

	CABINET
Date of Meeting:	11 MARCH 2025
Report Title:	TREASURY MANAGEMENT QUARTERLY REPORT TO 31 DECEMBER 2024
Report Owner / Corporate Director:	CHIEF OFFICER – FINANCE, HOUSING AND CHANGE
Responsible Officer:	NIGEL SMITH, GROUP MANAGER – CHIEF ACCOUNTANT
Policy Framework and Procedure Rules:	Paragraph 23.5 of the Council’s Financial Procedure Rules require the Chief Finance Officer to report quarterly to Cabinet, summarising borrowing and investment activity and indicating compliance with any statutory or Council approved guidelines together with a half yearly and an annual report to Council.
Executive Summary:	<p>The report provides an update of Treasury Management activity for the period 1 April 2024 – 31 December 2024.</p> <p>As at 31 December 2024 the Council had £99.38 million of long term debt, £15.07 million of other long term liabilities and an overall net debt position of £71.55 million.</p> <p>The average interest rate for debt was 4.69% (excluding Salix borrowing which is interest free) and for investments it was 4.70%.</p> <p>The Council has a manageable maturity structure of borrowing, with its current debt repayable at various points over the next 30 years.</p> <p>The Council has complied with the Chartered Institute of Public Finance and Accountancy’s Treasury Management Code and Welsh Government Investment Guidance.</p>

1. Purpose of Report

1.1 The purpose of this report is to:

- Present to Cabinet the treasury management activities for 2024-25 for the period 1 April 2024 to 31 December 2024, for noting.
- Report on the Treasury Management Indicators for the period to December 2024.
- Demonstrate compliance with the requirement of the Chartered Institute of Public Finance and Accountancy's (CIPFA's) 'Treasury Management in the Public Services: Code of Practice' (the CIPFA Code).

2. Background

2.1 Treasury Management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council is 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 financial risk are therefore central to the Council's prudent financial management.

2.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 edition (the CIPFA Code), which requires the Council to approve a Treasury Management Strategy before the start of each financial year, and, as a minimum, a semi-annual and annual treasury outturn report. The CIPFA Code also requires the Council to set a number of Treasury Management Indicators, which are forward looking parameters, and enable the Council to measure and manage its exposure to treasury management risks, and these are included throughout this report. Welsh Government (WG) guidance issued in November 2019 on Local Authority Investments requires the Council to approve an Investment Strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Welsh Government Guidance.

2.3 The CIPFA Prudential Code for Capital Finance in Local Authorities (2021 edition) (Prudential Code) includes a requirement for Local Authorities to provide a Capital Strategy, which is a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The definition of investments in the Prudential Code covers all the financial assets of the Council as well as other non-financial assets which the authority holds primarily for financial return. The Council's Capital Strategy 2024-25 complied with CIPFA's requirement and included the Prudential Indicators along with the details regarding the Council's non-treasury investments. The Capital Strategy and Treasury Management Strategy should

be read in conjunction with each other as they are interlinked, as borrowing and investments are directly impacted upon by capital plans, and both were approved together by Council on 28 February 2024.

2.4 The Council's treasury management advisors are Arlingclose. The current services provided to the Council include:

- advice and guidance on relevant policies, strategies and reports
- advice on investment decisions
- notification of credit ratings and changes
- other information on credit quality
- advice on debt management decisions
- accounting advice
- reports on treasury performance
- forecasts of interest rates
- training courses

3. Current situation / proposal

3.1 External Context – Economic Background

3.1.1 Inflation, measured by the Consumer Price Index (CPI), rose 2.5% in the 12 months to December 2024, down from 2.6% in November. The largest downward contribution in the monthly change for the CPI annual rate was driven by restaurants and hotels; the largest upward contribution came from transport.

3.1.2 The Bank of England 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 25 basis point cut from the 5.25% peak at the August MPC meeting. Economic growth remains a concern as the Bank of England downgraded its Q4 GDP forecast from 0.3% to 0.0%.

3.1.3 Financial market sentiment was generally positive over the period, but economic, financial and geopolitical issues meant the ongoing trend of bond yield volatility very much remained. In the last few months of the period, there was a general rising trend in yields due to upwardly revised interest rate and inflation expectations, causing gilt yields to end the period at substantially higher levels to where they began.

3.2 Public Works Loan Board (PWLB) Lending Facility Advice

3.2.1 As the Council may need to borrow to support its capital programme in the future, it continues to follow the PWLB requirement for borrowing to not invest in assets primarily for yield, or financial return, as this would prevent the Council from accessing funding from the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

- 3.2.2 The Council's treasury management activities are undertaken in line with CIPFA's Prudential Code for Capital Finance and CIPFA's Treasury Management Code. To comply with the Prudential Code authorities must not borrow to invest primarily for financial return. The Prudential Code also states it is not prudent for local authorities to make investment or spending decisions that will increase the Capital Financing Requirement (CFR) unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold, however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments. The Council has complied with the full requirements of both codes during the period to 31 December 2024.

3.3 Treasury Management update for period 1 April 2024 to 31 December 2024

- 3.3.1 The Treasury Management Strategy 2024-25 was approved by Council on 28 February 2024. The Council has complied with its legislative and regulatory requirements during the period 1 April to December 2024.
- 3.3.2 A summary of the treasury management activities is shown in the Treasury Management Quarterly Report to 31 December 2024 at **Appendix A**. The Council's external debt and investment position on 31 December 2024 is shown in Table 1 below, and more detail is provided within the Appendix. As with the previous year, no long-term borrowing has been taken out in 2024-25 so far and no debt rescheduling has been undertaken as there has been no opportunity to make significant savings. However, should the opportunity arise to reschedule any loans at a preferential rate, this would be done.

