APPENDIX A

Lewes District Council

Lewes District Council

Annual Treasury Management Report 2020/21

Contents

1. Background

1.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury management report. The report must review treasury management activities and set out the final position of the Council's Treasury Prudential Indicators. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

1.2 The Council defines its Treasury Management activities as:

> *"the management of the Council's 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."*

1.3 The Council agreed its Treasury Management Strategy Statement and Investment Strategy 2020/21 to 2022/23 at its meeting in February 2020. The Council has substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remain central to the Council's treasury management strategy.

1.4 The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments.

2. Overall Summary of Activity 2020/21

2.1 The table below lists the key elements of the 2020/21 Strategy and records actual performance against each one of them.

Key Element	Target in Strategy	Actual Performance	
Borrowing			
Underlying need to borrow (CFR) at year end	£88.300 million	£89.931 million	-
Internal borrowing at year end	£31.627 million	£33.258 million	-
New external long-term borrowing in year	None anticipated	None undertaken	✓
Debt rescheduling in year	Review options but not anticipated	Options kept under review, none undertaken	✓
Interest payments on external borrowing	£1.7 million	£1.78 million	✓
Investments			
Minimum counterparty credit ratings for unsecured investments	Long-term BBB+- (does not apply to Government and other local authorities which have the highest ratings)	At least Long-term A	✓
Interest receipts from external investments	£0.100m	£0.012 m	✓
Appointment of Investment Consultants			

Key Element	Target in Strategy	Actual Performance	
Independent Treasury Adviser to be retained	Link Treasury Services Limited retained as Treasury Adviser	Link Treasury Services Limited retained as Treasury Adviser	✓
Reporting and Training			
Reports to be made to Audit and Standards Committee and Cabinet	Every regular meeting	Every regular meeting.	✓
Briefing sessions for Councillors and Staff	Treasury Adviser to provide	Staff training 21 21 October 2020	✓

2.2 The remainder of this report explores each of the key elements in more depth. Appendix A gives details of the final position on each of the Prudential Indicators, and Appendix B explores the Economic Background to the year's activity. A glossary appears at the end of the document to explain technical terms which could not be avoided when writing this report.

3. Detailed Analysis – Borrowing

3.1 During 2020/21, 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 investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.

3.2 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

3.3 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

3.4 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Chief Finance Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks*:*

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

3.5 In accounting terms, the underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) while usable reserves and working capital are the underlying resources available for investment.

3.6 The CFR is, in simple terms, the amount of capital expenditure which has been incurred by the Council but which has not yet been paid for (by using, for example, grants, capital receipts, reserves or revenue income) and in the meantime is covered by internal or external borrowing. ‘External borrowing’ is where loans are raised from the Public Works Loans Board (PWLB) or banks. Alternatively, it is possible to ‘internally borrow’ the significant levels of cash which has been set aside in Balances and Reserves and which would otherwise need to be invested with banks or other counterparties.

3.7 As noted above, the level of CFR increases each year by the amount of unfinanced capital expenditure and is reduced by the amount that the Council sets aside for the repayment of borrowing. The original CFR projection for 2020/21, the revised position reported at the time of producing the Treasury Strategy 2021/22 (February 2021) and the final position for the year are shown in the table below. The variation between the revised and final position reflects the changing profile of capital spend across financial years, particularly allocations in the capital programme in respect of facilitating loans to Lewes Housing investment Company, and Aspiration Homes LLP.

	20202/21 Original	2020/21 Revised	2020/21 Outturn
	£m	£m	£m
Opening CFR	87.000	84.600	85.423
Capital expenditure in year	44.600	22.700	14.429
Less financed	(17.500)	(18.500)	(9.345)
Less amount set aside for debt repayment	(0.300)	(0.500)	(0.576)
Closing CFR	**113.800**	88.300	**89.931**

3.8 The overall CFR can be split between the General Fund and the Housing Revenue Account as follows:

	2020/21 Revised	2020/21 Outturn
CFR Component	£m	£m
General Fund	21.000	18.382
Housing Revenue Account	67.300	71.549
Total	**88.300**	**89.931**

3.9 The following table compares the CFR with the amount that the Council holds in balances and reserves as well as working capital (day to day cash movements as well as grants, developer contributions and capital receipts held, pending their use).

3.10 The Council's long-term loan portfolio at 31 March 2021 was:

Lender	Interest	Amount £m	Rate %	Maturity
PWLB	Fixed	4.000	2.70	01-03-2024
PWLB	Fixed	5.000	3.30	01-03-2032
PWLB	Fixed	2.000	3.05	01-09-2027
PWLB	Fixed	2.000	2.76	01-09-2024
PWLB	Fixed	4.000	2.97	01-09-2026
PWLB	Fixed	5.000	3.28	01-09-2031
PWLB	Fixed	4.000	2.63	01-09-2023
PWLB	Fixed	5.000	3.44	01-03-2037
PWLB	Fixed	6.673	3.50	01-03-2042
PWLB	Fixed	5.000	3.43	01-09-2036
PWLB	Variable	5.000	0.23	28-03-2022
PWLB	Fixed	4.000	3.01	01-03-2027
	Sub-total	**51.673**		
Barclays	Fixed	5.000	4.50	06-04-2054
	Sub-total	**5.000**		
	Total	**56.673**		

3.11 The Council's objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

3.12 In the table above the Barclays loan was taken out in April 2004 with a term of 50 years. In June 2016, the bank decided to permanently waive its contractual right to vary the interest rate on this loan, which was effectively fixed at the rate of interest applicable at that time, 4.5%.

