Finance & Performance Scrutiny Sub-Committee
18 January 2022

Treasury Management Strategy Statement 2022/23
(& 2021/22 Monitoring Report)

Local Authority Treasury Management - Introduction

- Treasury management (TM) is the management of the authority's cash flows, borrowing and investments, and the associated risks

- Governed by Statutory Guidance and CIPFA Codes

- Focus on risk management

- Now includes some non-treasury investment risk management requirements (commercial & service investments)

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TMSS 2022/23 - Summary

- CIPFA revised Prudential & TM Codes
- Economic Background & Interest Rates
- Section A – TM Monitoring Report 2021/22
- Section B – TM Strategy Statement 2022/23

- TMSS 2022/23 – No major changes from 2021/22

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CIPFA Prudential & TM Code Changes

- Stop LA's from borrowing for primarily for commercial investments
- Consider selling commercial investments
- Disclose commercial/service investment as % of net income
- Borrowing - Liability Benchmark Graph (already doing this)
- Pooled Funds = Commercial Investments unless for cash flow ✓
- Investment Counterparties – ESG consideration from 2023/24
- Quarterly monitoring reports
- Officer/Member skills/knowledge to be (better) documented
- Need to review & update FHDC Treasury Management Policies

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CIPFA TM Code Change – ESG Considerations

- Specific requirement for LA to include ESG Policy for treasury investments
- Soft implementation for 2022/23
- Difficult to overlay intangible ESG measures for 2022/23
- CIPFA developing ESG scoring methodology during 2022/23
- LAs expected to set ESG policy for treasury investments for 2023/24

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Economic Background & Interest Rates

- UK economy significantly impacted by Covid-19
- GDP Q3 2021 growth 1.3% - slowing down after recovery
- GDP forecast to reach pre-pandemic level Q1 2022
- Inflation at 5.1% (10 year high), peak about 6% in early 2022 then fall
- Unemployment falling and wages rising (post Covid)
- Bank Base Rate expected to rise up to 1% over 2022
- Gilts & other interest rates broadly unchanged over same period
- PWLB rate = Gilts + 0.8% (PWLB 10 year loan = 1.8%, 20 years = 2.2%)

Section A – TM Monitoring Report 2021/22

(Amendment – Borrowing Activity)

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TM Monitoring Report 2021/22 – Borrowing

- Net borrowing has reduced by £10.6m (not £15.6m) despite rising CFR due to:

  i) Higher than anticipated usable reserves at 31/03/21

  ii) Delays to capital programme

  iii) Short-term benefit of C-Tax and grant receipts

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TM Monitoring Report 2021/22 - Borrowing

- Borrowing limited to two transactions so far:

  i) 22/04/21 - £5m West Yorks Combined Authority one year fixed loan @ 0.1%

  ii) 31/01/21 - £5m Leicester City Council forward deal two years fixed loan @ 0.4% (PWLB = 1.11%)

- Further borrowing in 2021/22 subject to capital programme

TM Monitoring Report 21/22 – Investments 1

- Investments increased from £18.8m to £34.4m at 30/11/21
- Investment balances have ranged from £18.8m to £41m
- About £15.6m strategic investments in pooled funds
- Liquid cash investments about £19m
- Returns on liquid cash investments close to nil
- HM Treasury DMADF interest rates nil or negative

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TM Monitoring Report 21/22 – Investment 2

- 5 Pooled Funds – recovered previous losses
- Capital growth of £0.4m over the year to date
- Average yield of 4.38%
- Outlook for funds remains positive but price volatility remains a risk
- Meeting objective of above inflation returns

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TM Monitoring Report 21/22

- Net GF Cost – projection is £276k lower than budget, reasons
  - i) Saving on borrowing cost = £208k
  - ii) Enhanced returns on pooled funds = £75k
- Full compliance with borrowing and investment limits
- Non-Treasury Investments performance distorted by Otterpool land holding (shown in next slide)
- Now includes Otterpool LLP accrued net interest
- Oportunitas modest but steady return

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Non-Treasury Investments	Value 31/03/21	Value 30/11/21	Net Income (Expenditure) 2021/22	Rate of Return
	£m	£m	£'000	%
Investment Property				
Otterpool Property	64.9	65.3	(524)	(0.8)
Offices	17.4	17.4	357	2.1
Commercial Land	0.7	0.7	-	-
Commercial Units	1.8	1.8	126	6.9
Retail	2.2	2.2	(84)	(3.8)
Assets Under Construction	0.2	0.2	-	-
Total Investment Property	**87.2**	**87.6**	**(125)**	**(0.1)**
Subsidiary Company				
Oportunitas loan	4.3	4.3	210	4.9
Oportunitas equity	3.5	4.5	0	0
Total Oportunitas	**7.8**	**8.8**	**210**	**2.4**
Otterpool Park LLP	1.3	1.8	71	5.0
Total Subsidiaries	**9.1**	**10.6**	**281**	**2.75**
Total Non-Treasury	**96.3**	**98.2**	**156**	**0.16**

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Section B – TM Strategy Statement 2022/23

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TM Strategy Statement 2022/23

- Sets the strategy for borrowing & investments for year, but
- Considers projected balance sheet position to 2024/25
- Underlying increase in borrowing requirement
- Use of cheaper internal borrowing first
- Strategy continues to permit borrowing from a range of sources
- Better value with shorter duration loans, particularly from other LAs (up to 5 years)
- Otterpool forecast cash flows support borrowing for shorter durations to provide greater flexibility managing debt portfolio

