Lincolnshire COUNTY COUNCIL
Working for a better future

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	**Overview and Scrutiny Management Board**
Date:	**25 February 2021**
Subject:	**Treasury Management Performance 2020/21 - Quarter 3 to 31 December 2020**

Summary:

This report details the treasury management activities and performance to Quarter 3 of 2020/21 to 31st December 2020, comparing this to the Treasury Management Strategy and Annual Investment Strategy 2020/21 that was approved by the Executive Councillor for Resources and Communications on 20th March 2020. This report meets the reporting requirements as detailed in the CIPFA Code of Practice for Treasury Management which we follow.

Actions Required:

That the report is noted and any comments be passed onto the Executive Councillor for Resources and Communications.

1. Background

1.1. The Treasury Management Strategy and Annual Investment Strategy 2020/21 sets the framework for how we manage the cashflow, borrowing and treasury investments of the Council and the risks involved.

1.2. Actual activity and performance compared to this strategy is reported quarterly, this report being the third quarter report for 2020/21 covering the period up to 31st December 2020.

1.3. Activity and performance up to 31st December 2020 compared to the strategy is detailed in the Conclusion in Section 2 below. Supporting information is detailed in the attached appendices.

2. Conclusion

Comparison of Activity and Performance to Strategy for Period up to 31st December 2020

Interest Rate Forecast:

***Strategy*:**

At the time of writing the Strategy:

- *Short term and long term rates were forecast to rise moderately over the next three years, by no more than 0.90%, and no more than 0.25% in 2020/21.*
- *This forecast based on assumption of an agreed deal on the Brexit withdrawal and set prior to the impacts of the Covid-19 pandemic to the economy and interest rates.*

Activity & Performance to 31st December 2020:

Short term Rates.	Due to measures to tackle the Covid-19 pandemic, Base Rate was cut to 0.10% by the end of March 2020 and has remained at that level since. Short Term LIBID rates have fallen below zero as LIBOR rates have fallen close to zero. The Bank of England is not expected to move Base Rate further for a considerable period, as impacts on the economy due to Covid-19 play out, although negative interest rates have been ruled out for the time being.
Long Term Rates.	Long term rates fell by up to 1.0% in March 2020 as the Covid-19 pandemic effects on the economy took hold and they remained relatively flat over the period until 26th November 2020, when the PWLB reduced its rates by 1.0% across all periods following a review and consultation over how it operates. The graph at Appendix A shows that long term rates are at all time historical lows again following this cut.
Economic Review.	The Covid-19 pandemic caused severe shocks to the economy as the country was placed in lockdown in March 2020, with record falls in GDP (-8.6%) and record increases in unemployment rate forecast (5%) reported. The second national lockdown in November 2020 has seen the economy retract once again after a small recovery over the summer. CPI inflation is sub 1.0% at present and is expected to remain below 2% into 2022. The Bank of England will not change interest rates until they see persistent inflationary pressures. Hope of a recovery comes with the vaccine rollout in 2021 and there is optimism that the economy could return to pre-Covid levels by January-March 2022 with continued support from the Government.

Appendix A shows a graph of key interest rate movements to 31st December 2020 together with an economic overview at this date and the latest interest rate forecast from Link Asset Services Ltd (TM Advisor) dated 25th November 2020.

Investments:

***Strategy*:**

- *Investment priority – security first, liquidity second and finally yield.*
- *Aim to invest in all periods up to 2 years to suit direction of interest rates, at rates in excess of market levels.*
- *Low risk counterparty strategy adopted: minimum long term rating for approved counterparties set at 'A' and Sovereign Rating of 'AA-' for any two from three credit rating agencies.*

Activity & Performance to 31st December 2020:

Investment Position and Performance.	Investments outstanding at 31st December 2020, stemming from the Council's cash flow resources, stood at £368.550m. The return on investments has continued to exceed benchmark returns and benchmark comparators, for the level of risk taken, by some margin. Achieved by having a longer weighted average maturity of investments, which was 104 days at the end of the period, whilst benchmark rates have fallen drastically due to Covid-19 measures. Investment returns are on a falling trend however and higher liquidity balances are being held due to cash flow uncertainty caused by the Covid-19 measures that yield the lowest return. For more detail see **Appendix B.**
Lending List Changes.	The amount and maturity limit for the LloydsBOS Group has fallen to £15m/6Months from 365Day/£20m due to credit rating changes but no investments are placed with this Counterparty at present. There has also been no change to the Annual Investment Strategy that sets the Council's investment risk appetite. The Lending List as at 31st December 2020 is shown in **Appendix C**.