3.13 Total interest paid on external long-term borrowing in the year was £1.78m, which was consistent with the revised budget for the year. No new long-term borrowing was undertaken. The Council remained eligible to access the Government's 'Certainty Rate' allowing the Council to borrow, had it been appropriate to do so, at a reduction of 0.2% on the Standard Rate.

3.14 Through the year, officers, supported by Link Treasury Services Limited, monitored opportunities for the rescheduling of external loans and the possibility of repayment utilising cash balances that would otherwise be invested. No beneficial rescheduling opportunities were identified, and the loan portfolio remained unchanged through the year.

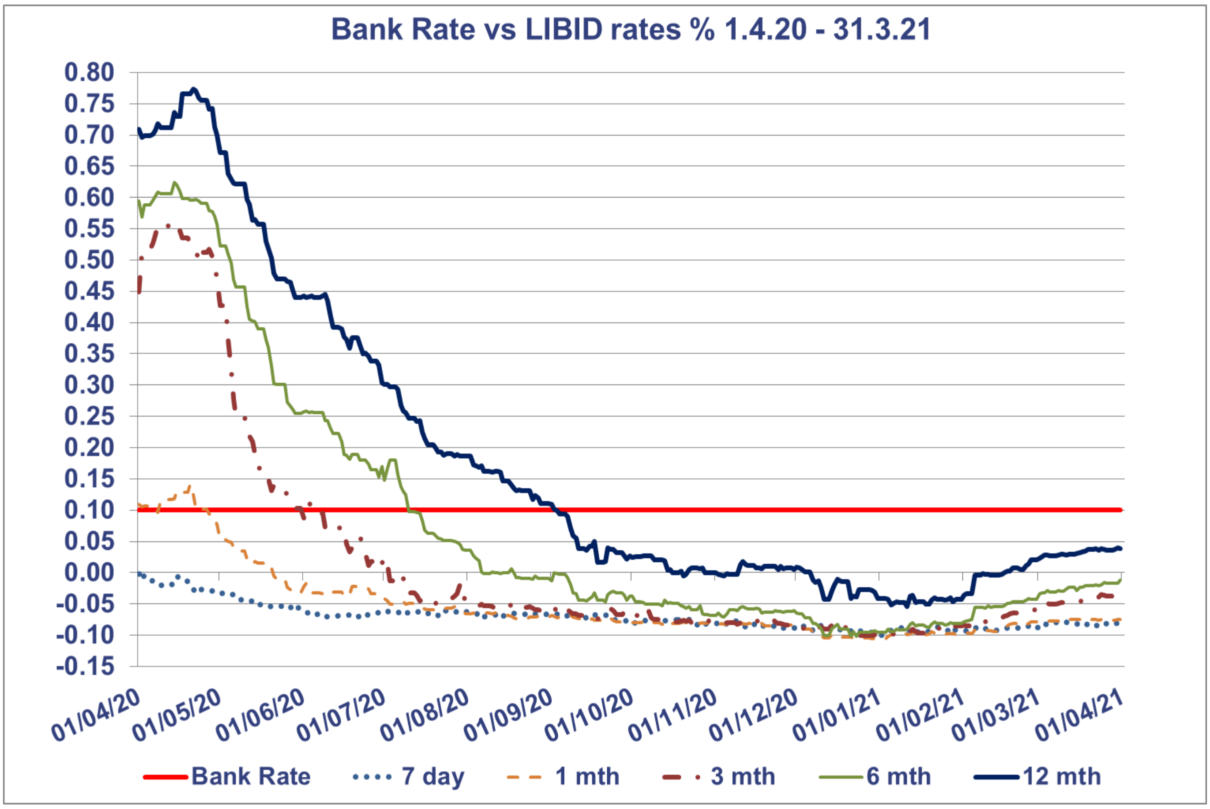
3.15 As determined by the Council, two separate Loans Pools operated in 2020/21, for the General Fund and HRA, respectively. At 31 March 2021 the balance on internal loans from the General Fund to the Housing Revenue Account (HRA) was £14.876m, an increase of £4.202m compared with the previous year, which comprised new lending as funding for the construction of new homes. Interest was charged on internal borrowing at 2.09% (equivalent to a one-year maturity loan from the PWLB at the start of the financial year).

3.16 No temporary borrowing was undertaken during the course of the financial year and consequently, there were no temporary loans outstanding at 31 March 2021.