TM Strategy Statement 2022/23

Table 9: Liability benchmark

	31.3.21 Actual £m	31.3.22 Estimate £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m
CFR	126.9	133.5	160.3	189.0	212.4
Less: Balance Sheet resources	(66.7)	(52.1)	(34.7)	(31.0)	(30.5)
Net loans requirement	60.2	81.4	125.6	158.0	181.9
Plus: Liquidity allowance	18.8	15.0	15.0	15.0	15.0
Liability Benchmark	**79.0**	**96.4**	**140.6**	**173.0**	**196.9**

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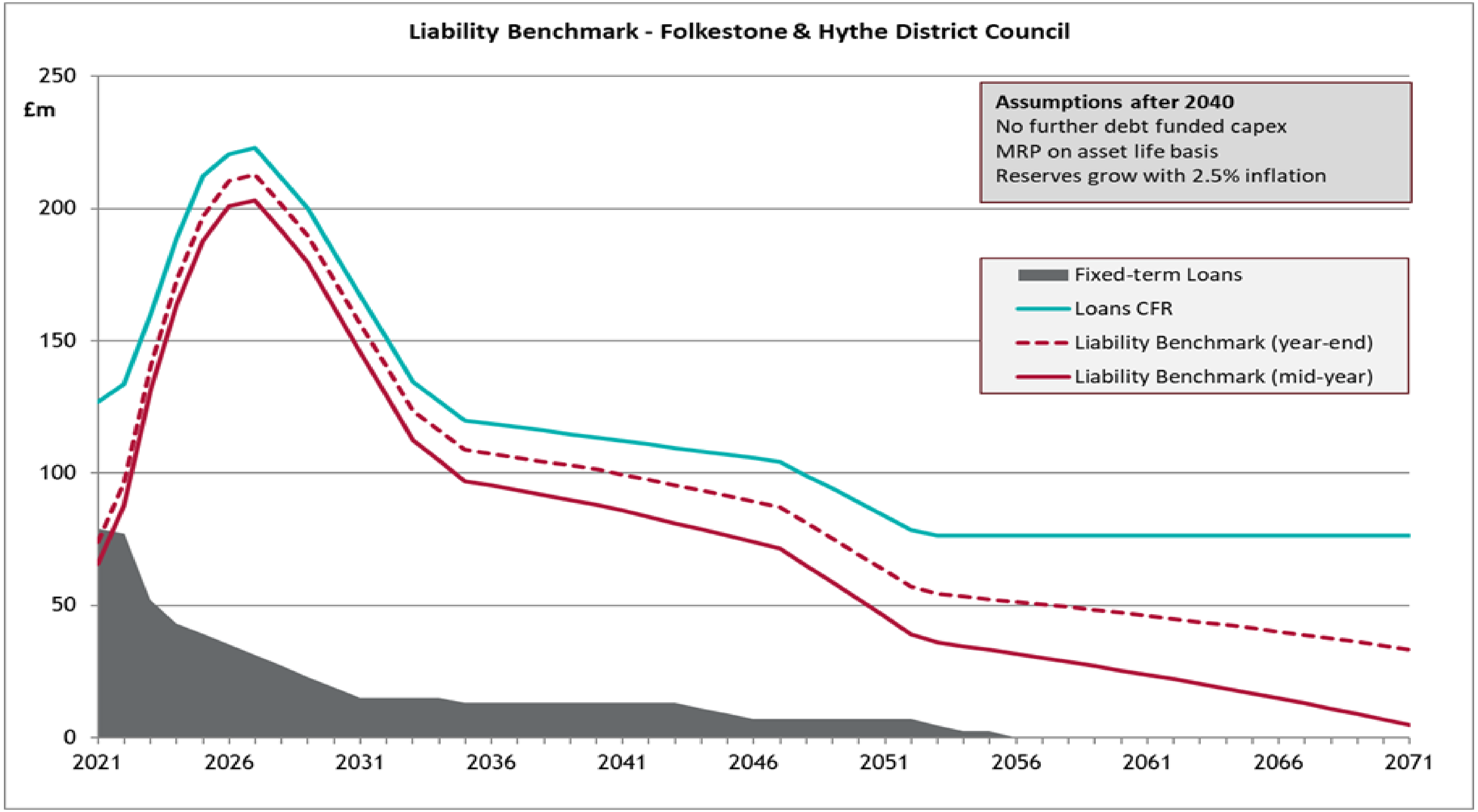
Borrowing - Liability Benchmark



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TM Strategy Statement 2022/23 - Investments

- Objective remains = Security, Liquidity, Yield (SLY)
- Underlying borrowing need – keep investments short
- Retain £15m strategic investments in pooled funds (minimum reserves balances) – but Strategy limit = £25m
- Counterparty selection criteria unchanged
- Retain 5 year maximum duration Investment limits unchanged
- Negative interest rates remain a risk but receding

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TM Strategy Statement 2022/23

- Treasury Management Prudential Indicators – risk management measures to support the borrowing and investment strategies

- Budget - net cost to GF in 2022/23 is £8k less than 2021/22

- Estimated increase in borrowing costs largely offset by additional investment income in 2022/23

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Questions?