Treasury Management Mid-Year Review 2024/25

Contents

Treasury Management Mid-Year Review 2024/25

1. INTRODUCTION AND BACKGROUND

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the Council of an annual Treasury Management Strategy Statement (including the annual investment strategy and minimum revenue provision report) for the year ahead, a mid-year review and an annual review report of the previous year.

4. Receipt by the nominated Scrutiny Committee of quarterly update reports on the progress against approved Prudential and Treasury indicators.

5. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions, which in this Council is the Corporate Director of Corporate Services.

6. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specified named body which in this Council is the Corporate and Performance Scrutiny Committee.

Treasury management in this context is defined as:

> *"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the mid-year review report of treasury management activities, for the financial year 2024/25.

This Treasury Management Mid-Year Review Report Covers

- Economic Background during the period
- Interest Rate Forecast
- Treasury Advisors
- The Council's treasury position as of 30 September 2024;
- Borrowing and investment rates for the first half of 2024/25;
- Mid-year review of the borrowing strategy 2024/25;
- Borrowing outturn for the first half of 2024/25;
- Debt rescheduling for the first half of 2024/25;
- Compliance with treasury limits and Prudential Indicators for the first half of 2024/25;
- Mid-year review of the investment strategy for 2024/25;
- Investment outturn for the first half of 2024/25;

- Other treasury management issues.

2. ECONOMICS UPDATE

The following information has been received from our Treasury Management advisors.

- The first half of 2024/25 saw:

  - GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)

  - A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July

  - CPI inflation hitting its target in June before edging above it to 2.2% in July and August

  - Core CPI inflation increasing from 3.3% in July to 3.6% in August

  - The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting

  - 10-year gilt yields falling to 4.0% in September.

- The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession

- The government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit

- The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool.

- Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020.

- The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB (EU) more than the Fed (US), opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts.

- Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle.

Treasury Management Mid-Year Review 2024/25

- Our Treasury Management advisor's forecast is still for rates to fall to 4.5% by the end of 2024/25 with further cuts likely throughout 2025. This is in line with market expectations, however despite the expected November rate cut happening, December may be more problematic for the Bank if CPI inflation spikes towards 3%.

MPC meetings 9 May, 20 June, 1 August and 19th September 2024

- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.

- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.

- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.

- November seemed the most likely 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. INTEREST RATES FORECAST

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The Public Works Loan Board (PWLB) rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 11 November sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.

The current Link Group, PWLB rate forecast below is based on the Certainty Rate.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

Treasury Management Mid-Year Review 2024/25

- The Link forecast for earnings are averages, actual rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

An Overview of the Future Path of Bank Rate

- Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, Link have significantly revised central forecasts for the first time since May. In summary, the Bank Rate forecast is now 50bps to 75bps higher than was previously the case, whilst PWLB forecasts have been materially lifted to not only reflect the increased concerns around the future path of inflation, but also the increased level of government borrowing over the term of the current Parliament.

- If we reflect on the 30 October Budget, Link's central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026.

- The announced major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

- There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further government borrowing & tax rises, and a tepid GDP performance.

- Link's central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

- Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.

Treasury Management Mid-Year Review 2024/25

PWLB Rates

- The yield on 10-year Gilts fell from 4.32% in May to 4.02% in August, as the Bank's August rate cut signalled the start of its loosening cycle.

- PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.50% to 4.80%.

- There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.

- Regarding the PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise.

4. TREASURY ADVISORS

The Council uses external treasury management advisors. The Council recognises that responsibility for Treasury Management decisions always remains with the Authority and will ensure that undue reliance is not placed upon our external service providers.

It also recognizes that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

The Council retendered for the provision of Treasury Management advisory services during 2022. This resulted in the appointment of Link Asset Services for a period of two years from 1st May 2022 until 30th April 2024, with an option to extend for a further two years at 12-month intervals. The Council has exercised its option to extend the contract to April 2025.

Treasury Management Mid-Year Review 2024/25

5. TREASURY POSITION AS AT 30 SEPTEMBER 2024

The Council's debt and investment position at the beginning of the year and the end of the half year was as follows:

The table illustrates that the total debt outstanding as of 30 September 2024 was £194.6 million, comprising of long-term debt of £144.2 million and short-term debt of £50.4 million.

