North Norfolk District Council

Treasury Management Mid-Year Review Report 2024/25

Contents

1. Background

1.1 Capital Strategy
In December 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

1.2 Treasury management
The Authority operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning to ensure the Authority can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Authority risk or cost objectives.

Accordingly, treasury management is defined as:

> "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2. Introduction

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).
The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.

3. Receipt by the full Council/Board of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year. (Quarterly reports are also required for the periods ending April to June and October to December but may be assigned to a designated committee or panel as deemed appropriate to meet the Treasury Management governance and scrutiny aspects of the Authority.)

4. Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Authority, the delegated body is Cabinet.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2024/25 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Authority’s capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Authority’s investment portfolio for 2024/25;
- A review of the Authority’s borrowing strategy for 2024/25;
- A review of any debt rescheduling undertaken during 2024/25;
- A review of compliance with Treasury and Prudential Limits for 2024/25.

Key Changes to the Treasury and Capital Strategies

There are no proposals to amend the 2024/25 Treasury/Capital Strategies of the Council:

- The approved prudential indicators outlined in the 2024/25 strategies are still appropriate for the Council’s borrowing and investments.

- The approved investment criteria outlined in the 2024/25 strategies are still appropriate for the Council’s current financial position. Risk assessment and credit ratings are provided regularly to Officers by Link Treasury Services.

- There are no changes to the Council’s treasury management policy that need to be recommended to full Council. The treasury management main focus is still to facilitate the financing of the Council’s essential services, and financing of the approved capital programme.

3. Economics and Interest Rates

3.1 Economics Update

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

- The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.00%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.00%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.
- Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3.00%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.00%, rather than the 3.25-3.50% currently priced in by financial markets.
- Looking at gilt movements in the first half of 2024/25, the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.
- The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently, and is continuing to grow in the latter parts of the calendar year. The catalyst for any further rally (or not) is likely to be the degree of investors' faith in AI.
- The treasury advisors forecast is due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November MPC meeting and the release of the Bank of England Quarterly Monetary Policy Report.

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

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

3.2 Interest Rate Forecasts

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

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

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

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

4. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement, (TMSS), for 2024/25 was approved by this Authority at the Full Council on the 21st of February 2024.

- The underlying TMSS approved previously requires revision in the light of economic and operational movements during the year. The proposed changes and supporting detail for the changes are set out below:

Prudential Indicator 2024/25	Original £m	Revised Prudential Indicator £m
Authorised Limit	15.000	15.000
Operational Boundary	15.000	15.000
Capital Financing Requirement	14.515	19.563

If fixed/variable rates or maturity profile treasury indicators require adjustment, please also include.

5. The Authority's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Authority's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

5.1 Prudential Indicator for Capital Expenditure

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

Capital Expenditure by Service	2024/25 Original Estimate £m	Current Position £m	2024/25 Revised Estimate £m
Our Greener Future	21.246	9.878	20.876
Developing our Communities	5.672	0.583	6.173
Meeting our Housing Needs	4.428	1.278	4.828
Investing in our Local Economy & Infrastructure	5.588	3.042	7.133
A Strong, Responsible & Accountable Council	0.406	-	0.404
Total capital expenditure	37.340	14.781	39.414

- Our Greener Future has mainly changed from the reprofiling of the Cromer & Mundesley coastal schemes (to reflect additional expenditure being made in 2025/26 as opposed to 2024/25) and the approval of a £150k Coastal Defences Budget for coastal defence renovations across other locations of the district.

- Developing our Communities has mainly changed from the addition of the Cabbell Park Clubhouse project (£237k) and the extra approval of funding for the Public Conveniences Project (£20k for Fakenham & Wells retention, £100K for Sheringham renovation).

- Meeting our Housing Needs has mainly changed from the increase in Disabled Facilities Grant budget of £400k, this is using unspent grant allocations receive in prior years.

- Investing in our Local Economy & Infrastructure has mainly changed from the removal of the Cromer Offices Floor Power Boxes project (£50k) no longer required.

- A Strong, Responsible & Accountable Council has mainly changed from the removal of the Digital Mailroom Scanners project (£2k) no longer required.

