Agenda Item No:9

# Treasury Management Report – Quarter Four Update 2020-21

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| To: | Strategy & Resources Committee |
| Meeting Date: | 6th July 2021 |
| From: | Chief Finance Officer |
| Electoral division(s): | All |
| Key decision: | No |
| Forward Plan ref: | Not applicable |
| Outcome: | To provide the quarterly update on the Treasury Management Strategy 2020/21, approved by Council in February 2020. |
| Recommendation: | The Strategy & Resources Committee is recommended to note the Treasury Management Quarter Four Report for 2020/21 and forward to Full Council to note. |


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# 1. Background

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management recommends that Members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

# 2. Economic Climate

2.1 A current economic commentary is in Appendix 1, provided by Link Asset Services, the Council's treasury management advisers. Some of the key points to note are set out below.

2.2 The economy is expected to start to recover strongly from Q3 2021 although it is acknowledged there are downside risks from virus mutations, COVID-19 vaccines have boosted confidence that life in the UK could return closer to normal during 2021. The £125bn of savings made by consumers during the pandemic should significantly boost the pace of economic recovery if and when restrictions ease.

2.3 CPI inflation is forecast to rise sharply towards the 2% target in the first half of 2021 due to some temporary factors and given developments in energy prices. The Budget on 3rd March increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises, mostly facing businesses, in the following three years to help to pay the cost for the pandemic.

# 3. Interest Rate Forecast

3.1 The latest forecast for UK Bank Rate along with Public Works Loan Board (PWLB) borrowing rates (certainty rate) from the Council's treasury advisors is set out in Table 1.

3.2 This suggests there is likely to be little upward movement in either Bank Rate or PWLB rates over the next two years as economies try to recover from the damage caused by the pandemic and actions taken to protect public health.

Table 1 Interest Rate Forecast (%) Mar 8, 2020

| Link Group Interest Rate 8.3.21 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 |
| 6 months 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 |
| 4 months 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 |
| 12 months 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 |
| 5 yr PWLB | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.30 | 1.30 | 1.40 | 1.40 | 1.40 | 1.40 |
| 10yr PWLB | 1.60 | 1.60 | 1.60 | 1.70 | 1.70 | 1.70 | 1.80 | 1.80 | 1.90 | 1.90 | 1.90 | 1.90 |
| 25 yr PWLB | 2.10 | 2.10 | 2.20 | 2.30 | 2.20 | 2.30 | 2.40 | 2.40 | 2.50 | 2.50 | 2.50 | 2.50 |
| 50yr PWLB | 1.90 | 1.90 | 2.00 | 2.10 | 2.10 | 2.10 | 2.20 | 2.20 | 2.30 | 2.30 | 2.30 | 2.30 |

### Gilt yields / PWLB rates

3.3 Gilt yields had already been on a generally falling trend before the coronavirus crisis hit western economies during March 2020. Yields fell sharply in response to major western central banks taking rapid policy action to deal with excessive stress in financial markets during March 2020. As at 31st December 2020, gilt yields from 1 to 8 years were still in negative territory: however, since then all gilt yields have now become positive and have risen sharply, especially medium and longer-term yields.

3.4 Following the sudden increase in margins on PWLB loans in October 2019, a consultation was held with local authorities in July 2020 as part of a review of margins over gilt yields for PWLB rates. This led in November 2020 to the margins over gilt yields being reduced by 1% back to their original level (80 basis points above gilts). However, at the same time 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. Additionally, the Council also has access to over £50m of borrowing from PWLB at the local infrastructure rate (60 basis points above gilts) as expenditure on energy schemes, approved in a bid to HM Treasury, comes forward.

3.5 The Council has renewed its interest in borrowing from the UK Municipal Bonds Agency, as an alternative to the PWLB, and is advised by the agency that a pooled local government bond is in prospect for later in 2021.

## 4. Summary Portfolio Position

4.1. The Net debt set in the Treasury Management Strategy Statement (TMSS) for 2020/21 was £846m. On 1st April 2020, the net debt was £698.1m, and the actual at 31st March 2021 was £714.3m (excluding all Third-party loans and Equity). The lower than anticipated requirement resulted from borrowing short-term instead of longer-term and utilising internal borrowing.

4.2 Further analysis on borrowing and investment is set out in the next two sections. A snapshot of the Council’s debt and investment position is shown in the table below.

