



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

Report to:	Overview and Scrutiny Management Board
Date:	24 February 2022
Subject:	Treasury Management Strategy Statement and Annual Investment Strategy for Treasury Investments 2022/23

### Summary:

This report invites the Overview and Scrutiny Management Board to consider a report on the Treasury Management Strategy Statement 2022/23, including the Annual Investment Strategy for Treasury Investments 2022/23, which is due to be considered by the Leader of the Council (Executive Councillor for Resources, Communications and Commissioning) between 14 and 18 March 2022. 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 for Resources, Communications and Commissioning) as set out in the report.
- 2) agree any additional comments to be passed on to the Leader of the Council in relation to this item.

### 1. Background

The Leader of the Council (Executive Councillor for Resources, Communications and Commissioning) is due to consider the Treasury Management Strategy Statement and Annual Investment Strategy for Treasury Investments 2022/23 between 14 and 18 March 2022. 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 2022/23.
- Performance against these strategies will be reported quarterly to the Board throughout the forthcoming financial year.
- CIPFA published revised Treasury Management and Prudential Codes in December 2021 and stated that formal adoption is not required until the 2023/24 financial year. The main implications of the new codes revolve around setting new policy and procedures for non-treasury investments, but also includes a requirement for a new Skills and Knowledge framework and the introduction of a Debt Liability Benchmark Indicator for setting external borrowing/liquidity investment levels.
- 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. Pension Fund cash is forecast to be around £60m at the year end.
- The MPC increased Bank Rate to 0.50% on 3 February 2022 and a further three 0.25% increases are expected by November 2022 to control the spike in inflation. Rates are then expected to level out after this to 2025 as the MPC will switch its focus to supporting growth, once inflation is back to its 2% target. The yield curve for long term interest rates has flattened with little between yields available in any periods. After a period of increase in long term rates in December 2021, there is little further increase expected out to 2025, albeit with significant volatility expected over this period.
- The Covid-19 pandemic impacts appears to be subsiding. Predictions for Economic Growth have been revised down to 3.25% from 3.75% as Consumer demand will take a hit when real incomes are affected by higher inflation. CPI inflation is forecast to peak in April to 7.25% and the MPC are taking measures to bring this down in the near term. Once inflation returns to target levels, there is forecast to be a period of stagnation again with interest rates forecast to remain flat as measures are taken to support Economic Growth.
- The Council has a significant borrowing requirement over the next three years to meet its capital expenditure plans. In accordance with the requirements of the new revised CIPFA Code 2021, the Debt Liability Benchmark has been calculated, (shown in Annex C of the attached Report). This benchmark focuses on what level of borrowing is required in order to keep investments at a level of £100m to meet

liquidity needs. The graph indicates that no external borrowing is needed in 2022/23 which should bring investment balances down, but further work will be done during the year to refine this benchmark before any action is followed.

- In line with the CIPFA Prudential Code, Prudential Indicators, which limit the Council's borrowing and investment activity, are set. These limits ensure the Councils 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 6 as shown in Annex C. A review of the Council's current MRP policy was undertaken in 2021/22 with Link Asset Services, and this review has identified a £7.6m correction to MRP from errors in accounting going back to 2009/10. This correction will be made to the 2021/22 MRP and the resulting underspend in Capital Financing Charges carried forward to 2022/23. Further findings from the Link review will be pursued in the forthcoming year.
- Prudential Indicator Number 6 also 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 2022/23 and are highlighted in the green sections of the report. (See paras 2.3.6 and 2.4.6).
- Cash balances of the Council are returning to pre-Covid levels and are forecast to be around £250m net of Pension Fund cash for 2022/23. If no external borrowing is undertaken in 2022/23 as per the Debt Liability Forecast, then cash balances should come down to around £100m needed for liquidity purposes only.
- 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 2022/23. 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 for Resources, Communications and Commissioning) 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 in the report and whether it wishes to make any additional comments to the Leader of the Council. The Board's views will be reported to the Leader.

### 3. Consultation

The Board is being consulted on the proposed decision of the Leader of the Council (Executive Councillor for Resources, Communications and Commissioning) between 14 and 18 March 2022.

### 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 for Resources, Communications and Commissioning) on the Treasury Management Strategy Statement and Annual Investment Strategy for Treasury Investments 2022/23.

### 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 2022/23 - 18 February 2022	<a href="https://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=120&amp;MId=6140">https://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=120&amp;MId=6140</a>
LCC Treasury Management Policy Statement and Treasury Management Practices	Lincolnshire County Council, Resources

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