Public Document Pack

Date:	Thursday, 24 November 2022
Time:	10.00 am
Venue:	Shrewsbury/Oswestry Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND
Contact:	Michelle Dulson, Committee Officer Tel: 01743 257719 Email: michelle.dulson@shropshire.gov.uk

AUDIT COMMITTEE

TO FOLLOW REPORT (S)

8 Second line assurance: Treasury Strategy Mid-Year Report 2021/22 (Pages 1 - 26)

The report of the Executive Director of Resources (Section 151 Officer) is attached.

Contact: James Walton (01743) 258915

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Committee and Date	Item
Audit Committee 24 November 2022 Cabinet 14 December 2022 Council 15 December 2022	Public

TREASURY STRATEGY 2022/23 – MID YEAR REVIEW

Responsible Officer James Walton
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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

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Shropshire Council

Monthly Investment Analysis Review

September 2022

Monthly Economic Summary

General Economy

The UK Manufacturing PMI rose to 48.5 in September from 47.3 in the previous month and above market expectations of 47.5. Still, the latest reading pointed to a second consecutive month of contraction in the sector as production continued to fall amid weaker intakes of new business. The UK Services PMI fell to 49.2 in September from 50.9 in August, missing market expectations of 50, flash estimates showed. This marked the first drop in services' activity since February 2021, though the rate of decline was only marginal. This was largely due to the slowdown in sales amid the cost of living crisis and rising economic uncertainty weighing in on activity levels. The UK Composite PMI slipped to 48.4 in September 2022 from 49.6 in August, below expectations of 49. The biggest concern with businesses often included the negative impact of high costs and a weaker economic outlook on client spending and output. The UK Construction PMI edged higher to 49.2 in August of 2022 from 48.9 in July, compared to market forecasts of 48. Although stronger than expected, the reading was a second consecutive month of falling construction output, as customer demand moved closer to stagnation amid cost pressures and economic uncertainty.

The British economy unexpectedly expanded 0.2% on quarter in the Q2 2022, better than initial estimates of a 0.1% contraction. Services rose 0.2%, revised from initial estimates of a 0.4% drop with the largest contributors coming from human health and social work. Meanwhile, production contracted 0.2%, with manufacturing falling 1.1% and mining 1% while electricity and gas, went up 3.9%. The UK trade deficit narrowed to £7.8 billion in July from £11.4 billion in the previous month. It was the smallest trade shortfall since last December, as exports rose by 4.2% (goods sales advanced by 7.2% and exports of services were up 0.6%). Meanwhile, imports fell by 1.6%, as goods purchases declined by 2.3%, mostly from non-EU countries (-4.1%). Conversely, imports of services rose by 0.7%. The Chancellor Kwasi Kwarteng has announced his "Growth Plan" in a Mini-Budget. The Growth Plan sets an ambitious target for annual economic growth of 2.5% and is supported by a range of cuts to both direct and indirect taxes, support for individuals and businesses to tackle increasing energy costs, and measures to encourage and reward investment. The proposed fiscal package and its unfunded nature, which seemed somewhat at odds to the Bank of England's focus on dampening inflation, caused a sharp market reaction in the immediate aftermath of the announcement. This saw Bank Rate expectations through the final two meetings of the year and 2023 ratchet higher, while gilt yields rose significantly.

UK employment went up by 40,000 in the three months to July, the smallest increase in five months, and less than a third of market forecasts of 128,000. Full-time employees and self-employed workers increased while part-time employees decreased. The unemployment rate in the UK fell to 3.6% in the three months to July, the lowest since 1974, from 3.8% in the previous period as the number of people who are no longer looking for work increased. Average weekly earnings including bonuses in the UK increased by 5.5% y/y in the three months to July, above an upwardly revised 5.2% in the three months to June. In addition, regular pay which excludes bonus payment went up 5.2%, after 4.7% rise in the previous period. However, adjusted for inflation, total pay fell 2.6% while regular pay dropped 2.8%, amid a squeeze in UK living standards. UK inflation, as measured by the Consumer Price Index edged lower to 9.9% in August from 10.1% in July, below market forecasts of 10.2%. It is the first time in 11 months inflation eased, with motor fuels prices making the largest downward contribution. The Bank of England's Monetary Policy Committee raised its key interest rate by 50bps to 2.25% during its September 2022 meeting, the 7th consecutive rate hike, and pushing borrowing costs to the highest since 2008. The GfK Consumer Confidence indicator fell to -49 in September from -44 in August, hitting a new record low as British households continued to grapple with the cost of living crisis and wider economic uncertainties. This is evidently shown a fall in retail sales by 1.6% m/m in August, the biggest decline so far this year and following a 0.4% rise in July. In August 2022, initial estimates show that the public sector spent more than it received in taxes and other income. This required it to borrow £11.8 billion, which was £5.8 billion more than the £6.0 billion forecast by the Office for Budget Responsibility (OBR).