Table 2 Net Borrowing Q4 2020-21

| Borrowings | Actual as at 1 April 2020 £m | Actual as at 31 Mar 2021 £m | In- year change £m |
|---|---|---|---|
| Long term Borrowing (>12mth) | 526.7 | 561.3 | 34.6 |
| Short term Borrowing (<12mth) | 237.2 | 251.3 | 14.1 |
| Total Borrowings | 763.9 | 812.6 | 48.7 |
| Treasury Investment | (65.8) | (98.3) | (32.5) |
| Total Net Debt/Borrowings | 698.1 | 714.3 | 16.2 |

# 5. Investments

5.1 The Treasury Management Strategy Statement (TMSS) for 2020/21, including the Annual Investment Strategy for financial assets, was approved by Council in February 2020. It sets out the Council's investment priorities as being:

1. Security of Capital;
2. Liquidity; and then
3. Yield

5.2 The Council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. As shown by the interest rate forecasts in section 3, it is now impossible to earn the level of interest rates commonly seen in previous decades as all short term money market investment rates are barely above zero now that Bank Rate is at 0.10%. Some entities are offering negative rates of return in some shorter time periods. Given this environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31st March 2024, investment returns are expected to remain low.

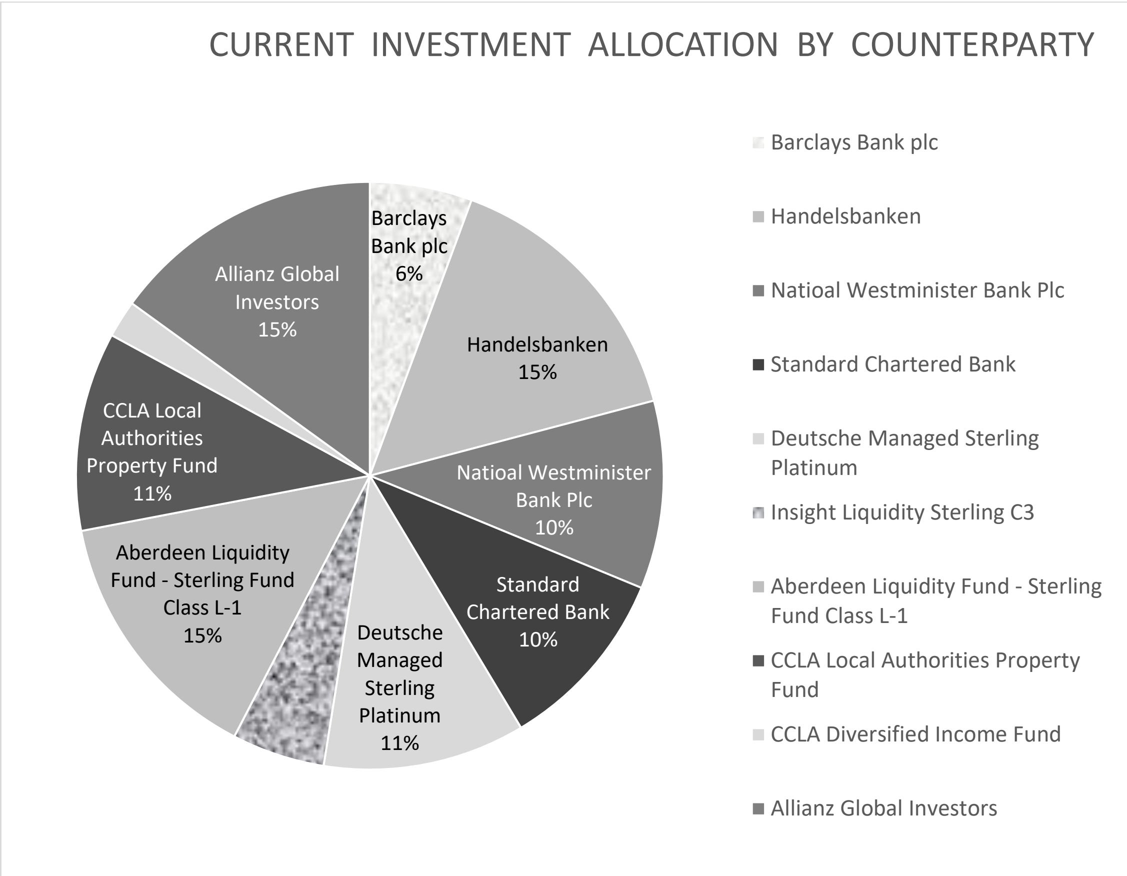
5.3 At 31st March 2021 the Council's investment balances totalled £98.3m; the balance is split between Money Market Funds, Call/Notice accounts and CCLA and Allianz collective investment funds (see Table 3 below). The balance excludes Third Party Loans and Share Capital.

5.4 Property Fund Update**:** During Q4, the key focus for CCLA was to protect income. The revenue return on investment for Q4 was £109k. The capital value of the investment at 31st March 2021 was £10.6m compared to an original investment value of £11.3m. Income held up better than expected during the pandemic, reflecting the funds active asset management strategy and tenant engagement.

5.5 Multi-Class Credit Fund: At the end of Q4, the valuation of the CCC share of the fund stood at £14.7m. The Council originally invested £14.5m in September 2020. The net revenue return on investment for Q4 was 0.04% (£6k). This is below expectations but remains early days given the tumultuous year for the economy.

