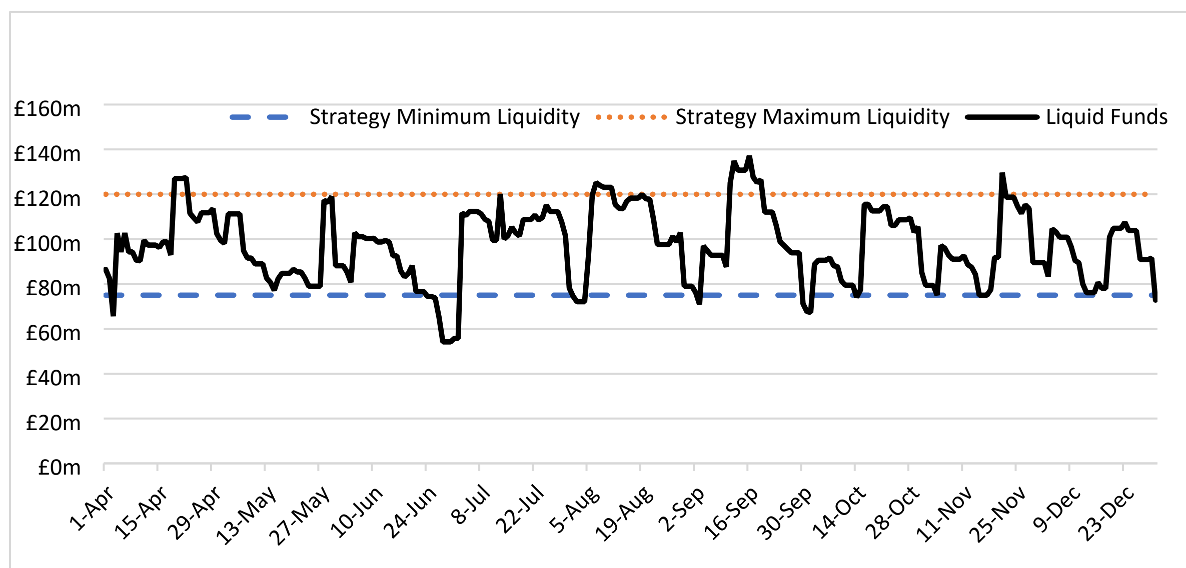
APPENDIX 1: Investment and Borrowing Portfolios

1. Liquidity and Investments Maturity Profile

1.1 The TMSS establishes £75m and £120m as the minimum and maximum target levels for liquid Treasury investments. During the reporting period, liquid funds (bank balances plus money market funds) averaged £97m, with a reduction from £86m at the start of the year to £73m at the end of the quarter (see Figure 1). These liquid funds were invested in money market funds and banks, where interest rates averaged 5.06% and 4.62% respectively during the period.

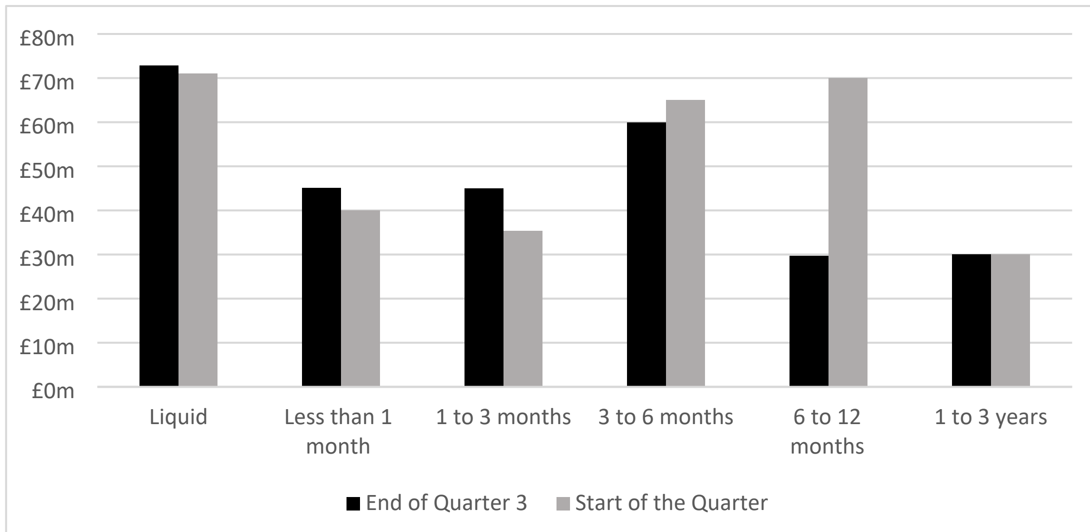
1.2 The few days when the liquidity level fell slightly below the minimum set in the Treasury Management Strategy, were anticipated, and no borrowing was needed since confirmed cashflows were imminent. Regular forecasting is conducted to ensure any shortfalls below or above the thresholds remain brief.

