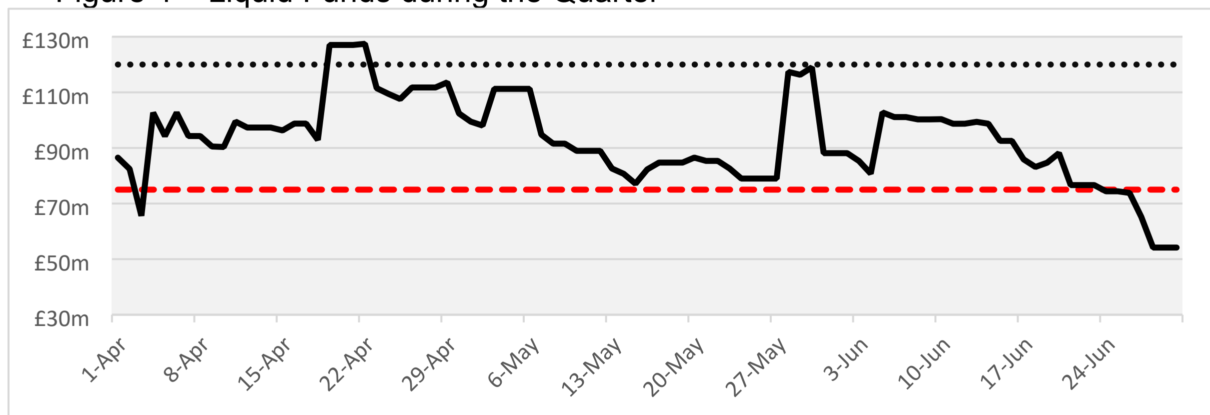
APPENDIX 1: Investment and Borrowing Portfolios

Liquidity and Investments Maturity Profile

1.1 The TMSS establishes £75m and £120m as minimum and maximum target levels for liquid Treasury investments. During the quarter, liquid funds (bank balances plus money market funds) averaged £93m, with a reduction from £86m to £54m. (see Figure 4).

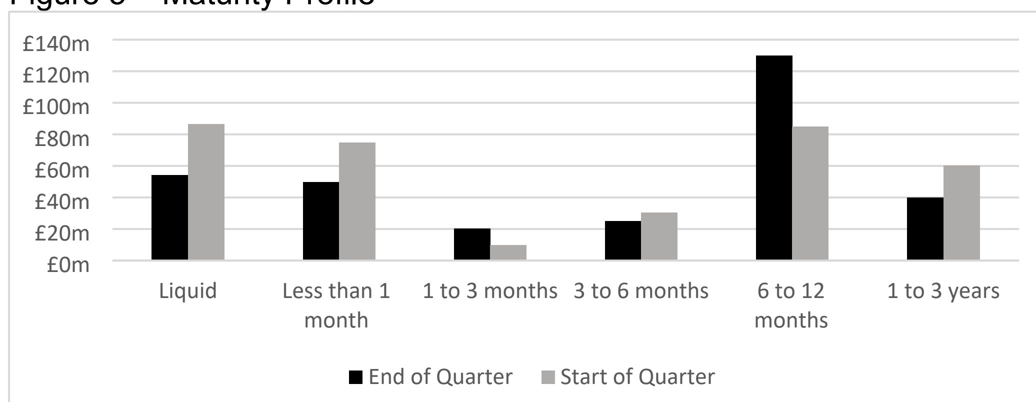
1.2 Lower liquidity at the quarter's start and end was anticipated, and no borrowing was needed since confirmed cashflows were imminent. Regular forecasting is conducted to ensure any shortfalls below or above the thresholds remain brief. For instance, precept income (£38.67m) and the education grants (£23.62m) replenished funds above the minimum threshold within a couple of days of the quarter's end.

Figure 4 – Liquid Funds during the Quarter



1.3 Figure 5 shows that the short-term liquidity roughly remained the same with £279m of investments maturing within 12 months at the end of Q1 compared to £286m at the start. The investments' weighted average maturity, however, slightly increased by 4.5 days to 207.68 days at the end of Q1, this was because of some maturing local authority balances being reinvested into 6-12 months deposits. This decision aimed to take advantage of the higher yields being offered in the local authority market at the beginning of the financial year.

