Committee and Date	Item
Audit Committee 9 December 2021 Cabinet 5 January 2022 Council 13 January 2022	 Public

TREASURY STRATEGY 2021/22 – MID YEAR REVIEW

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1. Synopsis

The report provides an economic update for the first six months of 2021 and includes a review of the investment portfolio and borrowing strategy for 2021/22 and confirms compliance with Treasury and Prudential limits. The report has been prepared in accordance with the CIPFA Code of Practice on Treasury Management. As at 30 September 2021, the Council held £175m in investments and had £292m of borrowing.

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 2021/22
- A review of the Treasury Strategy 2021/22 and Annual Investment Strategy
- A review of the Council's investment portfolio for 2021/22
- A review of the Council's borrowing strategy for 2021/22
- A review of any debt rescheduling taken
- A review of compliance with Treasury and Prudential limits for 2021/22

2.2. The key points to note are:-

- The internal treasury team achieved a return of 0.14% on the Council's cash balances outperforming the benchmark by 0.22%. This amounts to additional income of £198,180 for the first six months of the year which is included within the Council's projected outturn position in the quarterly financial monitoring report
- In the first six months all treasury management activities have been in accordance with the approved limits and

prudential indicators set out in the Council's Treasury Strategy

- 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. 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 £49.25m funding arrangement.

3. Recommendations

3.1. Members are asked to accept the position 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 2021/22 six-month performance is above benchmark and has delivered additional income of £198,180.

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 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 operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the Treasury Management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

7.2. The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

7.3. 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". The report informs Members of the treasury activities of the Council for the first six months of the financial year.

7.4. 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

A report setting out the Council's Capital Strategy was taken to full Council in February 2021

7.5. This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2017.

8. Economic Update and Forecast

8.1. A detailed commentary can be found in Appendix D.

8.2. The Council receives its treasury advice from Link Asset Services. Their latest interest rate forecasts were updated 8 November and are shown below:

Link Group Interest Rate View												
	Now	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Bank Rate	0.10%	0.25%	0.25%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%
5yr PWLB Rate	1.45%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.80%	1.90%
10yr PWLB Rate	1.74%	1.80%	1.90%	1.90%	2.00%	2.00%	2.10%	2.10%	2.20%	2.20%	2.20%	2.30%
25yr PWLB Rate	1.96%	2.10%	2.20%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.60%
50yr PWLB Rate	1.67%	1.90%	2.00%	2.10%	2.20%	2.20%	2.20%	2.30%	2.30%	2.40%	2.40%	2.40%

9. Treasury Strategy update

9.1. The Treasury Management Strategy (TMS) for 2021/22 was approved by Full Council on 25 February 2021. This Treasury Strategy does not require updating as 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 forecasts in section 8.1, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.10% bank rate. However, with the potential increase of bank rate on the horizon, we expect to see some improvement in interest earned going forward.

10.2. 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), and 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 Treasury Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations.

10.3. In the first six months of 2021/22, the internal treasury team outperformed its benchmark by 0.22%. The investment return was 0.14% compared to the benchmark of -0.08%. This amounts to additional income of £198,180 during the first six months which is included within the Council's projected outturn position in the quarterly financial monitoring report.

10.4. A full list of investments held as at 30 September 2021, compared to Link's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown in **Appendix A**. None of the approved limits within the Annual Investment Strategy were breached during the first six months of 2021/22 and have not been previously breached. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.

10.5. As illustrated in the economic background section above, investment rates available in the market have decreased significantly due to the bank rate decrease to 0.10% in March 2020. The average level of funds available for investment purposes in the first six months of 2021/22 was £180 million.

10.6. The Council's interest receivable/payable budgets are currently projecting a surplus of £1.87 million as reported in the monthly revenue monitoring reports due to no long-term borrowing being undertaken, changes to the Minimum Revenue Provision (MRP) calculation previously approved by Council and minor changes in borrowing requirements.

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. 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 £49.25m funding arrangement. A further update will be provided in the Treasury Strategy 2022/23 that goes to full Council in February 2022.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Council, 25 February 2021, Treasury Strategy 2021/22. Council, 25 February 2021, Capital Strategy 21/22 – 25/26 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 2021 B. Prudential Limits C. Prudential Borrowing Schedule D. Economic Update, Forecast and Borrowing