The US unemployment rate rose to 3.7% in August, the highest since February and above market expectations of 3.5%. The number of unemployed people increased by 344,000 to 6.01 million, while employment levels went up by 442,000 to 158.73 million. The US economy contracted by an annualised 0.6% on quarter in Q2 2022, matching the second estimate, and confirming the economy technically entered a recession, following a 1.6% drop in Q1. The Federal Reserve raised the Federal Funds Rate by 75 bps to the 3%-3.25% range at its September meeting, the third straight three-quarter point increase and pushing borrowing costs to the highest since 2008. Policymakers also anticipate that ongoing increases in the target range will be appropriate, which was reinforced by Chair Powell at the post-meeting press conference. The Fed's "dot plot", which outlines individual member forecasts, showed interest rates will likely reach 4.4% by December, above 3.4% projected in June, and rise to 4.6% next year.

The Euro Area economy expanded 0.8% on quarter in Q2 2022, higher than a 0.6% rise indicated in the second estimate, and the strongest growth rate in three quarters. Household spending was the main driver of the expansion, prompted by the easing of covid restrictions and the summer tourism season. The annual inflation rate in the Euro Area jumped to 10% in September of 2022 from 9.1% in August. It marks the fifth consecutive month of rising inflation, with prices showing no signs of peaking. In a similar vein, core inflation, which excludes prices of energy, food, alcohol and tobacco, increased to a record high of 4.8% in September from 4.3% in August.

Housing

The Nationwide House Price Index in the UK increased 9.5% y/y in September, slightly less than 10% in August and below market forecasts of 10%. The growth rate came back to single digits for the first time since October last year. The South West region was the strongest performer region once again, while London remained the weakest. Moreover, The Halifax house price index in the United Kingdom rose 11.5% y/y in August of 2022, the lowest level in three months.

Currency

Sterling depreciated against both the US dollar and Euro across August amid the ongoing conflict in Ukraine and surging commodity prices, which raised the prospect of stagflation.

September	Start	End	High	Low
GBP/USD	$1.1601	$1.1395	$1.1640	$1.1159
GBP/EUR	€1.1527	€1.1163	€1.1706	€1.0747

Forecast

The Bank Rate was raised to 2.25% at the Monetary Policy Committee's meeting in September, with both Link Group and Capital Economics now expecting rates to peak at 5.00% by Q1 2023.

Bank Rate	Now	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Link Group	**2.25%**	4.00%	5.00%	5.00%	5.00%	4.50%	4.00%	3.75%	3.25%	3.00%	2.75%	2.75%	2.50%
Capital Economics	**2.25%**	4.25%	5.00%	5.00%	5.00%	5.00%	4.75%	4.25%	3.75%	3.25%			

