Bath & North East Somerset Council		
MEETING	**Cabinet**	
MEETING DATE:	**13th February 2025**	EXECUTIVE FORWARD PLAN REFERENCE: E3554
TITLE:	**Treasury Management Performance Report to 31st December 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 on 31st December 2024
Appendix 3 – Average monthly rate of return for the first Nine months of 2024/25
Appendix 4 – The Council's External Borrowing Position on 31st December 2024
Appendix 5 – Arlingclose's Economic & Market Review Q3 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 nine months of 2024/25.

2 RECOMMENDATION

The Cabinet notes.

2.1 The Treasury Management Report to 31st December 2024, prepared in accordance with the CIPFA Treasury Code of Practice; and

2.2 The Treasury Management Indicators to 31st December 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 – 31st December 2024 is 5.05%, which is 0.09% above the 7 Day SONIA benchmark rate of 4.96%. For the same period, it is estimated that strategic investments earned 4.32% which is 0.07% 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 nine months of 2024/25 is included in **Appendix 5**. The main headlines are as follows:

- Interest Rates, the Bank of England reduced the Bank Rate to 4.75% at its meeting in November. In December rates remained unchanged.

- UK Inflation rose to 2.6% in November up from 2.3% in October and broadly in line with expectations. Inflation is expected to remain above the 2% target in 2025 hitting 2.75% by the middle of 2025.

- The UK Economy flatlined in quarter 3, July – September 2024, at 0% and with October growth contracting by 0.1% it seems that the story for Q4 2024 will be similar.

- Gilt yields continued to be volatile with the 10-year UK benchmark gilt rising from 3.94% to peak at 4.64% in December 2024 and a low of 3.76% in September before ending the quarter at 4.57%.

- The 7-day average SONIA (Sterling Overnight rate) for the first nine months of 2024/25 is 4.96%. This is the benchmark rate used by the council for non-strategic investments.

Borrowing

3.5 The Council's external borrowing as of 31st December 2024 totalled £267.0m and is detailed in **Appendix 4**. This includes £35m in new short-term loans taken out year to date. This includes £10m to cover the annual pension contribution prepayment in April, and £15m in November & December to maintain our liquidity indicator level, as well as £10m of borrowing to replace maturing loans. 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 of 1st April 2024	**246.010**
New Loans Taken	35.000
Maturity Loan Repayments	(10.000)
PWLB Annuity Loan principal repayments	(4.056)
Balance as of 31st December 2024	**266.954**

3.6 The Council's Capital Financing Requirement (CFR) was forecasted to be £441.7m on 31st March 2025 based on the Capital Programme agreed in February 2024, including both fully and provisionally approved schemes. The Actual CFR on 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 £267.0m 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 £9m and circa 26 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 of 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 On 31st December 2024, the Council had £43.1m in investments, with £33.1m in short term liquid investments and £10.0m 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)	5.06%
Call Accounts	4.59%
Fixed Deposits	5.15%
Operational Investments Total	**5.05%**
CCLA Local Authorities Property Fund	4.18%
FP Foresight UK Infrastructure Income Fund	4.42%
VT Gravis Clean Energy Income Fund	4.45%
Strategic Investments Total (Est.)	**4.32%**

3.13 On 31st December 2024, the Council has earned 5.05% from Operational investments, which is 0.09% above the 7-day SONIA benchmark Rate of 4.96%. Strategic Fund are estimated to have earned 4.32%, which is 0.07% above the budgeted rate of 4.25%.

3.14 The Council holds £10.0m 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.

The strategic pooled fund investments include £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, and early signs of a recovery in capital values in the first six months of 2024/25 have reversed in the last three months, with the value of the strategic investments haven fallen to £7.635m, £61k below the 31 March 2024 total of £7.696m This movement 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:				
30/12/2024	4,223,371	2,148,249	1,264,035	**7,635,655**
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 government is currently carrying out a consultation of the statutory override and we expect to hear the results before 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 December 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 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.

Contact person	*Claire Read - 01225 477109; Jamie Whittard - 01225 477213 Claire_Read@BATHNES.GOV.UK: Jamie_Whittard@BATHNES.GOV.UK*
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 of 31st December 2024
Operational boundary – borrowing.	£413m	£267.0m
Operational boundary – other long-term liabilities	£9m	£0m
Operational boundary – TOTAL	**£422m**	**£267.0m**
Authorised limit – borrowing.	£442m	£267.0m
Authorised limit – other long-term liabilities.	£9m	£0m
Authorised limit – TOTAL	**£451m**	**£267.0m**

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 of 31st December 2024
	Rating	Rating
Minimum Portfolio Average Credit Rating	A-	A+

