

**CABINET**  
**2<sup>ND</sup> DECEMBER 2024**

**MID YEAR TREASURY MANAGEMENT AND  
PRUDENTIAL INDICATOR REPORT**

**1<sup>ST</sup> April 2024 – 30<sup>TH</sup> September 2024**

**A. TREASURY MANAGEMENT REPORT**

**1. Introduction**

The Treasury Management Policy and Strategy for 2024-2025 was approved by Council on 28<sup>th</sup> February 2024. Section B 1.1(2) stated that Treasury Management activity reports would be made during the year. This report outlines the Treasury Management activities in the period 1<sup>st</sup> April 2024 to 30<sup>th</sup> September 2024 and satisfies the reporting requirement stated above.

**2. Economic update**

On the 1<sup>st</sup> August 2024, the Bank of England's Monetary Policy Committee (MPC) voted to reduce the Bank Rate from 5.25% to 5.00%. Markets had thought there may be an outside chance of a further Bank Rate reduction in September 2024, following the 0.50% cut by the Federal Open Market Committee, but this came to nothing.

Nonetheless, November 2024 still looks most likely to be the next month to see a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

**3. Prospects for Interest Rates**

Based on the average projection from a number of sources we can expect the trend in base rates over the year to be as follows:

	Dec 2024	Mar 2025	Jun 2025	Sep 2025	Dec 2025
Base Rate %	4.50	4.00	3.50	3.25	3.25

(Source: LINK Asset Services)

Link Asset Services undertook its last review of interest rate forecasts on 28<sup>th</sup> May 2024, and left them unchanged after the MPC meeting on 19<sup>th</sup> September 2024, where the decision was made to leave the Bank Rate unchanged at 5.00%.

The revised 3 year projection based on this review is:

	2024-25	2025-26	2026-27
	%	%	%
Revised Average Bank Rate	4.69	3.31	3.06
Original Average Bank Rate (TM Strategy 2024-25)	4.50	3.06	3.00

#### **4. Investments**

One of the primary activities of the Treasury Management operation is the investment of surplus cash for which the Authority is responsible. As well as the Authority's own cash the County Council invests School Trust Funds and other Funds, with any interest derived from these investments being passed over to the relevant Fund.

All surplus money is invested daily on the London Money Markets. The security of the investments is the main priority; appropriate liquidity should be maintained and returns on the investments a final consideration. It continues to be difficult to invest these funds as the market continues to be insecure and as a consequence, appropriate counterparties are limited.

The total investments at 1st April 2024 and 30th September 2024 analysed between Banks, Building Societies, Local Authorities and Money Market Funds, are shown in the following table:

Investments	01.04.24				30.09.24			
	Call and notice	Fixed Term	Total		Call and notice	Fixed Term	Total	
	£m	£m	£m	%	£m	£m	£m	%
Banks	27.50	7.00	34.50	21	35.50	8.00	43.50	31
Building Societies	0.00	7.00	7.00	4	0.00	7.00	7.00	5
Money Market Funds	45.00	0.00	45.00	28	45.00	0.00	45.00	32
DMADF (DMO)	0.00	54.50	54.50	35	0.00	35.00	35.00	25
Local Authorities	0.00	20.00	20.00	12	0.00	8.00	8.00	7
<b>TOTAL</b>	<b>72.50</b>	<b>88.50</b>	<b>161.00</b>	<b>100</b>	<b>80.50</b>	<b>58.00</b>	<b>138.50</b>	<b>100</b>

Investments on call are available immediately on demand. Fixed term investments are fixed to a maturity date. The current longest investment is maturing on 4<sup>th</sup> July 2025.

During the period the total investments made by the Council and repaid to the Council (turnover) amounted to £855.50m. This averaged approximately £32.72m per week or £4.67m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2024	161.00
Investments made during the quarter	416.50
Sub Total	577.50
Investments Repaid during the quarter	(439.00)
<b>Total Investments at 30 September 2024</b>	<b>138.50</b>

The main aims of the Treasury Management Strategy is to appropriately manage the cash flows of the Council, the required short term and longer term market transactions and the risks associated with this activity. Lending on the money market secures an optimum rate of return and also allows for diversification of investments and hence reduction of risk, which is of paramount importance in today's financial markets.