Appendix D shows a full list of investments held at 31st December 2020, combined with the creditworthiness list provided by Link Asset Services (TM Advisor). It shows that the proportion of lending to other councils has increased over the period (at lower risk), whilst fixed lending to banks has fallen as many banks have withdrawn from the market, securing funding by Central Banks at this time. The proportion of investments held in liquid investments (Notice and Money Market Funds) has increased to cover uncertainty in cashflow at present.

Borrowing:

***Strategy*:**

- *Long term external borrowing at start of year was £501.5m, costing 3.757%.*
- *New borrowing requirement for 2020/21 to finance capital programme was set at £137.9m.*
- *It was agreed that internal borrowing would be maintained at around 15%-16% of the capital financing requirement for 2020/21 which is around £122.9m. (Internal borrowing is using the Council's own internal cash balance to meet borrowing requirement).*
- *Any external long term borrowing would be taken with the aim to reduce the overall cost of debt and for periods to ensure an even debt maturity profile.*

Activity & Performance to 31st December 2020:

Revised Borrowing Requirement.	Taking into account carry forwards, internal borrowing and estimated rephasing and underspends, the borrowing requirement at 31st December 2020 was revised down to £0.000m and internal borrowing increased by £59.7m in the year to reach projected level of £163.8m by 31/3/2021.
Borrowing Position and Performance.	No external borrowing will now be undertaken in 2020/21. This will reduce borrowing costs and Counterparty Risk and avoid cost of carry on borrowing. This strategy is sensible due to no risk in long term interest rates rising from their historically low levels for the foreseeable future. The increased internal borrowing can also be met by the Council's increased level of cash resource at present whilst still maintaining adequate cash levels going forward. Due to repayment of borrowing to date, the cost of the Council's borrowing has fallen to 3.750%. The projected balance of long term debt at the year-end has fallen to £487.2m from £618.4m forecast when writing the Strategy.
Temporary Borrowing.	Temporary borrowing of £40.5m was undertaken in the period at an average cost of 0.09% to cover forecasted liquidity shortfalls later in the year. No temporary borrowing is expected to remain outstanding at 31st March 2021.
Debt Rescheduling.	No debt rescheduling was undertaken in the period.
Prudential Indicator Limits 2020/21.	All prudential limits were met with no breaches during the period.

Appendix E shows borrowing detail and latest maturity profile at 31st December 2020.

3. Consultation

a) Risks and Impact Analysis

Risk and impact analysis for treasury managenment forms TMP1 of the Treasury Management Practices that are required by the CIPFA Code of Practice 2017. A treasury management risk register details the main risks for treasury management and this is reviewed annually. Both the TMPs and the risk register are held in the Corporate Section of Financial Strategy at County Offices.

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Movement of Key Interest Rates to 31st December 2020, Economic Background and Latest Interest Rate Forecast from Link Asset Services Ltd.
Appendix B	Investments: Activity & Performance at 31st December 2020.
Appendix C	Authorised Lending List at 31st December 2020 and Credit Rating Key.
Appendix D	Investment Analysis Review at December 2020 - Link Asset Services Ltd.
Appendix E	Borrowing: Activity & Performance and Long Term Maturity Profile at 31st December 2020.

5. Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
Treasury Management Strategy Statement and Annual Investment Strategy 2020/21 - 20/3/2020	https://lincolnshire.moderngov.co.uk/ieDecisionDetails.aspx?ID=590
Council Budget 2020/21 - 21/2/2020	https://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=120&MId=5627

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