

# Treasury Management Strategy Statement and Annual Investment Strategy

**Mid-Year Review Report  
2020/21  
English and Welsh authorities**

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# 1. Background

## 1.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2020/21, all local authorities have been required to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

## 1.2 Treasury management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

"The management of the local authority'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. Introduction

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Policy and Resources Committee:

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2020/21 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2020/21;
- A review of the Council's borrowing strategy for 2020/21;
- A review of any debt rescheduling undertaken during 2020/21;
- A review of compliance with Treasury and Prudential Limits for 2020/21.

## Summary

In the first five months of the year the Council has new borrowing of £10 million. This is short-term debt taken out to manage cashflow. Invested cash balances have fallen in the first five months of the year by £22.45m to £98.95m. The projected borrowing component of the capital programme has declined by £40m to £180.32m.

## 3. Economics and interest rates

### 3.1 Economics update

- As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6<sup>th</sup> August. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:
  - The fall in **GDP** in the first half of 2020 was revised from 28% to 23%. This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
  - The peak in the **unemployment rate** was revised down from 9% in Q2 to 7½% by Q4 2020.
  - It forecast that there would be excess demand in the economy by Q3 2022 causing **CPI inflation** to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.
- It also squashed any idea of using **negative interest rates**, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be “less effective as a tool to stimulate the economy” at this time when banks are worried about future loan losses. It also has “other instruments available”, including QE and the use of forward guidance.
- The MPC still expects the £300bn of **quantitative easing** purchases announced between its March and June meetings to continue until the “turn of the year”. This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.
- In conclusion, this would indicate that the Bank can now just *sit on its hands* as the economy is recovering better than expected. However, the MPC acknowledged that the “medium-term projections were a less informative guide than usual” and the minutes had multiple references to **downside risks**, which were judged to persist both in the short and medium term. One has only to look at the potential for a second wave of the virus to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down in the furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE. Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. There will also be some painful longer term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.
- One key addition to **forward guidance** was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate
- The **Financial Policy Committee (FPC)** report on 6<sup>th</sup> August revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.
- Overall, it is expected that there has been a strong pickup in economic growth during the back-end of quarter 2 of 2020. However, that pace is likely to fade as the furlough scheme ending in October will lead to many job losses during the second half of the year. Consumers will also probably remain cautious in spending and this will dampen growth. Uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind.
- **US.** The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery should

continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked its inflation target from 2% to maintaining an average of 2% over an unspecified time period i.e. following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary “trap” like Japan. It is to be noted that inflation has actually been under shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

- **EU.** The economy was recovering well towards the end of Q2 after a sharp drop in GDP. However, there are growing fears of a second wave of the virus that could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.
- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.
- **Japan.** There are some concerns that a second wave of the virus is gaining momentum and could damage economic growth further. It has been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.
- **World growth.** Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

### 3.2 Interest rate forecasts

The Council’s treasury advisor, Link Group, has provided the following forecasts (PWLb rates are certainty rates):

Link Group Interest Rate View 11.8.20											
	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month average earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-
6 Month LIBID	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-
12 Month LIBID	0.20	0.20	0.20	0.20	0.20	0.20	0.20	-	-	-	-
5yr PWLB Rate	1.90	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

Additional notes by Link on this forecast table: -

- As LIBOR rates will cease from the end of 2021, there are no LIBID forecasts for 2022/23. Link will be continuing to look at market developments in this area and will monitor these with a view to communicating with clients when full financial market agreement is reached on how to replace LIBOR. This is likely to be an iteration of the overnight SONIA rate and the use of compounded rates and Overnight Index Swap (OIS) rates for forecasting purposes.
- Please note that we have made a slight change to our interest rate forecasts table above. Traditionally, we have used 3m LIBID forecasts, with the rate calculated using market convention of 1/8th (0.125%) taken off the LIBOR figure. Given that 3m LIBOR is currently running below 10bps, that would give a figure of around 0% to somewhere modestly into negative territory. However, the liquidity premium that is still in evidence at the short end of the curve means that 3m rates actually being achieved by local authority investors are still modestly in positive territory. While there are differences between counterparty offer rates, our analysis would suggest that an average rate of around 10bps should be achievable. *(Please note that the graph of investment rates in appendix 2 is based on market rates, i.e. actual LIBOR-related rates, not rates actually being achieved by local authorities.)*

