



Report To:	AUDIT PANEL
Date:	24 November 2020
Executive Member /Reporting Officer:	Councillor Ryan – Executive Member – Finance and Economic Growth Tom Wilkinson – Assistant Director of Finance
Subject:	TREASURY MANAGEMENT ACTIVITIES
Report Summary:	This report provides a mid-year review of the Council's Treasury Management activities for 2020/21, including the borrowing strategy and the investment strategy.
Recommendations:	That the reported treasury activity and performance be noted.
Links to Community Strategy:	The Treasury Management function of the Council underpins the ability to deliver the Council's priorities.
Policy Implications:	In line with Council Policies.
Financial Implications: (Authorised by the Section 151 Officer)	<p>The achievement of savings on the cost of financing the Council's debt through repayment, conversion and rescheduling, together with interest earned by investing short term cash surpluses, is a crucial part of the Council's medium term financial strategy. This has to be carefully balanced against the level of risk incurred.</p> <p>The Council held £61.320m of investments as at 30 September 2020 and the investment portfolio yield to date is 0.85% against the London Interbank Bid Rate (LIBID) benchmark of -0.06%. This represents an actual cash return of £0.419m in excess of the benchmark.</p>
Legal Implications: (Authorised by the Borough Solicitor)	<p>As there is a statutory duty for the Council to set, monitor and comply with its requirements to ensure a balanced budget, sound treasury management is a key tool in managing this process.</p> <p>Demonstration of sound treasury management will in turn provide confidence to the Council that it is complying with its fiduciary duty to the public purse, and in turn allows the Council to better plan and fulfil its key priorities for the coming year.</p> <p>Members should ensure they understand the meaning of Appendix 1 and the outturn of prudential indicators they are being asked to approve, and the reasons for the same, before making their decision.</p>
Risk Management:	Failure to properly manage and monitor the Council's loans and investments could lead to service failure and loss of public confidence.

Access to Information:

The background papers relating to this report can be inspected by contacting Heather Green, Finance Business Partner by:

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1. BACKGROUND

- 1.1 Cash-flow management is a core element of the Council's financial management activities. The Council operates a balanced budget, which broadly means cash raised during the year will meet cash expenditure. Treasury Management operations firstly ensure that cash flow is adequately planned, with short term surplus funds being invested. The investment strategy priorities are security (i.e. there is a low risk that the counterparty will default on the Council's investment), then liquidity (cash flow needs), and lastly, yield – providing adequate liquidity initially before considering maximising investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital investment plans, agreed as part of the annual budget setting process and updated throughout the financial year. These capital plans provide a guide to the borrowing need of the Council, essentially this is the long term cash flow planning to ensure the Council can meet its capital spending requirements. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk management or cost reduction objectives.
- 1.3 Accordingly, treasury management is defined as:

“The management of the local authority'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. ”

2. INTRODUCTION

- 2.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) was adopted by this Council on 8 February 2012. The primary requirements of the Code are as follows:
- i. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 - ii. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 - iii. 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) to Executive Cabinet covering activities during the previous year.
 - iv. 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.
 - v. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Panel.
- 2.2 This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
- An economic update for the first six months of 2020/21;
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - The Council's capital expenditure (prudential indicators);
 - A review of the Council's investment portfolio for 2020/21;

- A review of the Council's borrowing strategy for 2020/21;
- A review of any debt rescheduling undertaken during 2020/21;
- A review of compliance with Treasury and Prudential Limits for 2020/21;

3. ECONOMIC UPDATE

3.1 The following economic update is provided by the Council's treasury management advisors, Link Asset Services (formally known as Capita Asset Services):

- **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 squashed any idea of using **negative interest rates**, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be “less effective as a tool to stimulate the economy” at this time when banks are worried about future loan losses. It also has “other instruments available”, including QE and the use of forward guidance.*
- *The MPC 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*
- *In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the “medium-term projections were a less informative guide than usual” and the minutes had multiple references to **downside risks**, which were judged to persist both in the short and medium term. One has only to look at the 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 generous 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. Admittedly, 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 much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid September.*

- Overall, **the pace of recovery** is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one 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 QE.
- There will be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.
- One key addition to **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". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate
- The **Financial Policy Committee (FPC)** report on 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 FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.
- **US.** The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked **its inflation target** from 2% to maintaining an average of 2% over an unspecified time period i.e. following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed 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 Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.
- **EU.** The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (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 after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.