4. Detailed Analysis - Investments

4.1 In a relatively short period since the onset of the COVID-19 pandemic, the global economic fallout was sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, businesses, and individuals.

4.2 Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. Investment strategy and control of interest rate risk



	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	-0.10	-0.11	-0.10	-0.10	-0.05
Low Date	01/04/2020	31/12/2020	29/12/2020	23/12/2020	21/12/2020	11/01/2021
Average	0.10	-0.07	-0.05	0.01	0.07	0.17
Spread	0.00	0.10	0.25	0.66	0.73	0.83

4.3 The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance 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 plummeted.

4.4 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.

4.5 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 and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

4.6 The Council held an average of £27.2m as cash during the year. This comprised working cash balances, capital receipts, earmarked reserves and developer contributions held pending their use.

4.7 The Council's general policy objective is to invest its surplus funds prudently. Throughout 2020/21, the Council's investment priorities continued to be:

Highest priority - Security of the invested capital;
Followed by - Liquidity of the invested capital;
Finally - An optimum yield commensurate with security and liquidity.

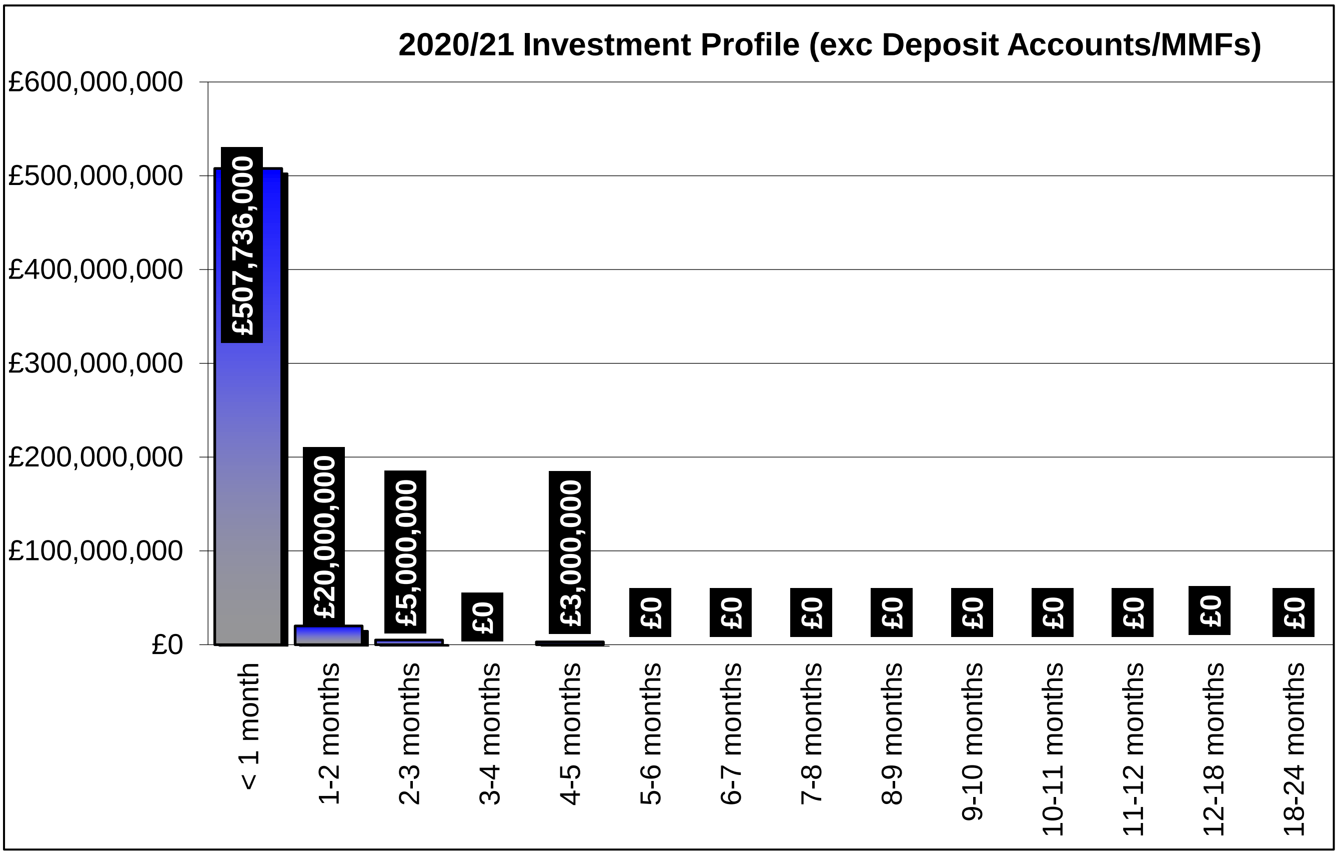
4.8 All of the Council's investments were managed in-house. Security of capital was maintained by following the counterparty policy set out in the Investment Strategy for 2020/21. Investments made during the year included:

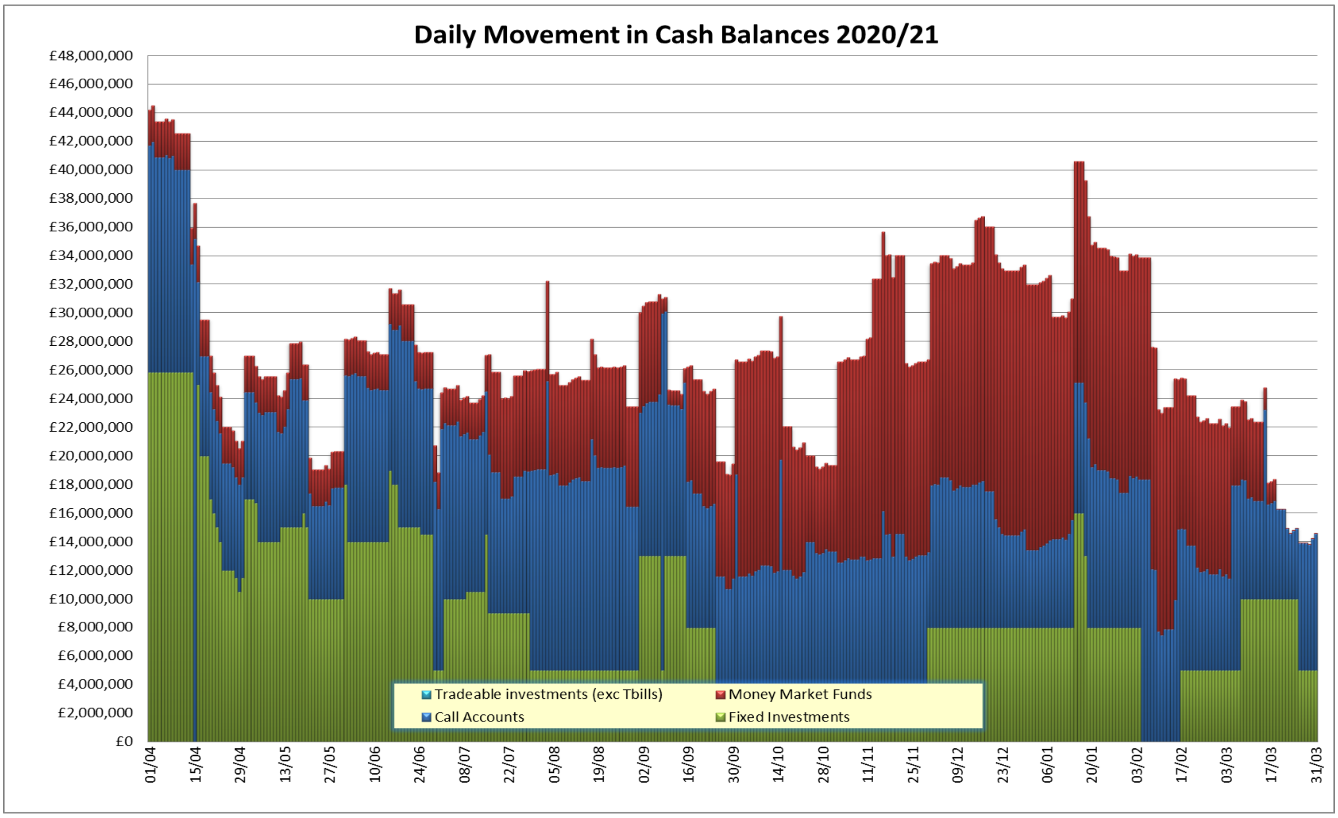
- Fixed Term Deposits with the Debt Management Office (DMO) (a total of £507.7 million – 36 occasions);
- Fixed Term Deposits with other Local Authorities (a total of £28 million – 6 occasions);
- Fixed Term Deposits with UK Banks and Building Societies (none);
- Investments in Money Market Funds (MMFs) (average daily balance held in year £8.38 million);
- United Kingdom Treasury Bills (none);
- Tradable Investments - Floating Rate Notes, Certificates of Deposit, Bonds (none);
- Deposit accounts with UK Banks (average daily balance held in year £6.68 million);
- Deposit accounts with UK Building Societies (none);
- Overnight deposits with the Council's banker, Lloyds Bank (average daily balance held in year £3.41 million).

4.9 Counterparty credit quality was assessed and monitored with reference to credit ratings (a minimum long-term counterparty rating of BBB+ across all three rating agencies Fitch, Standard and Poor's, and Moody's applied); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price.

4.10 In keeping with Government guidance on investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds (MMF), overnight deposits and deposit accounts, the average daily balance held being £18.47 million.