Figure 5 – Maturity Profile

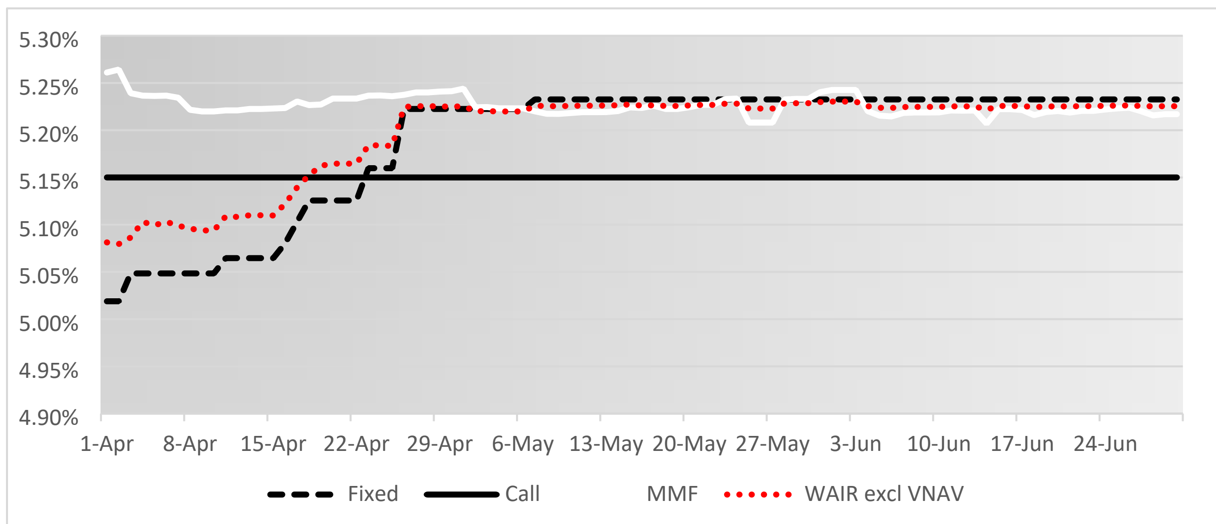


Investment Yield

1.4 Investment yields having peaked by the end of last year remained largely stable during the quarter in line with the base rate.

1.5 The Council's treasury investments (excluding variable net asset funds) yielded a weighted average of 5.20% during the quarter, compared to 4.13% in the first quarter of 2023/24. The average yield matched the benchmark yield of 5.20% for the Benchmark Group of twelve local authorities. As shown in Figure 6, the weighted yield could have reached around 5.23% if not for some long dated fixed deposits issued at lower rates. These deposits were all reinvested at higher rates by the end of April upon maturity.

Figure 6 – Investment Yield during the Quarter



1.6 The increasing interest rates referred to above, together with adjustments to the mix of investments, resulted in income from treasury activities outperforming the budget after recording total income of £4.379m compared to a year-to-date budget of £1.225m. This represents an annualised yield of 4.93% on an average investment portfolio of £356m. Treasury income was earned on investments that are managed inhouse and externally managed as shown in the table below.

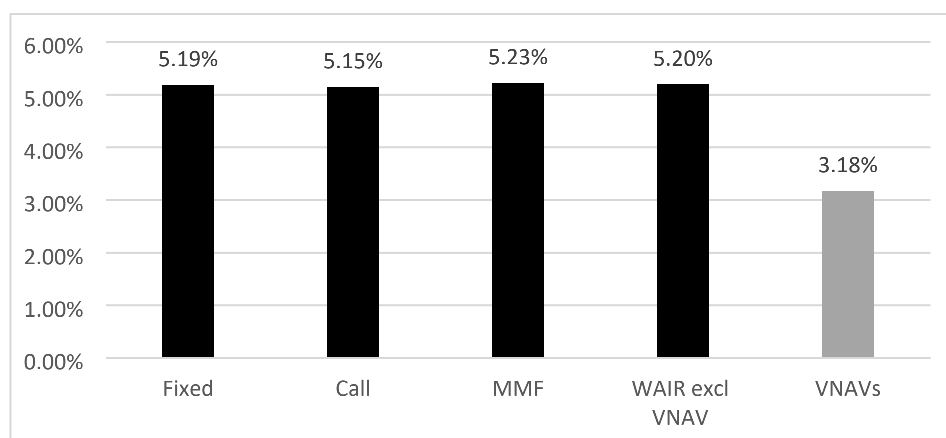
Investment Yields during the Year	Average Investment Balances £000	Yield £000	Yield %
Managed In House	**237,470**	**3,048**	**5.13%**
Money Market Funds	77,955	1,012	5.19%
Variable Net Asset Value Funds	40,137	319	3.18%
Externally Managed	**118,092**	**1,331**	**4.51%**
Total Funds	355,563	4,379	4.93%

2. Variable Net Asset Value (VNAV) Investments

2.1 Included in the treasury investments is £40m invested in two variable net asset value investment funds as of 30 June 2024. These are investments that are traded in a similar way to listed stock, where the value of the assets held can vary up and down depending on the performance of the funds.

