Somerset Council

Full Council
18 December 2024

Annual Treasury Management Mid-Year Report 2024/25

Executive Member: Deputy Leader and Lead Member for Finance, Procurement and Performance, Councillor Liz Leyshon
Local Members and Division: All
Lead Officer: Interim Chief Finance Officer (Section 151 Officer), Maria G Christofi

Executive Summary

This report provides a mid-year review of the Council's treasury activities which have been carried out in accordance with the Treasury Management Strategy and Prudential Limits.

The main point to note is that all borrowing and investment activities have been undertaken in accordance with the approved strategy. All treasury activities remain within the agreed Prudential Limits set. Accordingly, risks to the Council's investments are managed and balanced against yield.

Recommendations

Full Council is asked to:

a) Approve the mid-year borrowing and investment position and that all treasury activities have been carried out in accordance with the approved Treasury Management Strategy, within the Prudential Limits, and in line with the full delegations to the Section 151 officer.

b) Approve the report as being in compliance with the CIPFA Code of Practice for Treasury Management.

c) Approve the revised Flexible Capital Receipts Policy for 2023/24 & 2024/25 as set out as Appendix B.

The report has been reviewed by the Audit Committee at the meeting on 12/11/2024 and was approved by Executive at the meeting on 04/11/2024.

Reasons for Proposals

The Local Government Act 2003 requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services.

The Code requires Full Council to receive as a minimum, an annual strategy and plan in advance of the year, a mid-year review, and an annual report after its close. This is the mid-year review for the 2024/25 financial year.

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Background and purpose of report

Purpose of the Report

1. In compliance with the requirements of the CIPFA Code of Practice this report provides Councillors with a summary of the treasury management activity during the first six months of 2024/25. It gives a summarised account of Treasury Management activity and outturn for the first half of the year and ensures Somerset Council (SC) is embracing Best Practice in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) recommendations. All treasury activity was conducted within the benchmarks set as Prudential limits for prudent and sustainable capital plans, financing, and investment. A risk-averse approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. This report is for information only.

   All Treasury activities undertaken have been in full compliance with relevant legislation, codes, strategies, policies, and practices.

Treasury Management Strategy

2. The Treasury Management Strategy for 2024/25 comprised the following:
   - Borrowing Strategy;
   - Annual Investment Strategy;
   - Treasury Management Policy Statement; and
   - Prudential Indicators.

   All of the Council's treasury activities to date have been carried out within this strategy framework.

Economic Background

3. UK headline consumer price inflation remained around the Bank of England (BoE) target later in the reporting period. It fell from an annual rate of 3.2% in March to 2.0% in May and then rebounded marginally to sit at 2.2% in July and August. Core and services price inflation remained higher at 3.6% and 5.6% respectively in August.

4. The UK economy continued to expand over the period, albeit slowing from the 0.7% gain in the first calendar quarter to 0.5% in the second. Of the monthly figures, the economy was estimated to have registered no growth in July.

5. Labour market data was slightly better from a policymaker perspective, showing an easing in the tightness of the job market, with inactivity rates and vacancies declining. Figures for the three months to July showed the unemployment rate fell to 4.1% (3mth/year) from 4.4% in the previous three-month period while the employment rate rose to 74.8% from 74.3%.

6. Over the same period, average regular earnings (excluding bonuses) were 5.1%, down from 5.4% in the earlier period, and total earnings (including bonuses) was 4.0% (this figure was impacted by one-off payments made to NHS staff and civil servants in June and July 2023). Adjusting for inflation, real regular pay rose by 2.2% in May to July and total pay by 1.1%.

7. With headline inflation lower, the BoE cut Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. The decision was finely balanced, voted by a 5-4 majority with four members preferring to hold at 5.25%. At the September MPC meeting, committee members voted 8-1 for no change at 5.00%, with the lone dissenter preferring Bank Rate to be cut again to 4.75%. The meeting minutes and vote suggested a reasonably hawkish tilt to rates, with sticky inflation remaining a concern among policymakers.

8. The latest BoE Monetary Policy Report, published in August, showed policymakers expected GDP growth to continue expanding during 2024 before falling back and moderating from 2025 to 2027. Unemployment was forecast to stay around 4.5% while inflation was shown picking up in the latter part of 2024 as the previous years' energy price declines fell out of the figures before slipping below the 2% target in 2025 and remaining there until early 2027.

9. Arlingclose, the Council's treasury adviser, maintained its central view that Bank Rate would steadily fall from the 5.25% peak, with the first cut in August being followed by a series of further cuts, with November 2024 the likely next one, taking Bank Rate down to around 3% by the end of 2025.

10. The US Federal Reserve (the Fed) also cut interest rates during the period, reducing the Federal Funds Rate by 0.50% to a range of 4.75%-5.00% at its policy meeting in September. The forecasts released at the same time by the central bank suggested a further 1.00% of easing is expected by the end of the calendar year, followed by the same amount in 2025 and then a final 0.50% of cuts during 2026.

