

MEETING:	GOVERNANCE AND AUDIT COMMITTEE
DATE:	22 MAY 2025
TITLE:	TREASURY MANAGEMENT QUARTERLY UPDATE
PURPOSE:	CIPFA's Code of Practice requires that the prudential indicators are reported on a quarterly basis
RECOMMENDATION:	RECEIVE THE REPORT FOR INFORMATION
AUTHOR:	DELYTH JONES-THOMAS, INVESTMENT MANAGER

1. Introduction

The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve, as a minimum, treasury management semi-annual and annual outturn reports.

This quarterly report provides an additional update and includes the requirement in the 2021 Code of quarterly reporting of the treasury management prudential indicators.

The Council's Treasury Management Strategy for 2024/25 was approved at Full Council on 7th March 2024. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy.

2. Economic Background

The Chancellor of the Exchequer delivered her Autumn Budget at the end of October. Based on the plans announced, the Office for Budget Responsibility reported they would provide a short-term boost to GDP growth before weakening it further out and push inflation higher over the medium-term. This change to the economic and inflation outlook caused financial markets to readjust expectations of Bank of England (BoE) Bank Rate and gilt yields higher. The council's treasury management advisor, Arlingclose, also revised its interest rate forecast upwards in November, with Bank Rate expected to eventually fall to 3.75%.

UK annual Consumer Price Index (CPI) inflation remained above the Bank of England (BoE) 2% target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices rose 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, and remained elevated at 3.6% in November against a forecast of 3.5% and compared to 3.3% in the previous month.

UK economy GDP registered no growth (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the ONS. Of the monthly GDP figures, the economy was estimated to have contracted by 0.1% in October, following the same size decline in September.

The labour market continued to loosen, but the ONS data still require treating with some caution. Recent figures reported the unemployment rate rose to 4.3% (3mth/year) in the three months to October 2024 and economic inactivity fell to 21.7%. The ONS reported pay growth over the same three-month period at 5.2% for both regular earnings (excluding bonuses) and for total earnings.

The BoE's Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting (5-4 vote to cut). At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%. The meeting minutes suggested a reasonably dovish tilt to rates with the outlook for economic growth a concern among policymakers as the Bank downgraded its Q4 GDP forecast from 0.3% to 0.0%.

The November Monetary Policy Report (MPR) showed the BoE expected GDP growth to pick up to around 1.75% (four-quarter GDP) in the early period of the forecast horizon before falling back. The impact from the government's Autumn Budget pushed GDP higher in 2025 than was expected in the August MPR, before becoming weaker. The outlook for CPI inflation showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. Over the medium-term, once the near-term pressures eased, inflation was expected to stabilise around the 2% target. The unemployment rate was expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would continue to fall from the 5.25% peak. From the first cut in August 2024, followed by the next in November which took Bank Rate to 4.75%, February 2025 is deemed the likely month for the next reduction, with other cuts following steadily in line with MPR months to take Bank Rate down to around 3.75% by the end of 2025.

The US Federal Reserve continued cutting interest rates during the period, reducing the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. Further interest rate cuts are expected into 2025, but uncertainties around the potential inflationary impact of President-elect Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

The European Central Bank (ECB) also continued its rate cutting cycle, reducing its three key policy rates by 0.25% in December. Euro zone inflation rose above the ECB 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

3. Treasury Management Summary

On 31st December 2024, the Council had net investments of £61.3m arising from its revenue and capital income and expenditure.

The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

	31.3.24 Balance £m	Movement £m	31.12.24 Balance £m
Long- term borrowing	94.0	(1.4)	92.6
Short-term borrowing	5.6	0.2	5.8
PFI	1.0	0	1.0
Total borrowing	100.6	(1.2)	99.4
Short-term investments	(97.6)	(23.1)	(120.7)
Cash and cash equivalents	(43.9)	3.9	(40.0)
Total investments	(141.5)	(19.2)	(160.7)
Net borrowing/ (investment)	(40.9)	(20.4)	(61.3)

Borrowing Strategy and Activity: No new long-term borrowing was undertaken in 2024, with existing loans maturing without replacement. This strategy enabled the Council to reduce net borrowing costs (despite foregoing investment income) and reduce overall treasury risk.

Treasury Investment Activity: The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held for the North Wales Economic Ambition Board and Pension Fund. During the year, the Council's investment balances ranged between £106.8m and £235.8m due to timing differences between income and expenditure.

