**Subject:** **2020/21 TREASURY MANAGEMENT OUTTURN REPORT**

**Report to:** **Policy and Resources 13 July 2021**

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GREAT YARMOUTH BOROUGH COUNCIL

**SUBJECT MATTER**

This report presents the treasury management activity for the 2020/21 financial year and includes:

1. The overall treasury position for 2020/21
2. The borrowing requirement and debt for 2020/21
3. The borrowing outturn for 2020/21

**RECOMMENDATIONS**

It is recommended that Policy and Resources Committee recommend to Council the Treasury Management outturn report and indicators for 2020/21.

## 1. INTRODUCTION AND BACKGROUND

1.1 The Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management annual report after then end of each financial year. This report fulfils the Authority's legal obligation to have regard to the CIPFA Code.

1.2 The Authority's treasury management strategy for 2020/21 was approved at a meeting of the Council in February 2020. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

1.3 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 30th July 2020.

## 2. NATIONAL CONTEXT AND ECONOMIC COMMENTRY

2.1 Economic background: The coronavirus pandemic dominated 2020/21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

2.2 Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March 2021.

2.3 The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

2.4 Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help.

2.5 Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay). Unemployment is still expected to increase once the various government job support schemes come to an end.

2.6 Inflation has remained low over the 12 month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England's 2% target. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.7% year/year (1.0% expected). After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8% q/q, growth in Q3 and Q4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Q1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.

2.7 Financial markets: Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks. The FTSE indices performed reasonably well during the period April to November, before being buoyed in December by both the vaccine approval and Brexit deal, which helped give a boost to both the more internationally focused FTSE 100 and the more UK-focused FTSE 250, however they remain lower than their pre-pandemic levels.

2.8 Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

2.9 The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%. 1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year. The yield on 2-year US treasuries was 0.16% at the end of the period, up from 0.12% at the beginning of January but down from 0.21% at the start of the financial year. For 10-year treasuries the end of period yield was 1.75%, up from both the beginning of 2021 (0.91%) and the start of the financial year (0.58%).

2.10 Credit review: After spiking in March 2020, credit default swap spreads declined over the remaining period of the year to broadly pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities remained, albeit Santander UK is still an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 57bps and Standard Chartered the lowest at 32bps. The other ringfenced banks were trading around 33 and 34bps while Nationwide Building Society was 43bps.

2.11 Credit rating actions to the period ending September 2020 have been covered in previous outturn reports. Subsequent credit developments include Moody's downgrading the UK sovereign rating to Aa3 with a stable outlook which then impacted a number of other UK institutions, banks and local government. In the last quarter of the financial year S&P upgraded Clydesdale Bank to A- and revised Barclay's outlook to stable (from negative) while Moody's downgraded HSBC's Baseline Credit Assessment to baa3 whilst affirming the long-term rating at A1.

2.12 The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

## 3. LOCAL CONTEXT

3.1 At 31 March 2021, the Authority had net borrowing of £100.422m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

| **Table 1: Balance Sheet Summary** | **31.3.21 Actual £m** |
|---|---|
| General Fund CFR | £58.881 |
| HRA CFR | £88.261 |
| **Total CFR** | **£147.142** |

| **Table 1: Balance Sheet Summary** | **31.3.21 Actual £m** |
|---|---|
| Less: Other debt liabilities* | (£0.536) |
| Borrowing CFR | £146.606 |
| Less: Long Term Investments | (£1.000) |
| Less: Usable reserves | (£38.400) |
| Less: Working capital | (£6.784) |
| **Net borrowing** | **£100.422** |

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

3.2 The Authority's strategy was to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position at 31 March 2021 and the change during the year is shown in Table 2 below.

| **Table 2: Treasury Management Summary** | **31.3.20 Balance £m** | **2020/21 Movement £m** | **31.3.21 Balance £m** | **31.3.21 Rate %** |
|---|---|---|---|---|
| Long-term borrowing | £86.262 | (£3.679) | £82.583 | 4.44% - 4.95% |
| Short-term borrowing | £32.500 | £19.092 | £51.592 | 0.11% - 1.45% |
| **Total borrowing** | **£118.762** | **£15.413** | **£134.175** | |
| Long-term investments | £9.433 | (£8.433) | £1.000 | 0.41% |
| Cash and cash equivalents | £11.306 | £21.447 | £32.753 | 0.00-0.20% |
| **Total investments** | **£20.739** | **£13.014** | **£33.753** | |
| **Net borrowing** | **£98.023** | **£2.399** | **£100.422** | |

*Note: the figures in the table are from the balance sheet in the Authority's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments. Long-term investments consist of Equinox Enterprises Ltd which repaid fully in year and CCLA Property Fund a mid-long-term strategic investment.*

## 4. BORROWING UPDATE

4.1 In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. From 26 November the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8% providing that the borrowing authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. As part of the borrowing process authorities will now be required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 Officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.