5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Authority by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2024/25 Original Estimate £m	Current Position £m	2024/25 Revised Estimate £m
Total capital expenditure	**37.340**	**14.781**	**39.414**
Financed by:			
Capital receipts	**6.233**	**0.836**	**2.577**
Capital grants and contributions	**27.823**	**13.911**	**29.683**
Capital reserves	**2.331**	**0.021**	**2.353**
Revenue	**-**	**-**	**-**
Total financing	**34.153**	**14.768**	**34.613**
Borrowing requirement	**0.953**	**0.013**	**4.801**

5.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

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

Prudential Indicator – Capital Financing Requirement

The Council is on target to achieve an acceptable Capital Financing Requirement balance (negative total debt shows that the Council is not in a debt position).

However, compared to the 2024/25 original estimate, the Council's CFR estimate is now expected to be 2.886m more than forecasted. This is a consequence of diminishing capital receipts expected to be received by the Council (sale of owned land and assets) expected in the current year and so more projects will need to be funded from borrowing as capital receipts will not be available to finance schemes as previously anticipated.

To highlight the reasons for the fall in capital receipts available to finance capital projects:

- It was originally anticipated that a £1m capital receipt would be received in 2024/25 for the sale of the Sheringham Enabling Land. This has sale is now anticipated to be deferred to 2025/26.

- The Council has historically received an annual capital receipt of between £500k - £1m from Flagship Housing as part of an income share agreement made between NNDC and Flagship Housing, when the Council transferred its housing stock to Flagship.

  This annual capital receipt has helped finance the Council's capital programme for many years, however this agreement will come to end in 2026/27 and in the last couple of years has only generated £200-£300k of capital receipts to the Council. It therefore needs to be considered that the amount of capital receipts available to finance the Capital Programme will be minimal in future years unless other assets are sold.

  Future projects that are not funded by external grants or contributions will likely need to be funded by borrowing. This will have an impact on the Council's revenue budget by increasing the amount of borrowing interest costs.

Prudential Indicator – the Operational Boundary for external debt

	2024/25 Original Estimate £m	Current Position £m	2024/25 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
Total CFR	14.515	13.575	19.563
Net movement in CFR	**0.953**	**0.013**	**5.048**
Prudential Indicator – the Operational Boundary for external debt			
Borrowing	5.000	6.800	8.600
Total debt - year end position	**(9.515)**	**(6.775)**	**(9.326)**

5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. **Gross external borrowing** should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Authority has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2024/25 Original Estimate £m	**Current Position £m**	**2024/25 Revised Estimate £m**
Total debt (Borrowing)	9.000	6.800	8.600
CFR (year end position)	14.515	13.575	19.563

A further prudential indicator controls the overall level of borrowing. This is **the Authorised Limit** which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	**2024/25 Original Indicator**	**Current Position**	**2024/25 Revised Indicator**
Actual Borrowing	9.000	6.800	8.600
Authorised Limit	15.000	15.000	15.000

The authorised limit for external debt was not exceeded in 2024/25.

6. Borrowing

The Authority's revised capital financing requirement (CFR) for 2024/25 is £19.563m. The CFR denotes the Authority's underlying need to borrow for capital purposes. If the CFR is positive the Authority may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The tables in Section 5.4 shows the Authority has borrowings of £6.800m as at the end of period 6 and has utilised £6.775m of cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring if gilt yields remain elevated, particularly at the longer-end of the yield curve (25 to 50 years).

Due to the overall financial position and the underlying need to borrow for capital purposes (the CFR), new external short-term borrowing was undertaken throughout the first half of the year, long-term (PWLB) borrowing is still at £5m which is the same as at the end of the previous financial year. The capital programme is being kept under regular review because of on-going budgetary pressures. The borrowing strategy will be regularly reviewed and revised if necessary, this is to achieve optimum value and lower risk exposure in the long-term.

It is anticipated that further borrowing will not be undertaken during this financial year as the Council is anticipating a large capital grant in January to finance the Fakenham Leisure and Sports Hub scheme which will not be fully spent immediately. The treasury will benefit from the time between receiving and spending this grant which will hopefully negate the need for short-term borrowing over the last quarter of the financial year. The Council should note that once the FLASH grant has been spent as outlined by the scheme, the Council may need to consider taking our short or long-term borrowing to refinance borrowing not refinanced earlier in the year. This activity is prudent to avoid unnecessary borrowing costs when not required.

