

To present to Members the Mid-year Review of the Treasury Management Strategy Statement and Annual Investment Strategy.

RECOMMENDATIONS

That Council be requested to approve the Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2024/25.

EXECUTIVE SUMMARY

This mid-year report has been prepared in compliance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (revised 2021), and covers the following:-

- An economic update for the half of the 2024/25 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's Capital expenditure as set out in the Capital Strategy, 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;
- A review of compliance with Treasury and Prudential Limits for 2024/25.

The main issues for Members to note are:

1. The Council has complied with the professional codes, statutes and guidance.

2. There are no issues to report regarding non-compliance with the approved prudential indicators.

3. The investment portfolio yield, excluding property fund returns, for the first six months of the year is 5.21% (5.28% for the same period in 2023/24) compared to the average 3 Month SONIA benchmark rate of 5.06% for the period (5.03% for the same period in 2023/24).

The aim of this report is to inform Members of the treasury and investment management issues to enable all Members to have ownership and understanding when making decisions on Treasury Management matters. In order to facilitate this, training on Treasury Management issues was delivered for Members in February 2024 and further training is planned during 2024/25.

RESOURCE IMPLICATIONS

All financial resource implications are detailed in the body of this report which links to the Council's Medium Term Financial Strategy.

LEGAL/RISK IMPLICATIONS BACKGROUND

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

EQUALITIES IMPLICATIONS

Appendix 1

ENVIRONMENT AND SUSTAINABILITY IMPLICATIONS (INCLUDING CLIMATE CHANGE)

None

REPORT AUTHOR

Please contact Omotayo Lawal, Head of Finance, Omotayo-lawal@tamworth.gov.uk extension 246.

LIST OF BACKGROUND PAPERS

Background Papers -	*Local Government Act 2003*
	CIPFA Code of Practice on Treasury Management in Public Services 2017
	Annual Report on the Treasury Management Service and Actual Prudential Indicators 2023/24 – Council 10th September 2024
	Treasury Management Strategy & Prudential Indicators Report 2024/25 - Council 27th February 2024
	Budget & Medium Term Financial Strategy 2024/25 - Council 27th February 2024

	Quarter 2 2024/25 Performance Report Including Financial Healthcheck

APPENDICES

Appendix 1 – Investments Held at 30th September 2024

Appendix 2 - the CFR, Liability Benchmark and Borrowing

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY MID-YEAR REVIEW

The CIPFA Code of Practice on Treasury Management (revised 2021) suggests that Members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This is the second monitoring report for 2024/25 presented to Members this year and therefore ensures the Council is embracing best practice. Cabinet and Corporate Scrutiny also receive regular monitoring reports on Treasury Management activities and risks as part of the quarterly corporate performance reports.

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

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.

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."

Introduction

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).

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 manner in which 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 as appropriate – for this Council these reports are presented as part of quarterly performance reports to Corporate Scrutiny and Cabinet).

- 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 Audit and Governance Committee.

1. Economics and Interest Rates

1.1 Economics update

The third 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. 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.
- Link Group's 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.

1.2 Interest Rate Forecasts

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

2. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2024/25 was approved by Council on 27th February 2024.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

3. The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council'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; and
- Compliance with the limits in place for borrowing activity.

3.1 Prudential Indicator for Capital Expenditure

This table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	2024/25 Original Programme	Budget B'fwd from 2023/24	Virements in Year	Total 2024/25 Budget	Actual Spend @ Period 6	Predicted Outturn	2024/25 Revised Estimate*
	£m	£m	£m	£m	£m	£m	£m
General Fund	1.868	25.711	-	27.579	11.043	22.500	27.967
HRA	11.043	4.435	-	15.477	4.833	13.512	15.327
Total	**12.911**	**30.146**	**-**	**43.057**	**15.876**	**36.012**	**43.294**

* Includes potential expenditure slippage into 2025/26 of £6.594m

3.2 Changes to the Financing of the Capital Programme

The following table draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. Any 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). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements

Capital Expenditure	2024/25 Capital Programme £m	2024/25 Predicted Outturn £m	2024/25 Budget * £m
Unsupported	1.759	2.215	4.619
Supported	11.152	33.797	38.438
Total spend	**12.911**	**36.012**	**43.057**
Financed by:			
Grants - Disabled Facilities	0.547	0.830	1.694
Section 106's	-	1.272	1.272
GF Receipts	0.068	10.357	12.686
GF Reserve	0.220	0.880	0.900
Sale of Council House Receipts	0.294	0.311	0.793
Future High Street Fund	-	5.310	5.310
Shared Prosperity Fund	-	0.471	0.471
Community Infrastructure Levy (CIL)	-	0.982	0.982
Other Grants/Contributions	-	0.503	0.503
MRR	4.361	4.726	4.726
HRA Attributable Debt Receipts	0.950	1.300	1.300
HRA 1-4-1 Replacements Receipts	0.100	0.632	0.632
HRA Reserve	3.462	4.727	5.437
HRA Regeneration Fund	0.710	0.782	1.017

HRA Affordable Housing Reserve	0.420	0.693	0.693
HRA Buy Back Receipts	0.020	0.020	0.020
Total Financing	**11.152**	**33.797**	**38.438**
Borrowing need	**1.759**	**2.215**	**4.619**

* includes schemes re-profiled from 2023/24 of £30.146m

3.3 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The following table shows the Capital Financing Requirement (CFR), which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement.

Prudential Indicator – the Operational Boundary for External Debt

	2023/24 Outturn £m	**2024/25 Capital Programme £m**	**2024/25 Projected Outturn £m**	**2024/25 Budget £m**
CFR – Non Housing	4.092	7.029	5.494	7.242
CFR – Housing	70.507	72.160	71.139	72.159
Total CFR	74.600	79.190	76.633	79.400
Net movement in CFR	**0.325**	**4.254**	**2.033**	**4.801**
Operational Boundary				
Expected Borrowing	63.060	63.060	63.060	63.060
Other long term liabilities	-	-		-
Total Debt 31st March	**63.060**	**63.060**	**63.060**	**63.060**

3.4 Limits to Borrowing Activity

The first 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. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2023/24	**2024/25**	**2024/25**	**2024/25**

	Outturn £m	Original Estimate £m	Projected Outturn £m	Budget £m
Gross borrowing	63.060	63.060	63.060	63.060
Less investments	66.813	16.293	52.832	50.428
Net borrowing	-3.753	46.768	10.228	12.633
CFR (year end position)	74.600	79.190	76.633	77.400

A further prudential indicator controls the overall level of borrowing. This is **the Authorised Limit** which represents the limit beyond which borrowing is prohibited and 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.

Authorised Limit for External Debt	**2024/25 Original Indicator**	**Current Position**	**2024/25 Revised Indicator**
Borrowing	89.436	89.436	89.436
Total	89.436	89.436	89.436

4. Borrowing

The Council's estimated revised capital financing requirement (CFR) for 2024/25 is £79.190m. 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). The balance of external and internal borrowing is generally driven by market conditions. Table 3.4 shows the Council has borrowings of £63.060m and plans to utilise £13.573m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring climate but will require ongoing monitoring if gilt yields remain elevated, particularly at the longer-end of the yield curve (25 to 50 years).

It is not anticipated that any additional borrowing will be undertaken during 2024/25.

PWLB maturity certainty rates (gilts plus 0.8%) year to date to 30th September 2024

