Committee and Date Audit Committee 20th July 2023 Cabinet 6th September 2023	Item Public

Healthy People | Healthy Economy | Healthy Environment | Healthy Organisation

Annual Treasury Report 2022/23

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

1. Synopsis

During 2022/23 the Council stayed within all required indicators for managing its financing arrangements, including day to day cashflow, short term investments and longer term borrowings. Additional income of £2.5m was secured.

2. Executive Summary

2.1 During 2022/23, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparison to the target set in the Treasury Strategy, are detailed in Appendix C.

2.2 The internal treasury team outperformed their investment benchmark by 0.03% in 2022/23 achieving a return of 1.81%. Treasury activities during the year have been within approved prudential and treasury indicators set and have complied with the Treasury Strategy.

3. Recommendations

The Council is recommended to:

3.1. Approve the actual 2022/23 prudential and treasury indicators in this report

3.2. Note the annual treasury management report for 2022/23

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. The Audit Committee will consider the report and appendices on 20 July before approval is sought at Full Council on 21 September.

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 performance is above benchmark for the reasons outlined in paragraph 2.2 of this report and has delivered additional income of £2.546 million which has been reflected in the Financial Outturn report for 2022/23.

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 is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

7.2 During 2022/23 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year
- a mid-year treasury update report
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

7.3 In addition, Cabinet has received quarterly treasury management update reports during the course of the year.

7.4 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

7.5 The Council has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by Cabinet before they were reported to the full Council.

7.6 The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

8. Borrowing Strategy and Outturn for 2022/23

8.1. The Council's Borrowing Strategy and Outturn position for 2022/23 can be found in Appendix A.

9. Investment Strategy and Outturn for 2022/23

9.1. The Council's Investment Strategy and Outturn position for 2022/23 can be found in Appendix B.

10. Compliance with Treasury Limits and Prudential Indicators

10.1. Compliance with the Council's Treasury Limits and Prudential Indicators can be found in Appendix C.

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, 15 December 2022, Treasury Strategy 2022/23 Mid-Year Review.

Council, 2 March 2023, Treasury Strategy 2023/24.

Cabinet, 7 September 2022, Treasury Management Update Quarter 1 2022/23.

Cabinet, 14 December 2022, Treasury Management Update Quarter 2 2022/23.

Cabinet, 15 February 2023, Treasury Management Update Quarter 3 2022/23.

Cabinet, 7 June 2023, Treasury Management Update Quarter 4 2022/23.

Local Member:	**All**

Appendices

Appendix A - Borrowing Strategy and Outturn 2022/23

Appendix B - Investment Strategy and Outturn 2022/23

Appendix C – Prudential Indicators 2022/23

APPENDIX A - BORROWING STRATEGY AND OUTTURN 2022/23

Borrowing Strategy for 2022/23

The Council's borrowing requirement identified within the capital programme 2022/23 to 2024/25 was self-financing prudential borrowing of £65.228m therefore no external borrowing was required but based on the prospects for interest rates outlined in the treasury strategy, the council would adopt a pragmatic approach if circumstances changed when considering any new borrowing.

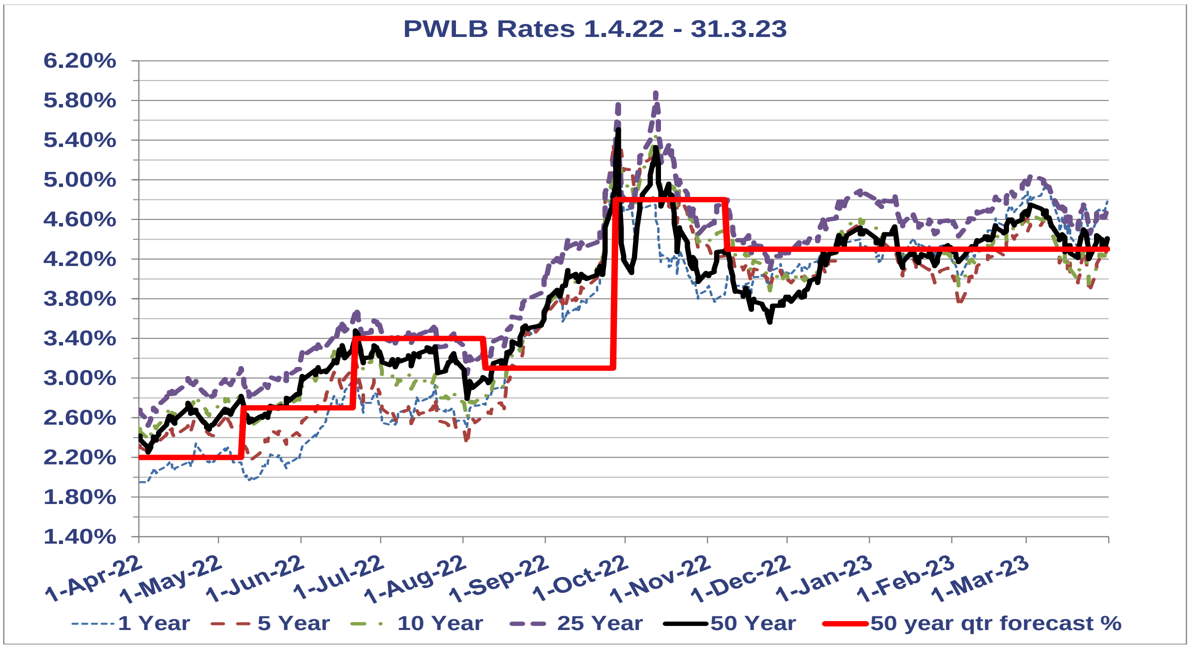
Short term Public Works Loan Board (PWLB) rates were expected to be significantly cheaper than longer term borrowing rates during the year therefore borrowing in the under 10 year period early on in the financial year when rates were expected to be at their lowest would be considered. Variable rate borrowing was also expected to be cheaper than long term fixed rate borrowing throughout the year.

