ARUN DISTRICT COUNCIL

REPORT TO AUDIT AND GOVERNANCE COMMITTEE
ON 29 July 2021

REPORT

SUBJECT: Treasury Management Annual Report 2020/21

REPORT AUTHOR: Sian Southerton – Senior Accountant (Treasury)
DATE: June 2021
EXTN: 37861
AREA: Corporate Support

EXECUTIVE SUMMARY:

To report on the Treasury Management activities for the year 2020/21 and to enable the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

RECOMMENDATIONS:

Audit and Governance Committee is requested to recommend Full Council to:

(i) approve the actual prudential and treasury indicators for 2020/21 contained in the report;
(ii) note the annual treasury management report for 2020/21; and
(iii) note the treasury activity during 2020/21 which has generated interest receipts of £627,000 (0.86%). Budget £550,000 (1.26%)

BACKGROUND:

1.0 INTRODUCTION

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2020/21. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2020/21 the minimum reporting requirements of the code were met and Full Council received the following reports:

- the annual treasury strategy report in advance of the year (Council 15 July 2020 – the meeting on 18 March 2020 was cancelled due to C19).
- the mid-year treasury update report (Council 13 January 2021).

- 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.

During 2020/21, the Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Audit and Governance Committee before they were reported to Full Council.

All Councillors were invited to attended a Treasury Management briefing presented by Link Group (the Councils treasury advisors) explaining the roles and responsibilities of elected Members and giving them an economic update. The latest session was held on 21st November 2019 of which 14 members attended. The next session is on the 13th July 2021.

The Annual Treasury Management Report for 2020/21 summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

2.0 THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2020/21

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

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

	2019/20 Actual £,000	2020/21 Original £,000	2020/21 Actual £,000
Non-HRA capital expenditure	2,676	4,228	2,930
HRA capital expenditure	5,045	13,336	6,472
HRA Settlement	-	-	-
Total capital expenditure	**7,721**	**17,564**	**9,402**
Resourced by:			
• Capital receipts	1,261	-	1,589
• Capital grants	2,308	1,500	2,668
• Capital reserves	1,649	3,965	1,823
• Revenue	188	2,858	37
	5,406	**8,323**	**6,117**
Unfinanced capital expenditure	**2,315**	**9,241**	**3,285**

3.0 THE COUNCIL'S OVERALL BORROWING NEED

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2020/21 unfinanced capital expenditure (see above table).

Part of the Council's treasury activities is to address the funding requirements for any borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLB) or the money markets), or utilising temporary cash resources within the Council.

The CFR increases when capital expenditure is incurred but not financed and reduces when amounts are set aside for loan repayments.

The Council currently has no debt other than that taken out for the HRA Self-Financing (March 2012). The Council does not have an overdraft facility as it became very expensive and rather than incurring costs for the facility, an approx. £200k balance is held in the account daily. This is currently earning no interest (since the pandemic hit), but the balance is required to cover any potential cashflow need and to avoid high overdraft charges.

External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's CFR for the year is shown below and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

CFR	2019/20 Actual £,000	2020/21 Original £,000	**2020/21 Actual £,000**
Opening balance	51,718	48,472	**48,356**
Add unfinanced capital expenditure	2,315	2,818	**3,285**
Less Voluntary Revenue Provision (VRP) & Minimum Revenue Provision (MRP)	(5,677)	(3,839)	**(3,837)**
CFR before leases	**48,356**	**47,451**	**47,804**
Finance lease repayments	0	0	**946**
Closing balance	48,356	47,451	**48,750**

The borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

Gross borrowing and the 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.

Arun's only borrowing relates to the HRA Self-Financing settlement (currently £44.32m). Prior to this borrowing being undertaken Arun had a negative CFR of £2.6m which has arisen over a number of years and was due more to changes in the capital accounting regulations rather than to any specific policy decision.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this is set, the Council does not have the power to borrow above this level. The authorised limit was not breached in 2020/21.

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 is 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.

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement (summary in appendix1).

