

## Treasury Management Monitoring Q2 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 balances in the debt and investment portfolios are summarised below with additional detail throughout this report.

	<b>31 Mar 2024</b>	<b>30 Jun 2024</b>	<b>30 Sep 2024</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Debt Portfolio</b>			
General Fund	129.775	116.343	136.799
HRA	307.530	307.530	307.530
<b>Total</b>	<b>437.305</b>	<b>423.873</b>	<b>444.329</b>
<b>Investments</b>	<b>38.815</b>	<b>58.651</b>	<b>63.910</b>
<b>Net Debt (Treasury)</b>	<b>398.490</b>	<b>365.222</b>	<b>380.419</b>

The Executive Director for 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 September 2024 were £63.9m, a slight increase compared to the end of the previous quarter. This movement is in-line with cash flow forecasts with balances expected to increase further during the third quarter of the financial year before falling back to a forecast balance of £30m by the end of March 2025.

1.2. A summary of the treasury activity and portfolio by investment type at 30<sup>th</sup> September is summarised in the tables below:

Investment Portfolio Movements	Cash Manager (Bank) £m	Money Market Funds £m	Other Variable Rate Deposits £m	Fixed Interest £m	Total Invested £m	Portfolio Yield at Qtr End %
31 Mar 2024	0.615	33.200	-	5.000	38.815	5.29%
<b>Q1 Activity</b>						
Withdrawals/ Maturities	(3.280)	(184.298)		(5.000)		
New Deposits	3.816	203.598	-	5.000		
30 Jun 2024	1.151	52.500	-	5.000	58.651	5.21%
<b>Q2 Activity</b>						
Withdrawals/ Maturities	(12.144)	(198.623)		(5.000)		
New Deposits	11.703	204.323	-	5.000		
30 Sep 2024	0.710	58.200	-	5.000	63.910	4.99%

Portfolio as at 30 September 2024	Average year to date	
	Average Investment £m	Average Yield %
MMFs	58.200	5.01%
Cash Mgr	0.710	3.00%
Fixed Interest (Short [365 days or less])	5.000	4.95%
<b>Grand Total</b>	<b>63.910</b>	<b>4.99%</b>

1.3. During the second quarter of the financial year the £5m fixed term deposit matured (3 month deposit with UK Local Authority at 5.30%). This was renewed for a further 3 months with the same Local Authority at 4.95%. The remainder of the portfolio was managed within the Money Market Funds and general bank account.

1.4. The comparable benchmark (overnight SONIA) was 5.12% as at end September 2024 and therefore the performance achieved by the Treasury Services team is in-line with the target with returns being 5.14% as at the end of the second quarter on average investment balances of £81.416m.

1.5. 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.

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

1.7. The Bank of England's Monetary Policy Committee (MPC) held the Bank Rate at 5.25% until the August meeting of the committee where there was a 5-4 vote for the rate to be cut to 5.00%. However, subsequent speeches

from MPC members have supported the Governer's tone with the emphasis on gradual reductions to the Bank Rate over time.

1.8. The markets thought there may be an outside chance of a further reduction in September with investment rates pricing in such a cut, however this came to nothing.

1.9. Nonetheless, November still looks most likely for the next rate cut to 4.75% but thereafter, inflation and employment data releases are likely to be the determinant for what happens for the remainder of the year.

## 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	£m
<b>31 Mar 24</b>	<b>87.954</b>	<b>41.821</b>	<b>129.775</b>	<b>307.530</b>	<b>-</b>	<b>307.530</b>	<b>437.305</b>
<b>Q1 Activity</b>							
Fixed Rate Maturities	(15.297)			-			
New Fixed Rate Loans	-			-			
Net Movement in Variable Rate Loans		1.865			-		
<b>30 Jun 24</b>	<b>72.657</b>	<b>43.686</b>	<b>116.343</b>	<b>307.530</b>	<b>-</b>	<b>307.530</b>	<b>423.873</b>
<b>Q2 Activity</b>							
Fixed Rate Maturities	(8.080)			-			
New Fixed Rate Loans	-			-			
Net Movement in Variable Rate Loans		28.536			-		
<b>30 Sep 24</b>	<b>64.577</b>	<b>72.222</b>	<b>136.799</b>	<b>307.530</b>	<b>-</b>	<b>307.530</b>	<b>444.329</b>

- Activity in the second quarter included:
  - Maturity of a £7m 10 year fixed rate loan from the PWLB plus £1m repayment of debt from other Local Authorities.

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 Sep 24	
	Principal £m	Avg Rate	Principal £m	Avg Rate
<b>Fixed Rate Debt</b>				
General Fund	87.954	4.79%	64.577	4.88%
HRA	307.530	4.84%	307.530	4.84%
<b>Total</b>	<b>395.484</b>	<b>4.83%</b>	<b>372.107</b>	<b>4.85%</b>

2.5. The maturity of borrowings on the General Fund has increased the average interest rate paid on General Fund debt although it should be noted that this is on a smaller portfolio of debt holdings. Interest rates are currently being closely monitored as there will be a requirement to take new borrowings during the third and final quarter of the financial year to replace debt that has matured, funding of the current capital programme but also to ensure cash-flows can be effectively managed.

2.6. The current strategy will remain to only take short-dated debt (up to 5 years) 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 Sep 24	459.385
Average Treasury Debt to 30 Sep 24	434.965

*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.