An alternative strategy was to defer any new borrowing as long term borrowing rates were expected to be higher than investment rates during the year. This would maximise savings in the short term and also have the added benefit of running down investments which would reduce credit risk.

Consideration of changing strategy would be taken 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.

Borrowing Outturn for 2022/23

The Treasury Team take advice from its external treasury advisor, Link Asset Services, on the most opportune time to borrow. Movements in rates during 2022/23 are shown in the graph below.



Members have previously been advised of the unexpected change of policy on PWLB lending arrangements in October 2010 following the Comprehensive Spending Review. In addition, in October 2019, the Treasury and PWLB announced an increase in rates of 1% across all borrowing periods. This made new borrowing more expensive and repayment relatively less attractive. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and on 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.

The table below shows PWLB borrowing rates for a selection of maturity periods. The table also shows the high and low points in rates during the year, average rates during the year and individual rates at the start and the end of the financial year.

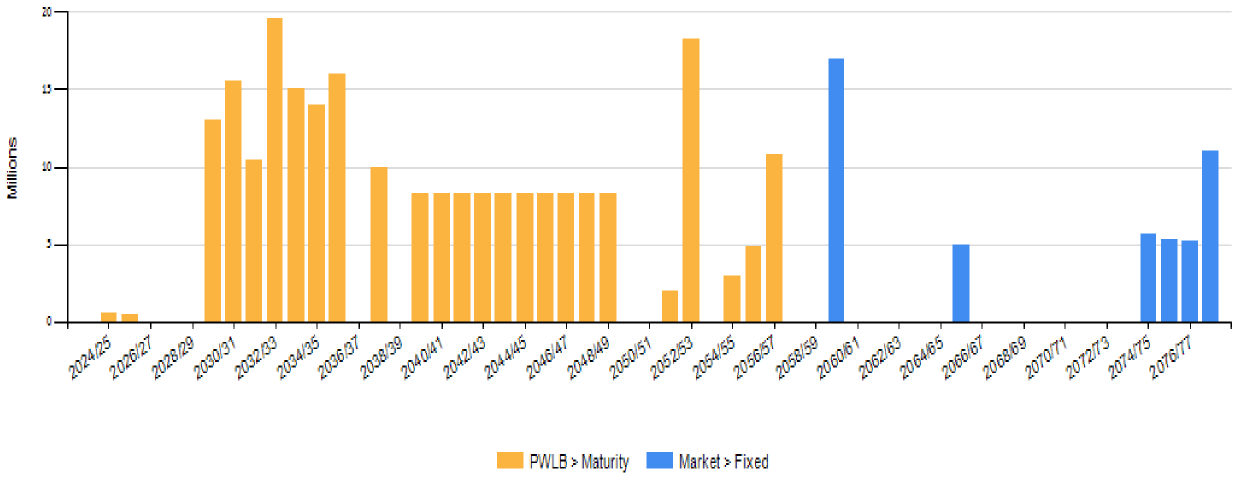
	1 Year	5 Year	10 Year	25 Year	50 Year
As at 1/4/22	1.95%	2.32%	2.49%	2.68%	2.42%
As at 31/3/23	4.78%	4.31%	4.33%	4.70%	4.41%
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.57%	3.62%	3.76%	4.07%	3.74%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

