Audit and Governance Committee

Title of Report	Treasury Management Annual Report 2020/21
Purpose of Report	Each year the Council produces an Annual Report covering its Treasury Management activities for the previous year. The Annual Report is submitted each year to the Audit and Governance Committee in accordance with best practice as outlined in CIPFA's Code of Practice on Treasury Management.
Recommendations	To consider the Treasury Management Annual Report 2020/21.
Officers	Paul Blacker, Director of Finance (01452) 328999 Paul.blacker@gloucestershire.gov.uk Kathryn Oakey; Finance Manager (Planning & Treasury) Kathryn.oakey@gloucestershire.gov.uk

Treasury Management Annual Report 2020/21

REPORT CONTENTS

1. Background

Gloucestershire County Council's (the Council's) treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management (the Code), which requires local authorities to produce annually a Treasury Management Strategy Statement (TMSS), and an Annual Report. The 2017 Prudential Code includes a requirement for the Council to produce a Capital Strategy, which covers capital expenditure and financing, treasury management and non-treasury investments.

The TMSS and Capital Strategy are agreed annually by full Council as part of the budget setting process. Scrutiny of these documents as well as a Mid Year Report and the Annual Report is delegated to the Audit and Governance Committee.

The Council has invested substantial sums of money during the year 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 are therefore central to the Council's treasury management strategy.

This report covers treasury activity and the associated monitoring and control of risk. A glossary is provided at Appendix A due to the technical terms and acronyms associated with treasury activity.

2. Economic Background

Treasury Management activities at the Council are driven by the prevailing economic conditions. A summary of these conditions over the financial year, provided by our Treasury Management advisors, is attached at Appendix B.

In summary, the coronavirus pandemic played a major role in financial markets over the period as almost the entire planet has been subjected to 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 UK government has provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

The Bank of England cut Bank Rate to 0.1% which has meant that rates on offer in the traditional treasury instruments have continued to be poor throughout the year.

3. Borrowing and Debt Management

The Council has continued to borrow funds for specific capital schemes, and this year the total required was £12.252 million. This borrowing was arranged internally because prevailing borrowing rates exceed those that could be gained from investing funds. Although borrowing continues to be relatively cheap at the current time, it still makes more sense not to borrow due to the high cash balances that the Council has. The funding can however be externalised at any time should the need arise. The rest of the capital programme new schemes are funded in full from grants, revenue contributions, capital receipts or contributions.

As a result of the borrowing requirement for 2020/21 and the increased capital expenditure throughout the year, the Council's Capital Financing Requirement (CFR) – the total borrowing required to fund the approved capital programme, increased - from £389.8m to £393.7m.

The average cost of the Council's existing borrowing portfolio during 2020/21 was 4.72%. This rate is significantly higher than the rate of return achieved on investments but reflects the mix of long term fixed rate loans taken out historically to reduce the risk associated with short term interest rate volatility.

The opening and closing external borrowing portfolio (including the on balance sheet PFI liabilities) is summarised below:

	Balance on 31/3/2020	Debt Maturing	Debt Prematurely Repaid	New Borrowing	Balance on 31/3/2021	Avg Rate
	£m	£m	£m	£m	£m	%
Fixed rate loans – PWLB	228.736	7.963	0.000	0.000	220.773	4.78
Variable rate loans – PWLB	0.000	0.000	0.000	0.000	0.000	0.00
Fixed rate loans – LOBO	33.050	0.000	0.000	0.000	33.050	4.24
Fixed rate loans – Market	8.000	0.000	0.000	0.000	8.000	5.00
TOTAL BORROWING	**269.786**	**7.963**	**0.000**	**0.000**	**261.823**	**4.72**
Other Long Term Liabilities	98.408	1.339	0.000	0.000	97.069	
TOTAL EXTERNAL DEBT	**368.194**	**9.302**	**0.000**	**0.000**	**358.892**	
Internal Borrowing	21.650	(0.884)		12.252	34.786	
Total Borrowing Requirement	**389.844**				**393.678**	
Increase/ (Decrease) in Borrowing £m				**3.834**		

Notes to Table

- **Market Loans (LOBOs) and Fixed Market Loans:** The Council holds £33.05m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOs had options during the year, none of which were exercised by the lender. Previously a further £8 million of loans with Barclays were classified as LOBOs; however Barclays have since fixed the interest rates on these loans until maturity. These are classified as fixed rate market loans.

- **Public Works Loans Board (PWLB)**: The PWLB premium charge for early repayment of PWLB debt remains relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

- **Other Long Term Liabilities**: These liabilities are associated with the Council's PFI schemes and service concessions. Under current accounting regulations the Council must show these liabilities as part of the total debt of the Council. The schemes include a Fire Joint Training Centre, four Fire Stations, a Community Life Skills Centre and the Waste facility at Javelin Park.

