

## 2024/25 Treasury Management Report – Quarter 1 (as at 30<sup>th</sup> June 2024)

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### 1. External market conditions

- 1.1. Economic background: UK headline consumer price inflation (CPI) continued to decline over the quarter, falling from an annual rate of 3.2% in March to 2.0% in May, in line with the Bank of England's target. The core measure of inflation, however, only declined from 4.2% to 3.5% over the same period, which, together with stubborn services price inflation at 5.7% in May, helped contribute to the BoE maintaining Bank Rate at 5.25% during the period, a level unchanged since August 2023.
- 1.2. Data released during the period showed that showed the UK economy had emerged from the technical recession at the end of 2023 to expand by 0.7% (upwardly revised from the initial estimate of 0.6%) in the first quarter of the calendar year. Monthly GDP data showed zero growth in April following an expansion of 0.4% in the previous month.
- 1.3. Labour market data continued to provide mixed messages for policymakers, exacerbated by issues the Office for National Statistics is having compiling the labour force survey. In the three months between February and April 2024, unemployment was up, employment fell, while the decline in vacancies slowed and wage growth remained elevated. Unemployment rose to 4.4% (3mth/year) while average regular earnings (excluding bonuses) was 6.0% and total earnings (including bonuses) was 5.9%. Adjusting for inflation, real regular pay rose by 2.3% and total pay by 2.2%. Given how keenly the 'second-round' impact of inflation on wages is watched by the BoE, policymakers will likely want to see more downward movement before cutting interest rates.
- 1.4. Having started the financial year at 5.25%, the Bank of England's Monetary Policy Committee (MPC) maintained Bank Rate at this level throughout the quarter. In line with expectations, at its June meeting, the Committee voted by a majority of 7-2 in favour of maintaining the status quo. The two dissenters preferred an immediate 0.25% reduction in Bank Rate to 5.0%. This continued dovish tilt by the Committee increased financial market expectations that the first cut in Bank Rate will likely be in August.
- 1.5. Earlier in May, in addition to an identical MPC rate decision and voting pattern, the Bank published the latest version of its Monetary Policy Report (MPR). Within the Report, the Committee noted that it expected four-quarter GDP growth to increase over the forecast period, reflecting the declining negative effects of past Bank Rate increases and the predicted downward path of interest rates which should provide support to economic activity. The trajectory of inflation was broadly similar to that in the previous MPR, albeit slightly lower towards the end of the forecast horizon due to the Committee's revised assessment of falling external inflationary pressures from past import price increases. This meant the Committee

expected headline inflation to hit the 2% target two quarters sooner than in the February MPR. As was highlighted earlier, inflation data published in June showed that CPI inflation fell to the 2% target in May.

- 1.6. Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% is the peak in Bank Rate and that interest rates will most likely be cut later in H2 2024. The risks over the medium term are deemed to be to the upside as while inflation has fallen to target, it is expected to pick up again later in the year and as services price inflation and wage growth are still on the firmer side, the MPC could well delay before delivering the first rate cut.
- 1.7. The US Federal Reserve also maintained interest rates over the period, holding the Fed Funds Rate at 5.25%-5.50% for the seventh consecutive month in June, as was expected. US policymakers have maintained a relatively dovish stance throughout the period but have steadily reduced their predictions around the pace and timing of rate cuts in the face of higher inflation and firmer economic growth. At the meeting, economic projections pointed to one rate cut in calendar 2024 and four in 2025.
- 1.8. The European Central Bank cut rates in June, reducing its main refinancing rate from 4.50% to 4.25%. Inflation in the region fell to 2.5% in May, having increased in the previous month, but since February has been fairly sticky at between 2.4% and 2.6%. Economic growth in the region has picked up but remains weak, and with inflation above the ECB's target this continues put pressure on policymakers on how to balance these factors when setting monetary policy.
- 1.9. **Financial markets:** Sentiment in financial markets showed signs of improvement over the quarter, but bond yields remained volatile. Early in the period yields climbed steadily, but mixed signals from economic data and investors' constant reassessment of when rate cuts might come caused a couple of fairly pronounced but short lived dips in yields. Towards the end of the quarter yields rose once again and were generally higher than at the start of the period.
- 1.10. Over the quarter, the 10-year UK benchmark gilt yield started at 3.94% and ended at 4.18% having reached 4.41% in May. While the 20-year gilt started at 4.40%, hit 4.82% in May, before ending the period at 4.61%. The Sterling Overnight Rate (SONIA) averaged 5.20% over the quarter to 30th June.
- 1.11. **Credit review:** Arlingclose maintained its advised recommended maximum unsecured duration limit on all banks on its counterparty list at 100 days.
- 1.12. During the quarter, Fitch revised its outlook on Transport for London (TfL) to stable from negative while S&P upgraded its long-term rating for TfL to AA- from A+, in line with its rating of the UK sovereign.
- 1.13. Fitch also upgraded the long-term ratings for the main four Australian banks – Australia & New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac.
- 1.14. Having placed Warrington Borough Council on review for a downgrade in March, Moody's subsequently withdrew its ratings for the council in June.
- 1.15. Credit default swap prices started and ended the quarter at broadly similar levels in the UK as they did for the European, Singaporean and Australian lenders on Arlingclose's counterparty list, while Canadian banks generally trended modestly downwards.
- 1.16. 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.