Benchmarks are widely used to assess investment performance. For the period under review the average "90-day un compounded SONIA rate" was 5.20% whereas the actual rate the Council earned was 5.06%, a marginal under performance of 0.14%.

The average gross interest earned on investments for the period amounted to £4.51m. This includes £1.54m interest on the average balance of £60.51m held for the Swansea Bay City Deal region.

The income from investments is used by the Authority to reduce the net overall costs to the Council taxpayer.

## 5. Security, Liquidity and Yield (SLY)

Within the Treasury Management Strategy Statement for 2024-2025, the Council's investment priorities are:

- Security of Capital
- Liquidity and
- Yield

The Council aims to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions.

Attached at Appendix 1 is the Investment Summary and Top 10 Counterparty Holdings as at 30<sup>th</sup> September 2024.

## 6. Borrowing

One of the methods used to fund capital expenditure is long term borrowing. The principal lender for Local Authorities is the Public Works Loan Board (PWLB).

Under the Treasury Management Strategy, it was agreed to borrow when interest rates are at their most advantageous.

The total loans at 1<sup>st</sup> April 2024 and 30<sup>th</sup> September 2024 are shown in the following table:

<b>Loans</b>	<b>Balance at 01.04.24 £m</b>	<b>Balance at 30.09.24 £m</b>	<b>Net Increase/ (Net Decrease) £m</b>
Public Works Loan Board (PWLB)	397.45	388.45	(9.00)
Market Loan	3.00	3.00	0.00
Salix, Invest to Save, HILS & TCL	9.67	9.53	(0.14)
<b>TOTAL</b>	<b>410.12</b>	<b>400.98</b>	<b>(9.14)</b>

The Salix interest free loans have been provided by an independent publicly funded company dedicated to providing the public sector with loans for energy efficiency projects.

The interest free 'Invest-2-Save' funding is to assist in the conversion of traditional street lighting to LED, which will help deliver a legacy of reduced energy costs and associated carbon taxes.

The Home Improvement Loan Scheme (HILS) repayable funding is provided by the Welsh Government to help individual homeowners, small portfolio landlords, developers and charities to improve homes and increase housing supply.

The Town Centre Loan (TCL) repayable funding is provided by the Welsh Government to provide loans to reduce the number of vacant, underutilised and redundant sites and premises in town centres and to support the diversification of the town centres by encouraging more sustainable uses for empty sites and premises, such as residential, leisure and for key services.

### **6.1 New Borrowing**

No new loans were borrowed during the period.

### **6.2 Interest Paid**

Interest paid on loans during the period was:

<b>PWLB Interest Paid £m</b>	<b>Market Loan Interest Paid £m</b>	<b>Total Interest Paid £m</b>
8.20	0.07	8.27

### **7. Rescheduling and Premature Loan Repayments**

No rescheduling opportunities arose during the period and there were no premature loan repayments. However, due to the current economic climate and the consequential structure of interest rates, opportunities may arise in the future.

### **8. Leasing**

No leases were negotiated during the period 1<sup>st</sup> April 2024 to 30<sup>th</sup> September 2024.

## **B. PRUDENTIAL INDICATOR REPORT**

### **1. Prudential Indicators**

As part of the 2024-2025 Budget and the Treasury Management Policy and Strategy 2024-2025, the Council adopted a number of Prudential Indicators. These Indicators are designed to ensure that any borrowing or other long-term liabilities entered into for capital purposes were affordable, sustainable and prudent.

The indicators are required by the Local Government Act 2003 and the Revised Prudential Code of Practice in order to control Capital Finance. The Prudential Code also required that those Prudential Indicators that were forward looking should be monitored and reported. Some of the indicators are monitored by officers monthly and are only reported if they are likely to be breached, others are to be monitored quarterly by the Executive Board.