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

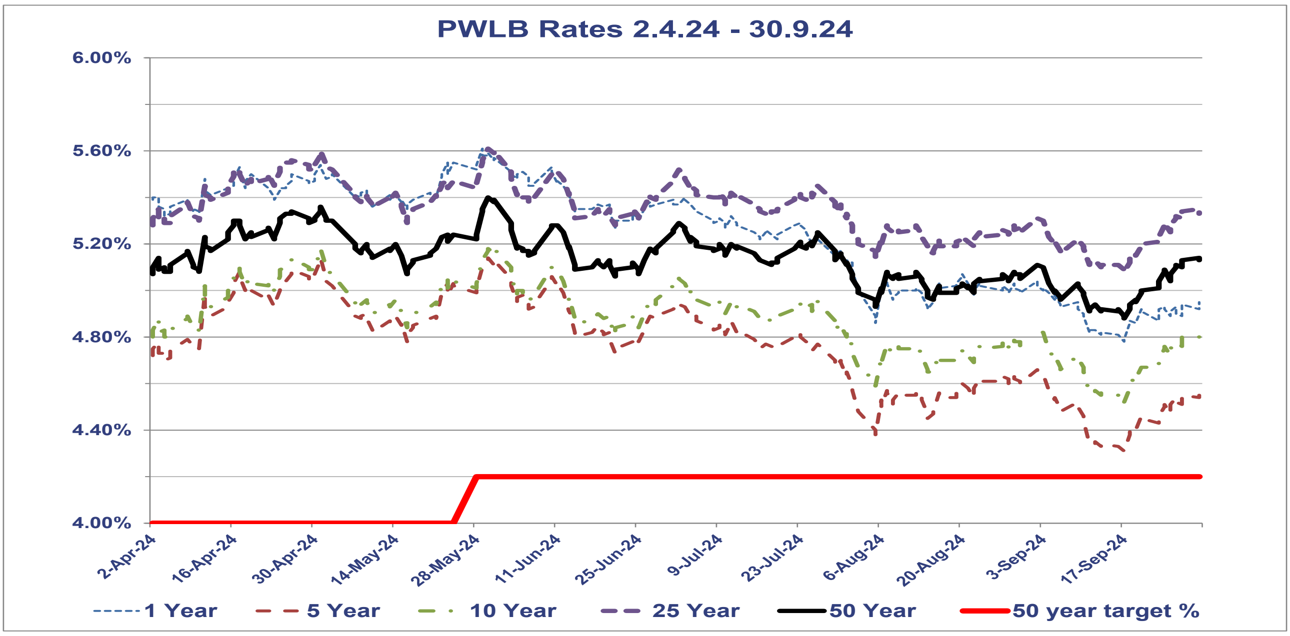
Where there was some movement downwards, this came in the shorter part of the curve as markets positioned themselves for Bank Rate cuts in the second half of 2024 and into 2025, although the continued stickiness of inflation and the prevailing tight labour market is a concern for those looking for more sizeable falls ahead.

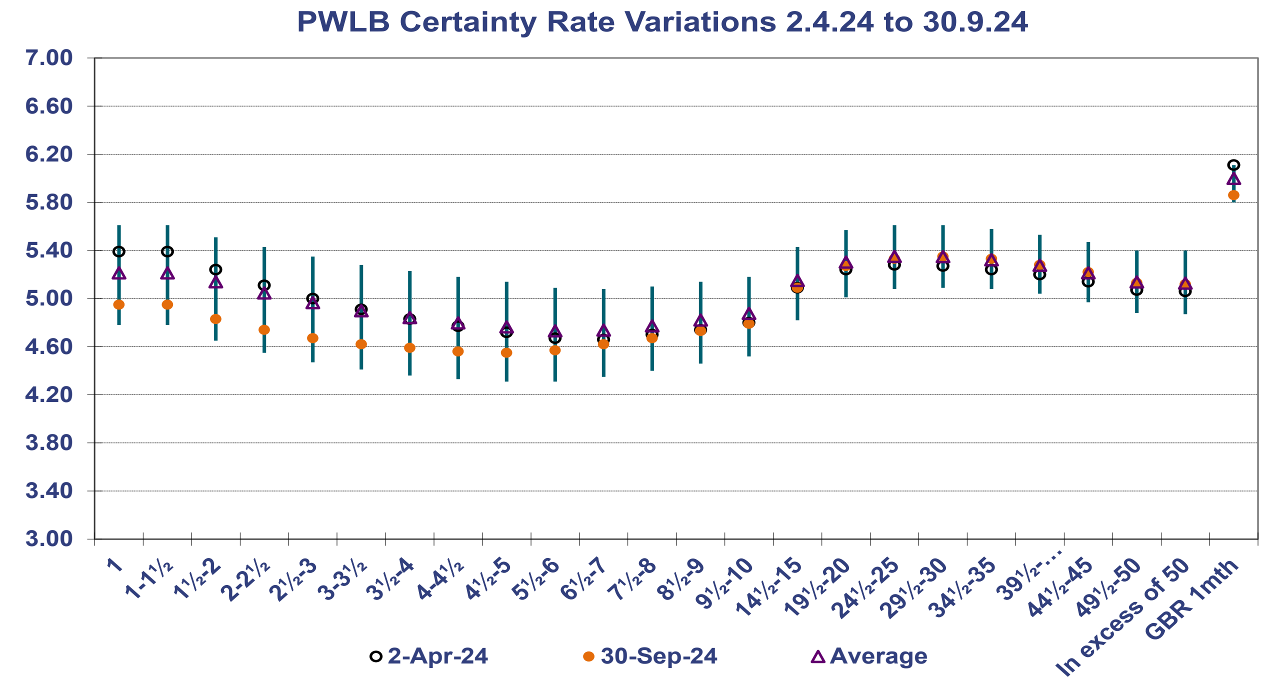
At the beginning of April, the 5-year certainty rate was the cheapest part of the curve at 4.72% whilst the 25-year rate was relatively expensive at 5.28%. May saw yields at their highest across the whole curve.