Figure 1 – Liquid Funds over the last three quarters



1.3 Figure 2 shows the investments' maturity profile at the end of the quarter compared to the start of the quarter. Although cash balances have reduced since the start of the year, short-term liquidity has remained relatively stable, with £253m of investments maturing within 12 months at the end of quarter 3, compared to £281m at the start. The weighted average maturity of the investments decreased from 151 days to 110 days at the end of Q3, making the portfolio more liquid. This is largely due to longer dated fixed term investments maturing and not being replaced. Over time as internal borrowing levels increase, this will reduce the amount of longer dated treasury investments that are held.

Figure 2 – Investments Maturity Profile



Investment Yield

1.4 Investment yields peaked at the end of last year and remained stable for the first four months of the financial year. They decreased slightly in August and November, coinciding with the Bank of England base rate reduction to 4.75% in November 2024. About 85% of investments yielded between 4.76% and 5.22%, except for the call account and VNAV funds.

1.5 Treasury investments yielded a weighted average of 4.92% during the period, up from 4.54% in the same period of 2023/24. Following the Bank of England base rate reductions in August and November, money market fund yields declined. In contrast, fixed-term investment yields remained stable. It is anticipated that interest rates will continue to decline as the market expects further base rate reductions this year.

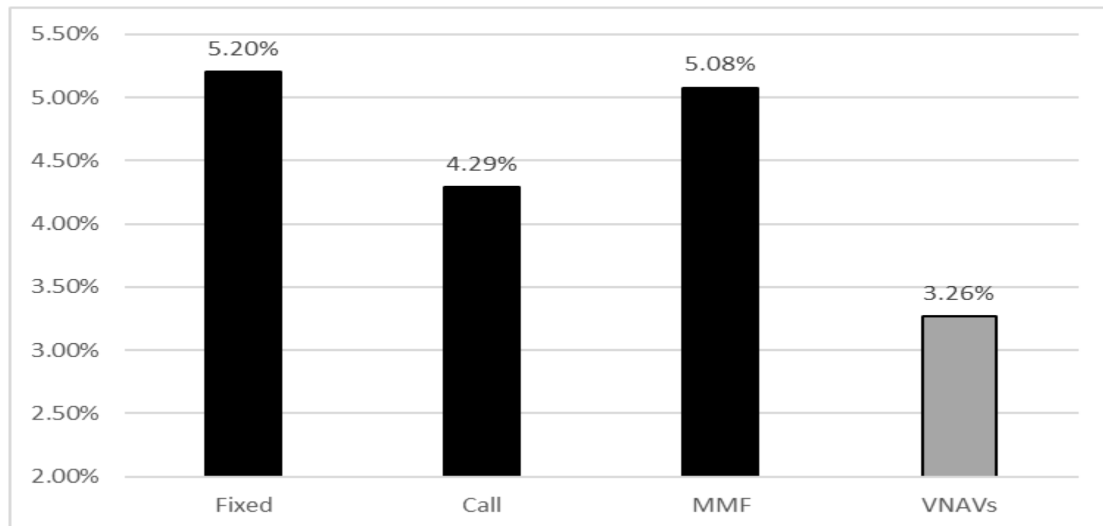
1.6 High interest rates, together with adjustments to the mix of investments, resulted in income from treasury activities outperforming the budget after recording total income of £12.8m compared to a year-to-date budget of £3.6m.