* *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 of 31st December 2024
Upper limit on one-year revenue impact of a 1% rise in interest rates	+/- £1m	-£0.006m
Upper limit on one-year revenue impact of a 1% fall in interest rates	+/- £1m	£0.006m

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 of 31st March 2025
	%	%	%
Under 12 months	50	Nil	22.75
12 months and within 24 months	50	Nil	2.10
24 months and within 5 years	75	Nil	10.43
5 years and within 10 years	75	Nil	20.05
10 years and within 25 years	100	25	24.27
Over 25 years	100		20.40

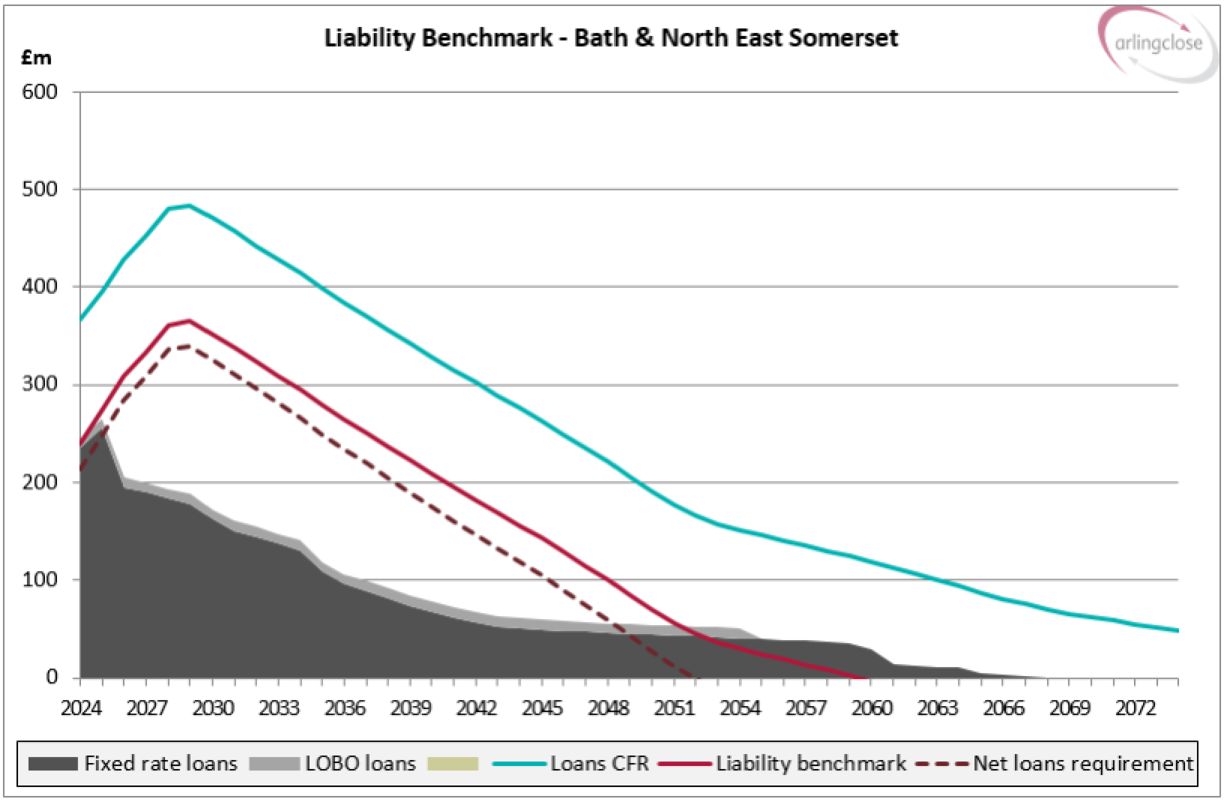
Time periods start on the first day of each financial year, with annuity loan repayments included in the year made not at the final payment date. The maturity date of borrowing is the earliest date that the lender can demand repayment. For LOBO's, this is shown at the date of maturity as the council 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. This is done by setting a limit on the value of investments that at inception are for over 364 days or have no fixed maturity date and intended to be held for the medium to long term. 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 of 31st December 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 circa £9m 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 on 31st December 2024

The term of investments is as follows:

Term Remaining	**Balance at 31st December 2024**	**Comparator** Balance at 30th September 2024
	£m	**£m**
Notice (instant access funds)	13.10	18.20
Up to 1 month	0.00	5.00
1 month to 3 months	20.00	0.00
3 months to 6 months	0.00	5.00
6 months to 12 months	0.00	0.00
Strategic Funds	10.00	10.00
Total	**43.10**	**38.20**

The investment figure is made up as follows:

	Balance at 31st December 2024	**Comparator** Balance at 30th September 2024
	£m	**£m**
B&NES Council	39.13	34.54
Schools	3.97	3.66
Total	**43.10**	**38.20**

The Council had a total average net positive balance of £47.65m during the period April 2024 to December 2024.

