



### Committee and Date

Audit Committee  
23<sup>rd</sup> November 2023

Cabinet  
13<sup>th</sup> December 2023

Council  
14<sup>th</sup> December 2023

Item

Public



## Treasury Strategy 2023/24 Mid-Year Review

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<b>Cabinet Member (Portfolio Holder):</b>	Cllr Gwilym Butler, Finance & Corporate Support

### 1. Synopsis

In-year benefits of £1.5m have been realised through management of Council treasury activity. As at 30 September 2023 the Council held £58m in investments and had £286m of borrowing. The report confirms compliance with Treasury and Prudential limits agreed by Full Council.

### 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 2023/24
  - A review of the Treasury Strategy 2023/24 and Annual Investment Strategy
  - A review of the Council's investment portfolio for 2023/24
  - A review of the Council's borrowing strategy for 2023/24
  - A review of any debt rescheduling taken
  - A review of compliance with Treasury and Prudential limits for 2023/24

### 3. Recommendations

3.1. Members are asked to agree the Treasury Strategy activity 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. The main risk relating to undertaking Treasury Management activities is a potential financial loss and this is considered in the table below:

<i>Risk</i>	<i>Mitigation</i>
Potential financial loss arising from undertaking Treasury Management activities	All Treasury Management practices are in compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement, and the Prudential Code for Capital Finance, together with rigorous internal controls.
	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 2023/24 six-month performance is above benchmark and has delivered additional income of £81,610.
- 5.3. In-year (2023/24) benefits have been realised of £1.5m, made up of £0.9m saving on interest payable, and additional income of £0.6m for interest receivable. Further details are set out from para 10.7 (below).

## 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 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 the activities, and the pursuit of optimum performance consistent with those risks.” Broadly, cash received by the Council raised during the year will meet its cash expenditure. Treasury Management operations ensure this cash flow is planned and managed. Temporary surplus balances are invested in low-risk counterparties (providing security), ensuring cash availability (liquidity), and only considering investment return (yield) last.
- 7.2. Cash flow management covers in-year (revenue) costs as well as the funding of the Council's long term (capital) plans. Capital plans provide a guide to the future borrowing need of the Council and may involve arranging long or short-term borrowing. Occasionally existing debt may be restructured as opportunities allow.
- 7.3. 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
- 7.4. A report setting out the Council's Capital Strategy was taken to full Council in March 2023. This report informs Members of the treasury activities of the Council for the first six months of the financial year.
- 7.5. To secure specialist advice on long-term borrowing and investment, the Council works with Link Asset Services, who provide the detailed analysis set out in this report.

## 8. Economic Update and Forecast

- 8.1. Since the Council's Treasury and Capital strategies were agreed in March 2023, there has been further change in terms of the economic environment. The bank base rate has increased over the period from 4.25% to 5.25% to try to manage the high inflation rates, and inflation has started to marginally reduce, although remains high. A detailed commentary can be found in Appendix D.

8.2. Link Asset Services forecast interest rates over the next 36 months. Their latest interest rate forecasts were updated on 25<sup>th</sup> September and are shown below.

Link Group Interest Rate View	25.09.23													
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	
<b>BANK RATE</b>	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75	
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80	
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90	
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00	
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50	
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50	
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80	
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60	

## 9. Treasury Strategy update

9.1. The Treasury Management Strategy (TMS) for 2023/24 was approved by Full Council on 2 March 2023. 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. Treasury Strategy update

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 interest rate forecasts (above), we are seeing interest rates rise to levels not seen in for several years. As a result, see some increase in interest earned is anticipated. It is also expected that previous investments placed when rates were at low will now mature and be replaced with higher interest deposits.

10.2. In the current economic climate, it is considered appropriate to keep investments short term (up to 1 year), and only invest with highly rated financial institutions using Link's suggested creditworthiness approach.

10.3. In the first six months of 2023/24, the internal treasury team outperformed its benchmark by 0.21% (return of 4.42% compared to the benchmark of 4.21%). This generated additional income of £81,610 during the first six months (included in the quarterly financial report).

10.4. A full list of investments held as at 30 September 2023, compared to Link's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown in Appendix A.

10.5. None of the approved limits within the Annual Investment Strategy were breached during the first six months of 2023/24 or previously. Officers monitor the credit ratings of investment counterparties daily.

10.6. Recent investment rates available in the market have increased due to the central bank rate increasing to 5.25% in August 2023. The average level of funds available for investment in the first six months of 2023/24 was £78 million.

10.7. The interest receivable budget is expected to deliver, as a minimum, additional income of £0.558m due to recent changes in the Bank of England base rate, which has increased from 4.25% to 5.25% in the first six months of the year. Projections on income will be reviewed monthly. The current estimates are based on assumptions of the value of investment balances. There are also savings of £0.954m projected against interest payable budgets, resulting in an overall benefit of £1.512m through active management of treasury activities.

## 11. Borrowing

11.1 Details of the Council's borrowing activity can be found within Appendix D.

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

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

Council, 2 March 2023, Financial Strategy 2023/24 – 2027/28 and Setting the Council Tax Resolution 2023/24

Council, 20 September 2018, Revised Minimum Revenue Provision Statement 2018/19

**Local Member:** N/A

### Appendices

Appendix A – Investment Report as at 30 September 2023

Appendix B – Prudential Limits

Appendix C – Prudential Borrowing Schedule

Appendix D – Economic Background and Borrowing Update