Conversely, 17 September 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.

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

PWLB RATES 02.04.24 – 30.09.24





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 1%
  - **PWLB Certainty Rate (GF)** is gilt plus 0.8%
  - **PWLB Local Infrastructure Rate** is gilt plus 0.6%
  - **PWLB Certainty Rate (HRA)** is gilt plus 0.4%

- The **UK Infrastructure Bank** will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 0.4%.

5. Debt Rescheduling

Debt repayment and rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt repayments or rescheduling has been undertaken to date in the current financial year.

6. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the 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. The Interim Section 151 Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

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

7. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 27th February 2024. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit quality financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

Creditworthiness.
The UK's sovereign rating has proven robust through the first half of 2024/25. The new Labour Government is expected to outline in detail its future fiscal proposals in the Budget scheduled for 30 October 2024.

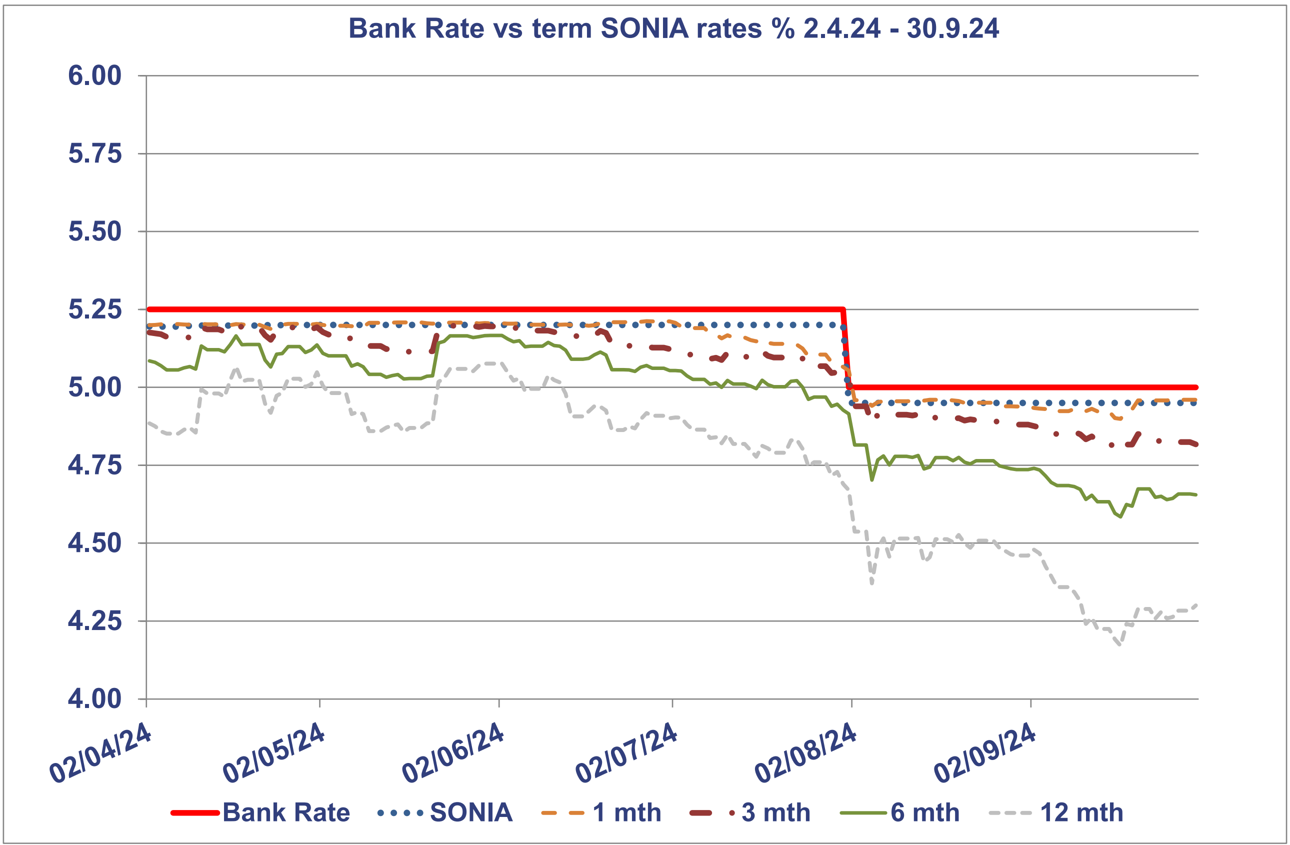
Investment Counterparty criteria
The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

CDS prices
It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment balances
The Council held £62.354m of investments as at 30th September 2024, excluding investments in property funds (£59.108m at 31st March 2024) and the investment portfolio yield for the first six months of the year is 5.21% against a benchmark of the average 3 months SONIA of 5.06%. A full list of investments held as at 30th September 2024 is detailed in **APPENDIX 1.**

The Interim Section 151 Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2024/25.

