Bath & North East Somerset Council	
MEETING	**Corporate Audit Committee**
MEETING DATE:	**27th November 2024**
TITLE:	**Treasury Management Performance Report to 30th September 2024**
WARD:	All
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1** – Performance Against Prudential Indicators **Appendix 2** – The Council's Investment Position at 30th September 2024 **Appendix 3** – Average monthly rate of return for the first Six months of 2024/25 **Appendix 4** – The Council's External Borrowing Position at 30th September 2024 **Appendix 5** – Arlingclose's Economic & Market Review Q2 of 2024/25 **Appendix 6** – Interest & Capital Financing Budget Monitoring 2024/25 **Appendix 7** – Summary Guide to Credit Ratings **Appendix 8** – Extract from Treasury Management Risk Register	

1 THE ISSUE

1.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code), which requires the Council to approve a Treasury Management Strategy before the start of each financial year, review performance during the year, and approve an annual report within six months after the end of each financial year.

1.2 This report gives details of performance against the Council's Treasury Management Strategy for the first six months of 2024/25.

2 RECOMMENDATION

The Corporate Audit Committee notes;

2.1 The Treasury Management Report to 30th September 2024, prepared in accordance with the CIPFA Treasury Code of Practice; and

2.2 The Treasury Management Indicators to 30th September 2024.

3 THE REPORT

Summary

3.1 The Council's Treasury Management Indicators for 2024/25 were agreed by Council in February 2024 and performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.

3.2 The estimated average rate of return on operational investments for the period 1st April 2024 – 30th September 2024 is 5.12%, which is 0.05% above the 7 Day SONIA benchmark rate of 5.07%. For the same period it is estimated that strategic investments earned 4.35% which 0.10% above the budgeted return of 4.25%.

3.3 The Council's revenue budget for interest & capital financing costs for 2024/25 is currently forecast to be £1.05m under budget. This is due to the higher than budget return on investments, as a result of interest rates being higher for longer than anticipated at budget setting, and also a saving on Minimum Revenue Provision (MRP) due to capital spend reprofiling. The breakdown of the 2024/25 revenue budget for interest and capital financing, and the year-end position, is included in **Appendix 6**.

Economic Overview

3.4 The Council's Treasury Management Advisor's economic and market review for the first half of 2024/25 is included in **Appendix 5**. The main headlines are as follows:

- Interest Rates, following the rate cut of 0.25% to 5% on 1st August 2024, the Bank of England kept the rate at 5% at its September meeting.

- UK Inflation declined over the first quarter from 3.2% in March to 2.0% in June, before rising slightly to 2.2% in July & August due to the base effects from energy prices.

- The UK Economy continued to expand, though quarter two 2024 growth was down to 0.50% from the 0.70% gain seen in quarter one of 2024. However growth in July and August was 0.00% and 0.20% respectively.

- Gilt yields continued to be volatile with the 10-year UK benchmark gilt rising from 3.94% to peak at 4.41% in May and a low of 3.76% in September before ending the quarter at 4.00%.

- The 7-day average SONIA (Sterling Overnight rate) for the first half of 2024/25 is 5.07%. This is the benchmark rate used by the council for non-strategic investments.

Borrowing

3.5 The Council's external borrowing as at 30th September 2024 totalled £253.4m and is detailed in **Appendix 4**. This includes £10m in new short-term loans taken out in April 2024, to cover the annual pension contribution prepayment, and allow us to maintain our liquidity indicator above £15m, as well as £10m of borrowing to replace maturing loans. No further borrowing was taken in the second quarter. The summary of the movement in borrowing during the first six months is shown in the following table:

Borrowing Portfolio Movements	Financial Year 2024/25 £m
Balance as at 1st April 2024	**246.010**
New Loans Taken	20.000
Maturity Loan Repayments	(10.000)
PWLB Annuity Loan principal repayments	(2.631)
Balance as at 30th September 2024	**253.379**

3.6 The Council's Capital Financing Requirement (CFR) was forecasted to be £441.7m at 31st March 2025 based on the Capital Programme agreed in February 2024, including both fully and provisionally approved schemes. The Actual CFR at 31st March 2024 was £367.6m. This represents the Council's underlying need to borrow to finance capital expenditure and demonstrates that the borrowing taken to date relates to funding historical capital spend.

3.7 The difference between the CFR and the current borrowing of £253.4m represents re-investment of the internal balances including reserves, reducing the in-year borrowing costs in excess of the potential investment returns.

3.8 The Liability Benchmark in **Appendix 1** illustrates the current borrowing, the current and projected CFR and the liability benchmark. The benchmark is lower than the CFR as it recognises the Council's ability to internally borrow to fund capital, and therefore shows the optimum level of borrowing for the council that minimises risks and costs of borrowing. This gap is a useful guide to the optimal amount and duration of borrowing to minimise interest and credit risk. This is currently £32m and circa 27 years.

3.9 Following Local Government Reorganisation in 1996, Avon County Council's residual debt is administered by Bristol City Council. All successor Unitary Authorities make an annual contribution to principal and interest repayment, for which there is a provision in the Council's revenue budget. The amount of residual debt outstanding as at 31st March 2024 apportioned to Bath & North East Somerset Council is £9.664m. Since this borrowing is managed by an external body and treated in the Council's Statement of Accounts as a deferred liability, it is not included in the borrowing figures referred to in paragraph 3.5.

Investments

3.10 As demonstrated by the liability benchmark in **Appendix 1**, the Council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day to day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and maintain stable investment income over the medium to long term.

3.11 At 30th September 2024, the Council had £38.2m in investments, with £28.2m in short term liquid investments and £10m in externally managed strategic funds. The balance of deposits is set out in the charts in this **Appendix 2**, along with the equivalent for the previous quarter and year for comparison.

3.12 **Appendix 3** details the investment performance, showing the average rate of interest earned over this period, which are made up as follows:

Investment Type	Average Investment Return
Money Market Funds (MMF)	5.15%
Call Accounts	4.78%
Fixed Deposits	5.19%
Operational Investments Total	**5.12%**
CCLA Local Authorities Property Fund	4.59%
FP Foresight UK Infrastructure Income Fund	3.69%
VT Gravis Clean Energy Income Fund	4.74%
Strategic Investments Total (Est.)	**4.35%**

3.13 At 30th September 2024, the Council has earned 5.12% from Operational investments which is 0.05% above the 7-day SONIA benchmark Rate of 5.07%, and Strategic Fund are estimated to have earned 4.35% which is 0.10% above the budgeted rate of 4.25%.