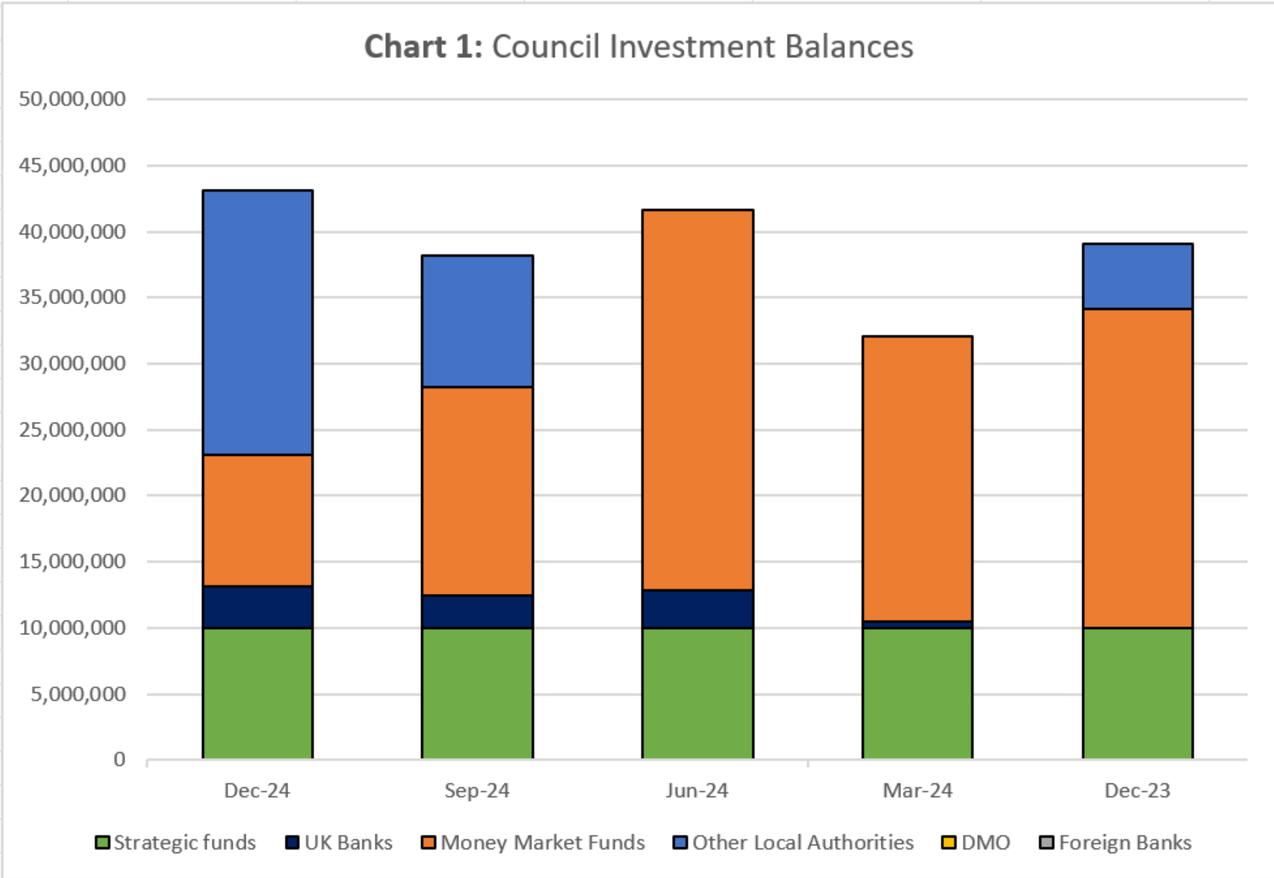


Chart 1: Council Investment Balances
50,000,000
45,000,000
40,000,000
35,000,000
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
Dec-24
Sep-24
Jun-24
Mar-24
Dec-23
Strategic funds
UK Banks
Money Market Funds
Other Local Authorities
DMO
Foreign Banks