PWLB maturity certainty rates (gilts plus 80bps) year to date to 30 September 2024

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

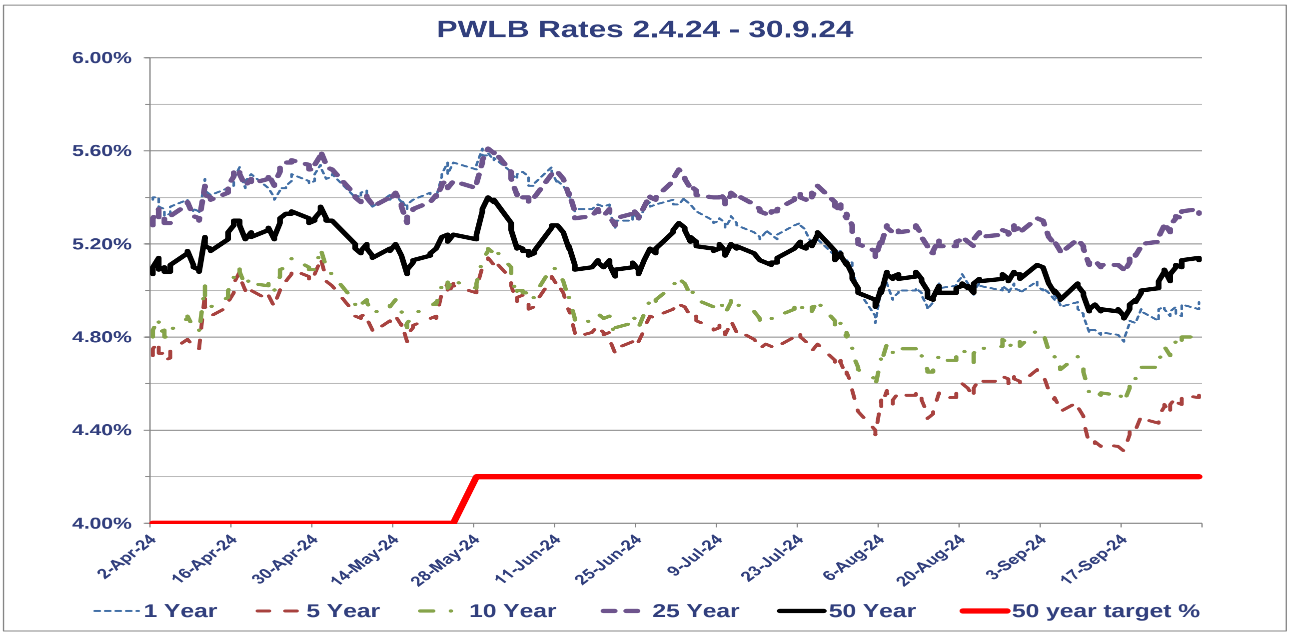
While there has been some movement downwards, this came in the shorter part of the curve as markets positioned themselves for Bank Rate cuts in the second half of 2024 and into 2025, the continued stickiness of inflation and the prevailing tight labour market is a concern for those looking for more sizeable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

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

Conversely on the 17th of September we saw a low point for the whole curve, with the 5-year certainty rate falling to 4.31% before rebounding to 4.55% by the end of the month. Similarly, the 50-year certainty rate fell to 4.88% but finished the month at 5.13%, slightly higher than at the start of April.