The table below reconciles the opening and closing total borrowing position during 2020/21:

	£m
Opening CFR	**389.844**
Plus New Borrowing	12.252
Less MRP	(8.418)
Total	**393.678**
Closing CFR	**393.678**
External Debt	261.823
Other long term liabilities	97.069
Internal Debt	34.786
Total Debt	**393.678**

The minimum revenue provision (MRP) shown above of £8.418m is a statutory minimum amount by which the Council must reduce debt. The internal debt of £34.785 million results from existing internal debt, the additional borrowing requirement of £12.252 million during 2020/21 and a temporary in year timing mismatch between MRP set aside in 2020/21 to repay maturing debt and actual debt maturing in year.

A graph of the maturity profile of our external loans is shown in Appendix C. Generally the maturity profile is well spread.

4. Investment Activity

The Council has held significant invested funds during the year, representing income received in advance of expenditure plus balances and reserves. During 2020/21 the Council's investment balances have varied – the average was £359.3 million. This generated interest of £5.5m which is equivalent to 1.53%. This return was achieved during a period when the bank rate was 0.10% for the majority of the year.

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

The table below summarises investment activity during the year;

Total number of loans made to 31 March 2021	137
Daily invested range	£0.031m to £27.15m
Total value of loans made to 31 March 2021	£937m
Maximum value loan made (non call)	£5.0m
Maximum value of loans made (Call)	£27.05m
Periods	Overnight to 2 years

All investments made during the year complied with the Council's agreed TMSS, Prudential Indicators, Treasury Management Practices and prescribed limits as approved by the County Council in February 2020. All maturing investments were repaid to the Council in full and in a timely manner.

The opening and closing principal investment balances are summarised in the table below;

Investments	Balance on 31/03/2020 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2021 £m	Avg Rate (%)
Short term Investments (call accounts, deposits)					
- Banks and Building Societies with ratings of A- or higher	85.3	547.7	-590.3	42.7	0.1
- UK Government	0.0	0.0	0.0	0.0	0.0
- Local Authorities	98.0	93.5	-79.7	111.8	0.9
- Housing Association	10.0	10.0	-20.0	0.0	1.5
- Covered Bonds/ FRN (secured)	0.0	0.0	0.0	0.0	0.0
Long term Investments					
- Strategic Funds	75.0	0.0	0.0	75.0	3.5
- Housing Association	0.0	0.0	0.0	0.0	0.0
- Covered Bonds/ FRN (secured)	1.4	0.0	0.0	1.4	1.5
- Local Authorities	33.3	65.0	-62.2	36.1	0.8
Money Market Funds	16.7	220.8	-177.5	60.0	0.2
Pooled Funds	5.0	0.0	0.0	5.0	0.9
Other organisations (e.g. loans to small businesses)	0.063	0.0	-0.055	0.008	7.2
TOTAL INVESTMENTS	**324.8**			**332.0**	
Increase/ (Decrease) in Investments £m				7.2	

Notes to Table

- **Funding Circle:** The sum invested with other organisations relates to the Council's investment in Funding Circle as part of the commitment to economic development. This scheme was originally intended to assist small businesses in Gloucestershire, with the Council providing £2,500 per Gloucestershire business on the platform. 69 Gloucestershire businesses were assisted; however since 2016 the Council has been unable to target Gloucestershire businesses. The money in the platform is currently being matured and to date £0.092 million has been returned with £0.008 million plus £0.031m interest remaining on the platform at year end. The balance above is the principal position only.

Investment Objectives

1) Security

The Council'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. The Council has continued to review its exposure to unsecured investments in banks and building societies and increase exposure to more secure investments, such as other local authorities. The Council's one remaining covered bond has since matured, and no additional covered instruments have been taken out during the year as yields are low. The "covered" instruments are secured against the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that the deposit is exempt from bail-in.

The Council receives regular correspondence from its Treasury Advisors on credit risk, which is taken into account before transactions are made. The Council used long term credit criteria during 2020/21, with minimum long-term counterparty credit rating determined for the 2020/21 treasury strategy being A-. The Council's counterparty credit quality has reduced over the year as demonstrated by the Credit Score Analysis summarised below. The table in Appendix D explains the credit score.

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity	Rate of Return %
31.03.2020	4.21	AA-	42%	145	1.80%
30.06.2020	4.14	AA-	43%	177	1.50%
30.09.2020	4.07	AA-	46%	162	1.33%
31.12.2020	4.7	A+	35%	193	1.47%
31.03.2021	**4.53**	**A+**	**31%**	**203**	**1.51%**
Similar LAs	**4.35**	**AA-**	**39%**	**983**	**1.14%**

The Rate of Return shown in the table above is a quarterly position, so not directly comparable to the annual rate of return, achieved by the Council over the year.