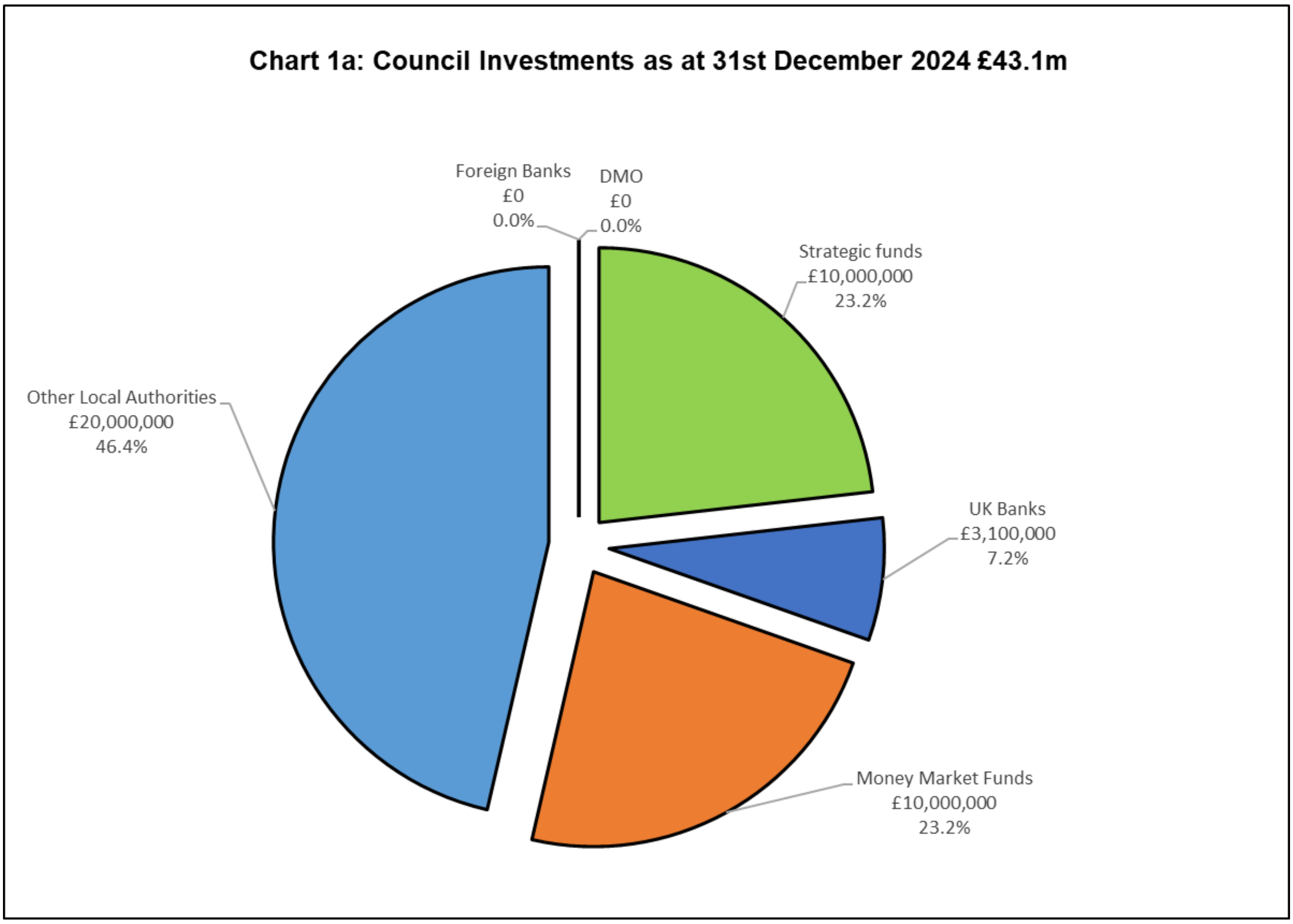


Chart 1a: Council Investments as at 31st December 2024 £43.1m
Foreign Banks
£0
0.0%
DMO
£0
0.0%
Strategic funds
£10,000,000
23.2%
Other Local Authorities
£20,000,000
46.4%
UK Banks
£3,100,000
7.2%
Money Market Funds
£10,000,000
23.2%