4.0 TREASURY POSITION AS AT 31 MARCH 2021

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

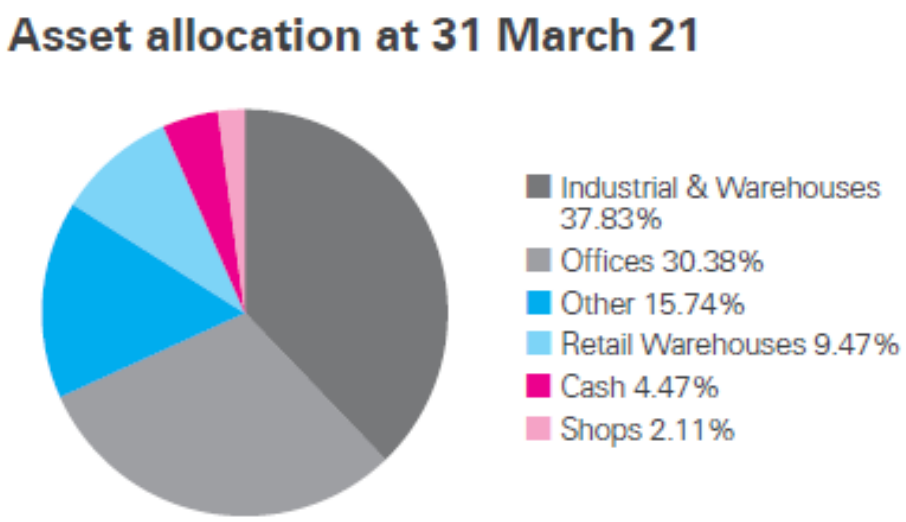
During 2020/21, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	31 March 2020 Actual £000	2020/21 Original £000	**31 March 2021 Actual £000**
Capital expenditure	7,721	17,564	**9,402**
Total Debt	44,320	44,320	**44,320**
Capital Financing Requirement at 31st March:			
• Non-HRA	-4,009	-4,223	**-4,223**
• HRA	52,365	51,674	**52,973**
• **Total**	**48,356**	**47,451**	**48,750**
Over / (under) borrowing	(4,036)	(3,131)	**(4,430)**
Investments			
• Longer than 1 year	6,000	n/a	**7,000**
• Under 1 year	52,700	n/a	**55,175**
• **Total**	**58,700**	**n/a**	**62,175**

Other prudential and treasury indicators are to be found in the main body of this report and appendix 1.

The base rate remained at 0.10% in 2020/21 largely due to Covid-19 and therefore achieving a return around 1% became even more challenging.
The Churches Charities and Local Authorities (CCLA) property fund, (investment of £5M) continues to enhance these returns and in 20/21 the CCLA diversified fund was introduced to the portfolio with an investment at 31 March 2021 of £2m.

This CCLA property fund has a diverse property investment portfolio, none of which are in shopping centres due to the current climate (although a few standalone shops). The spread as at 31 March 2021 is as follows;



These fund managers are experts in property management and are always actively managing their portfolio.

At the beginning and the end of 2020/21, the Council's treasury position was as follows:

Investments / Debt	2019/20 Rate/ Return (actual)	31st March 2020 Principal	**2020/21 Rate / Return (budget)**	**2020/21 Rate / Return (Actual)**	**31st March 2021 Principal**
Total Investments	1.31%	£58.70m	**1.26%**	**0.86%**	**£62.12m**
Total Debt	3.00%	£44.32m	**3.00%**	**3.00%**	**£44.32m**

The maturity structure of the debt portfolio is shown in appendix 1.

5.0 THE STRATEGY FOR 2020/21

5.1 Investment strategy and control of interest rate risk

Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. The authority lending managed to avoid negative rates and one feature with some Councils 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. 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.

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.

5.2 Borrowing strategy and control of interest rate risk

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.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Group Head of Corporate Support therefore monitored interest rates in financial markets.

Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2020/21 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link forecast at November 2019