Shropshire Council

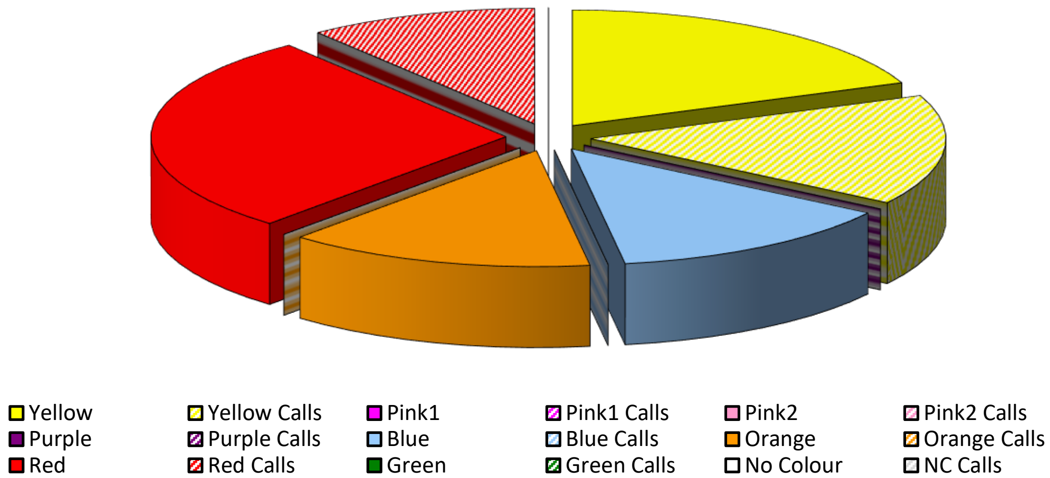
Current Investment List

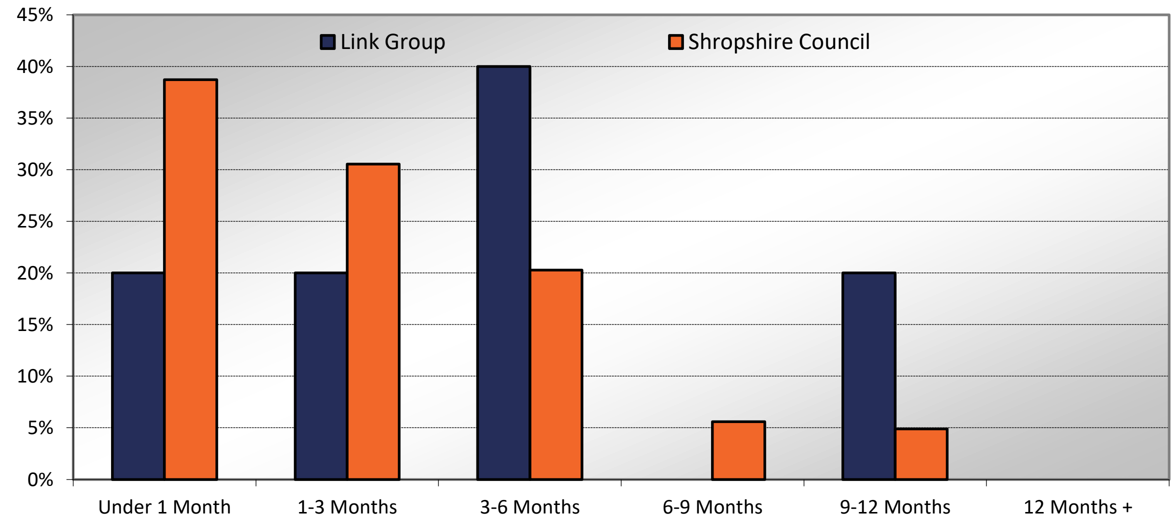
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
Santander UK PLC	15,000,000	1.69%		Call	A	0.000%
MMF Aberdeen Standard Investments	7,000,000	1.54%		MMF	AAAm	
MMF Insight	15,000,000	1.69%		MMF	AAAm	
Highland Council	5,000,000	0.10%	11/10/2021	04/10/2022	AA-	0.000%
DMO	5,000,000	1.87%	15/09/2022	10/10/2022	AA-	0.001%
Barclays Bank UK PLC (RFB)	5,000,000	1.75%	12/08/2022	20/10/2022	A	0.003%
DMO	3,400,000	1.94%	07/09/2022	31/10/2022	AA-	0.002%
Barclays Bank UK PLC (RFB)	1,000,000	1.35%	03/05/2022	03/11/2022	A	0.004%
Highland Council	5,000,000	1.15%	08/03/2022	08/11/2022	AA-	0.002%
DMO	5,000,000	2.15%	15/09/2022	18/11/2022	AA-	0.003%
Barclays Bank UK PLC (RFB)	4,000,000	1.46%	27/05/2022	25/11/2022	A	0.007%
DMO	3,700,000	2.55%	29/09/2022	30/11/2022	AA-	0.004%
Nationwide Building Society	5,000,000	1.35%	07/06/2022	07/12/2022	A	0.009%
HSBC UK Bank Plc (RFB)	5,000,000	0.32%	09/12/2021	08/12/2022	A+	0.009%
Nationwide Building Society	5,000,000	1.48%	10/06/2022	09/12/2022	A	0.009%
Goldman Sachs International Bank	5,000,000	2.10%	11/07/2022	12/12/2022	A+	0.009%
Barclays Bank UK PLC (RFB)	5,000,000	1.83%	15/06/2022	15/12/2022	A	0.010%
HSBC UK Bank Plc (RFB)	5,000,000	0.51%	04/01/2022	03/01/2023	A+	0.012%
Goldman Sachs International Bank	5,000,000	2.80%	18/08/2022	17/01/2023	A+	0.014%
HSBC UK Bank Plc (RFB)	3,000,000	0.66%	26/01/2022	25/01/2023	A+	0.015%
National Westminster Bank Plc (RFB)	5,000,000	0.94%	04/02/2022	25/01/2023	A	0.015%
National Westminster Bank Plc (RFB)	2,000,000	1.00%	18/02/2022	01/02/2023	A	0.016%
HSBC UK Bank Plc (RFB)	4,000,000	1.01%	08/02/2022	07/02/2023	A+	0.016%
Coventry Building Society	2,000,000	2.99%	23/09/2022	23/03/2023	A-	0.022%
Coventry Building Society	3,000,000	3.78%	30/09/2022	30/03/2023	A-	0.023%
HSBC UK Bank Plc (RFB)	1,500,000	1.61%	24/05/2022	23/05/2023	A+	0.030%
National Westminster Bank Plc (RFB)	5,000,000	2.00%	31/05/2022	31/05/2023	A	0.031%
HSBC UK Bank Plc (RFB)	1,500,000	2.18%	14/06/2022	14/06/2023	A+	0.032%
National Westminster Bank Plc (RFB)	5,000,000	3.05%	23/08/2022	18/08/2023	A	0.041%
National Westminster Bank Plc (RFB)	2,000,000	3.80%	20/09/2022	15/09/2023	A	0.044%
Total Investments	**£143,100,000**	**1.68%**				0.011%