Investment Yields during the Year	Average Investment Balances £000	Yield £000	Budget £000	Yield %
Managed In House	**223,271**	**8,628**	**1,470**	**5.15%**
Money Market Funds	84,530	3,220		5.08%
Variable Net Asset Value Funds	39,800	974		3.26%
Externally Managed	**124,330**	**4,194**	**2,205**	**4.50%**
Total Funds	347,601	12,822	4,521	4.92%

2. Variable Net Asset Value (VNAV) Investments

2.1 As of 31 December 2024, £39.8m is invested in two VNAV funds, which can vary in value. Over the reporting period, these funds earned £0.974m, yielding 3.26%. This yield is lower compared to other treasury investments.

Figure 3-Investments Yields



2.2 Despite consistent dividends, VNAV funds have seen value fluctuations. The CCLA Property Fund's share price grew 12.79% over ten years, while the Threadneedle Social Bond Fund decreased by 2% since purchase.

2.3 The price of VNAV funds appreciates in low-interest periods and depreciates in high-interest periods. With expected interest rate reductions, the CCLA Property Fund appreciated by 2.65% since the start of the year. A review of the VNAV funds is being undertaken, to assess their ongoing suitability in an environment of higher internal borrowing and lower treasury investment balances to ensure an optimal balance for the portfolio between risk, return and liquidity.

Investments Held

Counterparty	Rate	Principal Outstanding	Counterparty	Rate	Principal Outstanding
Places for People	4.50%	£10.0M	Liverpool City Council	5.45%	£10.0M
Metropolitan Housing Trust Limited	4.40%	£10.0M	Aberdeen City Council	5.70%	£10.0M
Medway Council	4.40%	£10.0M	West Dunbartonshire Council	5.60%	£5.0M
Yorkshire Housing Limited	4.35%	£10.0M	London Borough of Barking and Dagenham	4.35%	£10.0M
London Borough of Hillingdon	5.60%	£5.0M	Blackpool Council	4.40%	£10.0M
Fife Council	5.60%	£10.0M	Lloyds Bank plc	4.62%	£11.4M
London Borough of Hillingdon	5.60%	£5.0M	Aberdeen Liquidity Fund - Sterling Fund Class L-1	4.77%	£14.9M
Doncaster Metropolitan Borough Council	5.60%	£10.0M	Federated Prime Rate Sterling Liquidity 3	4.79%	£21.2M
Moray Council	5.65%	£5.0M	Aviva Investors Sterling Liquidity Fund 3 GBP Inc	4.78%	£5.4M
Derbyshire County Council	5.60%	£10.0M	Insight Liquidity Sterling C3	4.79%	£11.7M
Lancashire Police and Crime Commissioner	5.80%	£10.0M	Deutsche Managed Sterling Platinum	4.75%	£5.0M
Thames Valley Housing Association Ltd	4.70%	£10.0M	CCLA The Public Sector Deposit 4	4.76%	£3.1M
Lancashire County Council	5.45%	£10.0M	CCLA Local Authorities Property Fund	Dividend	£9.7M
South Ayreshire Council	5.45%	£5.0M	CT UK Social Bond Fund	Dividend	£30.1M
South Ayreshire Council	5.45%	£5.0M	**Total Investments**		**£282.7M**

APPENDIX 2: Prudential Indicators

PRUDENTIAL INDICATOR	2024/25	2025/26	2026/27	2027/28	2028/29
(A). AFFORDABILITY PRUDENTIAL INDICATORS					
	Estimate	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital Expenditure as at end of Q3:	167,263	194,992	198,089	150,778	76,079
Ratio of financing costs to net revenue stream:	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
a) Capital financing Costs	24,541	26,627	31,062	35,175	37,995
b) Net Revenue Stream	588,246	607,259	628,084	650,240	673,448
% Financing costs to net revenue stream	4.17%	4.38%	4.95%	5.41%	5.64%
Gross borrowing requirement:	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Capital Financing Requirement as at the end of Q3	308,750	430,806	527,773	577,417	554,511
Gross Debt	272,400	272,400	347,072	445,504	452,279
New Debt (TMSS)	0	74,672	98,431	47,485	0
Under/(Over) Borrowing	36,350	83,734	82,270	84,428	102,232