## 2. Movement in Treasury balances

2.1. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available to offset the CFR or for investment.

**Table 1: Balance Sheet Summary**

	31.3.24 £m	Movement £m	30.06.24 £m
General Fund CFR	198.3	0.0	198.3
<b>Less: *Other debt liabilities</b>	<b>(2.3)</b>	0.0	<b>(2.3)</b>
<b>Borrowing CFR</b>	<b>196.0</b>	<b>0.0</b>	<b>196.0</b>
<b>Less: External borrowing</b>	<b>(173.9)</b>	<b>(3.8)</b>	<b>(177.7)</b>
<b>Net External borrowing</b>	<b>22.1</b>	<b>(3.8)</b>	<b>18.3</b>
<b>Less: Usable reserves</b>	<b>(25.3)</b>	0.0	<b>(25.3)</b>
<b>Less: Working capital</b>	<b>(8.8)</b>	5.5	<b>(3.3)</b>
<b>(Net Investments) at 31<sup>st</sup> March 2023</b>	<b>(11.9)</b>	<b>1.6</b>	<b>(10.3)</b>

\* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

2.2. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels for the quarter, known as internal borrowing. Table 1 above highlights that at the end of the quarter the Authority was internally borrowed by £18.3m, meaning that reserves and working capital were being used in lieu of external borrowing.

2.3. At the end of the quarter the Authority had net investments of £10.3m. Balances over the period ranged from between £10.3m and £32.9m due to timing differences between income and expenditure and borrowing activity.

2.4. The treasury management position at 30th June 2024 and the change during the year is shown in Table 2 below.

**Table 2: Borrowing and Investment Summary**

	31.3.24 Balance £m	31.3.24 Rate %	Movement	30.6.24 Balance £m	30.6.24 Rate %
Long-term borrowing	124.2	3.3	<b>(3.1)</b>	121.1	3.25
Short-term borrowing	48.7	4.2	6.9	56.6	4.39
<b>Total borrowing</b>	<b>173.9</b>	<b>3.5</b>	<b>3.8</b>	<b>177.7</b>	<b>3.62</b>
Long-term investments	0.0	N/A	0.0	0.0	N/A
Short-term investments	<b>(3.0)</b>	4.9	0.0	<b>(3.0)</b>	5.15
Pooled Funds	<b>(4.0)</b>	5.6	0.0	<b>(4.0)</b>	5.55
Cash and cash equivalents	<b>(4.9)</b>	Included in ST above	1.7	<b>(3.3)</b>	Included in ST above
<b>Total investments</b>	<b>(11.9)</b>	<b>5.2</b>	<b>1.6</b>	<b>(10.3)</b>	<b>5.30</b>

<b>Net Borrowing</b>	<b>162.0</b>	<b>5.4</b>	<b>167.4</b>
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- 2.5. The authorities net borrowing position has slightly increased over the quarter. This is primarily due to a slight cross over period in short term borrowing maturing and the new borrowing replacing it.