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

PWLB RATES 02.04.24 - 30.09.24



HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

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

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

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

7. Debt Rescheduling

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

8. Compliance with Treasury and Prudential Limits

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

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

9. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by Full Council on 21 February 2024. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Authority's investment priorities as being:

- Security of capital
- Liquidity
- Yield

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

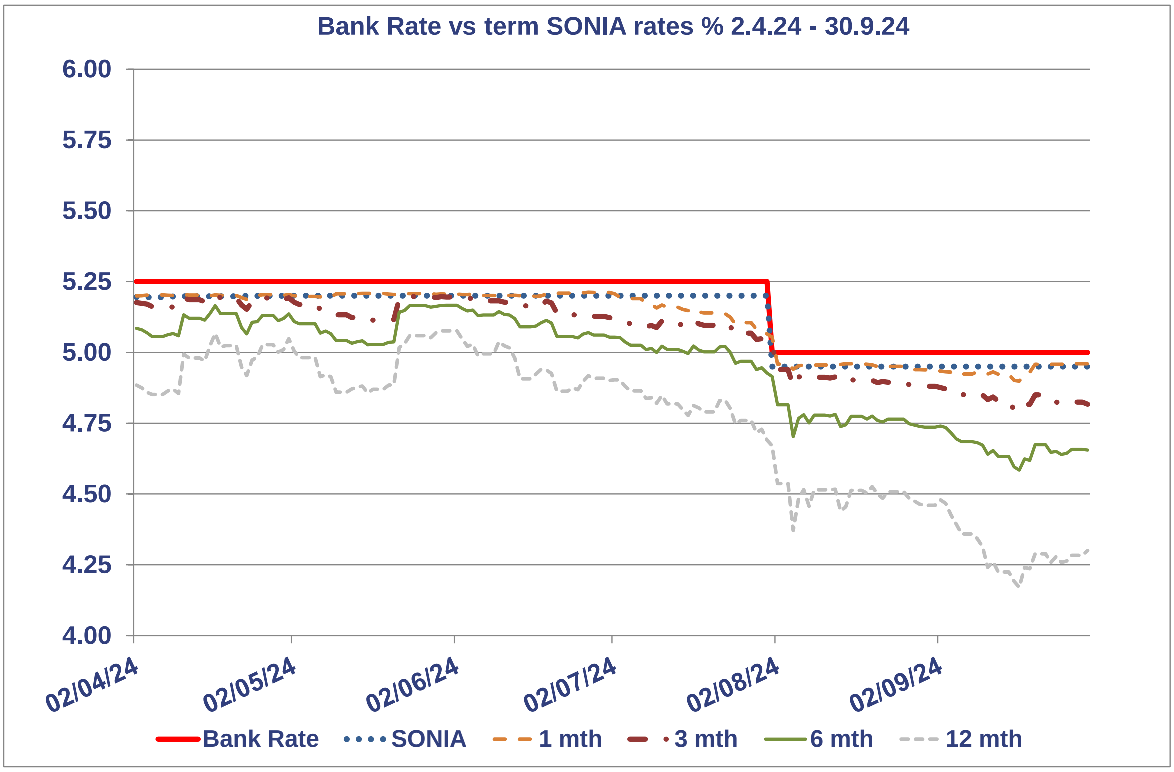
Creditworthiness.
The UK's sovereign rating has proven robust through the first half of 2024/25. The new Labour Government is expected to outline in detail its future fiscal proposals in the Budget scheduled for 30 October 2024.

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

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

Investment balances
The average level of funds available for investment purposes during the first half of the financial year was **£26.613m**. Of this an average of **£6.613m** was available on a temporary basis for short-term investing, with this level of funds available mainly dependent on the timing of precept payments, receipt of grants and progression of capital programme schemes. The Authority had an average of **£20.000m** in long-term investments (invested for more than one year) which was all invested in pooled funds.
The authority also has housing loan investments total **£1.994m.**

Investment performance year to date as of 30 September 2024, base rate history.



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

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

Investment performance year to date as of 30 September 2024
(Please insert your chosen backward or forward-looking SONIA benchmark which should reflect the average duration/risk appetite inherent to the Authority's investment portfolio.)

Period	SONIA benchmark return %	Authority performance (average rate achieved %)	Investment interest earned
Short-term investments (<12 months)	5.12	5.02	166,453
Long-term investments (>12 months)	4.75	5.09	551,348
Housing Loans (>12 months)*		4.69	40,796
Overall	4.96	5.37	758,596

** Housing loans have been issued to support affordable housing in the district, not to generate an interest return to the Council. These loans are issued at the PWLB rate at time of issue to ensure the Council is not financing private businesses. The interest earnt on these loans can be added to the Council's year interest income*

As illustrated, the Authority *outperforming* the benchmark during the first half of 2024/25. The Authority's budgeted investment return for 2024/25 is £1.866m.

