

Appendix 1

Treasury Management (TM) Update Report

1 Economic Outlook

- 1.1 The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy for 2024/25.

2 Investment Strategy

- 2.1 Given the ongoing risk from short-term unsecured bank investments, the Council has placed a greater emphasis on investing with the UK Government's Debt Management Office (DMO) in order to minimise these risks. The majority of our investment cash is therefore placed with the DMO on a short-term basis to meet monthly outgoings and the remainder with an instant access call account up to a maximum limit of £5m.
- 2.2 The Council's cash flow position is monitored constantly with a view to undertake further borrowing as required over the next few months as the level of our investment cash decreases.

3 Borrowing Strategy

- 3.1 Long-term interest rates have begun to reduce from their peak in the middle of 2023. With advice from Arlingclose, the Council therefore secured £60m borrowing in 2023-24 from the Public Works Loan Board (PWLB) to fund on-going capital commitments. The Council was able to use a discounted rate for half of this borrowing as it was undertaken to fund past and current Housing Revenue Account spend. The other £30m was taken as shorter-term (14-17 months) PWLB loans as these represented good value compared to short-term loans from other local authorities. The Council will continue to monitor its cash position and interest rate levels to ensure that further borrowing is undertaken at the optimal time to fund on-going capital commitments.
- 3.2 Analysis of the balance sheet projections shows that the Council is likely to have a significant borrowing requirement in the future so there is a need to continue to fund this borrowing requirement through a mix of temporary loans from other local authorities and long-term borrowing. This is reviewed and discussed monthly in the Capital and Treasury Management update meeting.
- 3.3 The Council currently has 6 temporary loans from other local authorities for £36.5m in total over a 12-month period. This total is made up of £10m which is repayable in April, £20m in July, £1.5m in

August and £5m in October. When the loans are repaid, we will review interest rates and the Council's cash flow position to determine if further borrowing is required, and whether this should be temporary or long-term.

4 Long-term borrowing

4.1 PWLB update

We are required to submit annually a detailed 3-year capital expenditure plan to the PWLB with confirmation of the purpose of our capital expenditure. In particular, we have to confirm that we are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. We have been able to give this assurance so we can continue to take advantage of PWLB borrowing at low rates.

4.2 UK Infrastructure Bank (UKIB)

The UK Infrastructure Bank was established in 2021 and is wholly owned and backed by HM Treasury. It offers finance to local authorities across the UK for high-value and complex economic infrastructure projects at rates currently lower than PWLB. We are currently applying to borrow from the UKIB to fund our coastal defence schemes and the construction of the new waste recycling depot in Denbigh.

5 Controls

5.1 Prudential Indicators

The Council sets prudential indicators which set boundaries within which its treasury management activity operates. The indicators are calculated to demonstrate that the Council's borrowing is affordable and include measures that show the impact of capital and borrowing decisions over the medium-term. The Council has remained within all of its borrowing and investment limits for 2023/24 as stated in the TM Strategy Statement and the Capital Strategy Report agreed by Council in February 2023. The Council has not deviated from the capital related indicators either.

5.2 The capital related prudential indicators are included in the Capital Strategy Report. This report is intended to give a high level, concise and comprehensible overview to all elected members of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Council's services.

5.3 The Capital Strategy Report 2023/24 to 2025/26 was included with the Capital Plan report to Council in February 2023 and included the following capital related prudential indicators:

- Estimates of Capital Expenditure and Financing
- Ratio of Financing Costs to Net Revenue Stream
- Capital Financing Requirement
- Authorised Limit and Operational Boundary for External Debt

5.4 Audit Reviews

The last Internal Audit review undertaken in December 2023 found effective controls in place with good examples of working practices identified. A high assurance rating was awarded which shows that risks and controls are well-managed and objectives are being achieved. The next Internal Audit review is due in Autumn 2024.

6 Future

6.1 TM Strategy for next six months

As planned capital expenditure is incurred, the Council will continue to monitor its cash flow position to ensure that temporary borrowing is undertaken if required. The Council will also monitor market conditions and interest rate levels to ensure that long-term borrowing is undertaken at the optimal time in line with the TM strategy. It is anticipated borrowing from the UK Infrastructure Bank will be possible within this period.

6.2 Staffing Changes

One employee has been added to the TM rota to provide additional cover and he is currently receiving training in his TM duties. The Technical Accountant with responsibility for treasury management is due to leave the Council in August 2024. We will use the next 4 months to ensure a smooth handover to the officer taking over the treasury responsibilities.

6.3 Medium-Term Capital Strategy

The Council faces a very challenging financial environment in the coming years due to inflationary and demand-led pressures far exceeding the level of forecast funding. Due to the scale of the challenge, Council agreed in February to a reduced capital programme until the financial situation improves. Details of the principles agreed for capital schemes in the medium-term can be found in the February 2024 Council minutes.

6.4 Reports

The next reports will be the annual TM Review Report 2023/24 and the TM Update Report 2024/25 which will be reported to the Governance and Audit Committee in July.