5.6 The average level of funds available for investment in Q4 was £112.6m. The level of funds varies dependent on the timing of precept receipts, grants and the progress of the capital programme. Figure 1 below shows the investment by counterparty as at 31st March 20201.

Figure 1: CCC Investments allocation by Counterparty



5.7 Table 3 below summarises the maturity profile of the Council's investment portfolio at the end of Q4 2020/21 (excluding Third Party Loans):

Table 3 - Investment maturity profile at end of Q4 2020/21

| | | Maturity Period | | | | | |
|---|---|---|---|---|---|---|---|
| | | 0d | 0-3m | 3-6m | ~5yrs | Total | |
| Product | Access Type | £m | £m | £m | £m | £m | % |
| Money Market Funds | Same-Day | 30.0 | | | | 30.0 | 30.5 |
| Bank Call Account | Instant Access | 29.7 | | | | 29.7 | 30.2 |
| Certificate of Deposits | Fixed Term / Tradeable | | | 10.00 | | 10.0 | 10.2 |
| Notice Account | 35 Day Notice | | | 1.0 | | 1.0 | 1.0 |
| Pooled Property Fund | Redemption Period Applies | | | | 10.7 | 10.7 | 10.9 |
| Pooled Diversified Income Fund | Redemption – two days | | | | 2.1 | **2.1** | *2.1* |
| Pooled Multi-class credit Fund | Redemption Period Applies | | | | 14.8 | **14.8** | *15.1* |
| | Total | 59.7 | 0.00 | 11.0 | 27.6 | 98.3 | *100.0* |
| | *%* | *60.6* | *0.00* | *11.2* | *28.2* | *100.0* | |

5.8 Set out below are details of the amounts outstanding on loans and share capital investments classed as capital expenditure advanced to third party organisations at the end of Q4:

Table 4 Loans/Equity holdings in This Land companies end of Q4 2020/21

| Loan Summary | Amount Outstanding (£m) | Repayment Year |
|---|---|---|
| Loans for land acquired from third parties | 2.040 | 2021/22 |
| Construction & Development loans | 34.979 | 2026/27 and 2028/29 |
| Loans for land acquired from CCC | 78.872 | 2027/28 and 2028/29 |
| Equity holding | 5.851 | - |
| Total Loans/Equity in This Land Ltd | 121.742 | |

Table 5 Loans/Equity holdings in LGSS Law end of Q4 2020/21

| Loan Summary | Original Amount (£m) | Amount Outstanding (£m) | Repayment Year |
|---|---|---|---|
| Cashflow loan | 0.325 | 0.325 | 2029/30 |
| Equity holding | 0.475 | 0.475 | - |
| | | | |
| Total Loans/Equity in LGSS Law Ltd | 0.800 | 0.800 | |

Table 6 Third Party Loans Principal Outstanding end of Q4 2020/21

| Loan Counterparty | Original Amount (£m) | Amount Outstanding (£m) | Repayment Year |
|---|---|---|---|
| Arthur Rank Hospice Charity | 4.000 | 3.440 | 2042/43 |
| Estover Playing Field 2015 CIC (Guaranteed by March Town Council) | 0.350 | 0.221 | 2024/25 |
| Wisbech Town Council | 0.150 | 0.150 | 2043/44 |
| VIVA Arts & Community Group | 0.300 | 0.289 | 2043/44 |
| Total Third Party Loans | 4.800 | 4.100 | |

5.9 Investment returns compared to benchmark are shown in table 7 below.

Table 7: Average Benchmark Performance – Q4 2020/21

| | Benchmark | Benchmark Return | Council Performance |
|---|---|---|---|
| Q1 | 3m LIBID | 0.61% | 0.60% |
| Q2 | 3m LIBID | 0.60% | 0.63% |
| Q3 | 3m LIBID | -0.08% | 0.06% |
| Q4 | 3m LIBID | -0.697% | 0.05% |
| (YTD) | 3m LIBID | 0.43% | 1.34% |

5.10 Leaving market conditions aside, the Council's return on investments is influenced by a number of factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument:

- Credit risk is the consideration of the likelihood of default and is controlled through the creditworthiness policy approved by Council.
- The duration of an investment introduces liquidity risk; the risk that funds cannot be accessed when required.
- Interest rate risk: the risk that arises from fluctuating market interest rates.

These factors and associated risks are actively managed by the Council's Finance team.

## 6. Borrowing

6.1 The Council can raise cash through borrowing in order to fund expenditure on its capital programme for the benefit of Cambridgeshire. The amount of new borrowing needed each year is determined by capital expenditure plans and projections of the Capital Financing Requirement, underlying borrowing requirement, forecast cash-backed reserves and both current and forecast economic conditions.

6.2 The Council will continue to utilise short to medium-term borrowing from other local authorities and authorised brokers, as well as PWLB following the recent rate reduction. The Council intends to keep a proportion of the borrowing portfolio short-dated; but is also focused on extending the average duration of loans in the portfolio, whilst there are opportunities to fix loans for extended maturities at historically low levels.