11. Having first reduced interest rates in June, the European Central Bank (ECB) held steady in July before cutting again in September, reducing its main refinancing rate to 3.65% and its deposit rate to 3.50%.

12. Sentiment in financial markets continued to mostly improve over the period, but the ongoing trend of bond yield volatility remained. The general upward trend in yields in the early part of the period was reversed in the later part, and yields ended the half-year not too far from where they started. However, the volatility in response to economic, financial and geopolitical issues meant it was a bumpy ride for bond investors (and PWLB borrowers) during that time.

13. Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at 4.00% but hit a high of 4.41% in May and a low of 3.76% in mid-September. While the 20-year gilt started at 4.40% and ended at 4.51% but hit a high of 4.82% in May and a low of 4.27% in mid-September. The Sterling Overnight Interbank Average (SONIA) rate averaged 5.10% over the period to 30th September.

14. Gilt yields have a direct correlation to Public Works Loan Board (PWLB) rates. PWLB rates increased by 30-40 basis points between March and May. They peaked in May, and as the inflationary picture became clearer, rates had dropped by as much as 80bps by the middle of September, before gaining 20-25bps at the back end of September. This is clearly shown in Tables 2 and 3 and the graph in Appendix A.

15. SONIA money market rates also moved up between March and May before drifting lower, then dropping in line with the base rate reduction in August.

16. The 1-month, 3-month, 6-month, and 12-month SONIA rates averaged 5.10%, 5.10%, 5.08%, and 5.01% respectively over the period, and ended the period at 4.92%, 4.88%, 4.77%, and 4.56% respectively.

17. Lending, and conversely borrowing rates between Local Authorities have been volatile, and at many points in the period have been elevated in relation to market rates, as demand has often outstripped supply. Some lenders have declined to lend to Somerset Council, although there are a few more now that the imminent threat of a 114 notice has been lifted. The effect that economic conditions had on money market rates during the period, can be seen in Table 1, Appendix A.

Debt Management

18. The Council's need to borrow for capital purposes is determined by the capital programme. Council Members are aware of the major projects identified within the Capital Programme approved in February 2024. A revised Treasury Management Strategy was approved at Council on 18 June 2024. This included potential changes to borrowing and prudential indicators as a result of the Gravity project.

19. The revised table below gives an indication of the debt needs for the Council for the period of the 3-year MTFP.

Table 1 – External Debt and the Capital Financing Requirement (CFR)

	2023/24 Forecast £m	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**
Gross projected debt	823.2	907.1	979.0	1,047.7
CFR	1,079.3	1,138.4	1,183.7	1,224.9
Under/(Over) Borrowing	**256.1**	**231.3**	**207.7**	**177.2**

20. The original 2024/25 capital financing requirement figure of £1,098.4m was uplifted by £40m to include possible debt needed for the Gravity project for 2024/25, with a further £46m in 2025/26 financial year (cumulative total of £86m), £22m in 2026/27 financial year (cumulative total of £108m), and a further £37m in the two years beyond the current MTFP period to total £145m.

21. On top of possible new borrowing, £96.0m of short-term borrowing and £56.6m of PWLB loans were due to mature during the year.

22. The strategy was to refinance or take any required new debt whilst balancing the needs of budgets and introducing the least possible risk into the long-term debt portfolio. Key determinants for taking debt were the timing and amounts of asset disposals of the circa £220m non-treasury investment portfolio, and ultimately, the path of borrowing rates.

23. As stated above, PWLB rates increased between March and May. They peaked in May, and as the inflationary picture became clearer, rates had dropped by as much as 80bps by the middle of September, before gaining 20-25bps at the back end of September.

24. Cash balances increased during the period, initially due to front-loaded grants and a large payment in from BT Openreach (most of which will need to be paid out at some point). Subsequently, between July and 30th September £22.85m has been received from commercial asset sales. This has led to the majority of short-term loans being repaid (some having been rolled over), and no new borrowing taken to date, as rates are expected to drop further.

25. The overall rate paid on SC loans remained unchanged for the PWLB portfolio of £543.51m, at 4.03%, as did the rate for market loans, 4.73%. The cost of refinancing short-term debt meant an average of 4.98% at period-end, a rise of 0.13%, albeit on reduced balances. The combined average rate was 4.24% on £751.01m.

26. Initial budgeted debt interest for the year for the general fund was £33.7m, meaning that the £13.8m paid to date is £3.0m under budget. However, with little investment to mature, more debt will be refinanced/taken in the second half of the year. This will likely eat into any underspend by year-end.