### 3. Borrowing activity during the year

- 3.1. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, known as internal borrowing.
- 3.2. Policy interest rates have risen substantially since 2021 although they have largely plateaued over the last year. Over the quarter gilt yields have risen slightly overall, having had a number of peaks and troughs. There has been downward pressure from lower inflation figures, but also upward pressure from unexpectantly positive economic data. Data from the US continues to impact global markets including UK gilt yields.
- 3.3. The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the quarter and 4.96% percent at the end. The lowest available 10-year maturity rate during the quarter was 4.80% and the highest was 5.18%. Rates for 20-year maturity loans ranged from 5.24% to 5.57% during the quarter, and 50-year maturity loans from 5.06% to 5.40%.
- 3.4. Whilst the cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024, primarily due a dearth of LA-LA lending/borrowing activity during the month, as expected shorter-term rates reverted to a more normal range and were generally around 5.25% through the quarter.
- 3.5. At 30th June 2024 the Authority held £177.7m of loans, an increase of £3.8m from 31st March 2024, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th June are summarised in Table 3 below.

**Table 3: Borrowing Position**

	<b>31.3.24 Balance</b>	<b>31.3.24 Weighted Average Rate</b>	<b>31.3.24 Weighted Average Maturity (years)</b>	<b>Balance Movement</b>	<b>30.6.24 Balance</b>	<b>30.6.24 Weighted Average Rate</b>	<b>30.6.24 Weighted Average Maturity (years)</b>
	<b>£m</b>	<b>%</b>			<b>£m</b>	<b>%</b>	
Public Works Loan Board	125.1	3.3	20.1	0.1	125.2	3.3	19.8
Banks (LOBO)	3.0	4.5	19.6	(3.0)	0.0	0.0	0.0
Welsh Gov Interest Free	7.7	0.0	1.8	(0.2)	7.5	0.0	1.7
Local authorities /Other	38.0	4.9	0.4	7.0	45.0	5.0	0.3
<b>Total borrowing</b>	<b>173.9</b>	<b>3.5</b>	<b>14.9</b>	<b>3.8</b>	<b>177.7</b>	<b>3.6</b>	<b>13.9</b>

- 3.6. The Authority's chief objective when borrowing has always been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period

for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

3.7. A small long-term PWLB loan was taken during the period to finance new vehicle purchases made in the 2023/24 financial year.

**Table 4: Long-dated Loans borrowed**

	Amount £m	Rate %	Period (years)
PWLB EIP Loan	1.0	4.75	9
<b>Total</b>	<b>1.0</b>		

3.8. **Forward Starting Loans:** To enable certainty of cost to be achieved without suffering a cost of carry in the intervening period, the Authority arranged £15m of forward starting loans with fixed interest rates of 5.11% for the delivery of cash in upcoming months, details of which are below. The short term borrowing is being used to replace maturing short term loans.

**Table 5: Forward Starting Loans**

	Amount £m	Rate %	Loan Period (months)	Forward Period (months)
Local Authority Loan 1	5.0	5.25	11	2
Local Authority Loan 2	5.0	5.24	3	1
Local Authority Loan 3	5.0	4.85	12	2
<b>Total</b>	<b>15.0</b>	<b>5.11</b>		

3.9. **Other borrowing activity**

3.10. **LOBO Loans:** On 1st April 2024 the Authority held £3m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate and terms or to repay the loan at no additional cost.

3.11. As market interest rates rose, there was an increased probability of call options on the Authorities LOBO loans being exercised by lenders. £3m of LOBO loans had annual call option dates during the three-month period to June 2024, with the lender exercising their option in Quarter 1 on the following loan.

**Table 5: LOBO Loans repaid in quarter**

	Amount £m	Rate %	Final Maturity	New rate proposed %	Action taken by Authority
Loan 1	3.0	4.5	04/11/2043	8.2	Repaid at no cost from cash resources
<b>Total</b>	<b>3.0</b>	<b>4.5</b>		<b>8.2</b>	

3.12. The authority consequently no longer holds any LOBO loans which removes the risk of loans requiring early repayment or experiencing rate rises.

3.13. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

3.14. The Authority currently holds commercial investments that were purchased prior to the change in the CIPFA Prudential Code. The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able to access PWLB borrowing if considered cost effective.

#### 4. Investment activity during the quarter

4.1. The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

4.2. The Authority holds significant invested funds during the year, representing income received in advance of expenditure plus balances and reserves held. During the quarter, the Authority's investment balances ranged from between £10.3m and £32.9m due to timing differences between income and expenditure. The investment position at the end of the quarter was:

**Table 6: Treasury Investment Position**

	<b>31.3.24 Balance</b>	<b>Net Movement</b>	<b>30.6.24 Balance</b>	<b>30.6.24 Income Return</b>	<b>30.6.24 Weighted Average Maturity Days</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>	
Banks & building societies (unsecured)	(1.9)	(0.1)	(2.0)	Average 5.15%	Up to 180 days
Government (incl. local authorities)	(3.0)	0.0	(3.0)		
Money Market Funds (MMFs)	(3.0)	1.7	(1.3)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	5.55%	N/A
<b>Total investments</b>	<b>(11.9)</b>	<b>1.6</b>	<b>(10.3)</b>	<b>5.30%</b>	