Following discussions with Link, as general fund borrowing rates were significantly higher than investment rates during the year it was agreed that if any new borrowing was required during the year it would be deferred in order to maximise savings in the short term and reduce credit risk by reducing investments. No new external borrowing was required in 2022/23. The council's total debt portfolio at 31 March 2022 is set out below:-

Type of Debt	Balance £m	Average Borrowing Rate 2022/23
General Fund Fixed Rate – PWLB	153.52	4.86%
HRA Fixed Rate - PWLB	83.35	3.51%
Fixed Rate - Market	49.20	4.10%
Variable Rate	0	N/A

The maturity profile of the debt is evenly spread to avoid large repayments in any one financial year. The average debt period for PWLB loans is 16 years, market loans have an average debt period of 48 years. The total debt portfolio has a maturity range from 1 year to 55 years.

The Treasury Strategy allows up to 15% of the total outstanding debt to mature in any one year. It is prudent to have the Council's debt maturing over many years so as to minimise the risk of having to refinance when interest rates may be high. The actual debt maturity profile is within these limits



Debt Rescheduling

No debt restructuring was undertaken during 2022/23. The introduction of a differential in PWLB rates on the 1 November 2007, which was compounded further following a policy change in October 2010 and subsequent changes in 2019 and 2020, as outlined above has meant that large premiums would be incurred if debt restructuring was undertaken, which cannot be justified on value for money grounds.

Although these changes have restricted debt restructuring, the current debt portfolio is continually monitored in conjunction with external advisers in the light of changing economic and market conditions to identify opportunities for debt rescheduling. Debt rescheduling will only be undertaken:

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

APPENDIX B - INVESTMENT STRATEGY AND OUTTURN 2022/23

Investment Strategy 2022/23

When the Treasury Strategy was approved in February 2022, our treasury advisor had outlined how difficult it would be to forecast Bank rate increases during 2022/23 due to the uncertainty around the inflation rate although it was anticipated that the bank rate would incrementally increase through 2022.

The below forecast table was included in the Treasury Strategy report 2022/23.

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

Given significant increases in the Bank Rate during the early part of the year, the below forecast table was included in the Mid-Year Treasury Strategy report 2022/23.

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

In 2022/23 investment of surplus cash continued to be managed by the internal treasury team. The investment priorities are the security of capital and the liquidity of its investments. The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. Investments are made in line with the Council's policy on creditworthiness which was approved in the Annual Investment Strategy.

Investment Outturn 2022/23

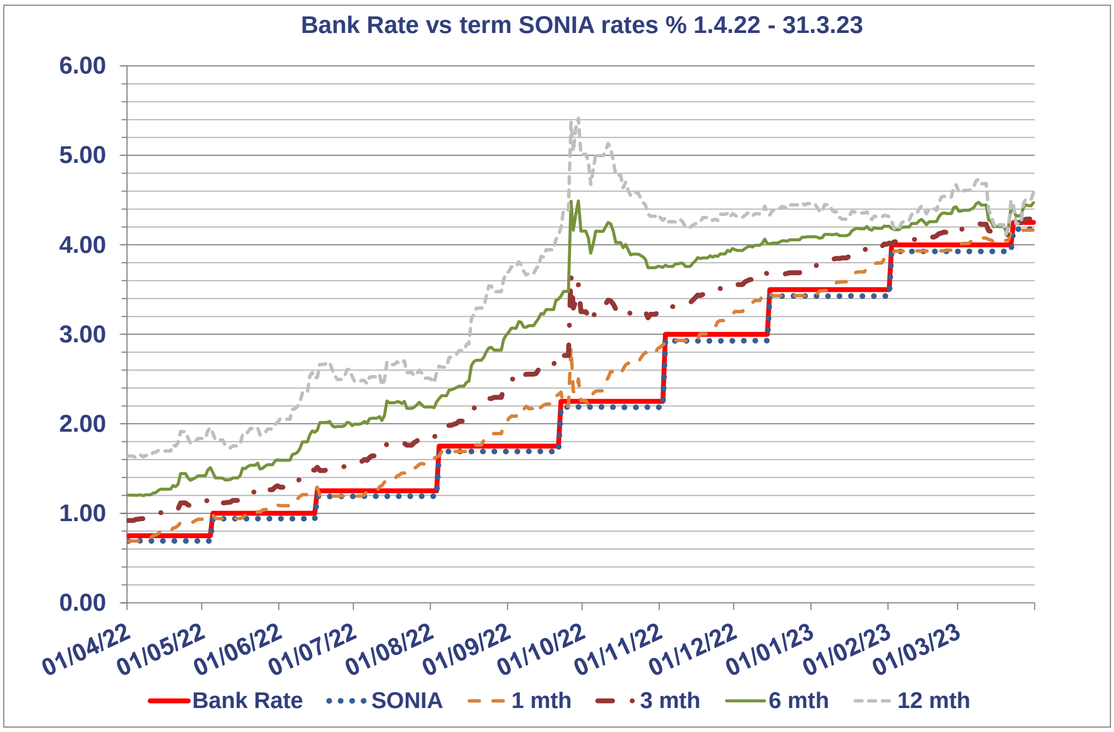
Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24.