Generally, the Council has experienced favourable cash flows which have continued to provide surplus funds for investment to date and the balance on investments held on 31 December 2024 was £42.90 million, with an average interest rate of 4.70%. The total balance of investments has reduced slightly compared to those at the end of last financial year, 31 March 2024, when the balance held was £50.00 million, at an average interest rate of 5.02%. The short-term borrowing taken out for cashflow purposes at the end of the previous year has been fully repaid.

Table 1: Council's external debt and investment position as of 31 December 2024

Investments for Treasury Purposes	Principal as at 31/03/2024 £m	Principal as at 31/12/2024 £m	Average Rate 31/12/2024 %
External Long-Term Borrowing			
Public Works Loan Board	77.62	77.62	4.70
Lender's Option Borrower's Option	19.25	19.25	4.65
Salix Loans (interest Free)	2.74	2.51	NIL
Short Term Borrowing	5.00	NIL	NIL
Total External Long-Term Borrowing	104.61	99.38	4.69*
Other Long-Term Liabilities			
Private Finance Initiative**	12.97	12.22	
IFRS 16 Leases	NIL	2.85	
Total Other Long-Term Liabilities	12.97	15.07	
Total Gross Debt	117.58	114.45	
Investments for treasury management purposes			
DMO (Government)	NIL	3.00	4.70
Local Authorities	44.00	10.00	5.60
Money Market Funds (instant access)	NIL	22.00	4.76
Banks	6.00	7.90	3.38
Total Treasury Investments	50.00	42.90	4.70
Net Debt	67.58	71.55	

* Excluding Salix loans which are interest free

** (PFI) arrangement for the provision of a Secondary School in Maesteg 9.25 years remaining term

3.3.3 The £19.25 million in Table 1 above relates to Lender's Option Borrower's Option (LOBO) loans which have a maturity date of 2054 though these may be rescheduled in advance of this maturity date with the lender having the ability to recall the debt at 2 intervals in the year, July and January. However, this is currently unlikely in the current interest climate and the option was not exercised on 22 January 2025.

3.3.4 The Council is anticipating a need to take out short-term borrowing of £20 million in the final quarter of 2024-25 for cash flow purposes. The Council has seen a reduction in its reserves year-on-year as these have been used for the purposes set aside. As the use of the cash resources held as reserves are used in the short term to fund capital expenditure in lieu of borrowing, it is only a short term position and as cash balances fall, the Council will need to increase its borrowing, as is the now the forecast position. It is anticipated that this will be sourced from other local authorities or the Public Works Loan Board (PWLb). If funding is sourced from PWLB it will likely be for a period of up to 16 months to run past the 2025-26 year end to help manage cash flows at that time.

- 3.3.5 The Total Other Long Term Liabilities figure of £15.07 million at 31 December 2024 includes £12.22 million for the Council's Private Finance initiative (PFI) arrangement for the provision of a Secondary School in Maesteg. The Other Long-Term Liabilities reflect leases required to be recognised under International Financial Reporting Standard 16 – Leases (IFRS 16), which is a new requirement from 1 April 2024 for the recognition of assets that are leased, which previously would have not been recognised as assets on the balance sheet but charged as an expense through income and expenditure. The new accounting standard requires that for any leases not previously identified as assets, that a right of use asset is recognised on the balance sheet and an equal lease liability also recognised.
- 3.3.6 Both the CIPFA Code and Welsh Government Guidance require the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return. Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard and Poor's to ensure that this lies within the Councils' agreed minimum credit rating.
- 3.3.7 The Council defines high credit quality as organisations and securities having a credit rating of A- (A3 for Moody's) or higher and the Council does not invest in any organisation below this level. Schedule A shows the equivalence table for credit ratings for Fitch, Moody's, and Standard and Poor's and explains the different investment grades.
- 3.3.8 There are no long-term investments (original duration of 12 months or more) outstanding as at 31 December 2024. All investments at 31 December 2024 are short term deposits including instant access and fixed term deposits.
- 3.3.9 The Treasury Management Code requires the Council to set and report on a number of Treasury Management Indicators. The indicators either summarise the expected activity or introduce limits upon the activity. Details of the estimates for 2024-25 set out in the Council's Treasury Management Strategy compared to the actual at 31 December 2024 are shown in **Appendix A** and these show that the Council operated within the approved limits throughout the period.

4. Equality implications (including Socio-economic Duty and Welsh Language)

- 4.1 The protected characteristics identified within the Equality Act, Socio-economic Duty and the impact on the use of the Welsh Language have been considered in the preparation of this report. As a public body in Wales the Council must consider the impact of strategic decisions, such as the development or the review of policies, strategies, services and functions. This is an information report; therefore it is not necessary to carry out an Equality Impact assessment in the production of this report. It is considered that there will be no significant or unacceptable equality impacts as a result of this report.

5. Well-being of Future Generations implications and connection to Corporate Well-being Objectives

- 5.1 The well-being goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives because of this report.

6. Climate Change Implications

- 6.1 The Climate Change implications were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the environment because of this report.

7. Safeguarding and Corporate Parent Implications

- 7.1 The Safeguarding and Corporate Parenting implications were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon Safeguarding and Corporate parenting because of this report.

8. Financial Implications

- 8.1 The financial implications are reflected within the report and attached **Appendix A**.

9. Recommendations

- 9.1 It is recommended that Cabinet:
- Note the treasury management activities for 2024-25 for the period 1 April 2024 to 31 December 2024.
 - Note the Treasury Management Indicators for the period ending 31 December 2024 against those approved in the Treasury Management Strategy 2024-25.

Background documents

None