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 November 2021**
Subject:	**Treasury Management Performance 2021/22 - Quarter 2 to 30 September 2021**

Summary:

This report details the treasury management activities and performance for Quarter 2 of 2021/22 to 30 September 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 review the report and pass any comments 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, with this report being the second quarter report for 2021/22 covering the period up to 30 September 2021.

1.3. Activity and performance up to 30 September 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 September 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 three 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 Covid-19 pandemic and its effect on the Economy and the subsequent success of the UK vaccine programme leading to an improved economic outlook.*

Activity and Performance to 30 September 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 again been brought forward to the beginning of 2022, rising to 0.75% by March 2023/24. Markets have factored in a rate rise as early as next week considering recent comments by the MPC.
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. From June 2021 long-term rates fell sharply again, perhaps due to the US not yet ceasing their QE activity as originally thought which acts as a downward pressure on yields. Link has revised their long-term rates forecast upwards by around 0.10% per annum over the next three years due to recent increases in rates again following recent hawkish comments by the MPC. As can be seen, 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 three years.
Economic Review.	The economic recovery has shown signs of flagging over the Autumn, as consumer spending has been dented by various factors such as energy price spikes, Covid-19 infection rises, the end of furlough and the threat of higher inflation and interest rates. The MPC has shifted its tone regarding

meeting its 2% inflation target in two years' time as it worries shortages in the labour market and other inflationary pressures will keep CPI inflation higher for longer. (CPC was 3.2% in Aug 2021). As such markets are pricing in an increase in rates as early as November but this is seen as ambitious, and Link Asset Services (TM Advisor), expect movement after February 2022 when results of the removal of furlough are more widely known.

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 dated 29 September 2021.

Investments:

***Strategy*:**

- *Investment priority – security first, liquidity second and finally yield.*
- *Aim to invest in all periods up to two 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 September 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 at 30 September 2021 at £344.2m. 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 144 days at the end of the period and by minimising the use of liquid investments yielding the lowest returns. For investment detail see **Appendix B.**
Lending List Changes.	Most credit rating outlooks for Counterparties have changed to Stable from Negative as Covid impact pressures have eased. There has been no change or breach of lending limits during the period or changes to the Annual Investment Strategy that sets the Council's investment risk appetite.

The Lending List as of 30 September 2021 is shown in **Appendix C** and a full list of investments held on 30 September 2021, combined with the creditworthiness list provided by Link Asset Services (TM Advisor) is shown in **Appendix D**.

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 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 30 September 2021:

Revised Borrowing Requirement.	Taking into account carry forward of underspend from the previous year, the borrowing requirement at 30 September 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 are not forecast to rise significantly, rephasing and internal borrowing have yet to be finalised and cash balances remain high. CIPFA are also introducing a new Treasury Indicator known as the Liability Benchmark, which if adopted may revise the level of borrowing chosen to undertake. 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 undertaken 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 on 30 September 2021.

Other Treasury Issues:

Further CIPFA Consultation on Prudential and Treasury Management Codes – Deadline for Response: 16 November 2021

CIPFA issued a second round of consultations for revisions to both the Prudential Code and Treasury Management Code in September 2021, which have further expanded the intention to develop a 'Liability Benchmark' to govern the amount of external debt taken in conjunction with acceptable levels of cash available and the inclusion of Non-Treasury Management investments into the Treasury Management framework by proposing a series of non-treasury investment indicators within the Prudential Code. Depending on the response to these consultations it is the intention that the revised Codes would be effective immediately and so would impact on Budget Setting and the Treasury Management Strategy for 2022/23.

Treasury Management Training For Members

To enhance the knowledge and skills of those Members involved in the Treasury Management area, a Member training session was organised for 24 November 2021, to be delivered remotely by Link Asset Services. Feedback of this session, which will have been delivered by the time of this meeting, would be welcome.

3. Consultation

a) Risks and Impact Analysis

Risk and 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 30 September 2021.
Appendix C	Authorised Lending List at 30 September 2021 and Credit Rating Key.
Appendix D	Investment Analysis Review at September 2021 - Link Asset Services Ltd.
Appendix E	Borrowing: Activity & Performance and Long Term Maturity Profile at 30 September 2021.

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 2021/22 - 11/3/2021	https://lincolnshire.moderngov.co.uk/ieDecisionDetails.aspx?ID=687
Council Budget 2021/22 - 19/2/2021	https://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=120&MId=5729

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