4.3. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

4.4. The Authority 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 boost investment income.

- 4.5. Bank Rate remained at 5.25% through the quarter with short term interest rates largely being around this level. The rates on DMADF deposits ranged between 5.19% and 5.2% and money market rates between 5.07% and 5.29%.
- 4.6. The combination of risk and return metrics are shown in the extracts from the Arlingclose quarterly investment benchmarking in the table below.

**Table 7: Investment Benchmarking – Treasury investments managed in-house**

	Credit Score	Credit Rating	<u>Bail-in Exposure</u>	Weighted Average Maturity (days)	Rate of Return %
MCC 31.03.2024	A+	4.51	62%	4	5.01
MCC 30.06.2024	AA-	4.30	52%	4	5.15
Similar LAs	AA-	4.28	34%	109	5.03
All LAs	AA-	4.66	62%	10	5.06

- 4.7. Whilst bail-in exposure as a percentage metric remains high in comparison to similar Local Authorities, this is skewed by the overall low value of investments held at 31<sup>st</sup> March 2024. Consequently unsecured bank deposits and MMF's which attract bail-in exposure constitute a higher proportion of overall investments, despite the overall value of investment in these instruments being low.
- 4.8. **Externally Managed Pooled Funds:** £4m of the Authority's investments are invested in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and longer-term price stability.
- 4.9. These funds provide an important diversification for the Authority and generated £49k (5.55%) income return, together with a £9k (-0.26%) unrealised capital loss during the quarter.
- 4.10. Accumulated unrealised capital losses over the lifetime of the investment stand at £378k. The Authority maintains an adequate treasury risk reserve to mitigate against the risk that capital losses on pooled funds become realised and consequently result in a charge against the Council Fund.
- 4.11. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's medium to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over the longer term that total returns will exceed cash interest rates.
- 4.12. **Statutory override:** In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for two years until 31st March 2025 but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not. The Authority will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken and currently holds a

treasury equalisation reserve which could be used to mitigate the impact of the statutory override not being extended and unrealised losses on pooled investment funds are required to be recognised.

## 5. Environmental, Social and Governance

5.1. Throughout the year the investment portfolio has been assessed against 3 charters that organisations can voluntarily sign up for to ensure that all are meeting minimum level of ESG responsibility. These are shown in the table below:

**Table 8: ESG Charter Signatories**

	UN Principles for Responsible Investment	Uk Stewardship Code 2020	Net-Zero Asset Managers Initiative
Aberdeen Asset Liquidity	✓	✓	✓
Aegon	✓	✓	✓
CCLA Investment Management	✓	✓	✓
Federated (Prime Rate) Liquidity Fund	✓	✓	✓
HSBC Global Asset Management	✓	✓	✓
LEGAL AND GENERAL MMF	✓	✓	✓
Ninety-One	✓	✓	✓
STATE STREET	✓	✓	✓
Morgan Stanley - No Longer Used	✓	✓	x
Goldman Sachs - No Longer Used	✓	✓	x

5.2. An updated list of signatories to the three charters is provided by the Authority's treasury advisors each quarter and will continue to be monitored. Any counterparties not signed up to all three charters will be removed from the Authorities investment portfolio.

5.3. At 30<sup>th</sup> June 2024 the Authorities ESG specific Money Market Fund returned 5.07% compared to an average rate of 5.23% for all Money Market Funds. The best and worst performing funds earned 5.07% and 5.29% respectively.

## 6. Non-Treasury Investments

6.1. The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return.

6.2. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly



to further service objectives) and/or for commercial purposes (made primarily for financial return).

6.3. Investment Guidance issued by DLUHC and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

6.4. The Authority held a net book value of £31.1m of such non-financial asset investments at the 31<sup>st</sup> March 2024 (£32.2m as at 31<sup>st</sup> March 2023) made up of:

	<b>Budgeted (income) / loss 2024/25 £000's</b>	<b>Carrying Value 31.03.24 £000's</b>	<b>Budgeted Return 2024/25 %</b>	<b>Net return 2023/24 %</b>
Oak Grove Solar Farm	(400)	5,611	7.13	9.45
Newport Leisure Park & service loan	(346)	18,819	1.84	0.15*
Castlegate Business Park	99	6,654	-1.46	-3.46
<b>Total</b>	<b>(647)</b>	<b>31,084</b>	<b>2.50</b>	<b>1.06</b>

\*includes a one-off write-off of £217k of historic bad debt. Net return excluding this write-off would be 1.31% (overall portfolio 1.76%).

