

**Committee and Date**Cabinet
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Item

Public



Treasury Management Update Quarter 2 2024/25

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1. Synopsis

The Council currently holds £22m in investments and £311m of borrowing. This report shows the return on those investments over quarter 2, the economic outlook for the next 3 years and confirms activities align 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 second 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 2 the internal treasury team achieved a return of 5.11% on the Council's cash balances, which was marginally lower than the benchmark by 0.01%. The returns amount to net income of £1.059m during the quarter which is included within the Council's outturn position in the Financial Monitoring Report. The Monetary Policy Committee (MPC) reduced the Bank Rate to 5.00% in August 2024 and held it at this level for its September meeting. A further rate cut is

anticipated in the third quarter of 2024/25.

- 2.3. Under the CIPFA Treasury Management Code, it is best practice to provide quarterly Treasury Management updates.

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 2, 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.

5. Financial Implications

- 5.1. Shropshire Council is currently managing an unprecedented financial position as budgeted for within the Medium Term Financial Strategy approved by Council on 29 February 2024 and detailed in our monitoring position presented to Cabinet on a monthly basis. This demonstrates that significant management action is required over the remainder of the financial year to ensure the Council's financial survival. While all Cabinet Reports provide the financial implications of decisions being taken, this may change as officers review the overall financial situation and make decisions aligned to financial survivability. Where non-essential spend is identified within the Council, this will be reduced. This may involve
 - scaling down initiatives,
 - changing the scope,

- delaying implementation, or
- extending delivery timescales.

- 5.2. 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.
- 5.3. The Quarter 2 performance is slightly below the benchmark and has delivered net income of £1.059m. Further details on the performance against benchmark are detailed in paragraph 8.3.
- 5.4. As at 30 September 2024 the Council held £22 million in investments as detailed in Appendix A and borrowing of £311 million at fixed interest rates. The ability to secure fixed rates helps to manage the uncertainty and risk of changes to interest rates.

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 September 2024.
- 7.2. For wider context and consideration of the global financial outlook, an economic and borrowing update for the second 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 reduced from 5.25% to 5.00% in August, however it is anticipated that the rate will reduce later in the year.

Link Group Interest Rate View	28.05.24									
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

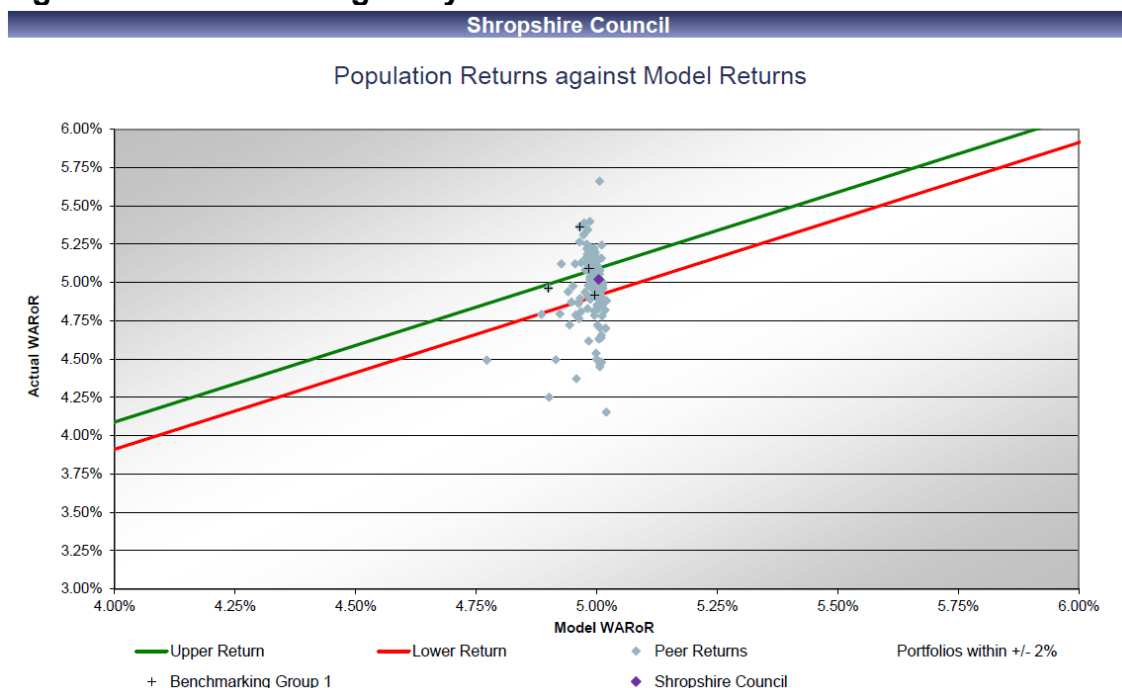
8.2. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate, it is considered appropriate to:

- 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 second quarter of 2024/25 the internal finance team’s return achieved was marginally lower than its benchmark by 0.01%. The gross investment return was 5.11% compared to the benchmark of 5.12%. 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 second quarter of 2024/25, 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 £0.003m interest cost being incurred. The net investment income achieved during the second quarter was £1.059m which is included in the Council's financial outturn position.
- 8.5. A full list of investments held as at 30 September 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 second 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 5.00%. The average level of funds available for investment purposes in the second quarter of 2024/25 was £41.5million.

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

Cabinet, 11 September 2024 – Treasury Management Update Quarter 1 2024/25

Local Member: N/A

Appendices [Please list the titles of Appendices]

- A. Shropshire Council Monthly Investment Analysis Review as at 30 September 2024 (provided by Link Group)
- B. Prudential Indicators for Quarter 2 2024/25
- C. Prudential Borrowing Approvals
- D. Economic Background and Borrowing Update