#### **1.1 Affordability Prudential Indicator**

##### **1.1.1 Ratio of Financing Costs to Net Revenue Stream**

The indicator set for 2024-2025 in the Budget was:

	<b>2024-2025 %</b>
Non-HRA	3.26
HRA	27.12

An examination of the assumptions made in calculating this indicator concluded that there have been no changes in this period.

#### **1.2 Prudence Prudential Indicators**

##### **1.2.1 Capital Financing Requirement (CFR)**

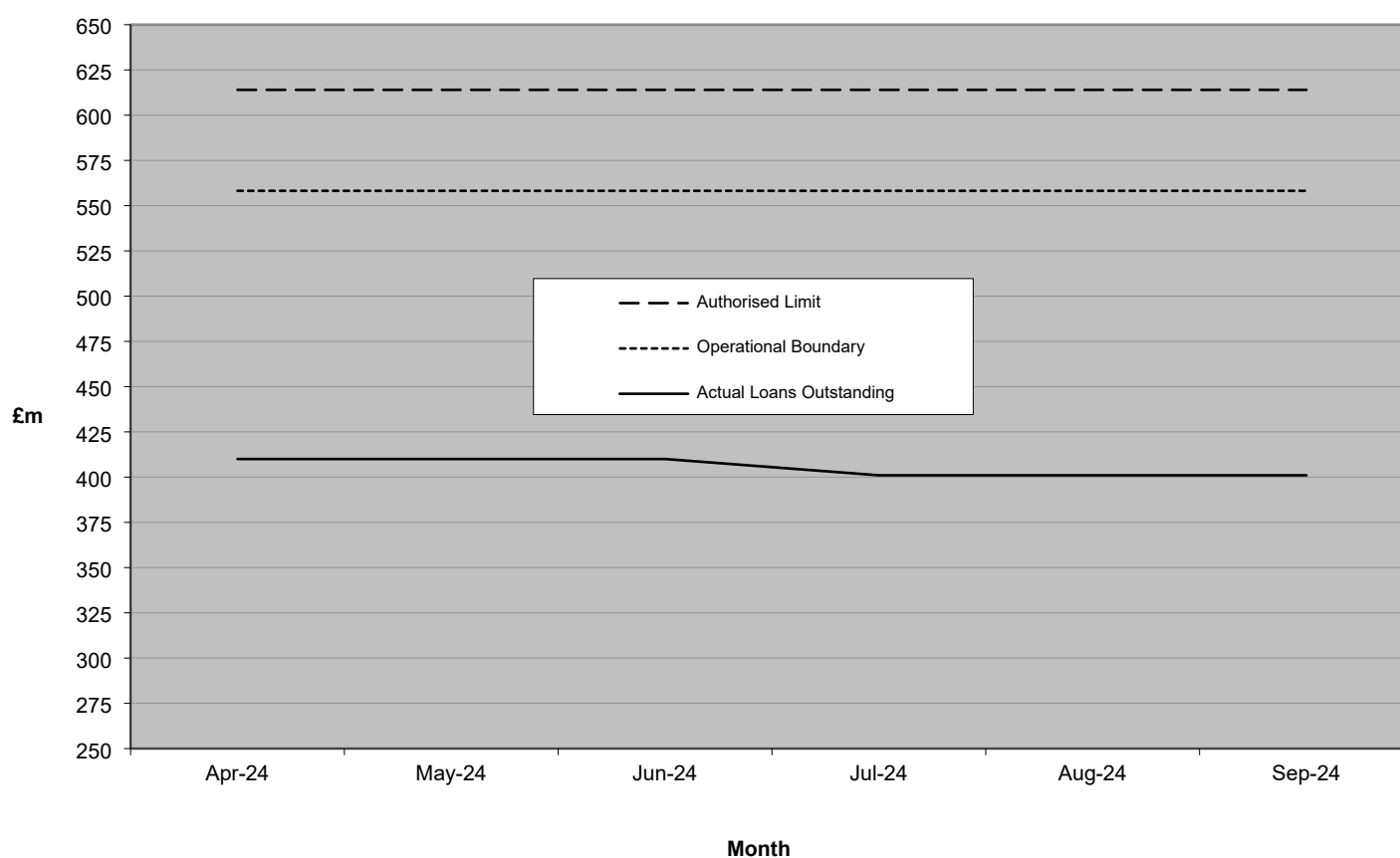
The Director of Corporate Services reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

