

# Treasury Management Update 2024/25

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Telford & Wrekin Council

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# Treasury Management Update 2024/25

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## Purpose

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2024/25. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2024/25 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year,
- a mid-year, (minimum), treasury update report, and
- an annual review following the end of the year describing the activity compared to the strategy.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was provided on 26 July 2023 and 31 January 2024 (the presentation slides relating to the latter being re-circulated to Committee members prior to this meeting) in order to support members' scrutiny role.

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## Executive Summary

During 2024/25, the Council will need to comply with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Dec-17 Prudential and treasury indicators	31.3.24 Actual (£'000)	2024/25 Original (£'000)	31.3.25 Projection at 31.5.24 (£'000)
Capital expenditure			
• Total	83,485	179,798	150,480
Capital Financing Requirement:			
• Total	555,727	671,600	638,056
• Less Other Long Term Liabilities	(44,547)	(41,200)	(41,175)
• Loans CFR	511,180	630,400	596,881
Gross Borrowing			
• External Debt	371,324	493,700	468,759
Investments			
• Longer than 1 year	0	0	0
• Under 1 year	17,868	15,000	15,000
• Total	17,868	15,000	15,000
Net borrowing			
• Total	312,869	478,700	453,759

Actual figures at 31 May 2024 are as follows:

Prudential and treasury indicators	31.5.24 Actual (£'000)
Gross Borrowing	
• External Debt	386,152
Investments	
• Longer than 1 year	0
• Under 1 year	41,359
• Total	41,359
Net borrowing	
• Total	344,793

Other prudential and treasury indicators are to be found in the main body of this report. The Interim Director of Finance, People and IDT also confirms that borrowing was only undertaken for a capital purpose and that the statutory borrowing limit, (the authorised limit), was not breached.

# Introduction and Background

This report summarises the following:-

- Capital activity during the year to 31<sup>st</sup> May 2024;
- Impact of this activity on the Council's underlying indebtedness, (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

## 1. 2024/25 Treasury Strategy

The strategy for 2024/25 was approved by Full Council on 29 February 2024, following recommendation for approval by this committee on 31 January 2024. The strategy is to continue to keep investments as short term, where possible, to reduce the need to borrow thus reducing investment exposure and maximising overall returns to the revenue account. We will review investment opportunities if they arise and also review borrowing opportunities as we progress through the year and look to take advantage of advantageous interest rates where appropriate. The Medium-Term Financial Strategy 2024/25 – 2027/28, approved by Full Council on 29 February 2024, will see the Council continue to invest in significant regeneration projects including the growth fund (Property Investment Programme), building homes through NuPlace Ltd, the Council's wholly owned company and deliver highways infrastructure.

In order to comply with MiFID II the Council will maintain a minimum investment balance of £10m.

## 2. Interest Rates

At its Monetary Policy Committee (MPC) meeting on 20 June 2024, the Bank of England held the base rate at 5.25% for the eighth consecutive time. The rate has remained unchanged since August 2023. However, although the fall in CPI inflation from 2.3% in April to 2.0% in May wasn't enough to persuade the BoE to cut interest rates and now with services inflation falling only slightly, it is anticipated that a rate cut may not happen until late summer / early autumn.

## 3. Prudential Regime

This Council agreed its required indicators at Council on 29 February 2024.

The Council has operated within the Treasury Limits and Prudential Indicators set.

The Council set itself an Operational Limit for external debt of £635.0m for 2024/25 and an Authorised limit of £655.0m. Our total borrowing outstanding at 31 May 2024 (external debt) was £344.8m and the latest forecast for 31 March 2025 is £468.8m. Both the May actual and latest forecast are within the Operational Boundary and Authorisation Limit.

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CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its Capital Financing Requirement (CFR) forecast, with total external debt being lower than the Loans CFR. The projected Loans CFR at 31 March 2025 is £596.9. Both the actual external debt at 31 May 2024, £344.8m, and the project external debt at 31 March 2025, £468.8m, are below the Loans CFR.

## 4. Borrowing

With the forecast for interest rates set to reduce through the second half of 2024/25 and continue to reduce in 2025/26, the Borrowing Strategy for 2024/25 is to use internal resources where available or to borrow through the use of short-term loans, up to one year and take longer term loans if appropriate. By doing so the Council is able to reduce net borrowing costs and reduce overall treasury risk.

### Treasury Borrowing

As at 31 May 2024 –

- £32.0m of outstanding loans had been repaid on maturity and £49.0m of new temporary loans had been raised.
- No new PWLB loans had been raised and £2.17m of loans had been repaid. In total £47.6m of PWLB Loans are due to mature during the year.

## 5. Treasury Investments

The Treasury Investment Strategy for the year is to gain maximum benefit at minimum risk whilst aiming to achieve as a minimum, the 7-day SONIA rate which averages 5.2% to 31 May 2024.

For the period to 31 May 2024 some £2,218m worth of investments have been made, in total at an average of £36.4m per day, across the Debt Management Office (DMO), Lloyds Bank and Money Market Funds. Rates have been stable at 5.2% per day.

The Council holds investments in money market funds which gives increased diversification of counter-party risk and slightly higher yield whilst retaining a high degree of liquidity. These investment are held in one diversified fund.

The Council can place up to £15.0m with any Counterparty, with the exception of Treasury's DMO facility which is Government backed and therefore considered to be very secure so no limit is placed on investments with the DMO. At 31 May 2024 the greatest exposure with a single counterparty was £33.1m (80.0% of the portfolio) with the DMO and the Council has complied with the £15m limit with other counterparties.

<b>INVESTMENT PORTFOLIO</b>	<b>31.5.24 Actual £000</b>	<b>31.5.24 Actual %</b>
<b>Treasury investments</b>		
Banks (Lloyds Bank)	3,279	8.0
Debt Management Office (H.M. Treasury)	33,100	80.0

Money Market Funds	4,980	12.0
<b>Total managed in house</b>	<b>41,359</b>	<b>100.0</b>
<b>Total managed externally</b>	0	
<b>TOTAL TREASURY INVESTMENTS</b>	<b>41,359</b>	<b>100.0</b>

<b>Credit risk indicator</b>	<b>2024/25 Limit</b>	<b>31.5.24 Actual</b>
Portfolio average credit score	6 or lower	1.71

## 6. Projected Performance 2024/25

Senior Finance Officers are closely monitoring the Treasury position, particularly with the likelihood of the interest rates cuts and the timing of these. The financial monitoring report presented to Cabinet on 10 July 2024 included a nil variance to budget from treasury management activities. Updates will be provided in future financial monitoring reports taken to Cabinet.

## 7. MRP Update

In November 2021 the Department for Levelling Up, Housing and Communities (DLUHC) sought views on proposed changes to regulations in relation to the duty of local authorities to make prudent Minimum Revenue Provision each year. Following a number of further consultations throughout 2022, 2023 and 2024 the Department released revised regulations and statutory guidance on 10 April 2024. The new regulations will come into effect from 1 April 2025.

## ABBREVIATIONS USED IN THIS REPORT

**CFR:** capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

**CIPFA:** Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

**CPI:** consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

**DLUHC:** the Department for Levelling Up, Housing and Communities – the Government department responsible for Local Government

**MPC:** the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

**MRP:** minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

**PWLB:** Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

**SONIA:** the Sterling Overnight Index Average. Generally, a replacement set of indices (for LIBID) for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

**TMSS:** the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.

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