	31March 2024 Principal	Average Rate/ Return	30Sept 2024 Principal	Average Rate/ Return	Increase/ (Decrease) in Borrowing
	£000		£000		£000
Fixed Rate Funding:					
- PWLB	68,383	4.00%	56,194	4.21%	(12,189)
- Market Loans	12,000	1.22%	12,000	1.26%	0
Interest Free Loans:					
Welsh Government	75,970	0.00%	75,970	0.00%	0
Total Long-Term Debt	***156,353***	***3.73%***	**144,164**	**3.84%**	***(12,189)***
Short Term Loans (<365 days)	38,450	3.61%	50,450	5.24%	12,000
Total Debt	**194,803**	**3.83%**	**194,614**	**3.80%**	***(189)***
Investments:					
- Short Term	22,500	4.73%	5,200	5.50%	(17,300)
Total Investments	***22,500***	***4.73%***	***5,200***	***5.50%***	***(17,300)***

The Rail and Town Centre Loans have not been included in the average interest rate calculation as they are interest free loans from the Welsh Government.

6. BORROWING AND INVESTMENT RATES IN 2024/25

The following table displays a selection of interest rates prevailing as 1 April 2024 and 30 September 2024.

	01/04/2024	30/09/2024
Bank Base Rate	5.25%	5.00%
1 Month SONIA	5.20%	4.96%
PWLB 10-year Maturity	5.03%	4.99%
PWLB 15-year maturity	5.32%	5.29%
PWLB 25-year maturity	5.51%	5.53%

Treasury Management Mid-Year Review 2024/25

7. MID YEAR REVIEW OF THE BORROWING STRATEGY FOR 2024/25

The Treasury Management Strategy Statement for 2024/25 was approved by Council in March 2024. The Borrowing Strategy adopted as part of this was as follows:

To utilise the Authority's overdraft facility:
To fund unexpected daily cash deficits;
To fund temporary cash shortfalls where there are no other sources of funding available within the marketplace.

To borrow over the short term:
To fund temporary cash shortfalls;
To maintain a suitably balanced maturity profile; to make short term savings required in order to meet budgetary constraints;
In anticipation of securing longer term loans at more attractive rates.

To borrow over the long term:
To reduce the Authority's average cost of borrowing;
To maintain a stable, longer-term portfolio;
To maximise the potential for future debt rescheduling.

If appropriate to avoid all new external borrowing:
To maximise savings in the short term;
To run down temporary investment levels;
To minimise exposure to interest rate and credit risk.

Borrowings undertaken during the period (see section 7 below) have been done so in accordance with this strategy and has focused on short term borrowings to minimize borrowing costs. Current short-term borrowing rates continue to follow the Bank of England Base Rate. However, the Council is taking advantage of such rates as a temporary measure, so as not to commit itself long-term borrowing at a high interest rates. The Council is predominantly borrowing short term where necessary to fund the remainder of its capital expenditure and maturing debt until such time the market indicates that long term rates are more advantageous. In March 2021 the Welsh Government awarded the Authority an interest free specific loan in relation to the Rail Track project, whilst this has resulted in an increase to the level of the Council's longer-term debt, this resource has reduced the need to borrow externally in the first half of the 2024/25 financial year. In the current economic climate, it is considered that the approved strategy is still fit for purpose and therefore no revisions are proposed.

Treasury Management Mid-Year Review 2024/25

8. BORROWING OUTTURN FOR THE FIRST HALF OF 2024/25

Long Term Borrowing

Definition
Long term borrowing relates to debt taken out for a period of greater than one year. It is taken out for periods of 1 year up to 50 years. This borrowing is required to finance capital expenditure undertaken in the year that is funded through:

- Borrowing approvals from Welsh Government, known as un-hypothecated supported borrowing (USB), for which revenue support for the borrowing costs is provided through the revenue support grant.
- Prudential borrowing, for which borrowing costs are funded through revenue savings.

Total outstanding as of 30th September 2024
The total long-term debt outstanding as of 30th September 2024 was £144.2 million. This is made up of debt taken from the Public Works Loan Board (PWLB), from other local authorities (through the marketplace), and Specific Welsh Government Loans. This debt is due to be repaid within the following years:

Maturing Within	£000s
1YR	3,263
1-2YRS	15,277
2-3YRS	12,609
3-4YRS	6,037
4-5YRS	1,400
5-6YRS	8,992
6-10YRS	14,962
10-15YRS	9,570
15+ YRS	72,054
Total	144,164

New borrowings for the First Half of 2024/25
No new long-term borrowing has been undertaken during this financial year. The Authority has repaid £12m of PWLB loans during the first half year, however these have been replaced with temporary borrowing in line with the Council's borrowing strategy.

