



Committee and Date

Audit Committee
28th November 2024

Cabinet
4th December 2024

Council 12th December
2024

Item

Public



Treasury Strategy 2024/25 Mid-Year Review

Responsible Officer:	James Walton
email: james.walton@shropshire.gov.uk	Tel: 01743 258915
Cabinet Member (Portfolio Holder):	Cllr Gwilym Butler, Finance & Corporate Support

1. Synopsis

As at 30 September 2024 the Council held £22m in investments and had £311m 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 2024/25
 - A review of the Treasury Strategy 2024/25 and Annual Investment Strategy
 - A review of the Council's investment portfolio for 2024/25
 - A review of the Council's borrowing strategy for 2024/25
 - A review of any debt rescheduling taken
 - A review of compliance with Treasury and Prudential limits for 2024/25

3. Recommendations

Members of the Audit Committee and Cabinet are asked to:

- 3.1. Agree the Treasury Strategy activity as set out in the report.
- 3.2. Recommend to Council the revision to the Prudential Indicators as set out in section 9 of the report.
- 3.3. To note that the changes to prudential indicators reflect the reduction of internal cash balances and the need to externalise debt; this is a straightforward liquidity requirement unrelated to other financial matters and would have been required at this time regardless of the wider financial position.
- 3.4. To note that provision for additional borrowing costs in revenue budgets was included in the 2024/25 budget.

Members of Council are asked to:

- 3.5. Agree the Treasury Strategy activity as set out in the report.
- 3.6. Approve the revision to the Prudential Indicators as set out in section 9 of the report.
- 3.7. To note that the changes to prudential indicators reflect the reduction of internal cash balances and the need to externalise debt; this is a straightforward liquidity requirement unrelated to other financial matters and would have been required at this time regardless of the wider financial position.
- 3.8. To note that provision for additional borrowing costs in revenue budgets was included in the 2024/25 budget.

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

5. Financial Implications

- 5.1. Shropshire Council is currently managing an unprecedented financial position as budgeted for within the Medium Term Financial Strategy approved by Council on 29 February 2024 and detailed in our monitoring position presented to Cabinet on a monthly basis. This demonstrates that significant management action is required over the remainder of the financial year to ensure the Council's financial survival. While all Cabinet Reports provide the financial implications of decisions being taken, this may change as officers review the overall financial situation and make decisions aligned to financial survivability. Where non-essential spend is identified within the Council, this will be reduced. This may involve
- scaling down initiatives,
 - changing the scope,
 - delaying implementation, or
 - extending delivery timescales.
- 5.2. 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.
- 5.3. The 2024/25 six-month performance is marginally below benchmark but has delivered net income of £1.059m.
- 5.4. During 2024/25, there is a £0.977m saving on interest payable, as a result of a renegotiation of the future terms of two market loans that the council holds.

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 February 2024. 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 February 2024, there has been further change in terms of the economic environment. The Bank of England has initiated its easing cycle by lowering interest rates from bank base rate has reduced over the period from 5.25% to 4.75%. 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 are shown below.

Link Group Interest Rate View	28.05.24									
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

9. Treasury Strategy Update

- 9.1. The Treasury Management Strategy (TMS) for 2024/25 was approved by Full Council on 29 February 2024. The underlying TMS approved previously requires revision in the light of economic and operational movements during the year. The proposed changes and supporting detail for the changes are set out below:

Prudential Indicator 2024/25	Original £m	Revised Prudential Indicator £m
Borrowing Need – Gross Borrowing	285	437
Borrowing Need – Net Borrowing	235	387
Operational Boundary	480	632
Authorised Boundary	546	698

Borrowing Need

The capital financing requirement (CFR) is the maximum we would expect to borrow based on the total historic outstanding capital expenditure which has not been paid for from either revenue or capital resources. Therefore it is essentially a measure of the Authority's underlying borrowing need.

The gross borrowing undertaken reflects the estimated position on borrowing to be undertaken. In previous years, the Council has 'internally' borrowed for capital schemes whilst cash balances were significant to reduce the borrowing costs for the Council. This has been possible due to the availability of internal cash balances but led to a high level of 'under-borrowing' against the indicative level of borrowing. In 2024/25 it is now intended that external borrowing will be necessary to address the previously under-borrowed position of the Council, and this has now been reflected in the revised gross and net borrowing anticipated for 2024/25 below. It is acceptable to revise estimated borrowing need up or down as the situation changes; by setting a new threshold in advance, the Council will comply with the requirement to be open and transparent over its borrowing intentions.

	Original Estimate £m	Amendment £m	Revised Prudential Indicator £m
Gross Borrowing less than CFR			
Capital Financing Requirement:			
Non HRA Capital Financing Requirement	345	0	345
HRA Capital Financing Requirement	111	0	111
Total CFR	456	0	456
Movement in CFR represented by			
Net financing need for the year	32	0	32
Less MRP/VRP and other financing movements	1	0	1
Movement in CFR	33	0	33
Gross Borrowing (including HRA)	285	0	285
Borrowing to replace previous Internal Borrowing	0	152	152
Amended Gross Borrowing	285	185	437
Investments	50	0	50
Net Borrowing	235	185	387

Operational Boundary

This indicator shows the maximum permitted amount of outstanding debt for all purposes. The initial starting point for the calculation is the external borrowing currently undertaken and any additional anticipated borrowing required for the capital programme in year. The original estimate did not include any provision for transferring the internal borrowing to external borrowing and so this has now been included. It is acceptable to revise the operational boundary indicator up or down as the situation changes; by setting a new threshold in advance, the Council will comply with the requirement to be open and transparent over its borrowing intentions.

