



<u>Committee and Date</u>	<u>Item</u>
Audit Committee 24 November 2022	
Cabinet 14 December 2022	
Council 15 December 2022	<u>Public</u>

TREASURY STRATEGY 2022/23 – MID YEAR REVIEW

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1. Synopsis

In-year benefits of £3.9m have been realised through active management of Council treasury activity. No new external borrowing has been entered into and so as at 30 September 2022, the Council held £143m in investments and had £292m of borrowing. The report confirms compliance with Treasury and Prudential limits agreed by Full Council.

2. Executive Summary

2.1. This mid-year Treasury Strategy report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management 2017 and covers the following:-

- An economic update for the first six months of 2022/23
- A review of the Treasury Strategy 2022/23 and Annual Investment Strategy
- A review of the Council's investment portfolio for 2022/23
- A review of the Council's borrowing strategy for 2022/23
- A review of any debt rescheduling taken
- A review of compliance with Treasury and Prudential limits for 2022/23

3. Recommendations

3.1. Members are asked to agree the Treasury Strategy updates as set out in the report.

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 4.2. There are no direct environmental, equalities or climate change consequences arising from this report.
- 4.3. 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.
- 4.4. The Council's Audit Committee is the committee responsible for ensuring effective consideration of the Council's Treasury Management Strategy and policies.

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 2022/23 six-month performance is above benchmark and has delivered additional income of £52,270.
- 5.3. In-year (2022/23) benefits have been realised of £3.9m, made up of £1.0m (MRP), £0.3m (borrowing costs), and £0.5m (interest payable), and £2.1m interest receivable. Further details are set out from para 10.7 (below).

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 the activities, and the pursuit of optimum performance consistent with those risks”. Broadly, cash received by the Council raised during the year will meet its cash expenditure. Treasury Management operations ensure this cash flow is planned and managed. Temporary surplus balances are invested in low-risk counterparties (providing security), ensuring cash availability (liquidity), and only considering investment return (yield) last.
- 7.2. Cash flow management covers in-year (revenue) costs as well as the funding of the Council’s long term (capital) plans. Capital plans provide a guide to the future borrowing need of the Council and may involve arranging long or short-term borrowing. Occasionally existing debt may be restructured as opportunities allow.
- 7.3. In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities are required to prepare a Capital Strategy which is intended to provide the following: -
- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - An overview of how associated risk is managed
 - The implications for future financial sustainability
- 7.4. A report setting out the Council’s Capital Strategy was taken to full Council in February 2022. The report informs Members of the treasury activities of the Council for the first six months of the financial year.
- 7.5. To secure specialist advice on long term borrowing and investment, the Council works with Link Asset Services, who provide the detailed analysis set out in this report.

8. Economic Update and Forecast

- 8.1. Since the Council’s Treasury and Capital strategies were agreed in February 2022, there has been considerable change in terms of the economic environment. Inflation rates have increased further than

previously anticipated, and bank base rates have also increased.

8.2. At the time of writing, the Chancellor is preparing the Autumn Statement, which is expected to bring further details of tax increases and spending cuts. These will continue to inform treasury and capital strategy decisions for some time to come. A detailed commentary can be found in Appendix D.

8.3. Link Asset Services forecast interest rates over the next 36 months. Their latest interest rate forecasts were updated 8 November and are shown below.

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

9. Treasury Strategy update

9.1. The Treasury Management Strategy (TMS) for 2022/23 was approved by Full Council on 24 February 2022. There are no policy changes or any changes required to the prudential and treasury indicators previously approved. The details in this report update the position in the light of the updated economic position.

10. Annual Investment Strategy

10.1. 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. As shown by interest rate forecasts (above), we are seeing interest rates rise to levels not seen in for several years. As a result, see some increase in interest earned is anticipated. It is also expected that previous investments placed when rates were at low will now mature and be replaced with higher interest deposits.

10.2. In the current economic climate, it is considered appropriate to keep investments short term (up to 1 year), and only invest with highly rated financial institutions using Link's suggested creditworthiness approach. This includes sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Link. The Treasury Team continue to take this prudent approach.

10.3. In the first six months of 2022/23, the internal treasury team outperformed its benchmark by 0.07% (return of 0.98% compared to the benchmark of 0.91%). This generated additional income of £52,270 during the first six months (included in the quarterly

financial report).

- 10.4. A full list of investments held as at 30 September 2022, compared to Link's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown in **Appendix A**.
- 10.5. None of the approved limits within the Annual Investment Strategy were breached during the first six months of 2022/23 or previously. Officers monitor the credit ratings of investment counterparties daily.
- 10.6. Recent investment rates available in the market have increased due to the central bank rate increasing to 3.00% in November 2022. The average level of funds available for investment in the first six months of 2022/23 was £149 million.
- 10.7. The MRP budget is expected to deliver one-off in year savings of (£1.3m). Of this, (£1.000m) is the result of releasing budget held for potential additional MRP costs from new projects. (£0.3m) is as a result of changes in actual borrowing requirements identified during the 2021-22 closedown.
- 10.8. Savings of (£0.513m) are also expected against interest payable budgets, however recent Bank of England base rate increases will have an impact on borrowing rates going forward; i.e. it will be more expensive to borrow for capital purposes. These rates and resulting costs will be monitored on a monthly basis. Discussions will be ongoing around the delivery of the capital programme in terms of the funding requirement, and how it will be financed. The interest payable budget does not include any new external borrowing. The interest payable budget includes the current fixed term debt charges only
- 10.9. The interest receivable budget is expected to deliver, as a minimum, additional income of (£2.138m) due to recent changes in the Bank of England base rate, which has increased from 2.25% to 3.00% in November 2022. Further rate rises are expected later in this financial year, and projections on income will be reviewed on a monthly basis. The current estimates are based on assumptions of the value of investment balances. Financial markets are extremely volatile at the moment due to global inflation, the cost of living crisis, the likelihood of a recession and the ongoing war in Ukraine. Due to all these factors, rate forecasts will be constantly reviewed, due to the continued uncertainty.

11. Borrowing

11.1 Details of the Council's borrowing activity can be found within Appendix D.

12. Cornovii Development Ltd

12.1 Cornovii Development Ltd (CDL) and Shropshire Council have agreed to renegotiate the existing finance and borrowing arrangements for the company, subject to the appropriate approvals. Currently CDL have loan facilities of £14m, £35m and £250k available from Shropshire Council for investment in new housing within Shropshire.

12.2 To ensure CDL have the capacity to deliver a number of key developments which have been recently identified, CDL and Shropshire Council are proposing to collapse the three facilities in to a single £49m funding arrangement.

12.3 A further update will be provided in the Treasury Strategy 2022/23 that goes to full Council in February 2023. Delegated authority has been given to the Executive Director of Resources to finalise the agreement.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Council, 24 February 2022, Treasury Strategy 2022/23.

Council, 24 February 2022, Capital Strategy 22/23 – 26/27

Council, 20 September 2018, Revised Minimum Revenue Provision Statement 2018/19

Cabinet Member:

Gwilym Butler, Portfolio Holder for Resources

Local Member

N/A

Appendices

A. Investment Report as at 30 September 2022

B. Prudential Limits

C. Prudential Borrowing Schedule

D. Economic Update, Forecast and Borrowing