4.11 A full list of investments (excluding deposit account or MMF transactions) made or maturing in the year is given at Appendix C. All investments were made with UK institutions, and no new deposits were made for periods in excess of one year. The first chart below gives an analysis of aggregate fixed term deposits by duration. The second chart shows how the total amount invested varied from day to day over the course of the year, from a low of £13.79m to a high of £44.49m. The movement largely reflects the cycle of grant, council tax and business rate receipts and precept payments made.





4.12 The income return generated from investments in the year was £0.012 million, below the total budget for investment income of £0.100 million. This position arose as a result of the requirement to re-profile major projects within the approved capital programme, ensuring an increase in the short-term availability of additional cash for investment.

4.13 The average rate of return from investments at the end of each quarter in 2020/21 is shown in the table below, along with comparative benchmark information, the 7-day LIBID rate.

Average rate of investments in:	Lewes District Council	7-day LIBID
Quarter 1 ending 30 June 2020	0.19%	-0.04%
Quarter 2 ending 30 September 2020	0.10%	-0.07%
Quarter 3 ending 31 December 2020	0.08%	-0.08%
Quarter 4 ending 31 March 2021	0.02%	-0.09%
Whole year 2020/21	0.10%	-0.07%

5. Compliance with Prudential Indicators

5.1 The Council can confirm that it has complied with its Prudential Indicators for 2020/21. A detailed review of each of the Prudential Indicators is at Appendix A.

6. Investment Consultants

6.1 The Council has recently appointed Link Treasury Services Limited as its Treasury Adviser for an initial two-year term expiring on 30 May 2023, with the Council having the option to extend, if required. The Link Treasury Services has been appointed to support both the Lewes District Council and Eastbourne Borough Council, given that a shared finance team (with treasury management responsibility) has been established.

7. Reporting and Training

7.1 The Chief Finance Officer reported the details of treasury management activity to each regular meeting of the Audit and Standards Committee and Cabinet held in 2020/21. A mid-term summary report was issued in November 2020.

7.2 The training needs of the Council's treasury management staff were reviewed as part of the annual corporate staff appraisal/training needs assessment process for all Council employees. Members of staff attended, where appropriate, Links workshops alongside colleagues from other local authorities during 2020/21. In 2020/21, Link Asset Services continue to meet with Council officers to explain developments within the sector, as well as review the Council's own investment and debt portfolios.

7.3 The Treasury Strategy had anticipated that Link's would hold a local briefing session for all councillors tasked with treasury management responsibility, including scrutiny of the treasury management function. The TM briefing session took place in 21st October 2020.

8. Other

8.1 CIPFA consultations: In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.

8.2 In the Prudential Code the key area being addressed is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's corporate objectives, i.e., recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.

8.3 Proposed changes to the Treasury Management Code include requiring job specifications and "knowledge and skills" schedules for treasury management roles to be included in the Treasury Management Practices document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.

8.4 **IFRS 16:** The implementation of the new IFRS 16 Leases accounting standard has been delayed for a further year until 2022/23.

Appendix A – Prudential Indicators 2020/21

1. Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. Some of the Prudential Indicators relate directly to the Council's Capital Programme. These Indicators are also included below for completeness of reporting.

2. Net Borrowing and the Capital Financing Requirement

2.1 This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

2.2 The Chief Finance Officer reports that the Council has had no difficulty meeting this requirement in 2020/21, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans, and the proposals in the budget for 2021/22.

3. Estimates of Capital Expenditure (direct link to Capital Programme)

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

No.	Capital Expenditure	2020/21 Original £m	2020/21 Revised £m	2020/21 Actual £m
1a	Non-HRA	15.467	16.525	9.746
1b	HRA	29.108	50.150	4.683
	Total	**44.575**	**66.675**	**14.429**

4. Ratio of Financing Costs to Net Revenue Stream (direct link to Capital Programme)

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

4.2 The ratio is based on costs net of investment income. Where investment income exceeds interest payments, the indicator is negative.

No.	Ratio of Financing Costs to Net Revenue Stream	2020/21 Original %	2020/21 Revised %	2020/21 Actual %
2a	Non-HRA	2.2	3.94	3.90
2b	HRA	11.1	11.03	10.33

5. Capital Financing Requirement

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and it's financing. The amounts shown are as at 31 March.

No	Capital Financing Requirement	2020/21 Original £m	2020/21 Revised £m	2020/21 Actual £m
3a	Non-HRA	45.500	21.000	18.382
3b	HRA	68.300	67.300	71.549
	Total CFR	**113.800**	**88.300**	**89.931**

5.2 The year-on-year change in the CFR is set out below.

Capital Financing Requirement	2020/21 Original £m	2020/21 Revised £m	2020/21 Actual £m
Balance B/F	87.000	84.600	85.423
Capital expenditure financed from borrowing	27.100	4.200	5.084
Revenue provision for Debt Redemption.	(0.300)	(0.500)	(0.576)
Balance C/F	**113.800**	**88.300**	**89.931**

6. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. The Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit (see 8 below).

