Meeting: CRMG 26 November 2024
Cabinet 10 December 2024

TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY MID-YEAR REVIEW REPORT 2024/25

Report of the Director for Finance S151 Officer

1. INTRODUCTION AND PURPOSE OF REPORT

1.1 This report provides Cabinet with a mid-year review of the council's Treasury Management Strategy Statement and Annual Investment Strategy for 2024/25, approved by council on 22 February 2024, and has been prepared in accordance with the Chartered Institute of Public Finance Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services (revised 2021).

1.2 The Report provides an economic update for the first six months of 2024/25 and details how this impacts upon the interest rate predictions and outlook provided in the initial strategy. An overview is provided of more recent forecasts and developments in the financial markets and how these are affecting the council's investment portfolio and borrowing strategies for the current financial year. A review is provided on the council's capital expenditure prudential indicators and compliance with Treasury and Prudential Limits for 2024/25.

1.3 There are no key changes required to the Treasury Management and Capital strategies for 2024/25, which continue to be relevant and effective.

1.4 The report is very detailed and provides a full picture of all the variables and circumstances impacting upon the council's treasury management operation.

2. BACKGROUND

2.1 Capital Strategy

In December 2021, 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.

The Capital Strategy is reported in a separate report at the same time as the Treasury Management Strategy in the budget setting cycle in February each year.

2.2 Treasury Management

2.2.1 The council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury

AGENDA ITEM

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.

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

2.2.3 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.'

3. CIPFA REQUIREMENTS

3.1 This report has been written in accordance with the requirements of the CIPFA Code of Practice on Treasury Management (revised 2021).

3.2 The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the council will seek to achieve those policies and objectives.
- Receipt by the full council 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 and are assigned to Cabinet/CRMG as deemed appropriate to meet the Treasury Management governance and scrutiny aspects of the council.)
- Delegation by the council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this council the delegated body is the Corporate, Resource and Governance Scrutiny Committee (CRMG).

4. MID-YEAR TREASURY MANAGEMENT STRATEGY REVIEW FOR 2024/25

The 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 council’s capital expenditure, as set out in the Capital Strategy, and prudential indicators.
- A review of the council’s investment portfolio for 2024/25.
- A review of the council’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.
- Information for Members on other prevalent issues.

5. TREASURY MANAGEMENT ADVISORS

5.1 The council engages the services of Link Asset Services for its Treasury Management Advice contract. Following a recent tendering exercise, Link have been appointed as the council’s Treasury Management advisors for a further four years.

5.2 Link Asset Services works with the council in delivering a comprehensive range of Treasury Management Advisory Services. The core service includes specific advice in respect of an integrated approach to Treasury Management.

6. SCRUTINY MEMBER TRAINING

6.1 The CIPFA Treasury Management in Public Services Code of Practice places emphasis on the effective management and control of risk as the prime objective of the council's treasury management activities. The Code also cites the importance of reporting on treasury management strategy and performance and scrutiny of treasury management strategy and policy to a specific named body; the council has accordingly delegated the role of ensuring effective scrutiny of its Treasury Management Strategy to the Corporate, Resource and Governance Scrutiny Committee.

6.2 In line with the Code, Cabinet and CRMG have received training each year since 2009/10. Further training is being arranged for 25 November ahead of consultation with Members on next year's treasury strategy.

6.3 The session will provide a brief refresher of Members’ and Officers’ roles and responsibilities within the Treasury Management environment, and how to maintain effective scrutiny of the Treasury Management function. It will update Members on the current global economic position, particularly in the US, Europe and UK and provide up to date interest rate forecasts; possible scenarios for the economy in 2024/25 given current economic indicators and developments in the financial markets. Concentration will particularly be made on new and prevalent issues that will have a major impact on the council’s treasury strategy next year.

7. ECONOMIC UPDATE

7.1 The economic update provided in the following paragraphs looks back at the situation in the UK in the first half of this financial year.

7.2 In the run-up to the Budget on 30 October, economic growth in the UK slowed slightly, after it was the fastest among G7 countries in the first half of 2024.

7.3 Some surveys indicate that manufacturers are uncertain about their output, and consumer confidence in the economy and their own finances has fallen (although sales were higher this summer than last year).

7.4 The Bank of England kept interest rate unchanged at 5% at the end of September, wanting to ensure that inflation doesn't pick up again due to persistent inflation in services.

7.5 **Headline Indicators Summary**

- Gross Domestic Product (GDP)[1] is estimated to have risen by 0.5% in May-July 2024 compared to the previous three-month period (February-April). Eurozone GDP grew by 0.2% in April-June 2024.

- Services output was up by 1.5% in the three months to July 2024 compared to the previous year. Manufacturing output fell by 0.8%.

- Consumer Price Index (CPI)[2] inflation was 2.2% in August 2024, unchanged from July. Inflation in the Eurozone was 2.2% in August 2024, down from 2.6% in July.

- The Bank of England's Monetary Policy Committee (MPC) left interest rates unchanged at 5.0% on 19 September. At the previous meeting the MPC had reduced rates for the first time since the pandemic.

- Average wages excluding bonuses were 5.1% higher in the three months to July 2024 compared with the year before, and 3.0% higher after adjusting for inflation. CPI inflation for this period was 2.1%.

- 33.2 million people were in employment in May-July 2024, up 150,000 from a year before. The employment rate was 74.8%, down from 74.9% the previous year.

- 1.44 million people were unemployed in May-July 2024, down 60,000 from the year before. The unemployment rate was 4.1%. The UK harmonised unemployment rate for Q2 2024 was 4.2%, above the rate of Germany (3.4%) and the US (4.0%) but below that of France (7.5%).

- Productivity across the whole UK economy increased by 0.3% in Q2 2024 compared with the previous quarter. Compared with the previous year, it was down by 0.1%.

