

# CYNGOR SIR CEREDIGION COUNTY COUNCIL

**Report to:** Cabinet

**Date of meeting:** 3<sup>rd</sup> December 2024

**Title:** Mid-year review of the Treasury Management Strategy for 2024/25

**Purpose of the report:** To report on the 2024/25 Treasury Management Strategy

**For:** Information

**Cabinet Portfolio and Cabinet Member:**  
Councillor Gareth Davies, Cabinet Member for Finance and Procurement

## 1. INTRODUCTION

This report is presented in accordance with the CIPFA Code of Practice on Treasury Management 2021 (the Code). It is recommended by the code that treasury management activities are reported at least quarterly.

Treasury management is defined by CIPFA as:

*“The management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of the optimum performance consistent with those risks.”*

## 2. PORTFOLIO POSITION

The Council’s summarised debt and investment position is shown below, with further details shown in Appendix A (Investments) and Appendix B (Debt).

|                                  | <b><u>As at</u></b><br><b><u>30/09/2024</u></b><br><b><u>£m</u></b> | <b><u>As at</u></b><br><b><u>31/03/2024</u></b><br><b><u>£m</u></b> |
|----------------------------------|---|---|
| <b><u>External Borrowing</u></b> |   |   |
| PWLB loans                       | 99.4  | 100.0   |
| UK Infrastructure Bank           | 12.0  | 0.0   |
| Market loan                      | 5.8   | 5.8   |
| WG Repayable loan funding        | 0.8   | 0.8   |
| <b><i>Total Debt</i></b>         | <b>118.0</b>  | <b>106.6</b>  |

|                          |             |             |
|--------------------------|-------------|-------------|
| <u>Investments held</u>  |             |             |
| In-house                 | 36.3        | 40.8        |
| <b>Total Investments</b> | <b>36.3</b> | <b>40.8</b> |
| <br>                     |             |             |
| <b>Net Debt</b>          | <b>81.7</b> | <b>65.8</b> |

### 3. ECONOMIC UPDATE

**As can be appreciated information and data regarding the economic position has been changing rapidly during 2024. The update below has been written at the end of September 2024 so makes no specific reference to the budget held on 30 October which will be referenced as part of the quarter 3 report.**

- The second quarter of 2024/25 (July 24 to September 24) saw:
  - GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q).
  - A further easing in wage growth as the headline 3 month y/y rate (including bonuses) fell from 4.6% in June to 4.0% in July.
  - CPI inflation hitting its target of 2% in June before rising slightly to 2.2% in July and August.
  - The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August, whilst holding them steady at 5.0% 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 recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it is encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3.
- Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties in the Middle East may also exert an upward pressure on inflation with the consequential oil price rises.
- The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but it's performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions. Progress in these markets may pause for the time being whilst investors wait to see who is elected the next US President and how events in the Middle East and Ukraine unfold.

#### 4. INTEREST RATE FORECASTS

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 PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 basis points).

The latest forecast, as at 14th October 2024, 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.

#### Link Treasury Services Interest Rate Forecast – as at 14<sup>th</sup> October 2024

|                     | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Bank Rate Forecast  | 4.50%  | 4.00%  | 3.50%  | 3.25%  | 3.25%  | 3.25%  | 3.25%  | 3.00%  |
|                     |        |        |        |        |        |        |        |        |
| PWLB Borrowing Rate |        |        |        |        |        |        |        |        |
| 5 yr PWLB           | 4.50%  | 4.30%  | 4.10%  | 4.00%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  |
| 10 yr PWLB          | 4.60%  | 4.40%  | 4.30%  | 4.10%  | 4.10%  | 4.10%  | 4.00%  | 4.00%  |
| 25 yr PWLB          | 5.00%  | 4.80%  | 4.70%  | 4.50%  | 4.50%  | 4.40%  | 4.40%  | 4.40%  |
| 50 yr PWLB          | 4.80%  | 4.60%  | 4.50%  | 4.30%  | 4.30%  | 4.20%  | 4.20%  | 4.20%  |

#### 5. STRATEGY FOR 2024/25

The Council's Treasury Management strategy for the current year was approved by Full Council in February 2024. The Investment Strategy outlined the investment priorities as being security of capital and liquidity, with the aim of achieving the optimum return on investments commensurate with the proper levels of security and liquidity. Generally, it was anticipated that investments for core cashflow requirements would be for periods of up to 3 months, but with scope to invest for longer periods (up to 1 year) if surplus investment balances are available. All Investments in the year to date have been in line with the strategy.