No.	Actual External Debt as at 31/03/21	Revised £m	Actual £m
4a	Borrowing	61.673	56.673
4b	Other Long-term Liabilities	0.600	0.600
4c	**Total**	**62.273**	**57.273**

7. Incremental Impact of Capital Investment Decisions Stream (direct link to Capital Programme)

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved Capital Programme with an equivalent calculation of the revenue budget requirement arising from the proposed Capital Programme.

No.	Incremental Impact of Capital Investment Decisions	2020/21 Original £m	2020/21 Revised £m	2020/21 Actual £m
5a	Increase in Band D Council Tax	64.74	45.10	20.40
5b	Increase in Average Weekly Housing Rents	0.78	0.17	1.98

The increase in Band D council tax/average weekly rents reflects the funding of the capital programme: for example, new borrowing increases interest payable, and funding from reserves utilises resources which could have otherwise been used to fund revenue expenditure. The actual indicators are less than the revised as a result of significant capital projects being deferred from 2020/21 into 2021/22.

8. Authorised Limit and Operational Boundary for External Debt

8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long- and short-term borrowing, overdrawn bank balances and long-term liabilities). This Prudential Indicator separately identifies borrowing from other long-term liabilities such as finance leases.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst-case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The 2020/21 Actual values shown below are the maximum levels of borrowing, including temporary borrowing, experienced at any time during the year.

No.	Authorised Limit for External Debt	2020/21 Original £m	2020/21 Actual £m
6a	Borrowing	131.600	56.673
6b	Other Long-term Liabilities	0.400	0.600
6c	**Total**	**132.000**	**57.273**

8.5 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst-case scenario but without the additional headroom included within the Authorised Limit.

8.6 The Chief Finance Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Cabinet. The 2020/21 Actual values shown below are the maximum levels of borrowing, including temporary borrowing, experienced at any time during the year.

No.	Operational Boundary for External Debt	2020/21 Original £m	2020/21 Actual £m
7a	Borrowing	121.300	56.673
7b	Other Long-term Liabilities	0.400	0.600
7c	**Total**	**121.700**	**57.273**

9. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Council has adopted best practice.

No.	Adoption of the CIPFA Code of Practice in Treasury Management
8	The Council approved the adoption of the CIPFA Treasury Management Code in 2002. Following revisions to the Code published in December 2009, reconfirmed its adoption of the Code in February 2010.

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

10.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums i.e. fixed rate debt net of fixed rate investments.

10.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget.

No.		2020/21 Original £m	2020/21 Revised £m	2020/21 Actual £m
9	**Upper Limit for Fixed Interest Rate Exposure**	100.0	100.0	100.0
10	**Upper Limit for Variable Interest Rate Exposure**	(25)	(25.0)	(25.0)

10.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council’s Treasury Management Strategy.

10.4 Because the Council’s investments are substantially in excess of its variable rate borrowing, the Upper Limit for Variable Interest Rate exposure is shown as a negative figure.

11. Maturity Structure of Fixed Rate borrowing

11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

11.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

No.	Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %	Actual %
11a	under 12 months	0	75	8
11b	12 months and within 24 months	0	75	0
11c	24 months and within 5 years	0	75	18
11d	5 years and within 10 years	0	75	18
11e	10 years and above	0	75	56

12. Upper Limit for total principal sums invested over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. No investments of more than 364 days were made during 2020/21.

No.	Upper Limit for total principal sums invested over 364 days	2020/21 Original £m	2020/21 Revised £m	2020/21 Actual £m
12	Upper limit	2	2	2