- Government borrowing in the financial year to August 2024 was £64.1 billion, £0.3 billion less than in the same period in 2023/24. At the end of August 2024, public sector net debt was equivalent to 100.0% of GDP, compared to 95.7% a year before.

[1] Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health.
[2] The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by consumers for a representative basket of consumer goods and services. The CPI measures inflation as experienced by consumers in their day-to-day living expenses.

- The UK had a trade deficit of £18.6 billion in the three months to July 2024, up from £10.2 billion in the three months to April 2024. The current account deficit was £21.0 billion in Q1 2024 (3.1% of GDP), down from £21.2 billion in Q4 2023 (3.1% of GDP).

- The value of sterling fell by 0.8% between July and August 2024, following an increase of 0.9% between June and July. Compared with a year ago, it is 1.6% higher.

- The volume of retail sales increased by 1.2% in the three months to August 2024 compared with the previous three months and increased by 1.0% compared with the previous year.

- GfK's (Growth for Knowledge) Consumer Confidence Index, which measures consumer attitudes, was at -20 in September 2024, down seven points from August.

- House prices increased by 2.2% in the year to July 2024.

- Household debt stood at 122.3% of disposable income in Q1 2024. This was its lowest level since at least 2007.

- The UK economy has grown at a higher-than-expected rate in the first half of this year, following a short technical recession in 2023, and the upward GDP revision for 2024 reflects that. However, widespread uncertainty could weigh down on growth expectations for 2025 and 2026.

7.6 **Interest Rates to 30 September 2024**

- The Bank of England made the first interest rate cut for over four years in August (from 5.25% to 5%),

- Looking at gilt movements (off which Public Works Loan Board (PWLB) rates are priced) 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 of England's August rate cut signalled the start of its loosening cycle (where interest rates start to fall). 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 5 basis points (bps)[3] 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 Financial Times Stock Exchange 100 Index (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[4], which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to assess the impact of the Presidential election, and how events in the Middle East (and Ukraine) unfold. The catalyst for any further rally (or not) is likely to be the degree of investors' faith in AI.

[3] Basis point (BP) refers to a common unit of measure for interest. One basis point is equal to 1/100th of 1%, or 0.01%, and is used to denote the percentage change in a financial instrument.

[4] The S&P 500 is a stock index that tracks the share prices of 500 of the largest public companies in the United States.

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

- On 9 May, the Bank of England's MPC voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20 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%. 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 Federal Reserve (Federal Open Market Committee (FOMC) is the US equivalent to the Bank of England MPC) but this came to nothing.

7.8 **Further Interest Rate Cuts Expected**

- Link have now updated their forecasts following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps (0.25%) Bank Rate cut undertaken by the MPC on 7 November. Bank rate currently stands at 4.75%. Link have significantly revised their central forecasts for the first time since May. In summary, their Bank Rate forecast is now 50bps to 75bps higher than was previously the case, whilst PWLB forecasts have been materially increased to not only reflect rising concerns around the future path of inflation, but also the increased level of government borrowing over the term of the current Parliament.

- Policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility (OBR) and the Bank of England agree with that view. The latter have the CPI measure of inflation hitting 2.5% (yearly measure) by the end of 2024 and persisting until at least 2026.

- The anticipated major investment in the public sector, according to the Bank, is expected to increase 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 rise 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.

- The next reduction in Bank Rate is expected to be made in February 2025 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 PWLB forecasts, the short to medium rates are forecast to remain elevated over the course of the next year, and the degree to which they moderate will be tied to the arguments for further Bank Rate cuts. Longer-term rates 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 an oversupply of government debt issuance that investors will only agree to take on if the interest rates offered provide sufficient reward.

- The US President election may see the introduction/extension of tariffs that could prove inflationary whilst the same could be said of 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 (off which PWLB rates are priced). So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.

8. INTEREST RATE FORECAST UPDATE

8.1 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 current interest rate forecast is provided in the table below to March 2027 and is the central forecast for PWLB[5] Certainty Rates[6] (gilt yields plus 80 basis points[7] (bps) - the standard rate minus 20 bps) which have been accessible to most authorities since 1 November 2012.

8.2 The latest forecast on 1 November sets out a view that short, medium and long-dated interest rates will gradually fall back during 2025 and 2026, although there are upside risks in respect of inflation, a continuing tight labour market, as well as the size of gilt issuance.

	Dec 2024	March 2025	June 2025	Sept 2025	Dec 2025	March 2026	June 2026	Sept 2026	Dec 2026	March 2027
Bank Rate	4.75%	4.50%	4.25%	4.00%	4.00%	3.75%	3.75%	3.75%	3.50%	3.50%
3 mth average earnings	4.70%	4.50%	4.30%	4.00%	4.00%	4.00%	3.80%	3.80%	3.80%	3.50%
6 mth average earnings	4.70%	4.40%	4.20%	3.90%	3.90%	3.90%	3.80%	3.80%	3.80%	3.50%
12 mth average earnings	4.70%	4.40%	4.20%	3.90%	3.90%	3.90%	3.80%	3.80%	3.80%	3.50%
5yr PWLB	5.00%	4.90%	4.80%	4.60%	4.50%	4.50%	4.40%	4.30%	4.20%	4.10%
10yr PWLB	5.30%	5.10%	5.00%	4.80%	4.80%	4.70%	4.50%	4.50%	4.40%	4.30%
25yr PWLB	5.60%	5.50%	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%
50yr PWLB	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%	4.50%

9. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

9.1 This part of the report aims to update Members on:

- the council'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
- on compliance with the limits in place for borrowing activity.

---

[5] PWLB refers to the Public Works Loan Board. The **PWLB** is a statutory body operating within the United Kingdom Debt Management Office, a Cabinet Agency of HM Treasury. PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

[6] The **PWLB certainty rate** is 20 basis points below the standard PWLB borrowing rate (gilt plus 100 basis points) across all loan types and maturities. This is available to councils who outline their total proposed new long-term borrowing, as well as any borrowing planned to refinance existing loans, and the value of capital expenditure that will be financed by loans.