2.2 In Q1, these funds have earned £0.319m in income, equivalent to 3.18% yield. Compared to high interest rates on the money market and other treasury investment instruments, the yield on the two variable net asset value remained relatively lower, as demonstrated in the chart below.

Figure 7-VNAV Yield Compared to Other Investment Types



2.3 Despite earning dividend income, the two Variable Net Asset Value (VNAV) funds experienced a slight decline in value, losing 0.6% of their combined value (£250,605) during the quarter. Although these funds have consistently paid dividends, including during low interest rate periods, they have experienced variations in asset value over time and at this time the Threadneedle Social Bond Fund's share price grew 11% over ten years, while the CCLA property fund value is currently similar to when it was purchased.

2.4 VNAV funds typically appreciate when interest rates are low and depreciate during high interest rate periods, as investors shift funds to interest-earning assets. The lack of growth in these VNAV funds reflects the prevailing high interest rates on the money market.

2.5 A review of the VNAV funds is being undertaken, to assess the potential benefits of reallocating funds to ensure optimal balance between risk and return and liquidity.

Investments held at the end of Quarter 1

Counterparty	Rate	Principal Outstanding	Counterparty	Rate	Principal Outstanding
CCLA The Public Sector Deposit 4	5.21%	£24.6M	Aberdeen City Council	5.70%	£10.0M
Lloyds Bank plc	5.15%	£17.2M	Lancashire Police and Crime Commissioner	5.80%	£10.0M
Yorkshire Housing Limited	4.35%	£10.0M	London Borough of Newham	5.85%	£10.0M
London Borough of Barking and Dagenham	4.35%	£10.0M	Federated Prime Rate Sterling Liquidity 3	5.23%	£7.2M
Medway Council	4.40%	£10.0M	Broxbourne Borough Council	4.75%	£5.4M
Blackpool Council	4.40%	£10.0M	South Ayreshire Council	5.45%	£5.0M
Metropolitan Housing Trust Limited	4.40%	£10.0M	South Ayreshire Council	5.45%	£5.0M
Places for People	4.50%	£10.0M	West Dunbartonshire Council	5.60%	£5.0M
Thames Valley Housing Association Ltd	4.70%	£10.0M	London Borough of Hillingdon	5.60%	£5.0M
Liverpool City Council	5.45%	£10.0M	London Borough of Hillingdon	5.60%	£5.0M
Lancashire County Council	5.45%	£10.0M	Moray Council	5.65%	£5.0M
Ashford Borough Council	5.50%	£10.0M	West Dunbartonshire Council	5.70%	£5.0M
Eastbourne Borough Council	5.60%	£10.0M	Rushmoor Borough Council	5.80%	£5.0M
Fife Council	5.60%	£10.0M	Insight Liquidity Sterling C3	5.23%	£2.3M
Doncaster Metropolitan Borough Council	5.60%	£10.0M	Aberdeen Liquidity Fund - Sterling Fund Class L-1	5.23%	£1.6M
Derbyshire County Council	5.60%	£10.0M	Aviva Investors Sterling Liquidity Fund 3 GBP Inc	5.25%	£1.1M
Eastleigh Borough Council	5.70%	£10.0M	Deutsche Managed Sterling Platinum	5.19%	£0.2M

APPENDIX 2: Prudential Indicators

PRUDENTIAL INDICATOR (A). AFFORDABILITY PRUDENTIAL INDICATORS	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
	£'000	£'000	£'000	£'000	£'000
1 Capital Expenditure as at end of Q1:	181,569	179,187	177,496	153,395	73,045
2 Ratio of financing costs to net revenue stream:	£'000	£'000	£'000	£'000	£'000
a) Capital financing Costs	24,541	27,870	32,039	35,536	37,884
b) Net Revenue Stream	588,246	607,259	628,084	650,240	673,448
% Financing costs to net revenue stream	4.17%	4.59%	5.10%	5.47%	5.63%
3 Gross borrowing requirement:	£'000	£'000	£'000	£'000	£'000
Capital Financing Requirement as at the end of Q1	348,950	453,178	540,610	607,910	593,982
Gross Debt	272,975	272,975	297,975	382,975	439,975
New Debt (TMSS)	0	25,000	85,000	65,000	0
Under/(Over) Borrowing	75,975	155,203	157,635	159,935	154,007

