Treasury Update Report 2024/25

Telford & Wrekin Council

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Treasury Management Update Report 2024/25

Purpose

This Council is required by regulations issued under the Local Government Act 2003 to produce a Treasury Update Report to review activities and 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 (this 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 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 undertaken in January 2025 in order to support members' scrutiny role.

Executive Summary

During 2024/25, the Council complied 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:

Prudential and treasury indicators	31.03.24 Actual £m	2024/25 Original £m	2024/25 Revised Estimate £m	31.12.24 Actual £m
Capital expenditure • Total	83.485	179.798	93.151	57.634
Capital Financing Requirement: • Total • Less Other Long Term Liabilities • Loans CFR	555.727 (44.571) 511.156	671.600 (41.200) 630.400	592.477 (41.170) 551.307	592.477 (41.170) 551.307
Gross borrowing • External Debt	371.324	493.700	420.312	422.667
Investments • Under 1 year	17.868	15.000	15.000	31.200
Net borrowing • Total	353.456	478.700	405.314	391.467

Other prudential and treasury indicators are to be found in the main body of this report.

Borrowing can only be undertaken to fund capital investment and not to support the revenue budget which supports the delivery of most Council services. The Director of Finance, People & IDT confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

2024/25 TREASURY MANAGEMENT UPDATE

1.0 Treasury Position as at 31st December 2024

The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established which includes member reporting as detailed in the summary.

At the 31st December the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

TREASURY PORTFOLIO	31.03.24 Principal £m	31.12.24 Principal £m	Movement in Principal £m
Fixed rate debt (+1yr)	244.208	274.638	30.430
Temporary debt (-1yr)	86.529	148.029	61.500
Total debt	**330.737**	**422.667**	**91.930**
Less Total investments	**17.868**	**31.200**	**13.332**
Net debt (exc. Nuplace)	**312.869**	**391.467**	**78.598**
Less Investment in NuPlace	**22.200**	**25.200**	**3.000**
Net debt (inc. Nuplace)	**290.669**	**366.267**	**75.598**

The maturity structure of the debt portfolio was as follows:

MATURITY STRUCTURE – DEBT (assumes 31st March)	31.03.24 Actual		2024/25 original limits %		31.12.24 Actual	
	£m	%	Lower	Upper	£m	%
Under 12 months	134.232	36.1	0.0	70.0	60.365	14.1
12 months and within 24 months	17.791	4.8	0.0	30.0	139.552	32.7
24 months and within 5 years	34.542	9.3	0.0	50.0	39.560	9.3
5 years and within 10 years	49.852	13.4	0.0	75.0	55.975	13.1
10 years and above*	134.907	36.4	25.0	100.0	131.808	30.8

** this includes £20m Lenders Option Borrowers Options (LOBO) loans (£25m at 31.03.2024 as a £5m loan was called in September 2024) that are potentially callable at certain points before the maturity date.*

The maturity structure of the investment portfolio was as follows:

MATURITY STRUCTURE – INVESTMENTS (exc. NuPlace Ltd)	31.03.24 Actual £m	31.12.24 Actual £m
Investments		
Longer than 1 year	0.0	0.0
Up to 1 year	17.868	31.200
Total	**17.868**	**31.200**

2.0 Interest Rates and Economic Data

The third quarter 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.

3.0 Borrowing

At the 31st December the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

DEBT PORTFOLIO	31.12.24 Principal £m	Average Interest Rate %
Fixed rate funding:		
- PWLB	239.428	2.87
- Market Loans & LOBOS	35.000	4.15
- Municipal Investment	0.212	2.10
Variable rate funding:		
- Temporary	148.029	5.22
Total debt	**422.669**	**3.77**

The borrowing strategy for the current year has been to borrow temporarily where possible as we are in a reducing interest environment before gradually extending maturities.

3.1 New Borrowing

To date in 2024/25 £20.1m of our PWLB Loans have matured, included £10.0m of Maturity only loans. A further £27.7m of PWLB Loans, including £25.0m of Maturity only loans, are due to mature before the end of the financial year.

Two new PWLB loans, totalling £15.0m, have been taken since 1 June 2024. These are the only two loans taken during year.

