

Appendix 2

Treasury Management (TM) Update Report – 2024/25 Quarter 1

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 has not undertaken any additional long-term borrowing so far in 2024/25. 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 5 temporary loans from other local authorities for £26.5m in total over a 12-month period. This total is made up of £20m which is repayable 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 meaning 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 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	30/06/2024 £000
External Borrowing	306,343
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; at its peak this figure was £318.6m.

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	100
Upper Limit for Variable Rate Exposure	40	3.7

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 30/06/2024 £000	Percentage of total as at 30/06/2024 %
	%	%		
under 12 months	40	0	9,418	3.37
12 months and within 24 months	40	0	41,096	14.69
24 months and within 5 years	40	0	31,976	11.43
5 years and within 10 years	40	0	46,232	16.52
10 years and above	100	30	151,121	53.99
Total			279,843	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 Q1 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. The application to borrow from UK Infrastructure Bank has progressed successfully so far and it is anticipated borrowing from them will be possible within this period.

7.2 Staffing Changes

The Technical Accountant with responsibility for treasury management is due to leave the Council in August 2024. We have been using the

last few months to ensure a smooth handover to the officer taking over the treasury responsibilities.

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 Annual TM Report 2023/24 will be submitted to Cabinet in September following review by the Governance and Audit Committee. The next report to the Governance and Audit Committee will be the TM Update Report 2024/25 in November.