[7] A **basis point** (often abbreviated as **bp or bps**, is one hundredth of 1 percentage point. Changes in interest rates are often stated in basis points, for example, an increase in 5bps is an increase of 0.05%.

Appendix 1 gives a full summary of the Prudential and Treasury indicators at the mid-year point.

9.2 Prudential Indicator for Capital Expenditure

9.2.1 This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed on 22 February 2024.

Capital Expenditure by Portfolio	**2024/25 Original Estimate £m**	**2024/25 Current Estimate £m**
Communities, Culture and Sport	8.101	7.098
Economy, Regeneration and Housing	100.991	63.579
Finance and Resources	27.251	29.930
Health and Adult Social Care	0	0.251
Parks, Highways and Transport Services	18.912	38.883
Total Capital Expenditure	**155.255**	**139.741**
Non HRA	**115.147**	**118.067**
HRA	**40.108**	**21.674**

9.2.2 There has been a net decrease of £15.514m in the 2024/25 Capital Programme since approved in February 2024. Officers regularly review the spending profiles of their capital schemes and £72.764m of schemes have been re-phased from 2024/25 to later years to reflect the latest information, the most significant of which include £15.361m in the Schools Estates Capital Programme, £30.522m in Economy, Regeneration and Housing Schemes, including £17.092m for Weir Mill, £4.332m for the Academy of Living Well and £2.821m in Mayoral Development Corporation schemes, and £19.142m for HRA New Build Schemes. The reduction in the Programme due to re-phasing has been offset by the addition of new schemes. A net total of £57.250m has been added to the Capital Programme since approved in February 2024 most notably £10.538m in loans to Stockport Homes for the Affordable Homes Schemes, £22m of new capital funding for highways. Changes in the Capital Programme during the financial year have been reflected in the revised Capital Financing Requirement (CFR) estimates below. As part of the council's response to the in-year forecast outturn reported at Quarter 2, Officers are reviewing the Capital Programme to identify capital scheme spending profiles which can be rephased to later year to reduce the cost of borrowing impacted by the current high interest rates. This could result in further rephasing of spending profiles over the second half of the year.

9.3 Changes to Financing of the Capital Programme

9.3.1 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 council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by the statutory charge to revenue 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 Non HRA Original Estimate £m	2024/25 HRA Original Estimate £m	2024/25 Total Original Estimate £m	2024/25 Non HRA Current Estimate £m	2024/25 HRA Current Estimate £m	2024/25 Total Current Estimate £m
Total Capital Expenditure	115.147	40.108	**155.255**	118.067	21.674	**139.741**
Financed By:						
Capital Grants	60.239	2.498	**62.737**	68.758	1.312	**70.070**
Capital Receipts	0.340	3.705	**4.045**	3.012	1.076	**4.088**
Capital Contributions	0.200		**0.200**	2.004		**2.004**
Revenue Contribution	0.944	15.232	**16.176**	1.015	15.155	**16.170**
Borrowing Requirement	**53.424**	**18.673**	**72.097**	**43.278**	**4.131**	**47.409**

9.3.2 The council has set out an ambitious long-term vision for the future of Stockport via its council Plan. Much of the investment required is funded by prudential borrowing so there will be a subsequent impact on the council's prudential indicators, in particular the Capital Financing Requirement (CFR) and MRP. The council's prudential indicators will be reviewed and updated in line with the capital programme to reflect the investment.

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

9.4.1 The following tables show the CFR, which is the underlying external need to incur borrowing for a capital purpose and the expected debt position over the period. This is termed the Operational Boundary.

Prudential Indicator:

Capital Financing Requirement (CFR)	2024/25 Original Indicator £m	2024/25 Current Indicator £m
CFR General Fund (Non HRA)	765.135	766.697
CFR HRA	178.627	160.154
Total CFR	**943.762**	**926.851**

Prudential Indicator:

External Debt: Operational Boundary	2024/25 Original Indicator £m	2024/25 Current Indicator £m
Debt	940.300	940.300
Other Long-term Liabilities	13.700	13.700
Total	**954.000**	**954.000**

9.4.2 It should be noted that the CFR measures the council's underlying need to borrow, i.e. the extent to which forecast capital expenditure has not been funded from resources such as capital receipts, grants etc. As indicated from the above, the CFR is much higher than the council's actual borrowing, as previously reported it has been a treasury policy over recent years to incur capital expenditure in year, but temporarily fund this from the council's own cash balances, i.e. balances and reserves, rather than external borrowing; often referred to as internal borrowing. The Capital Programme is regularly reviewed and during the first half of 2024/25 many schemes have been rephased to later years. As a result, the revised CFR has decreased during the first half of the year to £926.851m and the impact of this reduction can be seen when comparing the mid-year position to the original gross borrowing estimates and limits below. The level of internal borrowing indicates at some point in the financial year the council may decide to convert some of this internal borrowing and externally borrow for this capital expenditure. However, at the mid-year point in the financial year, actual and accrued spend is £46.132m of a total £139.741m capital programme for the year. This is 33% of the 2024/25 Capital Programme and is lower than expected at this point in the year.