Lender	Date Raised	Principal £m	Type	Interest Rate %	Duration
PWLB	19.09.204	5.0	Fixed interest rate - EIP	4.32	11.5 years
PWLB	06/12/2024	10.0	Fixed interest rate - EIP	4.82	10 years

Between the period 1 June 2024 (previous Member update) and 31 December 2024, £163.0m of temporary loans have been raised, renewed or replaced in order to fund short-term cash flow requirements. Interest rates have ranged from 4.80% and 5.25%. The outstanding temporary borrowing at 31 December 2024 was £148.0m.

3.2 Rescheduling and Repayments

During 2024/25 no rescheduling of debt has taken place as market conditions have not been favourable, however the scope for opportunities is regularly monitored.

In September 2024 FMS Wertmanagement exercised their option under the conditions of the Lender Option Borrower Option (LOBO) Loan. The Council had the option to repay the loan (£5m principle) or accept the interest rate increase proposed by the lender from 4.45% to 7.41%. Following consultation with Link Treasury Services, the Councils external Treasury Management Advisory, the LOBO was repaid.

4.0 Treasury Management Investments

At the 31st December the Council's treasury position was as follows:

INVESTMENT PORTFOLIO	31.12.24 Actual £m	31.12.24 Actual %	Credit Rating	Weighted Credit Score
Treasury investments				
Banks	5.420	17.4	A+	0.87
DMADF (H.M. Treasury)	20.800	66.7	AAA	0.67
Money Market Funds	4.980	15.9	AAA	0.16
Total Treasury Investments	**31.200**	**100.0**		**1.69**

The Authority's objective when investing money for Treasury Management purposes is to strike an appropriate balance between risk and return. The strategy for the year is to gain maximum benefit at minimum risk whilst achieving as a minimum, the overnight deposit rate.

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Based on this the Treasury Management Prudential Indicator in relation to Credit Risk is a score of 6 or lower, which is equivalent to a weighted average credit rating of 'A' or higher across the investment portfolio. As at 31 December 2024 the weighted average credit rating for Investments held was 1.69 (which is within the indicator)**.** Further information regarding Credit Ratings is detailed in Appendix Ai.

The Council's treasury management investments are mainly internally managed and are currently held as temporary investments for cash flow purposes.

For the period to 31st December 2024 some £7.378bn worth of investments have been placed with H.M. Treasury's Debt Management Account Deposit Facility (DMADF) and Lloyds Bank. Interest rates have ranged from an average of 4.70% to 5.19%.

The Council holds investments of £4.98m in Money Market Funds which gives increased diversification of counter-party risk and slightly higher yield whilst retaining a high degree of liquidity. These investments are held in one diversified fund. The average interest rate to 31 December was 5.07%.

In line with the approved Treasury Management Prudential Indicator, the Council can place up to £15.0m with any Counterparty, with the exception of the DMADF which is Government backed and therefore considered to be very secure, so no limit is placed on investments. At the end of December, the greatest exposure with a single counterparty was £20.8m (66.7% of the portfolio) with the DMADF.

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

The Council is guided by its Treasury advisers in assessing investments.

4.1 Longer Term Treasury Management Investments

The Council currently holds no long-term Treasury Management Investments.

4.2 Overall Performance

Overall, the weighted average return on all internal treasury management investments for the year to date to 31st December 2024 was 5.01%. This compared to a benchmark return for the period of 5.02% based on the average overnight rate with the DMADF / 7 Day Sonia Rate. The security of principal sums invested is paramount.

5.0 Leasing

Each year the Council arranges operating and finance leases for assets such as vehicles, computers and equipment. This helps to spread the cost of the acquisition over a number of years.

To date, there have been 2 lease requests made for 2024/25.

Draw Down Date	Purpose	Length / Type	Lessor	Value
September 2024	Gym equipment & flooring and video wall	5 year Finance Lease	DLL Leasing	£44,391
November 2024	John Deere Mower	5 year Finance Lease	JCB	£68,595

6.0 Projected Performance

The Chief Financial Officer and other Senior Finance Officers closely monitor the Treasury position, particularly with the uncertainty in timings of predicted continued interest rate cuts. Latest financial monitoring projections indicate a benefit of £1.7m from treasury management activities in year. Updates will be provided in future financial monitoring reports taken to Cabinet.

Credit Ratings – A Guide.

Long-term credit ratings and Sovereign Ratings

Fitch Rating' long-term credit ratings are set up along a scale from 'AAA' to 'D', first introduced in 1924 and later adopted and licensed by Standard & Poors (S&P). Moody's also uses a similar scale, but names the categories differently. Like S&P, Fitch also uses intermediate modifiers for each category between AA and CCC (i.e., AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB- etc.).