On the borrowing side, the Council has a fairly significant cash balance and is maintaining an internal borrowing position which is helping to deliver revenue savings.

#### 6. INVESTMENT PORTFOLIO

A full list of investments held as at 30/09/2024 is shown in Appendix A. The majority of investments are short term, ensuring that the key dates relating to salaries, housing benefit and creditor payment runs are covered within a month. Where funds allow, these investments are supplemented with longer dated maturities to take advantage of increased returns.

Investments for the first six months of 2024/25 has led to income of £1.1m against a budget of £0.9m resulting in a favourable variance of £0.2m. This is due to interest rates remaining higher than anticipated when the budget was set.

The full year budget for investment income is £1.5m and it is forecast that income of £1.9m will be achieved which will result in a £0.4m favourable variance for the year.

## 7. BORROWING PORTFOLIO

During 2024/25, no new PWLB loans have been taken out to date, however, on the 19<sup>th</sup> August 2024 the Council signed an agreement with the UK Infrastructure Bank (UKIB) to borrow £24.9m to fund the Aberaeron Coastal Protection Scheme. This is prudential borrowing which is fully funded by Welsh Government. The facility has since been drawn down in full in two tranches as indicated by the table below.

| Loan Ref | Drawdown Date | Maturity Date | Rate   | Loan Repayment Type | Amount £   |
|----------|---------------|---------------|--------|---------------------|------------|
| UKIB #1  | 18/09/2024    | 18/03/2048    | 4.529% | Annuity             | 12,000,000 |
| UKIB #2  | 01/10/2024    | 18/03/2048    | 4.378% | Annuity             | 12,908,000 |

The second tranche in the table above was not drawn down until the first day of quarter 3 but has been included for information purposes.

There is one PWLB loan maturity expected later in 2024/25.

| Loan Ref | Drawdown Date | Maturity Date | Rate   | Loan Repayment Type | Amount £  |
|----------|---------------|---------------|--------|---------------------|-----------|
| 502827   | 06/02/2014    | 10/01/2025    | 3.660% | Maturity            | 3,000,000 |

A full list of loans held as at 30/09/2024 is shown in Appendix B.

## 8. DEBT RESCHEDULING

As the economy continues adjust to a higher interest rate environment debt rescheduling opportunities may become available, which hasn't been the case for over a decade. The Council will monitor this situation and evaluate opportunities that become available if balances allow.

No premature repayment of debt, or debt rescheduling, has taken place to date in this financial year.

## 9. COMPLIANCE WITH TREASURY LIMITS

During the financial year to date the Council has operated within the Treasury Limits and Prudential Indicators set out in the Council's approved Treasury Management Strategy. The 2024/25 Prudential indicators are shown in Appendix C.

## 10. TREASURY ADVISORS

The Council employs Link Treasury Solutions Ltd as the Council's external Treasury advisor on a contract that runs until 30/08/2026. Link support by providing an analysis of investment counterparty creditworthiness, provide forecasts of movements in PWLB rates, undertake Balance Sheet reviews, they provide regular updates on economic and political changes together with advice on any changes to legislation or accounting standards.

## 11. BANKING CONTRACT

The Council has a contract with Barclays for the delivery of banking services, which runs until February 2031. Barclays is a UK based bank, with a long-term credit rating of A1 (Moody's) and continues to provide the Council with an excellent service.

## 12. MEMBERS TRAINING

Members attended an online training webinar which Link delivered on 8<sup>th</sup> November 2022. The objectives of the webinar were to:

- Gain an appreciation of what Treasury Management involves and how it is undertaken
- Understand the role of Officers and Councillors in Treasury Management decisions
- Understand the risks and opportunities in Treasury Management and how they should be managed
- Develop the skills and knowledge required to take Treasury Management decisions
- Review current integrated Treasury Management strategy (debt and investments)
- Gain an understanding of the Authority's balance sheet position including its asset base and borrowing exposure
- Gain a broad appreciation of inflation pressures on the economic outlook and Treasury Management decision-making

Additional training needs of members are kept under continuous review and Treasury Management matters are also covered during Members Budget Workshops as and when appropriate.