9.4.3 The council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes. The council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

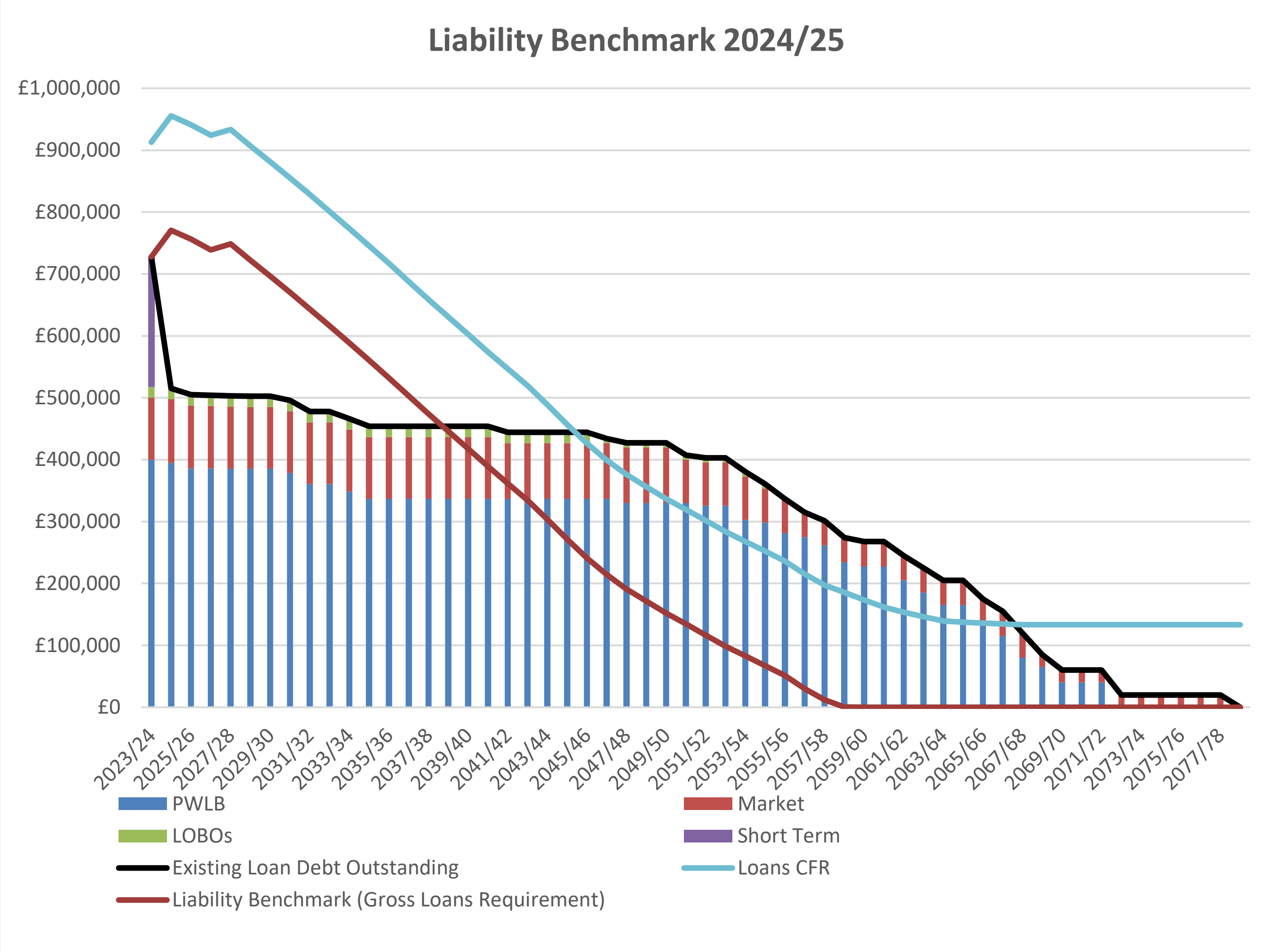
Gross Borrowing and the CFR	**2024/25 Original Indicator £m**	**2024/25 Actual 30.09.24 £m**
Gross Borrowing	816.085	737.825
Other Long-term Liabilities	13.700	13.700
Total	**829.785**	**751.525**
CFR	**943.762**	**926.851**
Under Borrowing	**113.977**	**175.326**

9.4.4 The Director for Finance S151 Officer, reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

9.4.5 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 and Overall Borrowing	**2024/25 Original Indicator £m**	**2024/25 Current Indicator £m**
Borrowing	960.300	960.300
Other Long-term Liabilities	13.700	13.700
Total	**974.000**	**974.000**

9.4.6 The graph below is the Liability Benchmark, which is a new prudential indicator introduced for 2024/25. The Liability Benchmark is a tool to help identify treasury risks. For example, in the earlier years, external loans are less than the liability benchmark so indicate a borrowing requirement. Each year the council will need to fund its existing debt liabilities, planned prudential borrowing and other cash flows and is therefore exposed to interest rate, liquidity and refinancing risks. Conversely, in later years, the external loans exceed the Liability Benchmark highlighting an overborrowed position, which poses credit, reinvestment and cost of carry risks. The Liability Benchmark is shown at 30 September 2024.



10. TREASURY MANAGEMENT STRATEGY STATEMENT (TMSS) & ANNUAL INVESTMENT STRATEGY (AIS) UPDATE 2024/25

10.1 The Treasury Management Strategy Statement (TMSS) for 2024/25 was approved by this council on 22 February 2024.

10.2 The underlying TMSS approved previously is still relevant and effective; the only revision required at the mid-year point of the financial year centres around adjusted interest rate forecasts (explained in Section 8) led by the current economic situation (given in Section 7) of the report, which give rise to implications for the council's investment returns and borrowing strategies.

11. TREASURY ACTIVITY 2024/25

11.1 The overall treasury position as at 30 September 2024 is given in the table below.

Treasury Position	**Financial Year 2024/25 (2 Pools)**				Financial Year 2023/24 (2 Pools)			
	General Fund		**HRA**		General Fund		HRA	
	£m	**%**	**£m**	**%**	£m	%	£m	%

