Committee and Date	Item
Cabinet 16 February 2022 Audit Committee 22 February 2022 Council 24 February 2022	Public

Treasury Strategy 2022/23

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1. Synopsis

The report proposes the Treasury Strategy for 2022/23 and recommends Prudential and Treasury Indicators for 2022/23 to 2024/25.

2. Executive Summary

2.1. In December 2021, CIPFA published the revised Treasury Management Code and Prudential Code. Formal adoption is not required until the 2023/24 financial year. Details of the changes in the codes can be found in Appendix 4. Members will be updated throughout the year.

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

- A high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- An overview of how the associated risk is managed
- The implications for future financial sustainability

2.3. The report is technical in nature but the key points to note are:-

Borrowing is largely driven by the requirements of the approved Capital Programme. From 2011/12 the Council's borrowing requirement has been significantly reduced due to the Government changing the way in which it funds the Council's capital expenditure and providing capital grants rather than supported borrowing approval with on-going (as it was defined at the time) revenue support grant to meet the financing costs of the borrowing. Currently the approved borrowing requirement identified within the Capital Programme 2022/23 to 2024/25 is prudential borrowing of £65.228 million. In addition to this there is an anticipated prudential borrowing requirement for future prioritised schemes in the Capital Strategy 2022/23 to 2024/25 of £75.106 million.

- The Council's lending continues to be restricted to highly credit rated Banks, three Building Societies, Money Market Funds and Part Nationalised Institutions which meet Link Asset Services creditworthiness policy, other Local Authorities and the UK Government.

- At the close of December 2021, the publication of official LIBOR figures and related LIBID calculations ceased. This reference rate was used to benchmark the internal treasury team's performance against. The reference rate now used for benchmarking performance against will be SONIA (Sterling Overnight Index Average) which reflects the average interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

- The internal Treasury Team will continue to look for opportunities to make savings by actively managing the cash and debt portfolio in accordance with the Treasury Strategy

- The bank rate was decreased to 0.10% in March 2020 as a direct consequence to the COVID-19 pandemic and the impact on global financial markets. During this period of historically low bank rate, we have seen investment yields supressed. In December 2021, bank rate was increased to 0.25% and further increases are expected in the coming year. This will impact on the investment income that the Council will receive during this period due to a rising interest rate environment.

- 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. **Recommendations to Cabinet**

Cabinet recommend that Council:-

a) Approve, with any comments, the Treasury Strategy for 2022/23

b) Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.

c) Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the DLUHC Guidance on Local Government Investments.

d) Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.

e) Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.

f) Authorise the Section 151 Officer to use other Foreign Banks which meet Link's creditworthiness policy as required.

g) Authorise the Section 151 Officer to progress and finalise the restatement and amendment of Cornovii Development Ltd loan agreements.

3.2. **Recommendations to Audit Committee**

h) Audit Committee are asked to consider and endorse, with appropriate comment, the Treasury Strategy 2022/23.

3.3. **Recommendations to the Council**

i) Approve, with any comments, the Treasury Strategy for 2022/23

j) Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.

k) Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the DLUHC Guidance on Local Government Investments.

l) Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.

m) Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.

n) Authorise the Section 151 Officer to use other Foreign Banks which meet Link's creditworthiness policy as required.

o) Authorise the Section 151 Officer to progress and finalise the restatement and amendment of Cornovii Development Ltd loan agreements.

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 financial implications arising from the Treasury Strategy are detailed in this report. 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. As at 31 December 2021 the Council held £160 million in investments and borrowing of £292 million at fixed interest rates.

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 contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

7.4. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

7.5. 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".

7.6. Revised reporting was required for the 2019/20 reporting cycle due to revisions of the DLUHC Investment Guidance, the DLUHC Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

7.7. This strategy statement has been prepared in accordance with CIPFA's Code of Practice on Treasury Management. Accordingly, the Council's Treasury Strategy will be approved annually by full Council and there will also be a mid-year review report. In addition, treasury management update reports will be submitted quarterly to Executive Directors and Cabinet. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of policies and practices, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

7.8. In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued 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

7.9. The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

7.10. This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities
- Any service objectives relating to the investments
- The expected income, costs and resulting contribution
- The debt related to the activity and the associated interest costs
- The payback period (MRP policy)
- For non-loan type investments, the cost against the current market value
- The risks associated with each activity

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

7.11. Attached in appendix 2 is the Council's Annual Investment Strategy which includes a list of additional responsibilities for the Section 151 Officer role following the issue of the Treasury Management Code of Practice and Prudential Code.