Investment grade

- **AAA** : the best quality, reliable and stable
- **AA** : good quality, a bit higher risk than AAA
- **A** : economic situation can affect finance
- **BBB** : medium class counterparties, which are satisfactory at the moment

Non-investment grade

- **BB** : more prone to changes in the economy
- **B** : financial situation varies noticeably
- **CCC** : currently vulnerable and dependent on favourable economic conditions to meet its commitments
- **CC** : highly vulnerable, very speculative bonds
- **C** : highly vulnerable, perhaps in bankruptcy or in arrears but still continuing to pay out on obligations
- **D** : has defaulted on obligations and Fitch believes that it will generally default on most or all obligations
- **NR** : not publicly rated

Short-term credit ratings

Fitch's short-term ratings indicate the potential level of default within a 12-month period.

- **F1+** : best quality grade, indicating exceptionally strong capacity of obligor to meet its financial commitment
- **F1** : best quality grade, indicating strong capacity of obligor to meet its financial commitment
- **F2** : good quality grade with satisfactory capacity of obligor to meet its financial commitment
- **F3** : fair quality grade with adequate capacity of obligor to meet its financial commitment but near term adverse conditions could impact the obligor's commitments
- **B** : of speculative nature and obligor has minimal capacity to meet its commitment and vulnerability to short term adverse changes in financial and economic conditions
- **C** : possibility of default is high and the financial commitment of the obligor are dependent upon sustained, favourable business and economic conditions

- **D** : the obligor is in default as it has failed on its financial commitments.

Support Ratings (1 – 5)

The Purpose and Function of Support Ratings

Support Ratings are Fitch Ratings' assessment of a potential supporter's propensity to support a bank and of its ability to support it. Its propensity to support is a judgment made by Fitch Ratings. Its ability to support is set by the potential supporter's own Issuer Default Ratings, both in foreign currency and, where appropriate, in local currency. Support Ratings do not assess the intrinsic credit quality of a bank. Rather they communicate the agency's judgment on whether the bank would receive support should this become necessary. These ratings are exclusively the expression of Fitch Ratings' opinion even though the principles underlying them may have been discussed with the relevant supervisory authorities and/or owners.

Timeliness and Effectiveness Requirements

Fitch Ratings' Support Rating definitions are predicated on the assumption that any necessary "support" is provided on a timely basis. The definitions are also predicated on the assumption that any necessary support will be sufficiently sustained so that the bank being supported is able to continue meeting its financial commitments until the crisis is over.

Obligations and Financial Instruments Covered

In terms of these definitions, unless otherwise specified, "support" is deemed to be in terms of foreign currency. It is assumed that typically the following obligations will be supported: senior debt (secured and unsecured), including insured and uninsured deposits (retail, wholesale and interbank); obligations arising from derivatives transactions and from legally enforceable guarantees and indemnities, letters of credit, and acceptances; trade receivables and obligations arising from court judgments.

Likewise, the agency does not assume that the following capital instruments will be supported when sovereign support is involved: preference/preferred shares or stock; hybrid capital (tier 1 and upper tier 2), including reserve capital instruments (RCIs) and variations upon RCIs; and common/ordinary equity capital. It is also assumed that there will be no support for any moral obligation on securitizations. The sovereign support status of subordinated debt is difficult to categorize in advance; it is assessed on a case by case basis, distinguishing among different jurisdictions.

Definitions:

1: A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'A-'.

2: A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'BBB-'.

3: A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'BB-'.

4: A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'B'.

5: A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-Term Rating floor no higher than 'B-' and in many cases no floor at all.