Treasury Position	Financial Year 2024/25 (2 Pools)				Financial Year 2023/24 (2 Pools)			
	General Fund		HRA		General Fund		HRA	
	£m	%	£m	%	£m	%	£m	%
	as at 30.09.24		as at 30.09.24		as at 31.03.24		as at 31.03.24	
Fixed Rate Funding:								
PWLB	448.636	3.69%	71.097	4.75%	448.636	3.69%	71.097	4.75%
Market (LOBO)	4.690	4.95%	2.810	4.95%	4.690	4.95%	2.810	4.95%
Market (converted LOBOs)	37.517	3.89%	22.483	3.89%	37.517	3.89%	22.483	3.89%
Market (other long-term loans)	40.000	2.33%	0	0%	40.000	2.33%	0	0%
Market (short-term)	98.200	4.83%	0	0%	90.000	5.73%	0	0%
Salix loans	2.371	0%	0	0%	3.036	0%	0	0%
Sub-total	**631,414**		**96.390**		**623.879**		**96.390**	
Variable Rate Funding:								
Market (short-term)	10.021	5.00%	0	0%	10.020	5.25%	0	0%
Sub-total	**10.021**		**0**		**10.020**		**0**	
Total Debt	641.435	3.81%	96.390	4.55%	633.899	3.92%	96.390	4.55%
Total Investments	38.075	5.10%	0	0%	26.475	5.28%	0	0%
Net Debt	603.360		96.390		607.424		96.390	

Note:

- This table excludes other long-term liabilities included in the tables in 9.4.3.
- Total borrowing has risen between periods from £730.289m to £737.825m represented by an increase in temporary borrowing and the half yearly repayment of Salix funding. The net treasury position has decreased from £703.814m to £699.750m due to the higher value of investments at 30 September 2024.

12. <u>TREASURY MANAGEMENT STRATEGY STATEMENT (TMSS)</u>

<u>BORROWING STRATEGY</u>

12.1 It is a statutory duty for the council to determine and keep under review the 'Affordable Borrowing Limits'. council's approved Prudential Indicators (affordability limits) are outlined in the approved TMSS.

12.2 During the financial year to date the council has operated within the treasury limits and Prudential Indicators set out in the council's Treasury Management Strategy Statement (TMSS) and in compliance with the council's Treasury Management Practices.

12.3 The council's original borrowing requirement was £72.097m (excluding MRP). The revised estimate of the 2024/25 borrowing required to support prudential borrowing within the capital programme is £47.409m due to the overall financial position and the underlying need to borrow for capital purposes, the CFR. There has been significant re-phasing of capital schemes during the first six months of the year. Despite this, the borrowing that the council will actually need will also consider the level of investments held and will be greatly influenced by the amount of capital spending during 2024/25.

12.4 The council's forecast closing capital financing requirement (CFR) for 2024/25 was £943.762m and this has decreased to £926.851m at this mid-year stage. The CFR denotes the council's underlying need to borrow for capital purposes. If the CFR is positive the council 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 table in 9.4.3 shows the council's internally borrowed position. This is a prudent and cost-effective approach in the current economic climate but requires on-going monitoring if gilt yields remain elevated, particularly at the longer end of the yield curve (25 to 50 years).

12.5 The table for PWLB certainty rates below shows for a selection of maturity periods, the range (high and low points) in rates, the average rates, and individual rates over the first six months of the financial year.

	1 Year	5 Years	10 Years	25 Years	50 Years
02.04.24	5.39%	4.72%	4.80%	5.28%	5.07%
30.09.24	4.95%	4.55%	4.79%	5.33%	5.13%
High	5.61%	5.14%	5.18%	5.61%	5.40%
Date	29.05.24	01.05.24	01.05.24	01.05.24	01.05.24
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Date	17.09.24	17.09.24	17.09.24	17.09.24	17.09.24
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

12.6 **PWLB maturity certainty rates (gilts plus 80bps) to 30 September 2024**

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

- Where there was some movement downwards, this came in shorter-term rates as markets positioned themselves for Bank Rate cuts in the second half of 2024 and into 2025, although the continued stubbornness 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, 17 September saw the 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.

- Link still forecast rates to fall back over the next two to three years as inflation dampens, although there is upside risk to this forecast at present. 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.

12.7 The council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The council has continued to undertake internal borrowing which allows the councul to utliise internal cash balances (i.e. working capital and reserves) which are not required in the short/medium-term, or to borrow short-term rather than take long-term borrowing to fully fund its Capital Financing Requirement (CFR). By doing so, the council is able to reduce net borrowing costs and treasury risk. This strategy has been prudent for many years, however higher short-term loan rates mean this position needs to be monitored and regularly reviewed.

12.8 The strategy followed in the first half of 2024/25 has been to continue to borrow shorter-term cash from the market (other councils) and to draw back liquid investments to meet cashflow requirements. Years of maintaining an internal borrowing policy has given rise to the need for more significant temporary borrowing. The council has not undertaken any long-term borrowing so far during 2024/25.

12.9 The council continually assesses how much borrowing may be needed in the short to medium term, taking into account cashflows, level of investments or use of short-term borrowing, use of reserves, and spend on the Capital Programme. The availability and type of borrowing likely to be available is also a key consideration.

12.10 The council has an extensive three-year Capital Programme for the period 2024/25 to 2026/27. The programme is regularly reviewed and at this mid-year stage, there is a total of £381.109m planned expenditure on capital schemes over the next three years and a significant proportion of this, £146.397m, is to be financed by prudential borrowing.

12.11 The Capital Programme is being kept under regular review due to the effects of on-going budgetary pressures. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the long-term.

12.12 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 Certainty Rate (HRA) is gilt plus 40 basis points (G+40bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

12.13 The council expects to continue to borrow short-term from other councils where it can for the remainder of this financial year, however it does have significant amounts of PWLB borrowing that require refinancing in February and March 2025. Due to a general shortage of liquidity starting to materialise and make short-term local to local loans harder to raise and much more expensive, it is very likely the council will therefore need to take significant PWLB borrowing as well. This will be undertaken in the 1 to 2-year period so loans can be refinanced when they mature, for cheaper replacement PWLB borrowing or short-term borrowing. The decision to take 1 to 2-year PWLB borrowing is expected to be the most cost-effective option. For reference current PWLB 1 year Certainty loan rate is 5.24% (this is approx. 20 basis points higher following the Budget on 30 October).