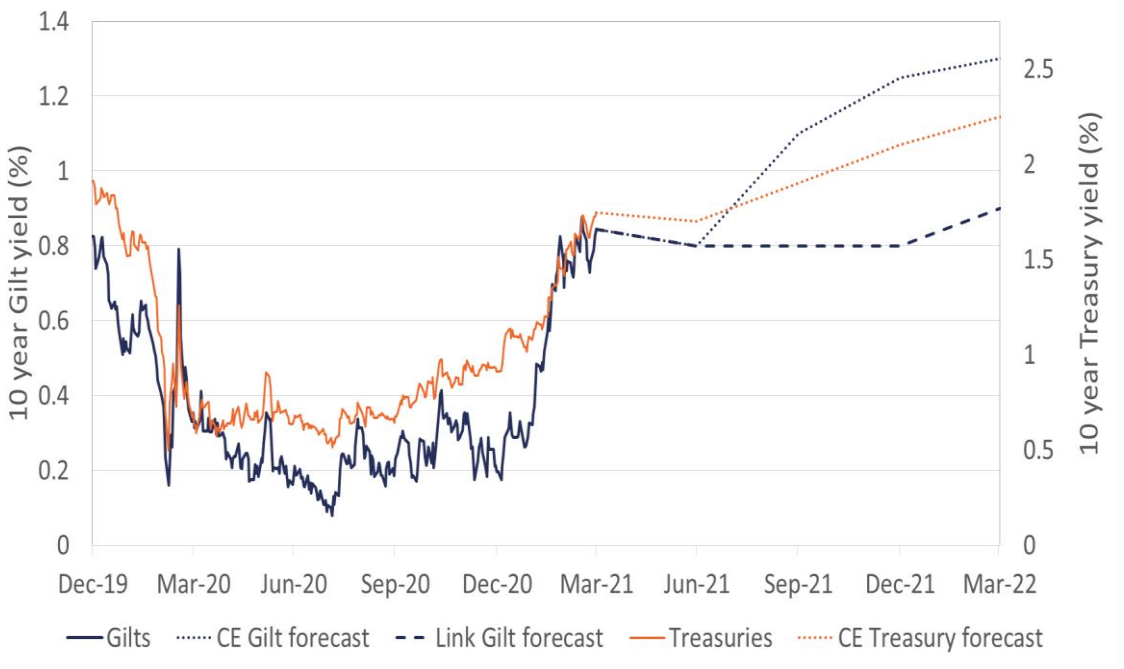
Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

Link forecast at November 2020

Link Group Interest Rate View 9.11.20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.80	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90	2.00	2.00	2.00	2.00
10 yr PWLB	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.80
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.60

PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and 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. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. 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.

Graph of UK gilt yields v. US treasury yields



Gilt yields fell sharply from the start of 2020 and then spiked up during a financial markets melt down in March caused by the pandemic hitting western countries; this was rapidly countered by central banks flooding the markets with liquidity. While US treasury yields do exert influence on UK gilt yields so that the two often move in tandem, they have diverged during the first three quarters of 2020/21 but then converged in the final quarter. Expectations of economic recovery started earlier in the US than the UK but once the UK vaccination programme started making rapid progress in the new year of 2021, gilt yields and gilt yields and PWLB rates started rising sharply as confidence in economic recovery rebounded. Financial markets also expected Bank Rate to rise quicker than in the forecast tables in this report.

At the close of the day on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19 – 0.58% while the 10-year and 25-year yields were at 1.11% and 1.59%.

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 9th 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 11th March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and **on 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates;** the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)

- **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)

There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

Change in strategy during the year – the strategy adopted in the original Treasury Management Strategy Report for 2020/21 approved by the Council on 15 July 2020 (the meeting on 18 March 2020 was cancelled due to C19) was subject to no revisions during the year.

Addition to the 21/22 strategy – the strategy adopted in the original Treasury Management Strategy Report for 2021/22 approved by the Council on 24th March 2021. Although brokers are not listed in the TMSS, please note a new addition to the Council in "Link Agency Treasury Service" to enable the Council to enter into slightly enhanced rates for investments (effectively they are another broker).

A full list of the Council's approved counterparties is included in appendix 2.

6.0 BORROWING OUTTURN FOR 2020/201

Maturity loans for £70.902m were taken out on the 28th March 2012 to fund the new HRA self-financing system. The borrowing remaining as at 31st March 2021 was £44.32m as shown below.

Lender	**Principal**	**Type**	**Interest Rate**	**Maturity**
PWLB	£8.860m	Maturity	2.40%	28/3/2022
PWLB	£8.870m	Maturity	3.21%	28/3/2030
PWLB	£8.870m	Maturity	3.40%	28/3/2035
PWLB	£8.860m	Maturity	3.53%	28/3/2050
PWLB	£8.860m	Maturity	3.48%	28/3/2062
	£44.32m		**3.20%**	

A maturity loan is a bullet repayment loan which essentially means that you borrow at the start date, interest is paid on a semi-annual basis throughout the life of the loan and the principal is repaid at maturity. A maturity loan reduces exposure to risk of future rises in interest rates and the council has locked into very low borrowing rates. The average rate of these loans at 31st March 2021 was 3.20%. No new borrowing was undertaken during the year.

