Appendix 1

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Annual Treasury Management Review 2021-22

North Lincolnshire Council

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1. Introduction

The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2021/22 the minimum reporting requirements were as follows.

- an annual treasury strategy in advance of the year (Council)
- a mid-year (minimum) treasury update report (Audit Committee)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

2. The Council's Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets. These activities are financed by a combination of :

- capital resources being capital receipts, capital grants and revenue contributions,
- cash resources (internal borrowing)
- borrowing (external borrowing)

The actual capital expenditure is one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m	31.3.21 Actual	31.3.22 Actual
Capital expenditure	**28.14**	**28.68**
Financed from Capital Resources	19.19	22.91
Financed from Cash Resources	8.95	5.77

3. The Council's Overall Borrowing Need

Gross borrowing and the Capital Financing Requirement (CFR) - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2021/22. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

£m	31.3.21 Actual	31.3.22 Actual
Capital Financing Requirement (CFR)	245.20	244.42
Gross borrowing position	161.25	152.62
Under / over funding of CFR	(83.95)	(91.80)

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2021/22 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2021/22
Authorised limit	£170.73m
Maximum gross borrowing position during the year	£158.25m
Operational boundary	£170.73m
Average gross borrowing position	£156.79m
Financing costs as a proportion of net revenue stream	7.8%