12.14 There will be continued volatility in gilt yields and in turn borrowing rates as markets digest daily developments in the financial markets, release of economic data both domestically and internationally. Any borrowing decision will be considered in light of managing the risk against budgetary factors for capital financing costs.

12.15 The council's borrowing strategy will be reviewed in the coming months to achieve optimum value in the long-term.

12.16 This council has not borrowed in advance of need during the first half of the 2024/25 financial year.

13. DEBT RESCHEDULING

13.1 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 and affordability issues make this unlikely.

14. ANNUAL INVESTMENT STRATEGY

INVESTMENT PORTFOLIO

14.1 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the council on 22 February 2024. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the council's investment priorities as being Security of capital; Liquidity and Yield.

14.2 The council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the council's risk appetite.

14.3 In the current economic climate, whilst short-term interest rates are elevated, it is considered appropriate to keep investments short term to cover cash flow needs (rather than to take pricier temporary borrowing), but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

14.3 Counterparty quality and suitable limits remain primary factors when making investment decisions.

14.4 The council will only extend duration of its investments on a limited basis. Although it is tempting to seek higher returns the council is a net temporary borrower overall and as such investments are mostly used to manage cashflow shortages. It therefore follows if the council were to fix out more investments this in turn would mean it would have fewer liquid investments and so would need to also take on more frequent temporary borrowing at a time when short-term rates are rising due to scarcity of funds and with the added cost of brokerage.

14.5 Where the council does fix investments for longer periods it will do so by taking a laddered investment approach. This is a way of allocating portions of the total investment portfolio and staggering maturity dates so that each investment matures at regular intervals and takes advantage of protecting against Bank rate cuts to some degree. This is however quite difficult with so many variables at play, i.e. spend on capital programme.

14.6 **Creditworthiness**
The UK's sovereign rating has proven robust through the first half of 2024/25.

14.7 **Investment Counterparty Criteria**
The current investment counterparty criteria selection approved in the TMSS in February 2024 is meeting the requirement of the treasury management function.

14.8 **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. (CDS prices are market indicators of credit risk).

14.9 **Investment Balances**
The average level of funds available for investment purposes during the first half of 2024/25 was £43.347m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

14.10 **Investment Performance**
Investment performance year to date as at 30 September 2024

Combined Investments 2024/25	**council Performance**			
	Ave Balance Invested £m		**% Return**	**Weighted Time to Maturity (Days)**
	April 2024	£33.232	5.27%	21.12
	May 2024	£37.263	5.34%	13.85
	June 2024	£50.737	5.27%	16.56
Average Q1		**£40.376**	**5.29%**	**16.95**
	July 2024	£55.678	5.26%	26.85
	Aug 2024	£44.297	5.17%	18.99
	Sept 2024	£33.633	5.11%	8.10
Average Q2		**£46.285**	**5.18%**	**19.21**
Average year to date		**£43.347**	**5.23%**	**18.16**

14.11 **Comparable Benchmarks**

- Members will recall that London Interbank Offered Rate (LIBOR) discontinued at the end of 2021 and is therefore no longer used as a comparative benchmark rate for the council's investments.

- The alternative market reference rates for the transition away from the LIBOR is the Sterling Overnight Index Average (SONIA).

- The council is using backward-looking SONIA rates which are calculated by compounding actual SONIA rates from the past, rather than future market expectations (alternative rate could be used is Term Sonia rates but these are forward looking). As such, these will be lower in a rising interest rate environment than the forward-looking variants but is felt more appropriate as it is comparing an actual return to what has actually happened.

- The table below shows actual backward-looking SONIA rates for periods out to 12 months. The rates increase for the longer duration as they are reflective of the high market rates and Bank rate that persisted in 2023 and earlier in 2024.

	Bank Rate	**SONIA**	**7 Day**	**30 Day**	**90 Day**	**180 Day**	**365 Day**
High	5.25%	5.20%	5.20%	5.21%	5.23%	5.26%	5.33%
Date	02.04.24	03.05.24	13.05.24	26.06.24	26.07.24	26.07.24	01.08.24
Low	5.00%	4.95%	4.95%	4.96%	5.06%	5.18%	5.09%
Date	01.08.24	01.08.24	27.08.24	04.09.24	30.09.24	30.09.24	02.04.24
Average	5.17%	5.12%	5.12%	5.15%	5.20%	5.25%	5.26%
Spread	0.25%	0.25%	0.25%	0.25%	0.17%	0.08%	0.24%

- As illustrated in the tables above the council's return for the first half of 2024/25 was 5.23% on an average weighted investment duration of 18.16 days; this outperforms the back-ward looking SONIA average benchmark in all periods.

- The council has achieved this return largely through careful use of various notice accounts, bank deposits and money market funds. The council expects to sustain this level of return in the second half of the financial year, however careful planning will be required to maintain a level of liquid investment balances the council feels is sufficient to counteract any unforeseen liquidity shortages or the need to take expensive short-term, borrowing. This however should not be too high as greater returns could be achieved through fixing investments where possible for longer durations. This should be done in a laddered way so as to take advantage of rising interest rates where possible.

14.12 For 2024/25 the council's Medium Term Financial Plan and Annual Investment Strategy budgeted for an investment return of 4.55%, assuming an average investment duration of up to three months. This represents the council's typical investment duration which is predominantly at the short end of the curve and fairly liquid to cater for cashflow needs. This was based on the interest rate forecast in February 2024 which assumed Bank rate would peak at 5.25% in Q4 2023 and a fall to 4.75% by September 2024, 4.25% by December and finish the financial year at 3.75%. As Bank rate is currently still 4.75% and future falls are expected to be slower than thought in the initial strategy, the return at the mid-year point is estimated to be 4.60%. This is purely based on current expectations for Bank rate and not an expectation that the council will place significant investments for longer periods than 3 months later in the year.

