

**Committee and Date**Cabinet
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Item

Public



Treasury Management Update Quarter 4 2024/25

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1. Synopsis

The Council currently holds £50.6m investments and £420m of borrowing including new borrowing of £101.9m for the General Fund and £19.2m for the Housing Revenue Account. This is aligned with the Council approved Mid-Year Treasury Strategy update and prudential indicators.

2. Executive Summary

- 2.1. The report outlines the treasury management activities of the Council in the fourth quarter of 2024/25. 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 4.44% on the Council's cash balances, which was marginally lower than the benchmark by 0.4%. The returns amount to net income of £1.956m for the financial year which is included within the Council's Financial Outturn Report. Further details on this are provided in paragraph 8.3 of the report. The Monetary Policy Committee (MPC) reduced the Bank Rate by 0.25% to 4.50% in March 2025. It is widely anticipated that this will reduce again during 2026.
- 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 £101.9m for the General Fund during Quarter 4, and £19.2m of new borrowing for

the HRA. Further details on the borrowing undertaken is provided in paragraph 8.4, but it should be noted that the new borrowing included £26.9m relating to the capitalisation direction awarded by the Government during 2024/25. This has reduced 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.

3. Recommendations

3.1. Members are asked to review the position as set out in the report –

- a) Note that new borrowing of £101.9m for the General Fund and £19.2m for the HRA has been taken out during quarter 4, 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 reduce).
- 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 4, 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	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. The Council uses a treasury advisor, MUFG Corporate Markets/Link Asset Services to provide a creditworthiness service of all potential investment counterparties, which is continuously monitored and updated as needed
Managing liquidity	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 daily and continuously updated to ensure appropriate liquidity to match this profile.
Achievement of investment benchmark	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. The availability of cash for investing has also become a key factor, especially in a period where reserves and hence cash balances have reduced. During the months of February and March the Council does not collect Council Tax and so cash balances reduce during these months. 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 security and liquidity of funds in preference to investment returns.

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 slightly below the benchmark however net income of £1.956m has been achieved on investments during 2024/25. Further details on the performance against benchmark are included in paragraph 8.

5.3. As at 31 March 2025 the Council held £50.6million in investments as detailed in Appendix A and borrowing of £420million 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 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 2025 and 31 March 2025.

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 MUFG Corporate Markets (previously known as Link Asset Services). Their latest interest rate forecasts to 31 March 2027 are shown below. The Bank Rate reduced to 4.5% in March 2025 however further rate reductions are anticipated during 2025/26.

MUFG Corporate Markets Interest Rate View 10.02.25													
	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28
BANK RATE	4.50	4.25	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.50	4.30	4.30	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.50	3.50	3.50
6 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.50
12 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.60
5 yr PWLB	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.40	4.30	4.20	4.20	4.10	4.00
10 yr PWLB	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.50	4.50	4.40	4.40
25 yr PWLB	5.80	5.70	5.60	5.50	5.40	5.30	5.20	5.10	5.00	5.00	4.90	4.90	4.80
50 yr PWLB	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.60	4.50

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 2024/25 the internal treasury team achieved a return of 4.4% on the Council's cash balances, which was marginally lower than the benchmark by 0.4%. As cash balances held remained low during the quarter, 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. 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 fourth quarter of 2024/25, its performance on investment were considered in line with the other organisations.
- 8.4. As at the start of 2024/25, the Council had been using internal borrowing at a level around £150m. Assuming a borrowing rate of 5%, the level of saving per year is around £7m. However, the reducing level of balances means that it is no longer possible to internally borrow through the MTFS period. Therefore, new borrowing of £101.9m relating to the General Fund and £19.2m for the HRA has been carried out in the last quarter of the financial year. The General Fund included £36m of borrowing relating to short term loans maturing during the year, and £26.9m relating to the capitalisation direction as approved by the Government for 2024/25. In total, £58.2m related to new borrowing required for the capital programme in 2024/25 or to replace internal borrowing. It is anticipated that further external borrowing will be required during 2025/26.
- 8.5. A full list of investments held as at 31 March 2025, 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 2024/25. Officers continue to monitor the credit ratings of institutions daily. 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 4.50%. The average level of funds available for investment purposes in the fourth quarter of 2024/25 was £40.5million.

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

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

Council, 12 December 2024 – Treasury Strategy 2024/25 Mid-Year Review

Cabinet, 12 February 2025 – Treasury Management Update Quarter 3 2024/25

Local Member: N/A

Appendices [Please list the titles of Appendices]

A. Shropshire Council Monthly Investment Analysis Review as at 31 March 2025 (provided by MUFG Corporate Markets)

B. Prudential Indicators for Quarter 4 2024/25

C. Prudential Borrowing Schedule

D. Economic Background and Borrowing Update