27. Tables showing movement in the debt portfolio and rates, and a graph of debt movement are included below.

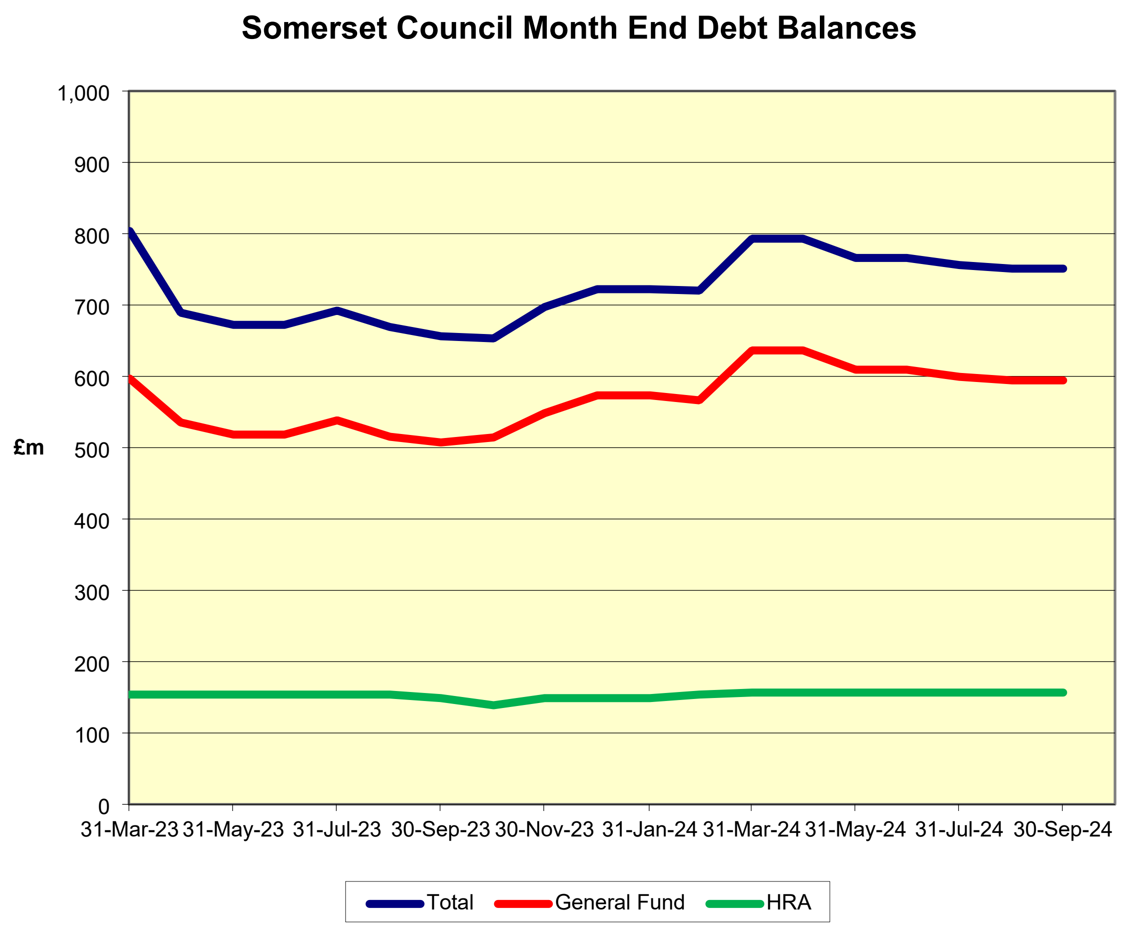
Table 2 – Debt Portfolio movement 31st March 2024 to 30th September 2024

General Fund	**Balance on 31/03/24 £m**	**Debt Matured / Repaid £m**	**New Borrowing £m**	**Balance on 30/09/24 £m**	**Increase/ Decrease in Borrowing £m**
Short Term Borrowing	96.00	(79.00)	37.00	54.00	(42.00)
PWLB	389.84	-	-	389.84	-
LOBOs	93.00	-	-	93.00	-
Fixed Rate Loans	57.50	-	-	57.50	-
Total General Fund	**636.34**	**(79.00)**	**37.00**	**594.34**	**(42.00)**
HRA					
Short Term Borrowing	-	-	-	-	-
PWLB	153.67	-	-	153.67	-
LOBOs	-	-	-	-	-
Fixed Rate Loans	3.00	-	-	3.00	-
Total HRA	**156.67**	**-**	**-**	**156.67**	**-**
Total	**793.01**	**(79.00)**	**37.00**	**751.01**	**(42.00)**

Table 3 – Debt Interest

	31/03/2024 Rate %	**30/09/2024 Rate %**	**Increase/ Decrease Rate %**
Short Term Borrowing	4.85	4.98	+0.13
PWLB	4.03	4.03	0.00
LOBOs	4.75	4.75	0.00
Fixed Rate Loans	4.70	4.70	0.00
Total Borrowing	**4.26**	**4.24**	**-0.02**

Graph 1 – Debt Balance movement



Investment Activity

28. The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

29. Security of capital remained the Council's main investment objective. This was achieved by following the counterparty policy as set out in the Annual Investment Strategy, and by the approval method set out in the Treasury Management Practices. Counterparties having approval for use during the period are listed in Table 4 below, with those actually used denoted with a hashtag.