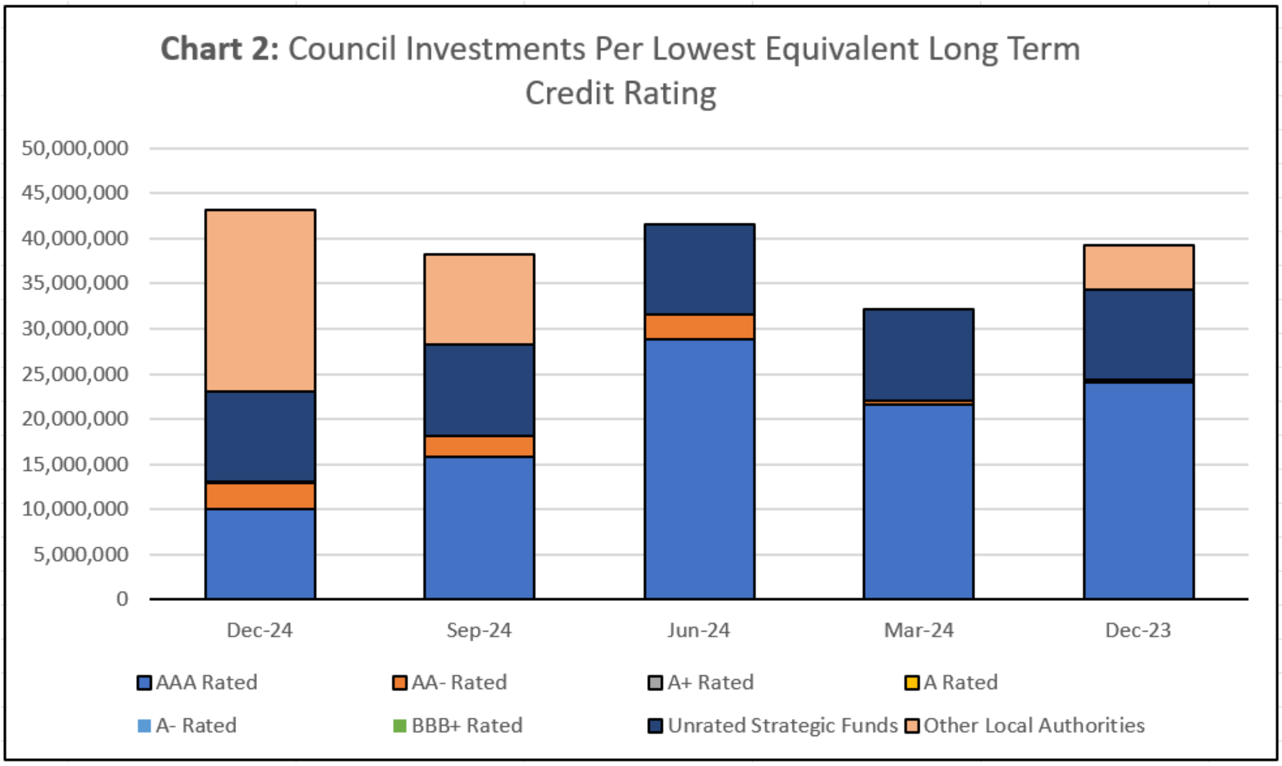


Chart 2: Council Investments Per Lowest Equivalent Long Term Credit Rating
50,000,000
45,000,000
40,000,000
35,000,000
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
Dec-24
Sep-24
Jun-24
Mar-24
Dec-23
AAA Rated
AA- Rated
A+ Rated
A Rated
A- Rated
BBB+ Rated
Unrated Strategic Funds
Other Local Authorities