The coronavirus outbreak has done huge economic damage to the UK and around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its last meeting on 6<sup>th</sup> August, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31<sup>st</sup> March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

**GILT YIELDS / PWLB RATES.** There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

Gilt yields had therefore already been on a falling trend during the year up until the coronavirus crisis hit western economies. Since then, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies and moved cash into safe haven assets i.e. government bonds. However, major western central banks started massive quantitative easing purchases of government bonds and this has acted to maintain downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance, in "normal" times would have caused bond yields to rise sharply. At the close of the day on 28<sup>th</sup> August, all gilt yields from 1 to 4 years were in negative territory, while even 25-year yields were at only 0.97% and 50 year at 0.82%. Meanwhile, equity markets have enjoyed a rebound since the lows of March as confidence has started to return among investors that the worst is over and recovery is now on the way.

From the local authority borrowing perspective, HM Treasury imposed **two changes of margins over gilt yields for PWLB rates** in 2019-20 without any prior warning. The first took place on 9<sup>th</sup> October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for some forms of borrowing on 11<sup>th</sup> March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4<sup>th</sup> June, but that date was subsequently put back to 31<sup>st</sup> July. It is clear that the Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).



Following the changes on 11<sup>th</sup> March 2020 in margins over gilt yields, the current situation is as follows: -

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

It is possible that the non-HRA Certainty Rate will be subject to revision downwards after the conclusion of the PWLB consultation; however, the timing of such a change is currently an unknown, although it would be likely to be within the current financial year

As the interest forecast table for PWLB certainty rates, (gilts plus 180bps), above shows, there is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

### **The balance of risks to the UK**

- The overall balance of risks to economic growth in the UK is probably relatively even, but is subject to major uncertainty due to the virus.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

### **Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:**

- **UK** - second nationwide wave of virus infections requiring a national lockdown
- **UK / EU trade negotiations** – if it were to cause significant economic disruption and a fresh major downturn in the rate of growth.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU recently agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021**. In the German general election of September 2017, Angela Merkel’s CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments**. Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.

- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- **Geopolitical risks**, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.
- **US – the Presidential election in 2020**: this could have repercussions for the US economy and SINO-US trade relations.

#### **Upside risks to current forecasts for UK gilt yields and PWLB rates**

- **UK** - stronger than currently expected recovery in UK economy.
- **Post-Brexit** – if an agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

## 4. The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

### 5.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget

Capital Expenditure by Service	2020/21 As shown in TMSS £m	2020/21 Revised Budget £m	Current Position £m	2020/21 Projection £m
General Fund	333,176	415,823	73,682	378,000
HRA	92,955	103,285	25,585	68,977
<b>Total capital expenditure</b>	<b>426,131</b>	<b>519,108</b>	<b>99,268</b>	<b>446,977</b>

There was a substantial increase (£92.0m) in the budgeted for capital expenditure after the approval of the TMSS relating to the carry forward of projections from the previous year. The current projection is lower than both the budget and slightly above the estimate included within the TMSS. This is due to various changes in the programme principal amongst them slippage in loans to ODH to later years (£10m), slippage of the Saracens loan to later years (£11m), and BX slippage to later years (£7m). The HRA has accounted for slippage and deletions of £33.4m.

### 5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2020/21 As shown in TMSS	2020/21 Revised Budget £m	2020/21 Projection £m
<b>Total capital expenditure</b>	<b>426,131</b>	<b>519,108</b>	<b>446,977</b>
<b>Financed by:</b>			
Capital receipts	22,579	22,579	29,759
Capital grants	190,221	190,221	181,855
Capital reserves	31,076	31,076	22,668
Revenue	33,881	33,881	34,164
<b>Total funding</b>	<b>277,757</b>	<b>277,757</b>	<b>266,655</b>
<b>Borrowing requirement</b>	<b>148,374</b>	<b>241,351</b>	<b>180,322</b>



### 5.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

#### Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement (or explain any significant changes).

