

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

TREASURY MANAGEMENT MID YEAR AND ANNUAL REPORT 2020/21

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1. To inform Audit Committee of the Council's Treasury arrangements, activity and performance during 2020-21. The key points being:-
 - 1.1.1. The level of borrowing was within Prudential Indicator Limits and the Council was able to maintain its policy of avoiding new borrowing.
 - 1.1.2. Investment returns dropped to near zero due to the impact of the Covid 19 pandemic. The Council has taken a cautious approach to investing.

2. BACKGROUND INFORMATION

- 2.1 CIPFA has defined treasury management as:

"The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"

- 2.2 The Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by Council in February 2020. This statement also incorporates the Investment Strategy.
- 2.3 Whilst the Council has advisors to support effective treasury management arrangements, the Council is ultimately responsible for its treasury decisions and activity. No treasury activity is without risk. The successful identification, monitoring and control of risk is therefore an important and integral element of treasury management arrangements.
- 2.4 The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of treasury management arrangements.

3. OPTIONS FOR CONSIDERATION

- 3.1 The Mid-Year and Annual Treasury Management Review is at Appendix 1. The key issues include: -
- 3.2 Investments – The Treasury Management Strategy (TMS) for 2020/21 assumed that interest rates would continue at the start of the year at 0.75% rising to 1.25% by 2022/23. As a result of the Covid 19 pandemic, bank rates were cut back to 0.25% and then 0.10% to counteract the impact of the national lockdown on the economy.
- 3.3 Borrowing Requirement – The TMS expected that new borrowing would be required to finance new capital expenditure, replace maturing debt and the rundown of reserves. However, the Council has continued to maintain a position where its need to borrow to finance its capital programme (Capital Financing Requirement (CFR)) was not fully funded by loan debt; cash supporting the Council's reserves, balances and cash flow was used as an interim measure.
- 3.4 Repayment of Debt – During 2020/21 the Council repaid £51.6m at scheduled payment dates.
- 3.5 The cost of servicing the council's debt was £10.9m or 9.39% of the council's net revenue stream. This remained below the 10%-12% range which is seen as the maximum affordable level.
- 3.6 Investment Outturn – The Council maintained an average balance of £49.9m of internally managed funds with an average rate of return of 0.03%.
- 3.7 Borrowing Outturn – A loan of £9m was drawn for cash flow purposes to fund advanced pension contributions resulting in a net saving of £0.283m
- 3.8 No loans were drawn in advance of need and no debt rescheduling was carried out.
- 3.9 Investment income was £13k compared to a budget of £75k.

4. ANALYSIS OF OPTIONS

- 4.1 The investment activity during the year conformed to the approved strategy and the Council had no liquidity issues.
- 4.2 The borrowing requirement strategy was prudent as investment returns were very low and this minimised counterparty risk on placing investments.
- 4.3 The level of debt was within the operational boundary and authorised limits set in the Treasury Management Strategy.
- 4.4 This report is a requirement of the Prudential Code and provides the Audit

Committee with assurance on the council's Treasury Management operation in 2020/21.

5. FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)

5.1 The financial implications to this report are covered in section 3.

6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1 Not applicable.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1 No impact assessment is required for the purpose of this report.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 Not applicable.

9. RECOMMENDATIONS

9.1 That Audit Committee considers the assurance provided by this report on the effectiveness of arrangements for treasury management, and:

9.2 That Audit Committee notes the Treasury Management performance for the 2020/21 financial year.

DIRECTOR: GOVERNANCE AND PARTNERSHIPS

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Background Papers used in the preparation of this report
CIPFA Treasury Management Code and Guidance Notes
Treasury Management Strategy 2020-21