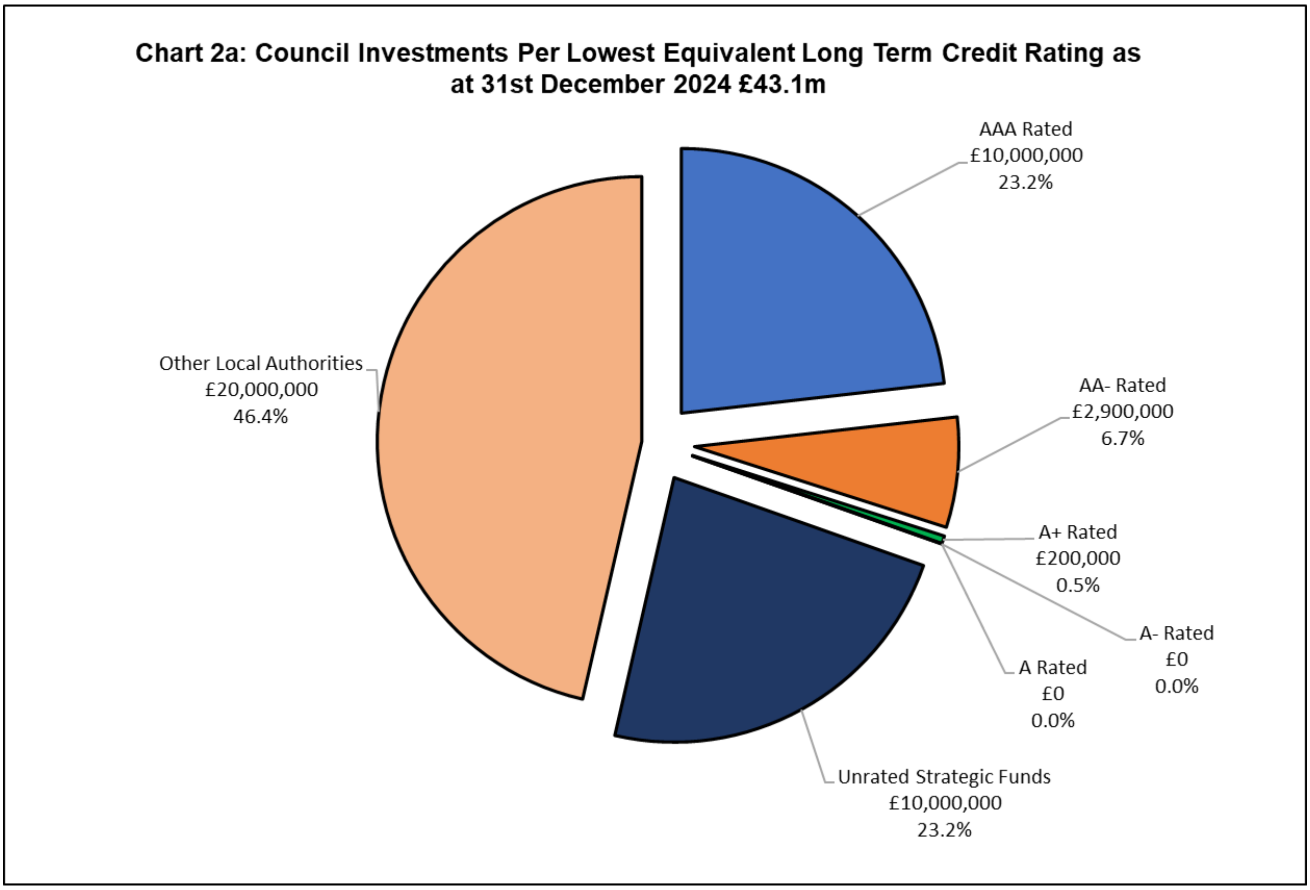


Chart 2a: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 31st December 2024 £43.1m
AAA Rated
£10,000,000
23.2%
AA- Rated
£2,900,000
6.7%
A+ Rated
£200,000
0.5%
A- Rated
£0
0.0%
A Rated
£0
0.0%
Unrated Strategic Funds
£10,000,000
23.2%
Other Local Authorities
£20,000,000
46.4%

APPENDIX 3

Operational investment return

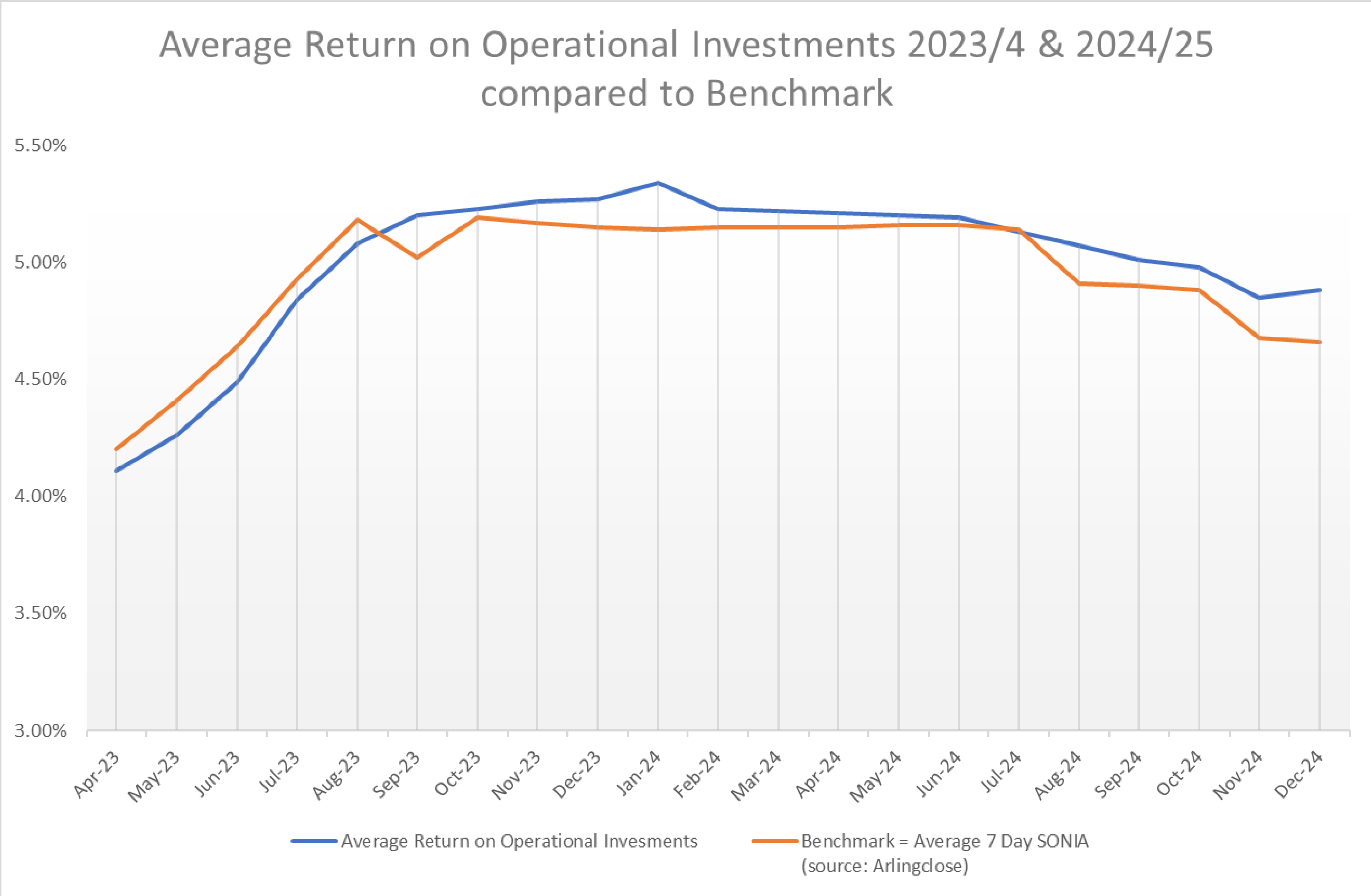
	Average rate of interest earned	Benchmark = Average 7 Day SONIA rate	Performance against Benchmark
April 2024	5.21%	5.15%	0.06%
May 2024	5.20%	5.16%	0.04%
June 2024	5.19%	5.16%	0.03%
July 2024	5.13%	5.14%	-0.01%
August 2024	5.07%	4.91%	0.16%
September 2024	5.01%	4.90%	0.11%
October 2024	4.98%	4.88%	0.10%
November 2024	4.85%	4.68%	0.17%
December 2024	4.88%	4.66%	0.22%
Average	**5.05%**	**4.96%**	**0.09%**

