

Appendix 2

Treasury Management (TM) Update Report – Q3 2024/25

1 Economic Outlook

- 1.1 The impact on the UK from the government's Autumn Budget, slower interest rate cuts, modestly weaker economic growth over the medium term, together with the impact from President-elect Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Authority's treasury management strategy for 2025/26.
- 1.2 The Bank of England's (BoE) Monetary Policy Committee (MPC) reduced Bank Rate to 4.75% at its meeting in November 2024, having previously cut by 25bp from the 5.25% peak at the August MPC meeting. At the November meeting, eight Committee members voted for the cut while one member preferred to keep Bank Rate on hold at 5%.
- 1.3 The November quarterly Monetary Policy Report (MPR) is forecasting Gross Domestic Product (GDP) growth to pick up to around 1.75% (four-quarter GDP) in the early period of the BoE's forecast horizon before falling back. The impact from the Budget pushes GDP higher in 2025 than was expected in the previous MPR, before becoming weaker.
- 1.4 Office of National Statistics (ONS) figures reported the annual Consumer Price Index (CPI) inflation rate at 1.7% in September 2024, down from 2.2% in the previous month and lower than the 1.9% expected. Core CPI also declined further than expected to 3.2% against a forecast of 3.4% and the previous month's 3.6%. The outlook for CPI inflation in the November MPR showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. This represents a modest near-term increase due to the ongoing impacts from higher interest rates, the Autumn Budget, and a projected margin of economic slack. Over the medium-term, once these pressures ease, inflation is expected to stabilise around the 2% target.

2 Interest rate forecast

- 2.1 The Authority's treasury management adviser Arlingclose forecasts that The Bank of England's Monetary Policy Committee will continue reducing rates through 2025, taking Bank Rate to around 3.75% by the end of the 2025/26 financial year. The effect from the Autumn Budget on economic growth and inflation has reduced previous expectations in terms of the pace of rate cuts as well as pushing up the rate at the end of the loosening cycle.

- 2.2 Arlingclose expects long-term gilt yields to remain broadly at current levels on average (amid continued volatility), but to end the forecast period modestly lower compared to now. Yields will continue to remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will be short-term volatility due to economic and (geo)political uncertainty and events.

3 Investment Strategy

- 3.1 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.
- 3.2 The Council's cash flow position is monitored constantly with a view to undertaking further borrowing as required over the next few months as the level of our investment cash decreases.

4 Borrowing Strategy

- 4.1 Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Long-term interest rates have remained volatile and overall risen slightly during 2024. The Council has recently completed its application to borrow from the National Wealth Fund (NWF, formerly 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. We are monitoring interest rates to ascertain the optimal time to draw down the loan and will do this in stages in order to reduce our interest rate risk. We recently drew down £15m at an interest rate of 4.64%.
- 4.2 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.
- 4.3 The Council currently has 5 temporary loans from other local authorities for £29m in total over a 12-month period. This total is made up of £5m which is repayable in February, £5m in March, £4m in May, £15m in November / December. 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.

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 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	31/12/2024 £000
External Borrowing	318,123
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 3; at its peak this figure was £328.1m.

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	91.7
Upper Limit for Variable Rate Exposure	40	15.1

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 31/12/2024 £000	Percentage of total as at 31/12/2024 %
	%	%		
under 12 months	40	0	42,774	14.80
12 months and within 24 months	40	0	11,700	4.05
24 months and within 5 years	40	0	35,050	12.12
5 years and within 10 years	40	0	49,737	17.20
10 years and above	100	30	149,862	51.83
Total			289,123	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 Q3 2024/25.

5.6 The Capital related Prudential Indicators are included in the Capital Strategy Report. The Capital Strategy Report will be included with the Capital Plan report to Council in February 2025 and will include 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

5.7 Audit Reviews

The last Internal Audit (IA) review was undertaken in December 2024, with the report yet to be received. Previous IA reviews have found effective controls in place and awarded a high assurance rating, which shows that risks and controls are well-managed and objectives are being achieved. The next Internal Audit review is due in Autumn 2025.

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.

6.2 Staffing Changes

One employee has been added to the TM rota to provide additional cover and she is currently receiving training in her TM duties.

6.3 Medium-Term Capital Strategy

A medium-term strategy for capital investment would help identify projects that we are planning to develop and invest in over a 5 to 10 year period but that have not yet gone through the approval process. This will impact on the level of borrowing that the Council will require to undertake over the coming years. Vacancies in the Capital & Technical Accounting team and other work pressures have meant that work towards developing a medium-term strategy has paused. It is intended that progress will be made towards developing this strategy in 2025.

6.4 Reports

The next report will be the 2024/25 Quarter 4 TM Update Report which will be reported to the Governance and Audit Committee in April.