

Appendix 1

Treasury Management (TM) Update Report – 2024/25 Quarter 2

1 Economic Outlook

- 1.1 The impact on the UK from higher interest rates, a slowing economic outlook as well as an uncertain political climate due to the new government, together with the US presidential election and wars in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy throughout 2024/25.
- 1.2 The Bank of England cut Bank Rate 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 one policymaker preferring Bank Rate to be cut to 4.75%. The meeting minutes and vote suggested a reasonably hawkish tilt to rates, with sticky core and services inflation remaining a concern. Arlingclose, the authority's treasury adviser, is predicting a further interest rate cut in 2024. The next MPC decision will be on 7th November 2024.
- 1.3 The August quarterly Monetary Policy Report (MPR) forecast a period of positive Gross Domestic Product (GDP) growth in 2024 before falling back in 2025 and then rising modestly over the remainder of the forecast horizon. The outlook for CPI inflation is for prices to pick up in the latter half of 2024 due to base effects from previous falls in energy prices, but to then begin falling again from then on. The next MPR will be published at the same time as the MPC decision on 7th November.

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 reduced from their peak in the middle of 2023 but have been volatile so far in 2024. The Council is in the final

stages of applying to borrow from the National Wealth Fund (NWF, formally the UK Infrastructure Bank) specifically to fund the coastal defence schemes in Prestatyn and Rhyl. This loan will be at a rate 40 bps less than equivalent loans offered by the PWLB. In line with advice from Arlingclose, the Council has not undertaken any long-term borrowing so far in 2024/25, but instead has used shorter-term loans to meet cashflow needs, while we wait for the loan from the NWF to become available. Once this application is complete, the Council will monitor interest rate levels to ensure the loan is drawn down at an optimal time.

- 3.2 Analysis of the balance sheet projections shows that the Council is likely to have a significant borrowing requirement in the future, in addition to the coastal defence schemes. 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 5 temporary loans from other local authorities for £35m in total over a 12-month period. This total is made up of £15m which is repayable in November, £10m in December, £5m in February and £5m in March. 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 will be able to give this assurance, meaning we can continue to take advantage of PWLB borrowing at low rates.

5 Prudential Indicators

- 5.1 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 2024/25 as stated in the TM

Strategy Statement and the Capital Strategy Report agreed by Council in February 2024.

5.2 Authorised Limit and Operational Boundary for External Debt

2024/25	30/09/2024 £000
External Borrowing	302,114
Operational Boundary	410,000
Authorised Limit	415,000

5.2.1 **Operational Boundary:** This limit is set to reflect the Council's best view of the most likely prudent levels of borrowing activity.

5.2.2 **Authorised Limit:** This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the Council's existing commitments, proposals for capital expenditure and financing and with its approved treasury policy and strategy and also provides headroom over and above for unusual cash movements.

5.2.3 The levels of debt are measured on an ongoing basis during the year for compliance with the Authorised Limit and the Operational Boundary. The Council maintained its total external borrowing and other long-term liabilities within both limits within Quarter 2; at its peak this figure was £306.3m.

5.3 Interest Rate Exposure

5.3.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a net basis i.e. fixed rate debt net of fixed rate investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on the portfolio of investments.

	2024/25 %	2024/25 to date Actual Peak Exposure %
Upper Limit for Fixed Rate Exposure	100	96.1
Upper Limit for Variable Rate Exposure	40	7.4

5.4 Maturity Structure of Fixed Rate Borrowing

5.4.1 This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

5.4.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

Maturity structure of fixed rate borrowing	Upper limit	Lower limit	Actual Borrowing as at 30/09/2024 £000	Percentage of total as at 30/09/2024 %
	%	%		
under 12 months	40	0	41,908	15.10
12 months and within 24 months	40	0	11,315	4.08
24 months and within 5 years	40	0	31,976	11.52
5 years and within 10 years	40	0	47,811	17.23
10 years and above	100	30	144,541	52.08
Total			277,551	100.00

5.5 Total principal sums invested for periods longer than 364 days

This indicator is set in order to allow the Council to manage the risk inherent in investments longer than 364 days. For 2024/25 this limit was set at £10m. The Council did not have any investments which exceeded 364 days during Q2 2024/25.

6 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.

7 Future

7.1 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.

7.2 Staffing Changes

A smooth handover of primary treasury responsibilities has taken place to the new officer with these responsibilities following the retirement of the previous post holder. An additional staff member, who shared some daily operating activities, has now left the authority – their replacement will be trained and used in daily operation of treasury activities upon appointment.

7.3 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 2024 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.

7.4 Reports

The next reports to the Governance and Audit Committee will be the Treasury Management Strategy Statement and Prudential Indicators 2025/26 and the Q3 TM Update Report 2024/25 in January.