Due to the current elevated level of interest rates, the Council is not planning to undertake any long-term borrowing but will instead borrow in the short-term for re-financing of long-term debt or for cash flow purposes, due to the expectation that interest rates will begin to fall during 2025.

This situation will be monitored closely by the Treasury Management team, who will plan the future borrowing requirement of the Council in line with forecast interest rates.

Treasury Management Mid-Year Review 2024/25

Short Term Borrowing

Definition

Short term borrowing relates to debt taken out for a period of less than one year i.e. it will all be fully repaid within a year. These short-term loans are taken out to manage the Authority's short-term cash flow i.e. to fund deficits in daily cash flow, pending receipt of income from grants or other sources, or pending the taking out of longer-term debt to fund capital expenditure whilst we wait for advantageous longer term borrowing opportunities. Current short-term borrowing rates remain elevated, but do not commit the Authority to taking loans at a high interest rate payable over more than one year. The Authority is therefore taking advantage of this and is borrowing short term to fund its capital expenditure and maturing debt until such time the market indicates that long term rates are more advantageous.

Total outstanding as of 30th September 2024

The total short-term debt outstanding as of 30 September 2024 was £50.5 million. This is made up of debt taken from other local authorities through the marketplace.

New borrowings for the First Half Year of 2024/25

Appendix A lists the short-term loan activity during the year and shows that over the period a total of £38.450 million in loans were brought forward from the previous year and £50 million of new short-term loans were raised. A total of £38 million of these loans have been repaid during the year (including the brought forward loans), leaving a balance outstanding as of 30 September 2024 of £50.450 million. The increase in short-term loans can be attributed to the repayment of long-term loans during 2024/25, subsequently re-financed with a short-term loan.

The following table gives a summary which shows that the average rate of interest paid was well within the benchmark. However, this is due to the Council entering into short-term borrowing when interest rates were low. With the current high level of interest rates, further borrowing will exceed the benchmark rate. This is still seen as the preferred option of borrowing, instead of entering long-term borrowing now when rates are expected to fall during 2025.

	Total Value of Loans during the period	Average Loan	Interest due during the period	Average Interest Rate	Benchmark Interest Rate *
Short Term borrowing	£88.5m	£5.5m	£1.1m	5.24%	3.50%

** Benchmark = budgeted interest rate for new borrowings 4.50%*

As shown in section 12, the Council has exceeded its investment returns target for the financial year. It is anticipated that any additional investment interest received will offset the increased cost of borrowing anticipated throughout the remainder of the financial year, due to the current and forecast interest rates above the benchmark rate.

9. DEBT RESCHEDULLING

Debt rescheduling opportunities have increased significantly in the first half year where gilt yields, which underpin PWLB rates and market loans, have risen materially. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio.

No debt rescheduling has been undertaken during the financial year.

10. COMPLIANCE WITH TREASURY LIMITS

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Treasury Strategy Statement 2024/25, approved by Council in March 2024.

Operational Boundary for external debt

The Council resolved that this limit be set at £228.2 million for 2024/25. The average level of borrowings to the 30th of September 2024 was £189.2 million, this is well below the limit.

The operational boundary can be exceeded on an occasional basis, and this is to be expected due to cash flow fluctuations. Sustained breaches, however, would indicate that either the limit has been set too low, or that the Authority is breaching its prudential boundaries, and that corrective action needs to be taken.

Monitoring of the operational boundary is undertaken daily, and any such continual breaches would be investigated, and a recommended course of action reported to Council.

Authorised Limit for external Debt

The Council resolved that this limit be set at £248.4million for 2024/25. The Authorised Limit is set having regard to the operational boundary above.

The average level of borrowings for the first half year to the 30th of September 2024 was £189.2 million, so well within the limit set.

The Authorised Limit must not be breached.

