Appendix 10 – Treasury Management

Investments

The Bank of England (BoE) base rate was increased to 5.25% at the Bank's August Monetary Policy Committee (MPC) meeting. Since then, the Bank has held base rate at this level. The market consensus is that this is likely to be the peak in base rate for this cycle and that the first reduction in base rate is likely in the spring.

Cash balances have effectively now reached a level where it is not prudent to lower them further and so have plateaued. With Council Tax receipts noticeably lower in the last quarter of the year it will be necessary to take additional borrowing to maintain cash flow through year end.

No further investment has been made in pooled funds during the quarter, we have maintained the £116.5m already invested by the five prior councils. It is likely we will be looking to reduce this level of investment as the year progresses; however, most funds currently are priced lower than the initial cost and so selling is problematic as it would crystalise these losses.

The now fairly steady level of investment balances is lower than forecast when the income budget for the year was set and therefore it is likely that the income budget will not be met.

A summary of investment balances and movements during the last three months is shown in **Table 1** below:

Table 1: Investment Balances and Movements for Quarter 3

	Balance as at 30-09-2023 £m	**Balance as at 31-12-2023 £m**	**Movement £m**
Money Market Funds	26.5	64.2	+37.7
Notice Bank Accounts	20.0	10.0	-10.0
Time deposits/CDs – Banks	0.0	0.0	0.0
Time Deposits – LAs	20.0	5.0	-15.0
Debt Management Office	0.0	0.0	0.0
Strategic Pooled Funds	116.5	116.5	0.0

Total Investments	**183.0**	**195.7**	**+14.7**

Borrowing

The Council is currently managing the cost of borrowing through its Treasury Management activities, as set out in the approved Treasury Management Strategy, by utilising cash funds available rather than taking external debt. This is known as internal borrowing and the council has utilised this strategy over the past three years. This has seen some debt repaid on maturity with only selective deals being renewed. During this quarter additional debt was required to manage cash balances and meet capital expenditure and it is very likely that further debt will be needed in the period to the end of the financial year.

Paying down some debt initially has continued to allow us to make savings on debt interest costs in the quarter. The majority of the existing debt is fixed rate and therefore it is less sensitive to the increases in BoE base rate but the cost of new debt when needed will be higher than originally budgeted.

Even with the higher costs for new debt and the significant levels of debt that may well be needed in the final quarter of the year a significant underspend on debt costs is forecast for the full year.

The publicity around Somerset's financial crises has meant that other local authorities are now reluctant to lend to us. As a result, new debt is exclusively being taken from Public Works Loans Body (PWLB).

Table 2: Debt Balances and Movements for Quarter 3

	Balance as at 30-09-2023 £m	Balance as at 31-12-2023 £m	Movement £m
Local Authority	117.0	123.0	+6.0
PWLB	239.8	299.8	+60.0
Fixed Rate Bank	57.5	57.5	0.0
Lender Option Borrower Option (LOBO) Ban	93.0	93.0	0.0
Total General Fund	**507.3**	**573.3**	**+66.0**

Local Authority	10.0	0.0	-10.0
PWLB	135.9	145.9	+10.0
Fixed Rate Bank	3.0	3.0	0.0
Total Housing Revenue Account (HRA)	**148.9**	**148.9**	**0.0**
Total Debt	**656.2**	**722.2**	**+66.0**