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

Shropshire Council

Portfolio Composition by Link Group's Suggested Lending Criteria





Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

Portfolios weighted average risk number = 3.22

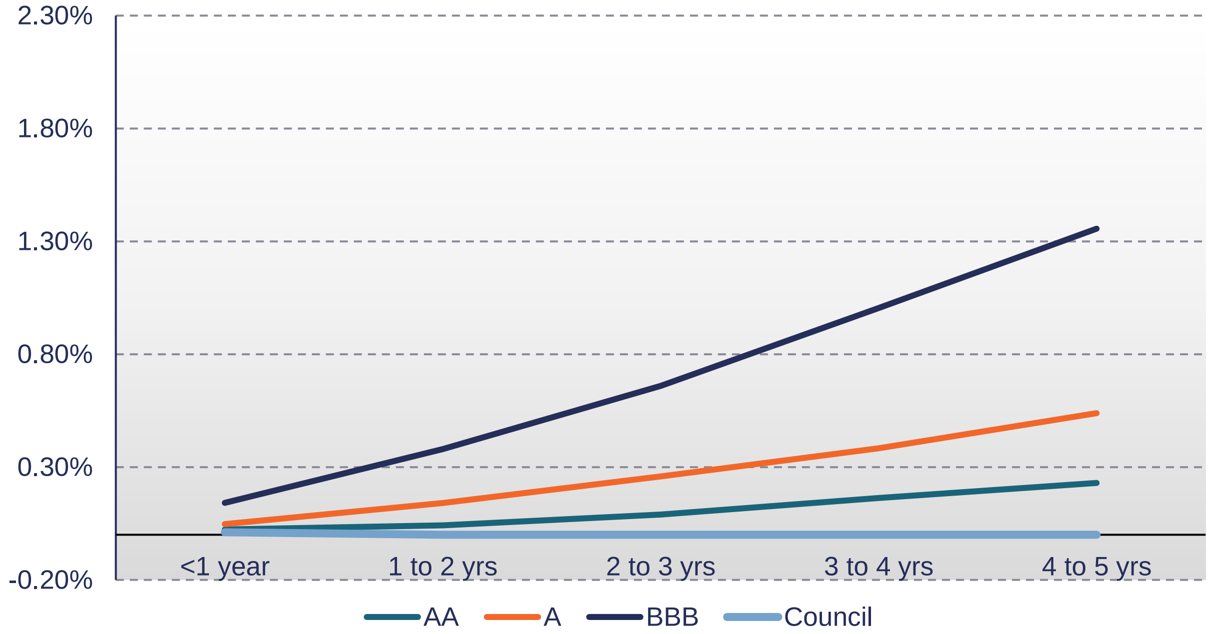
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