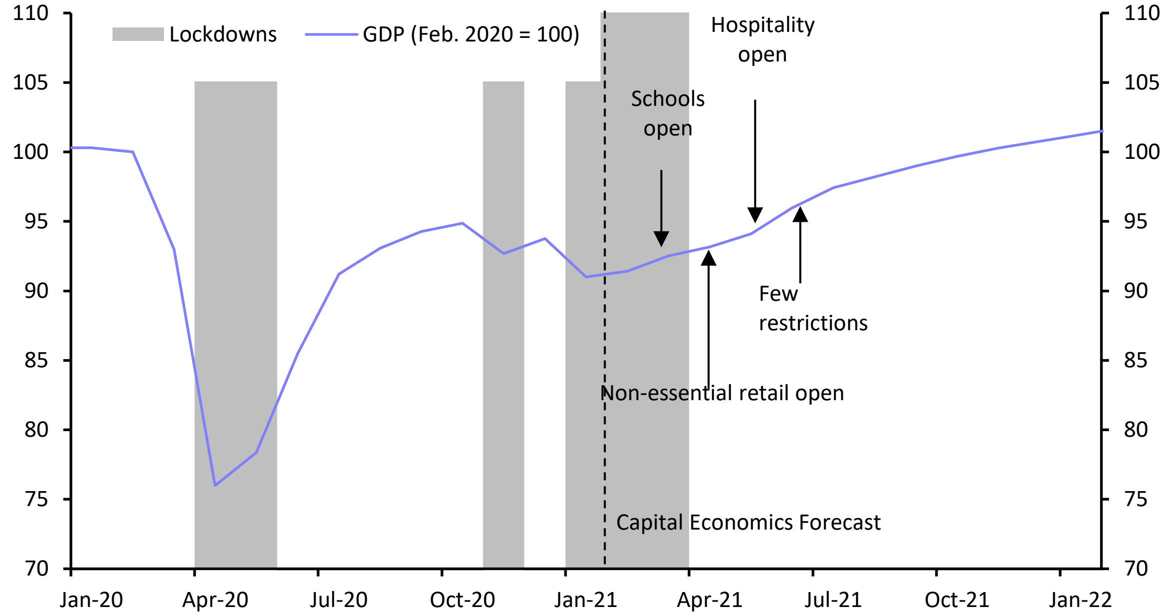
13. HRA Limit on Indebtedness

The indicator is associated with self-financing for housing. It indicates the residual capacity to borrow for housing purposes, while remaining within the overall HRA ‘Debt Cap’ specified by the Government. The Government has removed the ‘debt cap’ and the Council has retained the indicator 2020/21 for reporting to show the position if the ‘debt cap’ had remained in place.

No	Capital Financing Requirement	2020/21 Original £m	2020/21 Revised £m	2020/21 Actual £m
13a	HRA CFR	68.300	67.300	71.549
13b	HRA Debt Cap	75.248	75.248	75.248
	Difference	**6.948**	**7.948**	**3.699**

Appendix B – The Economy and Interest Rates by Link Treasury Services Limited

UK. Coronavirus. The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.



Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs.

The Monetary Policy Committee cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

Average inflation targeting. This was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August 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. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short-lived factor and so not a concern to the MPC.

Government support. The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 20/21 and 21/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%. An area of concern, though, is that the government's debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low e.g. by using fiscal policy in conjunction with the monetary policy action by the Bank of England to keep inflation from rising too high, and / or by amending the Bank's policy mandate to allow for a higher target for inflation.

BREXIT. The final agreement on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.

EU. Both the roll out and take up of vaccines has been disappointingly slow in the EU in 2021, at a time when many countries are experiencing a sharp rise in cases which are threatening to overwhelm hospitals in some major countries; this has led to renewed severe restrictions or lockdowns during March. This will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. Recovery will now be delayed until Q3 of 2021 and a return to pre-pandemic levels is expected in the second half of 2022.

Inflation was well under 2% during 2020/21. The ECB did not cut its main rate of -0.5% further into negative territory during 2020/21. It embarked on a major expansion of its QE operations (PEPP) in March 2020 and added further to that in its December 2020 meeting when it also greatly expanded its programme of providing cheap loans to banks. The total PEPP scheme of €1,850bn is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore, unlikely to be a euro crisis while the ECB is able to maintain this level of support.

World growth. World growth was in recession in 2020. Inflation is unlikely to be a problem in most countries for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Central banks' monetary policy. During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

Appendix C – List of Investments made and/or maturing in 2020/21

Counterparty	Principal £	From / To		Interest/Return £
Term Deposits				
Debt Management Office	25,884,000	01/04/2020	02/04/2020	42.55
Debt Management Office	25,884,000	02/04/2020	09/04/2020	496.41
Debt Management Office	25,884,000	09/04/2020	14/04/2020	212.75
Debt Management Office	25,884,000	14/04/2020	15/04/2020	42.55
Debt Management Office	25,000,000	16/04/2020	17/04/2020	27.40
Debt Management Office	20,000,000	17/04/2020	20/04/2020	65.75
Debt Management Office	17,000,000	20/04/2020	21/04/2020	18.63
Debt Management Office	16,000,000	21/04/2020	22/04/2020	17.53
Debt Management Office	15,000,000	22/04/2020	23/04/2020	16.44
Debt Management Office	14,000,000	23/04/2020	24/04/2020	15.34
Debt Management Office	12,000,000	24/04/2020	27/04/2020	39.45
Debt Management Office	12,000,000	27/04/2020	28/04/2020	13.15
Debt Management Office	11,500,000	28/04/2020	29/04/2020	12.60
Debt Management Office	10,500,000	29/04/2020	30/04/2020	11.51
Debt Management Office	11,500,000	30/04/2020	01/05/2020	12.60
Debt Management Office	17,000,000	01/05/2020	04/05/2020	55.89
Debt Management Office	16,700,000	04/05/2020	05/05/2020	18.30
Debt Management Office	14,000,000	05/05/2020	12/05/2020	107.40
Debt Management Office	15,000,000	12/05/2020	19/05/2020	115.07
Debt Management Office	16,000,000	19/05/2020	20/05/2020	17.53
Debt Management Office	15,000,000	20/05/2020	21/05/2020	16.44
Debt Management Office	10,000,000	21/05/2020	28/05/2020	76.71
Debt Management Office	10,000,000	28/05/2020	02/06/2020	27.40
Debt Management Office	8,000,000	01/06/2020	02/06/2020	8.77
Debt Management Office	14,000,000	02/06/2020	16/06/2020	107.40
Debt Management Office	5,000,000	15/06/2020	16/06/2020	2.74
Debt Management Office	18,000,000	16/06/2020	17/06/2020	4.93
Debt Management Office	18,000,000	17/06/2020	18/06/2020	4.93
Debt Management Office	15,000,000	18/06/2020	25/06/2020	28.77
Merthyr Tydfil	5,000,000	25/06/2020	25/08/2020	1,420.55
Debt Management Office	9,500,000	25/06/2020	29/06/2020	10.41
Debt Management Office	5,000,000	02/07/2020	09/07/2020	9.59
Debt Management Office	5,500,000	09/07/2020	16/07/2020	10.55
Debt Management Office	4,000,000	15/07/2020	29/07/2020	15.34
Merthyr Tydfil	5,000,000	25/08/2020	25/09/2020	339.73
Debt Management Office	8,000,000	01/09/2020	08/09/2020	15.34
Debt Management Office	8,000,000	09/09/2020	16/09/2020	£15.34
Telford and Wrekin Council	3,000,000	16/09/2020	18/01/2021	815.34
RB Maidenhead & Windsor	5,000,000	30/11/2020	19/01/2021	205.48
Debt Management Office	8,000,000	15/01/2021	05/02/2021	46.03
Kirklees Council	5,000,000	17/02/2021	26/03/2021	50.68
Surrey County Council	5,000,000	08/03/2021	08/04/2021	212.33

