

Treasury Management (TM) Update Report – Q4 2024/25

1 Economic Outlook

Both the UK and US elected new governments during the period, whose policy decisions impacted the economic outlook. The Chancellor of the Exchequer delivered her Spring Statement in March 2025, following her Budget in October 2024. Based on the plans announced, the Office for Budget Responsibility downgraded its predictions for UK growth in 2025 from 2% to 1%. However, it upgraded its predictions for the four subsequent years. Inflation predictions for 2025 were pushed up, from 2.6% to 3.2%, before being expected to fall back to target in 2027. The market reaction to the Spring Statement was more muted compared to the Budget, with very recent market turbulence being driven more by US trade policy decisions and President Trump.

- 1.1 UK annual Consumer Price Index (CPI) inflation continued to stay above the 2% Bank of England (BoE) target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices at 2.8% in February 2025, down from 3.0% in the previous month and below expectations. Core CPI also remained elevated, falling slightly in February to 3.5% from 3.7% in January, just below expectations for 3.6% but higher than the last three months of the calendar year.
- 1.2 The BoE's Monetary Policy Committee (MPC) held Bank Rate at 4.5% at its March 2025 meeting, having reduced it in February. This follows earlier 0.25% cuts in November and August 2024 from the 5.25% peak. At the March MPC meeting, members voted 8-1 to maintain Bank Rate at 4.5%, with the one dissenter preferring another 25 basis points cut. The meeting minutes implied a slightly more hawkish tilt compared to February when two MPC members wanted a 50bps cut. In the minutes, the Bank also upgraded its Q1 2025 GDP forecast to around 0.25% from the previous estimate of 0.1%.

2 Interest rate forecast

- 2.1 Arlingclose, the Authority's treasury adviser, maintained its central view that Bank Rate would continue to fall throughout 2025. From the cuts in August and November 2024 and February 2025, which took Bank Rate to 4.50%, May is considered the likely month for the next reduction, with other cuts following in line with Monetary Policy Report months to take Bank Rate down to around 3.75% by the end of 2025.
- 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 continues to place 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 secured a loan from the National Wealth Fund (NWF, formerly UK Infrastructure Bank), specifically to fund the coastal defence schemes in Prestatyn and Rhyl. This loan is 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. So far we have drawn down £35m at an average interest rate of 4.81%.
- 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 3 temporary loans from other local authorities for £19m in total over a 12-month period. This total is made up of £4m which is repayable in May and £15m repayable in November / December. An additional loan for £10m has also been arranged, this loan will start in May. 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	31/03/2025 £000
External Borrowing	324,703
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 4; at its peak this figure was £338.1m.

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	94.20
Upper Limit for Variable Rate Exposure	40	8.60

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 31/03/2025 £000	Percentage of total as at 31/03/2025 %
	%	%		
under 12 months	40	0	42,285	13.83
12 months and within 24 months	40	0	13,037	4.26
24 months and within 5 years	40	0	50,494	16.52
5 years and within 10 years	40	0	46,545	15.23
10 years and above	100	30	153,342	50.16
Total			305,703	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 Q4 2024/25.

5.6 The capital related prudential indicators are included in the Capital Strategy Report. The Capital Strategy Report was included with the Capital Plan report to Council in January 2025 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

5.7 Audit Reviews

The last Internal Audit (IA) review was undertaken in December 2024 and concluded that there are satisfactory controls in place for the TM function. A medium assurance rating was given – meaning there are minor weaknesses in management of risks and / or controls but no risk to achievement of objectives. An action plan is in place to address these minor weaknesses. 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

There have been no changes to the TM team during the final quarter of the year. The officer who was added to the team late in 2024 has now been fully trained and is functioning as a full member of the team.

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 during 2025.

6.4 Reports

The next reports will be the Annual TM Report 2024/25 and the 2025/26 Quarter 1 TM Update Report which will both be reported to the Governance and Audit Committee in July.