However, as highlighted in the period 6 budget monitoring report (non-service) interest rate performance for the year to date has been lower during the 2024/25 financial year than anticipated at budget setting (November 2023 anticipated an average of 6% interest rates throughout 2024/25 from advisors).

Also, less investment principle has been available as forested due to less grant money being received in advance of expenditure from large schemes in the capital programme (budgeted for an average of £33.8m available for investing, but only an average of £28.3m has been realised).

Therefore, a shortfall of £446k is anticipated (total earnings of £1.420m against the budget of £1.866m).

Fund investments:

A high-level of the Council's average investment portfolio is shown below.

Treasury Investments, average position period 6			
Type of Investment	**Capital Value**	**Interest**	**Average interest rate %**
Strategic bond funds	5,000,000	87,280	3.48
Equity income funds	4,000,000	130,743	6.52
Property funds	5,000,000	163,769	6.53
Multi-asset income funds	6,000,000	128,992	4.29
Total Long-Term Investments	**20,000,000**	**510,784**	**5.09**
Money Market Funds	6,613,302	166,453	5.02
Total Short-Term Investments	**6,613,302**	**166,453**	**5.02**
Total Treasury Investments	**26,613,302**	**677,237**	**5.08**

Housing Loans

LN0001 - Broadland Housing Association	**1,750,005**	**35,808**	3.80
LN0002 - Homes for Wells	**138,679**	**4,988**	3.00
LN0002 - Homes for Wells	**40,603**	**2,338**	5.50
LN0002 - Homes for Wells	**64,488**	**3,713**	5.50
Total Loans Investments	**1,993,775**	**46,846**	**4.69**

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The Council’s long-term pooled fund investments will be affected by the ending of the IFRS 9 pooled fund override which is due to expire on 31 March 2025. This means that a treasury reserve will need to be established at the amount of any net loss in fair value of the investments, this is so that if an emergency event occurred where all of the Council’s investments needed to be sold, there would be no net loss to the Council on the sum originally invested into funds.

As at the end of period 6, the Council’s £20m investments into pooled funds has a fair value of £19.885m, a capital loss of £115k. This means that under the current valuations a treasury reserve of £115k will need to be held at the end of the 2024/25 financial year.

Fair values rise and fall depending on the current bid price of shares in each fund, the values of shares across all funds dropped during the last couple of years following the economic impact of COVID and the Russian-Ukrainian war. These values have steadily recovered but were largely negative (which is why the IFRS 9 statutory override was extended). It is now anticipated that fair values will have largely recovered by the end of the 2024/25 financial year, and it is anticipated that any loss in fair value for the Council will be minimal by the end of March 2025.

The Council will continue to monitor the fair values of its investments on a monthly basis and will need to make a contribution to the treasury reserve if values do not full recover by the end of the fiscal year.

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

10. Other

1. Changes in risk appetite
The 2021 CIPFA Codes and guidance notes place importance on risk management. Where an authority changes its risk appetite e.g., for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

2. Sources of borrowing
The 2024/25 treasury management strategy only allowed borrowing from local government sources (PWLB and other public sector bodies (such as Council's, Pension authorities, Police authorities and Fire authorities). Short-term public sector borrowing is obtained by contacting brokers which charge a small fee to facilitate borrowing and lending between public sector bodies.

Previously the Council only had two approved brokers (King & Shaxson and Tradition). To allow for more borrowing opportunities and access to competitive interest rates, the Council set up accounts with two new brokers (Imperial and BGC) in April 2024.

11. : Approved Countries for Investments as of 30 September 2024

Below is the approved acceptable counterparty ratings adopted by the Council and as advised by Link treasury services.

The Council currently only invests in UK based funds that are rated AA- or above and has no investments in other countries.

AAA
- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+
- Canada
- Finland
- U.S.A.

AA
- Abu Dhabi (UAE)
- Qatar (upgraded from AA- 20/3/24)

AA-
- Belgium
- France
- U.K