	2024/25	2025/26	2025/26	2025/26	2025/26
(B). TREASURY MANAGEMENT PRUDENTIAL INDICATORS					
	Approved	**Approved**	**Approved**	**Approved**	**Approved**
Authorised limit for external debt -	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
External Debt	520,000	626,000	646,000	629,000	604,000
Operational boundary for external debt -	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
External Debt	496,942	598,383	616,910	600,731	576,917
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing / fixed term investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Net principal re fixed rate borrowing / fixed term investments	25%	25%	25%	25%	25%
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, December 2024)

1. Economics update

- The third quarter of 2024/25 (October to December) saw:
  - GDP (Gross Domestic Product) growth contracting by 0.1% m/m (month/month) in October following no growth in the quarter ending September;
  - The 3myy (3 month year over year) rate of average earnings growth increase from 4.4% in September to 5.2% in October;
  - CPI (Consumer Price Index) inflation increase to 2.6% in November;
  - Core CPI inflation increase from 3.3% in October to 3.5% in November;
  - The Bank of England cut interest rates from 5.0% to 4.75% in November and hold them steady in December.
  - 10-year gilt yields starting October at 3.94% before finishing up at 4.57% at the end of December (peaking at 4.64%).
- The 0.1% m/m fall in GDP in October was the second such decline in a row and meant that GDP would need to rise by 0.1% m/m or more in November and December, for the economy to grow in Q4 as a whole rather than contract. With on-going concern over the impact of the October budget and drags from higher interest rates and weak activity in the euro zone, our colleagues at Capital Economics have revised down their forecast for GDP growth in 2025 to 1.3% (it was initially 1.8% in the immediate wake of the Budget.)
- This quarter saw the composite activity Purchasing Manager Index (PMI) dip below the level of 50 that separates expansion from contraction for the first time since October 2023. Although December's composite PMI came in above this level, at 50.5, this was still consistent with the 0% rise in real GDP in Q3 being followed by a flat-lining, or potential contraction, in the final quarter of 2024. However, the economy is unlikely to be quite as weak as that given that the PMIs do not capture rises in government spending, but the data does underline the continued divergence in trends between the manufacturing and services sectors. The manufacturing PMI fell for its fourth consecutive month in December, from 48.0 in November to 47.3. That's consistent with manufacturing output falling by 1.5% q/q in the final quarter of 2024 after flatlining through the summer months. This weakness in the manufacturing sector was offset by a rebound in the services sector. The services PMI rose from 50.8 in November to 51.4 in December, which is consistent with non-retail services output growth increasing from +0.1% q/q to +0.3% for October - December. This suggests that more of the recent slowdown in GDP is being driven by the weakness in activity overseas rather than just domestic factors. Additionally, the services output prices balance rose for the third consecutive month, from 55.4 in November to 56.9, showing signs that price pressures are reaccelerating.
- After rising by 1.4% q/q in July - September, the retail sector had a difficult final quarter of the year. Indeed, the bigger-than-expected 0.7% m/m fall in retail

sales in October (consensus forecast -0.3% m/m) suggested that households' concerns about expected tax rises announced in the Budget on 30th October contributed to weaker retail spending at the start of the quarter. The monthly decline in retail sales volumes in October was reasonably broad based, with sales in five of the seven main sub sectors slipping. However, the potential for seasonally adjusted sales to rise in November - if October's figures were impacted by the timing of the school half term – combined with a rebound in consumer confidence and rising real incomes, points to some promise to the final quarter of 2024

- The Government's October budget outlined plans for a significant £41.5bn (1.2% of GDP) increase in taxes by 2029/30, with £25bn derived from a 1.2% rise in employers' national insurance contributions. The taxes are more than offset by a £47bn (1.4% of GDP) rise in current (day-to-day) spending by 2029/30 and a £24.6bn (0.7% of GDP) rise in public investment, with the latter being more than funded by a £32.5bn (1.0% of GDP) rise in public borrowing. The result is that the Budget loosens fiscal policy relative to the previous government's plans - although fiscal policy is still being tightened over the next five years – and that GDP growth is somewhat stronger over the coming years than had previously been forecasted. By way of comparison, the Bank of England forecasts four-quarter GDP growth to pick up to almost 1¾% through 2025 (previously forecast to be 0.9%) before falling back to just over 1% in 2026.

