Committee and Date	Item
Cabinet 7th September 2022	 Public

Treasury Management Update Quarter 1 2022/23

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1. Synopsis

The Council currently holds £129m in investments and £292m of borrowing. This report shows the return on those investments over quarter 1, the economic outlook for the next 3 years and confirms activities align with the Council approved Treasury Management Strategy.

2. Executive Summary

2.1 The report outlines the treasury management activities of the Council in the first quarter of 2022/23. It highlights the economic environment in which treasury management decisions have been made and the interest rate forecasts of the Council's Treasury Advisor, Link Asset Services. It also updates Members on the internal treasury team's performance.

2.2 During Quarter 1 the internal treasury team achieved a return of 0.67% on the Council's cash balances, outperforming the benchmark by 0.03%. This amounts to additional income of £12,300 during the quarter which is included within the Council's outturn position in the monthly revenue monitor. As previously advised in the latest Treasury Management update report and recent Treasury Management training undertaken, Members will be aware that from April 2022 the 7 Day benchmark rate was replaced by 3 Month Sterling Overnight Index Average (SONIA). Further details on this are provided in paragraph 10.4 of the report. The MPC increased Bank Rate to 0.25% in December 2021, and further increases were seen in February, March, May and June 2022 bringing the level to 1.25%. At the August meeting, the MPC increased the rate by 0.50% to 1.75% Further updates to interest rate forecasts will be included in the quarter 2 report, as further rate rises are expected this financial year. The latest forecasts as at 9 August are included in the table below.

2.3 Under the CIPFA Treasury Management Code, it is best practice to provide quarterly Treasury Management updates.

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 assessment and management of risk are key considerations for any Treasury Management approach. 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.

4.2 The Council's Audit Committee is the committee responsible for ensuring effective consideration of the Council's Treasury Management Strategy and policies.

4.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

4.4 There are no direct environmental, equalities or climate change consequences arising from this report.

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 Quarter 1 performance is above benchmark and has delivered additional income of £12,300 which is reflected in the Period 3 Revenue Monitor.

5.3 As at 30 June 2022 the Council held £129 million in investments as detailed in Appendix A and borrowing of £292 million at fixed interest rates. The end of quarter investment balance was impacted by payment of Covid grant and Pension contributions, although the average balance for the quarter was £148m.

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 those activities, and the pursuit of optimum performance consistent with those risks". The report informs Members of the treasury activities of the Council between 1 April 2022 and 30 June 2022.

8. Economic Background

8.1 For wider context and consideration of the global financial outlook, an economic and borrowing update for the first quarter of 2022/23 is attached in Appendix D.

9. Economic Forecast

9.1 The Council receives its treasury advice from Link Asset Services. Their latest interest rate forecasts to 30 September 2025 are shown below. Bank Rate was increased in February 2022 to 0.50%, again in March 2022 to 0.75%, in May 2022 to 1.00%. Further increases saw Bank Rate increase to 1.75% in August 2022 and is forecast to increase further, reaching 2.75% in quarter 4 2022/23. This will impact on future investment returns and the consequent benchmark.

Link Group Interest Rate View	09.08.22												
	Sep-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
BANK RATE	2.25	2.50	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.00
3 month ave earnings	2.50	2.80	3.00	2.90	2.80	2.50	2.40	2.30	2.30	2.30	2.20	2.20	2.20
6 month ave earnings	2.90	3.10	3.10	3.00	2.90	2.80	2.70	2.60	2.50	2.50	2.40	2.30	2.30
12 month ave earnings	3.20	3.30	3.20	3.10	3.00	2.90	2.80	2.70	2.40	2.40	2.40	2.40	2.40
5 yr PWLB	2.80	3.00	3.10	3.10	3.00	3.00	2.90	2.90	2.80	2.80	2.80	2.70	2.70
10 yr PWLB	3.00	3.20	3.30	3.30	3.20	3.10	3.10	3.00	3.00	3.00	2.90	2.90	2.80
25 yr PWLB	3.40	3.50	3.50	3.50	3.50	3.40	3.40	3.30	3.30	3.20	3.20	3.20	3.10
50 yr PWLB	3.10	3.20	3.20	3.20	3.20	3.10	3.10	3.00	3.00	2.90	2.90	2.90	2.80

10. Treasury Management Strategy

10.1 The Treasury Management Strategy (TMS) for 2022/23 was approved by Full Council on 24 February 2022. 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.

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:

10.2.1 Keep investments short term (up to 1 year), 10.2.2 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 quarter of 2022/23 the internal treasury team outperformed its benchmark by 0.03%. The investment return was 0.67% compared to the benchmark of 0.64%. This amounts to additional income of £12,300 during the quarter which is included in the Council's outturn position in the monthly revenue monitor.

10.4 From April 2022 the 7 Day LIBID benchmark rate which the Treasury team were previously benchmarked against, was replaced by 3 Month Sterling Overnight Index Average (SONIA). The previous LIBID rate was phased out by the Bank of England during 2021 due to the role it played in worsening of the 2008 financial crisis as well as the more recent scandals involving LIBOR manipulation among the rate-setting banks. We have now moved in to a rising interest rate environment and therefore the benchmark rate has also increased sharply on the back of this. It should be noted that within the current investment portfolio, there are still several longer-term legacy investments fixed at much lower rates when the Bank Rate was at 0.10%, still to renew. These investments were placed when market rates were much lower. These will mature over the coming months and be replaced at much higher rates therefore the return of the investment portfolio will increase significantly, and the performance compared to benchmark will become more favourable.

10.5 A full list of investments held as at 30 June 2022, compared to Link's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown within Link's Monthly Investment Analysis Review at Appendix A. None of the approved limits within the Annual Investment Strategy were breached during the first quarter of 2022/23. 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.

10.6 Due to the MPC's decision to increase Bank Rate to 1.75% in August 2022, investment and borrowing rates have started to substantially increase on the back of this. The average level of funds available for investment purposes in the first quarter of 2022/23 was £148 million.

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

Cabinet, 6 July 2022 – Treasury Management Update Quarter 4 2021/22

Council, 24 February 2022 – Treasury Strategy 2022/23
Cabinet Member: Gwilym Butler, Portfolio Holder for Resources
Local Member N/A
Appendices A. Shropshire Council Monthly Investment Analysis Review as at 30 June 2022 (provided by Link Group) B. Prudential Indicators for Quarter 1 2022/23 C. Prudential Borrowing Schedule D. Economic Background and Borrowing Update