30. The list has been reduced and consolidated for a variety of reasons.

- Cash balances have been reduced as debt reduction has taken precedence.
- Some counterparties are no longer in the market for deposits.
- Some counterparties don't take deposits less than 6-months. SC deposit horizon and Arlingclose advice do not support deposits over 6-months.
- Growth of the intra Local Authority market.

Table 4 – Approved Counterparties

Bank		**Sterling LVNAV Money Market Funds**	
Barclays Bank Plc		Invesco Aim	**#**
HSBC Bank Plc		Federated Prime	**#**
Lloyds Bank Plc	**#**	Insight	**#**
National Westminster Bank	**#**	Aberdeen Standard	**#**
Santander UK	**#**	Deutsche	**#**
Australia & New Zealand Bank	**#**	LGIM	**#**
Standard Chartered Bank		SSGA	**#**
Handelsbanken Plc		Aviva	**#**
Nordea Bank AB			
Development Bank of Singapore	**#**		
Toronto Dominion		**Strategic Pooled Funds**	
Landesbank Hessen-Thuringen Girozentrale (Helaba)	**#**	CCLA Property Fund	**#**
Bank of Montreal		RLAM Bond Fund	**#**
DZ Bank		M&G Bond Fund	**#**
National Bank of Canada		Aegon Diversified Fund	**#**
		CCLA Diversified Fund	**#**
Other		Fidelity Equity Fund **- Sold**	**#**
DMO	**#**	Columbia Threadneedle Bond Fund	**#**
Other Local Authorities	**# (15 deals)**	Ninety-One Diversified Fund	**#**
		Paydon & Rygel Bond Fund	**#**
		RLAM Short-Term Fund **- Sold**	**#**
		Schroder Equity Fund	**#**
		UBS Equity Fund	**#**

31. Somerset Council has continuously monitored counterparties, and all ratings of proposed counterparties have been subject to verification on the day, immediately prior to investment. Other indicators considered have been:

- Credit Default Swaps and Government Bond Spreads.
- GDP and Net Debt as a Percentage of GDP for sovereign countries.
- Likelihood and strength of Parental Support.
- Banking resolution mechanisms for the restructure of failing financial institutions i.e. bail-in.
- Share Price.
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.

Counterparty Update

32. Arlingclose maintained its advised recommended maximum unsecured duration limit on all banks on its counterparty list at 100 days.

33. Rating agency Moody's placed National Bank of Canada on Rating Watch for a possible upgrade, revised the outlook on Standard Chartered to Positive, and the outlook to Negative on Toronto Dominion Bank. Rating agency S&P upgraded the rating on National Bank of Canada to A+ from A.

34. Credit default swap prices were generally lower at the end of the period compared to the beginning for the vast majority of the names on UK and non-UK lists. Price volatility over the period was also generally more muted compared to previous periods.

35. Financial market volatility is expected to remain a feature, at least in the near term and credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remain under constant review.

Liquidity

36. In keeping with guidance from the Ministry of Housing, Communities, and Local Government (MHCLG) the Council maintained a sufficient level of liquidity through the use of call accounts, Money Market Funds, and short-term deposits.

37. 115 cash deposits totalling just over £785m were made during the first half of the year, mostly placed with Money Market Funds with daily liquidity.

38. Deposits with banks were kept short in line with Arlingclose advise (less than 100 days), and deposits to local authorities were also kept short as the timing of commercial property sales was not known, and the possibility of a large onward payment regarding the Openreach CDS project.

Yield

39. Bank rate started the period at 5.25% and was cut at the MPC meeting on 1st August to 5%. Short-dated cash rates, which had ranged between 5.19% for overnight money, and 5.11% for 12-month money at the beginning of the period, had anticipated a cut but was uncertain of the timing. By the end of the period rates had reduced only by around 0.29% for overnight maturities and by nearly 0.55% for 12-month maturities.

Cash

40. As at 30th September, cash investment stood at £128.25m averaging just over £144m for the year-to-date. Cash had an average return for the year-to-date of 5.23%. The return of 5.23% was 0.06% higher than the average base rate, and 0.13% above the 3-month SONIA rate (a benchmark rate at which Banks will lend to each other).

41. A total of just under £3.79m (£3.18m net of that paid to the LEP and external bodies) has been earned in Cash interest in the first six months of the year. Cash administration charges and other Treasury Management fees brought in approximately £56k of income in the period.

Pooled Funds

42. As at 31 March 2024, the Council held £116.5m in Pooled Funds. The Royal London Cash Plus and Fidelity Equity funds were sold during the period, with small capital gains of £3,223 and £32,985 respectively.