7.12. The codes have clarified CIPFA's position that there is a clear separation between treasury and non-treasury investments and on the role of the treasury management team. Accordingly, periodic reporting by the treasury management team to members will focus solely on treasury investments. If non treasury investments are considered, a separate report will be presented for approval and any changes required to Prudential indicators incorporated within an updated Treasury Strategy if necessary.

7.13. The Council will adopt the following reporting arrangements in accordance with the requirements of the Code:-

Area of Responsibility	Council/Committee/Officer	Frequency
Treasury Management Policy Statement	Full Council/Cabinet	As required
Treasury Strategy/Annual Investment Strategy/MRP Policy	Full Council/Cabinet	Annually before the start of the financial year
Capital Strategy	Full Council/Cabinet	Annually before the start of the financial year

Treasury Strategy/Annual Investment Strategy/MRP Policy – mid year report	Full Council/Cabinet	Mid-year
Treasury Strategy/Annual Investment Strategy/MRP Policy – updates or revisions at other times	Full Council/Cabinet	As required
Annual Treasury Report	Full Council/Cabinet	Annually by 30 September after the end of the financial year
Quarterly Treasury Management Update Reports	Executive Directors/Cabinet	Quarterly
Treasury Management Monitoring Reports	Reports prepared by Investment Officer to the Head of Treasury & Pensions who reports to the Section151 Officer	Monthly
Treasury Management Practices/Investment Management Practices	Section 151 Officer	As required
Scrutiny of Treasury Strategy	Audit Committee	Annually before the start of the financial year
Scrutiny of the treasury management performance	Audit Committee	Half yearly

8. Treasury Strategy 2022/23

8.1. The Local Government Act 2003 and supporting Regulations requires the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that capital investment plans are affordable, prudent and sustainable. This report incorporates the indicators to which regard should be given when determining the Council's Treasury Management Strategy for the next financial year.

8.2. As the Council is responsible for housing, Prudential Indicators relating to Capital Expenditure, financing costs and the Capital Financing Requirement will be split between the Housing Revenue Account (HRA) and the General Fund.

8.3. The Act also requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

8.4. The proposed Strategy for 2022/23 in respect of the following aspects of the treasury management function is based upon the Section 151 Officer's view on interest rates, supplemented with leading market forecasts provided by the Council's Treasury Advisor, Link Asset Services.

8.5. The proposed strategy will focus on the following areas of treasury activity:-

- Treasury limits in force which will limit the treasury risk and activities of the Council.
- The determination of Prudential and Treasury Indicators.
- The current treasury position.
- Prospects for interest rates.
- Capital borrowing strategy.
- Policy on borrowing in advance of need.
- Debt rescheduling.
- Investment strategy.
- Capital plans.
- Creditworthiness policy.
- Policy on use of external service providers.
- The MRP strategy.
- Leasing.

8.6. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:-

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increase in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

8.7. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training. This especially applies to members responsible for scrutiny. In January 2022, Link & Officers provided member training on treasury management and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

9. Treasury Limits for 2022/23 to 2024/25

9.1. It is a statutory requirement under Section 3 of the Local Government Act 2003 and supporting Regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable

Borrowing Limit". This authorised limit represents the legislative limit specified in section 3 of the Local Government Act 2003.

9.2. The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits.

9.3. Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate those planned to be financed by both internal/external borrowing and other forms of liability, such as credit arrangements. The Authorised Borrowing Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years and is the limit which the Council must not breach. All of the other Prudential Indicators are estimates only and can be breached temporarily but this is very rarely the case. If this did happen it would be reported to Members outlining the reasons for this temporary breach.

