Full Council

8th December 2020

Report of: Service Director: Finance

Title: Treasury Management Mid-Year Report 2020/21

Ward: City Wide

Member Presenting Report: Deputy Mayor – Finance, Governance and Performance

Recommendation
That the Mid-Year Treasury Management report for 2020/21 is noted.

Summary
This report meets the treasury management regulatory requirement that the Council receive a Mid-Year Treasury review report. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans.

The significant issues in the report are:
There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes. The authority has a net borrowing requirement of £215m over the next five years and is planning on borrowing £10m this year to support the delivery of the capital programme and maintain adequate liquidity. No borrowing has been undertaken to the 30th September 2020, while £10m of maturing debt was repaid in April 2020.

PWLB Borrowing - It is possible that the PWLB borrowing rate for general fund schemes will be subject to revision downwards after the conclusion of the PWLB consultation, the timing of such a change is currently unknown, although it would be likely to be within the current financial year.

Policy

1. There are no policy implications as a direct result of this report.

Consultation

2. **Internal**
   Audit Committee, Strategic & Service Directors.
3. **External**
   The Council's Treasury Management advisers

Purpose / Context of the report:

4. This report meets the treasury management regulatory requirement that the Council receive a mid-year treasury review report. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs).
5. That the mid-year report is structured to highlight:
   - The economic outlook;
   - The actual and proposed treasury management activity (borrowing and investment);
   - The key changes to the Council's capital activity (the prudential indicators {PIs}).

Background

6. 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."
7. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Treasury management operations aim to ensure that cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
8. 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. The 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.

Introduction

9. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised in 2017) has been adopted by this Council. The primary requirements of the Code are:
   - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
   - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;

- 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;
- 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;
- 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 bodies are Overview and Scrutiny Management Board and Audit Committee.

10. 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 2020/21 financial year to 30 September 2020;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- 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 or planned during 2020/21;
- The Council's capital expenditure and prudential indicators;
- A review of compliance with Treasury and Prudential Limits for 2020/21.

Key Changes to the Treasury and Capital Strategies

11. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes.
12. The 2020–2025 Treasury Strategy (approved 25th February 2020) identified a medium term net borrowing requirement of £215m to support the existing and future Capital Programme with the debt servicing costs met from revenue savings from capital investment and the economic development fund. The Council's agreed policy is to defer borrowing while it has significant levels of treasury cash balances (£158m at September 2020, £40m estimated for March 2021).
13. However the Council will undertake long term borrowing when rates are deemed advantageous to reduce the Council's exposure to interest rate risk. No borrowing has been undertaken during the year. It is estimated a borrowing need of £10m during the remainder of the year to support the delivery of the capital programme and to maintain liquidity. Further borrowing could be taken if:
    - short term investments fall at a higher pace than expected increasing the liquidity risk of the authority and or;
    - there is another significant change in markets and long term borrowing is deemed advantageous the authority will borrow over periods determined as the most appropriate to reduce the authorities exposure to interest rate risk.

14. As planned the Council repaid £10m of PWLB maturing debt (4.875%) on the 20th April 2020.

Analysis of Debt and Investments

15. A summary of the of the Council's debt and Investment position as at 30th September 2020 (including forecast at 31st March 2021) compared with 31st March 2020 is shown in the table below:

Debt & Investments	31st March 2020		31st September 2020		31st March 2021	
	Actual		Actual		Forecast	
	£m	Rate%*b	£m	Rate%*b	£m	Rate%*b
Long Term Debt – PWLB Fixed	341	4.74	331	4.63	331	4.63
Long Term Debt – Market LOBO*a	70	4.09	70	4.09	70	4.09
Long Term Debt – Market Fixed	50	4.04	50	4.04	50	4.04
Estimated "New" Short Term Borrowing	-	-	-	-	10	0.50
Total Debt	**461**	**4.56**	**451**	**4.48**	**461**	**4.38**
Investment	149	0.85	158	0.51	40	0.35
Net Borrowing Position	**312**	**-**	**293**		**421**	

*a Lender option Borrower option, *b reflects the average rate for the year taking account of new loans and repayments.

We are currently achieving a return of 0.51% on our investments for the period to 30 September 2020. The return for the year is expected to be significantly lower, circa 0.35% due to the base rate remaining at 0.10% following the interest cut on the 19th March 2020 along with high levels of liquidity in the financial markets depressing rates at a time when the Councils higher coupon short term fixed term deposits are maturing. Bank rate is expected to remain at 0.10% for the remainder of the financial year and well into 21/22 along with the possibility of negative interest rates.

The authority's advisors are forecasting the base rate to remain flat (0.10%) at least until March 2023. Long term interest rates (PWLB) are expected to remain at or around 2.50% (for 25 – 50 year term) for the remainder of the year and foreseeable future, subject to the outcome of the PWLB consultation where rates for general fund schemes could be reduced.