4. Treasury Position & Prudential Indicators as of 31st March 2022

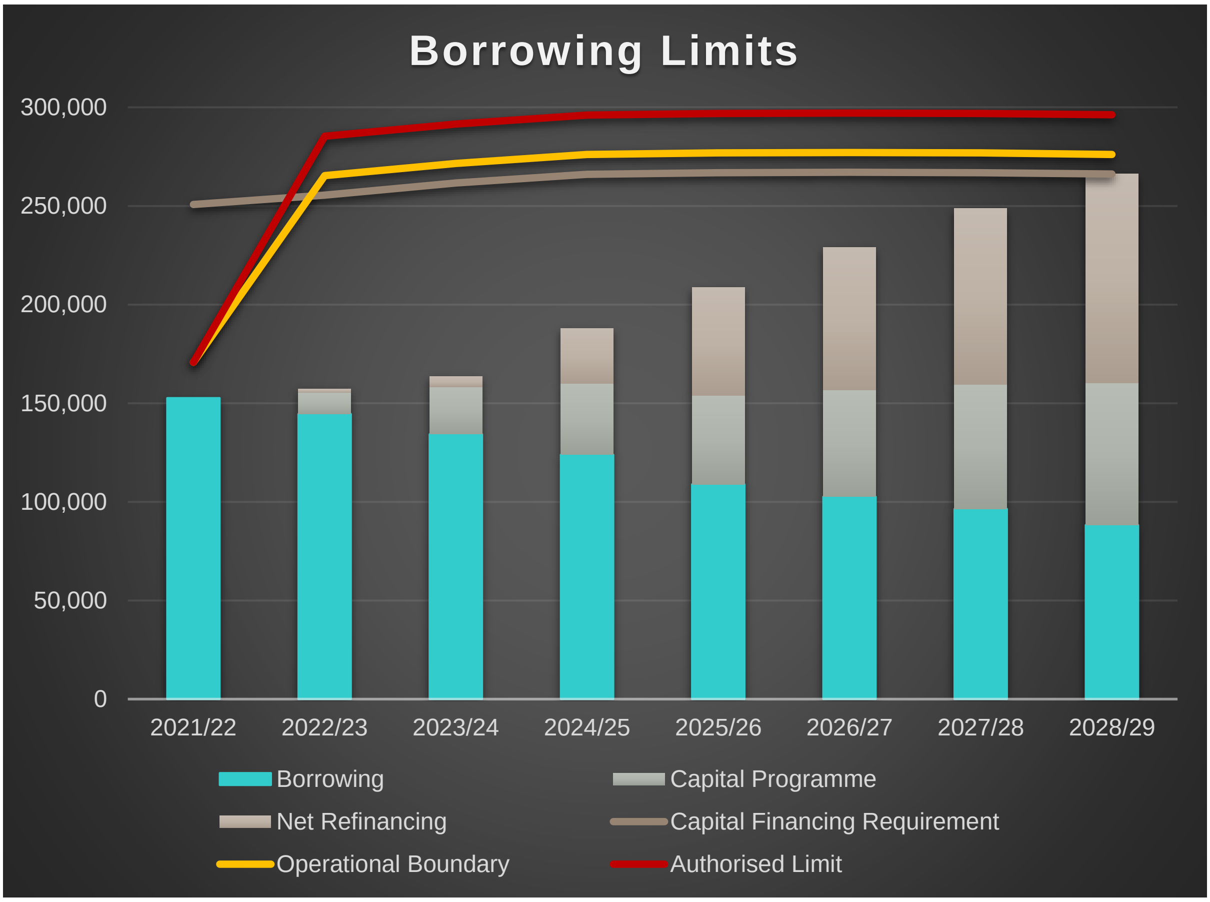
4.1 Treasury Position

At the beginning and at the end of 2021/22, the Council's treasury position was as follows:

DEBT PORTFOLIO	31.3.21 Principal	Rate/ Return	Average Life yrs	31.3.22 Principal	Rate/ Return	Average Life yrs
Fixed rate funding:	£m			£m		
PWLB	152.25	3.84%	10.66	146.62	3.87%	10.91
Market	9.00	1.32%	0.67	6.00	1.75%	0.51
Total debt	161.25	3.70%	11.33	152.62	3.78%	11.42
CFR	245.2			244.42		
Over / (under) borrowing	(83.95)			(91.80)		
Total investments	24.00	0.002%	0.05	49.05	0.49%	0.03
Net debt	137.25			103.57		

The maturity structure of the debt portfolio was as follows:

	31.3.21 Actual £m	31.3.21 Actual %	31.3.22 Actual £m	31.3.22 Actual %
Less than 1 year	10.56	6.55	8.05	5.27
1-2 years	6.11	3.79	10.27	6.73
2-5 years	31.85	19.75	31.71	20.78
5-10 years	43.77	27.14	51.79	33.94
10-20 years	43.73	27.12	26.24	17.20
20-30 years	14.25	8.84	14.32	9.38
30-40 years	10.97	6.81	10.24	6.71
40-50 years	0.00	0.00	0.00	0.00



4.2 Prudential Indicators

PRUDENTIAL INDICATORS	2020-21	2021/22
	Actual £m	**Actual £m**
Capital Expenditure	**28.14**	**28.68**
Ratio of financing costs to net revenue stream	**6.65%**	**7.8%**
Gross borrowing requirement General Fund		
brought forward 1 April	203.84	161.25
carried forward 31 March	161.25	152.62
in year borrowing requirement	(42.59)	(8.63)
Gross debt	161.25	152.62
CFR	245.20	244.42
Annual change in Cap. Financing Requirement	0.86	(0.77)

5. The Strategy for 2021/22

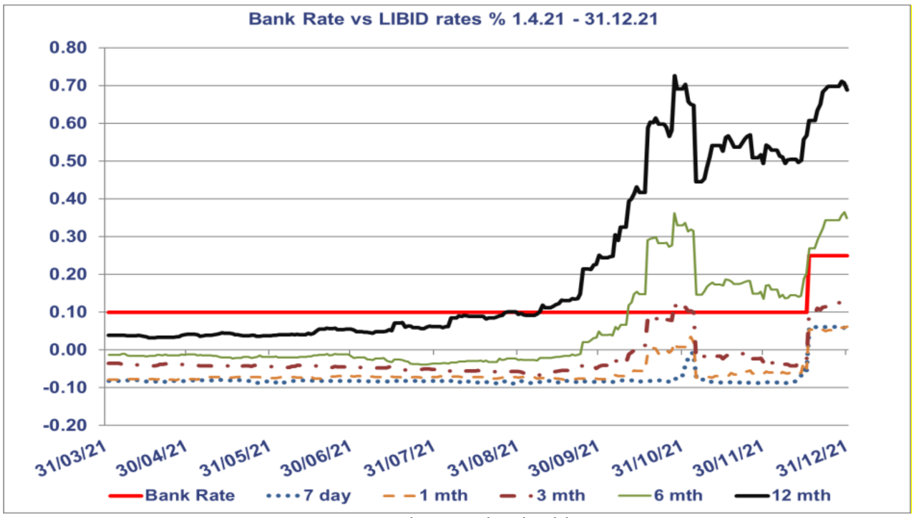
5.1 Investment strategy and control of interest rate risk

Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative returns. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.