- **China.** *After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.*
- **Japan.** *There are some concerns that a second wave of the virus is gaining momentum and could 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 huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.*
- **World growth.** *Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.*

3.2 Link Asset Service's view on the outlook for the remainder of 2020/21 is as follows:-

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

Gilt yields *had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March. After gilt yields spiked up during the initial phases of the health crisis in 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 also 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 at least partially reversed for some forms of borrowing on 11 March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4 June, but that date was subsequently put back to 31 July. 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 (assets for yield).

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

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

It is possible that the non-HRA Certainty Rate will be subject to revision downwards after the conclusion of the PWLB consultation; however, the timing of such a change is currently an unknown, although it would be likely to be within the current financial year. As the interest forecast table for PWLB certainty rates, (gilts plus 180bps), above shows, there is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

The balance of risks to the UK

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

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

- **UK** - second nationwide wave of virus infections requiring a national lockdown
- **UK / EU trade negotiations** – if it were to cause significant economic disruption and a fresh major downturn in the rate of growth.
- **UK** - Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU recently agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year

or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government** & general election in 2021. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks**, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.
- **US** – the Presidential election in 2020: this could have repercussions for the US economy and SINO-US trade relations.

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

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

3.3 Link Asset Service's view on the anticipated future movement in interest rates is shown below. This forecast includes the increase in margin over gilt yields of 100bps introduced on 9 October 2019 and does not factor in any potential reduction to this margin.

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

4. TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY UPDATE

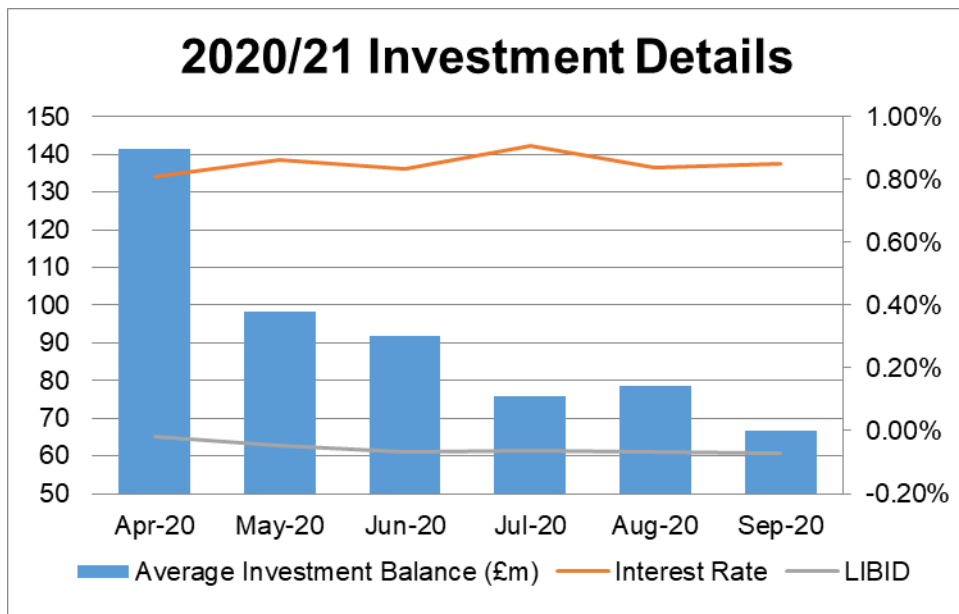
- 4.1 The Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by the Council on 12 February 2020 as part of the Budget Report.
- 4.2 There are no required policy changes to the TMSS; the details in this report update the position in the light of the current economic position and budgetary changes already approved.
- 4.3 In recent years the Council has moved to a more diverse portfolio involving more foreign banks and more longer-duration investments in order to achieve an enhanced return in the current low interest rate environment; however, more liquid investments have been sought during the current pandemic in order to maintain the Council's cash position. All counterparties used have been selected on the basis that they are highly rated and meet the criteria set out in the Council's Treasury Management Strategy.

5. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

- 5.1 The Prudential Indicators are reported on a quarterly basis as part of the Capital Monitoring process. The Prudential Indicators show the current position against the Prudential Indicator limits initially set as part of the 2020/21 Budget Report.
- 5.2 The indicators are updated from the Capital Programme as at 30 September 2020, showing the Council's capital expenditure plans and how these plans are being financed. Any changes in the capital expenditure plans will impact of the on the prudential indicators and the underlying need to borrow.
- 5.3 The current prudential indicator position is shown as **Appendix 1** of this report. All the indicators are within the set limits showing that the Council's borrowing strategy remains a prudent one.