Glossary of Terms

Affordable Borrowing Limit	Each local authority is required by statute to determine and keep under review how much money it can afford to borrow. The Prudential Code (see below) sets out how affordability is to be measured.
Base Rate	The main interest rate in the economy set by the Bank of England, upon which other rates are based.
Bonds	Debt instruments issued by government, multinational companies, banks, and multilateral development banks. Interest is paid by the issuer to the bond holder at regular pre-agreed periods. The repayment date of the principal is also set at the outset.
Capital Expenditure	Spending on the purchase, major repair, or improvement of assets e.g. buildings and vehicles.
Capital Financing Requirement (CFR)	Calculated in accordance with government regulations, the CFR represents the amount of Capital Expenditure that it has incurred over the years and which has not yet been funded from capital receipts, grants, or other forms of income. It represents the Council's underlying need to borrow.
Chartered Institute of Public Finance and Accountancy (CIPFA)	CIPFA is one of the leading professional accountancy bodies in the UK and the only one that specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government.
Counterparty	Organisation with which the Council makes an investment.
Credit Default Swaps	CDS are a financial instrument for swapping the risk of debt default and are effectively an insurance premium. Local authorities do not trade in CDS but trends in CDS prices can be monitored as an indicator of relative confidence about the credit risk of counterparties.
Credit Rating	A credit rating is an independent assessment of the credit quality of an institution made by an organisation known as a rating agency. The rating agencies take many factors into consideration when forming their view of the likelihood that an institution will default on their obligations, including the institution's willingness and ability to repay. The ratings awarded typically cover the short-term outlook, the long-term outlook, as well as an assessment of the extent to which the parent company or the state will honour any obligations. At present the three main agencies providing credit rating services are Fitch Ratings, Moody's and Standard and Poor's
Fixed Deposits	Loans to institutions which are for a fixed period at a fixed rate of interest.
Gilts	These are issued by the UK government in order to finance public expenditure. Gilts are generally issued for set periods and pay a fixed rate of interest. During the life of the gilt it will be traded at price decided in the market.

Housing Revenue Account (HRA)	There is a statutory requirement for local authorities to account separately for expenditure incurred and income received in respect of the dwellings that they own and manage.
Lenders' Option Borrower's Option (LOBO)	A long-term loan with a fixed interest rate. On pre- determined dates (e.g. every five years) the lender can propose or impose a new fixed rate for the remaining term of the loan and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan.
LIBID	The rate of interest at which first-class banks in London will bid for deposit funds.
Minimum Revenue Provision (MRP)	The minimum amount which must be charged to an authority's revenue account each year and set aside as provision for the repayment of debt.
Operational boundary	This is the most likely, prudent view of the level of gross external indebtedness. A temporary breach of the operational boundary is not significant.
Prudential Code/Prudential Indicators	The level of capital expenditure by local authorities is not rationed by central government. Instead the level is set by local authorities, providing it is within the limits of affordability and prudence they set themselves. The Prudential Code sets out the indicators to be used and the factors to be taken into account when setting these limits.
Public Works Loan Board (PWLB)	A central government agency which provides long-term and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow.
Treasury Management Strategy Statement (TMSS)	Approved each year, this document sets out the strategy that the Council will follow in respect of investments and financing both in the forthcoming financial year and the following two years.
Treasury Bills (T-Bills)	These are issued by the UK Government as part of the Debt Management Office's cash management operations. They do not pay interest but are issued at a discount and are redeemed at par. T-Bills have up to 12 months maturity when first issued.