Committee and Date

Cabinet – 7th June 2023

Item

Public

Treasury Management Report Quarter 4 2023/23

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Cabinet Member (Portfolio Holder):	Cllr Gwilym Butler, Finance & Corporate Support		

1. Synopsis

Despite a challenging economic environment, the Council continues to manage its finances effectively with £84m invested (short term) and £292m borrowing. No additional borrowing was required this year and all activity complies with necessary guidance and all agreed parameters.

2. Executive Summary

2.1 The report outlines the treasury management activities of the Council in the fourth quarter of 2022/23. It highlights the economic environment in which treasury management decisions have been made. It also provides an update on the performance of the treasury management function.

2.2 During Quarter 4 the internal treasury team achieved a return of 3.31% on the Council's cash balances, outperforming the benchmark by 0.14%. This amounts to additional income of £42,400 during the quarter which is included within the Council's outturn position in the financial outturn report.

3. Recommendations

3.1. Members are asked to note that the Council remains fully compliant with the agreed prudential indicators and the treasury management strategy.

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 This area has great risk associated with the value and complexity of money markets. This risk is substantially mitigated by engaging with specialist consultants – Link Group Asset Management.

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

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

4.5 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 4 performance is above benchmark and has delivered additional income of £42,400.

5.3 As at 31 March 2023 the Council held £84million in investments as detailed in Appendix A and borrowing of £292million at fixed interest rates. The level of investments has fallen by £80m in the last 12 months, as reserves (notably earmarked reserves as planned for in the 2022/23 budget strategy) has been applied to ongoing operations. The level of external borrowing remains the same as 12 months ago - i.e. no further external borrowing has been undertaken in the last 12 months.

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 January 2023 and 31 March 2023.

7.2 For wider context and consideration of the global financial outlook, an economic and borrowing update for the third quarter is considered in Appendix D.

8. Additional Information

8.1 The Council receives its treasury advice from Link Asset Services. Their latest interest rate forecasts to 31 March 2026 are shown below. Bank Rate was increased in February 2023 to 4.25% and is forecast to increase to 4.50% at quarter 1 2023/24.

Link Group Interest Rate View	27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10

8.2 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),
- 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.

8.3 In the fourth quarter of 2022/23 the internal treasury team outperformed its benchmark by 0.14%. The investment return was 3.31% compared to the benchmark of 3.17%. This amounts to additional income of £42,400 during the quarter which is included in the Council's outturn position in the financial outturn position.

8.4 A full list of investments held as at 31 March 2023, 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 1. None of the approved limits within the Annual Investment Strategy were breached during the fourth 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.

8.5 As illustrated above, investment rates available in the market for three months are unlikely to increase significantly given that the Bank Rate is unlikely to increase further than 4.5%. The average level of funds available for investment purposes in the fourth quarter of 2022/23 was £99.5 million.

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

Local Member:	**All**

Appendices

1. Shropshire Council Monthly Investment Analysis as at 31 March 2023 (provided by Link Group)
2. Prudential Indicators for Quarter 4
3. Prudential Borrowing Schedule
4. Economic Background and Borrowing Update

APPENDIX 1: SHROPSHIRE COUNCIL MONTHLY INVESTMENT ANALYSIS AS AT 31 MARCH 2023 (PROVIDED BY LINK GROUP)