Treasury Investment Position

	31.3.24 Balance £m	Movement £m	31.12.24 Balance £m
Banks & building societies (unsecured)	5.9	6.5	12.4
Local Authorities	81.0	7.0	88.0
Money Market Funds	43.0	(5.4)	37.6
Debt Management Office	0.0	10.9	10.9
Pooled Funds	11.6	0.2	11.8
Total investments	141.5	19.2	160.7

4. Treasury Management Prudential Indicators

As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

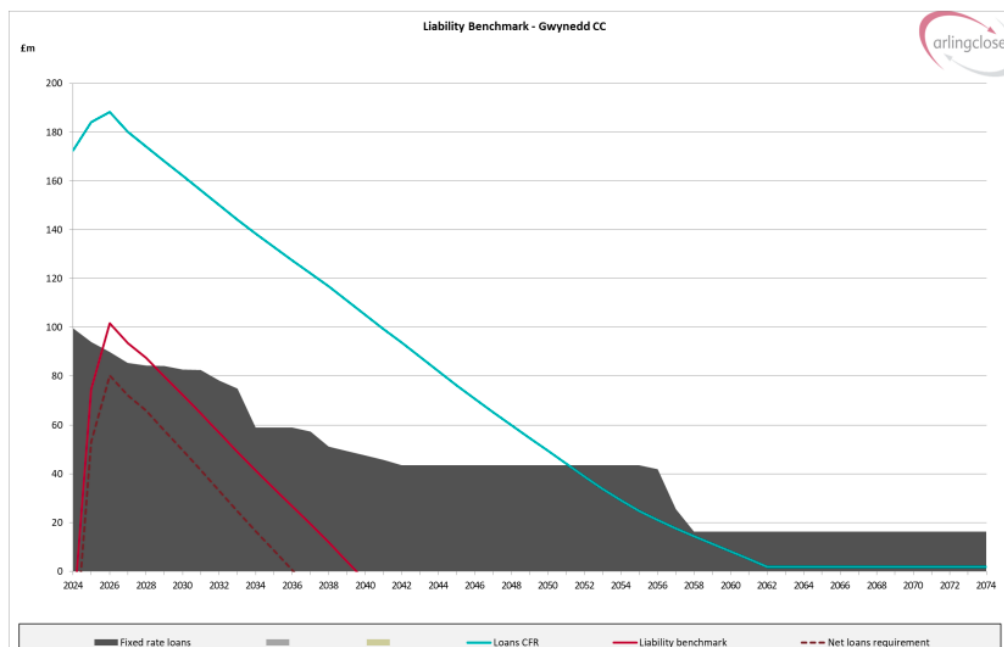
i. Liability Benchmarking

This new indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £21.5m required to manage day-to-day cash flow.

	31.3.24 Actual	31.3.25 Estimate	31.3.26 Estimate	31.3.27 Estimate
Loans CFR	172.5	189.2	191.7	193.7
Less: Balance Sheet resources	(214.0)	(131.1)	(108.1)	(108.1)
Net loans requirements	(41.5)	58.1	83.6	85.6
Plus: Liquidity allowance	21.5	21.5	21.5	21.5
Liability benchmark	(20.0)	79.6	105.1	104.8
Existing borrowing	100.0	93.0	89.3	84.9

The table shows that the Council expects to remain borrowed above its liability benchmark up until 2025. This is because the Council holds reserves, and cash outflows to date have been below the assumptions made when the loans were borrowed.

Following on from the medium-term forecast above, the long-term liability benchmark assumes no new capital expenditure funded by borrowing, minimum revenue provision on new capital expenditure based on a 50 year straight line method. This is shown in the chart below together with the maturity profile of the Council's existing borrowing.



The chart shows that there is no need to borrow long-term based on current projections, but maybe in the short term in the near future.

ii. Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31.12.24 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	5.9%	25%	0%	✓
12 months and within 24 months	2.8%	25%	0%	✓
24 months and within 5 years	7.2%	50%	0%	✓
5 years and within 10 years	24.1%	75%	0%	✓
10 years and above	60.0%	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

iii. Long-term Treasury Management Investments

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

	2024/25	2025/26	2026/27	No precise date
Actual principal invested beyond year end	£13m	£0	£0	£0
Limit on principal invested beyond year end	£40m	£20m	£20m	£20m
Complied	✓	✓	✓	✓

Additional indicators:

The Council measures and manages its exposures to treasury management risks using the following indicators:

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the time-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment and taking the arithmetic average, weighted by the length of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.12.24 Actual	2024/25 Target	Complied
Portfolio average credit score	4.7	A score of 6 or lower	✓

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	31.12.24 Actual	2024/25 Target	Complied
Total cash available within 3 months	£148.9m	£10m	✓

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates was:

	31.12.24 Actual	2024/25 Limit	Complied
Upper limit on one year revenue impact of a 1% rise in interest rates	£1,324,852	£2,290,000	✓
Upper limit on one year revenue impact of a 1% fall in interest rates	£1,324,852	£2,290,000	✓

5. Recommendation

To receive the report for information.