

Treasury Management Monitoring Q1 2024/25

Purpose

As required by the CIPFA 2021 Prudential and Treasury Management Codes, Cabinet are required to receive quarterly updates on the Treasury activities of the Council. This report meets those requirements.

Executive Summary

This report focuses on the treasury debt and investment activity of the Council and therefore excludes capital expenditure, as this is reported separately, and other long term liabilities as these are instruments for specific capital financing and do not impact on the day to day treasury portfolio.

The key movements in the debt and investment portfolios are summarised below with additional detail throughout this report.

	31 Mar 24	30 Jun 24
	£m	£m
Debt Portfolio		
General Fund	129.775	116.343
HRA	307.530	307.53
Total	437.305	423.873
Investments	38.815	58.653
Net Debt (Treasury)	398.490	365.220

The Executive Director of Finance and Transformation can confirm that there have been no breaches of the approved treasury and prudential indicators and all deposits have been placed in accordance with the approved counterparty selection criteria.

Recommendations

That Cabinet note the contents of this treasury monitoring report.

1. Investment Portfolio

- 1.1. The investment balances at end June 2024 were £58.7m, an increase compared to the end of the previous financial year. This movement is in-line with cash flow forecasts.

1.2. A summary of the treasury activity and portfolio by investment type at 30th June is summarised in the tables below:

Investment Portfolio Movements	Cash Manager (Bank)	Money Market Funds	Other Variable Rate Deposits	Fixed Interest	Total Invested	Portfolio Yield at Qtr End
	£m	£m	£m	£m	£m	%
31 Mar 2024	0.615	33.200	-	5.000	38.815	5.29%
Q1 Activity						
Withdrawals/ Maturities	(3.280)	(184.298)		(5.000)		
New Deposits	3.816	203.601	-	5.000		
30 Jun 2024	1.151	52.503	-	5.000	58.654	5.21%
Portfolio as at 30 June 2024			Average year to date			
	Investment	Yield	Average Investment	Average Yield		
	£m	%	£m	%		
MMFs	52.503	5.25%	66.136	5.22%		
Cash Mgr	1.151	3.25%	0.643	3.25%		
Fixed Interest (Short [365 days or less])	5.000	5.30%	2.912	5.43%		
Grand Total	58.653	5.21%	69.691	5.21%		

1.3. During the first quarter of the financial year the £5m fixed term deposit matured (6 month with UK bank at 5.62%). This was replaced with a £5m fixed term deposit for 3 months with a Local Authority at 5.30%. The remainder of the portfolio was managed within the Money Market Funds and general bank account.

1.4. The comparable benchmark (overnight SONIA) was 5.20% as at end June 2024 and therefore the performance achieved by the Treasury Services team is in-line with the target with returns being 5.21% as at the end of the first quarter on average investment balances of £69.7m.

1.5. The expectation was for the Bank Rate to be reduced in the first quarter and as the Monetary Policy Committee have held off making that decision, interest rates remained inflated in the first quarter. This is generating a forecast surplus of investment income compared to the budget which is reflected in the monitoring report.

1.6. The majority of the Council's investment portfolio is held in Money Market Funds and these are proactively managed to ensure that sufficient liquid resources are available to service day to day expenditure commitments such as salaries, general creditor payments and housing benefit payments.

1.7. The approved counterparty selection criteria as approved by Council in February 2024 remains fit for purpose and no proposed amendments are therefore required.

2. Debt Portfolio

2.1. The Council's debt portfolio is mostly long dated fixed rate loans from PWLB or other markets. A small proportion of the debt portfolio consists of loans

from other local authorities which assist with short term debt management and cash flow requirements.

2.2. Another element of the debt portfolio consists of amounts deposited with the Council from the Fire Authority, Sandwell Leisure Trust and Children's Trust. These are at agreed variable rate terms in line with either actual Council treasury investment performance or Bank Rate as published by Bank of England. These amounts are held as liquid as they are repayable on demand as and when required.

2.3. The Council's loan portfolio has been split between the General Fund and Housing Revenue Account since 2012 when HRA Self Financing was introduced. The following table summarises the movements in the debt portfolios in the financial year:

	General Fund			HRA			Grand Total
	Fixed Rate	Variable Rate	Total GF	Fixed Rate	Variable Rate	Total HRA	
	£m	£m	£m	£m	£m	£m	
31 Mar 24	87.954	41.821	129.775	307.530	-	307.530	437.305
Q1 Activity							
Fixed Rate Maturities	(15.297)			-			
New Fixed Rate Loans	-			-			
Net Movement in Variable Rate Loans		1.865			-		
30 Jun 24	72.657	43.686	116.343	307.530	-	307.530	423.873

- Activity in the final quarter included:
 - £15m of short-term fixed rate debt from other Local Authorities matured plus £297k of interest free borrowings.

2.4. The effect on the average interest rate on the fixed interest debt portfolio from the movements highlighted above is shown in the following table:

	31 Mar 24		30 Jun 24	
	Principal £m	Avg Rate	Principal £m	Avg Rate
Fixed Rate Debt				
General Fund	87.954	4.79%	72.657	4.73%
HRA	307.530	4.84%	307.530	4.84%
Total	395.484	4.83%	380.187	4.82%

2.5. The maturity of short-term borrowings has reduced the average interest rate paid on General Fund debt. At the present time new borrowing rates are significantly greater than our targeted borrowing rate and therefore no new debt has been taken from the markets or PWLB. During the financial year there will be a requirement to take new borrowings to replace the maturing debt and to fund the capital programme.

2.6. The current strategy will remain to only take short-dated debt due to market conditions and to refinance for longer periods at the appropriate time to

prevent longer term cost burden on the council's revenue budgets.

3. Prudential Borrowing Indicators

3.1. The key prudential indicators in relation to the Council's borrowing are detailed below:

	£m
Authorised Limit (Debt)	931.842
Operational Boundary (Debt)	594.282
Maximum Treasury Debt to 30 Jun 24	442.549
Average Treasury Debt to 30 Jun 24	431.745

Note: The authorised limit and operational boundary shown above are for debt levels only and exclude other long term liabilities (as detailed in the Treasury Management Strategy Report) as these are PFI/ Finance Lease arrangements.

3.2. As can be seen from the table above, treasury debt levels are within the Authorised Limit (the Council's statutory limit of debt holdings) and no breaches have occurred.