	<b>2024-25 Estimate £m</b>	<b>As at 30.09.24 £m</b>	<b>2024-2025 Forecast £m</b>
<b>Capital Financing Requirement</b>			
CFR - non housing	315	307	307
CFR - housing	177	183	183
CFR - housing subsidy buy-out	66	66	66
<b>Total CFR</b>	<b>558</b>	<b>556</b>	<b>556</b>

## 1.2.2. Authorised Limit and Operational Boundary

The actual value of loans outstanding must not exceed the Authorised Limit. In normal activity actual loans outstanding should be close but less than the Operational Boundary. The Operational Boundary can be breached in the short term due to adverse cash flows.

	Authorised Limit for External Debt		Operational Boundary for External Debt	
	2024-25	2024-25	2024-25	2024-25
	Estimate	Forecast	Estimate	Forecast
	£m	£m	£m	£m
Borrowing	613.5	613.5	558.1	558.1
Other Long-Term Liabilities	0.5	0.5	0.1	0.1
<b>Total</b>	<b>614.0</b>	<b>614.0</b>	<b>558.2</b>	<b>558.2</b>



	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
	£m	£m	£m	£m	£m	£m
Authorised Limit	614.0	614.0	614.0	614.0	614.0	614.0
Operational Boundary	558.2	558.2	558.2	558.2	558.2	558.2
Loans Outstanding	410.0	410.0	410.0	401.0	401.0	401.0

Neither the Authorised Limit nor the Operational Boundary have been breached.