Investment performance year to date as of 30th September 2024



	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	5.25	5.20	5.21	5.20	5.17	5.08
High Date	02/04/2024	03/05/2024	27/06/2024	17/04/2024	31/05/2024	30/05/2024
Low	5.00	4.95	4.90	4.79	4.58	4.17
Low Date	01/08/2024	01/08/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
Average	5.17	5.12	5.11	5.06	4.96	4.75
Spread	0.25	0.25	0.31	0.41	0.58	0.91

The table above covers the first half of 2024/25.

The Council's budgeted investment return for 2024/25 is £1.866m, and we are currently forecasting an additional £816k in investment income as at September Period 6, due to increased balances available for investment due to capital slippage, plus increasing interest rates.

Investment Counterparty Criteria

The current investment counterparty criteria selection approved in the TMSS and as approved by Council on 27th February 2024 meets the requirements of the Treasury Management function.

8.Changes in risk appetite

The 2021 CIPFA Codes and guidance notes place 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.

9. Property Funds

To date, the Council has invested £1.85m with Schroders UK Real Estate Fund, £6.057m with Threadneedle Property Unit Trust, and £4.057m with Hermes Federated Property Unit Trust, total investment £11.962m. Although the capital values of the funds did initially fall, mainly since 31st March 2020, they then recovered and as at 31st March 2022 there was an overall gain of £1.132m. However, since then capital values have fallen again, and as at 30th September the valuation stands at £10.162m, with an overall loss of £1.8m. It should be noted that investments in property are subject to fluctuations in value over the economic cycle and should yield capital growth in the longer term as the economy grows.

Fund Valuations	Investment	Valuation 31/03/2021	Valuation 31/03/2022	Valuation 31/03/2023	Valuation 31/03/2024	Valuation 30/09/2024
Schroders UK Real Estate Fund	1,848,933	1,848,933	2,139,618	1,727,176	1,567,521	1,556,636
Valuation Increase / (reduction)		0	290,685	(121,757)	(281,412)	(292,298)
Threadneedle Property Unit Trust	2,000,249	1,794,439	2,097,097	1,732,373	1,648,601	1,685,321
Valuation Increase / (reduction)		(205,810)	96,848	(267,875)	(351,648)	(314,928)
Threadneedle Property Unit Trust	4,056,536	-	4,407,163	3,640,676	3,464,625	3,546,983
Valuation Increase / (reduction)			350,627	(415,860)	(591,912)	(509,554)
Hermes Federated Property Unit Trust	4,056,500		4,450,808	3,741,712	3,462,647	3,372,814
Valuation Increase / (reduction)			394,308	(314,788)	(593,853)	(683,686)
Total	11,962,218	3,643,372	13,094,687	10,841,938	10,143,394	10,161,753
Valuation Increase / (reduction)		(205,810)	1,132,469	(1,120,280)	(1,818,824)	(1,800,465)

The following table details the dividend returns achieved from the property fund investments, which support the revenue budget. The Council received £489k in dividends from its property fund investments in 2023/24 (£458k in 2022/23), and has received £185k for the current financial year as at 30th September 2024(Q2 returns not yet received in respect of Hermes).

Fund Valuations	Investment	Dividend Returns	Dividend Returns	Dividend Returns	Dividend Returns	Dividend Returns

		31/03/2021	31/03/2022	31/03/2023	31/03/2024	30/09/2024
Schroders UK Real Estate Fund	1,848,933	52,898	61,655	71,962	74,005	33,469
Valuation Increase / (reduction)		157,654	219,309	291,270	365,275	398,744
Threadneedle Property Unit Trust	2,000,249	75,452	79,231	83,373	92,111	34,829
Valuation Increase / (reduction)		225,781	305,012	388,385	480,496	515,325
Threadneedle Property Unit Trust	4,056,536	-	70,417	175,213	193,576	73,195
Valuation Increase / (reduction)		-	70,417	245,631	439,206	512,401
Hermes Federated Property Unit Trust	4,056,500	-	57,352	127,182	129,515	43,487
Valuation Increase / (reduction)		-	57,352	184,534	314,050	357,537
Total	11,962,218	128,350	268,655	457,730	487,846	184,980
Annual Revenue % Return		3.3%	2.2%	3.8%	4.1%	1.5%