### **Wellbeing of Future Generations:**

**Has an Integrated Impact Assessment been completed? If, not, please state why.**

No: Report for information only.

### **Summary of Integrated Impact Assessment:**

**Long term:** N/A – Information only  
**Collaboration:** N/A – Information only  
**Involvement:** N/A – Information only  
**Prevention:** N/A – Information only  
**Integration:** N/A – Information only

**Recommendation(s):**

To note the contents of the report.

**Reasons for decision:**

No decision required.

**Overview and Scrutiny:**

Considered during the 2024/25 Treasury Management Strategy approval process.

**Policy Framework:**

2024/25 Treasury Management Strategy

**Corporate Well-being Objectives:**

Treasury Management underpins all Corporate Priorities

**Finance and Procurement implications:**

Reporting information regarding Treasury Management activities and in year investment income and external interest paid.

**Legal Implications:**

None

**Staffing implications:**

None

**Property / asset implications:**

Reporting performance of investment balances held by the Council.

**Risk(s):**

None

**Statutory Powers:**

Local Government Act 2003

**Background Papers:**

2024/25 Treasury Management Strategy report to Full Council (February 2024)

**Appendices:**

Appendix A - Investment Portfolio

Appendix B - Debt Portfolio

Appendix C – Prudential Indicators

**Corporate Lead Officer:**

Duncan Hall, Corporate Lead Officer: Finance & Procurement

**Reporting Officer:**

Justin Davies, Corporate Manager - Core Finance

**Date:**

12<sup>th</sup> November 2024

## Appendix A

### INVESTMENT PORTFOLIO AS AT 30/09/2024:

| Details                                 | Value<br>£  | Interest<br>Rate<br>% | Investment |            |
|---|-------------|-----------------------|------------|------------|
|   |             |                       | From       | To         |
| <b>Fixed Term Investments</b>           |             |                       |            |            |
| Lloyds Bank Corporate Markets           | £2,000,000  | 5.21%                 | 08/04/2024 | 08/10/2024 |
| Standard Chartered Sustainable          | £1,000,000  | 5.20%                 | 06/06/2024 | 06/12/2024 |
| Lloyds Bank Corporate Markets           | £1,000,000  | 5.25%                 | 20/06/2024 | 20/12/2024 |
| Lloyds Bank Corporate Markets           | £2,500,000  | 5.20%                 | 03/07/2024 | 03/01/2025 |
| DMADF                                   | £2,000,000  | 4.91%                 | 09/09/2024 | 22/10/2024 |
| DMADF                                   | £2,000,000  | 4.91%                 | 09/09/2024 | 25/10/2024 |
| DMADF                                   | £1,200,000  | 4.92%                 | 10/09/2024 | 04/10/2024 |
| DMADF                                   | £500,000    | 4.91%                 | 11/09/2024 | 11/10/2024 |
| DMADF                                   | £1,500,000  | 4.89%                 | 16/09/2024 | 07/10/2024 |
| DMADF                                   | £500,000    | 4.91%                 | 18/09/2024 | 11/10/2024 |
| DMADF                                   | £2,500,000  | 4.92%                 | 18/09/2024 | 18/10/2024 |
| Goldman Sachs International             | £4,000,000  | 4.91%                 | 18/09/2024 | 18/12/2024 |
| Skipton Building Society                | £5,000,000  | 4.90%                 | 18/09/2024 | 10/01/2025 |
| DMADF                                   | £1,000,000  | 4.94%                 | 20/09/2024 | 11/10/2024 |
| DMADF                                   | £800,000    | 4.94%                 | 23/09/2024 | 22/10/2024 |
| Leeds Building Society                  | £1,000,000  | 4.95%                 | 24/09/2024 | 25/10/2024 |
| Leeds Building Society                  | £1,000,000  | 4.95%                 | 27/09/2024 | 28/10/2024 |
| Leeds Building Society                  | £1,000,000  | 4.95%                 | 30/09/2024 | 31/10/2024 |
|   | £30,500,000 |                       |            |            |
| <b>Deposits in Barclays Reserve a/c</b> |             |                       |            |            |
| Barclays Bank                           | £2,768,492  | 4.65%                 | -          | -          |
| <b>Deposits in Notice Account</b>       |             |                       |            |            |
| Barclays - 95 day                       | £3,074,662  | 5.15%                 | -          | -          |

