



Committee and Date

Cabinet
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Item

Public



Treasury Management Update Quarter 3 2024/25

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

1. Synopsis

The Council currently holds £25.5m in investments and £336m of borrowing. This report shows the return on those investments over quarter 3, 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 third 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 group. It also updates Members on the internal treasury team’s performance.

2.2. During Quarter 3 the internal treasury team achieved a return of 4.8% on the Council’s cash balances, which was marginally lower than the benchmark by 0.2%. The returns amount to net income of £1.505m achieved as at quarter 3 which is included within the Council’s outturn position in the Financial Monitoring Report. Further details on this are provided in paragraphs 9.2 and 9.3 of the report. The Monetary Policy Committee (MPC) reduced the Bank Rate by 0.25% to 4.75% in November 2024 and held at this level in December 2024. It is widely anticipated that this will reduce again in the first half of 2025.

- 2.3. Reducing returns on cash balances is directly attributable to the overall reduction in available balances. As a result, the Council has undertaken new borrowing of £25m during Quarter 3 and is planning to undertake further borrowing during the final quarter of 2024/25. This will reduce the amount of internal borrowing that the Council holds, which the Council has held in preference to external borrowing whilst cash balances were higher to minimise the cost of interest on external borrowing.
- 2.4. 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 –
 - a) Note that new borrowing of £25m has been taken out during quarter 3, in line with the Treasury Management Strategy 2024/25. This is part of the replacement of internal borrowing (using internal balances) with external borrowing (as internal balances have been reduced).
 - b) Noting the summary of the wider economic environment and the Council's borrowings and investments set out in Appendix A
 - c) Noting the performance within prudential indicators for quarter 3, 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 3 performance is slightly below the benchmark however net income of £1.505m has been achieved on investments during 2024.25. Further details on the performance against benchmark are detailed in paragraph 8.
- 5.4. As at 31 December 2024 the Council held £25.5 million in investments as detailed in Appendix A and borrowing of £336 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 Treasury Team is working with the Council in order 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 April 2024 and 31 December 2024.

- 7.2. The council had £25.5m invested at the end of the third quarter period, as set out in Appendix A. This is a reduction in the overall investment balance over previous periods and reflects the gradual application of reserves in line with budget plans across recent years. During the period of comparatively high cash balances, the council has benefited from the ability to fund borrowing internally ('internal borrowing') rather than needing to secure external borrowing (via PWLB).
- 7.3. For wider context and consideration of the global financial outlook, an economic and borrowing update for the third quarter of 2024/25 is attached in Appendix D.

8. Economic Forecast

- 8.1. The Council receives its treasury advice from Link Group. Their latest interest rate forecasts to 31 December 2027 are shown below. The Bank Rate was reduced by 0.25% to 4.75% in November 2024 by the MPC. It is anticipated that further reductions in the bank rate will materialise in the first six months of 2025. The table below demonstrates the latest forecasts of interest rates over the next 3 years which will impact on future investment returns and the consequent benchmark.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

9. Treasury Management Strategy

- 9.1. The Treasury Management Strategy (TMS) for 2024/25 was approved by Full Council on 29 February 2024 and the Treasury Management Strategy for 2025/26 will be presented to Council on 27 February 2025. The Council's Annual Investment Strategy, which is incorporated in the TMS, outlines the Council's investment priorities as the security and liquidity of its capital.
- 9.2. 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 Treasury Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations.
- 9.3. In the third quarter of 2024/25 the internal treasury team achieved a return of 4.8% on the Council's cash balances, which was marginally lower than the benchmark by 0.2%. 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 third quarter of 2024/25, its performance on investment were considered in line with the other organisations.

- 9.4. It should be noted that at the end of October and December, short term funds were secured for a week over the end of the month in order to manage cashflow, which resulted in a £0.022m interest cost being incurred. The returns on cash balances held amount to net income of £1.505m for the 2024/25 financial year which is included in the Council's outturn position in the Financial Monitoring Report.
- 9.5. At present, the Council is using internal borrowing at a level around £100m. Assuming a borrowing rate of 5%, the level of saving per year is around £5m.
- 9.6. However, the reducing level of balances means that it is no longer possible to internally borrow through the MTFS period. Therefore, in November new borrowing of £25m was initially committed to, on a short term basis given that interest rates are anticipated to reduce in the next 2 years. It is anticipated that further external borrowing will be required in the final quarter of 2024/25 and again in 2025/26. The planned borrowing for 2025/26 will be set out in the Treasury Management Strategy for 2025/26. This will not have an adverse impact on the revenue budget position as the necessary levels of budget provision have already been set aside (as part of the Minimum Revenue Provision or 'MRP' budgets).
- 9.7. A full list of investments held as at 31 December 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 A. None of the approved limits within the Annual Investment Strategy were breached during the third 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.
- 9.8. As illustrated above it is unlikely that investment rates in the market will increase above the current level of 4.75%. The average level of funds available for investment purposes in the third quarter of 2024/25 was £37.2 million.

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

Cabinet, 4 December 2024 – Treasury Management Update Quarter 2 2024/25

Local Member: N/A

Appendices [Please list the titles of Appendices]

- A. Shropshire Council Monthly Investment Analysis Review as at 31 December 2024
(provided by Link Group)
 - B. Prudential Indicators for Quarter 3 2023/24
 - C. Prudential Borrowing Schedule
 - D. Economic Background and Borrowing Update
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