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

7.0 INVESTMENT OUTTURN IN 2020/21

Investment Policy – the Council's investment policy is governed by MHCLG investment guidance, which was been implemented in the annual investment strategy approved by Full Council on 15 July 2020 (meeting on 18 March 2020 was cancelled due to C19).

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 subsequent reports and the Council had no liquidity difficulties.

Resources – the Council's cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources comprised as follows, and met the expectations of the budget:

Balance Sheet Resources (£m)	31st March 2020 £m	**31st March 2021 £m**
Balances	16.0	**16.0**
Earmarked reserves	15.8	**29.1**
Provisions	1.7	**3.0**
Usable capital receipts	2.8	**1.9**
Total	36.3	**50.0**

The Council maintained an average balance of approximately £73m of internally managed funds. These internally managed funds earned an average rate of return of 0.57% plus 4.18% for the property fund and 3.93% for the diversified fund giving an overall return of 0.86%.

The comparable performance indicator is the average 7-day LIBID rate, uncompounded, which was -0.0706%. This compares with a budget assumption of £44m investment balances earning an average rate of 1.26%.

Total investment income was £627k compared to a budget of £550k, largely due additional balances in the form of grants and the introduction of the CCLA Diversified fund.

A full list of investments at the 31 March 21 is included in appendix 3 and below shows a comparison of the Councils investments against other Councils which puts our performance in line with the expected performance of the local authority universe.

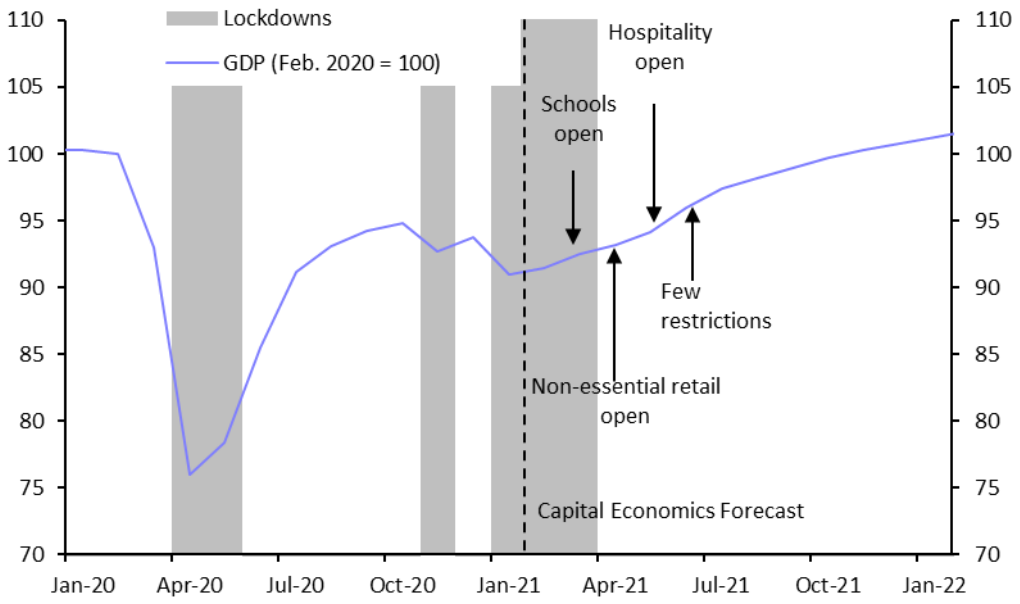
	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Arun District Council	0.30%	0.33%	-0.03%	0.27%	0.38%	Inline

The reason why the investment portfolio is not more central within the expected performance banding may concern the fact that around 19% of the portfolio was in liquid investments (MMF, Call accounts & Notice accounts) with particularly low interest rates (0.03% and below) and also because the Authority uses an extended duration (compared to Link's view

8.0 THE ECONOMY AND INTEREST RATES for 2020/2021 (as at 14/4/21)

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** (MPC) not only cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020, it 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.

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.

9.0 IFRS 9 fair value of investments

Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS 9 the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from 1 April 2018 for 2018/19. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

2. PROPOSAL(S):

To approve all 3 recommendations.

3. OPTIONS:

The Treasury Management Strategy is legislative and under the Local Government act 2003 and therefore the only option is following the proposal.