43. The list below shows the funds, the categories, and the original investment value of each fund:

Cash Plus Funds
Payden & Rygel Sterling Reserve Fund - £2m
Royal London Short-Term Fixed Income Enhanced Fund - £2m – **Sold 27/06/2024**

Fixed Income
Columbia Threadneedle Strategic Bond Fund - £7m
M&G £ Corporate Bond Fund - £15m
RLAM Investment Grade Short Dated Credit Fund - £15m

Equity
Fidelity Global enhanced income (Global Equity) - £250,000 - **Sold 16/08/2024**
Schroder Income Maximiser Fund - £16.25m
UBS Global Income Fund - £5m

Property
CCLA Property Fund - £31m

Multi-Asset
Aegon Diversified Monthly Income Fund - £7m
CCLA Diversified Income Fund - £3m
Ninety-One Diversified - £13m

44. The first six months of 2024/25 were marked by ongoing market volatility. Interest rates were kept at a restrictive level until nearly the end of the period.

45. Stock markets across the UK, Europe, and US were buoyed by hopes of rate cuts over the first half of the period. UK equities saw growth in small and mid-sized companies while the US continued to be supported by its strong IT sector. Towards the end of the period, market volatility spiked after worries about a US recession coincided with Japan's central bank cutting interest rates.

46. Slowdown in the Chinese economy and ongoing geopolitical tension in the Middle East and Europe continue to weigh on investor sentiment but are somewhat offset by the loosening of monetary policy and prospect of further rate cuts. The FTSE All Share index was marginally lower at the end of the 6-month period at 4,529 on 30/9/24 v 4,338 on 31/3/24. The MSCI All Countries World Index was higher at 3,723 on 30th September verses 3,438 on 31 March.

47. UK commercial property values started to stabilise, then improve slightly towards the end of the period, with interest rates being cut from their peak and investor attention turning to the timing of further interest rate cuts. Capital growth is expected to be gradual while income levels remain strong for many sub-sectors.

48. The combination of the above had a marginally positive effect on the combined value of the Council's strategic funds since March 2024. As at 30 September 2024 the Net Asset Value of all the funds was £103,688,876. The unrealised losses (no actual losses would be incurred until assets were sold) are evenly spread across all funds and categories, with the exception of the remaining Cash Plus fund. The average yield at 30 September was 5.57%. Combined dividends from the Council's funds have risen slightly since March to produce income of £3.17m during the period.

Combined

49. Combined return for the period has been 5.34% on an average balance of £259.7m. This figure includes approximately £14.9m of cash managed on behalf of the Local Enterprise Partnership (LEP), £8.3m of Earmarked Funds held on behalf of other decision-making bodies, and £8.6m of other external bodies e.g. Exmoor National Park (ENPA), and South-West Councils (SWC). Total investment income was just over £6.96m (£6.36m net of external investors). This is above budget at present; However, with reduced investments to provide income in the second half of the year, this will likely fall closer to budget by year-end.

50. Figures below highlight investment portfolios and returns for the period, Table 5, Investment balances by type, Table 6, and a breakdown of investment balances by source – Table 7. Also shown is a graph of cash balance movement from April 2023 to 30 September 2024.

Table 5 – Investment figures and returns for period

	Balance 31/03/24 £m	**Rate of Return 31/03/24 %**	**Balance as at 30/09/24 £m**	**Rate of Return at 30/09/24 %**	**Average Balance April to Sept £m**	**Average Rate April to Sept %**
Cash	75.65	6.26	128.25	5.06	144.41	5.23
Pooled Funds*	116.50	5.35	114.25	5.57	115.34	5.49
Total Lending	**192.55**	**5.71**	**242.50**	**5.30**	**259.75**	**5.34**

*Pooled Funds are shown at cost.

