

**Committee and Date**Cabinet
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Item

Public



Treasury Management Update Quarter 1 2024/25

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Cabinet Member (Portfolio Holder):	Cllr Gwilym Butler, Finance, Corporate Resources and Communities		

1. Synopsis

The Council currently holds £20.9m in investments and £311m of borrowing. This report shows the return on those investments over quarter 1, the economic outlook for the next 3 years and confirms activities align with the Council approved Treasury Management Strategy.

2. Executive Summary

- 2.1. The report outlines the treasury management activities of the Council in the first quarter of 2024/25. It highlights the economic environment in which treasury management decisions have been made and the interest rate forecasts of the Council's Treasury Advisor, Link Asset Services. It also updates Members on the internal treasury team's performance.
- 2.2. During Quarter 1 the finance team achieved a gross return of 5.12% on the Council's cash balances which was lower than the benchmark by 0.09%. This was due to short term funds being secured from another authority at a cost which offset returns achieved during the month. The returns amount to additional income of £0.508m during the quarter which is included within the Council's outturn position in the Financial Monitoring Report. Further details on this are provided in paragraph 8.4 of the report. The Monetary Policy Committee (MPC) held the Bank Rate to 5.25% in June 2024. The Bank Rate is expected to decrease later in the year if

inflation forecasts can remain low. The latest forecasts as at 28th May are included in the table below.

- 2.3. An overview of the general economic position is included as Appendix A, and with further detail in Appendix D. Decisions on Council investment activity are influenced by this wider context.
- 2.4. The council had £20.9m invested at the end of the period, as set out in Appendix A. This reflects a gradual reduction in the overall investment balance over previous periods. In the last financial year internal borrowing was around £152.6m, meaning that borrowing which otherwise would have been external could be funded internally, thereby saving significant costs for the authority over the years. During 2024/25, the Council will be re-addressing this position and now looking to secure external borrowing rather than using internal borrowing against our cash balances.
- 2.5. Taking the likely need to borrow before the end of the calendar year and current expectations of future Bank Rates, the Council will profile borrowing decisions in a way which secures the best value, in line with specialist advice, while still ensuring sufficient cashflow liquidity to manage day-to-day operations.
- 2.6. Under the CIPFA Treasury Management Code, it is best practice to provide quarterly Treasury Management updates. This report demonstrates compliance with that best practice.

3. Recommendations

- 3.1. Members are asked to review the position as set out in the report
 - 3.1.1. Noting the summary of the wider economic environment and the Council's borrowings and investments set out in Appendix A
 - 3.1.2. Noting the performance within prudential indicators for quarter 1, 2024/25 (Appendix B)

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>
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 1 performance is slightly below the benchmark and has delivered net income of £0.508m. Further details on the performance against benchmark are detailed in paragraph 8.3.

5.3. As at 30 June 2024 the Council held £20.9million in investments as detailed in Appendix A and borrowing of £311million at fixed interest rates. The level of investments has fallen by £48.3m in the last 12 months, demonstrating the impact of spending and income not being aligned on a sustainable basis. 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 last 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 direct scope 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 April 2024 and 30 June 2024.

7.2. For wider context and consideration of the global financial outlook, an economic and borrowing update for the first 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 1 however it is anticipated that the rate will reduce later in the year.

Link Group Interest Rate View	28.05.24											
	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	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	5.30	5.00	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	5.30	4.90	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	5.10	4.80	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

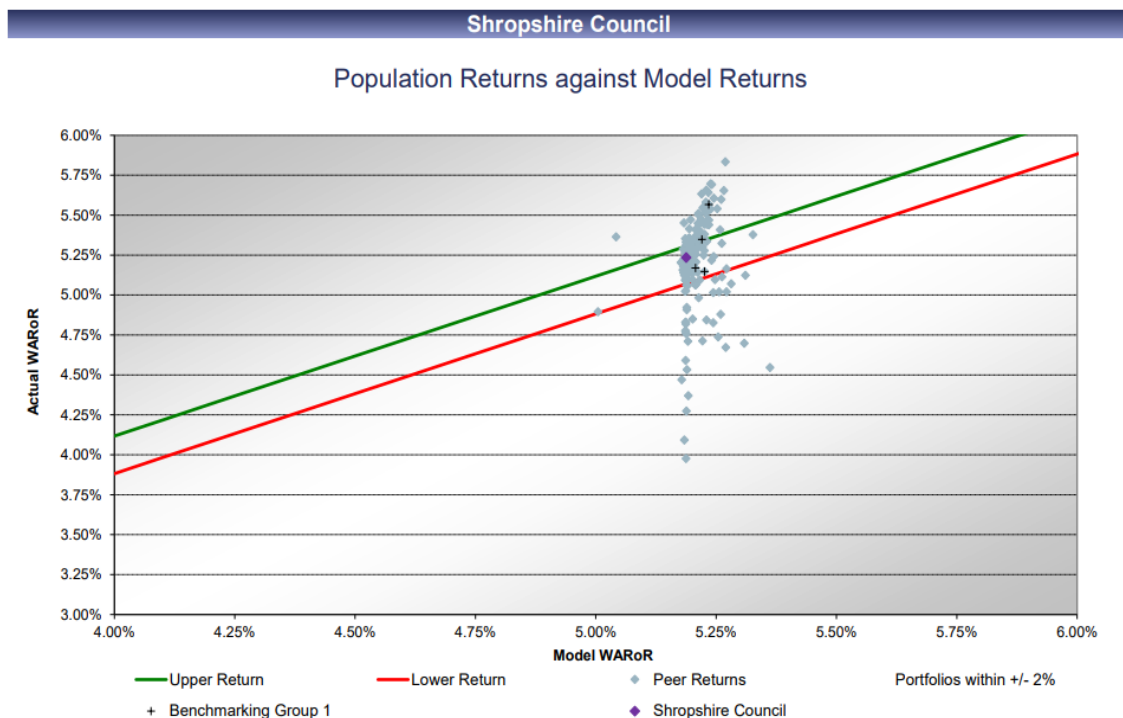
8.2. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate, it is considered appropriate to:

- 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 first quarter of 2024/25 the internal finance team’s return achieved was marginally lower than its benchmark by 0.06%. The gross investment return was 5.14% compared to the benchmark of 5.20%. As cash balances held are lower than in previous years, the Council need to ensure cash balances are highly liquid, resulting in lower interest rates on short term deals. Whilst returns on investment are important, as we strive to achieve the best investment we can, the Council’s priority is always to ensure security of funds and ensure we hold sufficient liquid balances. With this in mind, this will often mean that we cannot secure the higher rate investments as these are offered to longer term deals. The Council does receive benchmarking analysis of its investments in relation to its comparative group and throughout the first quarter of 2024/15, its performance on investment were considered in line with the other organisations.

Figure 1: Benchmarking analysis of investment returns



8.4. It should be noted that at the end of June, short term funds were secured for a week over the end of the month in order to manage cashflow, which resulted in a £0.002m interest cost being incurred. The net investment income achieved during the first quarter was £0.508m which is included in the Council’s outturn position in the financial outturn position.

8.5. A full list of investments held as at 30 June 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 first quarter of 2024/25. 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.

8.6. 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 first quarter of 2024/25 was £39.7million.

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

Council, 29 February 2024 – Treasury Strategy 2024/25

Local Member: N/A

Appendices [Please list the titles of Appendices]

- A. Shropshire Council Monthly Investment Analysis Review as at 30 June 2024 (provided by Link Group)
- B. Prudential Indicators for Quarter 1 2024/25
- C. Prudential Borrowing Approvals
- D. Economic Background and Borrowing Update