**Total Investments as at 30/09/24**

**£36,343,154**

**DEBT PORTFOLIO AS AT 30/09/2024:****Appendix B**

| <b>Loan Ref</b>          | <b>Repayment Method</b> | <b>Start Date</b> | <b>Maturity Date</b> | <b>Original Interest rate</b> | <b>Balance as at 30/09/24</b> |
|--------------------------|-------------------------|-------------------|----------------------|-------------------------------|-------------------------------|
| <b><u>PWLB Loans</u></b> |                         |                   |                      |                               |                               |
| 417195                   | A                       | 24-Dec-71         | 02-Dec-31            | 8.000%                        | 15,707                        |
| 419325                   | A                       | 21-Mar-72         | 02-Dec-31            | 7.750%                        | 10,980                        |
| 427730                   | A                       | 12-Jun-73         | 02-Jun-33            | 9.875%                        | 17,451                        |
| 478179                   | M                       | 26-Sep-96         | 31-Mar-56            | 8.125%                        | 5,000,000                     |
| 478585                   | M                       | 10-Dec-96         | 30-Sep-56            | 7.500%                        | 3,000,000                     |
| 480055                   | M                       | 13-Oct-97         | 30-Sep-57            | 6.375%                        | 6,000,000                     |
| 480689                   | M                       | 27-Mar-98         | 30-Sep-52            | 5.875%                        | 2,000,000                     |
| 481159                   | M                       | 20-Jul-98         | 31-Mar-53            | 5.500%                        | 3,500,000                     |
| 490819                   | M                       | 24-Nov-05         | 31-Mar-31            | 4.250%                        | 2,000,000                     |
| 490981                   | M                       | 11-Jan-06         | 31-Mar-51            | 3.900%                        | 2,000,000                     |
| 491703                   | M                       | 07-Jun-06         | 30-Sep-41            | 4.350%                        | 2,700,000                     |
| 491819                   | M                       | 07-Jul-06         | 30-Sep-31            | 4.500%                        | 5,300,000                     |
| 491837                   | M                       | 12-Jul-06         | 02-Jun-39            | 4.450%                        | 2,000,000                     |
| 492936                   | M                       | 20-Feb-07         | 06-Aug-32            | 4.550%                        | 6,000,000                     |
| 493733                   | M                       | 10-Aug-07         | 30-Sep-37            | 4.750%                        | 9,551,120                     |
| 501411                   | A                       | 10-Jul-12         | 31-Mar-32            | 2.860%                        | 1,018,213                     |
| 501928                   | A                       | 01-Mar-13         | 31-Mar-29            | 2.630%                        | 950,226                       |
| 502054                   | A                       | 28-Mar-13         | 06-Feb-33            | 2.860%                        | 1,138,317                     |
| 502477                   | A                       | 13-Aug-13         | 30-Sep-28            | 3.110%                        | 916,342                       |
| 502596                   | M                       | 10-Oct-13         | 09-Oct-36            | 4.210%                        | 5,000,000                     |
| 502827                   | M                       | 06-Feb-14         | 10-Jan-25            | 3.660%                        | 3,000,000                     |
| 502828                   | M                       | 06-Feb-14         | 10-Jan-27            | 3.840%                        | 2,000,000                     |
| 502981                   | A                       | 09-Apr-14         | 31-Mar-34            | 3.680%                        | 1,300,623                     |
| 502982                   | A                       | 09-Apr-14         | 30-Sep-28            | 3.230%                        | 1,294,814                     |
| 503489                   | M                       | 25-Nov-14         | 31-Mar-45            | 3.670%                        | 5,000,000                     |
| 503490                   | A                       | 25-Nov-14         | 31-Mar-44            | 3.400%                        | 1,078,152                     |
| 503728                   | M                       | 09-Feb-15         | 31-Mar-60            | 2.750%                        | 4,000,000                     |
| 503729                   | M                       | 09-Feb-15         | 31-Mar-61            | 2.750%                        | 4,000,000                     |
| 504645                   | A                       | 04-Feb-16         | 30-Sep-45            | 2.760%                        | 2,043,070                     |
| 506318                   | M                       | 06-Sep-17         | 01-Sep-28            | 1.970%                        | 2,000,000                     |
| 506319                   | M                       | 06-Sep-17         | 01-Sep-46            | 2.560%                        | 6,000,000                     |
| 507963                   | M                       | 30-Oct-18         | 31-Mar-34            | 2.500%                        | 2,000,000                     |
| 507964                   | M                       | 30-Oct-18         | 30-Sep-48            | 2.460%                        | 1,800,000                     |
| 508214                   | M                       | 13-Dec-18         | 30-Sep-39            | 2.520%                        | 2,000,000                     |
| 509622                   | M                       | 08-Aug-19         | 30-Sep-58            | 1.970%                        | 2,000,000                     |
| 509623                   | M                       | 08-Aug-19         | 30-Sep-34            | 1.730%                        | 1,800,000                     |
|                          |                         |                   |                      |                               | <b>99,435,014</b>             |