(B). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2024/25 Approved	2025/26 Approved	2025/26 Approved	2025/26 Approved	2025/26 Approved
1 Authorised limit for external debt -	£'000	£'000	£'000	£'000	£'000
External Debt	520,000	626,000	646,000	629,000	604,000
2 Operational boundary for external debt -	£'000	£'000	£'000	£'000	£'000
External Debt	496,942	598,383	616,910	600,731	576,917
3 Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing / fixed term investments	100%	100%	100%	100%	100%
4 Upper limit for variable rate exposure					
Net principal re fixed rate borrowing / fixed term investments	25%	25%	25%	25%	25%
5 Upper limit for total principal sums invested for over 365 (	£'000	£'000	£'000	£'000	£'000
(per maturity date)	£150,000	£150,000	£150,000	£150,000	£150,000

Maturity structure of borrowing during year	upper limit	lower limit
under 12 months	20%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Maturity structure of new variable rate borrowing during	upper limit	lower limit
under 12 months	35%	0%
12 months and within 24 months	45%	0%
24 months and within 5 years	65%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

APPENDIX 3: Economic Update (provided by Link Group, July 2024)

1. Economic Update

- The first quarter of 2024/25 saw:
  - Gross Domestic Product (GDP) growth flatlining in April following positive Q4 2023/24 growth figures of 0.7% q/q (quarter over quarter).
  - A stalling in the downward trend in wage growth, with the headline 3myy (3 month year over year) rate staying at 5.9% in April.
  - Consumer Price Index (CPI) inflation falling from 2.3% in April to 2.0% in May.
  - Core CPI inflation decreasing from 3.9% in April to 3.5% in May.
  - The Bank of England holding rates at 5.25% in May and June.
  - 10-year gilt yields climbing to 4.35% in April, before closing out at 4.32% in May.
- The news that the economy grew by 0.7% q/q in Q4 2023/24 confirmed that it moved out of its very mild technical recession that prevailed at the back end of 2023. However, data released for April and May so far shows a slight stalling in the recovery, with GDP data for April coming out at 0.0% m/m (month over month), as inclement weather weighed on activity. Moreover, the fall in the composite Purchasing Manager Index output balance from 53.0 in May to 51.7 in June confirms tepid growth.
- On a more positive note, the 2.9% m/m increase in retail sales volumes in May more than reversed the 1.8% m/m drop in April as rainfall returned to seasonal norms. The strength was broad-based across the retail sector, including online, (+5.9% m/m) suggesting an underlying strengthening in sales beyond weather effects. With inflation falling back to target, Bank Rate likely to be reduced soon and with consumer confidence improving, retail sales may well continue to strengthen.
- Stronger consumer spending, as low inflation allows households' real incomes to strengthen and the drag from higher interest costs fades, suggests that real consumption will strengthen substantially over the next two years. However, investment will only make a modest contribution to GDP growth. With the industrial sector still 12% smaller than in 2019, excess capacity will continue to cap the need for industrial firms to invest. But improving business sentiment should raise investment by services' firms. Further, a fall in mortgage rates should trigger a recovery in residential investment. Overall, strong consumer spending is likely to be the backbone of GDP growth, along with government consumption. Our colleagues at Capital Economics forecast that following GDP growth of 1.0% in 2024, activity will continue to surprise to the upside with GDP growth of 1.5% for both 2025 and 2026 (consensus forecasts are 1.2% and 1.4% respectively).
- Nonetheless, the on-going stickiness of wage growth in April will be a lingering concern for the Bank of England. The 3myy rate of average earnings growth stayed at 5.9% in April (consensus 5.7%), whilst the more timely 3m annualised rate rebounded from 5.9% to 9.3%. This stickiness partly reflected April's 9.8% increase in the minimum wage. This leaves the Bank of England's forecast for a fall back in regular private sector pay growth from 5.8% in April to 5.1% in June looking a challenge.