4.2 Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that Authority unwinds problematic transactions, suspending access to the PWLB and repayment of loans with penalties.

4.3 Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.

4.4 The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of the reduction in the PWLB borrowing rate.

4.5 Municipal Bonds Agency (MBA): The MBA revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency has issued 5-year floating rate and 40-year fixed rate bonds in 2020, in both instances Lancashire County Council is the sole borrower and guarantor. A planned third bond issuance by Warrington Borough Council was withdrawn in early December after the reduction in PWLB borrowing rates. If the Authority intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.

4.6 UK Infrastructure Bank: In his March 2021 budget the Chancellor confirmed that a UK Infrastructure Bank will be set up with £4bn in lending earmarked for local authorities from the summer of 2021. Loans will be available at gilt yield plus 0.60%, 0.20% lower than the PWLB certainty rate. A bidding process to access these loans is likely with a preference to projects likely to help the government meet its Net Zero emissions target. However other “high value and complex economic infrastructure projects” may also be considered.

## 5. BORROWING ACTIVITY

5.1 At 31 March 2021 the Authority held £134.174m of loans, an increase of £15.4m from 31 March 2020, as part of its strategy for funding previous and current years’ capital programmes. Outstanding loans on 31 March are summarised in Table 3 below.

| **Table 3: Borrowing Position** | **31.3.20 Balance £m** | **2020/21 Movement £m** | **31.3.21 Balance £m** | **31.3.21 Rate %** | **31.3.21 Maturity years** |
|---|---|---|---|---|---|
| Public Works Loan Board | £71.387 | £0 | £71.387 | 3.15%-4.40% | 10-40 years |
| Banks (LOBO) | £3.000 | £0 | £3.000 | 4.95% | 1-2 years |
| Banks (fixed term) | £7.000 | £0 | £7.000 | 3.35%-3.98% | <1-60 years |
| Local authorities (long-term) | £4.888 | (£3.592) | £1.196 | 4.44% | >1 year |
| Local authorities (short-term) | £32.588 | £19.004 | £51.592 | 0.11%-1.45% | <1 year |
| **Total borrowing** | **£118.763** | **£15.412** | **£134.174** | | |

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

5.3 In furtherance of these objectives, new loans totalling £61m were borrowed in 2020/21 to repay £45.5m existing short-term borrowing and create liquidity. This strategy enabled the Authority to reduce net borrowing costs by utilising the Local authority lending market.

5.4 New borrowing of £61m from Local Authorities in the year was for less than 1 year and at interest rates between 0.05% and 0.95%. Loans repaid to Local Authorities in the year of £45.5m were from between less than a month and 1 year at interest rates of between 0.05% and 1.30%.

5.5 The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing was maintained.

5.6 PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

5.7 LOBO loans: The Authority continues to hold £3m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. The bank did not exercise its option to increase the rate during the year.

## 6. TREASURY INVESTMENT ACTIVITY

6.1 The Authority holds a level of invested funds, representing income received in advance of expenditure plus balances and reserves held and money borrowed in advance of need. During 2020/21, the Authority's investment balances ranged between £12m and £28m, averaging £21m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

| **Table 4: Treasury Investment Position** | **31.3.20 Balance £m** | **2020/21 Movement £** | **31.3.21 Balance £m** | **31.3.21 Rate %** |
|---|---|---|---|---|
| Banks & building societies (unsecured) | £9.469 | (£8.114) | £1.355 | 0.00% |
| Government (Inc. local authorities) | £0.250 | £19.040 | £19.290 | 0.00% - 0.01% |
| Money Market Funds | £10.920 | £1.080 | £12.000 | 0.0% - 0.03% |
| Other Pooled Funds – Property Funds | £1.000 | £0 | £1.000 | 4.41% |
| **Total investments** | **£21.639** | **£12.006** | **£33.645** | |

6.2 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

6.3 Continued downward pressure on short-dated cash rate brought net returns on sterling low volatility net asset value money market funds (LVNAV MMFs) close to zero even after some managers have temporarily lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee waivers should maintain positive net yields, but the possibility cannot be ruled out.

6.4 Deposit rates with the Debt Management Account Deposit Facility (DMADF) have continued to fall and are now largely around zero.

6.5 The net return on Money Market Funds net of fees, which had fallen after Bank Rate was cut to 0.1% in March, are now at or very close to zero; fund management companies have temporarily lowered or waived fees to avoid negative net returns.