6.3 In Q4, the Council repaid on maturity a total of £55.9m, of which £7.0m was short-term loans from other local authorities and £48.9m was longer-term loans from other authorities and PWLB. Loans raised during Q4 amounted to £99.0m. Of which short-term borrowing maturing within 1 year was £15.0m, and £37.0m of fixed-term loans maturing within 2-3 years, and £47.0m of PWLB loans.

6.4 At the end of Q4, the Council held £812.6m of borrowing of which £251.3m matures in less than 1 year. The Council continues to be able to re-finance loans as required, generally at this time at a lower interest rate than the maturity loan. As opportunities arise, we are seeking longer loan terms, rather than less than 1 year, in view of the current conditions.

6.5 Table 8 below sets out the maturity profile of the Council's borrowing portfolio at the end of Q4. £420.1m is held with the PWLB, £332.0m from other local authorities, £45m in market loans and £15.5m in a single market Lender Option Borrower Option (LOBO) loan.

Table 8: Loan Maturity Profile – Q4 2020/21

| Term remaining | Borrowing | |
|---|---|---|
| | £m | % |
| < 1 Year | £251,365,333 | 30.76% |
| 1 - 2 years | £97,493,333 | 12.03% |
| 2 - 5 years | £66,419,000 | 8.19% |
| 5 - 10 years | £100,683,667 | 12.42% |
| 10 - 20 years | £112,323,333 | 13.86% |
| 20 - 30 years | £39,913,333 | 4.92% |
| 30 - 40 years | £45,000,000 | 5.55% |
| 40 - 50 years | £49,000,000 | 6.04% |
| > 50 years | £50,500,000 | 6.23% |
| Total | £812,698,000 | 100.0 |