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default	Expected Credit Loss (£)
MMF Aberdeen Standard Investments	11,400,000	3.95%		MMF	AAAm		
MMF Insight	15,000,000	3.97%		MMF	AAAm		
Nationwide Building Society	5,000,000	3.49%	05/01/2023	06/04/2023	A	0.001%	37
HSBC UK Bank Plc (RFB)	1,500,000	1.61%	24/05/2022	23/05/2023	A+	0.007%	98
National Westminster Bank Plc (RFB)	5,000,000	2.00%	31/05/2022	31/05/2023	A	0.008%	377
HSBC UK Bank Plc (RFB)	1,500,000	2.18%	14/06/2022	14/06/2023	A+	0.009%	139
Goldman Sachs International Bank	5,000,000	4.30%	03/01/2023	03/07/2023	A+	0.012%	581
HSBC UK Bank Plc (RFB)	5,000,000	3.58%	03/01/2023	03/07/2023	A+	0.012%	581
Santander UK PLC	15,000,000	3.94%		Call95	A	0.012%	1763
Barclays Bank UK PLC (RFB)	3,000,000	4.14%	31/01/2023	31/07/2023	A	0.015%	453
Barclays Bank UK PLC (RFB)	3,000,000	4.12%	06/02/2023	04/08/2023	A	0.016%	468
National Westminster Bank Plc (RFB)	5,000,000	3.05%	23/08/2022	18/08/2023	A	0.017%	866
National Westminster Bank Plc (RFB)	2,000,000	3.80%	20/09/2022	15/09/2023	A	0.021%	416
National Westminster Bank Plc (RFB)	5,000,000	4.45%	25/01/2023	24/01/2024	A	0.037%	1849
National Westminster Bank Plc (RFB)	2,000,000	4.50%	01/02/2023	31/01/2024	A	0.038%	757
Total Investments	**£84,400,000**	**3.73%**				**0.014%**	**£8,385**

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

The Historic Risk of Default column is based on the lowest long term rating. If clients are using this % for their Expected Credit Loss calculation under IFRS 9, please be aware that the Code does not recognise a loss allowance where the counterparty is central government or a local authority since relevant statutory provisions prevent default. For these instruments, the Expected Credit Loss will be nil. Please note that we are currently using Historic Default Rates from 1990-2022 for Fitch, 1983-2022 for Moody's and 1981-2022 for S&P.

Where Link Group have provided a return for a property fund, that return covers the 12 months to December 2022, which are the latest returns currently available.

APPENDIX 2: PRUDENTIAL INDICATORS FOR QUARTER 4

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	396	391
HRA CFR	95	95	95	95	95
Gross borrowing	348	292	292	292	292
Investments	150	129	143	115	84
Net borrowing	198	163	149	177	208
Authorised limit for external debt	528	292	292	292	292
Operational boundary for external debt	460	292	292	292	292
Limit of fixed interest rates (borrowing)	528	292	292	292	292
Limit of variable interest rates (borrowing)	264	0	0	0	0
Internal Team Principal sums invested > 364 days	70	0	0	0	0
Maturity structure of borrowing limits	**%**	**%**	**%**	**%**	**%**
Under 12 months	15	2	2	2	2
12 months to 2 years	15	0	0	0	0
2 years to 5 years	45	1	1	1	1
5 years to 10 years	75	16	16	17	20
10 years to 20 years	100	31	31	30	30
20 years to 30 years	100	22	22	26	24
30 years to 40 years	100	17	17	13	12
40 years to 50 years	100	2	2	2	2
50 years and above	100	9	9	9	9

