

**Committee and Date**Cabinet
5th June 2024

Item

Public



Treasury Management Update Quarter 4 2023/24

Responsible Officer:	James Walton		
email:	james.walton@shropshire.gov.uk	Tel:	01743 258915
Cabinet Member (Portfolio Holder):	Cllr Gwilym Butler, Finance, Corporate Resources and Communities		

1. Synopsis

The Council currently holds £36m in investments and £311m of borrowing, including £30m of new borrowing undertaken during the quarter, which is aligned with the Council approved Treasury Management Strategy and prudential indicators.

2. Executive Summary

- 2.1. The report outlines the treasury management activities of the Council in the fourth quarter of 2023/24. It highlights the economic environment in which treasury management decisions have been made. It also provides an update on the performance of the treasury management function.
- 2.2. During Quarter 4 the internal finance team achieved a return of 5.50% on the Council's cash balances, outperforming the benchmark by 0.31%. This amounts to additional income of £43,430 during the quarter which is included within the Council's outturn position in the financial outturn report.
- 2.3. Despite medium and long term borrowing being an approved part of the Treasury Management Strategy approved by Council, the high levels of cash balances held by the Council since the Covid-19 Pandemic of 2020 has prevented the necessity of any borrowing activity for several years. As cash balances have reduced, as expected and following reductions in grant funding and changes in spend activity, opportunities taken to defer external borrowing and utilise cash balances to borrow

internally (saving money in the short term on external interest costs) will now be reviewed over the coming twelve months. Initially, borrowing of £30million was agreed for a 12 month period during the last quarter and it is anticipated that a full review of the Council's borrowing levels will be performed in 2024/25.

3. Recommendations

- 3.1. Members are asked to note that the Council remains fully compliant with the agreed prudential indicators and the treasury management strategy.

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1. The assessment and management of risk are key considerations for any Treasury Management approach. Compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potential for financial loss.
- 4.2. The Council's Audit Committee is the committee responsible for ensuring effective consideration of the Council's Treasury Management Strategy and policies.
- 4.3. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 4.4. There are no direct environmental, equalities or climate change consequences arising from this report.

4.5. Risk table

<i>Risk</i>	<i>Mitigation</i>
Security of funds	<p>The Council maintains an Annual Investment Strategy which ensures that minimum acceptable credit criteria is applied for all investments to ensure that only highly creditworthy counterparties are used which enables diversification across all investments.</p> <p>The Council uses a treasury advisor, Link Asset Services to provide a creditworthiness service of all potential investment counterparties, which is continuously monitored and updated as needed.</p>
Managing liquidity	<p>The Council undertakes cash flow monitoring which highlights anticipated cash transactions for the upcoming 18 months. All departments are requested to provide details of large value income and expenditure transactions that may impact on the authority's cash flow position. This is tracked on a daily basis and continuously updated to ensure that cash is held appropriately liquid should there be a need to use the funds.</p>

<i>Risk</i>	<i>Mitigation</i>
Achievement of investment benchmark	<p>Investments undertaken by the Finance team are benchmarked against the 3 Month Sterling Overnight Index Average (SONIA). The key factors in tracking performance of investments, is the cash balance available to invest and the return that is achieved on investments made. When interest rates are rising in the economy, it may be that previous investments that were fixed have now become less favourable, and so there is a higher risk that the benchmark may not be achieved.</p> <p>The availability of cash for investing has also become a key factor, especially in a period where reserves and hence cash balances have reduced. Also during the months of February and March the Council does not collect Council Tax and so cash balances reduce during these months in particular. In order to manage this period, cash is held in call accounts or highly liquid investments rather than being placed into longer term fixed interest investments. The main priority for the Council is always to maintain liquidity and the security of funds over chasing investment returns.</p>

5. Financial Implications

- 5.1. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.
- 5.2. The Quarter 4 performance is above benchmark and has delivered additional income of £43,400.
- 5.3. As at 31 March 2024 the Council held £36million in investments as detailed in Appendix A and borrowing of £311million at fixed interest rates. The level of investments has fallen by £48.4m in the last 12 months, as reserves have been applied to ongoing operations. The level of external borrowing has increased in the last twelve months with an additional £30million loan taken out prior to the end of the financial year.

6. Climate Change Appraisal

- 6.1. The Council's Financial Strategy includes proposals to deliver a reduced carbon footprint for the Council therefore the Finance Team is working with the Council to achieve this. There are no direct climate change impacts arising from this report. Shropshire Council's investment portfolio has no level 1, 2 or 3 emissions. It comprises of straightforward cash deposits with financial institutions and other Local Authorities.

7. Background

- 7.1. The Council defines its treasury management activities as “the management of the authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks”. The report informs Members of the treasury activities of the Council between 1 January 2024 and 31 March 2024.
- 7.2. For wider context and consideration of the global financial outlook, an economic and borrowing update for the third quarter is considered in Appendix D.

8. Additional Information

- 8.1. The Council receives its treasury advice from Link Asset Services. Their latest interest rate forecasts to 31 March 2027 are shown below. The Bank Rate remained at 5.25% during quarter 4 however it is anticipated that the rate will reduce during 2024/25.

Link Group Interest Rate View	25.03.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

- 8.2. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate, it is considered appropriate to:
- Keep investments short term (up to 1 year),
 - Only invest with highly credit rated financial institutions using Link’s suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Link.
- The Finance Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations.
- 8.3. In the fourth quarter of 2023/24 the internal treasury team outperformed its benchmark by 0.31%. The investment return was 5.50% compared to the benchmark of 5.19%. This amounts to additional income of £43,330 during the quarter which is included in the Council’s outturn position in the financial outturn position.
- 8.4. A full list of investments held as at 31 March 2024, compared to Link’s counterparty list, and changes to Fitch, Moody’s and Standard & Poor’s credit ratings are shown within Link’s Monthly Investment Analysis Review at Appendix 1. None of the approved limits within the Annual Investment Strategy were breached during the fourth quarter of 2023/24. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.

- 8.5 As illustrated above it is unlikely that investment rates in the market will increase above the current level of 5.25%. The average level of funds available for investment purposes in the fourth quarter of 2023/24 was £57million.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Council, 2 March 2023 – Treasury Strategy 2023/24

Cabinet, 6 September 2023 – Treasury Management Update Quarter 1 2023/24

Cabinet, 22 November 2023 – Treasury Management Update Quarter 2 2023/24

Cabinet, 21 February 2024 – Treasury Management Update Quarter 3 2023/24

Local Member: N/A

Appendices

- A. Shropshire Council Monthly Investment Analysis Review as at 31 March 2024 (provided by Link Group)
- B. Prudential Indicators for Quarter 4 2023/24
- C. Prudential Borrowing Schedule
- D. Economic Background and Borrowing Update