6. INVESTMENT PORTFOLIO 2020/21

- 6.1 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 Section 3, it was a difficult interest environment even before the Covid-19 crisis, and this along with the added uncertainty in the pandemic prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.
- 6.2 The Council held £61.320m of investments as at 30 September 2020, with an investment portfolio yield to date of 0.85% against LIBID of -0.06%. At 31 March 2020 the portfolio consisted of £143.090m of investments. The movement is largely in relation to the year-end balance including £54m of grants to be paid to small businesses, along with other advanced payments of grants and the general running down of balances. The below graph illustrates the change in investment balances over time along with the change in interest earned and the LIBID benchmark:



6.3 The portfolio as at 30 September 2020 was as follows:

Investment Type	Total Invested (£m)	Weighted Average Duration (days)	Average Interest Rate (%)
Money Market Funds	22.320	n/a (overnight)	0.09
Banks (fixed term)	Nil	n/a	n/a
Banks (notice)	Nil	n/a	n/a
Local Authorities	39.000	731	1.31
Total	61.320		0.86

6.4 As outlined in paragraph 4.3, above, this return has largely been earned due to an increased number of longer-duration investments, including a number of investments placed with other Local Authorities for periods in excess of one year in order to achieve an enhanced return. In 2020/21 to date the Council has moved away from this strategy and focused more on liquidity in light of market uncertainty around the ongoing Covid-19 pandemic.

6.5 The Assistant Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2020/21.

6.6 The Council's projections as at September 2020 show that external loans will incur interest charges of £6.070m and £0.200m will be paid to various Council funds such as the Insurance Fund. Investment income to be earned during the year is estimated to be £1.708m, which will reduce these costs to give an estimated net interest charge of £4.562m.

6.7 As outlined in the Treasury Management Strategy, the Council uses the Link Asset Services creditworthiness service to inform counterparty selection.

6.8 The Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

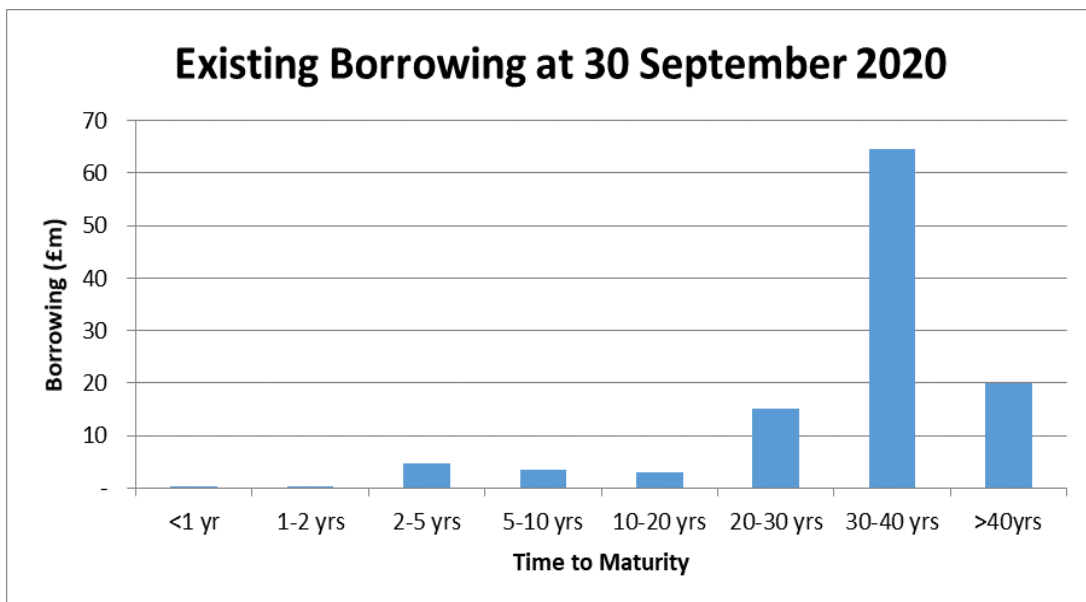
6.9 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch

or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

- 6.10 All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.
- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
 - in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
- 6.11 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, and information on any external support for banks to help support its decision making process.