3.14 The Council hold £10m invested in externally managed strategic pooled funds, where the objectives are regular revenue income and long-term price stability. These investments were made with the knowledge that there is a risk that capital value could move both up and down on a frequent basis and are intended to be held over a long period of time.

This investment includes £5m in Environmental Social and Governance (ESG) focused funds and £5m in a property fund, as listed below.

- £5m CCLA Local Authorities Property Fund.
- £3m FP Foresight UK Infrastructure Income Fund.
- £2m VT Gravis Clean Energy Income Fund.

In the current economic environment of high inflation and interest rates, the value of equity, bonds and property have fallen significantly, however we have started to see a recovery in capital values over the last six months, with the value of our strategic investments increasing by £243k to £7.939m from £7.696m at 31 March 2024. This is shown in the table below:

	CCLA Local Authorities Property Fund	FP Foresight UK Infrastructure Income Fund	VT Gravis Clean Energy Income Fund	Total
Historic Cost	5,000,000	3,000,000	2,000,000	**10,000,000**
Fair Value as at:				
30/09/2024	4,162,163	2,340,530	1,436,481	**7,939,174**
30/06/2024	4,146,861	2,249,337	1,420,444	**7,816,842**
31/03/2024	4,177,465	2,173,120	1,346,161	**7,696,746**
31/03/2023	4,342,727	2,586,831	1,852,212	**8,781,770**

This change in valuation does not currently have an impact on the revenue account or usable reserves due to a statutory override, and gains/losses will instead go to an unusable reserve. These will only be charged to revenue if/when the Council's holding in the pooled funds are sold, or if the Government removes the existing statutory override. The next review of the statutory override will take place prior to the end of 2024/25. The Council has in place a Capital Financing Reserve which can be used to mitigate any future revenue impacts should the statutory override be removed.

Budget Implications

3.15 The breakdown of the 2024/25 revenue budget and the forecast year end position for interest and capital financing, based on the period April to June 2024 is included in **Appendix 6**. An overall underspend of £1.05m is reported towards the Council's net revenue outturn. This is due to the higher than budget return on investments, as a result of interest rates being higher for longer than anticipated at budget setting, and also a saving on Minimum Revenue Provision (MRP) due to capital spend reprofiling.

4 STATUTORY CONSIDERATIONS

4.1 This report is for information only.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1 The financial implications are contained within the body of the report.

6 RISK MANAGEMENT

6.1 The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment and borrowing advice is provided by our Treasury Management consultants, Arlingclose.

6.2 The CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Corporate Audit Committee carries out this scrutiny.

6.3 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year. An extract from the risk register, detailing how the top 5 risks are managed, is included as **Appendix 8**.

7 EQUALITIES

7.1 As this report contains performance information for noting only, an Equality Impact Assessment is not considered necessary.

8 CLIMATE CHANGE

8.1 The Council will continue to avoid any direct treasury management investments in fossil fuel related companies and will engage with its advisors to explore and assess the potential for any future investment opportunities in funds with a Renewable Energy & Sustainability focus as these products continue to be developed by the market in response to the Climate & Nature Emergency agenda.

8.2 An ESG section has been included the Treasury Management Strategy document for 2024/25, with the treasury team monitoring investment options permitted under the new guidelines.

8.3 The Council holds £5m in longer term investments, split across two ESG focussed Strategic Funds, as detailed under 3.14.

9 OTHER OPTIONS CONSIDERED

9.1 None

10 CONSULTATION

10.1 Consultation has been carried out with the Cabinet Member for Resources, Executive Director - Resources and Monitoring Officer.

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Background papers	*2024/25 Treasury Management & Investment Strategy*
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1
Performance against Treasury Management Indicators agreed in Treasury Management Strategy Statement

1. Treasury Borrowing limits

These limits include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over & above the operational limit for unusual cash movements.

The Authorised limits for external debt include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over and above the operational limit for unusual cash movements.

The Operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements. This level also factors in the proposed approach to use internal cash-flow and future capital receipts as the preferred financing method for the capital programme.

	2024/25 Prudential Indicator	**Actual as at 30th September 2024**
Operational boundary – borrowing.	£413m	£253.4m
Operational boundary – other long-term liabilities	£9m	£0m
Operational boundary – TOTAL	**£422m**	**£253.4m**
Authorised limit – borrowing.	£442m	£253.4m
Authorised limit – other long-term liabilities.	£9m	£0m
Authorised limit – TOTAL	**£451m**	**£253.4m**

2. Security: Average Credit Rating*

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. A summary guide to credit ratings is set out at **Appendix 7**.

	2024/25 Prudential Indicator	**Actual as at 30th September 2024**
	Rating	Rating
Minimum Portfolio Average Credit Rating	A-	AA

***** *The calculation excludes the strategic investment in the CCLA Local Authority Property Fund and ESG focussed Investment Funds, which are unrated.*

3. Liquidity
The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	2024/25 Prudential Indicator	Minimum During year	Date of minimum
Minimum total Cash Available within 3 months	£15m	£15.3m	28-May-24

4. Interest rate exposures
This indicator is set to control the Council's exposure to interest rate risk. The upper limit represents the maximum one-year revenue impact of a 1% rise or fall in interest rates.

	2024/25 Prudential Indicator	Actual as at 30th September 2024
Upper limit on one-year revenue impact of a 1% rise in interest rates	+/- £1m	-£0.062m
Upper limit on one-year revenue impact of a 1% fall in interest rates	+/- £1m	£0.062m

The impact of this limit is that the Council should never be holding a maturity adjusted net debt / investment position on variable rates of more than £100m.

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates, which includes amounts which are maturing each year in PWLB annuity loans.