Figure 2 Loans Outstanding – Q4 2020/21

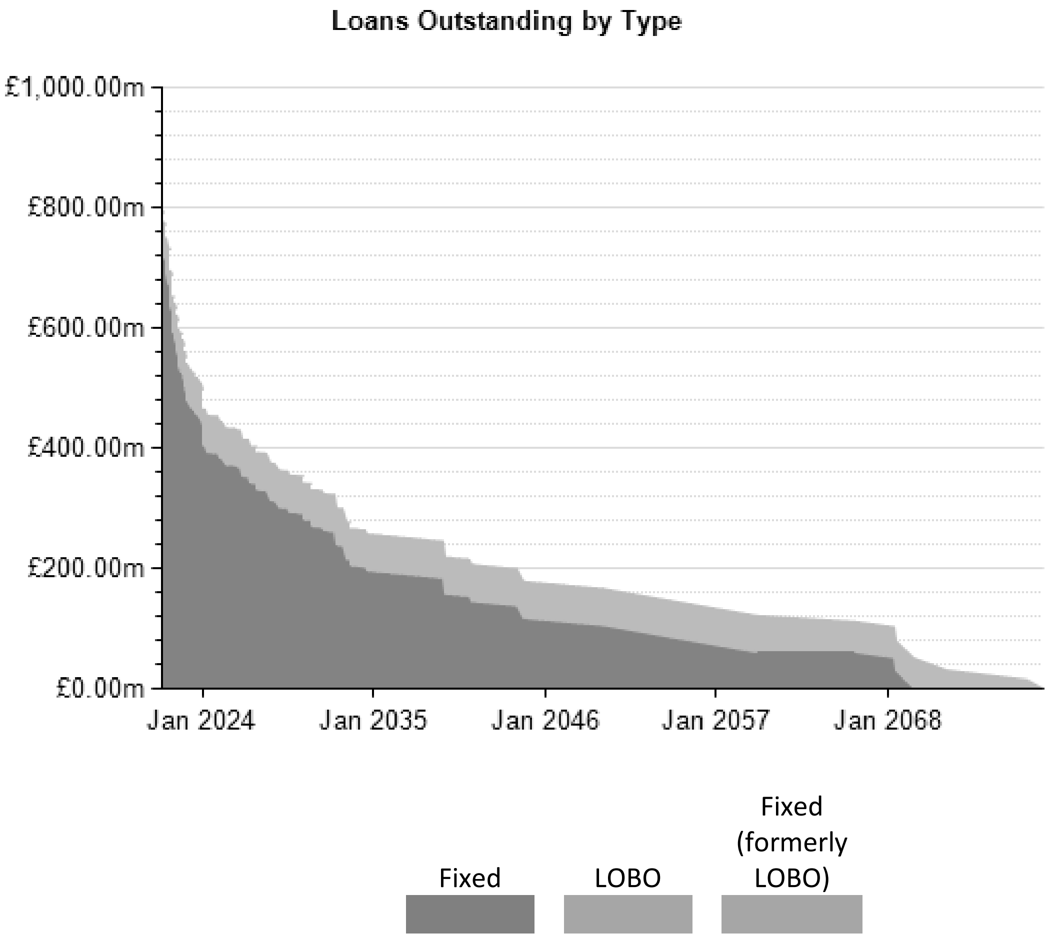
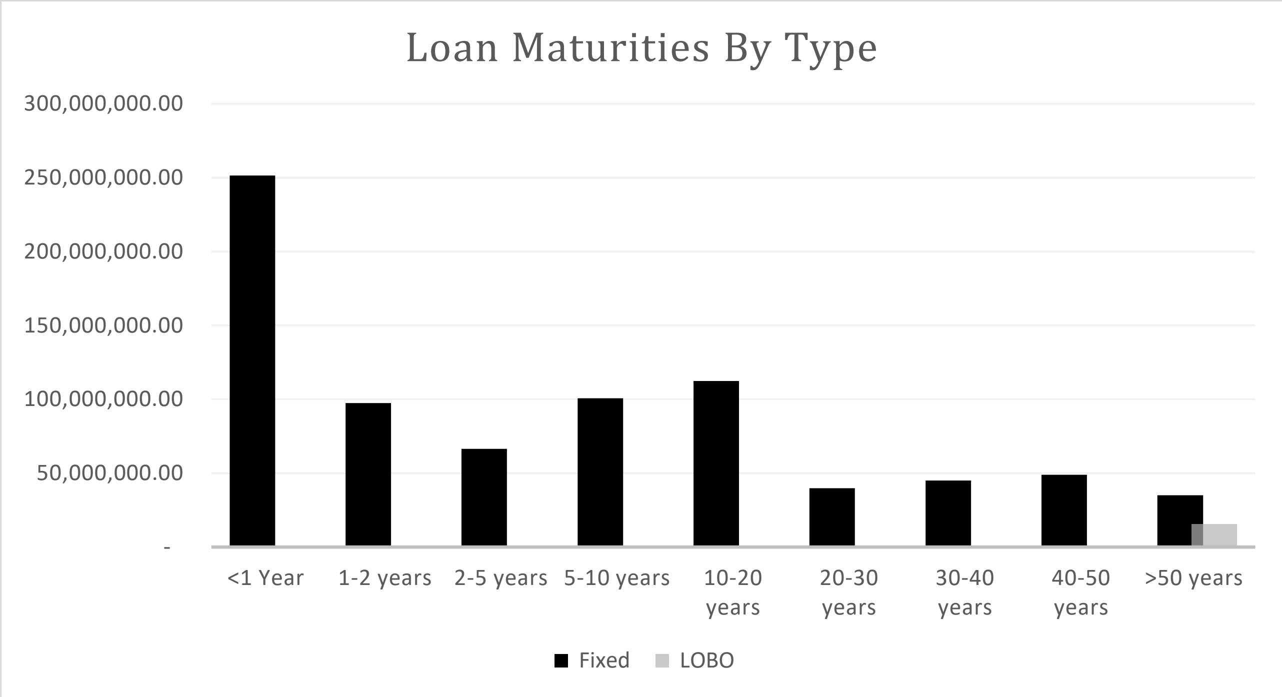


Figure 3 Loan Maturities by Type -Q4 2020/21




6.6 The market LOBO loan is included in Table 8 at final maturity rather than next potential call date. In the current low interest rate environment, the likelihood of the lender exercising their option to increase the interest rate on this loan - and so triggering the Council's option to repayment at par - is considered to be low.

6.7 The Council is in an internally borrowed cash position and balances will need to be replenished at some point in the future (subject to expenditure demands). This strategy is prudent while investment returns are lower than the cost of servicing debt and also serves to mitigate counterparty risk. The Council therefore plans to maintain this internal borrowing position but will closely monitor those reserves, balances and cashflows supporting this approach.

6.8 No borrowing rescheduling was undertaken during Q4. Rescheduling opportunities are limited in the current economic climate. For PWLB loans, due to the spread between the carrying rate of existing borrowing and early redemption rates, substantial exit (premium) costs would be incurred. For market borrowing, the lender uses the certainty of the loans cashflow profile to hedge against forecast interest rate movements and so would pass the cost of unwinding these instruments onto the Council as an exit (premium) cost. Officers continue to monitor the position regularly.

## 7. Compliance with Treasury and Prudential Limits

7.1 The Council's treasury and prudential indicators are shown in Appendix 2.

7.2 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 31st March 2021, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2020/21.

7.3 All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

# 8. Debt Financing Budget

8.1 This section summarises the 2020/21 debt financing budget, which is held as a central budget within Corporate Services, and complies with the reporting requirement in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Treasury Management Practice. The overall outturn position is an underspend of £1.012m, summarised in the table below.