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| Loan Ref                                    | Repayment Method | Start Date | Maturity Date | Original Interest rate | Balance as at 30/09/24 |
|---|------------------|------------|---------------|------------------------|------------------------|
| <b><u>Market Loan</u></b>                   |                  |            |               |                        |                        |
| Barclays                                    | M                | 20-Jun-16  | 13-Sep-66     | 3.660%                 | <b>5,750,000</b>       |
| <b><u>UK Infrastructure Bank</u></b>        |                  |            |               |                        |                        |
| UKIB #1                                     | A                | 18-Sep-24  | 18-Mar-48     | 4.529%                 | <b>12,000,000</b>      |
| <b><u>WG Repayable Loan funding</u></b>     |                  |            |               |                        |                        |
| Housing Improvement & Empty Property Loan 1 | M                | 06-Mar-15  | 31-Mar-30     | 0.000%                 | 556,075                |
| Housing Improvement & Empty Property Loan 2 | M                | 27-Mar-20  | 31-Mar-35     | 0.000%                 | 250,000                |
|   |                  |            |               |                        | <b>806,075</b>         |
| <b>TOTAL</b>                                |                  |            |               |                        | <b>117,991,089</b>     |

Key: A = Annuity M = Maturity

**Treasury Management related Prudential Indicators**

**Gross debt and the Capital Finance Requirement**

In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that gross external debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

The Section 151 officer reports that the authority did not have any difficulty in meeting this requirement in 2023/24, nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in the 3 year capital programme.

**Authorised Limit for External Debt**

|                             | 2024/25    | 2025/26    | 2026/27    |
|-----------------------------|------------|------------|------------|
|                             | £m         | £m         | £m         |
| Borrowing                   | 158        | 163        | 168        |
| Other long term liabilities | 10         | 10         | 10         |
| <b>Total</b>                | <b>168</b> | <b>173</b> | <b>178</b> |

**Operational Boundary for External Debt**

|                             | 2024/25    | 2025/26    | 2026/27    |
|-----------------------------|------------|------------|------------|
|                             | £m         | £m         | £m         |
| Borrowing                   | 152        | 157        | 162        |
| Other long term liabilities | 9          | 9          | 9          |
| <b>Total</b>                | <b>161</b> | <b>166</b> | <b>171</b> |

**Actual External Debt**

The Council's actual external debt at 31/03/2024 was £112.3m (consisting of External Borrowing of £106.6m and Long term liabilities of £5.7m).

**Maturity Structure of Borrowing**

|   | Upper limit | Lower limit |
|---|-------------|-------------|
| Under 12 months                               | 20%         | 0%          |
| 12 months & within 24 months                  | 20%         | 0%          |
| 24 months & within 5 years                    | 50%         | 0%          |
| 5 years & within 10 years                     | 75%         | 0%          |
| 10 years & above                              | 95%         | 25%         |
| <u>Sub-category within 10 years and above</u> |             |             |
| 50 years & above                              | 20%         | 0%          |

**Upper limit for total principal sums invested for more than 1 year**

| 2024/25 | 2025/26 | 2026/27 |
|---------|---------|---------|
| £2.5m   | £2.5m   | £2.5m   |

**Liability Benchmark**

The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.

There are four components to the Liability Benchmark: -

- Existing loan debt outstanding: the Authority’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 MRP.
- Net loans requirement: this will show the Authority’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 forecast.
- Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