5. Maturity Structure of Current Borrowing
This indicator is set to control the Council's exposure to refinancing risk.

	Upper Limit	Lower Limit	as at 31st March 2025
	%	%	%
Under 12 months	50	Nil	18.1
12 months and within 24 months	50	Nil	2.2
24 months and within 5 years	75	Nil	11.1
5 years and within 10 years	75	Nil	21.2
10 years and within 25 years	100	25	25.7
Over 25 years	100		21.6

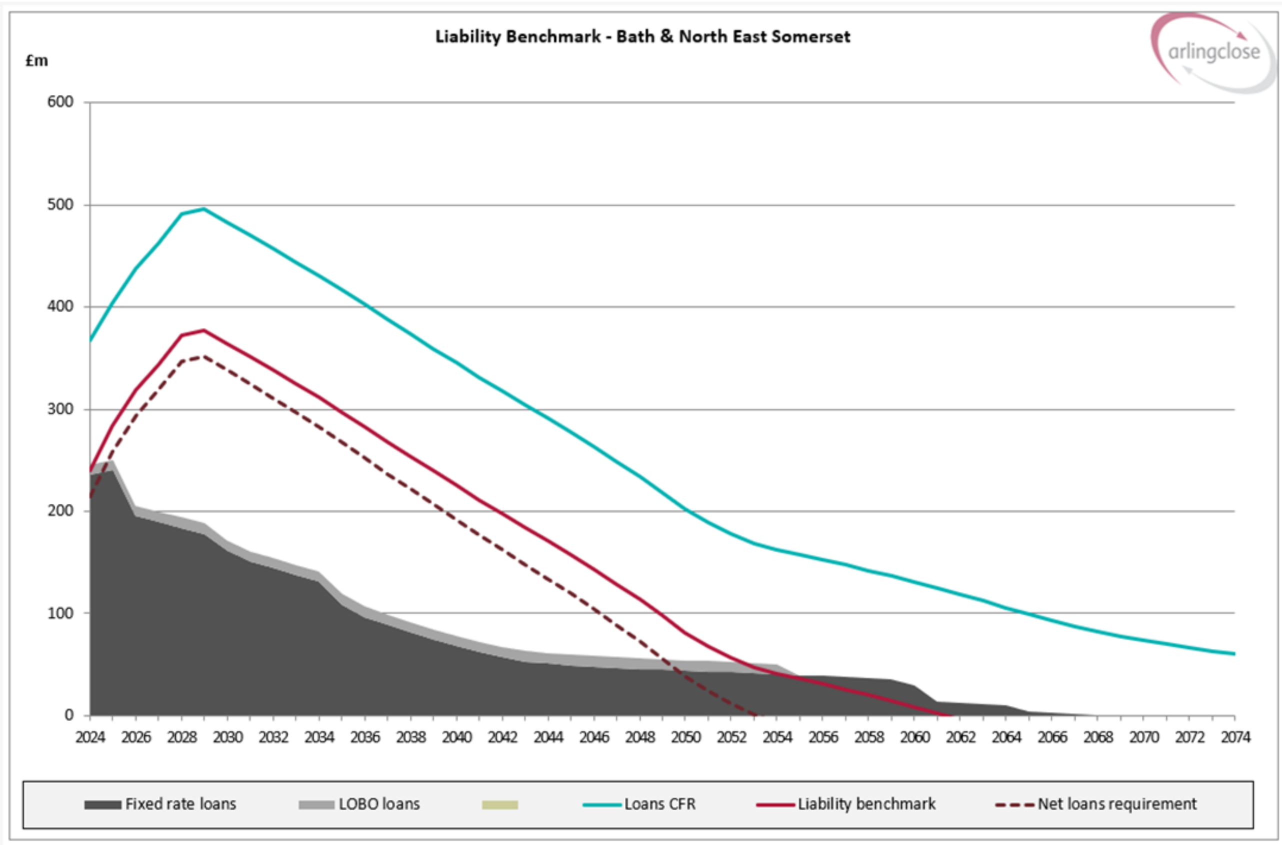
Time periods start on the first day of each financial year, with annuity loan repayments included in the year made not at the final payment date. The maturity date of borrowing is the earliest date that the lender can demand repayment. For LOBO's, this is shown at the date of maturity as the council would only consider repaying these loans if the lenders exercised their option to alter the interest rate.

6. Upper limit for total principal sums invested for over 364 days
The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2024/25 Prudential Indicator	Actual as at 30th September 2024
Limit on principal invested beyond 31st March 2024	£50m	£10m*
Limit on principal invested beyond 31st March 2025	£20m	£10m*
Limit on principal invested beyond 31st March 2026	£10m	£10m*

*The Council includes the CCLA LA Property Fund & two long term ESG focussed Investment Funds against this indicator as they are both held as Long-Term Strategic Investments.

7. Liability Benchmark
The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.



The difference between the actual borrowing (the grey slopes) and the liability benchmark (the solid red line) shows that the council is under borrowed by around £32m for the remainder of 2024/25. When it comes to new borrowing this funding gap can be used as a guide to the optimal amount and length of borrowing required to minimise interest rate and credit risk.

APPENDIX 2

The Council's Investment position at 30th September 2024

The term of investments is as follows:

Term Remaining	Balance at 30th September 2024	Comparator Balance at 30th June 2024
	£m	**£m**
Notice (instant access funds)	18.20	31.60
Up to 1 month	5.00	0.00
1 month to 3 months	0.00	0.00
3 months to 6 months	5.00	0.00
6 months to 12 months	0.00	0.00
Strategic Funds	10.00	10.00
Total	**38.20**	**41.60**

The investment figure is made up as follows:

	Balance at 30th September 2024	Comparator Balance at 30th June 2024
	£m	**£m**
B&NES Council	34.54	38.18
Schools	3.66	3.42
Total	**38.20**	**41.60**

The Council had a total average net positive balance of £45.54 during the period April 2024 to September 2024.