- Despite the stickiness of wage growth in April, sharp falls in employment and a move up in unemployment suggests that wage growth will soon be back on a downward path. The 139,000 fall in employment in the three months to April was accompanied by a rise in the unemployment rate from 4.3% to 4.4%. This was the fourth increase in a row and took it to its highest level since September 2021. The rise would have been larger were it not for the 132,000 increase in inactivity in the three months to April as the UK's disappointing labour market participation performance since the pandemic continued. The vacancies data also paint a picture of a slowly cooling labour market. The number of job vacancies fell from an upwardly revised 908,000 to 904,000, leaving vacancies 31% below the peak in May 2022, but 11% above the pre-pandemic level.
- The fall in CPI inflation in May back to the Bank's 2% target for the first time since July 2021 will have come as welcome news to the Bank. Furthermore, with CPI inflation of 3.3% in the US and 2.6% in the Euro-zone in May, the UK appears to have won the race to get CPI inflation back to 2.0%. A further easing in food inflation from 2.8% in April to 1.6% in May played a part in the fall in overall CPI inflation and with food producer price inflation at just 0.2% in May, food price inflation will probably soon fall to zero.
- The core rate also fell back from 3.9% to 3.5%. Within that, core goods CPI inflation slipped below zero for the first time since October 2016. As expected, clothing/footwear, recreation/culture and restaurants/hotels categories inflation declined, reflecting base effects from big increases last May. While services inflation fell from 5.9% to 5.7%, this decline was smaller than the Bank of England expected (forecast 5.3%). And the timelier three-month annualised rate of services prices has rebounded from 8.5% to 9.2%. This suggests that the persistence in domestic inflation that the Bank is worried about is fading more slowly than it thought. Even so, there is scope for inflation to fall further.
- There was little chance that the Bank would cut rates at its June meeting, given upside surprises on services CPI inflation and wage growth. But several developments implied a rate cut is getting closer. First, two members of the MPC, Ramsden and Dhingra voted again to reduce rates immediately to 5.00%. Second, despite the recent run of stronger inflation and activity, the minutes noted "indicators of inflation persistence had continued to moderate" and that a range of indicators suggest pay growth had continued to ease. And there was new wording that members of the MPC will consider all the information available and how this affects the assessment that the risks from inflation persistence are receding "as part of the August forecast round".
- Throughout the quarter there was a degree of volatility in the gilt market and, by way of example, the 10-year gilt yield rose from 4.05% on 2nd April to finish at 4.15% on 28th June but it has exceeded 4.30% on several occasions. Overall, investors judged that interest rates will need to remain high for longer to keep inflation around the 2.0% target.
- Meanwhile, the FTSE 100 broke through the 8,000 mark in April for the first time since its brief three-day flutter in February last year and reached a record closing high of 8,446 on 15th May. However, by the end of the quarter, despite AI-fuelled rises in the US S&P500, it finished rather tamely and had fallen back to 8,164. Arguably, significant interest rate cuts and an on-going UK economic recovery will be required for a further resurgence to take hold.

2. Interest rate forecasts

The latest forecast, updated on 28th May, sets out a view that both short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of a stubbornly robust economy and a tight labour market.

Moreover, whatever the shape of domestic data, recent gilt market movements have been heavily influenced by the sentiment pertaining to US monetary policy. Again, inflation and labour data has proven sticky and the market's expectation for rate cuts has gradually reduced throughout the course of the year, so that possibly rates may not be cut more than once, or possibly twice, before the end of 2024. In any event, even if the Bank of England starts to cut rates first, it may mean that the medium and longer parts of the curve take longer to fully reflect any such action until the US yield curve shifts lower too. Given the potential inflationary upside risk to US treasuries if Trump wins the presidential election in November (increased tariffs on imports from China for example), therein lies a further risk to yields remaining elevated for longer.

Closer to home, the General Election is not expected to have a significant impact on UK monetary policy. There is minimal leeway for further tax cuts or added spending without negatively impacting market sentiment. Link's central case is the path and speed of rate cuts is similar to that which we previously forecast, with Bank Rate eventually falling to a low of 3% by H2 2026.

However, given the increased uncertainty surrounding Link's central gilt market forecasts, and the significant issuance that will be on-going from several of the major central banks, it has marginally increased its PWLB forecasts by c20 to 30 basis points across the whole curve since the previous quarter.

In summary, regarding PWLB rates, movement in the short-end of the curve is expected to reflect Link's Bank Rate expectations to a large degree, whilst medium to longer-dated PWLB rates will remain influenced not only by the outlook for inflation, domestically and globally, but also by the market's appetite for significant gilt issuance (£200bn+ for each of the next few years).