



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

Report to:	Overview and Scrutiny Management Board
Date:	24 February 2022
Subject:	Treasury Management Performance 2021/22 - Quarter 3 to 31 December 2021

### Summary:

This report details the treasury management activities and performance for Quarter 3 of 2021/22 to 31 December 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, this report being the third quarter report for 2021/22 covering the period up to 31 December 2021.
- 1.3. Activity and performance up to 31 December 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 31 December 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 31 December 2021:**

##### Short term Rates.

The Monetary Policy Committee (MPC) surprised markets by raising Bank Rate by 0.15%, back to 0.25%, on 16 December. This was despite the emergence of Omicron in November, introduction of Plan B Covid measures and weak Growth of 0.1% for October, announced on 10 December. The MPC cited persistent domestic costs and price pressures as the reason for the increase with CPI Inflation rising to 5.1% for November with expectations of it peaking to 6% by April 2022. Forecasts of a further two to three 0.25% increases in Bank Rate over the next two years is expected but inflation spikes are still thought to be transitory, and growth may be weak in this period. The timing of these rises is therefore difficult to predict.

##### Long Term Rates.

Long term rates fell in November with the announcement of Omicron and Covid measures and continued to fall in December as demand for gilts by Pension funds increased at this time. Rates have risen again over January to levels at which they started from at the start of the year. The overall balance of movement in long term rates is still for a gradual increase over the next three years by around 0.10% per annum, albeit from a lower base than previously forecast.

## Economic Review.

Economic growth had already slowed to a crawl, (0.1% rise for October), before the Omicron variant was discovered in late November. Plan B Covid Measures may have led to a contraction of GDP for December but hopes for recovery again with the recent lifting of these measures are on the horizon. Inflation is set to peak in April 2022 at 6%, but it is still thought that most of this will be transitory with CPI expected to fall sharply in the second half of 2022. The fallout after the furlough scheme ended on 30 September was smaller and shorter than feared: unemployment did not increase hugely in October and vacancies rose to a record 1.219m in the three months to November, showing there were acute shortages of labour.

**Appendix A** shows a graph of key interest rate movements in 2021/22 to date together with the latest interest rate forecast and economic commentary from Link Asset Services dated 20 December 2021.

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## 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.*

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## Activity and Performance to 31 December 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 31 December 2021 at £353.663m (previous year £368.550m). Investment return has continued to exceed benchmark returns and benchmark comparators, for the level of risk taken, by some margin. Whilst the weighted average maturity of investments fell to 116 days from 144 days at the previous quarter, as is in line with the strategy for an increasing yield curve. The use of liquid investments yielding the lowest returns has also been minimised. For further investment detail, see **Appendix B**.

### Lending List Changes.

Nearly all credit rating outlooks for Counterparties have changed to Stable from Negative as Covid impact pressures have eased. The limit of French bank CIC was increased to

£30m/1 Year from £25m/6 months as their outlooks/ratings improved. 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 31 December 2021 is shown in **Appendix C** and a full list of investments held on 31 December 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 and Performance to 31 December 2021:**

Revised Borrowing Requirement.	Considering carry forward of underspend from the previous year, the borrowing requirement was revised to £173.4m. Estimated rephasing, internal borrowing and estimated underspend to 31 December 2021 brings the borrowing requirement down to £0.00m and internal borrowing estimated to be £190.0m.
Borrowing Position and Performance.	No external borrowing has been undertaken in the period to date and will not now be undertaken in 2021/22, as the borrowing requirement has been revised to zero. The effect will be to reduce capital finance charges and bring down cash balances held by the Council and is in line with recent work on analysis of the Council's Balance Sheet and Treasury Indicators, such as the new Liability Benchmark. The cost of the Council's borrowing has fallen to 3.733%, due to maturing debt to date and external debt is forecast to close at £476.122m at the year end.
Temporary Borrowing.	A total of £34.5m of temporary borrowing was undertaken in the period at an average rate of 0.0387%

to cover liquidity requirements. It is expected that no temporary borrowing will remain outstanding on 31 March 2022.

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 31 December 2021.

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### **Other Treasury Issues:**

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#### **New CIPFA Prudential and Treasury Management Codes – Issued 21 December 2021.**

CIPFA issued revised Prudential and Treasury Management Codes on 21 December 2021. CIPFA expects the core tenets of the new Codes to be adhered to with immediate effect, such as not borrowing from the PWLB for Commercial reasons held purely for return but have allowed a soft launch for the reporting requirements which require full compliance from 2023/24.

Key areas of change include:

#### Treasury Management Code of Practice:

- clear definition of Treasury, Service and Commercial Investments.
- requirement for strengthening skills and training, particularly regarding emphasis on non-treasury management investments.
- Investment Management Practices required for non-treasury management investments.
- requirement to define the purposes, objectives and management arrangements for the holding of non-treasury management investments and the inclusion of these within the Treasury Management Policy.
- inclusion of Service and Commercial investments within investment objectives and investment criteria.
- new Treasury Indicator 'Liability Benchmark' which introduces a 'Gross Loans Requirement' for external borrowing based on the net cash position required for liquid purposes.

#### Prudential Code:

- Quarterly reporting of Prudential Indicators from 2023/24.
- New Prudential Indicator for Service and Commercial Investments.
- Separate Commercial and Service Investment strategies desirable.

Changes from the revised codes will be implemented within the Treasury Management Strategy for 2022/23 where possible, and it is intended to refine and develop any changes over 2022/23 in readiness for full implementation in 2023/24.

### **MRP Review - Link Asset Services**

Link Asset Services was engaged to review the Council's current MRP policy and calculations with the aim of finding savings for future MRP charges to the Revenue Account. Link has concluded their review and we are currently assessing their findings to see if any savings can be implemented. Appropriate action taken will be reported in the Treasury Management Annual Report which will be presented to the Board in June 2022.

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## **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 Economic Outlook from Link Asset Services Ltd
Appendix B	Investments: Activity and Performance at 31 December 2021
Appendix C	Authorised Lending List at 31 December 2021 and Credit Rating Key
Appendix D	Investment Analysis Review at December - Link Asset Services Ltd
Appendix E	Borrowing: Activity and Performance and Long Term Maturity Profile at 31 December 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	<a href="https://lincolnshire.moderngov.co.uk/ieDecisionDetails.aspx?ID=687">https://lincolnshire.moderngov.co.uk/ieDecisionDetails.aspx?ID=687</a>
Council Budget 2021/22  19/2/2021	<a href="https://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CID=120&amp;MId=5729">https://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CID=120&amp;MId=5729</a>

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