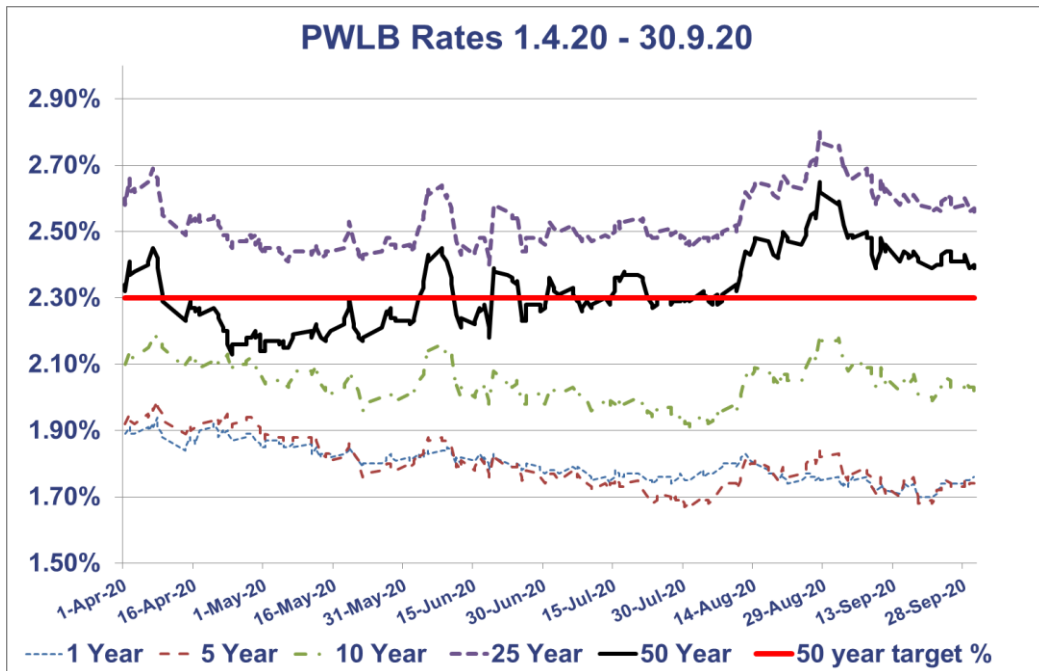
7. BORROWING

- 7.1 The Council has not taken up any new borrowing in the first half of 2020/21.
- 7.2 Whereas the Council has previously relied on the PWLB as a major source of funding, it is now reconsidering potential alternative sources of borrowing.
- 7.3 As at 30 September 2020 the Council's total borrowing was £141.186m. The maturity profile is as follows:



- 7.4 The Council's capital financing requirement (CFR) at 31 March 2020 was £182.611m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the Public Works Loan Board or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.
- 7.5 The Council had an outstanding borrowing requirement of £48.063m at 31 March 2020. This is forecast to increase to £68.066m by the end of 2020/21 due to planned capital

investment. The remaining outstanding borrowing requirement is currently funded from internal balances on a temporary basis and has the impact of reducing the level of the Council's investment balances. This continues to be a prudent and cost effective approach in the current economic climate but is kept under regular review.



7.6 The table above shows the movement in Public Works Loan Board borrowing rates in 2020/21.

8. MINIMUM REVENUE PROVISION

- 8.1 The amount of long-term debt that the Council may have is governed by the Prudential Limits set by the Council at the start of the financial year. This is based on the amount of borrowing which the Council has deemed to be prudent. It also allows for advance borrowing for future years' capital expenditure.
- 8.2 The Council must also allow for repayment of the debt, by way of the Minimum Revenue Provision (MRP). This is the minimum amount that the Council must set aside annually. The Local Authority (Capital Finance and Accounting) Regulations 2008 revised the previous detailed regulations and introduced a duty that an authority calculates an amount of MRP which it considered prudent, although the 2008 Regulations do not define "prudent provision", they provide guidance to authorities on how they should interpret this.
- 8.3 In 2015/16 the Council's MRP policy was revised from the previous practice (4% of the capital finance requirement on a reducing balance basis) to a straight line method of 2% of the 2015/16 capital financing requirement over a period of 50 years.
- 8.4 Any new prudential borrowing taken up will be provided for within the MRP calculation based upon the expected useful life of the asset or by an alternative approach deemed appropriate to the expenditure in question. This will continue to be reviewed on an ongoing basis.
- 8.5 For any finance leases and any on-balance sheet public finance initiative (PFI) schemes, the MRP charge will be equal to the principal repayment during the year, calculated in accordance with proper practices.

8.6 There will be no MRP charge for any cash backed Local Authority Mortgage Scheme (LAMS) that the Council operates. As for this type of scheme, any future debt liability would be met from the capital receipt arising from the deposit maturing after a 5 year period. Any repossession losses for this type of scheme would be charged to a LAMS reserve.