The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with cheap credit so that banks could help businesses through various lockdowns and consequent negative impact on their cashflow. The Government also supplied covid grant funding to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

The table and graph below show interest rate movement during 2021-22 financial year.

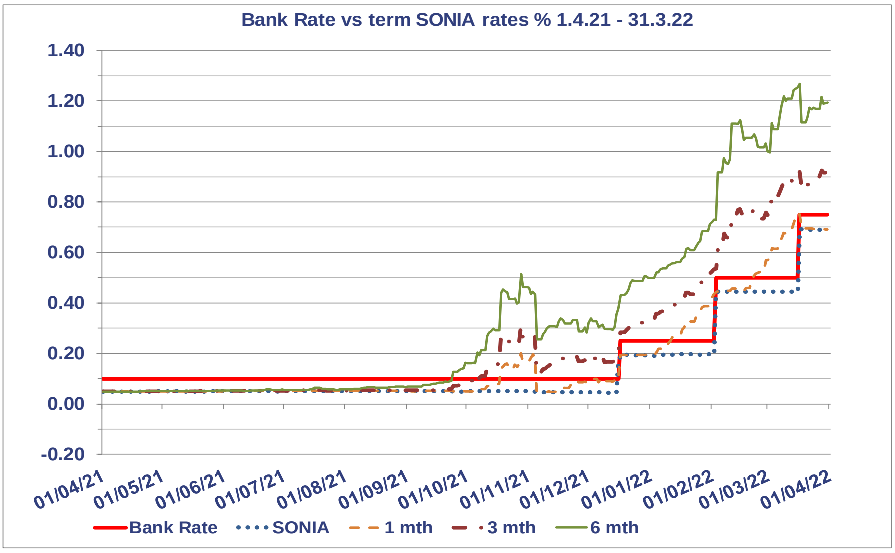
	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.25	0.06	0.06	0.14	0.36	0.73
High Date	17/12/2021	29/12/2021	31/12/2021	31/12/2021	30/12/2021	28/10/2021
Low	0.10	-0.09	-0.08	-0.07	-0.04	0.04
Low Date	01/07/2021	27/08/2021	17/09/2021	08/09/2021	27/07/2021	08/07/2021
Average	0.11	-0.07	-0.05	-0.01	0.09	0.31
Spread	0.15	0.15	0.14	0.20	0.40	0.68



LIBID London Interbank Bid Rate

	Bank Rate	SONIA	1 mth	3 mth	6 mth
High	0.75	0.69	0.75	0.93	1.27
High Date	17/03/2022	18/03/2022	16/03/2022	28/03/2022	17/03/2022
Low	0.10	0.05	0.05	0.05	0.05
Low Date	01/04/2021	15/12/2021	10/11/2021	14/04/2021	09/04/2021
Average	0.19	0.14	0.17	0.24	0.34
Spread	0.65	0.65	0.71	0.88	1.22