									Excluding Calls/MMFs/USDBFs	
	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Yellow	34.31%	£49,100,000	44.81%	£22,000,000	15.37%	1.60%	17	79	31	143
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	13.28%	£19,000,000	0.00%	£0	0.00%	2.08%	229	359	229	359
Orange	13.98%	£20,000,000	0.00%	£0	0.00%	0.79%	121	364	121	364
Red	38.43%	£55,000,000	27.27%	£15,000,000	10.48%	1.93%	59	117	81	161
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£143,100,000**	**25.86%**	**£37,000,000**	**25.86%**	**1.68%**	**76**	**171**	**102**	**230**

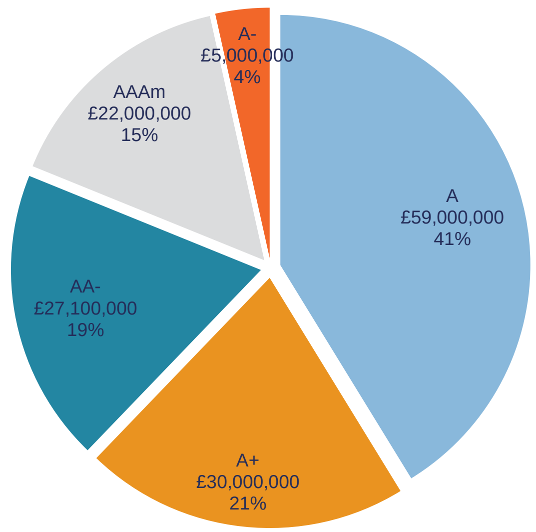
Shropshire Council

Investment Risk and Rating Exposure

Investment Risk Vs. Rating Categories



Rating Exposure



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.09%	0.16%	0.23%
A	0.05%	0.14%	0.26%	0.38%	0.54%
BBB	0.14%	0.38%	0.66%	1.01%	1.36%
Council	0.01%	0.00%	0.00%	0.00%	0.00%

Historic Risk of Default
This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk
This is the authority's risk weightings compared to the average % risk of default for “AA”, “A” and “BBB” rated investments.

Rating Exposures
This pie chart provides a clear view of your investment exposures to particular ratings.

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio’s historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

Shropshire Council

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
23/09/2022	1927	NatWest Markets Plc (NRFB)	United Kingdom	The Long Term Rating was upgraded to 'A1' from 'A2'. At the same time the Outlook on the Long Term rating was changed to Stable from Positive.

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
13/09/2022	1918	UBS AG	Switzerland	The Support Rating was withdrawn
13/09/2022	1921	Societe Generale	Fance	The Support Rating was withdrawn
13/09/2022	1919	Deutsche Bank AG	Germany	The Support Rating was withdrawn
13/09/2022	1922	Barclays Bank UK PLC (RFB)	United Kingdom	The Support Rating was withdrawn
13/09/2022	1920	BNP Paribas	France	The Support Rating was withdrawn
20/09/2022	1925	Citibank N.A.	United States	The Support Rating was withdrawn
20/09/2022	1923	Bank of America N.A.	United States	The Support Rating was withdrawn
20/09/2022	1924	JPMorgan Chase Bank, N.A.	United States	The Support Rating was withdrawn
20/09/2022	1926	Goldman Sachs International Bank	United Kingdom	The Support Rating was withdrawn
23/09/2022	1929	HSBC UK Bank Plc (RFB)	United Kingdom	The Outlook on the Long Term Rating was changed to Stable from Negative. At the same time the Support Rating was withdrawn
23/09/2022	1928	HSBC Bank PLC (NRFB)	United Kingdom	The Outlook on the Long Term Rating was changed to Stable from Negative. At the same time the Support Rating was withdrawn

Shropshire Council

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action

Appendix B

Prudential Indicators – Quarter 2 2022/23

Prudential Indicator	2022/23 Indicator £m	Quarter 1 – Actual £m	Quarter 2 – Actual £m	Quarter 3 – Actual £m	Quarter 4 – Actual £m
Non HRA Capital Financing Requirement (CFR)	431*	366	392		
HRA CFR	95	95	95		
Gross borrowing	348	292	292		
Investments	150	129	143		
Net borrowing	198	163	149		
Authorised limit for external debt	528	292	292		
Operational boundary for external debt	460	292	292		
Limit of fixed interest rates (borrowing)	528	292	292		
Limit of variable interest rates (borrowing)	264	0	0		
Internal Team Principal sums invested > 364 days	70	0	0		
Maturity structure of borrowing limits	%	%	%	%	%
Under 12 months	15	2	2		
12 months to 2 years	15	0	0		
2 years to 5 years	45	1	1		
5 years to 10 years	75	16	16		
10 years to 20 years	100	31	31		
20 years to 30 years	100	22	22		
30 years to 40 years	100	17	17		
40 years to 50 years	100	2	2		
50 years and above	100	9	9		

* Based on period 6 Capital Monitoring report including Shrewsbury Shopping Centres.