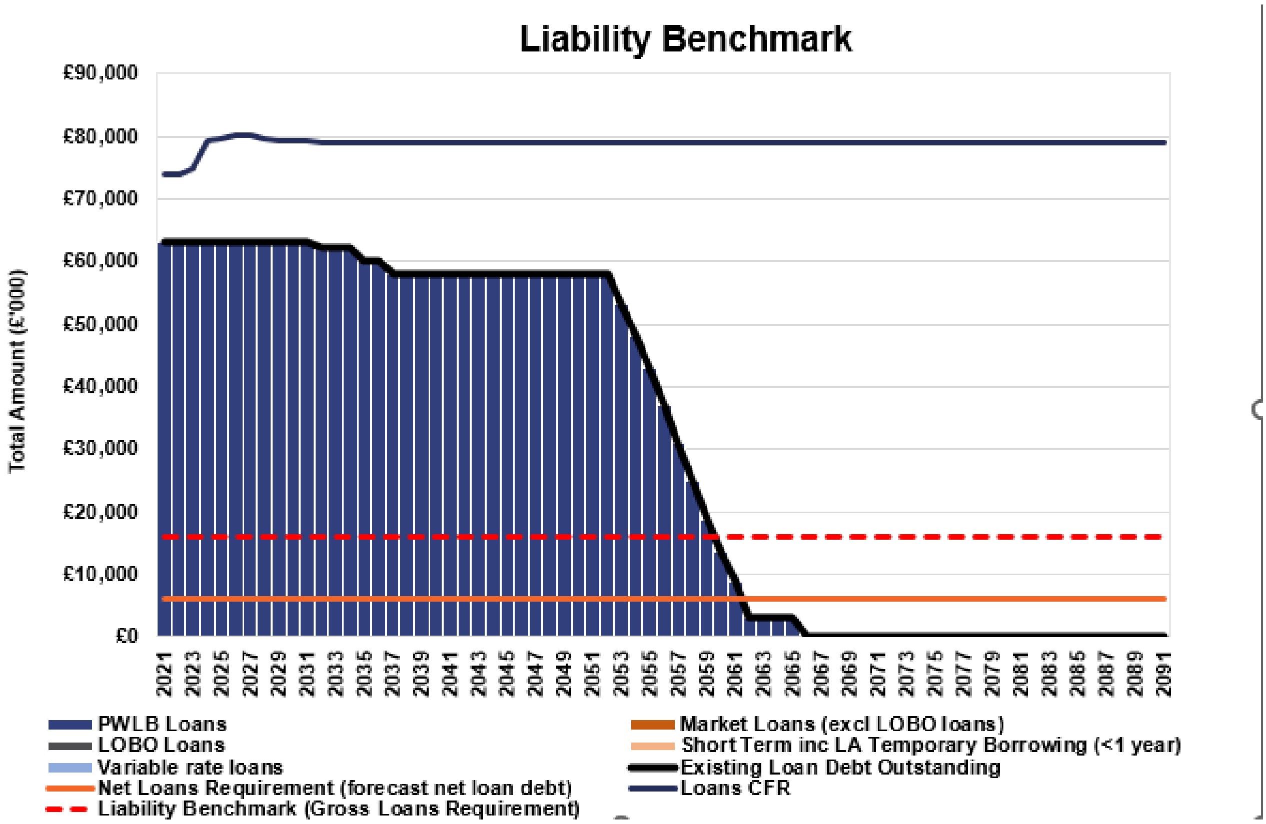
APPENDIX 1

Investments held as at 30th September 2024:

Borrower	*Deposit £*	*Rate %*	*From*	*To*	*Notice*
NatWest Bank	5,000,000	5.13%	08-Jul-24	08-Jul-25	-
Birmingham City Council	5,000,000	5.25%	29-Jul-24	28-Jul-25	-
Slough Council	5,000,000	5.18%	12-Jul-24	13-Jan-25	-
Lancashire Council	5,000,000	5.35%	01-May-24	01-Nov-24	-
Crawley Council	5,000,000	5.35%	10-May-24	11-Nov-24	-
LB of Newham	5,000,000	5.40%	10-May-24	11-Nov-24	-
LB of Newham	5,000,000	5.27%	15-Jul-24	15-Jan-25	-
Medway Council	5,000,000	5.40%	24-May-24	25-Nov-24	-
Southampton Council	5,000,000	5.35%	18-Jun-24	18-Dec-24	-
Central Bedfordshire Council	5,000,000	4.92%	22-Aug-24	22-Nov-24	
West Dunbartonshire Council	5,000,000	5.00%	10-Sep-24	10-Mar-25	
MMF – Aberdeen	-	4.96%*	-	-	On call
MMF – PSDF	-	4.99%*	-	-	On call
MMF – Federated	7,354,000	5.03%*	-	-	On call
Total	**62,354,000**	**5.21%**	-	-	-
Schroders UK Real Estate Fund	1,848,933	3.61%	-	-	-
Threadneedle Property Unit Trust	6,056,785	3.56%	-	-	-
Hermes Federated Property Unit Trust	4,056,500	4.30%	-	-	-
Total	**74,316,218**	**4.99%**	-	-	-

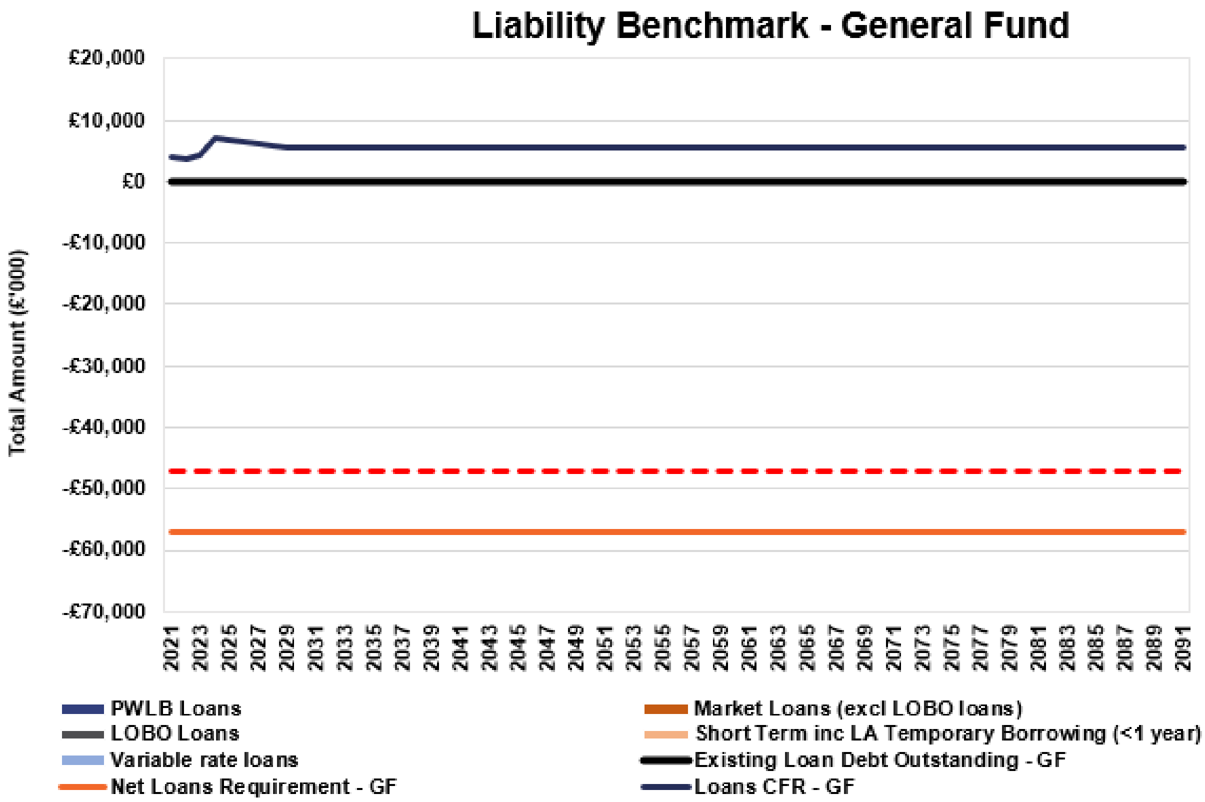
** Interest rate fluctuates daily dependant on the funds investment portfolio, rate quoted is approximate 7 day average.*