SONIA Sterling Overnight Index Average



While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

5.2 Borrowing strategy and control of interest rate risk

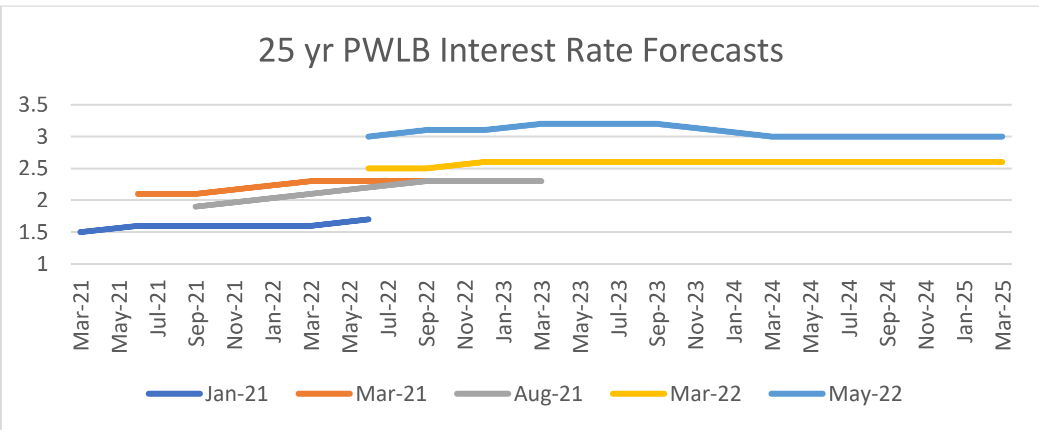
During 2021-22, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as outlined above. In addition, any new long-term borrowing, if not utilised immediately, would have incurred unnecessary interest cost.

The policy of avoiding new borrowing by running down spare cash balances, has served the council well for many years. This is being kept under review to avoid incurring higher borrowing costs in the future.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operation. The Treasury team monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks

- a much sharper rise in long- and short-term rates than initially expected, would have led to the portfolio position being re-appraised.
- a much sharper fall in long- and short-term rates than initially expected, would have led to long term borrowing being postponed and potential rescheduling from fixed rate funding into short term borrowing.

Interest rate forecasts expected only gradual rises in medium- and longer-term fixed borrowing rates during 2021/22 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.



6. Borrowing Outturn

6.1 Borrowing

A loan was drawn for cash flow purposes to fund pension fund contributions.

The loans drawn was:

Lender	Principal	Type	Interest Rate	Maturity	Average for 2021/22
Market	£3.00m	Fixed interest rate	1.75%	1.00 years	£3.00m

6.2 Borrowing in advance of need

No loans were drawn in advance of need.

6.3 Rescheduling

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

6.4 Repayments

During 2021-2 Council repaid £8.63m at scheduled repayment dates.

7. Investment Outturn

7.1 Investment Policy

The Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 25.02.2021. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

7.2 Investments held by the Council

- The Council maintained an average balance of £58.61m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.03%.
- The comparable performance indicator is the weighted average of 7day LIBID and SONIA rate of -0.02%.
- Total investment income was £ 15,604 compared to a budget of £25,000.

INVESTMENT PORTFOLIO	31.3.21 Actual		31.3.22 Actual	
	£m	%	£m	%
Treasury investments				
Banks	5.83	24.30	13.05	26.61
MMF*	7.67	31.95	12.00	24.46
DMADF (H M Treasury) **	10.50	43.75	24.00	48.93
Total managed in house	24.00	100.00	49.05	100.00
Total managed externally	0.00	0.00	0.00	0.00
Treasury investments - Total	**24.00**	**100.00**	**49.05**	**100.00**
Treasury investments	24.00	91.43	49.05	95.81
Non-Treasury investments	2.25	8.57	2.15	4.19
Total Investments	**26.25**	**100.00**	**51.30**	**100.00**

*Money Market Fund
**Debt Management Account Deposit Facility

All treasury investments were up to one year.

8. Other Issues

8.1. Non-treasury management investments.

The council holds a non-treasury investment of £2.15 million as of 31.3.2022.

8.2. Sources of borrowing

The council has borrowed money from one local authority for one year.

8.3. Changes in risk appetite

No fundamental change in risk appetite.

8.4. Counterparty limits

The council changed limits of its counterparties in November 2021. Barclays bank overnight limit was increased from £5.00 million to £10.00 million to meet operational requirements.

All other counterparty limits were increased from 3.00m to 6.00m in November 2021.

8.5. Sovereign limits

There was no change in policy on minimum sovereign ratings during the financial year.