6.5. These investments continue to represent an important income diversification for the Council and contributes towards the overall funding of services.

6.6. Returns on both the Newport Leisure park and Castlegate investments will improve as the profile of rental concessions advances. A more detailed report on the performance of these investments is due to be considered by the Performance & Overview scrutiny committee in September.

6.7. The Authority also holds a portfolio of legacy non-financial asset investments that have been held for over a decade and are retained for income generation, capital gain or to support wider economic development or broader policy objectives. Income generation for these agricultural, retail and industrial assets are a secondary consideration and as such return against original investment would be considered negligible.

## 7. Treasury performance

7.1. The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 9 below.

**Table 9: Budget performance**

	<b>Forecast 30.06.24 £000's</b>	<b>Budget £000's</b>	<b>Over / (under) Budget £000's</b>
<b>Interest Payable</b>			
PWLB	4,126	4,046	80

Market loans	12	135	(123)
Short term loans	2,976	2,916	60
Other Activities (Internal Arrangements)	155	155	0
<b>Total Interest payable on borrowing</b>	<b>7,270</b>	<b>7,252</b>	<b>18</b>
<b>Interest Receivable</b>			
Invested cash short term	(943)	(1,176)	232
Pooled Funds	(195)	Included above	(195)
Finance lease income	(55)	Included above	(55)
<b>Total income from Investments</b>	<b>(1,194)</b>	<b>(1,176)</b>	<b>(18)</b>
<b>Total</b>	<b>6,077</b>	<b>6,077</b>	<b>0</b>

## 8. Compliance with treasury limits and indicators

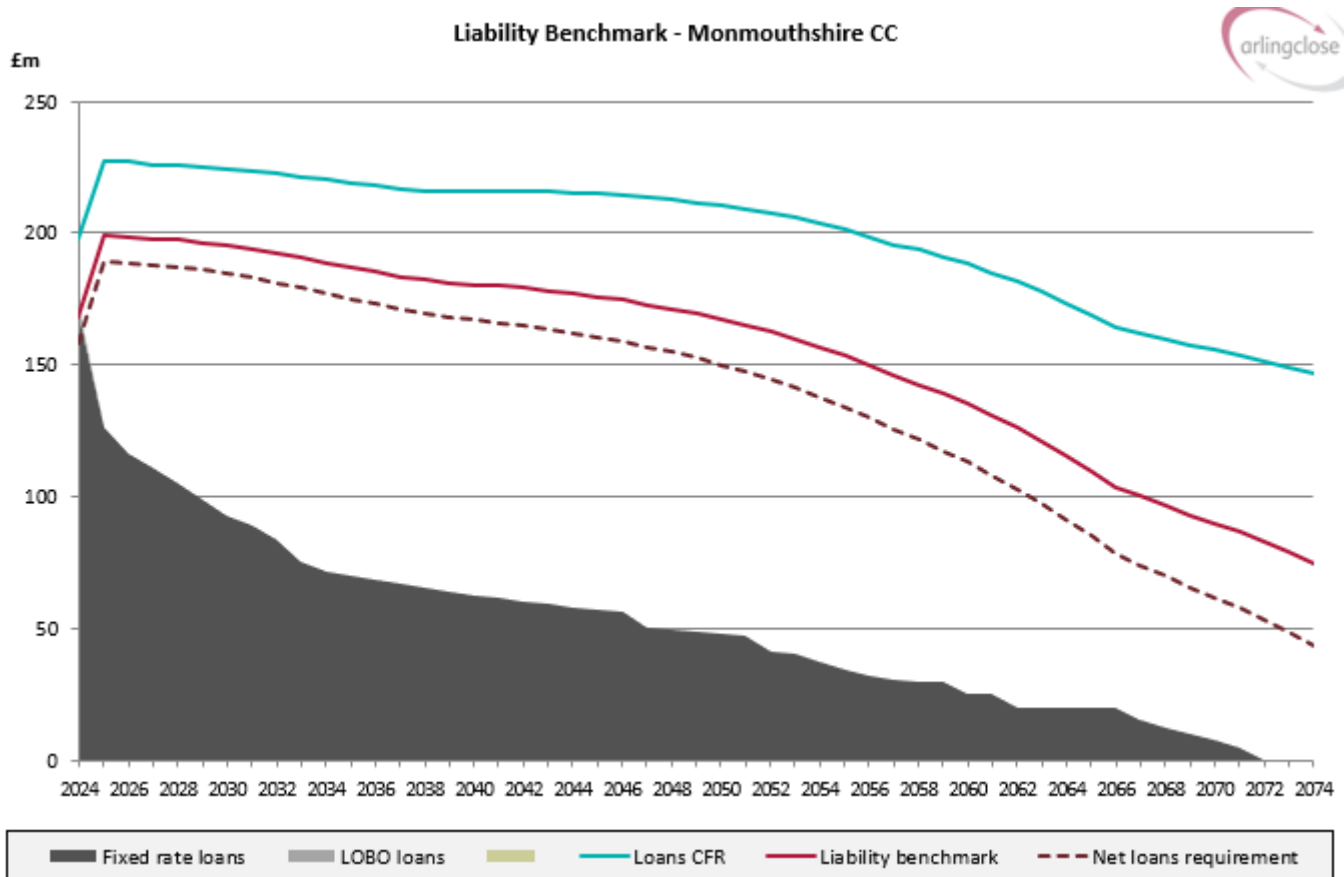
- 8.1. The Section 151 officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA code and the limits and indicators as set out in the Authority's approved Treasury Management Strategy.
- 8.2. **Liability Benchmark:** This indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. 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. It 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.