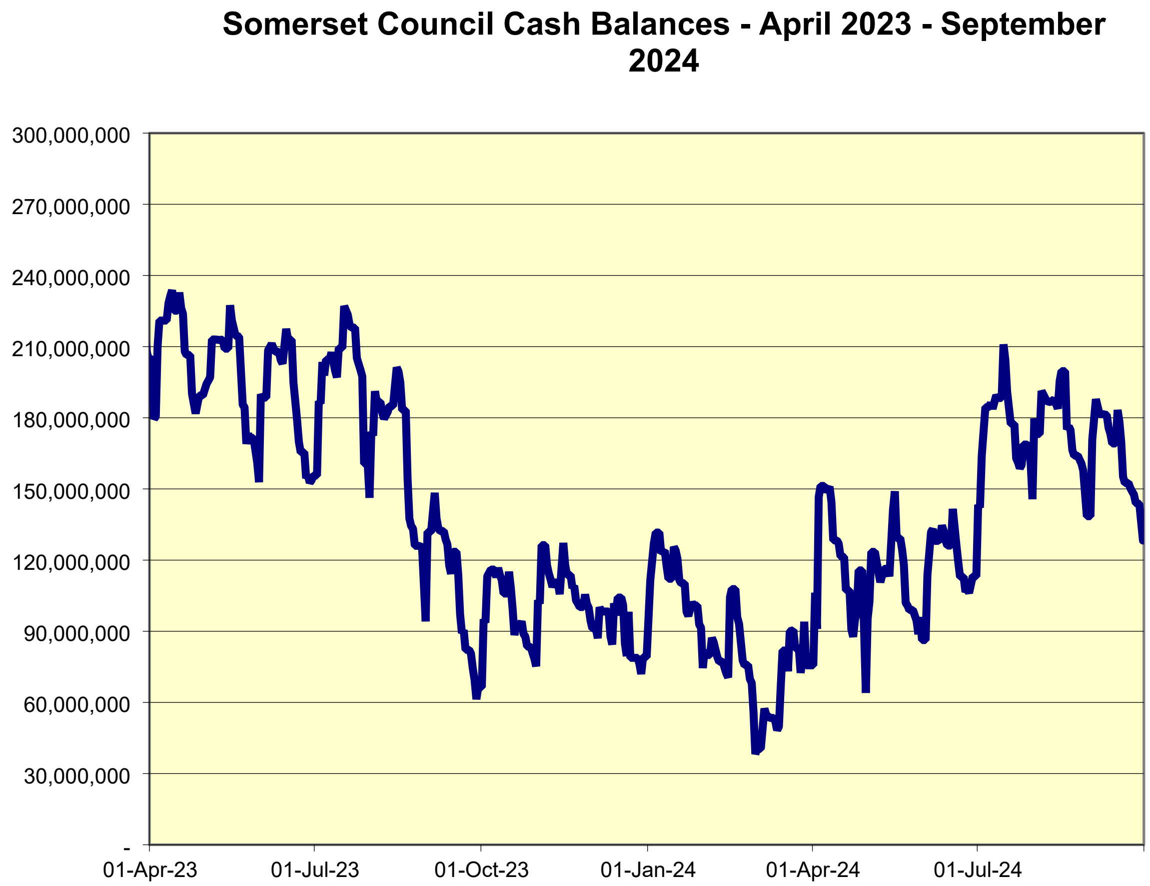
Table 6 – Cash Investment balances by type

	31/03/24 £m	**30/09/24 £m**	**Change £m**
Money Market Funds	20.65	36.25	+15.60
Bank Call Accounts	-	-	-
Bank Notice Accounts	10.00	10.00	-
Time Deposits – Banks	-	10.00	+10.00
Time Deposits – Local Authorities	45.00	72.00	+27.00
Pooled Funds	116.50	114.25	-2.25
Total Investments	**192.15**	**242.50**	**+50.35**

Table 7 – Breakdown of investment balances by source

	31/03/2024 £m	**30/09/24 £m**	**Change £m**
ENPA/SWC/SCT/P&CCTS	7.98	8.83	+0.85
LEP	9.69	20.18	+10.49
Earmarked Funds held on behalf of other decision-making bodies	10.02	8.30	-1.72
Total external	**27.69**	**37.31**	**+9.62**
SC	164.46	205.19	+40.73
Total	**192.15**	**242.50**	**+50.35**

Graph 2 – Cash Balance movement



Compliance and Prudential Indicators

51. All treasury management activities undertaken during the first 6-months have complied fully with the CIPFA Code of Practice and the Councils approved Treasury Management Strategy.

52. SC has continuously proactively assessed and implemented mitigation for the risks that have materialised in the new investment environment.

53. Controls/procedures are constantly being assessed and introduced/adapted where needed and embedded into practices to further mitigate risks to SC investment and borrowing portfolios.

54. SC has complied with its Prudential Indicators for 2024/25. Those indicators agreed by Full Council and actual figures as at 30th September are included below:

	2024/25 £m	As at 30/09/24 £m
Authorised limit (borrowing only)	1,050	760.2
Operational boundary (borrowing only)	1,000	760.2

Maturity structure of borrowing

	Upper Limit	Lower Limit	As at 30/09/24
Under 12 months	50%	15%	35.2%
>12 months and within 24 months	30%	0%	10.9%
>24 months and within 5 years	25%	5%	12.0%
>5 years and within 10 years	25%	0%	8.2%
>10 years and within 20 years	25%	0%	2.8%
>20 years and within 30 years	20%	0%	11.3%
>30 years and within 40 years	30%	10%	13.8%
>40 years and within 50 years	15%	0%	5.4%
50 years and above	5%	0%	0.4%

	2024/25 £m	As at 30/09 £m
Prudential Limit for principal sums invested for periods longer than 365 days	120	114.25

Credit Risk Indicator

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating / credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk (in conjunction with Arlingclose) and will be calculated quarterly.