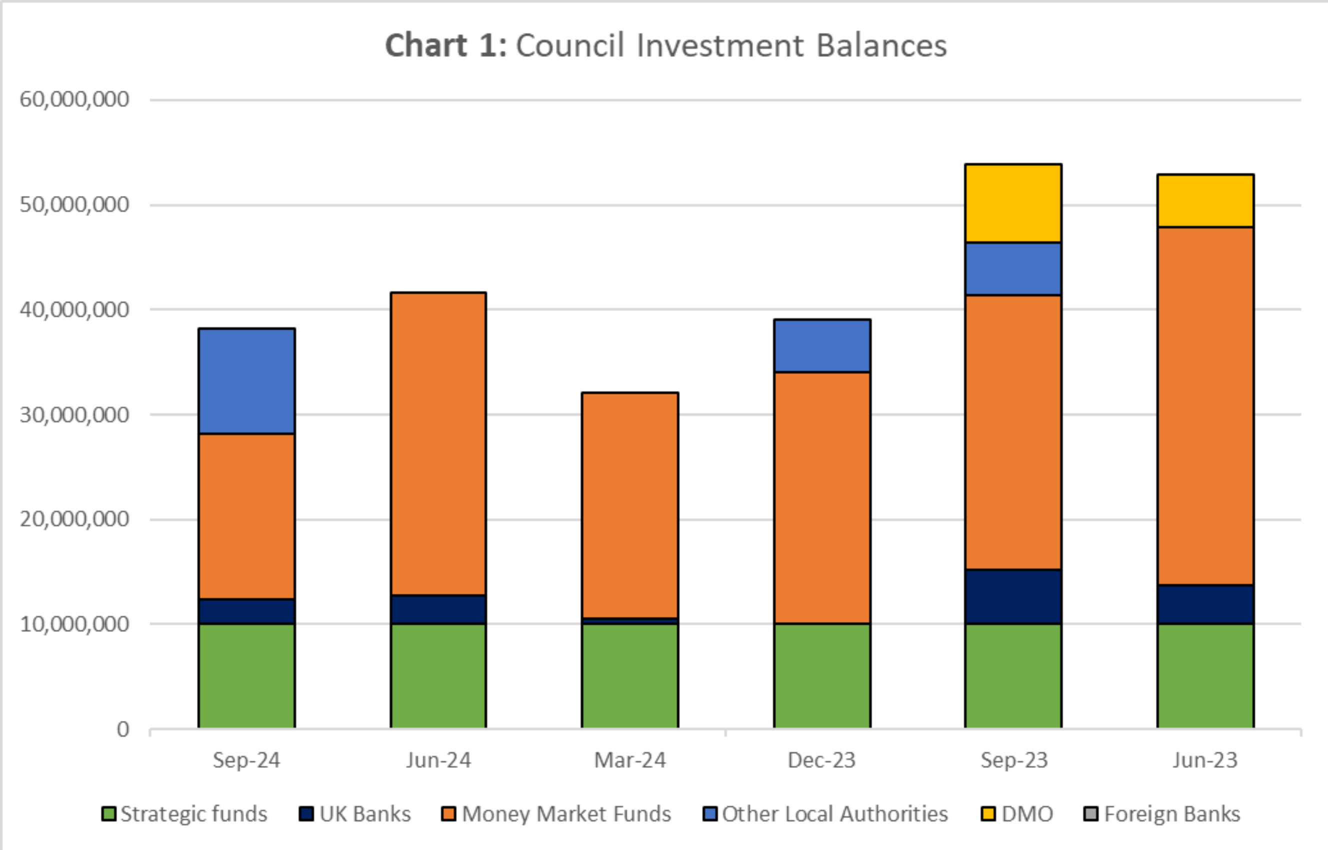


Chart 1: Council Investment Balances
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
Sep-24
Jun-24
Mar-24
Dec-23
Sep-23
Jun-23
Strategic funds
UK Banks
Money Market Funds
Other Local Authorities
DMO
Foreign Banks

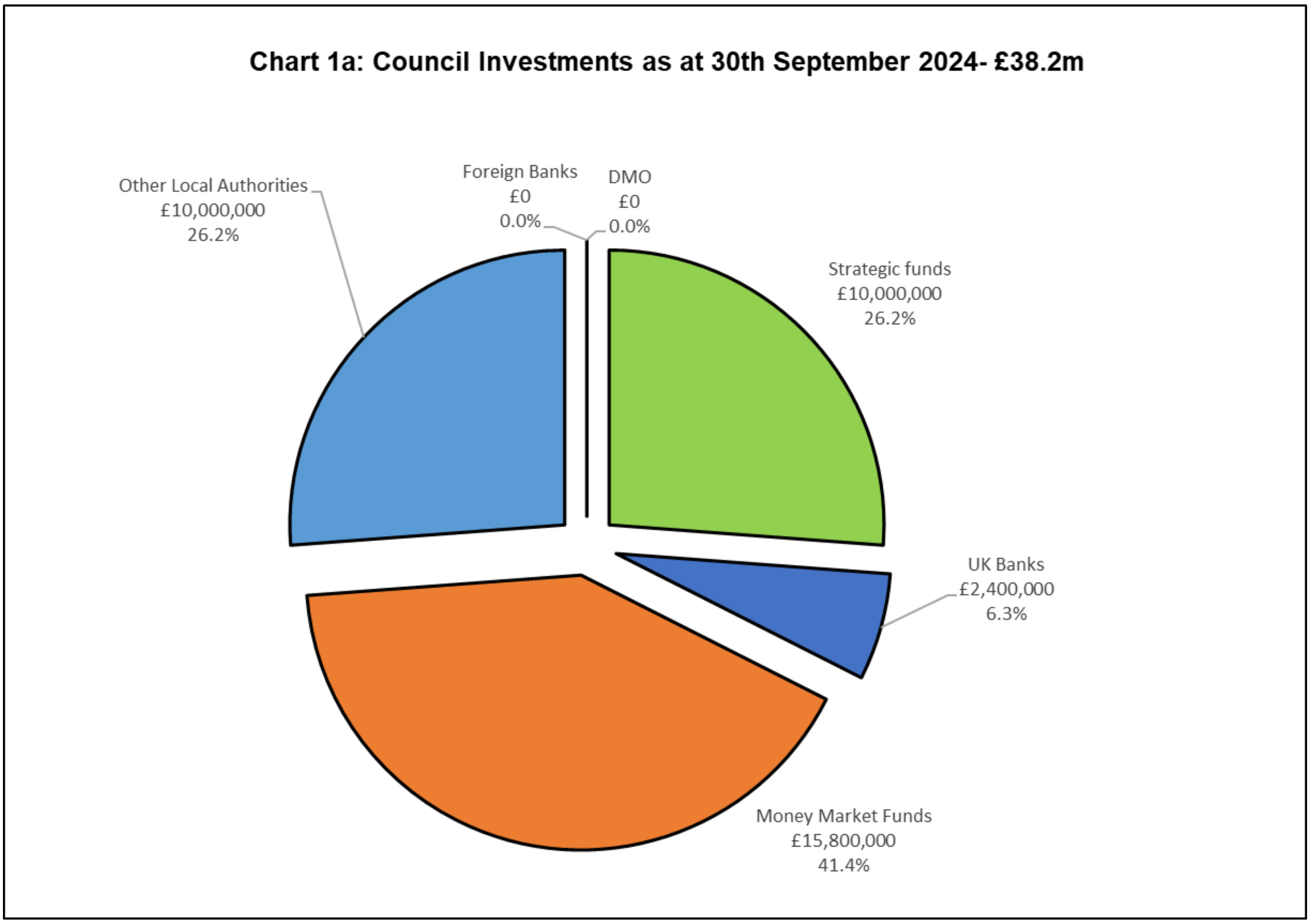


Chart 1a: Council Investments as at 30th September 2024- £38.2m
Other Local Authorities £10,000,000 26.2%
Foreign Banks £0 0.0%
DMO £0 0.0%
Strategic funds £10,000,000 26.2%
UK Banks £2,400,000 6.3%
Money Market Funds £15,800,000 41.4%