**Table 10: Liability Benchmark**

	31.3.24 Actual	31.3.25 Forecast	31.3.26 Forecast	31.3.27 Forecast	31.3.28 Forecast
Loans CFR	196.0	227.2	226.9	226.1	225.6
Less: Balance sheet resources	(34.1)	(38.2)	(38.2)	(38.2)	(38.2)
<b>Net loans requirement</b>	<b>161.9</b>	<b>189.0</b>	<b>188.7</b>	<b>187.9</b>	<b>187.4</b>
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
<b>Liability benchmark</b>	<b>171.9</b>	<b>199.0</b>	<b>198.7</b>	<b>197.9</b>	<b>197.4</b>
<b>Current loan profile</b>	<b>(173.9)</b>	<b>(127.2)</b>	<b>(117.3)</b>	<b>(112.3)</b>	<b>(105.9)</b>
<b>Borrowing requirement</b>	<b>0.0</b>	<b>71.8</b>	<b>81.4</b>	<b>85.6</b>	<b>91.5</b>

- 8.3. Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing is in line with the medium-term financial plan, minimum revenue provision on new capital expenditure is based on the annuity method,

and expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



8.4. The gap between the dotted red line and the grey shaded area of the chart represents the forecast difference between the estimated borrowing requirement and the Council's current loans profile. If capital expenditure plans remain accurate, the gap represents a borrowing requirement which will need be met by new and replacement loans over time.

8.5. **Borrowing limits:** Compliance with the [authorised limit](#) and [operational boundary](#) for external debt is demonstrated in the table below.

**Table 11: Borrowing Limits**

	2024/25 Maximum	30.6.24 Actual	2024/25 Operational Boundary	2024/25 Authorised Limit	Complied?

	during the year £m	£m	£m	£m	Yes/No
Borrowing	185.3	177.7	252.6	268.0	Yes
PFI, Finance Leases & Other LT liabs	2.3	2.3	2.8	3.8	Yes
<b>Total debt</b>	<b>187.6</b>	<b>180.0</b>	<b>255.4</b>	<b>271.8</b>	<b>Yes</b>

8.6. **Note:** Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

8.7. **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

**Table 12: Maturity Structure of borrowing**

Maturity	30.6.24 Actual	Lower Limit	Upper Limit	Complied?	31.3.24 Actual (For comparison)
Under 12 months	32%	0%	50%	Yes	29%
12 months and within 24 months	3%	0%	30%	Yes	3%
24 months and within 5 years	9%	0%	30%	Yes	10%
5 years and within 10 years	16%	0%	30%	Yes	16%
10 years and within 20 years	7%	0%	30%	Yes	10%
20 years and within 30 years	12%	0%	30%	Yes	12%
30 years and within 40 years	10%	0%	30%	Yes	10%
40 years and within 50 years	11%	0%	30%	Yes	12%
50 years and above	0%	0%	30%	Yes	0%