- December's pay data showed a rebound in wage growth that will likely add to the Bank of England's inflationary concerns. The 3myy rate of average earnings growth increased from 4.4% in September (revised up from 4.3%) to 5.2% in October (consensus forecast 4.6%) and was mainly due to a rebound in private sector pay growth from 4.6% to 5.4%. Excluding bonuses, public sector pay stagnated in October and the 3myy rate fell from 4.7% to 4.3%.

- The number of job vacancies also fell again from 828,000 in the three months to October to 818,000 in the three months to November. This marks the first time it has dropped below its pre-pandemic February 2020 level of 819,000 since May 2021. Despite this, the Bank of England remains concerned about the inflationary influence of high wage settlements as well as the risk of a major slowdown in labour market activity.

- CPI inflation has been on the rise this quarter, with the annual growth rate increasing from 1.7% in September to 2.3% in October, before rising further to 2.6% in November. Although services CPI inflation stayed at 5.0% in November, the Bank had expected a dip to 4.9%, while the timelier three-month annualised rate of services CPI rose from 5.0% to 5.1%. That shows that there currently isn't much downward momentum. Moreover, the wider measure of core CPI inflation rose from 3.3% to 3.5% in November. Both services and core inflation are currently at rates well above those consistent with the 2.0% target and are moving in the wrong direction. Capital Economics forecast that after dipping to 2.5% in December, CPI inflation will rise further in January, perhaps to 2.8%. Although CPI inflation is expected to be back at close to the 2.0% target by the end of 2025, given that a lot of the rise in inflation in the coming months will be due to base effects that won't persist, the potential for a broader set of tariffs to arise from the US as well as the constant threat of geo-political

factors to impact energy and food prices suggest risks remain very much to the upside.

- Throughout the quarter gilt yields have risen. The 10-year gilt yield increased from 3.94% at the start of October to 4.57% by the year end (and has subsequently risen to 4.64% early in 2025). As recently as mid-September 10-year gilt yields were at their low for the financial year, but since then, and specifically after the Budget at the end of October, yields have soared. Overall, the reaction to the UK Budget highlights how bond markets are both fragile and highly attentive to news about the fiscal outlook.
- The FTSE 100 started off this quarter at 8,276, before finishing up at 8,121. In particular, UK markets have continued to fall further behind US equities, a trend which has accelerated since Trump's election victory in November, partly due to the UK stock market being less exposed to AI hype, and it being weighed down by its relatively large exposure to the energy and materials sectors.
- **MPC meetings: 7th November & 18th December 2024**
- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut, but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.
- At the 18 December meeting, another split vote arose. Members voted 6-3 to keep Bank Rate on hold at 4.75%, but dissenters (Dhingra, Ramsden and Taylor) were keen for rates to be cut further as concerns over the slowing down of the UK economy took root, despite near-term inflation fears remaining.
- The MPC again stated that "a gradual approach" to rate cuts "remains appropriate" and that policy will "remain restrictive for sufficiently long".

2. Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates.

The latest forecast, updated on 11th November, 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 stubborn inflationary factors and a tight labour market.

Following the 30th October Budget, the outcome of the US Presidential election on 6th November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7th November, we significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

If we reflect on the 30th October Budget, our central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.

Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November). Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025.

Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of 2025, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

Moreover, Donald Trump's victory in the US President election paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of any further tax cuts and an expansion of the current US budget deficit.

Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound.

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). As noted at the Link November Strategic

Issues webinars, there is upside risk to that part of our forecast despite the Debt Management Office skewing its issuance to the shorter part of the curve.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.