9.4. The Council are asked to approve these Prudential Indicators in Appendix 1.

10. Prudential & Treasury Indicators for 2022/23 to 2024/25

10.1 Details of the Council's Prudential & Treasury indicators and calculations can be found within Appendix 1.

11. Current Treasury Position

11.1 The Council's treasury position at 31 December 2021 is set out below:-

Outstanding debt for capital purposes		**Actual £m**
	Long-term fixed rate PWLB	242.4
	Long term fixed rate – Market	49.2
	Total	**291.6**
Investments		**£m**
	Internally managed - long term (1 Year)	30.0
	- short term cash flow	130.1
	Total	**160.1**

12. Prospects for Interest Rates

12.1 The Council retains the services of Link Asset Services as adviser on treasury matters and part of the service provided is to help the Council to formulate a view on interest rates. The following table gives the latest Link central view:-

Link's interest rate forecast as at December 2021

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Link's current interest rate view is that Bank Rate will: -

- Increase in increments reaching 1.25% by March 2025.

The effect on interest rates for the UK is expected to be as follows:-

Short-term interest rates (investments)

12.2 Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021. As shown in the forecast table above, the forecast for Bank Rate now includes four increases, the latest one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%. It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes four increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe.

12.3 Investment returns are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations. A more detailed economic commentary can be found within Appendix 5.

Long-term interest rates (borrowing)

12.4 The 50-year PWLB rate is expected to rise gradually to reach 2.0% by the end of March 2023. It is expected to continue rising gradually to reach 2.3% by the end of December 2024. There is scope for it to move around the central forecast by + or – 0.25%. The 25-year PWLB rate is also expected to rise slightly to reach 2.2% by the end of March 2023 and 2.5% by the end of December 2024. The 10-year PWLB rate is expected to rise gradually to 2.0% by the end of June 2023. Again, further gradual rises are expected in 2024/25. The 5-year PWLB rate is also expected to rise gradually from 1.4% to 1.8% by the end of June 2023 and to 2.0% by the end of December 2024. The PWLB rates and forecasts shown above take into account the review of PWLB margins over gilt yields. Subsequently, all forecasts have been reduced by 1%.

12.5 Borrowing interest rates fell to historically very low rates as a result of the COVID-19 crisis and the quantitative easing operations of the Bank of England still remain at historically low levels.

12.6 In November 2020, the Chancellor announced the conclusion to the review into PWLB rates; the rates offered by the PWLB were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which intended to purchase assets primarily for yield in its three-year capital programme.

13 Borrowing Strategy

13.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council’s reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

13.2 The approved borrowing requirement identified within the Capital Programme 2022/23 to 2024/25 is prudential borrowing of £65.228 million. In addition to this there is an anticipated prudential borrowing requirement for future prioritised schemes in the Capital Strategy 2022/23 to 2024/25 of £75.106 million. The Council will adopt a pragmatic approach to changing circumstances when considering new borrowing if required in the future. Consideration will be given to the following:-

i) As long-term borrowing rates are expected to be higher than investment rates and look likely to be for the next couple of years or so all new external borrowing may be deferred in order to maximise savings in the short term. The running down of investments also has the added benefit of reducing exposure to interest rate and credit risk. However, in view of the overall forecast for long-term borrowing rates to increase over the next few years, consideration will also be given to weighing up the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years.

ii) Temporary borrowing from the money markets or other local authorities.

iii) PWLB variable rate loans for up to 10 years.

iv) Long term fixed rate market loans (including loans offered by the Municipal Bond Agency) at rates below PWLB rates for the equivalent maturity period.

v) Short term PWLB rates are expected to be cheaper than longer term borrowing therefore borrowing could be undertaken in the under 10 year period early on in the financial year when rates are expected to be at their lowest. This will also have the added benefit of spreading debt maturities away from a concentration in longer dated debt.

vi) If it was felt that there was a significant risk in a sharp fall in long and short term rates then long term borrowings will be postponed. If it was felt there was a significant risk of a sharp rise in long and short term rates then the portfolio position would be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

13.3 Delegated authority is sought for the Section 151 Officer to exercise the borrowing powers contained in the Local Government Act 2003 to manage the debt portfolio.

14 External versus internal borrowing

14.1 The Prudential Code requires the Council to explain its policy on gross and net debt. The Council currently has gross debt of £292 million and net debt (after deducting cash balances) of £132 million. The next financial year is expected to see the Bank Rate incrementally increase. As borrowing rates are expected to be higher than investment rates this would indicate that value could best be obtained by avoiding new external borrowing and using internal cash balances to finance new capital expenditure. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. This is referred to as internal borrowing and maximises short term savings. This is subject to change as the country navigates its way through and out of the coronavirus pandemic.