The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

Movements in short term rates through the year are shown in the graph below.



At 31 March 2023 the allocation of the cash portfolio was as follows:

Maturity Date	£m
Under 1 month	46.4
1-3 months	8.0
3-6 months	23.0
6-9 months	0
9-12 months	7.0
TOTAL	**84.4**

The average return on cash investments for the internal treasury team during the year was a return of 1.81%. Recognising the need to manage short term cash flow requirements, the target for the internal team is the 3 Month SONIA rate (1.78%). Therefore the internal treasury team have outperformed the benchmark by 0.03%.

APPENDIX C – PRUDENTIAL INDICATORS 2022/23

The Prudential Code requires the Council to set Prudential Indicators in the Treasury Strategy and report performance against those indicators in the Annual Treasury Report.

As can be seen from the table below, with the exception of Indicator 2, all of the actual indicators are below the targeted level that was set out in the Treasury Strategy for 2022/23. Prudential Indicator 2 states that gross external borrowing should not exceed the capital financing requirement, so whilst the actual net borrowing (£208m) is in excess of the target (£198m), the borrowing is still less than the total capital financing requirement (£486m) and so meets the requirements of the indicator.

PRUDENTIAL INDICATORS	2022/23	2022/23
	Indicator	Actual
1. Ratio of financing costs to net revenue stream	**%**	**%**
Non - HRA	9.9	7.6
Non HRA (net of investment income)	9.5	8.8
HRA	37.9	27.4
2. Net Borrowing & Capital Financing Requirement (CFR)	**£m**	**£m**
Non – HRA	431	417
HRA	95	92
Commercial activities/non-financial investments	19	8
TOTAL CFR	**545**	**517**
Movement in CFR	**36**	**38**
Gross Borrowing (including HRA)	348	292
Investments	150	84
Net Borrowing	**198**	**208**
3. Capital Expenditure	**£m**	**£m**
Non - HRA	159.4	77.7
HRA (applies only to housing authorities)	16.5	13.5
Commercial activities /non-financial investments	13.0	9.2
TOTAL	**188.9**	**100.4**
Financing of capital expenditure	**£m**	**£m**
Capital receipts	27.0	9.0
Capital grants	69.9	34.2
Other contributions	23.0	14.3
Major Repairs Allowance	3.8	4.2
Alternative Funding Options	3.3	0.9
Revenue	3.4	1.4
Net financing need for the year	**58.5**	**36.4**
Commercial activities/non-financial investments	**£m**	**£m**
Capital expenditure	13.0	9.2
Financing costs	0.4	0.4
Net financing need for the year	**12.6**	**8.6**
Percentage of total net financing need	97%	96%

4. Authorised Limit for External Debt		**£m**	**£m**
Borrowing		528	292
Other long term liabilities (PFI)		92	91
Commercial activities/ non-financial investments		13	0
TOTAL		**633**	**383**
5. External Debt - Operational Boundary:		£m	£m
Borrowing		460	292
Other long term liabilities (PFI)		92	91
Commercial activities/ non-financial investments		13	0
TOTAL		**565**	**383**
6. External Debt:		**£m**	**£m**
Borrowing		298	292
Other long term liabilities (PFI)		96	94
TOTAL		**394**	**386**
7. Borrowing Limits	**Lower Limit £m**	**Upper Limit £m**	**£m**
Fixed Interest Rate Exposure	264	528	292
Variable Interest Rate Exposure	0	264	0
8. Investment Limits	**Lower Limit £m**	**Upper Limit £m**	**£m**
Fixed Interest Rate Exposure	0	250	84
Variable Interest Rate Exposure	0	250	0
9. Maturity Structure of Fixed /Variable Rate Borrowing During 2022/23	**Upper Limit %**	**Lower Limit %**	**%**
Under 12 mths	15	0	2
12 mths & within 24 mths	15	0	0
24 mths & within 5 years	45	0	0
5 years & within 10 years	75	0	20
10 years & within 20 years	100	0	30
20 years & within 30 years	100	0	24
30 years & within 40 years	100	0	12
40 years & within 50 years	100	0	2
50 years and above	100	0	9
10. Investment Limits		**£m**	**£m**
Upper Limits for Total Principal Sums Invested for over 365 days:			
Externally Managed		50	0
Internally Managed		70	0