



**SOUTH  
KESTEVEN  
DISTRICT  
COUNCIL**

# Governance and Audit Committee

22 December 2021

**Report of:** Councillor Adam Stokes

Deputy Leader of the Council



## 2021/22 Treasury Management Activity Mid-Year Review and 2022/23 Treasury Management Strategy Statement

This Council is required by regulations issued under the Local Government Act 2003 to produce regular reports on treasury and debt management operations during the financial year. This report meets the requirements of the CIPFA code of practice on Treasury Management (the Code).

### Report Author

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Corporate Priority:	Decision type:	Wards:
High Performing Council	Regulatory	All Wards

Reviewed by:	Claire Morgan (Senior Accountant)	9 December 2021
Approved by:	Richard Wyles (Assistant Director of Finance)	10 December 2021
Signed off by:	Councillor Adam Stokes (Deputy Leader of the Council)	13 December 2021

### Recommendation (s) to the decision maker (s)

1. It is recommended that members of the Governance and Audit Committee note and approve the contents of the mid-year review of treasury management activity for 2021/22
2. Recommends to Council the 2022/23 Treasury Management Strategy

# 1 Introduction

- 1.1 Treasury Management is the term used to cover the Council's borrowing and investment strategies. The Council has formally adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on treasury management (revised 2017). In line with the code the council has adopted a treasury management policy statement that requires regular reports on treasury and debt management operations during the financial year.
- 1.2 Additionally, under part 1 of the Local Government Act 2003, the Council is required to have regard to the Prudential Code for capital finance including the setting of Prudential Indicators. Relevant treasury management indicators were incorporated into the Treasury Management Strategy 2021/22 approved by Council on 1 March 2021. From 2019/20 all local authorities were required to produce a Capital Strategy; this report was presented and approved by Council on 1 March 2021.
- 1.3 This report is submitted in accordance with these requirements and provides a review of treasury management for the period ended 30 September 2021 and reviews current developments. The following elements are covered by the report:
- A review of debt management operations
  - A review of investment operations
  - An update on the treasury management Prudential Code Indicators
  - An economic update for the first part of the 2021/22 financial year
- 1.4 The CIPFA Treasury Management panel promotes the view that Council's monitor performance at least half yearly. In addition to this, a report by the audit commission entitles 'Risk and Return' identifies the need for local authorities to report regularly to members in addition to the annual review.
- 1.5 Appendix B of this report details the proposed 2022/23 Treasury Management Strategy Statement (TMSS) which the CIPFA Code of Practice for Treasury Management in the Public Services (the "CIPFA Treasury Management Code") and the CIPFA Prudential Code require local authorities to produce on an annual basis.

## 2 Treasury Management Update

### **Debt Management Operations Borrowing**

- 2.1 No additional borrowing was required during the first half of 2021/22. All current Council borrowing is with the Public Works Loan Board (PWLB) and the average rate of interest paid on the debt portfolio was 2.65%. Appendix A shows loans outstanding as at 30 September 2021. Regular reviews are undertaken to consider redemption costs of natural maturity against new borrowing to settle the outstanding debt early.
- 2.2 At 30 September 2021, the Council had short-term borrowing, which is defined as borrowing due to be repaid within 365 days, of £3.221m. This will be repaid in instalments of £1.611m on 28 March 2022 and 28 September 2022. The average annual rate of interest on these loan repayments is 3.03%.

### **Investment Operations**

- 2.3 The average size of the investment portfolio for the 6-month period was £83.608m compared to an average portfolio size of £71.668m during the same period in 2020/21.

- 2.4 The increase in the portfolio is due to the re-profiling of the Capital programme and an influx of government grants both as a result of the Covid-19 pandemic.

#### **Investment Activity in the period ended 30 September 2021**

- 2.5 The Council operates a diverse portfolio and uses a number of methods to invest its reserves which include direct deposit, certificates of deposit, notice accounts and money market funds. As at 30 September 2021 the Council held short term investments of £84.281m (specified investments) and £3.0m (non-specified investments). As at 30 September the Weighted Average Rate of Return was 0.19% compared with that of the Link (the Council's treasury management advisors) Investment Benchmarking Analysis group which was 0.28%.
- 2.6 The Treasury Management Strategy stipulates that the Council should not ordinarily hold more than 35% of investments as non-specified and this was adhered to during the first half of 2021/22. A schedule of investments at 30 September 2021 is set out at Appendix A.
- 2.7 Short Term Fixed Deposits – In the period ended 30 September 2021, £36.0m of short-term fixed deposits were placed; £22.5m of investments matured within this same period.
- 2.8 Long Term Fixed Deposits – In the period ended 30 September 2021, one long-term fixed deposit of £2m was placed; £1.0m of investments matured within this same period.