4. CONSULTATION:

Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		√
Relevant District Ward Councillors		√
Other groups/persons (please specify)	√ Treasury Advisors	

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	**YES**	**NO**
Financial	√	
Legal		√
Human Rights/Equality Impact Assessment		√
Community Safety including Section 17 of Crime & Disorder Act		√
Sustainability		√
Asset Management/Property/Land		√
Technology		√
Other (please explain)		

6. IMPLICATIONS:

Approval will enable the Council to comply with legislation and provide a Treasury Service

7. REASON FOR THE DECISION:

Statutory and the limits set, safeguard the Council against financial losses.

8. BACKGROUND PAPERS:

CIPFA'S Treasury Management in the Public Services: Code of Practice (2017)

(Link not available as copyright)

The Prudential Code for Capital Finance in Local Authorities (2017) Guidance notes (2018) *(Link not available as copyright)*

The Local Government Act 2003 (www.legislation.gov.uk/ukpga/2003/26/content)

Prudential and treasury indicators

APPENDIX 1

1. PRUDENTIAL INDICATORS	2019/20	2020/21	2020/21
Extract from budget and rent setting report	**Actual**	**Original**	**Actual**
	£'000	**£'000**	**£'000**
Capital Expenditure			
Non – HRA	2,676	4,228	2,930
HRA	5,045	13,336	6,472
TOTAL	7,721	17,564	9,402
Ratio of financing costs to net revenue stream			
Non - HRA	-3.08%	-2.17%	-1.96%
HRA	32.87%	32.84%	31.84%
Capital Financing Requirement as at 31 March			
Non – HRA	-4,009	-4,223	-4,223
HRA	52,365	51,674	52,973
TOTAL	48,356	47,451	48,750
Annual change in Cap. Financing Requirement			
Non – HRA	-2,133	-214	-214
HRA	-1,229	-807	* 609
TOTAL	-3362	-1,021	395

* HRA CFR increased partly due to Osbourne leases effective from 2020/21

2. TREASURY MANAGEMENT INDICATORS	2019/20	2020/21	2020/21
	Actual	**Original**	**Actual**
	£'000	**£'000**	**£'000**
Authorised Limit for external debt Borrowing Other long term liabilities	61,000 0	60,000 1,000	60,000 1,000
TOTAL	**61,000**	**61,000**	**61,000**
Operational Boundary for external debt Borrowing other long term liabilities	58,000 0	57,000 1,000	57,000 1,000
TOTAL	**58,000**	**58,000**	**58,000**
Actual external debt	44,320	*44,320	44,320
Upper limit for total principal sums invested for over 365 days (£m)	**18**	**18**	**18**
-	-		-

*2020/21 potentially up to £9m of borrowing, therefore Authorised limit and Operational boundary increased by the £9m to allow for this.

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 31/03/21	lower limit	upper limit
under 12 months	20%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	20%	0%	60%
10 years and above	60%	0%	100%

LIST OF AUTHORISED COUNTERPARTIES

Category 1 - Limit of £12 million for each institution - Maximum investment period - 5 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**AA-**	**F1+**
	Moody	**Aa3**	**P-1**
	S&P	**AA-**	**A-1+**

All Local Authorities

DBS Bank Ltd (SING)
HSBC Bank plc (UK- RFB)
Oversea-Chinese Banking Corp Ltd (SING)
Handelsbanken PLC (UK)
United Overseas Bank Ltd (SING)
First Abu Dhabi Bank (U.A.E)

Category 2 - Limit of £11 million for each institution - Maximum investment period - 3 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**A+**	**F1**
	Moody	**A1**	**P-2**
	S&P	**A+**	**A-1**

Barclays Bank plc (UK)
Goldman Sachs International Bank (UK)
Standard Charted Bank (UK)

Qatar National Bank (Qatar)
Santander (UK)
The Royal Bank of Scotland plc (RFB) (UK)
National Westminster Bank plc (RFB) (UK)

Category 3 - Limit of £8 million for each institution - Maximum investment period - 2 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**A-**	**F1**
	Moody	**A3**	**P-2**
	S&P	**A-**	**A-1**

Nationwide Building Society (UK)
Close Brothers (UK)

Category 4 - Limit of £4 million for each institution - Maximum Investment period - 1 year
Building Society with Assets greater than £10 billion

Coventry Building Society (UK)
Skipton Building Society (UK)
Yorkshire Building Society (UK)

Category 5 - Council's Bank
NO LIMIT - appropriate category 1 to 3 (Max of £11M term deposit)

Lloyds Bank PLC (RFB)
Lloyds Bank Corporate Markets PLC (NRFB)
Bank of Scotland PLC (RFB)