6.6 The progression of credit risk and return metrics for the Authorities investments managed in-house are shown in the extracts from Arlingclose quarterly investment benchmarking in table 5 below.

| **Table 5: Investment Benchmarking – Treasury investments managed in-house** | **Average Credit Score - time weighted** | **Average Credit Rating - time weighted** | **Bail-in Exposure** | **Weighted Average Maturity (days)** | **Total Return %** |
|---|---|---|---|---|---|
| 31.03.2020<br>31.03.2021 | 4.42<br>4.26 | AA<br>AA- | 98%<br>41% | 4.42<br>4.26 | 0.37%<br>0.04% |
| Similar Las<br>All Las | 4.70<br>4.53 | A+<br>A+ | 65%<br>63% | 4.70<br>4.53 | 0.13%<br>0.15% |
| Treasury investments externally managed funds – Income Return | | | | | Total Return % |
| 31.03.2020 | N/A | N/A | N/A | N/A | 4.42% |
| Similar Las<br>All Las | N/A<br>N/A | N/A<br>N/A | N/A<br>N/A | N/A<br>N/A | 3.88%<br>3.85% |

**The 2020/21 TMSS set the limit per institution at £3m with which the Authority complied. The above table does not include investments with the DMO £13.290m the total investments as at 31st March 2021 was £33.620m.*
*** £12m of the total £33.620m investments exposed to bail-in on 31/3/2021 was invested in Money Market Funds which are pooled funds which have a highly diversified portfolio of money market and other instruments. The Money Market Funds which are used by the Council to maintain high credit security and liquidity.*

6.7 In accordance with the strategy, £1m of the Authority's investments are held in CCLA Local Authority Property Fund an externally managed strategic pooled property fund where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. For this reason, the Council's investment in strategic pooled funds has only been made with funds it anticipates will remain available for investment over the medium to long-term (i.e. 3 to 5 years). This will minimise the risk from incurring any potential capital loss on selling the investment at an unfavourable point in time. As at the end of March 2021, the pooled fund investments had an unrealised loss of

£103,858.86 to point of purchase, any gains would only be realised when the holdings are sold. These funds generated an average total return of £39k (4.44%) to support services in year.

6.8 Similar to many other property funds, dealing (i.e. buying or selling units) in the CCLA Local Authorities' Property Fund was suspended by the fund in March 2020 and lifted in September. There was also a change to redemption terms for the CCLA Local Authorities Property Fund; from September 2020 investors are required to give at least 90 calendar days' notice for redemptions. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

6.9 These unrealised capital losses will not have an impact on the General Fund as the Authority has elected to present changes in the funds' fair values in other comprehensive income (FVOCI).

6.10 Following the cut in Bank rate from 0.75% to 0.10% in March 2020, the Authority had expected to receive significantly lower income from its cash and short-dated money market investments, including money market funds in 2020/21, as rates on cash investments are close to zero percent. Income from most of the Authority's externally managed funds will also be lower than in 2019/20 and earlier years. Whilst the arrival and approval of vaccines against COVID-19 and the removal of Brexit uncertainty that had weighed on UK equities were encouraging developments, dividend and income distribution was dependent on company earnings in a very challenging and uncertain trading environment as well as enforced cuts or deferral required by regulatory authorities. The impact of low interest rates in 2020/21 when comparing 2020/21 to 2019/20 the Council received 42% less by way of income distribution on its average investment portfolio of £29m.

## 7. FINANCIAL IMPLICATIONS

7.1 **Other Non-Treasury Holdings and Activity** - Although not classed as treasury management activities the definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

7.2 At the balance sheet date of 31st March 2021, the Authority also held £58.1m of investments in directly owned property, loans to homeowners and local bodies and investments in a trading subsidiary. There has been no significant change from last financial year.

7.3 These non-treasury investments generated £2.3m of investment income for the Authority after taking account of direct costs, representing a rate of return of 4.0%. This is higher than the return earned on treasury investments but reflects the additional risks to the Authority of holding such investments.

7.4 **Performance** Report - The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and is developing further performance measures on this.

7.5 **Compliance** Report – The Finance Director reports that all treasury management activities undertaken during 2020/21 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy 2020/21. The Authority utilised the low-cost Local Authority lending market to increase is liquidity resilience and reduce costs by taking out low rate, short term loans.