14.2 However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

14.3 The Council has examined the potential for undertaking early repayment of some external debt in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower rates for repayments than for new borrowing means that large premiums would be incurred, and such levels of premiums cannot be justified on value for money grounds.

14.4 Against this background caution will be adopted with the 2022/23 treasury operations. The Section 151 Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Members at the next available opportunity.

15 Policy on borrowing in advance of need

15.1 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

15.2 In determining whether borrowing will be undertaken in advance of need the Council will:-

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- Consider the merits and demerits of alternative forms of funding.
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- Consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balance and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

16 Debt Rescheduling

16.1 Consideration will be given to the potential for making savings by running down investment balances to repay debt prematurely as short-term rates on investments are likely to be lower than rates currently paid on debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action. The proposals for debt rescheduling are a continuation of the existing policy and such transactions will only be undertaken:-

- in order to generate cash savings at minimum risk.
- to help fulfil the strategy set out above.
- in order to enhance the balance of the long-term portfolio by amending the maturity profile and/or volatility of the portfolio.

17 Investment Strategy

17.1 The DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

17.2 The Council is required, under CIPFA's Treasury Management Code of Practice, to formulate an Annual Investment Strategy (Appendix 2). This outlines the Council's approach to:-

- Security of capital
- Creditworthiness policy
- Monitoring of credit ratings
- Specified and Non Specified Investments
- Temporary Investments

17.3 The Council's investment priorities are the security of capital and the liquidity of its investments. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk as outlined in the Annual Investment Strategy.

17.4 The Council are asked to approve the Investment Strategy set out in Appendix 2.

18 Minimum Revenue Provision (MRP) Statement

18.1 The Council is required to pay off an element of the accumulated general fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP) although it is also allowed to undertake additional voluntary payments if required. DLUHC regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. Council are asked to approve the Minimum Revenue Provision Statement set out in Appendix 3.

18.2 The DLUHC is conducting a consultation on amending MRP rules for English Local Authorities. Members will be updated on the implications of this following the consultation.

19. Leasing

19.1. In the past the Council has used operating leases to finance the purchase of vehicles and equipment. The Section 151 Officer will assess the relative merits of operating and finance leases on a case by case basis and enter into the most advantageous. Schools I.T equipment will continue to be internally financed by borrowing against a small fund set against school balances with schools repaying their borrowing over a period of 3 years.

19.2. From 2023/24, the accounting of leases will change under IFRS16. Members will updated throughout the year.

20. Lending to Housing Associations

20.1. As previously approved by full Council, the Council has offered to lend funds to Connexus Housing Ltd (which incorporates South Shropshire Housing Association and the Meres & Mosses Housing

Association) and Homes Plus (formerly Severnside Housing) at an agreed rate.

20.2. It has been agreed that the interest rate charged will depend on the period over which the loan is to be taken and that it will be linked to the applicable PWLB rate plus an administration fee. It has been agreed to offer to lend up to £10 million to each of these Housing Associations in order to support the building of affordable housing and shared office accommodation in Shropshire. For security purposes, each loan has been secured against existing assets held by or owned by the Housing Association. Officers have sought advice from Gowlings LLP who have confirmed that the Council has the power to lend funds to Housing Associations under the Housing Act 1996 and have drawn up the legal documentation relating to the loan agreement. To date £9,770,000 has been drawn down by Connexus Housing Ltd and £10,000,000 by Homes Plus (formerly Severnside Housing).

21. Cornovii Development Ltd

21.1 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.

21.2 Members approve the Executive Director of Resources (Section 151 Officer) to progress and finalise the restatement and amendment of the loan agreement.

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, 13 January 2022, Treasury Strategy Mid-Year Review 2021/22. Council, 13 January 2022, Financial Strategy 22/23 – 26/27
Cabinet Member: Gwilym Butler, Portfolio Holder for Resources
Local Member N/A
Appendices 1. Prudential Indicators 2. Council's Annual Investment Strategy 3. Minimum Revenue Provision Policy Statement 4. CIPFA Treasury Management & Prudential Code Revision Update 5. Economic Update