Operational Boundary	Original Estimate £m	Amendment £m	Revised Prudential Indicator £m
Debt	394	152	546
Other long term liabilities	86	0	86
Total	480	152	632

Authorised Boundary

This is a key prudential indicator and represents a control on the maximum level of borrowing. The initial starting point for the calculation is the external borrowing currently undertaken and any additional anticipated borrowing required for the capital programme and strategy. The original estimate did not include any provision for transferring the internal borrowing to external borrowing and so this has now been built in. Again, It is acceptable to revise the Authorised Boundary up or down as the situation changes; by setting the new threshold in advance, the Council will comply with the requirement to be open and transparent over its borrowing intentions.

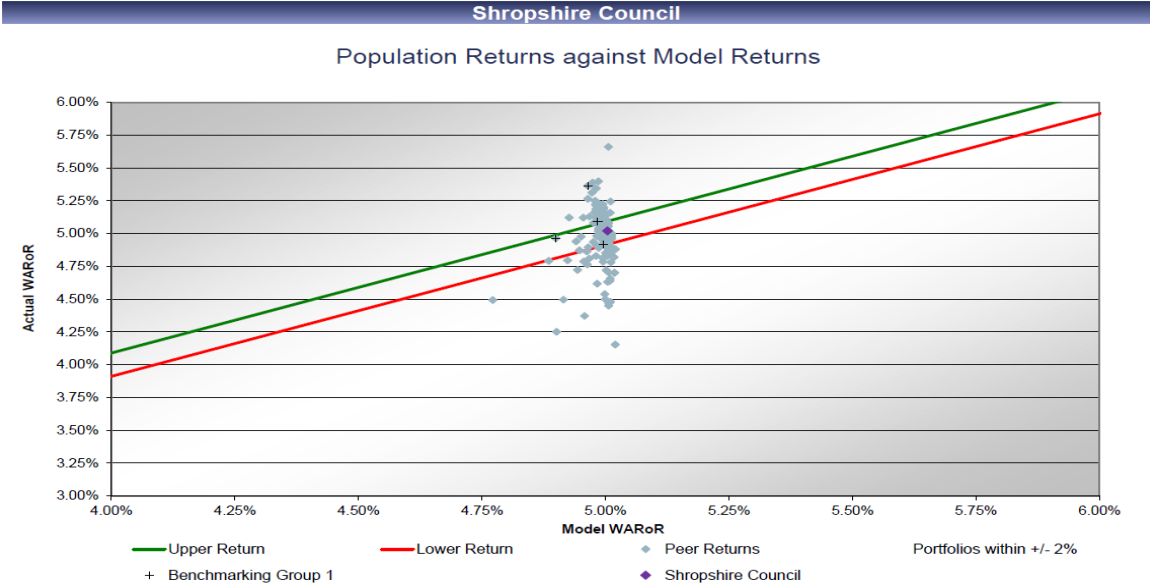
Authorised Boundary	Original Estimate £m	Amendment £m	Revised Prudential Indicator £m
Debt	460	152	612
Other long term liabilities	86	0	86
Total	546	152	698

10. Annual Investment Strategy

- 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. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit quality financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

10.2. The average level of funds available for investment purposes during the first half of the financial year was £41.48m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

10.3. In the first six months of 2024/25 the internal finance team’s return achieved was marginally lower than its benchmark by 0.01%. The gross investment return was 5.11% compared to the benchmark of 5.12%. As cash balances held are lower than in previous years, the Council need to ensure cash balances are highly liquid, resulting in lower interest rates on short term deals. Whilst returns on investment are important, as we strive to achieve the best investment we can, the Council’s priority is always to ensure security of funds and ensure we hold sufficient liquid balances. With this in mind, this will often mean that we cannot secure the higher rate investments as these are offered to longer term deals. The Council does receive benchmarking analysis of its investments in relation to its comparative group and throughout the second quarter of 2024/25, its performance on investment were considered in line with the other organisations.



10.4. A full list of investments held as at 30 September 2024, 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 second quarter of 2024/25. 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.

10.5. Recent investment rates available in the market have decreased due to the central bank rate reducing to 5.00% in August 2024.

10.6. The interest receivable budget is expected to deliver, as a minimum, net income of £1.059m 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 £0.977m projected against interest

payable budgets, as a result of a renegotiation of two Market Loans.

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, 29 March 2024, Treasury Strategy 2024/25.

Council, 29 February 2024, Financial Strategy 2024/25 – 2028/29 and Setting the Council Tax Resolution 2024/25

Local Member: N/A

Appendices [Please list the titles of Appendices]

Appendix A – Investment Report as at 30 September 2024

Appendix B – Prudential Limits

Appendix C – Prudential Borrowing Schedule

Appendix D – Economic Background and Borrowing Update
