

Appendix L – Treasury Management

Investments

As expected, the Bank of England base rate continued to fall during the quarter with a reduction of 0.25%, to 4.75%, at the November meeting of the Monetary Policy Committee. The forecast is for rates to continue to fall at a rate of 0.25% per quarter through 2025. On 6th February Bank of England reduced the base rate from 4.75% to 4.5%. This gradual reduction in rate will lead to a lowering of income on cash balances.

Cash balances have remained slightly higher than anticipated through Quarter 3, but this is forecast to unwind in the final quarter of the financial year as council tax receipts reduce as typically collected over 10 months.

No further investment has been made in pooled funds during the quarter, we have sold the holding in the Payden and Rygal Sterling Reserve Fund for a small profit, therefore reducing the £114.5m brought forward to £112.25m. It is likely the Council will be looking to reduce this level of investment further as the year progresses; however, most funds currently are priced lower than the initial cost and so selling is problematic as it would crystallise these losses.

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 30/09/2024 £m	Balance as at 31/12/2024 £m	Movement £m
Money Market Funds	36.250	35.775	(0.475)
Notice Bank Accounts	10.000	-	(10.000)
Time deposits/CDs – Banks	10.000	-	(10.000)
Time Deposits – LAs	72.000	70.000	(2.000)
Debt Management Office	-	-	-
Strategic Pooled Funds	114.250	112.250	(2.000)
Total Investments	242.500	218.025	(24.475)

Average Balance 2023/24: £251.868m

Average Balance 2024/25 to end of Q3: £261.079m

Average interest rate 2023/24: 4.80%

Average interest rate 2024/25 to end of Q3: 5.06%

BoE base rate for same period: 5.06%

7-day SONIA* for same period: 4.96%

*SONIA = Sterling Overnight Index Average

Borrowing

Cash resources continue to be used to keep borrowing to a minimum, only taking out new borrowing as cashflow requires it. With cashflow being stronger in Quarter 3 some local authority and Public Works Loan Board (PWLB) debt maturities were not replaced during the quarter.

Cashflow forecasts currently indicate that some borrowing may need to be taken out from February 2025. This is assessed on a monthly basis.

Table 2: Debt Balances and Movements for Quarter 3

General Fund	Balance on 30/09/2024	Debt Matured / Repaid	New Borrowing	Balance on 31/12/2024	Increase / Decrease in Borrowing
	£m	£m	£m	£m	£m
Local Authority	54.000	(22.000)	-	32.000	(22.000)
PWLB	389.843	(20.000)	-	369.843	(20.000)
LOBOs**	93.000	-	-	93.000	-
Fixed Rate Bank	57.500	-	-	57.500	-
Total General Fund	594.343	(42.000)	-	552.343	(42.000)
PWLB	153.666	-	-	153.666	-
Fixed Rate Bank	3.000	-	-	3.000	-
Total Housing Revenue Account	156.666	-	-	156.666	-
Total	751.009	(42.000)	-	709.009	(42.000)

	%
Average interest rate at 30/09/24:	4.24
Average interest rate at 31/12/24:	4.16

	£m
General Fund Interest budget 2024/25:	33.661
Actual interest paid 2024/25 to end Q3:	20.235

**LOBO = Lender Option, Borrower Option

Treasury Prudential Indicators

Somerset Council has complied with its Prudential Indicators for 2024/25 for the period to end of Quarter 3. Those indicators agreed by Full Council and actual figures as at 31 December 2024 are included below:

	2024/25 £m	As at 31/12/2024 £m
Authorised limit (borrowing only)	1,050.000	718.208***
Operational boundary (borrowing only)	1,000.000	718.208***

***Includes non-treasury borrowing

Maturity structure of borrowing

	Upper Limit %	Lower Limit %	As at 31/12/2024 %
Under 12 months	50	15	37.0
>12 months and within 24 months	25	-	8.8
>24 months and within 5 years	25	5	9.9
>5 years and within 10 years	25	-	8.7
>10 years and within 20 years	25	-	3.5
>20 years and within 30 years	20	-	11.4
>30 years and within 40 years	30	10	14.9
>40 years and within 50 years	15	-	5.4
50 years and above	5	-	0.4

	2023/24 £m	As at 31/12/2024 £m
Prudential Limit for principal sums invested for periods longer than 365 days	120.000	112.250

Credit Risk Indicator

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating / 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. Unrated investments are assigned a score based on their perceived risk (in conjunction with Arlingclose) and will be calculated quarterly.

Credit risk indicator (Number to be below target)	Target	Actual
Portfolio average credit rating (score)	A (6)	A+ (4.59)