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Capital Financing Summary

Prudential Borrowing Approvals	Date Approved	Amount Approved £	Applied (Spent) 2006/07 £	Applied (Spent) 2007/08 £	Applied Outturn 08/09 2008/09 £	Applied Outturn 09/10 2009/10 £	Applied Outturn 10/11 2010/11 £	Applied Outturn 11/12 2011/12 £	Applied Outturn 12/13 2012/13 £	Applied Outturn 13/14 2013/14 £	Applied Outturn 14/15 2014/15 £	Applied Outturn 15/16 2015/16 £	Applied Outturn 16/17 2016/17 £	Applied Outturn 17/18 2017/18 £	Applied Outturn 18/19 2018/19 £	Applied Outturn 19/20 2019/20 £	Applied Outturn 20/21 2020/21 £	Applied Outturn 21/22 2021/22 £	Budgeted 2022/23 £	Budgeted 2023/24 £	Budgeted 2024/25 £	Budgeted 2025/26 £	Budgeted 2026/27 £	First year MRP Charged	Asset Life	Final year MRP Charged
Monkmoor Campus	24/02/2006	3,580,000																								
Capital Receipts Shortfall -Cashflow	24/02/2006	5,000,000																								
Applied:																										
Monkmoor Campus			3,000,000		0																			2007/08	25	2031/32
William Brooks					0		3,580,000																	2011/12	25	2035/36
Tern Valley					2,000,000																			2010/11	35	2044/45
		8,580,000	**3,000,000**	**0**	**2,000,000**	**0**	**3,580,000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0.00**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**			
Highways	24/02/2006	2,000,000	2,000,000																					2007/08	20	2026/27
Accommodation Changes	24/02/2006	650,000	410,200	39,800																				2007/08	6	2012/13
Accommodation Changes - Saving	31/03/2007	(200,000)																								
		450,000	**410,200**	**39,800**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0.00**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**			
The Ptarmigan Building	05/11/2009	3,744,000				3,744,000																		2010/11	25	2034/35
The Mount McKinley Building	05/11/2009	2,782,000				2,782,000																		2011/12	25	2035/36
The Mount McKinley Building	05/11/2009	0					-																	2011/12	5	2015/16
Capital Strategy Schemes - Potential Capital Receipts shortfall	25/02/2010	187,600					-	-	-	0	-	-	-	-	0.00	-									25	
- Desktop Virtualisation						187,600	-																	2010/11	5	2014/15
Carbon Efficiency Schemes/Self Financing	25/02/2010	1,512,442					115,656	1,312,810	83,976	-	-	-	-	-	0.00	-								2011/12	5	2017/18
Transformation schemes		92,635						92,635	-	-														2012/13	3	2014/15
Renewables - Biomass - Self Financing	14/09/2011	92,996						82,408	98,258	(87,670)	-													2014/15	25	2038/39
Solar PV Council Buildings - Self Financing	11/05/2011	56,342						1,283,959	124,584	(1,352,202)	-													2013/14	25	2038/39
Depot Redevelopment - Self Financing	23/02/2012	0							-	-	-													2014/15	10	2023/24
Oswestry Leisure Centre Equipment - Self Financing	04/04/2012	124,521						124,521																2012/13	5	2016/17
Leisure Services - Self Financing	01/08/2012	711,197							711,197															2013/14	5	2016/17
Mardol House Acqusition	26/02/2015	4,160,000									4,160,000	-												2015/16	25	2039/40
Mardol House Adaptation and Refit	26/02/2015	3,340,000									167,640.84	3,172,358.86	-	-	0.00	-								2016/17	25	2041/42
Oswestry Leisure Centre Equipment - Self Financing	01/08/2012	290,274												274,239		16,035								2018/19	5	2022/23
Car Parking Strategy Implementation	17/01/2018	590,021													588,497.06	1,524								2020/21	5	2024/25
JPUT - Investment in Units re Shrewsbury Shopping Centres	13/12/2017	55,215,175												52,204,603	-208,569.18	2,791,967	320,079.38	107,095						2018/19	45	2042/43
JPUT - SSC No 1 Ltd	13/12/2017	527,319												527,319												
CDL Shareholding	28/02/2019	1															1							2021/22		
Children's Residental Care	28/02/2019	2,000,001														1,381,539	230,765	38,486.70	349,210					2020/21	25	2044/45
Pride Hill Shopping Centre Reconfiguration	19/12/2019	1,276,320															434,027	842,293						AUC	25	
Greenacres Supported Living Development	24/09/2020	3,125,000																34,317	90,683	2,000,000	1,000,000			2023/24	25	2046/47
Bishops Castle Business Park	19/09/2019	3,111,899															2,900	1,545,647	1,563,352					2023/24	25	2044/45
Whitchurch Medical Practice (Pauls Moss Development)	26/07/2018	3,778,228																	800,000	2,978,228				2023/24	25	2047/48
Oswestry Castleview - Site Acquisition	19/12/2019	3,256,241														3,256,241								2020/21	25	2044/45
DVSA Site Acquisiiton		0																						2022/23	25	2045/46
NCP Car Park, Wyle Cop, Shrewsbury		0																		0				AUC	25	
Former Morrisons Site, Oswestry	19/09/2019	3,390,145															3,390,145							2021/22	25	2045/46
Meole Brace Pitch & Putt		5,400,000																11,927	620,360	4,264,298	503,415			AUC	25	
Maesbury Solar Farm		2,041,173																		2,041,173				AUC	25	
Commercial Investment Fund	Fin Strat 19/20	5,479,704																			5,479,704			2021/22	25	2044/45
The Tannery Development Block A - Land Acqusition		660,253																62,500	597,753					2022/23	25	2045/46
The Tannery Development Block A		6,353,605																		1,353,605	5,000,000			AUC		
The Tannery Development - Block B & C		7,467,802													3,677,843.83	3,456,019	311,325	16,614	6,000					2019/20	25	2045/46
Oswestry Property Acquisition	12/05/2022	3,326,850																	3,326,850					2023/24	25	2047/48
Shrewsbury Property Acquisition		3,846,000																	3,846,000					2023/24	25	2047/48
Recycling Bin Roll Out Programme		2,932,471																4,395	2,928,076					2022/23	10	2032//33
Highways Investment Programme	Capital Strategy Feb 22	31,565,001																3,983,412	14,011,589	3,545,000	3,695,000	6,330,000		2022/23	25	2046/47
Whitchurch Swimming & Leisure Facility	22/09/2022	13,100,282																	621,824	4,420,657	5,357,237	2,067,303	633,261	2026/27	45	2046/47
Previous NSDC Borrowing		955,595			821,138	134,457																		2009/10	5/25	2065/66
		187,523,090	**5,410,200**	**39,800**	**2,821,138**	**6,848,057**	**3,695,656**	**2,896,333**	**1,018,015**	**(1,439,872)**	**4,327,641**	**3,172,359**	**0**	**53,006,161**	**4,057,772**	**10,903,325**	**4,689,242.81**	**6,646,685.95**	**28,761,697**	**20,602,961**	**21,035,356**	**8,397,303**	**633,261**	(1)		

