



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

Report to:	Overview and Scrutiny Management Board
Date:	25 February 2021
Subject:	Treasury Management Strategy Statement and Annual Investment Strategy for Treasury Investments 2021/22

Summary:

This report invites the Overview and Scrutiny Management Board to consider a report on the Treasury Management Strategy Statement 2021/22, including the Annual Investment Strategy for Treasury Investments 2021/22, which is due to be considered by the Leader of the Council (Executive Councillor: Resources and Communications) on 11 March 2021. The views of the Board will be reported to the Leader of the Council as part of his consideration of this item.

Actions Required:

The Overview and Scrutiny Management Board is invited to:-

- 1) consider the attached report and to determine whether the Board supports the recommendation to the Leader of the Council (Executive Councillor: Resources and Communications) as set out in the report.
- 2) agree any additional comments to be passed to the Leader of the Council in relation to this item.

1. Background

The Leader of the Council (Executive Councillor: Resources and Communications) is due to consider the Treasury Management Strategy Statement and Annual Investment Strategy for Treasury Investments 2021/22 on 11 March 2021. The full report to the Leader of the Council is attached at Appendix 1 to this report. The key points of the report are highlighted below.

Key Points Summary

- The Treasury Management Strategy and Annual Investment Strategy set the framework for how we manage cash flows, borrowings, treasury investments and risk. The sums involved are significant. Non-treasury investments made for service reasons have a different risk profile and are covered in a separate Capital Strategy that is included along with the County Council Budget 2021/22.
- Performance against these strategies will be reported quarterly to the Overview and Scrutiny Management Board throughout the forthcoming financial year.
- The Council pools the cash of the Pension Fund within the surplus Council cash balances for investment in line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This cash can include both the day to day cash balances of the Pension Fund and also its Strategic Asset Allocation of cash from time to time.
- Short term interest rates are forecast to remain exceptionally low for a considerable period of time, with Base Rate forecast to be 0.10% until at least March 2024. Some short term investments, including Money Market Funds, held for liquidity are already close to 0.00% or negative. Long term interest rates have risen recently by around 0.50% due to gilt market activity. An increase of no more than 0.10% during 2021/22 is forecast for long term interest rates, albeit with significant volatility over the period.
- The impact of the Covid-19 pandemic across the world sent worldwide economies into free-fall in 2020 as countries, including the UK, implemented national lockdowns and provided millions in support packages to businesses, consumers and health care organisations to protect the economy and jobs. The UK economy therefore starts the year in a precarious position with GDP being some 8.6% lower than pre-Covid levels and a loss of 1.6 million jobs forecast in the coming months. Hope of 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.
- Cash balances of the Council have seen a considerable increase in 2020 to an average of £350m to £400m, as Covid grant money has been received during the year and not yet fully expended. This will be reflected in the Council's reserves. An increase of short term liquidity investments is being maintained to manage uncertainty in the Council's cashflow at this time. To accommodate these increased levels of cash, the maximum amount limits for Individual Counterparties on the Council's Lending List, shown in the Annual Investment Strategy (Annex F) and the Lending List (Annex G) have been extended to include higher ranges/limits. There is no change to maturity limits.

- The Council has a significant borrowing requirement over the next three years to meet capital expenditure plans. With long term interest rates at historical lows and not forecast to go up significantly in 2021/22, this will be favourable in keeping the cost of the Council's long term debt low. The level of internal borrowing will be increased to around 20% to reduce interest costs and counterparty risks. This increase of internal borrowing can be accommodated given the increased level of cash balances held by the Council at present and an appropriate level of cash to maintain liquidity requirements will still be maintained. (See paragraph 2.3.2 PI2).
- In line with the CIPFA Prudential Code, Prudential Indicators, which limit the Council's borrowing and investment activity, are set. These limits ensure the Council's capital expenditure plans, are affordable, prudent and sustainable. (See Annex C.)
- The Council's Minimum Revenue Provision (MRP) policy is covered in Annex D and details how the Council will set aside cash resource from Revenue each year to repay borrowing. The level of MRP forms Prudential Indicator Number 5 as shown in Annex C. A review of the Council's current MRP policy will be undertaken in 2021/22, with Link Asset Services, which may lead to savings in the MRP charge going forward.
- Prudential Indicator Number 6 shows that the Council's cost of borrowing plans remain well within the limit set of 10% of Net Revenue (See Annex C) for the forecasting period to 2023/24.
- Giving consideration to current borrowing and investment factors highlighted, the key elements of the Council's borrowing and investment strategies for 2021/22 are highlighted in the green sections of the report. (See paragraphs 2.3.6 and 2.4.6.)
- The Council's risk appetite for treasury investments remains low, its priorities will remain: security first; liquidity second then finally yield. There will be a review of Enhanced Money Market Funds during 2021/22. These funds offer slightly higher yields than existing funds but have different risk parameters and access restrictions. Approval will be sought from the Leader of the Council (Executive Councillor: Resources and Communication) prior to opening any new funds or changing the risk profile of treasury investments.

2. Conclusion

Following consideration of the attached report, the Board is requested to consider whether it supports the recommendation(s) in the report and whether it wishes to make any additional comments to the Leader of the Council (Executive Councillor: Resources and Communication). The Board's views will be reported to the Leader of the Council.

3. Consultation

a) Risks and Impact Analysis

See report to Leader of the Council attached at Appendix 1.

4. Appendices

These are listed below and attached at the back of the report	
Appendix 1	Report to the Leader of the Council (Executive Councillor: Resources and Communications) on the Treasury Management Strategy Statement and Annual Investment Strategy for Treasury Investments 2021/22.

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
County Council Budget 2021/22 - 19 February 2021	https://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=120&MId=5729
LCC Treasury Management Policy Statement and Treasury Management Practices	Lincolnshire County Council, Resources

This report was written by Karen Tonge, who can be contacted on 01522 553639 or karen.tonge@lincolnshire.gov.uk.