APPENDIX 3 PRUDENTIAL BORROWING SCHEDULE

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 £	Applied Outturn 22/23 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	0.00	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	0.00	0	0	0	0			
Waste Management Site - Oswestry	29/06/2007	712,500																								
Waste Management Site - Oswestry	20/06/2008	(712,500)																								
		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0			
William Brooks	18/07/2008	0					-																	2011/12	25	2035/36
Primary School Capital Programme	19/12/2008	0					-	-																2012/13	25	2036/37
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
New School Amalgamations - Self Financing	25/02/2010	0							-	-	-	-	-	-	0.00	-								2013/14	25	2037/38
Solar PV Council Buildings - Self Financing	11/05/2011	56,342						1,283,959	124,584	(1,352,202)	-													2013/14	25	2038/39
Renewables - Biomass - Self Financing	14/09/2011	92,996						82,408	98,258	(87,670)	-													2014/15	25	2038/39
Depot Redevelopment - Self Financing	23/02/2012	0							-	-	-													2014/15	10	2023/24
Street Lighting - part night lighting - Self Financing	04/04/2012	0							-	-	-													2013/14	10	2022/23
Oswestry Leisure Centre Equipment - Self Financing	04/04/2012	124,521						124,521																2012/13	5	2016/17
Oswestry Leisure Centre Equipment - Self Financing	01/08/2012	290,274												274,239		16,035								2018/19	5	2022/23
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	##########	-	-	0.00	-								2016/17	25	2041/42
JPUT - Investment in Units re Shrewsbury Shopping Centres	13/12/2017	55,299,533												52,204,603	-208,569.18	2,791,967	320,079.38	191,453						2018/19	45	2042/43
JPUT - SSC No 1 Ltd	13/12/2017	527,319												527,319												
Car Parking Strategy Implementation	17/01/2018	590,021													588,497.06	1,524								2020/21	5	2024/25
Whitchurch Medical Practice (Pauls Moss Development)	26/07/2018	3,778,228																	171,509.07	3,606,719				2023/24	25	2047/48
CDL Shareholding	28/02/2019	1															1							2021/22		
Children's Residental Care	28/02/2019	2,000,000														1,381,539	230,765	38,486.70	316,209.69	33,000				2020/21	25	2044/45
Commercial Investment Fund	Fin Strat 19/20	5,479,704																			5,479,704			2021/22	25	2044/45
Bishops Castle Business Park	19/09/2019	3,111,899															2,900	1,545,647	1,271,102.21	292,250				2023/24	25	2044/45
Former Morrisons Site, Oswestry	19/09/2019	3,390,145															3,390,145							2021/22	25	2045/46
Pride Hill Shopping Centre Reconfiguration - LEP Match	19/12/2019	1,928,978															434,027	842,293	652,658.49					AUC	45	
Oswestry Castleview - Site Acquisition	19/12/2019	3,256,241														3,256,241								2020/21	25	2044/45
Greenacres Supported Living Development	24/09/2020	3,125,000																34,317	41,687.50	2,048,995	1,000,000			2023/24	25	2046/47
Pride Hill Shopping Centre Reconfiguration - Feb 22 approval	01/02/2022	197,614																	197,614.21					AUC	45	
Oswestry Property Acquisition	12/05/2022	3,332,304																	3,332,303.71					2023/24	25	2047/48
Whitchurch Swimming & Leisure Facility	22/09/2022	13,100,282																	390,953.68	4,651,527	5,357,237	2,067,303	633,261	2026/27	45	2046/47
Highways Investment Programme	apital Strategy Feb 2	31,565,001																3,983,412	###########	3,545,000	3,695,000	2,330,000		2022/23	25	2046/47
Meole Brace Pitch & Putt		5,399,999																11,927	136,348.64	4,748,309	503,415			AUC	25	
Maesbury Solar Farm		2,041,173																	19,681.65	2,021,491				AUC	25	
The Tannery Development Block A - Land Acqusition		660,253																62,500	594,752.50	3,000				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	3,846.79	2,153				2019/20	25	2045/46
Shrewsbury Property Acquisition		3,837,012																	3,837,011.50					2023/24	25	2047/48
Recycling Bin Roll Out Programme		2,029,778																4,395	2,025,383.79					2022/23	10	2032//33
Previous NSDC Borrowing		955,595			821,138	134,457																		2009/10	5/25	2065/66
		187,551,491	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	6,731,043.78	###########	22,306,049	21,035,356	4,397,303	633,261	(1)		

APPENDIX 4 – ECONOMIC UPDATE (FROM LINK GROUP)

GENERAL ECONOMY

The UK manufacturing PMI fell to 48 in March 2023 from 49.3 in February this pointed to an eighth straight month of falling factory activity. In addition, the UK services PMI fell to 52.8 in March 2023 from 53.5 in February, below market expectations of 53 new orders growth accelerated due to improved client confidence, resilient demand for consumer services and a boost to spending from falling inflationary pressures. Overall, while still comfortably in "territory (i.e. a reading above 50 the UK composite PMI fell to 52.2 in March 2023 from the 8 month high of 53.1 in February. Elsewhere, UK construction PMI rose to 54.6 in February 2023 from 48.4 in January, easily beating market expectations of 49 1. The latest reading pointed to the fastest pace of expansion in the construction sector since last May, as commercial construction increased the most in nine months and civil engineering works returned to growth.