Credit risk indicator (Number to be below target)	Target	Actual
Portfolio average credit rating (score)	A (6)	A+ (4.59)

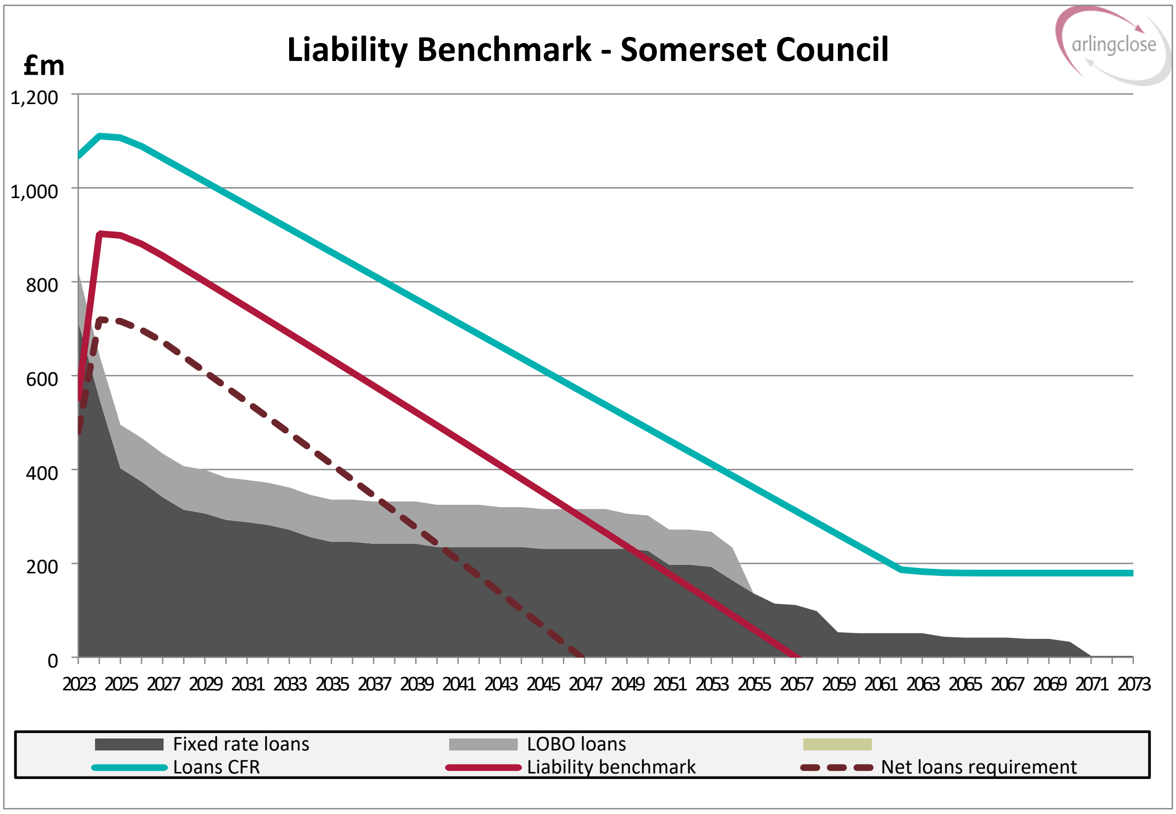
Liability Benchmark

55. This new indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at a pre-determined minimum level required to manage day-to-day cash flow (including allowances for certain contingencies).

56. The concept is that the chart below allows a comparison of current borrowing against the need to borrow, looking at both the amount (on the y axis) and the term (on the x axis). Where actual loans exceed the Liability Benchmark, the authority can make long-term investments for cash flow management or repay loans early; where the Liability Benchmark exceeds loans, the authority can take long-term borrowing or sell investments.

57. There is no requirement to borrow exactly to the Liability Benchmark, but a decision to borrow more or less, or longer or shorter, than the Liability Benchmark implies a deliberate decision to accept additional risk. This may be entirely appropriate if it is accompanied by a reduction in cost, for example through short-term borrowing at lower margins. The Liability Benchmark provides the tool for local authorities to measure this risk and make such risk/reward decisions openly and explicitly.

58. The graph clearly shows there is a need to borrow quite significant sums out to a period of 12 or so years. Another course of action is to sell investments, or more probably, a combination of the two. This is exactly the strategy that SC has been pursuing.



Outlook for Quarters 3 & 4

59. As expected, the MPC held Bank Rate at 5.0% in September. While the "no change" majority of eight to one was unexpectedly strong, the minutes suggested some policymakers believed a gradual approach to loosening policy was warranted given the persistence of services inflation, rather than no loosening at all. This is in line with the Arlingclose view that Bank Rate will initially reduce gradually before a more rapid decline in 2025 as services inflation eases.

60. CPI inflation remained just above the 2% target in August. Private sector wage growth has eased back but remains elevated and services inflation remains high at 5.6%. However, both will continue to decline over time.

61. UK GDP growth has been relatively strong in H1 2024, although this partly reflects a rebound from the H2 2023 technical recession. Underlying growth is weaker but risks around domestic demand lie to the upside due to recovering consumer demand (although the announcement of higher taxes in the upcoming Budget could damage confidence).