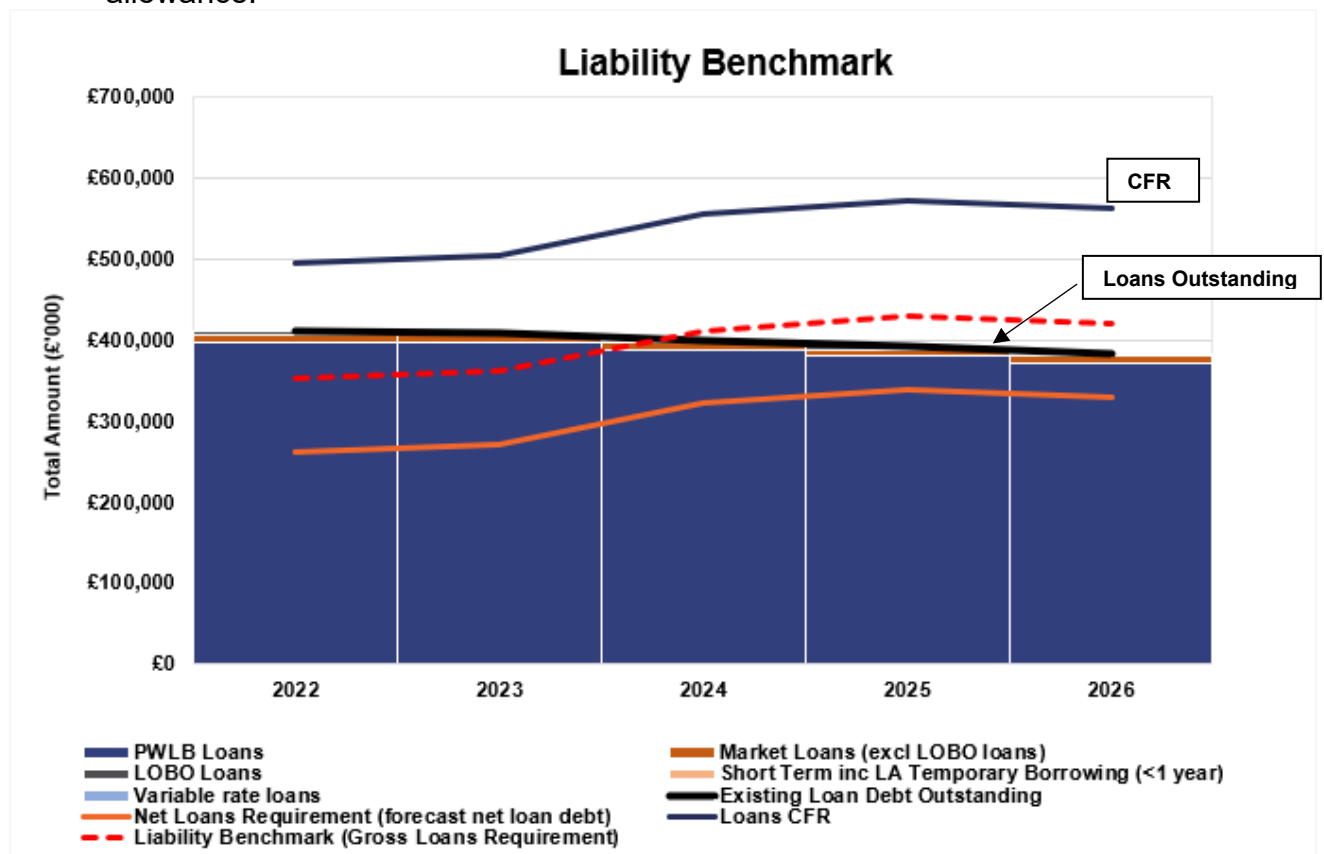
## 1.3 Liability Benchmark

### 1.3.1 Liability Benchmark

The Council is required to estimate and measure the Liability Benchmark for the forthcoming year and the following two years. The liability benchmark is a measure of how well the existing loans portfolio matches the Council's planned borrowing needs.

There are four components to the Liability Benchmark:

- **Existing Loan Debt Outstanding:** The Council's existing loans that are still outstanding in future years.
- **Loans CFR:** This is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Minimum Revenue Provision (MRP).
- **Net Loans Requirement:** This will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecasted.
- **Liability Benchmark:** This equals net loans requirement plus short-term liquidity allowance.



The purpose of this prudential indicator is to compare the Council's existing loans outstanding (the black line) against its future need for loan debt, or liability benchmark (the red line). If the black line is below the red line, the existing portfolio outstanding is less than the loan debt required, and the Council will need to borrow to meet the shortfall. If the black line is above the red line, the Council will (based on its current plans) have more debt than it needs, and the excess will have to be invested. The chart therefore tells a Council how much it needs to borrow, when, and to want maturities to match its planned borrowing needs.



## **2.1 Treasury Management Prudential Indicators**

### **2.1.1 Interest Rate Exposure**

Position as at 30<sup>th</sup> September 2024:

	<b>Fixed Interest Rate £m</b>	<b>Variable Interest Rate £m</b>	<b>TOTAL £m</b>
Borrowed	397.98	3.00	400.98
Invested	(58.00)	(80.50)	(138.50)
<b>Net</b>	<b>339.98</b>	<b>(77.50)</b>	<b>262.48</b>
Limit	538.00	54.00	
<b>Proportion of Net Borrowing Actual</b>	<b>129.52%</b>	<b>(29.52)%</b>	<b>100.00%</b>
Limit	150.00%*	5.00%	

The authority is within limits set by the 2024-2025 indicators.

### **2.1.2 Maturity Structure of Borrowing**

	<b>Structure at 30.09.24 %</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>
Under 12 months	0.04	15	0
12 months to 2 years	2.17	15	0
2 years to 5 years	6.05	50	0
5 years to 10 years	9.25	50	0
10 years to 20 years	20.85	50	0
20 years to 30 years	23.07	50	0
30 years to 40 years	21.12	50	0
40 years and above	17.45	50	0

The authority is within the limits set by the 2024-2025 indicators.

### **2.1.3 Maximum Principal Sums Invested Longer than 365 Days**

	<b>2024-2025 £m</b>
Limit	10
Actual as at 30 <sup>th</sup> September 2024	NIL

## **RECOMMENDATION**

**That Cabinet considers and approves the report.**