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 4.32% 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
Oct-24
Nov-24
Dec-24
Average Return on Operational Invesments
Benchmark = Average 7 Day SONIA (source: Arlingclose)

APPENDIX 4

Council's External Borrowing on 31st December 2024

Lender	Amount outstanding @ 30th September 2024 £	Change in Quarter £	Amount outstanding @ 31st December 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	(356,903)	**14,467,029**	20/06/2016	20/06/2041	2.36%
PWLB508126	8,109,185	(170,020)	**7,939,165**	06/12/2018	20/06/2043	2.38%
PWLB508202	9,362,934	(57,663)	**9,305,271**	12/12/2018	20/06/2068	2.59%
PWLB508224	4,041,597	(85,827)	**3,955,770**	13/12/2018	20/06/2043	2.25%
PWLB505744	7,214,782	-	**7,214,782**	24/02/2017	15/08/2039	2.28%
PWLB505966	7,564,781	-	**7,564,781**	04/04/2017	15/02/2042	2.26%
PWLB506052	6,428,055	-	**6,428,055**	08/05/2017	15/02/2042	2.25%
PWLB506255	6,479,694	(40,948)	**6,438,746**	10/08/2017	10/04/2067	2.64%
PWLB506729	7,932,810	(172,399)	**7,760,411**	13/12/2017	10/10/2042	2.35%
PWLB506995	7,968,665	(170,383)	**7,798,282**	06/03/2018	10/10/2042	2.52%
PWLB506996	8,442,237	(131,102)	**8,311,135**	06/03/2018	10/10/2047	2.62%
PWLB507749	8,117,138	-	**8,117,138**	10/09/2018	20/07/2043	2.42%
PWLB508485	18,796,618	-	**18,796,618**	11/02/2019	20/07/2068	2.52%
PWLB509840	8,268,870	-	**8,268,870**	04/09/2019	20/07/2044	1.40%
PWLB677322	4,885,019	(117,787)	**4,767,232**	22/11/2023	22/11/2038	4.88%
PWLB687799	4,879,430	(123,150)	**4,756,280**	29/12/2023	29/12/2038	4.28%
PWLB700594	9,763,755	-	**9,763,755**	09/02/2024	09/02/2039	4.54%

Lender	Amount outstanding @ 30th September 2024 £	Change in Quarter £	Amount outstanding @ 31st December 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%
PWLB715777	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%
Tunbridge Wells B.C.	-	5,000,000	**5,000,000**	14/11/2024	14/11/2025	4.85%
PWLB781146	-	10,000,000	**10,000,000**	09/12/2024	09/12/2025	5.09%
Total Borrowing	**253,379,502**	**13,573,817**	**266,953,319**			

*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: The Chancellor of the Exchequer delivered her Autumn Budget at the end of October. Based on the plans announced, the Office for Budget Responsibility reported they would provide a short-term boost to GDP growth before weakening it further out and push inflation higher over the medium-term. This change to the economic and inflation outlook caused financial markets to readjust expectations of Bank of England (BoE) Bank Rate and gilt yields higher. The council's treasury management advisor, Arlingclose, also revised its interest rate forecast upwards in November, with Bank Rate expected to eventually fall to 3.75%.