14.13 Our estimated budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps and set out below.

	Q1 2024/25	**TMSS (AIS) 2024/25)**
2024/25	4.60%	4.55%
2025/26	4.10%	3.10%
2026/27	3.70%	3.00%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Longer-term	3.50%	3.25%

14.14 The Director for Finance S151 Officer, confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2024/25.

15. ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG) INVESTMENTS

15.1 ESG Investment Policy

15.1.1 The following paragraphs reiterate to Members what the current situation is for the council in developing an ESG investment policy, which has previously been reported. At the current time no further progress has been made as Link are still holding back on any formal service to assist clients in assessing the creditworthiness of ESG providers. The change in government has pushed back the timing on some of the regulatory issues that Link had been monitoring and without these in place and knowing the impact they may have on providers, they are still not comfortable in pressing forward. This is still therefore a work in progress and timing on when something more formal will be provided is uncertain. Members will be kept informed on future progress.

15.1.2 Members will be aware that the revised CIPFA Treasury Management Code in December 2021 required authorities to implement a high level ESG strategy for their Treasury Management investments. The council has declared a climate emergency however how to translate this into the incorporation of something more formal within the treasury-related investment strategy is not straightforward and the problems with this have been comprehensively detailed in previous strategy reports.

15.1.2 To remind Members, ESG investing refers to a set of standards for an institution's behaviour used by the council as a socially conscious investor, to screen potential investments. For an example, Environmental criteria consider how an institution safeguards the environment, including corporate policies addressing climate change, which may be of specific interest to the council having declared a climate emergency.

15.1.3 The council's Treasury Management service will seek to make investments in institutions with high ESG.

15.2 ESG Investment Criteria

15.2.1 The council can therefore use ESG factors to evaluate the extent to which an institution, and thus, an investment in that institution, impacts in each of the three areas:

- Environmental refers to an institution's impact on the environment, including its contributions to climate change, carbon footprint, water use, resource conservation, pollutants, and clean technology use.
- Social refers to its relationships with employees, suppliers, customers, and communities, as well as its contributions toward social good, for instance, human rights, diverse hiring practices, workplace safety, labour practices, data security, and employee and community engagement.
- Governance refers to an organisation's structure, ethics, and management, which include board diversity and independence, executive compensation, transparency and anti-corruption policies, and shareholder rights.

15.2.2 With the growing popularity of incorporating ESG criteria into the decision-making process, the council will seek accessible and comparable ESG ratings to help better understand an institution's ESG performance. Only about thirty firms worldwide conduct research to provide comprehensive ESG ratings. Leaders in this space include Morgan Stanley Capital International (MSCI), Sustainalytics, and Thomson Reuters. Although each firm has its own data processing model and classification system.

15.2.3 Once the council has chosen a metric it is likely to use this across the board, for example, consistently referencing MSCI's ratings, to directly compare institutions' ESG performance and decide which investments to include in the council's portfolio where possible.

15.2.4 The ESG investment strategy the Treasury Team selects will be dependent on the council's existing processes and values, as motivations surrounding ESG factors. The council has a 'Stockport Climate Change Strategy' and has declared a climate emergency, therefore against this backdrop the Treasury Team has determined that it will favour implementing, where possible, Carbon Disclosure Ratings (CPD) to its investments, if this is feasible. However, how the Treasury Team progress towards achieving ESG in their cash and liquidity management strategies/embedding ESG and climate related issues, will not be simple.

15.2.5 Indeed increased focus on corporate sustainability raises the question of how treasury can contribute to sustainability objectives, whilst addressing the need to manage risk and liquidity first. Liquidity management should focus on risk management, as our primary responsibility to council taxpayers is to aim to preserve capital and provide liquidity rather than delivering a higher risk to return outcome. Our emphasis on prudent risk management will therefore be expanded where possible to incorporate consideration of ESG factors in our credit assessment through a process of ESG Integration. By incorporating ESG integration in this way, material ESG considerations will become an integral part of our security analysis alongside fundamental financial considerations.

15.2.6 At this point the Treasury Team has determined that its objective will be to report annually on our responsible investment activities and our aim will be the following:

- Material ESG considerations will become an integral part of our risk analysis alongside fundamental financial considerations.

- We will develop ESG ratings for issuers and create sector-specific weightings that reflect the materiality of ESG factors.

15.2.7 At this point, the council has determined that it is too early in the process to apply ESG ratings/metrics. This is because the regulatory backdrop needs to unfold and Link are still assessing how they will provide workable and comparable ratings methodologies to clients.

15.4.6 The Treasury Team will update Members in due course on the outcome of the Financial Conduct Authority (FCA) exercise and the progress it makes towards establishing a clear risk framework in order to select counterparties for ESG investments.

16. OTHER CONSIDERATIONS

16.1 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

16.1.1 The financial implications are covered in the body of the report.

16.1.2 There are no further financial and risk considerations arising from the report. This report is produced as a finance report and discusses in detail risk mitigation processes which are at the heart of Treasury Management Policy. Treasury Management Risk Management is the practice of planning for unexpected expenditures. It is primarily about mitigating and avoiding the impact of the changing financial environment on the council's cash flow objectives.

16.1.3 It is confirmed that the Director for Finance S151 Officer has signed off the financial implications detailed within the report.

16.2 LEGAL CONSIDERATIONS

16.2.1 There are no Legal and Governance implications to consider as a result of the report and recommendations.

16.2.2 The council will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements. In framing its credit and counterparty policy under Treasury Management Practice (TMP1) *Counterparty credit risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the council, particularly with regard to duty of care and fees charged.

16.2.3 The council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to manage the risk of these impacting adversely on the council.

16.3 HUMAN RESOURCES IMPACT

16.3.1 There is no impact to the workforce or the workforce of partner organisations as a result of the report and recommendations.

16.3.2 The council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

16.3.3 The council will also ensure that Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

16.3.4 The present arrangements, including a knowledge and skills schedule, are detailed in the relevant Treasury Management Practice (TMP). This *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral*

Guidance Notes (the TM Code) revision for 2021 introduced strengthened requirements for skills and training.