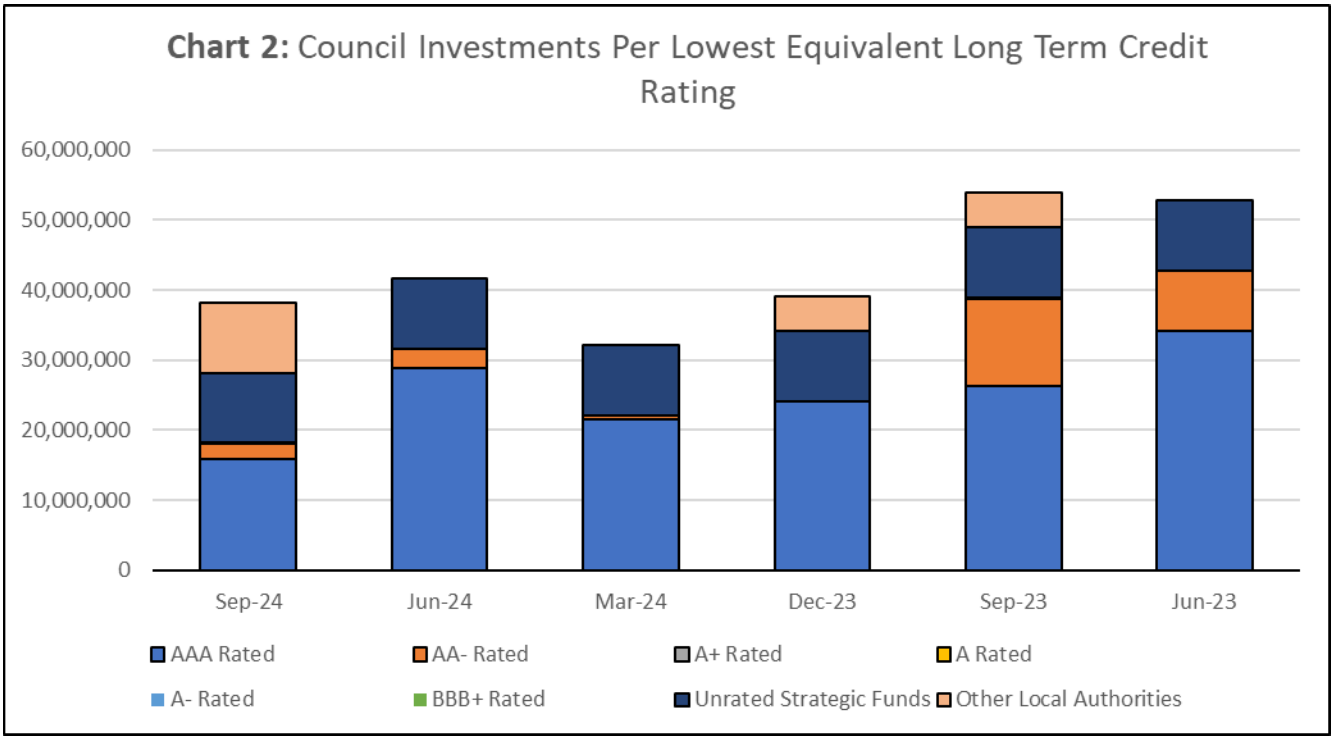


Chart 2: Council Investments Per Lowest Equivalent Long Term Credit Rating
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
Sep-24
Jun-24
Mar-24
Dec-23
Sep-23
Jun-23
AAA Rated
AA- Rated
A+ Rated
A Rated
A- Rated
BBB+ Rated
Unrated Strategic Funds
Other Local Authorities