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Appendix D

Economic Update

The Monetary Policy Committee (MPC) has recently increased Bank Rate to 3.00% from 2.25%. The increase was made on the 4 November 2022 and reflected a split vote – seven members voting for a 0.75% increase, one for 0.5% and one for a 0.25% increase. The MPC continues to grapple with getting inflation back on track over a three-year horizon.

The MPC has now increased interest rates eight times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 0.75% in their most recent meetings, the Bank of England's latest 0.75% hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

The UK has a new Prime Minister, Rishi Sunak, a new Chancellor, Jeremy Hunt, and new fiscal policies – to be firmed up on the 17th of November Autumn Statement - that seek to ensure that the public finances are kept on a sound footing and that any projected gaps (possibly £50bn to £60bn) are fully funded from services efficiencies and/or net tax increases.

In the interim period, since the end of September, the Government scrapped the reduction in the basic rate of income tax by 1p in the £; maintained the higher band 45p in the £ income tax rate; did not reduce Corporation Tax to 19% from 25%; only put in place support for businesses and households for 6 months (October to March) regarding caps on the unit costs of gas and electricity. In addition, the Bank of England has had to intervene in the longer part of the gilt market to ensure that pension funds did not have to undertake a "fire sale" of assets to raise cash to pay for margin calls, arising from the sell-off of long-dated gilts (yields rising) in the wake of the former Chancellor's policy to seek to boost growth with unfunded tax cuts.