8.7 The MRP policy was updated as part of the 2018/19 Treasury Management Strategy to clarify the Council's position on loans to third parties. The Council considers an MRP charge is not necessary in respect of any loans made to third parties as the debt liability is covered by the existence of a debtor; typically long term depending on the life of the loan. The only expenditure consequence of a loan for an authority is the interest on its cash shortfall whilst the loan is outstanding, so provision for the principal amount would be over-prudent until such time as the assumption has to be made that the loan will not be repaid.

9. DEBT RESCHEDULING

9.1 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first six months of 2020/21.

10. GREATER MANCHESTER METROPOLITAN DEBT ADMINISTRATION FUND (GMMDAF)

10.1 Tameside Council is the lead council responsible for the administration of the debt of the former Greater Manchester County Council, on behalf of all ten Greater Manchester Metropolitan Authorities. All expenditure of the fund is shared by the authorities on a population basis.

10.2 Unlike Tameside the GMMDAF incurs no capital expenditure, and therefore the total debt outstanding reduces annually by the amount of debt repaid by the constituent authorities. However, loans are raised to replace those maturing during the year, and for cashflow purposes.

10.3 At 31 March 2020 the fund had the following outstanding debt.

	£m
Public Works Loan Board	38.963
Pre 1974 Transferred Debt	0.096
Temporary Loans / (Investments)	0.066
Other Balances	1.173
Total Debt	<u>40.297</u>

10.4 The fund's borrowing requirement for 2019/20 is estimated to be:-

	£m
Long term debt maturing	
Public Works loan Board	13.100
Other	<u>0.036</u>
	13.136
Less principal repayments	<u>(19.510)</u>
Deficit/ (Surplus) in year	<u>(6.374)</u>

- 10.5 The surplus in year is a result in timing differences between PWLB repayments and the principal repayments from the districts. It will be used to offset an existing deficit from prior years.
- 10.6 During 2020/21 it is estimated that the total interest payments will be £2.617m at an average interest rate of 6.50%. This compares with 5.65% in 2019/20.
- 10.7 No long term borrowing has been taken up in the first six months of 2020/21. However, loans may be taken up for either re-scheduling or borrowing early for future years, if prevailing rates are considered attractive. This is now highly unlikely given the limited remaining life of the Fund.

11. RECOMMENDATIONS

- 11.1 As set out on the front of the report.

APPENDIX 1

Prudential Indicators

Actuals v limits as at 30 September 2020

	Limit	Actual	Amount within limit
	£000s	£000s	£000s
Operational Boundary for External Debt	202,431	141,337	(61,094)
Authorised Limit for External Debt	222,431	141,337	(81,094)

These limits include provision for borrowing in advance of the Council's requirement for future capital expenditure. This may be carried out if it is thought to be financially advantageous to the Council.

	Limit	Actual	Amount within limit
	£000s	£000s	£000s
Upper Limit for fixed	191,128	46,511	(144,617)
Upper Limit for variable	63,709	(31,175)	(94,884)

These limits are in respect of the Council's exposure to the effects of changes in interest rates.

The limits reflect the net amounts of fixed/variable rate debt (i.e. fixed/variable loans less fixed/variable investments).

	Limit	Actual	Amount within limit
	£000s	£000s	£000s
Capital Financing Requirement	191,128	191,128	-

The Capital Financing Requirement (CFR) is aimed to represent the underlying need to borrow for a capital purpose and is calculated from the aggregate of specified items on the balance sheet. The CFR increases by the value of capital expenditure not immediately financed (i.e. borrowing) and is reduced by the annual MRP repayment.

	Limit	Actual	Amount within limit
	£000s	£000s	£000s
Capital expenditure	108,302	22,143	(86,159)

This is the estimate of the total capital expenditure to be incurred.

Gross borrowing and the capital financing requirement	CFR @ 31/03/20 + increase years 1,2,3	Gross borrowing	Amount within limit
	£000s	£000s	£000s
	191,128	141,337	(49,791)

To ensure that medium term debt will only be for capital purposes, the Council will ensure that the gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement (CFR).

Maturity structure for borrowing 2019/20		
Fixed rate		
Duration	Limit	Actual
Under 12 months	0% to 15%	0.25%
12 months and within 24 months	0% to 15%	0.13%
24 months and within 5 years	0% to 30%	3.27%
5 years and within 10 years	0% to 40%	2.51%
10 years and above	50% to 100%	93.83%

These limits set out the amount of fixed rate borrowing maturing in each period expressed as a percentage of total fixed rate borrowing. Future borrowing will normally be for periods in excess of 10 years, although if longer term interest rates become excessive, shorter term borrowing may be used. Given the low current long term interest rates, it's felt it is acceptable to have a long maturity debt profile.