16.4 EQUALITIES IMPACT

16.4.1 A full Equalities Impact Assessment is undertaken as part of the council's Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy report submitted to council ahead of the forthcoming financial year (in February each year).

16.4.2 This report is a mid-year update on the Treasury Management Strategy Statement for the current financial year.

16.5 ENVIRONMENTAL IMPACT

16.5.1 Part of the revisions to the Treasury Management Code in December 2021 was to provide further clarification of the way the council is looking to incorporate environmental considerations in the council's Investment Strategy. This requirement and approach is high level in the 2024/25 Treasury Strategy.

16.5.2 ESG issues are increasingly significant for investors and investment managers. This is better developed in equity and bond markets than for short-term cash deposits and there is a diversity of market approaches to ESG classification and analysis.

16.5.3 This means that a consistent and developed approach to ESG for the council in its treasury management dealings is challenging. This report has outlined in detail in Section 15 current considerations, thinking and approach as the council develops its ESG treasury policy further.

16.5.4 ESG investment policies and treasury management practices will be consistent with the council's own relevant policies where possible, for example, climate change policies.

17. CONCLUSIONS AND RECOMMENDATIONS

17.1 The MPC cut Bank rate in November to 4.75% as it is focused on the longer-term picture of slowing inflation, even though the Budget of 30 October is predicted to increase near-term demand. There is not expected to be a further cut in December 2024.

17.2 The Chancellor set out a large increase in borrowing and also in public spending in her first fiscal event, which somewhat unsettled financial markets prompting a repricing of the path of interest rates. Officials at the OBR suggest that the scale of the 'discretionary fiscal easing' was likely to lead to a slightly shallower path of interest rate reductions going forward.

17.3 Link revised their interest rate forecast on 11 November which increased PWLB rate forecasts from previous positions and slowed the expected path of future Bank rate cuts.

17.4 Regarding PWLB rate forecasts; movement in the short part of the curve is expected to be driven by Bank Rate expectations to a large degree, whilst medium to longer-dated PWLB rates will remain influenced not only by the outlook for inflation, but also by the market's appetite for significant gilt issuance. The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, albeit slowly.

17.5 Borrowing this year has so far been managed through the short-term markets. From a practical standpoint the council will need to continue to focus on optimising its cashflow forecasts.

17.6 Ideally the council would look to delay taking PWLB funding until rates have fallen in line with the forecast, however the short-term markets are already becoming problematic in terms of having enough liquidity and loans are increasingly hard to raise with prices rising beyond Bank rate. Given the amount of borrowing maturing in the second half of the financial year, coupled with spend on the Capital programme, it is very likely the council will need to take significant funding from the PWLB. The council will look to keep these loans in the 1-to-2-year period so the council can finance at lower rates when the loans are due to be repaid. The council will therefore continue to seek short-term borrowing opportunities but there is likely to be a mix of borrowing taken through to March 2024.

17.6 If it is felt certainty is paramount within the council's debt management strategy going forward, perhaps coupled with a desire to fund on a longer-term basis due to the onerous task of continually replacing short-term loans, the council will look to optimise any longer dated borrowing requirement. At this stage in the financial year however, this is not anticipated.

17.7 The council's investments have been used to manage cashflow and to diminish borrowing need where possible as short-term interest rates have been high in the first half of 2024/25.

17.8 In the second half of 2024/25 the Treasury Team will continue work on introducing ESG criteria to the council's investment strategy.

17.9 The council's Treasury Management Strategy remains relevant and effective at the half year point, with no significant changes required other than revisions to interest rate forecasts to reflect the current economic situation.

17.10 Cabinet is asked to recommend the following to the council meeting:

- Note the report and the treasury activity in the first half of the financial year.

- Approve and note the Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy for 2024/25 approved in February 2024 will continue to be followed considering the forecasts and conclusion set out in the report.

- Note the revised interest rate forecasts for PWLB rates over the short and medium term which will drive the council's long-term borrowing strategies going forward.

BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Lorna Soufian on Tel: 0161 474 4026 or by email on lorna.soufian@stockport.gov.uk.

APPENDIX 1

Prudential and Treasury Indicators 2024/25

Capital Indicators

	Budget 2024/25 £M	2024/25 Current/Actual £M
Capital expenditure	155.255	139.741
Capital Financing Requirement (CFR)	943.762	926.841
Annual change in CFR	41.111	25.342
In-year borrowing requirement (excluding MRP)	72.097	47.409
Ratio of financing costs to net revenue stream (non HRA)	10.71%	10.21%
Ratio of financing costs to net revenue stream (HRA)	9.91%	9.58%
Incremental impact of capital investment decisions:		
Increase in council tax (band change) per annum	£30.78	£25.04
Increase in average housing rent per week	£2.28	£0.51

Treasury Indicators

	2024/25 Budget £M	2024/25 Current/ Actual £M
Authorised limit for external debt	974.000	974.000
Operational boundary for external debt	954.000	954.000
Gross external debt	829.785	751.525

Maturity Structure of fixed rate borrowing upper and lower limits

Period	Budget 2024/25 Lower	Budget 2024/25 Upper	Actual 2024/25 30.09.24
Under 12 months	0%	40%	21.0%
12 months to 2 years	0%	40%	10.1%
2 years to 5 years	0%	40%	0.2%
5 years to 10 years	0%	45%	6.5%
10 years to 20 years	0%	40%	2.2%
20 years to 30 years	0%	50%	10.7%
30 years to 40 years	0%	60%	20.7%
40 years to 50 years	0%	60%	24.6%
50 years and above	0%	60%	2.7%

Interest Rate Limits

	2024/25 Budget %	2024/25 Current/ Actual £M
Upper limit of variable interest rates based on gross debt	40%	1.3%

Principal Sums

	2024/25 Budget £M	2024/25 Current/ Actual £M
Upper limit for principal sums invested over 365 days	80	0