Table 9: Debt Financing Budget – Q4 2020/21

| | Budget (£m) | Outturn (£m) | Variance (£m) |
|---|---|---|---|
| Interest payable | 15.530 | 13.065 | (2.464) |
| Interest receivable | (0.462) | (0.469) | (0.007) |
| Capitalisation of interest cost | (2.455) | (1.232) | 1.223 |
| Technical & Other | 0.678 | 0.545 | (0.134) |
| MRP | 16,279 | 16.649 | 0.370 |
| Total | 29.570 | 28.558 | (1.012) |

8.2 Interest payable was less than budgeted for a number of reasons. Longer term loans were agreed as split loans, meaning that part of the loans was arranged for 6-9 months and the other part for two years and 3 or 6 months respectively. For this reason, the interest on loans for the first part was relatively low cost and absorbed into the longer period of the loans. In addition, the overall interest rate on the market loans (from local authorities) and short term loans was very low, driven by the pandemic; and PWLB lowered interest rates on all new standard and certainty rate loan arrangements from November 2020.

8.3 The Interest Payable underspend was partially offset by a £1,223k overspend on the capitalisation of interest budget; as lower capital spend and lower interest rates resulted in lower interest costs being charged to schemes; consequently there was a smaller recharge back to the financing costs budget. In addition, following analysis of capital schemes completed in 2019/20 and how they were funded, the Minimum Revenue Position (MRP) payment for 2020/21 was recalculated and the year-end position is £370k higher than budgeted.

# 9. Alignment with Corporate Priorities

9.1 Communities at the heart of everything we do

There are no significant implications for this priority.

9.2 A good quality of life for everyone

There are no significant implications for this priority.

9.3 Helping our children learn, develop and live life to the full

There are no significant implications for this priority.

9.4 Cambridgeshire: a well-connected, safe, clean, green environment

There are no significant implications for this priority.

9.5 Protecting and caring for those who need us

There are no significant implications for this priority.

## 10. Significant Implications

10.1 Resource Implications

This report provides information on performance against the Treasury Management Strategy. Decisions on treasury management, which are driven by the capital programme and the Council's overall financial position, will impact the Debt Charges Budget and are reported through the Budget Monitoring process.

10.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no significant implications for this category.

10.3 Statutory, Legal and Risk Implications

The Council continues to operate within the statutory requirements for borrowing and investments. Further details can be found within Appendix 2.

10.4 Equality and Diversity Implications

There are no significant implications for this category.

10.5 Engagement and Communications Implications

There are no significant implications for this category.

10.6 Localism and Local Member Involvement

There are no significant implications for this category.

10.7 Public Health Implications

There are no significant implications for this category.

# 11. Source documents guidance

11.1 None

# Appendix 1: Detailed economic commentary from the Council's external Treasury Management Advisor (prepared in March 2021)

During the quarter ended 31st March 2021 (quarter 4 of financial year 2020/21):

- There was a 2.9% m/m fall in GDP due to January's lockdown which left the economy 9.0% below its pre-virus level.
- There was a sharp fall in virus cases and the government remained on track to surpass its vaccination targets.
- The Chancellor announced more fiscal support in 2021 but a tightening in fiscal policy from 2022.
- Trade flows with the EU were interrupted/impacted, especially in January
- 10-year gilt yields jumped as the financial markets priced in interest rate rises from late-2022.

The economy has coped well with the latest phase of COVID-19 restrictions. The 2.9% m/m drop in GDP in January was smaller than during last April's lockdown (-18.3% m/m), but the closure of the schools meant that it was bigger than during November's (-2.3% m/m). This left the economy 9.0% below the pre-pandemic level (versus 24.0% below in April and 7.3% below in November). So, this lockdown has been a bit more painful for the economy than November's, but less painful than April's.

The rapid rollout of COVID-19 vaccines, the reopening of schools and the staggered reopening of other sectors from mid-April should mean that January proves the low point of the year. The vaccine rollout in the UK has been outpaced only by Israel and the UAE. As of 28th March, 30.4 million first doses had been administered, leaving the government comfortably on track to surpass its target of 32 million doses (equivalent to the first nine priority groups) by mid-April.

Downside risks to the vaccine supply have emerged. A delayed shipment of 5 million vaccine doses from India will constrain supply in April. And the ongoing dispute with the EU leaves a hanging threat of a ban on manufacturers exporting vaccine doses to the UK from the EU. Nevertheless, given the UK is ahead of its vaccination target, we continue to expect the COVID-19 restrictions to be rolled back in the way Boris Johnson laid out in February, with non-essential retailers opening from 12th April, indoor hospitality from 17th May and all other domestic restrictions ending from 21st June.

We doubt much of the decline in January's GDP was reversed in February. But the increase in the Markit composite PMI in March to its highest level in seven months suggests that the economy took the first step on the road to recovery. Meanwhile, the reopening of schools from 8th March will have added almost 1% to GDP in March. We forecast that the staggered reopening of the economy will lift GDP to about 2-3% below its pre-pandemic level by July and allow the economy to climb back to the same level as in Q4 2019 in Q1 2022.

