



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

Report to:	<b>Overview and Scrutiny Management Board</b>
Date:	<b>23 February 2023</b>
Subject:	<b>Treasury Management Strategy Statement and Annual Investment Strategy for Treasury Investments 2023/24</b>

**Summary:**

This report invites the Overview and Scrutiny Management Board to consider a report on the Treasury Management Strategy Statement 2023/24, including the Annual Investment Strategy for Treasury Investments 2023/24, which is due to be considered by the Leader of the Council (Executive Councillor for Resources, Communications and Commissioning) between 13 and 17 March 2023. 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(s) 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 2023/24 between 13 and 17 March 2023. The full report to the Leader of the Council is attached at Appendix A 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 2023/24.

- 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 these Strategies fully comply to the new requirements of the 2021 Codes.
- The main implications of the new 2021 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.
- A Knowledge and Skills Framework for those involved in Treasury Management, (officers and Members), will be created during the year. This will involve identifying competencies appropriate for the role, self-assessment against these competencies, tailored learning plans to fill any gaps and monitoring of attendance at training sessions.
- 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 £67m at the year end.
- The Monetary Policy Committee (MPC) has increased Bank Rate nine times in consecutive meetings over 2022 and at the time of writing it stands at 3.50%. This is to combat inflationary and wage pressures as CPI reached a peak of 11.1% in October 2022. This has been a worldwide problem with all countries experiencing high inflation and rising interest rates. Both Short Term and Long Term interest rates are set to peak mid-way in 2023, then are set to fall, but these forecasts depend on how quickly inflation falls, which is also predicted to fall sharply in 2023. The MPC has a fine balancing act to juggle in 2023 when changing interest rates and if the timing is wrong, this could cause inflation to remain high or prolong a recession in the coming year.
- 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 D of the 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 2023/24 which should bring investment balances down. This aligns to long term

rates predicted to fall over the year, but the Debt Liability Benchmark will be revised for actuals and target changes and the position monitored throughout the year.

- 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 B).
- The Council's Minimum Revenue Provision (MRP) policy is covered in Annex C 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 B. The MRP Policy has been revised to allow the flexibility of changing the calculation of MRP to the Asset Life Annuity Method for all Supported and Non-Supported Debt if deemed appropriate to do so.
- 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 B for the forecasting period to 2025/26).
- Giving consideration to current borrowing and investment factors highlighted, the key elements of the Council's borrowing and investment strategies for 2023/24 are highlighted in the green sections of the report. (See paragraphs 2.3.6 and 2.4.6).
- The Investment benchmark SONIA will be adjusted by the margin between the SONIA Rate and the average MMF return rate from 1<sup>st</sup> April 2023 in an attempt to overcome the time lag issue re SONIA of investments failing to keep up with immediate Bank Rate changes, and will hopefully make this a more appropriate Benchmark going forward. This will be monitored throughout the year.
- Cash balances of the Council are forecast to be around £200m net of Pension Fund cash for 2023/24. If no external borrowing is undertaken in 2023/24 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.

## **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. 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 13 and 17 March 2023.

### 4. Appendices

These are listed below and attached at the back of the report	
Appendix A	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 2023/24.

### 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 2023/24 - 17 February 2023	<a href="#">Agenda for Council on Friday, 17th February, 2023, 10.00 am (moderngov.co.uk)</a>
LCC Treasury Management Policy Statement and Treasury Management Practices	Lincolnshire County Council, Resources

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