#### **Treasury Management Prudential Code Indicators**

- 2.9 Prudential Code indicators specific to treasury management are designed to ensure that treasury management is carried out in accordance with professional practice. Indicators for 2021/22, 2022/23 and 2023/24 were approved by Council on 1 March 2021 as part of the Treasury management Strategy 2021/22.
- 2.10 The 2021/22 indicators and actual figures for the 6 months to 30 September 2021 are set out at Appendix A. All investment activity has been maintained within the indicator limits.

#### **Economic Update from Link (the Council's Treasury Advisors)**

- 2.11 The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn. Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September.

The interest forecast for PWLB certainty rates shows that there is likely to be a steady rise over the period to March 2024, with some degree of uplift due to rising treasury yields in the US. There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates. The Council can access the certainty rate which currently reduces the advertised PWLB rates by 0.20%.

### **3 Amendments to the Treasury Management Strategy 2021/22**

- 3.1 There are no mid-year policy changes recommended; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

## **4 2022/23 Treasury Management Strategy Statement**

- 4.1 The TMSS details the investment and borrowing policies that the Council will follow during 2022/23. The CIPFA code and MHCLG statutory guidance also requires the Council to have a policy on non-treasury investments.
- 4.2 The TMSS sets out the counterparties that the Council will invest with and the limits that will be invested with each counterparty. There are no proposed changes to the limits that were approved by Council on 1 March 2021.
- 4.3 CIPFA has recently completed a consultation of the Treasury Management and Prudential Codes, the Codes are currently being updated and any changes that may impact on the Council's strategy will be reflected in the final version of the TMSS which will be presented to Council for approval on 3 March 2022.
- 4.4 It should be noted that the Department for Levelling Up, Housing and Communities is proposing to update the regulations to restrict local authorities with respect to financing capital expenditure on investment in commercial projects for yield. Access to PWLB borrowing has already been restricted as the Council is unable to borrow if commercial projects are included in the approved capital programme. The new CIPFA Codes are also likely to adopt a similar set of restrictions to discourage further capital expenditure on commercial investments for yield.
- 4.5 The consultation also proposed that the frequency of reporting treasury management performance should be amended to quarterly instead of half-yearly. If this amendment is adopted by the Code then the reporting requirements will be changed accordingly.

## **5 Other Options Considered**

- 5.1 None

## **6 Reasons for the Recommendation(s)**

- 6.1 Committee members should be kept updated on the financial position of the authority.

## **7 Financial Implications**

- 7.1 The financial implications are included throughout this report.

**Financial Implications reviewed by: Richard Wyles, Assistant Director of Finance & s151 Officer**

## **8 Legal and Governance Implications**

- 8.1 The terms of reference for the Governance and Audit Committee require the Committee to review the mid-term treasury activities and to consider the annual strategy prior to its approval by Council at the budget setting meeting.

**Legal Implications reviewed by: Graham Watts, Head of Democratic Services and Deputy Monitoring Officer**

## **9 Equality and Safeguarding Implications**

- 9.1 Not applicable

## 10 Risk and Mitigation

- 10.1 Risk has been considered as part of this report and any specific high risks are included in the table below:

Category Risk	Action/Controls
Financial Risk	The treasury strategy has been compiled in conjunction with the Council's treasury advisors and is monitored by the committee on a regular basis

## 11 Community Safety Implications

- 11.1 Not applicable

## 12 How will the recommendations support South Kesteven District Council's declaration of a climate emergency?

- 12.1 None

## 13 Background Papers

- 13.1 Treasury Management Strategy 2021/22

<http://modern.gov.southkesteven.gov.uk/documents/s29207/Appendix%20G%20TM%20Strategy%202021-22.pdf>

## 14 Appendices

- 14.1 Appendix A – Treasury Management Prudential Indicators  
14.2 Appendix B – 2022/23 Treasury Management Strategy