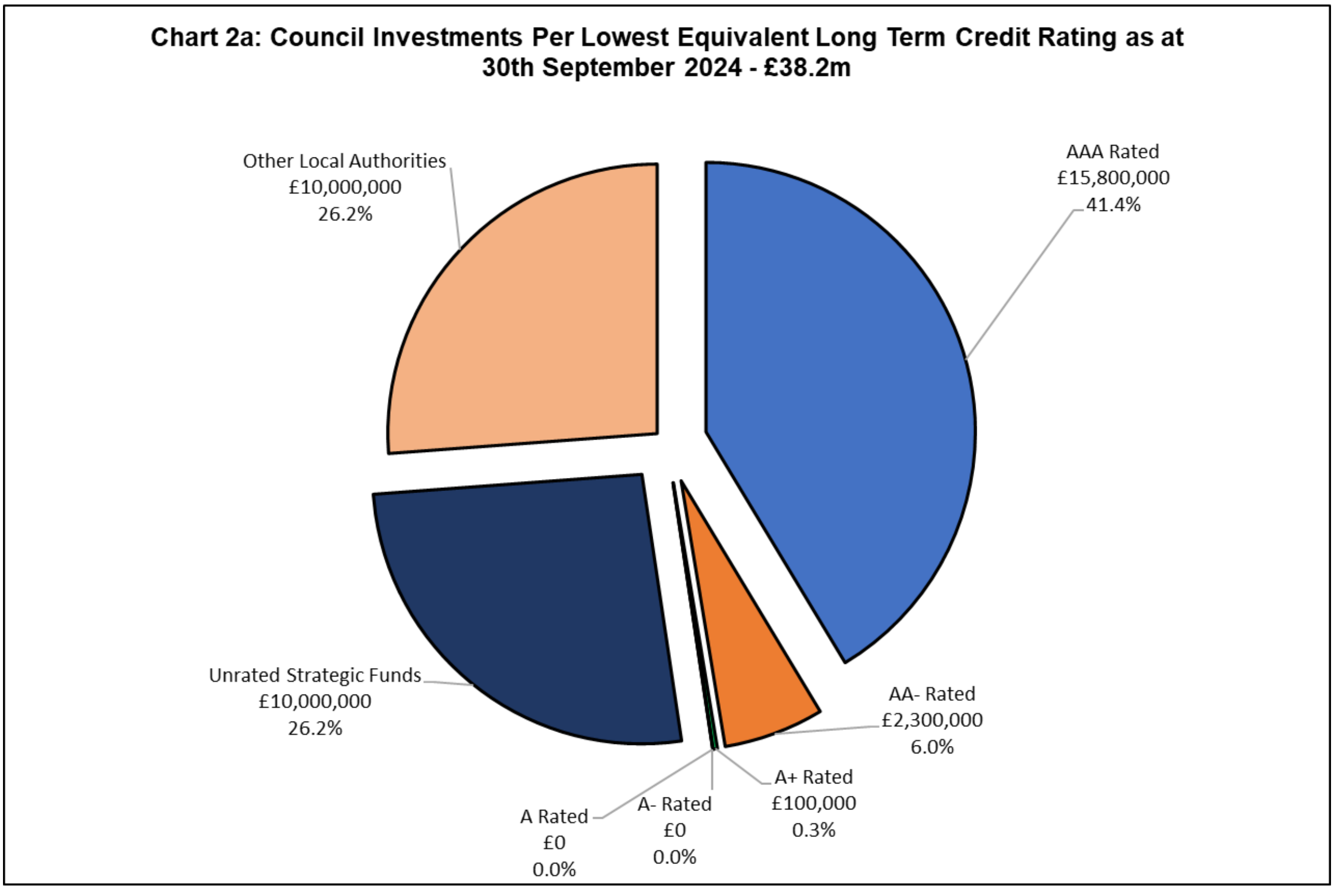


Chart 2a: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 30th September 2024 - £38.2m
Other Local Authorities
£10,000,000
26.2%
AAA Rated
£15,800,000
41.4%
Unrated Strategic Funds
£10,000,000
26.2%
AA- Rated
£2,300,000
6.0%
A+ Rated
£100,000
0.3%
A- Rated
£0
0.0%
A Rated
£0
0.0%

APPENDIX 3

Operational investment return

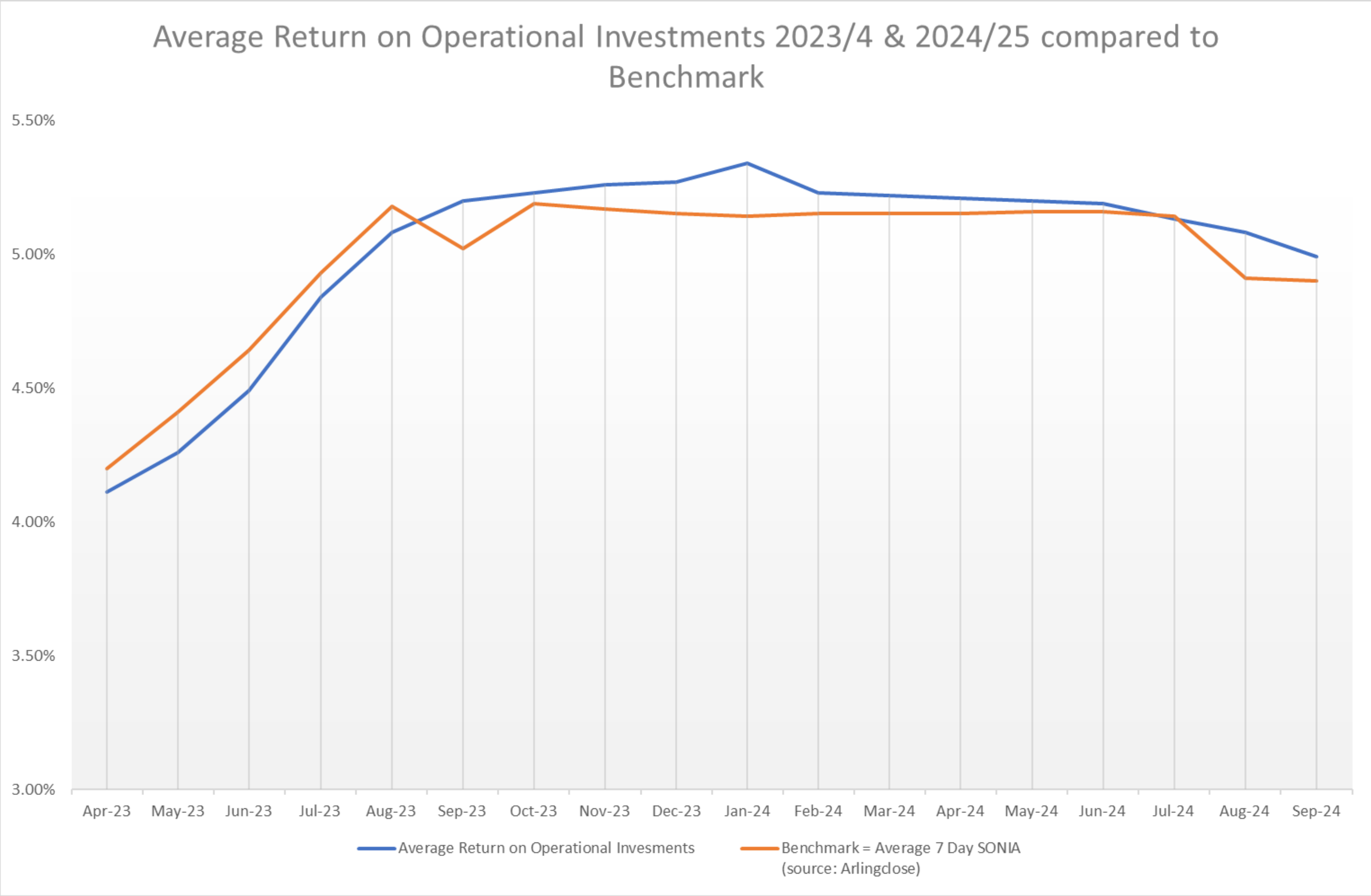
	Average rate of interest earned	Benchmark = Average 7 Day SONIA rate	Performance against Benchmark
April 2024	5.21%	5.15%	0.06%
May 2024	5.20%	5.16%	0.04%
June 2024	5.19%	5.16%	0.03%
July 2024	5.13%	5.14%	-0.01%
August 2024	5.07%	4.91%	0.16%
September 2024	4.97%	4.90%	0.07%
Average	**5.12%**	**5.07%**	**0.05%**

For comparison, the average rate of return on investments in 2023/24 was as follows:

	Average rate of interest earned	Benchmark = Average 7 Day SONIA rate	Performance against Benchmark
April 2023	4.11%	4.20%	-0.09%
May 2023	4.26%	4.41%	-0.15%
June 2023	4.49%	4.64%	-0.15%
July 2023	4.84%	4.93%	-0.09%
August 2023	5.08%	5.18%	-0.10%
September 2023	5.20%	5.02%	0.18%
October 2023	5.23%	5.19%	0.04%
November 2023	5.26%	5.17%	0.09%
December 2023	5.27%	5.15%	0.12%
January 2024	5.34%	5.14%	0.20%
February 2024	5.23%	5.15%	0.08%
March 2024	5.22%	5.15%	0.07%
Average	**4.96%**	**4.94%**	**0.02%**

Strategic investment return

The estimated average return for strategic investments is 4.35% against a budgeted return of 4.25%. In 2023/24 the average return was 4.43%


Average Return on Operational Investments 2023/4 & 2024/25 compared to Benchmark
5.50%
5.00%
4.50%
4.00%
3.50%
3.00%
Apr-23
May-23
Jun-23
Jul-23
Aug-23
Sep-23
Oct-23
Nov-23
Dec-23
Jan-24
Feb-24
Mar-24
Apr-24
May-24
Jun-24
Jul-24
Aug-24
Sep-24
Average Return on Operational Invesments
Benchmark = Average 7 Day SONIA (source: Arlingclose)

APPENDIX 4

Council's External Borrowing at 30th September 2024

Lender	Amount outstanding @ 30th June 2024 £	Change in Quarter £	Amount outstanding @ 30th September 2024 £	Start date	End date	Interest rate
Long term						
PWLB489142	10,000,000	-	10,000,000	15/10/2004	15/10/2034	4.75%
PWLB497233	5,000,000	-	5,000,000	12/05/2010	15/08/2035	4.55%
PWLB497234	5,000,000	-	5,000,000	12/05/2010	15/02/2060	4.53%
PWLB498834	5,000,000	-	5,000,000	05/08/2011	15/02/2031	4.86%
PWLB498835	10,000,000	-	10,000,000	05/08/2011	15/08/2029	4.80%
PWLB498836	15,000,000	-	15,000,000	05/08/2011	15/02/2061	4.96%
PWLB503684	5,300,000	-	5,300,000	29/01/2015	08/04/2034	2.62%
PWLB503685	5,000,000	-	5,000,000	29/01/2015	08/10/2064	2.92%
PWLB505122	14,823,932	-	14,823,932	20/06/2016	20/06/2041	2.36%
PWLB508126	8,109,185	-	8,109,185	06/12/2018	20/06/2043	2.38%
PWLB508202	9,362,934	-	9,362,934	12/12/2018	20/06/2068	2.59%
PWLB508224	4,041,597	-	4,041,597	13/12/2018	20/06/2043	2.25%
PWLB505744	7,415,556	(200,774)	7,214,782	24/02/2017	15/08/2039	2.28%
PWLB505966	7,740,207	(175,426)	7,564,781	04/04/2017	15/02/2042	2.26%
PWLB506052	6,577,262	(149,207)	6,428,055	08/05/2017	15/02/2042	2.25%
PWLB506255	6,479,694	-	6,479,694	10/08/2017	10/04/2067	2.64%
PWLB506729	7,932,810	-	7,932,810	13/12/2017	10/10/2042	2.35%
PWLB506995	7,968,665	-	7,968,665	06/03/2018	10/10/2042	2.52%
PWLB506996	8,442,237	-	8,442,237	06/03/2018	10/10/2047	2.62%
PWLB507749	8,284,629	(167,491)	8,117,138	10/09/2018	20/07/2043	2.42%
PWLB508485	18,912,993	(116,375)	18,796,618	11/02/2019	20/07/2068	2.52%
PWLB509840	8,447,468	(178,597)	8,268,870	04/09/2019	20/07/2044	1.40%
PWLB677322	4,885,019	-	4,885,019	22/11/2023	22/11/2038	4.88%
PWLB687799	5,000,000	(120,570)	4,879,430	29/12/2023	29/12/2038	4.28%
PWLB700594	10,000,000	(236,245)	9,763,755	09/02/2024	09/02/2039	4.54%

Lender	Amount outstanding @ 30th June 2024 £	Change in Quarter £	Amount outstanding @ 30th September 2024 £	Start date	End date	Interest rate
KBC Bank N.V *	5,000,000	-	5,000,000	08/10/2004	08/10/2054	4.50%
KBC Bank N.V *	5,000,000	-	5,000,000	08/10/2004	08/10/2054	4.50%
Medium term						
PWLB711937	10,000,000	-	10,000,000	15/03/2024	30/04/2025	5.42%
PWLB713077	5,000,000	-	5,000,000	20/03/2024	30/04/2025	5.37%
PW715777	5,000,000	-	5,000,000	28/03/2024	30/04/2025	5.34%
West of England Combined Authority	5,000,000	-	5,000,000	26/04/2024	25/04/2025	5.25%
South Oxfordshire DC	5,000,000	-	5,000,000	26/04/2024	25/04/2025	5.25%
West of England Combined Authority	5,000,000	-	5,000,000	30/04/2024	29/04/2025	5.35%
Portsmouth C.C.	5,000,000	-	5,000,000	08/05/2024	07/05/2025	5.35%
Total Borrowing	**254,724,188**	**(1,344,687)**	**253,379,502**			

*All LOBO's (Lender Option / Borrower Option) have reached the end of their fixed interest period and have reverted to the variable rate of 4.50%. The lender has the option to change the interest rate at 6 monthly intervals. Should the lender use the option to change the rate, then at this point the borrower has the option to repay the loan without penalty.

The "Change in Quarter" movement on some of the PWLB loans reflects that these loans have an annuity repayment profile, so repayments of principal are made on a 6 monthly basis throughout the life of the loans.

APPENDIX 5: Arlingclose Economic & Market Review

Economic background: UK headline consumer price inflation remained around the Bank of England (BoE) target later in the period, falling from an annual rate of 3.2% in March to 2.0% in May and then rebounding marginally to June to 2.2% in July and August, as was expected, due to base effects from energy prices. Core and services price inflation remained higher at 3.6% and 5.6% respectively in August.

The UK economy continued to expand over the period, albeit slowing from the 0.7% gain in the first calendar quarter to 0.5% (downwardly revised from 0.6%) in the second. Of the monthly figures, the economy was estimated to have registered no growth in July.

Labour market data was slightly better from a policymaker perspective, showing an easing in the tightness of the job market, with inactivity rates and vacancies declining. However, a degree of uncertainty remains given ongoing issues around the data collected for the labour force survey by the Office for National Statistics. Figures for the three months to July showed the unemployment rate fell to 4.1% (3mth/year) from 4.4% in the previous three-month period while the employment rate rose to 74.8% from 74.3%.