We expect that rebound to be largely spurred and financed by households. Admittedly, retail sales volumes remained subdued in February, rising by just 2.1% m/m in February after January's 8.2% m/m fall. But the strength of households' finances suggests that consumers are well placed to ramp up spending once the COVID-19 restrictions are lifted. Households have paid back unsecured loans in all but one month since the pandemic began in March 2020 and the household saving rate, (saving as a share of income), remained elevated at 16.1% in Q4 2020, well above its pre-pandemic level of 7.7%.

The drop in the ILO unemployment rate from 5.1% in December to 5.0% in January highlights once again the extent to which the government's job furlough scheme has protected jobs during the pandemic. And the extension of the furlough scheme from the end of April to the end of September means that by the time it expires, GDP will probably have risen enough to support a level of employment similar to now. We still expect the unemployment rate to rise further, to a peak of 6.0% by early 2022, as those who left the labour force return once the economy eventually reopens. But that would be a much better result than most feared a few months ago.

Business investment and trade will probably take longer to recover than household spending. The Chancellor's 'super deduction' policy announced in the Budget on 3rd March will support borrowing for investment, but this will be tempered by already high debt levels. Meanwhile, UK goods export volumes to the EU fell by 41.7% m/m in January and imports from the EU decreased by 28.7% m/m. This was not entirely Brexit related, as falling economic activity abroad and domestically due to the COVID-19 restrictions and a change in data collection methodology also influenced the poor outturn in January. Nevertheless, the timelier evidence suggests that the downward influence due to Brexit and COVID-19 started to ease in February. The number of cargo ships visiting UK ports has risen from being 20% below the level a year earlier in January to 9% below in February. And the share of businesses reporting that exports are being either severely or moderately disrupted has fallen. So, we think that trade flows should rebound quickly and continue to climb during the year.

We do not think that the Bank of England will threaten the recovery by raising interest rates or unwinding its quantitative easing (QE) policy for many years yet. CPI inflation fell from 0.7% in January to 0.4% in February as a direct result of the lockdown keeping non-essential retailers closed. Admittedly, the drag on inflation from lockdown will fade and a rebound in energy inflation will probably lift inflation above 2.0% by the end of 2021. But a drop back in oil prices in 2022 and the lagged downward effects on imported costs from the recent strengthening of the pound means that we doubt inflation will be persistently above 2.0% until 2023.

What's more, the Bank of England reiterated at its March meeting that it won't tighten policy until it is "achieving the 2% inflation target sustainably." On our forecasts, that won't happen until 2024. So, we think that the markets have gone too far in pricing in interest rate hikes by the end of 2022. Instead, we think that Bank Rate will remain at +0.10% until 2026. And while the recent jump in 10-year gilt yields probably has further to run, we do not think yields will rise very far. We expect the 10-year yield to increase from 0.84% currently to 1.25% by the end of 2021 and to 1.50% by the end of 2022.

The Chancellor's decision in the Budget to extend many of the existing support schemes that were due to expire in March or April until October means that fiscal policy shouldn't damage the economic recovery much this year. The new expiry dates are scheduled for when the economy is much healthier and more ready to cope without those lifelines. The tightening of fiscal policy in 2023/24, via freezes to tax thresholds and an increase in the main rate of corporation tax from 19% now to 25%, won't kick in until the economy is much stronger.

The Chancellor appears to have managed not to significantly risk the economic recovery while at the same time solving some of the fiscal challenges. The current budget deficit, (which excludes investment), is expected to fall from 13.3% of GDP in 2020/21 to close to zero by 2025/26. On this definition of “balancing the books”, the fiscal hole created by the pandemic will already have been filled by the measures announced in the Budget. That means no further tax hikes or spending cuts may be required. If we are right in thinking that the economic forecasts made by the OBR will prove to be overly pessimistic, then the budget deficit could fall even more quickly. That may mean the Chancellor is in a position to cancel/reverse some of the proposed tax hikes before the 2024 general election.

The third COVID-19 lockdown has limited the FTSE 100’s rise in 2021 so far to just over 4%, slightly lower than the 5-8% growth of the S&P 500 and DAX 30. But favourable valuations and the weighting of UK equity indices towards the sectors that are likely to benefit more from the recovery, such as consumer-facing, energy and financials, gives UK equities scope to outperform its peers over 2021. We expect the FTSE 100 to rise from 6,755 now to 7,500 by the end of 2021 and to above 8,000 by the end of 2022.