Economic Update

16. **UK.** As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th 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% (subsequently revised to -21.8%). 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 "eased" the idea of using negative interest rates, at least over the next few months. 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 quantitative Easing and the use of forward guidance.

The Monetary Policy Committee expected 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.

The Monetary Policy Committee 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 way in which second waves of the virus are now impacting many countries including Britain, 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 of the initial 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. The Chancellor announced in late September a second six month package from 1st November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a less generous scheme and will possibly mean there will be further job losses from the 11% of the workforce still on furlough in mid-September.

The pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a "headwind". 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 quantitative easing.

There will be some 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. There is also likely to be a reversal of globalisation as this crisis has shown how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has seen huge growth.

A key addition to the Bank's 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". This would indicate 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 report on 6th 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 Financial Policy Committee 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%.

17. **US**. The incoming sets of data during the first week of August were stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up.

However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. The Federal Reserve has "tweaked" its inflation target from 2% to maintaining an average of 2% over an unspecified time period. 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.

The Federal Open Market Committee updated economic and rate projections in mid-September showed that officials expect to leave the federal funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Federal Reserve 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.

18. **EU**. The economy was recovering well towards the end of Quarter 2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries 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 is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The European Central Bank 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.

19. **China**. After a concerted effort to get on top of the virus outbreak in Quarter 1, economic recovery was strong in Quarter 2 and has enabled it to recover all of the contraction in Quarter 1. 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 may weigh on growth in future years.

20. **Japan**. There are some concerns that a second wave of the virus is gaining momentum and could dampen economic recovery from its contraction of 8.5% in GDP. 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 large monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

21. **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.

Interest rate forecasts

22. The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Group Interest Rate View 11.8.20										
	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
3 month average earnings	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	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	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	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	2.40	2.40	2.40	2.50	2.50	2.50	2.50

PWLB rates are certainty rates, gilt yields plus 180bps

23. The coronavirus outbreak has caused significant economic damage to the UK and economies around the world. 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 meeting on 6th August (and the subsequent September and October meetings), 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 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

24. **Bond 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 "flip side of the 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 were already on a generally falling trend up until the coronavirus crisis hit western economies during March. We have seen these yields fall sharply to unprecedented lows as major western central banks took rapid action to deal with excessive stress in financial markets, and started massive quantitative easing purchases of government bonds: this acted to put 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 30th September, all gilt yields from 1 to 6 years were in negative territory, while even 25-year yields were at only 0.76% and 50 year at 0.60%.

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 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then partially reversed for some forms of borrowing on 11th 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 (ended 31st July 2020) with local authorities on possibly further amending these margins. It is clear HM 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 (debt for yield).

25. Following the changes on 11th 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 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.

26. **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.
- Weak capitalisation of some European banks, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- Minority EU governments. Germany, Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium have vulnerable minority governments dependent on coalitions which could prove fragile.
- 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.

Investment Portfolio 2021/22

27. 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 set out in the "Economic Update" it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), a government agency, are offering negative rates of return in some shorter time periods.

    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 31st March 2023, investment returns are expected to remain low for the foreseeable future.

    Negative investment rates

28. While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the Covid crisis; this has caused some local authorities to have sudden large increases in investment balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

    Money market funds (MMFs), yields have continued to drift lower. Some managers have indicated that they might "trim" fee levels to ensure that net yields for investors remain in positive territory. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a lot of money at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions.

    Inter-local authority lending and borrowing rates have also declined due to the large levels of cash received from Central Government seeking a short-term home while these funds are utilised.

29. The Council held £158m of Treasury investments as at 30th September 2020 (£149m at 31 March 2020) with an average maturity of 45 days. These investments are predominately with local authorities, money market funds and UK banks. The investment portfolio yield for the first six months of the year was 0.51%. The standard comparator for investment performance is the benchmark 7 day rate (LIBID)[1,] which for the period was "negative" 0.06%. The benchmark for 1 and 3 month deposits was (0.02%) and 0.10% respectively.

    1LIBID – London Interbank Bid rate is a recognised reference rate to benchmark short-term investment interest rates.

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

31. The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function

Borrowing

32. The Capital Financing Requirement (CFR) denotes the Council's underlying need to borrow for capital purposes. The Council's CFR at 31 March 2021 is estimated to be £908m. 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).

33. The balance of borrowing between external and internal is generally driven by market conditions and forecasts of future cash flows and interest rates. At the 31st March 2020 the Council had external borrowings of £602m and has utilised £309m of internal cash in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require on-going monitoring in the event that upside risk to gilt yields prevails.