Over the same period average regular earnings (excluding bonuses) was 5.1%, down from 5.4% in the earlier period, and total earnings (including bonuses) was 4.0% (this figure was impacted by one-off payments made to NHS staff and civil servants in June and July 2023). Adjusting for inflation, real regular pay rose by 2.2% in May to July and total pay by 1.1%.

With headline inflation lower, the BoE cut Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. The decision was finely balanced, voted by a 5-4 majority with four members preferring to hold at 5.25%. At the September MPC meeting, committee members voted 8-1 for no change at 5.00%, with the lone dissenter preferring Bank Rate to be cut again to 4.75%. The meeting minutes and vote suggested a reasonably hawkish tilt to rates, with sticky inflation remaining a concern among policymakers.

The latest BoE Monetary Policy Report, published in August, showed policymakers expected GDP growth to continue expanding during 2024 before falling back and moderating from 2025 to 2027. Unemployment was forecast to stay around 4.5% while inflation was shown picking up in the latter part of 2024 as the previous years' energy price declines fell out of the figures before slipping below the 2% target in 2025 and remaining there until early 2027.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would steadily fall from the 5.25% peak, with the first cut in August being followed by a series of further cuts, with November 2024 the likely next one, taking Bank Rate down to around 3% by the end of 2025.

The US Federal Reserve (the Fed) also cut interest rates during the period, reducing the Federal Funds Rate by 0.50% to a range of 4.75%-5.00% at its policy meeting in September. The forecasts released at the same time by the central bank suggested a further 1.00% of easing is expected by the end of the calendar year, followed by the same amount in 2025 and then a final 0.50% of cuts during 2026.

Having first reduced interest rates in June, the European Central Bank (ECB) held steady in July before cutting again in September, reducing its main refinancing rate to 3.65% and its deposit rate to 3.50%. Unlike the Fed, the ECB has not outlined a likely future path of rates, but inflation projections remain in line with the central bank’s previous forecasts where it will remain above its 2% target until 2026 on an annual basis.

Financial markets: Sentiment in financial markets continued to mostly improve over the period, but the ongoing trend of bond yield volatility remained. The general upward trend in yields in the early part of the period was reversed in the later part, and yields ended the half-year not too far from where they started. However, the volatility in response to economic, financial and geopolitical issues meant it was a bumpy ride for bond investors during that time.

Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at 4.00% but hit a high of 4.41% in May and a low of 3.76% in mid-September. While the 20-year gilt started at 4.40% and ended at 4.51% but hit a high of 4.82% in May and a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.12% over the period to 30th September.

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

Having had its outlook increased by Fitch and ratings by S&P earlier in the period, Moody’s upgraded Transport for London’s rating to A2 from A3 in July.

Moody’s also placed National Bank of Canada on Rating Watch for a possible upgrade, revising the outlook on Standard Chartered to Positive, the outlook to Negative on Toronto Dominion Bank, and downgrading the rating on Close Brothers to A1 from Aa3.

S&P upgraded the rating on National Bank of Canada to A+ from A, and together with Fitch, the two rating agencies assigned Lancashire County Council with a rating of AA- and A+ respectively.

Credit default swap prices were generally lower at the end of the period compared to the beginning for the vast majority of the names on UK and non-UK lists. Price volatility over the period was also generally more muted compared to previous periods.

Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority’s counterparty list recommended by Arlingclose remain under constant review.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2024/25

April 2024 to September 2025	YEAR END POSITION			ADV/FAV
	Budgeted Spend or (Income) £'000	Forecast Spend or (Income) £'000	Forecast over or (under) spend £'000	
Interest & Capital Financing				
- Debt Costs	9,303	9,273	(30)	FAV
- Internal Repayment of Loan Charges	(15,719)	(15,719)	0	-
- Ex Avon Debt Costs	860	890	30	ADV
- Minimum Revenue Provision (MRP)	11,947	11,147	(800)	FAV
- Interest on Balances	(1,485)	(1,735)	(250)	FAV
Total	**4,906**	**3,856**	**(1,050)**	**FAV**

APPENDIX 7

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan, or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation, or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicates an issuer that has entered into bankruptcy filings, administration, receivership, liquidation, or other formal winding-up procedure, or which has otherwise ceased business.

APPENDIX 8

Extract from Treasury Management Risk Register – Top 5 Risks

			Current Risk Score												Trend		
			Likelihood					Impact									
	Risk Nr	Description	1	2	3	4	5	1	2	3	4	5	This Period	Periods Ago			Management Action
			L		M	H		L		M	H			1	2	3	
1	R06	Inflation Risk The risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.			3						4		12	12	12	12	Liaise with Chief Finance Officer to ensure Inflation both current and projected forms part of the medium term financial planning framework.
2	R09	Legal & Regulatory Risk - Changes Risk that regulatory changes are not planned for and adversely impact the Council's budget and or ability to borrow				4				3			12	12	12	12	Read, resond and calculate the impact of Local Government accounting, investment and capital financing / borrowing consultations have on treasury management. Plan for the implementation of new regulations, conditions and accounting treatment
3	R04	Interest Rate Risk The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately			3					3			9	9	9	9	Monitor interest rates on a monthly basis and compare with budget to determine impact on Council finances and report through monthly Treasury Dashboard. Report implication of interest rate changes to Cabinet as part of quarterly Treasury Management Performance Report. Explore alternative potential investment products following new freedoms - including corporate bonds, gilts, Certificate of Deposits etc. Discussion with our treasury advisors on any new borrowing in terms of duration and timing given the current volatility in the gilt market and PWLB interest rates.
4	R01	Credit & Counterparty Risk - Default Risk The risk of failure by a third party to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.		2							4		8	8	8	8	Complete annual review of Counterparty List with external advisors to feed into Treasury Management Strategy. Regular review of counterparty financial standing through use of credit ratings, credit default swap rates and national press coverage and liaison with Chief Finance Officer and external advisors to consider any issues / change in circumstances of counterparties.
5	R08	Legal & Regulatory Risk - Acting Outside Powers The risk that the organisation itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.		2							4		8	8	8	8	Obtain independent review of the council's strategy and polices to ensure compliance with the CIPFA Code of Practice on Treasury Management Local Authorties (Capital Finance and Accounting) (England) Regulations, Local Government Act and any other regulation or guidance as specified by the Secretary of State.. Stay on top of Government and CIPFA consultations on Treasury and Capital Financing regulations