In recent days, calm has returned to the markets, the £ has risen from a historic low of $1.03 to $1.14, and the cumulative movement in gilt yields since the turn of the year is now broadly in line with that seen in the US and Euro-zone bond markets.

The Bank of England's Quarterly Monetary Policy Report detailed that the UK economy is headed for eight quarters of negative growth based on the market's expectation for Bank Rate to increase to 5.25%. Since then, market expectations have been recalibrated, and now view a peak in Bank Rate of between 4.5% and 4.75%. These views are similar to those held by Link Group's Interest Rate Strategy Group (IRSG). IRSG has reduced its view on the peak of Bank Rate from 5% to 4.5%. However, although we see rates peaking in May of 2023, we now also believe there are several challenges to the Bank that could see them leave rates at this level until early 2024.

The first of those challenges is the tight labour market (unemployment is at a 48 year low 3.5%), which shows no signs of dissipating, and that could mean wage increases continue to be 5% well into 2023 (the Bank would broadly want wages to be in the range of 3% - 3.5%). There is also the prospect that unless the workforce participation rate increases and/or immigration policies are relaxed, there is no clear route that would give rise to sustainable increases in economic growth. And, of course, inflation could be somewhat "sticky" if the Russian invasion of Ukraine remains unresolved and puts continued pressure on global energy prices and staple foods (e.g., wheat), among the many areas negatively impacted.

The impact of the Truss/Kwarteng fiscal experiment has faded in the past month but investors will still remain a little nervous over the UK's future fiscal policy and therefore we have reduced our forecast for near-term PWLB rates across the curve, compared to September's forecast, but have left the longer end of the curve slightly higher to reflect the potential demand by foreign investors for a "confidence premium" in the light of recent market volatility.

The most recent survey by Nationwide Building Society showed house prices starting to fall and the MPC will be very cognisant that affordability could be stretched now that fixed rate mortgages are somewhat higher than they were a few weeks ago. Historically, the MPC has appeared reluctant to tighten monetary policy in a falling housing market, but it may be willing to leave rates less high than the market had been pricing in prior to the 3rd of November Quarterly Monetary Policy Report but keep them there for longer as a compromise of sorts.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- Link's central forecast for interest rates was previously updated on 28th September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.
- Further down the road, Link anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- The CPI measure of inflation will peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.
- Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present so as to prevent any further disruption to the longer end of the curve following on from the short-lived effects of the previous Chancellor's unfunded dash for growth policy.
- In the upcoming months, Links forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)
- On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

What happens outside of the UK is also critical to movement in gilt yields. The US FOMC has led with increases of 3.75% in the year to date and is expected to increase rates further before the end of the year, and possibly into 2023. Similarly, the ECB has also started to tighten monetary policy, albeit from an ultra-low starting point, as have all the major central banks apart from Japan. Arguably, though, it is US monetary policies that will have the greatest impact on global bond markets. Geo-political events continue to lead to frequent volatilty in equity, bond, commodity and currency markets. And the weather will also play a large part in how high energy prices stay and for how long. Not forgetting developments in Iran, North Korea, Taiwan and China.

Economic Forecast

The Council receives its treasury advice from Link Asset Services. Their latest interest rate forecasts 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

As shown in the forecast table above, Bank Rate is projected to peak at 4.50% by June 2023, following an aggressive series of rate increases over the last calendar year. Link forecast a further 0.50% at the December MPC meeting followed by a further 1.00% increase over the first few months in 2023.

Significant risks to the forecasts

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- The Bank of England acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

The overall balance of risks to economic growth in the UK is now to the downside, including inflationary and stagnation risks to the U.K. economy.

Borrowing

It is a statutory duty for the Council to determine and keep under review the “Affordable Borrowing Limits”. The Council’s approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy. A list of the approved limits is shown in Appendix B. The Prudential Indicators were not breached during the second quarter of 2022/23 and have not been previously breached. The schedule at Appendix C details the Prudential Borrowing approved and utilised to date.

No new external borrowing has currently been undertaken to date in 2022/23, although discussions are currently being held at the Capital Investment Board where outline business cases are being considered. The schemes being considered are already within the current authorised borrowing limits in place. In the event the authorised borrowing limits need to be amended, this will be reported to Council for approval. The table below illustrates the low and high points across different maturity bands for borrowing rates for the first six months of the financial year

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

Debt Rescheduling

Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. During the first six months of the year no debt rescheduling was undertaken.

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