#### Prudential Indicator – the Operational Boundary for external debt

	2019/20 Actual £000s	2020/21 as shown in TMSS £000s	2020/21 Projection £000s
<b>Prudential Indicator – Capital Financing Requirement</b>			
CFR – non housing	392,264	533,021	537,189
CFR – housing	212,807	262,768	235,441
<b>Total CFR</b>	<b>605,071</b>	<b>795,789</b>	<b>772,630</b>
<b>Net movement in CFR</b>	<b>57,612</b>	<b>141,439</b>	<b>167,559</b>
<b>Prudential Indicator – the Operational Boundary for external debt</b>			
Borrowing	388,955	530,344	556,514
Other long-term liabilities*	14,319	13,946	13,946
<b>Total debt (year-end position)</b>	<b>403,274</b>	<b>545,460</b>	<b>570,460</b>
TMSS Operational boundary	<b>654,843</b>	<b>654,843</b>	<b>654,843</b>
Debt headroom	<b>251,569</b>	<b>109,383</b>	<b>84,383</b>

\* On balance sheet PFI schemes and finance leases etc.

### 5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose\*. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

\* The management of transferred debt should be excluded from net borrowing.

	2019/20 Actual £000s	Current Position At 30 August £000s	2020/21 Projection £000s
Borrowing	388,955	398,955	569,277
Other long term liabilities*	14,319	14,319	13,946
Treasury Investments	-121,400	-98,950	-35,000
<b>Net debt</b>	<b>281,874</b>	<b>314,324</b>	<b>535,460</b>
<b>CFR* (year end position)</b>	<b>605,071</b>		<b>772,630</b>

\*Includes on balance sheet PFI schemes and finance leases etc.

The Director of Finance reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

<b>Authorised limit for external debt</b>	<b>2020/21 Original Indicator As per TMSS £000s</b>	<b>Current Position</b>	<b>2020/21 Projection</b>
Borrowing	780,300	398,955	569,277
Other long term liabilities*	19,743	14,319	13,946
<b>Total</b>	<b>800,043</b>	<b>413,274</b>	<b>583,223</b>

Both the current and year-end projected borrowing are well within the authorised debt limits.

## 5. Investment Portfolio 2020/21

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by the forecasts in section 3.2, it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates up to 12 months are either negative or barely above zero now that Bank Rate is at 0.10%. Given this risk environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31<sup>st</sup> March 2023, investment returns are expected to remain low.

The Council held £98.95m of investments as at 28 August 2020 (£121.4m at 31<sup>st</sup> March 2020) and the investment portfolio yield for the first 5 months of the year is 0.25% against the 7-day LIBID of -0.05% (benchmark).

The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first 5 months of 2020/21.

The Council's budgeted investment return for 2020/21 is £400,000, and performance for the year to date is in line with budget.

## 6. Borrowing

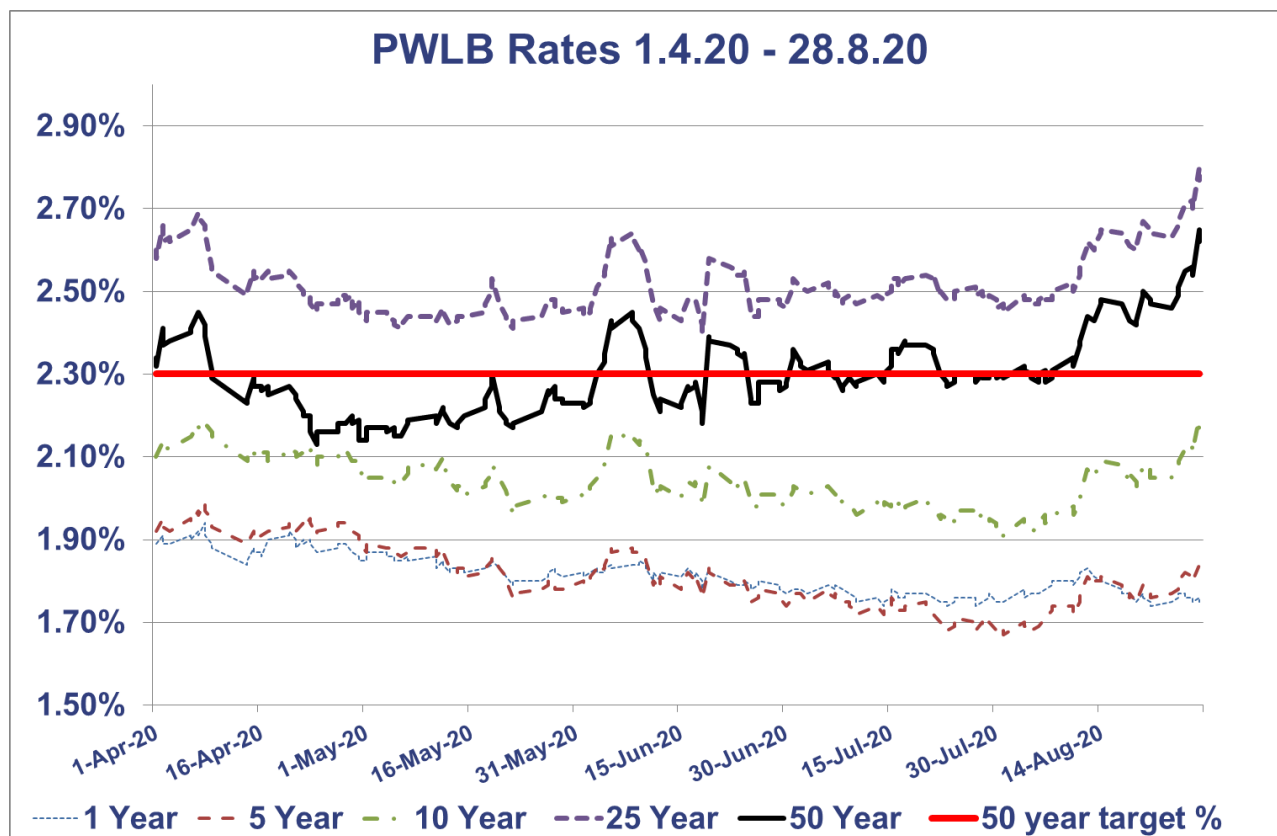
The Council's capital financing requirement (CFR) for 2020/21 is estimated at £772.63m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 5.4 shows the Council has borrowings of £398.95m and has utilised £98.95m of cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