Fund	**Initial Investment**	**Fund Value 30/09/2024**	**2024/25 Return to Date**		
Schroders UK Real Estate Fund	£1,848,933.03	£1,556,635.51	£33,468.53	3.61%	Returns Received Monthly. Received up to Sep-24.
Threadneedle Property Unit Trust	£6,056,785.32	£5,209,979.79	£108,023.99	3.56%	Returns Received Quarterly. Received up to Sept-24
Hermes Federated Property Unit Trust	£4,056,499.57	£3,396730.59	£43,487.14	4.30%	Returns Received Quarterly. Received up to Jun-24
Total	**£11,962,217.92**	**£10,163,345.89**	**£184,979.66**	**3.82%**	

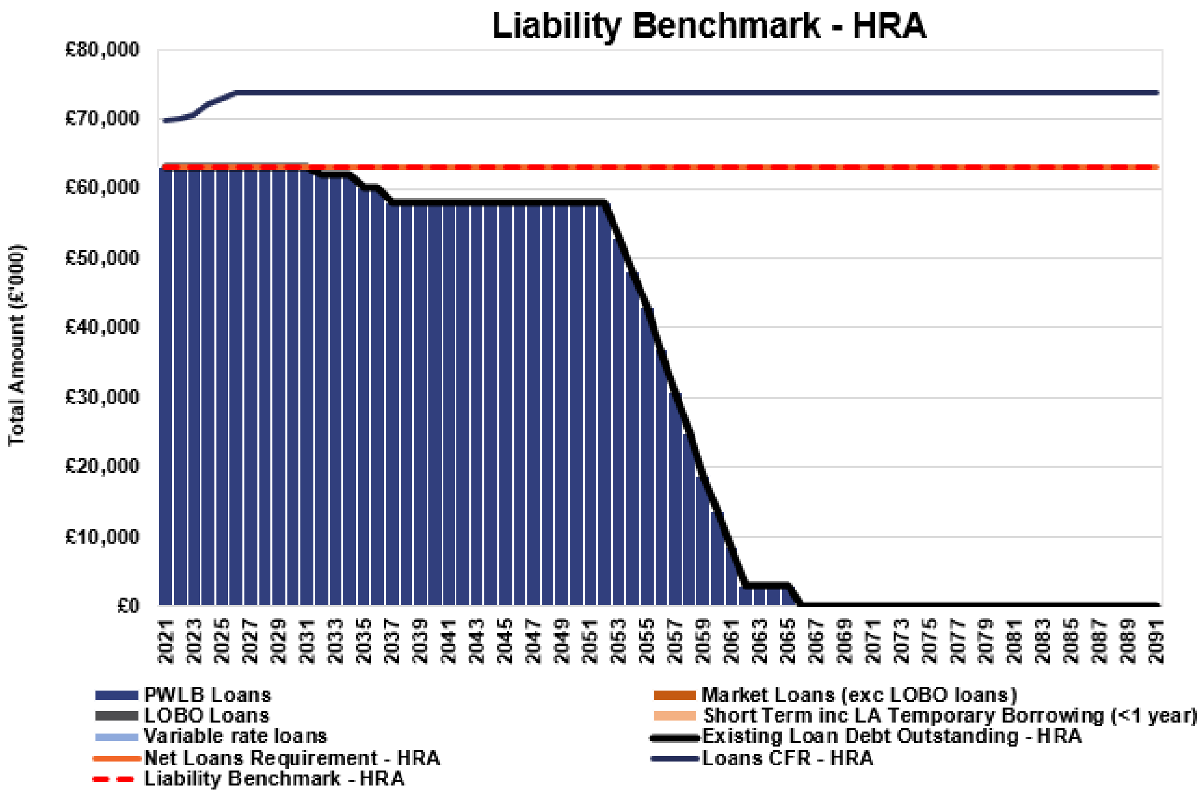


The combined liability benchmark chart above shows the existing loan debt outstanding, the capital financing requirement, net loans requirement and liability benchmark indicator.

The difference between the loans capital financing requirement and existing debt indicates internal borrowing. Prior to any new borrowing, the Council will have regard to underlying assumptions of liability benchmark analysis as part of prudent treasury management.



The net loans requirement and liability benchmark for the General Fund is negative as this is reflective of the balance of GF treasury investments held.



The liability benchmark for the HRA is set at the same level as the net loans requirement (£63m reflecting PWLB loans outstanding) as there is no need to maintain additional borrowing to meet liquidity needs as this falls to the General Fund.