



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

Report to:	<b>Overview and Scrutiny Management Board</b>
Date:	<b>30 September 2021</b>
Subject:	<b>Treasury Management Performance Quarter 1 to 30 June - 2021/22</b>

**Summary:**

This report details the treasury management activities and performance for Quarter 1 of 2021/22 to 30 June 2021. Comparing this to the Treasury Management Strategy and Annual Investment Strategy 2021/22 that was approved by the Executive Councillor for Resources, Communications and Commissioning on 11 March 2021. This report meets the reporting requirements as detailed in the CIPFA Code of Practice for Treasury Management that the Council follows.

**Actions Required:**

The Overview and Scrutiny Management Board is invited to note this report and any comments be passed onto the Executive Councillor for Resources, Communications and Commissioning.

## **1. Background**

- 1.1. The Treasury Management Strategy and Annual Investment Strategy 2021/22 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 1<sup>st</sup> quarter report for 2021/22 covering the period up to 30<sup>th</sup> June 2021.
- 1.3. Activity and performance up to 30<sup>th</sup> June 2021 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 30<sup>th</sup> June 2021

#### Interest Rate Forecast:

##### **Strategy:**

*At the time of writing the Strategy:*

- *Short term rates were forecast to remain exceptionally low (Bank Rate at 0.10%) for the next three years.*
- *Long term rates were expected to have little upward movement over the next 3 years by no more than 0.10% per year; however, a sell-off in the gilt market around the start of the financial year caused opening rates to be 0.50% higher.*
- *This forecast was based on the backdrop of the Covid19 pandemic and its effect on the Economy and the subsequent success of the UK vaccine programme leading to an improved economic outlook.*

#### **Activity & Performance to 30<sup>th</sup> June 2021:**

##### Short term Rates.

As expected, short term rates, including Bank Rate at 0.10% have remained flat throughout the period, although due to possible inflationary pressures and stronger economic recovery, the first predicted increase in Bank Rate has been brought forward from 2024 to April 2023 (to 0.25%) and then January 2024 (to 0.50%).

##### Long Term Rates.

Gilt yields which impact long-term borrowing rates increased at the start of the year due to US economic activity which led to worries of inflationary pressures. Since June however long-term rates have fallen sharply again perhaps due to the US not yet ceasing their QE activity as originally thought which acts as a downward pressure on yields. Long term rates remain volatile as there are many upward and downward pressures affecting them, although the overall balance of movement is still for a gradual increase of long-term rates over the next 3 years. Link has revised their long-term rates forecast downwards due to the recent falls.

##### Economic Review.

It is expected that the economy will be less affected by the recent COVID surge than feared, helped by the success of the vaccination programme. Recovery is expected to be driven by consumer spending and employment increases, returning to pre-crisis levels around October 2021, but overall growth may be weaker than previously thought at 7%. The inflation spike is expected to be short lived with no need for interest rate increases until 2023, longer than markets are pricing in. Unemployment is thought to have hit its peak at 5.2% in

December due to downward revisions to numbers of active workers.

**Appendix A** shows a graph of key interest rate movements in 2021/22 to date together with the latest interest rate forecast and commentary from Link Asset Services Ltd (TM Advisor) dated 10<sup>th</sup> August 2021.

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### **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 30<sup>th</sup> June 2021:**

Investment Position and Performance. Uncertainty of cash flows caused by COVID measures have improved in 2021/22, however cash balances have remained high, with investments outstanding on 30<sup>th</sup> June 2021 at £350.5m. Investment return has continued to exceed benchmark returns and benchmark comparators, for the level of risk taken, by some margin. This is achieved by having a longer weighted average maturity of investments which was 123 days at the end of the period and by minimising the use of liquid investments yielding the lowest returns. For more detail see **Appendix B**.

Lending List Changes.

The majority of credit rating outlooks for Counterparties have changed to Stable from Negative as COVID impact pressures have eased. There has been one lending limit change during the period as follows:

Landesbank Hessen-Thuringen Girozentrale – S & P Long Term Rating: A to A-, Limit £30m/364 day to £25m/6 months.

The rating agency believes that their progress in improving structural revenue diversification, cost bases and digitalisation needs to improve to keep up with its peers in the German banking sector.

There have been no breaches of Lending List limits during the period and no changes to the Annual Investment Strategy that sets the Council's investment risk appetite. The Lending List as at 30<sup>th</sup> June 2021 is shown in **Appendix C**.

**Appendix D** shows a full list of investments held at 30<sup>th</sup> June 2021, combined with the creditworthiness list provided by Link Asset Services (TM Advisor).