UK annual Consumer Price Index (CPI) inflation remained above the Bank of England (BoE) 2% target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices rose 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, and remained elevated at 3.6% in November against a forecast of 3.5% and compared to 3.3% in the previous month.

UK economy GDP registered no growth (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the ONS. Of the monthly GDP figures, the economy was estimated to have contracted by 0.1% in October, following the same size decline in September.

The labour market continued to loosen, but the ONS data still require treating with some caution. Recent figures reported the unemployment rate rose to 4.3% (3mth/year) in the three months to October 2024 and economic inactivity fell to 21.7%. The ONS reported pay growth over the same three-month period at 5.2% for both regular earnings (excluding bonuses) and for total earnings.

The BoE's Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting (5-4 vote to cut). At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%. The meeting minutes suggested a reasonably dovish tilt to rates with the outlook for economic growth a concern among policymakers as the Bank downgraded its Q4 GDP forecast from 0.3% to 0.0%.

The November Monetary Policy Report (MPR) showed the BoE expected GDP growth to pick up to around 1.75% (four-quarter GDP) in the early period of the forecast horizon before falling back. The impact from the government's Autumn Budget pushed GDP higher in 2025 than was expected in the August MPR, before becoming weaker. The outlook for CPI inflation showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. Over the medium-term, once the near-term pressures eased, inflation was expected to stabilise around the 2% target. The unemployment rate was expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would continue to fall from the 5.25% peak. From the first cut in August 2024, followed by the next in November which took Bank Rate to 4.75%, February 2025 is deemed the likely month for the next reduction, with other cuts following steadily in line with MPR months to take Bank Rate down to around 3.75% by the end of 2025.

The US Federal Reserve continued cutting interest rates during the period, reducing the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. Further interest rate cuts are expected into 2025, but uncertainties around the potential inflationary impact of President-elect Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

The European Central Bank (ECB) also continued its rate cutting cycle, reducing its three key policy rates by 0.25% in December. Euro zone inflation rose above the ECB 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

Financial markets: Financial market sentiment was generally positive over the period, but economic, financial and geopolitical issues meant the ongoing trend of bond yield volatility very much remained. In the last few months of the period, there was a general rising trend in yields due to upwardly revised interest rate and inflation expectations, causing gilt yields to end the period at substantially higher levels to where they began.

Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at a high of 4.57%, having reached a low of 3.76% in mid-September. While the 20-year gilt started at 4.40%, ended at a high of at 5.08% and hit a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.01% over the period to 31st December.

Credit review: In October, Arlingclose revised its advised recommended maximum unsecured duration limit on most banks on its counterparty list to six months. Duration advice for the remaining five institutions, including the newly added Lloyds Bank Corporate Markets, was kept to a maximum of 100 days.

Fitch revised the outlooks on Royal Bank of Scotland, NatWest Markets PLC, and National Westminster Bank to positive from stable, while affirming their long-term ratings at A+.

Moody's upgraded the ratings on National Bank of Canada to Aa2 from Aa3, having previously had the entity on Rating Watch for a possible upgrade. Moody's also upgraded the ratings on The Co-operative Bank to A3 (from Baa3) and downgraded the ratings on Coventry Building Society to A3 (from A2) and Canada's Toronto-Dominion Bank to Aa2 (from Aa1).

S&P also downgraded Toronto-Dominion Bank, to A+ from AA-, but kept the outlook at stable.

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 also remained 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 December 2024	**YEAR END POSITION**			
	Budgeted Spend or (Income) £'000	**Forecast Spend or (Income) £'000**	**Forecast over or (under) spend £'000**	**ADV/FAV**
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 Risks

			Current Risk Score											Trend			
	Risk Nr	Description	Likelihood					Impact					This Period	Periods Ago			Management Action
			1	2	3	4	5	1	2	3	4	5					
			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, respond 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	R07	Refinancing Risk The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.			3					3			9	6	6	6	When deciding on the duration of new borrowing consider existing debt maturity profile before submitting an approval to Chief Finance Officer on the new borrowing. Consult with treasury Advisor Arlingclose with regards to risks in the lending market and consider their guidance when making refinancing decisions Complete Annual PWLB certainty rate return and any other returns that provide a discounted lending rate. Maintain a relationship with at lease 2 brokers in order to ensure that the council avoids the risk of accepting terms which are not in line with prevailing market conditions.
5	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.
6	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 Authorities (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.