62. The expected continuation of restrictive monetary policy and the appreciation in sterling will likely bear down on activity and therefore require more substantial loosening in 2025 to boost activity and inflation.

63. Arlingclose see further rate cuts from Q4 2024 to a low of around 3% by late 2025. They expect long-term gilt yields to eventually fall from current levels reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, partly due to quantitative tightening, with continued elevated volatility.

64. With many Councils facing overspends in 2024/25, there is likely to be reduced liquidity in the Local Authority to Local Authority cash market, particularly around financial year-end. Those with cash to lend will be able to be more selective about who they lend to. Many have already declined to lend to Somerset Council due to adverse financial publicity.

65. Whilst other sources of borrowing will be pursued, it is likely that the PWLB will be substantially used towards the end of the year.

Table 8 – Base Rate forecast to 2027

	Dec 24	**Mar 25**	**Jun 25**	**Sep 25**	**Dec 25**	**Mar 26**
Upside Risk	0.25	0.25	0.75	1.00	1.00	1.00
Base Rate	4.75	4.25	3.75	3.25	3.00	3.00
Downside Risk	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50

	Jun 26	**Sep 26**	**Dec 26**	**Mar 27**	**Jun 27**	**Sept 27**
Upside Risk	1.00	1.00	1.00	1.00	1.00	1.00
Base Rate	3.00	3.00	3.00	3.00	3.00	3.00
Downside Risk	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

Revised Flexible Capital Receipts Policy

66. The Capital Receipts Flexibility Strategy for 2024/25, was approved by Council as part of the Budget Report in February 2024. In line with best practice, there has been a mid-year review of the strategy to specify projects proposed to be funded by the flexible use of capital receipts during the financial year. The revised strategy for both 2023/24 & 2024/25 is included at Appendix B for approval. The revised strategy has no impact on the prudential indicators.

Conclusion

67. The Council's Treasury Management Strategy continues to provide a sound basis for undertaking treasury activities. Borrowing requirements will be monitored closely and financing arranged in accordance with the borrowing strategy. Investments will be managed having regard to the Council's investment strategy and creditworthiness criteria. The Council's treasury activities remain within the limits of the Prudential Indicators as set by Council.

Links to Council Plan and Medium-Term Financial Plan

68. Effective Treasury Management provides support to the range of business and service level objectives that together help to deliver the Somerset County Plan.

Other options considered

69. None. The adoption of the Treasury Management mid-year review for 2024/25 is a regulatory requirement.

Key considerations for the Council

Scrutiny comments / recommendations:

70. The Audit Committee is the body responsible for ensuring effective scrutiny of the treasury management strategy and policies. They approved the Treasury Management strategy for the year and have recently approved updated Treasury Management Practices.

71. This report will also be considered at Audit Committee at their meeting of 12th November.

Consultation and Feedback

72. Due to the statutory nature of this report it has not been consulted on.

Financial and Risk Implications

73. There are no specific financial or risk implications associated with this outturn report. The risks associated with Treasury Management are dealt with in the Annual Treasury Management Strategy and Treasury Management Practice (TMPs) documents.

Legal and Procurement Implications

74. Treasury Management must operate within specified legal and regulatory parameters as set out in the summary, and in more detail in the TMPs.

HR / Workforce Implications

75. There are no HR implications.

Equalities Implications

76. There are no equalities implications.

Community Safety Implications

77. There are no community safety implications.

Climate Change and Sustainability Implications

78. There are no climate change or sustainability implications.

Health and Safety Implications

79. There are no health and safety implications.

Health and Wellbeing Implications

80. There are no health and wellbeing implications.

Social Value

81. Not applicable

Background papers

82. Treasury Management Strategy 2024/25 and appendices. These were approved by Full Council prior to the start of the 2024/25 financial year. A revised strategy was approved by Full Council on the 18th June 2024. In effect this just raised borrowing limits as a result of incorporating the possible borrowing impacts of the Gravity project, and did not alter strategy per se.

Note: For sight of individual background papers please contact the report author.

Appendices

Appendix A: Money market data and PWLB rates
Appendix B: Flexible capital receipts Strategy 2023/24 & 2024/25

Report Sign-Off

	Officer Name	Date Completed
Legal & Governance Implications	David Clark	17/10/2024 Full Council update sent 04/12
Finance & Procurement	Nicola Hix	17/10/2024 Full Council update sent 04/12
Executive Director	Maria G Christofi	04/12/2024
Executive Lead Member	Liz Leyshon	04/12/2024
Consulted:	Councillor Name	
Local Division Members	N/A	
Opposition Spokesperson	Mandy Chilcott	12/11 at Audit Committee Full Council update sent 04/12
Scrutiny Chair	Bob Filmer	Sent 22/10 Full Council update sent 04/12
Audit Chair	Mike Hewitson	12/11 at Audit Committee Full Council update sent 04/12