GLOSSARY

Term	Meaning
Annuity	A method of repaying a loan where the cash payment remains constant over the life of the loan, but the proportion in interest reduces and the proportion of principal repayment increases over time.
Authorised Borrowing Limit	The maximum amount the authority can borrow at any point of time in the year. This limit should never be exceeded. The limit is set by Full Council at the beginning of March and is a prudential indicator.
Bail-in	A method of rescuing a failing financial institution by cancelling some of its deposits and bonds. Investors may suffer a haircut but may be given shares in the bank as part compensation. See also bail-out
Bail-out	A method of rescuing a failing financial institution by the injection of public money. This protects investors at the expense of the taxpayer.
Call account	A deposit account that can be called back, normally on instant access.
Capital Financing Requirement CFR)	This represents the underlying need for the authority to borrow and represents the assets of the authority less the long term capital liabilities.
Credit Default Swaps (CDS)	CDS are bought by investors to insure against defaults (i.e. the counterparty not being able to repay). The higher the cost/premium then the higher the risk – CDS therefore given a market view of the credit worthiness of an organisation.
Credit Ratings	Rating on the ability of an organisation to meet its obligations; ratings are assigned by independent, specialist companies, such as Fitch and Moody's using market intelligence they gather.
Credit Risk	The risk that the debtor will default on their obligations
Counterparty	The organisation that you are conducting your business with.
Debt Management Account Deposit Facility	Provided by the Debt Management Office, users can place cash in secure fixed-term deposits. Deposits are guaranteed by the government and therefore have the equivalent of a sovereign triple-A credit rating.
Derivative Instruments	A security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Most derivatives are characterized by high leverage. For example, a stock option is a derivative because it derives its value from the value of a stock. An interest rate swap is a

	derivative because it derives its value from one or more interest rate indices.
Discounts	These relate to Public Works Loans Board loans. If rates have increased since the borrowing was undertaken then part of the benefit that PWLB will achieve from being able to loan out at that higher rate are passed back to an authority if they repay the loan early.
Fund Managers	Independent investment managers who work to a specific mandate and invest funds on behalf of the Council
IFRS	International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010.
Inflation	The rise in prices of goods and services over a period of time.
Interest Rate Risk	The risk that the value of an investment will change due to changes to the interest rate.
Internal Borrowing	This is where the amount of an authority's borrowing is less than its CFR or underlying need to borrow and represents the use of internal balances rather than borrowing from the market.
LIBID	London inter-bank bid rate. Interest rate at which prime banks will **borrow** money in the London inter-bank market.
LIBOR	London inter-bank offer rate. Interest rate at which prime banks will **lend** money in the London inter-bank market. Fixed every day by the British Bankers Association to five decimal places.
Liquidity Risk	The risk of not being able to trade an investment quickly to release cash.
LOBO	Lender's Option Borrower's Option – a long term loan where the lender has the option to propose an increase in the interest rate on pre-determined dates. The borrower then has the option to either accept the new rate or repay the loan without penalty. LOBOs increase the borrower's interest rate risk and the loan should therefore attract a lower rate of interest initially.
Minimum Revenue Provision (MRP)	This is the amount charged against the Income and Expenditure Account for the year in relation to the repayment of debt on borrowing in order to fund capital expenditure.
Money Market Fund (MMF)	Mutual funds that invest in short term debt instruments. They offer a higher level of security than banks and interest rates are generally higher.
Obligor	An individual or company that owes debt to another individual or company (the creditor), as a result of borrowing or issuing bonds.

Operational Borrowing Limit	The amount the authority would normally borrow at any point of time in the year. This boundary might be exceeded temporarily but only in exceptional circumstances. The limit is set by Full Council at the beginning of March and is a prudential indicator.
Premia	This is the penalty applied to the early redemption of PWLB loans where rates have fallen since the loan was undertaken.
Prudential Code	A professional code of practice which provides regulatory framework to local authorities on capital expenditure, investments and borrowing activities.
Prudential Indicators	A set of indicators developed within the Prudential Code which define thresholds for investment and borrowing within a local authority.
PWLB	Public Works Loans Board – a Government agency providing long and short term loans to local authorities. Interest rates are generally lower than the private sector and slightly higher than the rates at which the Government themselves may borrow.
Quantitative Easing	This is where the government buy back their own gilt issuance to effectively pump money into the financial markets of the economy.
Re-scheduling	This relates to repaying existing borrowing early and replacing it with borrowing for a different period usually, but not necessarily, at lower rates
Return	The gain from holding an investment over a given period
Security	An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government or other organisation which offers evidence of debt or equity.
SONIA	Sterling Overnight Interbank Average – a key Bank of England interest rate benchmark; it is a measurement of the cost of borrowing and reflects the average of interest that banks pay to borrow sterling overnight from other financial institutions.
Sovereign Exposure	Risk of exposure to one particular country.
Supranational Bonds	These are bonds (similar to gilts) issued by multi government development organisations and are supported by all of the governments who form part of the organisation. E.g. European Investment Bank and are usually very secure.
Treasury Management Code (TM Code)	CIPFA's Code of Practice for Treasury Management in the Public Services and Cross-Sectoral Guidance Notes, to which local authorities are required by law to have regard.