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## **Borrowing:**

### **Strategy:**

- *Long term external borrowing at start of year was £487.2m, costing 3.743%.*
- *New borrowing requirement for 2021/22 to finance capital programme was set at £111.2m.*
- *Due to increased surplus cash balances, it was agreed that internal borrowing would be increased to around 20%-25% of the capital financing requirement for 2021/22 which is around £165m. (Internal borrowing is using the Councils 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 30<sup>th</sup> June 2021:**

Revised Borrowing Requirement. Taking into account carry forward of underspend from the previous year, the borrowing requirement at 30<sup>th</sup> June 2021 has been revised to £173.4m and internal borrowing to £190.2m. Estimated rephasing, internal borrowing and underspend during 2021/22 brings these levels down to £88.4m and £165.2m respectively.

Borrowing Position and Performance.

No external borrowing has been undertaken in the period to date as long-term rates have fallen and rephasing/ internal borrowing have yet to be finalised. CIPFA are also introducing a new Treasury Indicator known as the Liability Benchmark, which if adopted may affect the level of borrowing undertaken. Work will commence on looking at this at the end of 2021. The cost of the Council's borrowing has fallen to 3.734% due to maturing debt to date.

Temporary Borrowing.

No temporary borrowing was taken in the period.

Debt Rescheduling.

No debt rescheduling was undertaken in the period.

Prudential Indicator Limits 2021/22.

All prudential limits were met with no breaches during the period.

**Appendix E** shows borrowing detail and latest maturity profile at 30<sup>th</sup> June 2021.

## Other Treasury Issues:

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### **CIPFA Consultation on Prudential and Treasury Management Codes -Ended 12<sup>th</sup> April 2021:**

CIPFA issued consultations for revisions to both the Prudential Code and Treasury Management Code in February 2021, with the view to strengthening the provisions of the Codes and to update them to reflect the changing environment within which they are applied. The Consultations ended on 12<sup>th</sup> April 2021 and CIPFA has recently clarified how it wishes to take forward the outcomes of the Consultations. The key outcomes are as follows:

#### Prudential Code:-

- Proportionality of commercial risk of all projects will be an objective and a new Indicator.
- Clarification will be given on the definition of commercial activity and investments held purely for return. Confirmation that such activity will not be permitted to lead to an increase in Capital Financing Requirement.

#### Treasury Management Code:-

- Implementation of the Treasury Management Knowledge & Skills framework to cover all those involved in Treasury Management at all levels, including Members. This will formalise the skills and competencies required to perform Treasury Management and identify any training required to meet gaps in knowledge.

The new Codes are expected to be published at the end of December 2021 for 2021/22 implementation.

### **MHCLG –Local Authority Capital Finance Framework: Planned Improvements**

MHCLG announced in July 2021 it's plans to change the current system of regulation of capital finance that has been in place since 2004 with a view to strengthen the current system while protecting the principles of local decision making. Emphasis is being placed on the risks associated with borrowing for commercial investments.

They are proposing an approach based on a three lines model to support Government policy and stewardship as follows:

-**Reporting and Scrutiny** – data provided to Government supplemented by Audit and Reporting.

-**Delivery by Local Authorities** –decision making processes, governance and capability. LAs still free to make/manage their own capital decisions within the Framework supplemented by support and regulation to address the risks associated with this activity.

-**The Prudential Framework (Legislation and Guidance)** – The Prudential Framework sets the

bounds of what is allowable activity –but with central control for intervention if necessary.

These changes will also pick up the risks associated with credit arrangements, income strips and financial derivatives and also seek to clarify guidance relating to Minimum Revenue Provision.

It has not yet been announced when these changes will be implemented but they are likely to coincide with the publication of the new Prudential Code (above).

### **Minimum Revenue Provision –Review by Link Asset Services.**

As promised in the Treasury Management Strategy for 2021/22, we have engaged Link to undertake a review of our current MRP procedures and policy with a view to finding any potential savings to future MRP payments. This exercise has now started and results will be reported when complete.

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## **3. Consultation**

### **a) Have Risks and Impact Analysis been carried out??**

Yes

### **b) Risks and Impact Analysis**

Risk & impact analysis for treasury management 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 for 2021/22 to date and Latest Interest Rate Forecast and Commentary from Link Asset Services Ltd.
Appendix B	Investments: Activity & Performance at 30th June 2021.
Appendix C	Authorised Lending List at 30th June 2021 and Credit Rating Key.
Appendix D	Investment Analysis Review at June - Link Asset Services Ltd.
Appendix E	Borrowing: Activity & Performance and Long Term Maturity Profile at 30th June 2021.

## 5. Background Papers

Document title	Where the document can be viewed
Treasury Management Strategy Statement and Annual Investment Strategy 2021/22 - 11/3/2021	Lincolnshire County Council, Resources
Council Budget 2021/22 - 19/2/2021	Lincolnshire County Council, Resources

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