# Appendix 2: Treasury and Prudential Indicators Q4

| Treasury / Prudential Indicator | 2020/21 Indicator | 2020/21 Q4 |
|---|---|---|
| | | |
| Authorised limit for external debt<br>(Inc' loans raised to on-lend to Housing & Investment Company) | -----£1,093.0m----- | |
| Operational boundary for external debt<br>(Inc' loans raised to on-lend to Housing & Investment Company) | ----- £1,063.0m----- | |
| Total Net Borrowing – Q4 | --------£714.3m------ | |
| Capital Financing Requirement (CFR)<br>*[Including PFI and Finance Lease Liabilities]* | £992.8m | £931.1m |
| Ratio of financing costs to net revenue streams | 8.8% | 3.4% |
| Upper limit of fixed interest rates based on net debt | 150% | 112% |
| Upper limit of variable interest rates based on net debt | 65% | -12% |
| Principal sums invested over 365 days<br>(exc' third party loans) | £50.0m | £27.5m |
| Maturity structure of borrowing limits:- | | |
| Under 12 months | Max. 80%<br>Min. 0% | 30.76% |
| 12 months to 2 years | Max. 50%<br>Min. 0% | 12.03% |
| 2 years to 5 years | Max. 50%<br>Min. 0% | 8.19% |
| 5 years to 10 years | Max. 50%<br>Min. 0% | 12.42% |
| 10 years and above | Max. 100%<br>Min. 0% | 36.60% |
| | | |

- The Treasury Management Code of Practice guidance notes requires that maturity is determined by the earliest date on which the lender can trigger repayment, which in the case of LOBO loans is the next break/call point. This approach differs to Table 6 at paragraph 6.5 above, which instead shows the Council's LOBO loan at maturity date as the likelihood of the option being exercised is low.

# Summary – Prudential and Treasury Indicators at 31st March 2021

Monitoring of Prudential and Treasury Indicators: approved by the Council in February 2020.

## 1. Has the Council adopted CIPFA code of practice for Treasury Management in the Public Services?

The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practices and Cross sectoral Guidance Notes. This is a key element of the Treasury Strategy 2020/21, approved by the Council in February 2020.

## 2. Limit for exposure to fixed and Variable rate of net borrowing (Borrowing less investments)

| | Limit | Actual |
|---|---|---|
| Fixed rate | 150% | 112% |
| Variable rate | 65% | -12% |

The interest rate exposure is calculated a percentage of net debt. Due to the mathematical calculation exposures could be greater than 100% of below zero (i.e. negative) depending on the component parts of the formula. The formulas are shown below:

$$\frac{\textit{Fixed rate borrowing – fixed rate investments}}{\textit{Total borrowing – total investments}}$$

* Defined as greater than 1 year to run

**Defined as less than 1 year to run or in the case of LOBO loan, the call date falling within the next 12 months.

## 3. Total Principal sums invested for the periods longer than 364 days

| | 2020-21 Limit £m | Actual £m |
|---|---|---|
| Investment longer than 354 days to run * | £50m | £27.5m |

**Treasury Management Investment only*

4. Limit for maturity structure of borrowing

| | Upper Limit | Actual |
|---|---|---|
| < 1 Year | 80% | 30.76% |
| 1 - 2 years | 50% | 12.03% |
| 2 - 5 years | 50% | 8.19% |
| 5 - 10 years | 50% | 12.42% |
| >10 years | 100% | 36.60% |

Note: The guidance for calculation of this indicator requires that LOBO loans are shown as maturing at the next possible call date rather than at final maturity.

5. Ratio of financing cost to net revenue stream

| 2020-21 Original Estimate % | 2020-21 Outturn % | Difference % |
|---|---|---|
| 8.8 | 3.47 | -5.33 |

Prudence:

6. Gross borrowing and the Capital Financing Requirement (estimated) borrowing liability excluding PFR.

| Original 2020-21 Capital Financing Requirement (CFR as of the 31 March 2020) £m | 2020-21 CFR (as at 31 March 2021) £m | Actual Gross Borrowings (as at 31 March 2021) £m | Difference between actual borrowings and CFR (as at March 2021) £m |
|---|---|---|---|
| 992.8 | 932.1 | 812.6 | 60.7 |

Capital Expenditure

7. Estimates of Capital

For the detail of capital expenditure and funding please refer to the capital outturn in the Integrated Finance Monitoring Report.

## 8. External Debt

### Authorised limit for external debt

| 2020-21<br>Authorised Limit per TMSS<br>£m | Actual Borrowings<br><br>£m | Headroom compared to Authorised Limit<br><br>£m |
|---|---|---|
| 1,093.0 | 812.6 | 280.4 |

The Authorised limits the statutory limit on the Council's level of debt and must not be breached. This is the absolute maximum amount of debt the Council may have in the year.

## 9. Operational boundary for external debt

| 2020-21<br>Operational Boundary per Limit per TMSS<br>£m | Actual Borrowings<br><br>£m | Headroom compared to Operational Boundary<br><br>£m |
|---|---|---|
| 1,063.0 | 812.6 | 250.4 |

The operational boundary is set as a warning signal that debt has reached a level nearing the Authorised limit and must be monitored carefully.