34. However, internal borrowing is a temporary measure that takes advantage of low interest rates and will ultimately be replaced by more expensive external borrowing as the cash used is required elsewhere. The timing and amount of new external borrowing is therefore dependent on capital spending decisions, future cash flows and forecasts of interest rates.

35. Due to the underlying need to borrow for capital purposes, the need to ensure adequate liquidity and to reduce the Council's internal borrowing position the Council has estimated a borrowing need of circa £10m during the remainder of the year. The source and length of borrowing may be initially on a short term basis whilst the outcome of the PWLB consultation is finalised and new PWLB margins are determined, a possible outcome being a reduced rate for general fund borrowing, also known as the PWLB certainty rate.

36. The Council will consider further borrowing following outcome of the PWLB consultation, if rates fall or are anticipated to rise at a higher pace than expected. This will enable the authority to take advantage of a low interest rate environment and reduce the interest rate risk of the authority.

37. PWLB rates varied within a relatively narrow range between April and July but the longer end of the curve rose during August. The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date.

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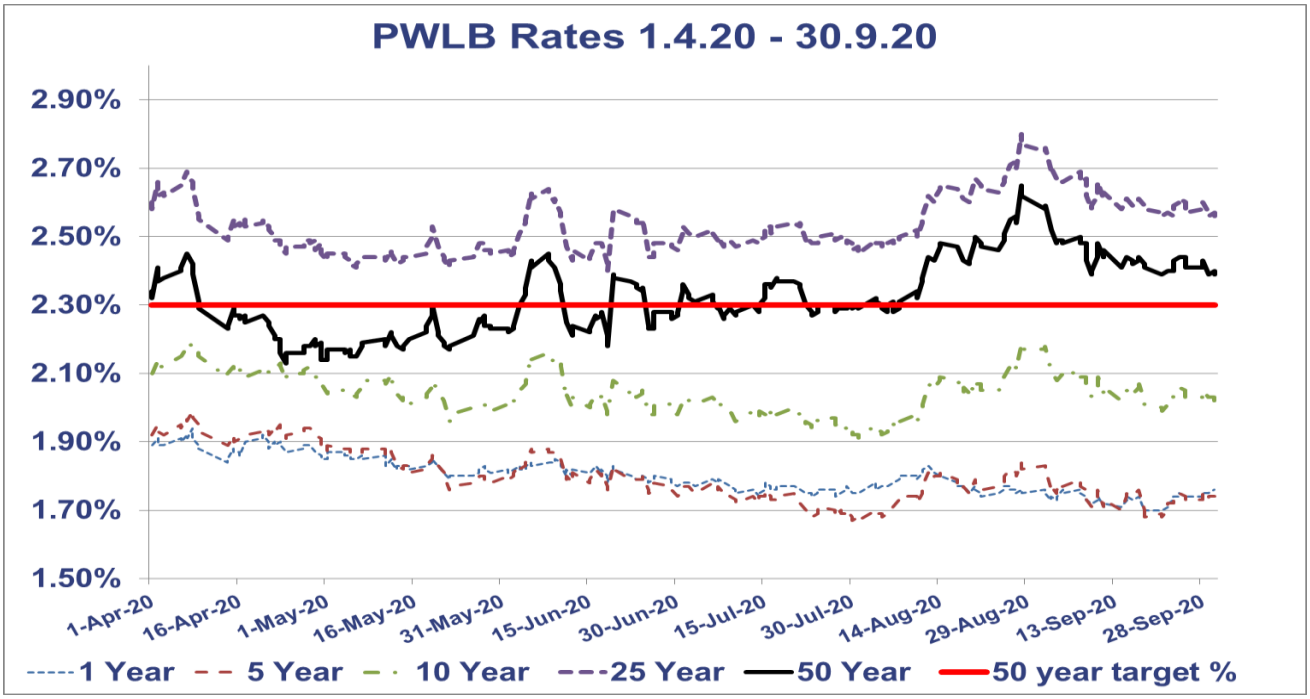

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.70%	1.67%	1.91%	2.40%	2.13%
Date	18/09/2020	30/07/2020	31/07/2020	18/06/2020	24/04/2020
High	1.94%	1.99%	2.19%	2.80%	2.65%
Date	08/04/2020	08/04/2020	08/04/2020	28/08/2020	28/08/2020
Average	1.80%	1.80%	2.04%	2.54%	2.33%

Debt Rescheduling

38. Debt rescheduling opportunities have been limited in the current economic climate given the consequent structure of interest rates. The authority's debt portfolio is made up of long dated loans (PWLB £331m, Market Debt (LOBOS) £70m and Market Debt (Fixed) (£50m) averaging 32 years. The estimated penalty to repay the PWLB loans early is £363m, taking the total cost to £694m. In respect of the market loans, where indicative prices have been provided, a similar level of penalty has been quoted.