Maturity Structure of Fixed Rate Borrowing

The Council resolved the following limits for the maturity structure of fixed rate borrowings for 2024/25;

	Upper Limit	Lower Limit	Actual as at 30/09/2024
under 12 months	20%	0%	2.26%
12 months and within 24 months	20%	0%	10.60%
24 months and within 5 years	50%	0%	13.91%
5 years and within 10 years	75%	0%	16.62%
10 years and above	95%	25%	56.62%

The actual debt maturity profile as of 30th September 2024 is well within the limits set.

Treasury Management Mid-Year Review 2024/25

Upper Limit on Variable Interest Exposure

Council resolved the upper limit on variable rate exposures for 2024/25 should be set at 30% of outstanding long-term debt. This strategy limits the proportion of interest which is subject to variable rate terms and hence protects the Council against increased costs in times of rising interest rates.

The Council has no variable rate debt as of 30th September 2024 following the repayment of the LOBO loan in January 2024, so is well within the limit set.

The prudential and treasury Indicators are shown in Appendix 2. Due to the 2023/24 Accounts not yet concluded, the Prudential Indicators for 2023/24 are based on provisional (unaudited) values.

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the first half year, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2024/25. The Corporate Director of Corporate Services reports that no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices

11. MID YEAR REVIEW OF INVESTMENT STRATEGY FOR 2024/25

The Annual Investment Strategy for 2024/25 adopted by Council in March 2024 was to maintain only temporary, short-term investments and to make those investments in accordance with anticipated cash flow requirements (including the investing of sums borrowed at prevailing low interest rates in anticipation of capital spending). The Council's investment priorities are:

a. the security of capital;
b. The liquidity of its investments.

The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low to give priority to the security of its investments.

To ensure that the Authority's investments are secure, and that risk is minimised an investment matrix is used to determine investment counterparties, which factors in Fitch and Moody's credit ratings, credit default swap (CDS) spread data, and credit rating agency comments.

Currently, the approved investment counterparties available to the Authority are Barclays, the Authority's bank, Lloyds Bank, the Debt Management Account Deposit Facility (DMADF) other Local Authorities and the Public Sector Deposit Fund. To diversify its investment portfolio, the Authority has undertaken fixed term deposits with other banks in line with the counterparty list. Whilst interest rates receivable on these counterparties is low the security of the capital sum is high and there is no cost associated with placing cash there.

This strategy has been adhered to in determining the investments for the first half of 2024/25 outlined in section 12 below.

Treasury Management Mid-Year Review 2024/25

12. INVESTMENT OUTTURN FOR THE FIRST HALF OF 2023/24

Appendix B gives details of the investments made during the first half of the year, and the following table gives a summary, which shows the Authority's average rate of return was above the benchmark.

Investment balances

The Council has been able to invest a total of £144m during the first half of 2024/25, with an average investment value of £2.8m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of the Council's payments, receipt of grants and progress on the capital programme.

Appendix A gives details of the investments made during the year, and the following table gives a summary, which shows the Council's average rate of return was above the benchmark. This is in line with the Authority's risk averse policy whereby the security of the capital sum is the number one priority at the expense of more competitive investment returns.

	Total Value of Investments	Average Investment	Investment Returns	Average Rate of Return	Benchmark Return *
Internally Managed	£144m	£2.82m	£0.551m	5.50%	5.11%

** Benchmark = 1 month SONIA uncompounded 5.11%*

The above investment returns include £10,700 of interest received in relation to the ongoing investment of the funds received from the Welsh Government in respect of the Rail Infrastructure Loan. There is a condition of the funding approval that states any interest earned from holding the loan must be added to the works programme. The remaining £540,000 investment returns relates to interest due from the investment of the Council's own funds.

As illustrated, the Council overperformed the benchmark by 39 basis points. The Council's budgeted investment return for 2024/25 is £320,500. Due to the availability of funds to invest and the continued increased bank rates above previous forecasts, the Council has exceeded this estimate.

Approved limits

Officers can confirm that the approved limits within the Annual Investment Strategy were breached on one occasion during the period ended 30th September 2024.

On 16 May 2024 the overnight balance left in the Council's bank account exceeded the £10m set within the approved limits (£10.957m). This was a temporary measure, and the balance held in the account was brought below the limit the following day. The Council faced no issues due to this.

13. OTHER TREASURY MANAGEMENT ISSUES

Appendix 1

Treasury Management Mid-Year Review 2024/25

None to report