Due to the increase in PWLB margins over gilt yields in October 2019, and the subsequent consultation on these margins by HM Treasury - which ended on 31<sup>st</sup> July 2020 - the Authority has refrained from undertaking new long-term PWLB borrowing for the present and has met its requirements for additional borrowing by using

short-term borrowing until such time as new PWLB margins are finally determined. In addition, the effect of coronavirus on the capital programme objectives are being assessed. Therefore, our borrowing strategy will be reviewed and then revised in order to achieve optimum value and risk exposure in the long-term.

It is anticipated that further borrowing will be undertaken during this financial year.

The graph and table below show the movement in PWLB certainty rates since the start of the current financial year. PWLB rates have varied within a relatively narrow range between April and July but the longer end of the curve has risen during August. The increase came in two periods. First, on the back of hopes for fresh US stimulus, in the second week of the month. This saw investors switch monies out of government bonds and into equities, The second shift higher at the longer end of the curve came in the latter stages of the month as investors reacted to the tweak to the Fed's inflation focus. Despite moves further out in the curve, the short end of the curve remained anchored on the basis of no fundamental change to the interest rate outlook.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.74%	1.67%	1.91%	2.40%	2.13%
Date	14/07/2020	30/07/2020	31/07/2020	18/06/2020	24/04/2020
High	1.94%	1.99%	2.19%	2.80%	2.65%
Date	08/04/2020	08/04/2020	08/04/2020	28/08/2020	28/08/2020
Average	1.81%	1.81%	2.04%	2.52%	2.30%

## 7. Debt Rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.



## APPENDIX 2: Investing

The levels shown above use the traditional market method for calculating LIBID rates – ie LIBOR – 0.125%. Given the ultra-low LIBOR levels through the first half of 2020/21 this produces negative rates at the short end of the money market yield curve.

Investment performance year to date as at 31<sup>st</sup> August 2020

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	-0.05%	0.25%	£295,000

The levels shown above use the traditional market method for calculating LIBID rates – ie LIBOR – 0.125%. Given the ultra-low LIBOR levels through the first half of 2020/21 this produces negative rates at the short end of the money market yield curve.

	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	0.00	0.14	0.56	0.62	0.77
High Date	01/04/2020	02/04/2020	20/04/2020	08/04/2020	14/04/2020	21/04/2020
Low	0.10	-0.07	-0.07	-0.06	-0.01	0.11
Low Date	01/04/2020	19/06/2020	21/08/2020	28/08/2020	25/08/2020	28/08/2020
Average	0.10	-0.05	-0.01	0.14	0.25	0.41
Spread	0.00	0.08	0.22	0.62	0.63	0.66