The UK economy expanded by 0.1% on quarter in the final three months of 2022 revised from a first estimate of no growth and following a 0.1% contraction in the previous period household consumption grew by 0.2% driven by higher spending on net tourism, transport, and housing and despite the stubbornly high inflation and rising borrowing costs. There was also higher investment spending and higher government consumption, which was partially offset by businesses de stocking their levels of inventories and a decline in the volume of net trade.

The UK trade deficit narrowed to £5.86 billion in January 2023 down from £7.15 billion in the previous month, as imports tumbled 6.3% and exports fell at a softer 5.1% goods imports were down 8.7% as purchases from the EU fell by 8.8% and those from non-EU countries declined by 8.7% the decrease in imports from the EU was mainly the result of falling purchases of machinery and transport equipment, chemicals, and fuels.

UK employment rose by 65k in the three months to January 2023 above market forecasts of a 52k rise and following a 74k growth in the previous period. The unemployment rate in the UK came in at 3.7% in November 2022 to January 2023 largely unchanged compared with the previous three-month period and slightly below market consensus of 3.8%. The number of unemployed people rose by 5k to 1250k, while employment levels increased by 65k to 32840k, driven by part time employees and self-employed workers. UK average weekly earnings, including bonuses, rose 5.7% y/y to £630 in the three months to January, the smallest increase since July, following an upwardly revised 6% rise in the last three months of 2022. In addition, regular pay which excludes bonus payment, went up 6.5% to £589 with the pace of growth slowing for the first time since late 2021. Adjusted for inflation, total pay declined 3.2% the most since 2009 and regular pay was down 2.4% as inflation continues to squeeze UK living standards. Meanwhile, retail sales in the UK unexpectedly rose 1.2% m/m in February, following an upwardly revised 0.9% rise in January it is the biggest increase in four months.

The annual consumer inflation rate in the UK unexpectedly rose to 10.4% in February from 10.1% in January, the first increase in four months and compared to forecasts of a decline to 9.9%. The biggest upward pressure came from cost of food and non-alcoholic beverages on the other hand, a slowdown was seen in prices for transport, particularly motor fuels furniture housing and utilities and recreation and culture elsewhere, the GfK Consumer Confidence indicator rose to -36 in March 2023 from -38 in February, pointing to the highest reading in a year amid better economic forecasts.

The public sector net borrowing (PSNB ex) in February 2023 was £16.7 billion, £9.7 billion more than February 2022 and the highest February borrowing since monthly records began in 1993, largely because of substantial spending on energy support schemes. The Bank of England raised Bank Rate by 25 bps to 4.25% during the March meeting, in line with expectations, and pushing borrowing costs to fresh 2008-highs, aiming to bring inflation back to the 2% target.

In the US the unemployment rate edged up to 3.6% in February up from a 50 year low of 3.4% seen in January. The number of unemployed people increased by 242k to 5940k, and employment levels rose by 177k to 160320k. The US economy expanded an annualised 2.6% on quarter in the last three months of 2022, slightly less than initial estimate of 2.7%. The annual inflation rate in the US slowed to 6% in February, the lowest since September 2021, in line with market forecasts. The Fed raised the Fed Funds Rate by 25bps to 4.75%-5% in March, matching the February increase, and pushing borrowing costs to new highs since 2007.

The Eurozone economies failed to grow in the final quarter of 2022, compared with preliminary estimates of 0.1% growth and an upwardly revised 0.4% expansion in the previous three-month period. GDP grew in the Netherlands, Spain, and France, but contracted in Germany and Italy. The annual inflation rate in the Euro area eased to 6.9% year-on-year in March, its lowest level since February 2022 and slightly below market consensus of 7.1%. The European Central Bank raised interest rates by another 50 bps to 3.5% at its March meeting, as previously promised, further pushing borrowing costs to the highest level since late 2008, to help temper the region’s stubbornly high inflation.