**Table 13: Investment Limits**

	Maximum in quarter	2024/25 Limit	Complied? Yes/No
The UK Government	£36.8m	Unlimited	Yes
Local Authorities per counterparty	£0m	£4m	Yes
Secured Investments	£0m	£4m	Yes
Banks per counterparty, rating A- or above	£2m (£3m total for the Councils operational bank)	£2m (£3m total for the Councils operational bank)	Yes
Building societies (unsecured)	£0m	£2m	Yes
Registered providers (e.g. Housing Associations (unsecured))	£0m	£2m	Yes
Money Market Funds	£4m	£4m	Yes

Any group of pooled funds under the same management	£2m	£5m	Yes
Real estate investment trusts	£0m	£5m	Yes
Limit per non-UK country	£0m	£4m	Yes
Other Investments	£0m	£2m	Yes

8.8. **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating and credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

**Table 14: Credit Risk**

	30.6.24 Actual	2024/25 Target	Complied?
Portfolio average credit	AA-/4.30	A-/5.0	Yes

8.9. **Principal Sums Invested for Periods Longer than a year:** 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 were:

**Table 15: Principal invested for period longer than a year**

	During 2024/25
Actual principal invested for 365 days & beyond year end	£0m
Limit	£6m
Complied?	Yes

## Background paper: Glossary of Treasury Terms

<b>Authorised Limit</b>	<p>The affordable borrowing limit determined in compliance with the Local Government Act 2003 (English and Welsh authorities) and the Local Government in Scotland Act 2003. This Prudential Indicator is a statutory limit for total external debt. It is set by the Authority and needs to be consistent with the Authority's plans for capital expenditure financing and funding. The Authorised Limit provides headroom over and above the <i>Operational Boundary</i> to accommodate expected cash movements. Affordability and prudence are matters which must be taken into account when setting this limit.</p> <p><i>(see also Operational Boundary, below)</i></p>
<b>Balances and Reserves</b>	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
<b>Bail-in</b>	Refers to the process which the banking regulatory authorities will use to restructure a financial institution which is failing or likely to fail. Unsecured creditors of and investors in that financial institution will participate in its restructure who will, as a consequence, incur a non-recoverable loss (commonly referred to as a 'haircut') on their obligation/investment. Local authority investments with banks and building societies such as term deposits, certificates of deposit, call accounts and non-collateralised bonds are unsecured investments and are therefore vulnerable to bail-in.
<b>Bank Rate</b>	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
<b>Bond</b>	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
<b>Capital Expenditure</b>	Expenditure on the acquisition, creation or enhancement of capital assets
<b>Capital Financing Requirement (CFR)</b>	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
<b>Capital growth</b>	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund)
<b>Capital receipts</b>	Money obtained on the sale of a capital asset.
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy

<b>Constant Net Asset Value (CNAV)</b>	Also referred to as Stable Net Asset Value. A term used in relation to the valuation of 1 share in a fund. This means that at all times the value of 1 share is £1/€1/US\$1 (depending on the currency of the fund). The Constant NAV is maintained since dividend income (or interest) is either added to the shareholders' account by creating shares equal to the value of interest earned or paid to the shareholder's bank account, depending on which option is selected by the shareholder.
<b>Collective Investment Schemes</b>	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes / pooled funds.
<b>Corporate Bonds</b>	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
<b>Corporate Bond Funds</b>	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
<b>CPI</b> <i>Also see RPI</i>	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
<b>Credit Default Swap (CDS)</b>	A Credit Default Swap is similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. Naked CDS, i.e. one which is not linked to an underlying security, can lead to speculative trading.
<b>Credit Rating</b>	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
<b>Cost of carry</b>	When a loan is borrowed in advance of requirement, this is the difference between the interest rate and (other associated costs) on the loan and the income earned from investing the cash in the interim.
<b>Credit default swaps</b>	Financial instrument for swapping the risk of debt default; the buyer effectively pays a premium against the risk of default.
<b>Diversification / diversified exposure</b>	The spreading of investments among different types of assets or between markets in order to reduce risk.
<b>Derivatives</b>	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded 'over the counter'.
<b>ECB</b>	European Central Bank
<b>Federal Reserve</b>	The US central bank. (Often referred to as "the Fed")
<b>Floating Rate Notes</b>	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting

<b>GDP</b>	Gross domestic product – also termed as “growth” in the economy. The value of the national aggregate production of goods and services in the economy.
<b>General Fund</b>	This includes most of the day-to-day spending and income. (All spending and income related to the management and maintenance of the housing stock is kept separately in the HRA).
<b>Gilts (UK Govt)</b>	Gilts are bonds issued by the UK Government. They take their name from ‘gilt-edged’: being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
<b>Housing Revenue Account (HRA)</b>	A ring-fenced account of all housing income and expenditure, required by statute
<b>IFRS</b>	International Financial Reporting Standards
<b>Income Distribution</b>	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a ‘dividend’
<b>Investments</b> - <b>Secured</b> - <b>unsecured</b>	Secured investments which have underlying collateral in the form of assets which can be called upon in the event of default  Unsecured investments do not have underlying collateral. Such investments made by local authorities with banks and building societies are at risk of bail-in should the regulator determine that the bank is failing or likely to fail.
<b>Liability Benchmark</b>	Term in CIPFA’s Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero).
<b>LOBOs</b>	LOBO stands for ‘Lender’s Option Borrower’s Option’. The underlying loan facility is typically long term and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at predetermined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the ‘option’ to either accept the new imposed fixed rate or repay the loan facility.
<b>LVNAV (Low Volatility Net Asset Value)</b>	From 2019 Money Market Funds will have to operate under a variable Net Value Structure with minimal volatility (fluctuations around £1 limited to between 99.8p to 100.2p)
<b>Maturity</b>	The date when an investment or borrowing is repaid.
<b>Maturity profile</b>	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.
<b>MiFID II</b>	MiFID II replaced the Markets in Financial Instruments Directive (MiFID I) from 3 January 2018. It is a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
<b>Money Market Funds (MMF)</b>	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.



<b>Minimum Revenue Provision</b>	An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets
<b>Non-Specified Investments</b>	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Authority Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified.
<b>Net Asset Value (NAV)</b>	A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.
<b>Operational Boundary</b>	This is the limit set by the Authority as its most likely, i.e. prudent, estimate level of external debt, but not the worst case scenario. This limit links directly to the Authority's plans for capital expenditure, the estimates of the Capital Financing Requirement (CFR) and the estimate of cashflow requirements for the year.
<b>Permitted Investments</b>	Term used by Scottish Authorities as those the Authority has formally approved for use.
<b>Pooled funds</b>	See Collective Investment Schemes (above)
<b>Premiums and Discounts</b>	<p>In the context of local authority borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. If on a £1 million loan, it is calculated* that a £100,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,100,000 plus accrued interest. If on a £1 million loan, it is calculated that a £100,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £900,000 plus accrued interest.</p> <p>PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate.</p> <p>*The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.</p>
<b>Private Finance Initiative (PFI)</b>	Private Finance Initiative (PFI) provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. Contracts can typically last for 30 years, during which time the asset is leased by a public authority.
<b>Prudential Code</b>	Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
<b>Prudential Indicators</b>	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators between authorities.

<b>PWLB</b>	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
<b>Quantitative Easing</b>	In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It “does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller’s bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy”. Source: Bank of England
<b>Registered Provider of Social Housing</b>	Formerly known as Housing Association
<b>Revenue Expenditure</b>	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges
<b>RPI</b>	Retail Prices Index. A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the CPI index.
<b>SORP</b>	Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United Kingdom).
<b>Specified Investments</b>	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
<b>Supported Borrowing</b>	Borrowing for which the costs are supported by the government or third party.
<b>Supranational Bonds</b>	Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are those issued by the European Investment Bank, the International Bank for Reconstruction and Development.
<b>Treasury Management Code</b>	CIPFA's Code of Practice for Treasury Management in the Public Services.
<b>Temporary Borrowing</b>	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
<b>Term Deposits</b>	Deposits of cash with terms attached relating to maturity and rate of return (interest)
<b>Unsupported Borrowing</b>	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
<b>Usable Reserves</b>	Resources available to finance future revenue and capital expenditure

<b>Variable Net Asset Value (VNAV)</b>	A term used in relation to the valuation of 1 share in a fund. This means that the net asset value (NAV) of these funds is calculated daily based on market prices.
<b>Working Capital</b>	Timing differences between income/expenditure and receipts/payments
<b>Yield</b>	The measure of the return on an investment instrument