39. The total life cycle cost of rescheduling loans on a discounted cash-flow basis has been reviewed with no loans providing a positive cash-flow benefit to the authority. This would in part be due to large early repayment penalties that the authority will incur.

40. For these reasons no debt rescheduling has been undertaken during the first six months of the year and none is anticipated for the remainder of the year.

Ethical Policy

41. An Ethical Investment Policy is incorporated within the Treasury Management Practice Statements (TMPS). The City Council currently invest surplus funds with Banks and Building Societies either directly or via the Money Markets in the form of instant access cash deposit accounts, money market funds or on fixed term deposit and with other local authorities. The City Council's ethical investment policy is based on the premise that the City Council's choice of

where to invest should reflect the ethical values it supports in public life. The City Council will not knowingly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the City Council.

The Council's Capital Position (Prudential Indicators)

42. 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.

Prudential Indicator for Capital Expenditure

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

43. This table shows the latest estimates for capital expenditure:

Capital Expenditure by Service	2020/21 Approved Programme £m	2020/21 Period 6 Forecast £m
Non-HRA	211	158
HRA	84	51
Total	**295**	**209**

44. The latest capital monitoring report for the end of September 2020 sets out a capital forecast of £209m detailed within the period 6 monitoring report presented to Cabinet on the 3rd November 2020.

Financing of the Capital Programme

45. The table below draws together the capital expenditure plan 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 Approved Programme £m	2020/21 Period 6 Forecast £m
Total spend	**295**	**209**
Financed by:		
Capital receipts	57	41
Capital grants	98	70
Revenue / Reserves	19	13
HRA – Self Financing	35	35
Prudential Borrowing – Increase in Capital Financing Requirement	86	50
Total financing	**295**	**209**

Capital Financing Requirement (CFR) & Operational Boundary

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

Capital Financing Requirement	2020/21 Original Estimate £m	2020/21 Latest Estimate £m
CFR – non housing	702	663
CFR – housing	245	245
Total CFR	**947**	**908**

External Debt (Operational Boundary)	2020/21 Approved Indicator £m
Borrowing	536
Other long term liabilities*	128
Total debt 31 March	**664**

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

47. The revised Capital Financing Requirement is based on the actual CFR as at 31 March 2020 (£870m) increased by in-year capital expenditure financed by borrowing (£50m) and reduced by the minimum revenue provision (MRP) for repayment of debt and the repayment of the debt facilities within other long term liabilities (£12m).

Limits to Borrowing Activity

48. 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.

	2020/21 Original Estimate £m	2020/21 Latest Estimate £m
Gross borrowing	536	461
Plus other long term liabilities*	128	132
Gross borrowing & long term Liabilities	**664**	**593**
CFR* (year-end position)	947	908

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

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

50. 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.

Authorised limit for external debt	**2020/21 Approved Indicator £m**
Total Borrowing	**970**

Proposal

51. That the Mid-Year Treasury Management report for 2020/21 is noted.

Other Options Considered

52. None

Risk Assessment

53. Borrowing and lending activity is reported to the Mayor.
The principal risks associated with treasury management are:

Risk	Mitigation
Loss of investments as a result of failure of counterparties	Limiting the types of investment instruments used, setting lending criteria for counterparties, and limiting the extent of exposure to individual counterparties
Increase in the net financing costs of the authority due to borrowing at high rates of interest / lending at low rates of interest	Planning and undertaking borrowing and lending in light of assessments of future interest rate movements, and by undertaking most long term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs)

Public Sector Equality Duties

54. a) Before making a decision, section 149 Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following "protected characteristics": age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:

i) Eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.

ii) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to --

- remove or minimise disadvantage suffered by persons who share a relevant protected characteristic;
- take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons' disabilities);
- encourage persons who share a protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

iii) Foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to –

- tackle prejudice; and
- promote understanding.

b) There are no proposals in this report, which require either a statement as to the relevance of public sector equality duties or an Equalities Impact Assessment.

Legal and Resource Implications

Legal

The Council is under a duty to manage its resources prudently and therefore due consideration

must always be given to its borrowing and lending strategy. A wide range of local authority financial activities, including borrowing, lending, financial management, and the approval of types of investment vehicle are governed by legislation and various regulations. The Council is obliged to comply with these.

(Legal advice provided by Tim O'Gara - Service Director - Legal and Democratic Services)

Financial
(a) Revenue
The financing costs arising from planned borrowing are provided for in the revenue budget and medium term financial plan. Any additional operating costs will have to be contained within the revenue budget of the relevant department.
(Financial advice provided by Jon Clayton -Capital and Investments Manager)

(b) Capital
Not applicable

Land
Not applicable

Personnel
Not applicable

Appendices:
None

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
Background Papers:
None