Category 6 - Limit of £11 million for each institution - Maximum investment period - 3 Years
banks effectively nationalised by UK government

		Long Term	Short Term
Min Criteria	**Fitch**	**BBB-**	**F3**
	Moody	**Baa3**	**P-3**
	S&P	**BBB-**	**A-3**

Category 7 - Collective Investment Schemes structured as Open Ended Investment Companies (OEICs) –

- Money Market Funds (MMF's) - (CNAV, LVNAV, VNAV) and Enhanced MMF's
- Government Liquidity Funds

Limit of £4million for each institution

	Fitch	Nav
CCLA Public sector deposit fund (PSDF)	AAA	LV NAV
Deutsche Banking Group	AAA	LV NAV
Federated Investors Ltd	AAA	LV NAV
Fidelity Investments International	AAA	LV NAV
Aberdeen Standard (GBP)	AAA	LV NAV
Northern Trust	AAA	

Category 8 – Alternative Investments (Asset Backed Bonds) – 25 Years

Maximum investment of £4million

Category 9 - Debt Management Office

Debt management Account - NO LIMIT (UK Govt)

Category 10 - Bonds issued by multilateral development banks - 5 Years

Maximum investment £4 million AAA

Category 11 – Property Funds - 25 Years

Maximum investment £6 million

CCLA

Category 12 - Multi-Asset Funds - 15 Years

Maximum investment £6 million

CCLA – Diversified Income Fund

INVESTMENTS at 31st March 2021

Appendix 3

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	730	Lloyds	16/08/2019	06/04/2021	£1,000,000.00	1.12
Fixed Term Deposit	753	Qatar National Bank	27/04/2020	27/04/2021	£1,000,000.00	1.18
Fixed Term Deposit	755	Qatar National Bank	27/04/2020	26/04/2021	£2,000,000.00	1.13
Fixed Term Deposit	758	Qatar National Bank	04/05/2020	04/05/2021	£1,000,000.00	1.03
Fixed Term Deposit	765	Qatar National Bank	02/06/2020	06/04/2021	£1,000,000.00	0.84
Fixed Term Deposit	766	Barclays Bank	19/06/2020	21/06/2021	£3,000,000.00	0.40
Fixed Term Deposit	767	Qatar National Bank	04/08/2020	03/08/2021	£1,000,000.00	0.53
Fixed Term Deposit	768	Close Brothers	11/08/2020	10/08/2021	£1,000,000.00	0.80
Fixed Term Deposit	769	Close Brothers	04/09/2020	03/09/2021	£1,000,000.00	0.80
Fixed Term Deposit	770	Qatar National Bank	01/09/2020	06/04/2021	£2,000,000.00	0.36
Fixed Term Deposit	771	Close Brothers	27/10/2020	26/10/2021	£1,000,000.00	0.80
Fixed Term Deposit	772	Slough BC	19/11/2020	18/11/2021	£2,000,000.00	0.30
Fixed Term Deposit	773	Close Brothers	27/10/2020	26/10/2021	£1,000,000.00	0.70
Fixed Term Deposit	774	Yorkshire BS	29/10/2020	06/04/2021	£2,000,000.00	0.11
Fixed Term Deposit	775	Close Brothers	10/11/2020	09/11/2021	£2,000,000.00	0.70
Fixed Term Deposit	776	Qatar National Bank	17/11/2020	09/11/2021	£2,000,000.00	0.53
Fixed Term Deposit	777	Goldman Sachs	15/01/2021	14/01/2022	£1,000,000.00	0.085
Fixed Term Deposit	779	Goldman Sachs	22/02/2021	22/11/2021	£2,000,000.00	0.265
Fixed Term Deposit	780	DBS	26/02/2021	01/04/2021	£5,000,000.00	0.050
Fixed Term Deposit	781	DBS	15/03/2021	06/04/2021	£4,000,000.00	0.040
Fixed Term Deposit	782	DBS	22/03/2021	01/04/2021	£1,000,000.00	0.030
Call Account	44447	Lloyds			£14,175,000.00	0.01
Property Fund	140000	CCLA (Churches, Charities and LA's)			£5,000,000.00	*4.30
Diversified Fund	140500	CCLA (Churches, Charities and LA's)			£2,000,000.00	*3.33
Money Market Fund	100500	CCLA (Churches, Charities and LA's)			£4,000,000.00	0.04
					£62,175,000.00	

* rates at year end