7.6 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6 below, and compliance with the specific investment limits is demonstrated in table 7 below.

| **Table 6: Debt Limits** | **2020/21 Maximum £m** | **31.3.21 Actual £m** | **2020/21 Operational Boundary £m** | **2020/21 Authorised Limit £m** | **Complied? Yes/No** |
|---|---|---|---|---|---|
| Borrowing | £137.197 | £134.174 | £174.00 | £179.000 | Yes |
| Long term liabilities, PFI & Finance Leases | (£0.664) | (£0.536) | £2.000 | £2.000 | Yes |
| **Total debt** | **£136.533** | **£133.638** | **£176.000** | **£181.000** | **Yes** |

7.7 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt did not exceed the operational boundary during 2020/21.

| **Table 7: Investment Limits** | **2020/21 Maximum** | **31.3.21 Actual** | **2020/21 Limit** | **Complied? Yes/No** |
|---|---|---|---|---|
| Any single organisation, except the UK Government | £2.6m | £1.330 | £2m each | No |
| UK Central Government | Unlimited | £13.290 | Unlimited | Yes |
| UK Central Government Local Authorities | £8m | £6m | £2m (2years) | Yes |
| Any group of organisations under the same ownership | Nil | Nil | £2m per group | Yes |
| Any group pooled funds under the same Management | £5m | £4m | £6m | Yes |
| Negotiable instruments held in a broker's nominee account | Nil | Nil | £4m per broker | Yes |
| Foreign countries | Nil | Nil | £1.5m per country | Yes |
| Registered providers and registered social landlords | Nil | Nil | £2m in total | Yes |
| Unsecured investments with building societies | £1.5 | Nil | £1.5m in total | Yes |
| Loans to subsidiary trading company | £6.2m | Nil | Not set | N/A |
| Loans to unrated corporates | Nil | Nil | £1m in total | Yes |

| | | | | |
|---|---|---|---|---|
| Money Market Funds | £18.485m | £12m | £3m per fund £12m in total | No |

7.8 The Council exceeded the investment limits in table 7 above during the first month of 2020/21 in Barclays FIBCA account where the maximum limit of £1.5m was breached the Council had invested at the highest £2.6m. The Money Market Fund maximum limit of £12m was also breached where the Council had invested at the highest £18.845, this was due to the Council having higher retained cash balances than anticipated due the timing of receipt of grant monies ahead of paying out. The Debt Management Office investment rate during part of the year was negative interest rates therefore the Council considered our strategic goals of security, liquidity and return and chose the Money Market Funds as the most appropriate to achieve the strategic goals.

7.9 **Treasury Management Indicators -** The Authority measures and manages its exposures to treasury management risks using the following indicators.

7.10 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

| **Credit risk indicator** | **31.3.21 Actual** | **2020/21 Target** | **Complied?** |
|---|---|---|---|
| Portfolio average credit rating | AA- | A | Yes |

7.11 **Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount cash available to meet unexpected payments within a rolling three-month period, and the amount it can borrow each quarter without giving prior notice.

| **Liquidity** | **31.3.21 Actual** | **2020/21 Target** | **Complied?** |
|---|---|---|---|
| Total cash available without notice | £13.580m | £11.250m | Yes |
| Total sum borrowed in past 3 months without prior notice | £0m | Not set | N/A |

7.12 **Interest Rate Exposures**: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

| **Interest rate risk indicator** | **31.3.21 Actual** | **20/21 Limit** | **Complied** |
|---|---|---|---|
| Upper limit on one-year revenue impact of a 1% rise in interest rates | £0.089 | £0.050 | No |
| Upper limit on one-year revenue impact of a 1% fall in interest rates | £0.034 | £0.094 | Yes |

7.13 The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

7.14 The impact of a 1% rise in interest rates limit was breached, this is because the limit was set based on a lower investment balance and higher loan balances which reflected the Councils portfolio as at 31/12/2019 when the Treasury Management Strategy was written. The Councils investment balances have increased by 25% and loan balances have decreased by 33% due to Government funding received to assist with the pressures relating to the pandemic.

7.15 **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

| **Maturity Structure of Borrowing** | **31.3.21 Actual** | **Upper Limit** | **Lower Limit** | **Complied?** |
|---|---|---|---|---|
| Under 12 months | 38% | 50% | 0% | Yes |
| 12 months and within 24 months | 0% | 50% | 0% | Yes |
| 24 months and within 5 years | 2% | 60% | 0% | Yes |
| 5 years and within 10 years | 4% | 80% | 0% | Yes |
| 10 years and above | 55% | 100% | 0% | Yes |

7.16 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

7.17 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

| Principal Sums Invested for Periods Longer than 365 days | 2020/21 £m | 2021/22 £m | 2022/23 £m |
|---|---|---|---|
| Actual principal invested beyond year end | £1m | £1m | £1m |
| Limit on principal invested beyond year end | £12m | £12m | £12m |
| Complied | Yes | Yes | Yes |

## 8. OTHER

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

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

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

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