The credit score has worsened slightly due to the downgrading of the main bank that the Council uses, HSBC, from AA- to A+ in May 2020. The rate of return also reduced over the year as our duration remained short due to restrictions recommended by our Treasury Advisors. Due to ongoing economic concerns during 2020/21 as a result of the Covid pandemic and impact of Brexit bank deposits were restricted to 35 days and deposits with other local authorities restricted to two years.

Risk is further reduced by ensuring a good mix of duration of deposits and mix of counterparties. The tables below show a comparison between years for duration and type.

Average Length of investments		
	At 31/3/20 %	**At 31/3/21 %**
Less than 1 month (including Call)	17.6	20.7
Between 1 to 3 months	35.4	17.0
Between 3 to 6 months	6.4	5.6
Between 6 to 12 months	6.8	16.1
Over 12 months	33.8	40.6
Total	100	100

Investments by type of institution		
	At 31/3/20 %	At 31/3/21 %
UK Banks	1.5	0
Other Local Authorities	40.4	51.8
Covered Instruments	0.4	0.4
Call Accounts	10.9	8.3
Money Market Funds (MMF's)	8.2	12.4
Strategic Funds	12.3	13.6
Notice Accounts	13.9	4.5
Property Fund	9.2	9.0
Housing Association	3.2	0
Total	100	100

2) ***Liquidity***: In keeping with the MHCLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds, overnight deposits and call accounts.

3) ***Yield***: the Council sought to optimise returns commensurate with its objectives of security and liquidity. Short term money market rates remained at very low levels which had a significant impact on investment income. Income earned on existing longer-dated deposits provided some cushion against the low interest rate environment. The move into more strategic funds has allowed the Council to start to "inflation proof" returns, whilst maintaining liquidity and security. The economic downturn has had an impact on the capital values of strategic funds; however the Council maintains a long dated outlook on these funds.

5. Responsible Investment Policy

Following a motion agreed by Council in November 2019 the Council has developed and implemented a Responsible Investment Policy, which rules out new investments in fossil fuel companies.

As a result of this, a Treasury Policy amendment was made to the 2020/21 Treasury Management Strategy as follows:

i) For direct investments, the Council will seek to ensure that counterparties (excluding the UK Government and other UK Local Authorities) have no direct investment in Fossil Fuel companies prior to investing.

ii) For investments into Pooled Funds the Council will seek to ensure that any fund used does not have exposure to Fossil Fuel investments prior to investing.

As part of the 2020/21 treasury activity it is confirmed that all direct investments have fully complied with this policy and no additional investment into pooled or strategic funds have been made during the financial year.

6. Other Non-Treasury Holdings and Activity

Although not classed as treasury management activities, the CIPFA Code requires the Council to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons.

The Council currently holds funds in Funding Circle originally set up for the purpose of supporting businesses within Gloucestershire, which was part of the package of Economic Development measures designed to assist the local community. The Council is currently selling its investment in the fund so all activity is currently suspended. Following an in year maturity of part of the capital value of £0.055m the balance remaining on the platform is £0.039m, of which £0.031m is interest.

7. Compliance Report

All treasury management activities undertaken during 2020/21 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy set in February 2021 - (which can be accessed here).

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2020/21. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. Details can be found in Appendix E.

8. Investment Training

Training was undertaken for members in January 2021. This was provided by our Treasury Management advisors, Arlingclose. Officers ensure that they are kept up to date on treasury related matters and training and attendance at updates with the Council's advisors is undertaken as appropriate.

Appendix A

GLOSSARY OF TERMS

Basis Point
A measure of percentage where 1 basis point is equivalent to 0.01%.

Call Account
A bank account with instant access to funds held on deposit.

Capital Financing Requirement
The total borrowing required by the Council to support the Capital programme.

Certainty Rate
A borrowing rate offered by the PWLB at 20 basis points below normally available rates.

Certificate of Deposit (CD)
A savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination, although the Council only trades in sterling. A CD can be sold before maturity.

CIPFA – Chartered Institute of Public Finance and Accountancy
Leading professional accountancy bodies in the UK and the only one which specialises in the public services.

Credit Default Swap (CDS)
A credit default swap (CDS) is a financial swap agreement that the seller of the CDS will compensate the buyer in the event of a loan default or other credit event.

Custody Account
A facility to enable the Council to access alternative investments instruments that require specialist electronic settlement systems.

Debt Management Office (DMO)
An Executive Agency of Her Majesty's Treasury. The DMO's responsibilities include debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.

Discount
A deductible sum - calculated on normal actuarial principles – which a lender pays to the Council if a loan is repaid early and if interest rates are presently higher than the loan rate. The discount reflects the gain to the lender of foregoing the remaining instalments of interest, and receiving funds which have to be re-invested at current interest rates.

Funding for Lending Scheme
The Bank and HM Treasury launched the Funding for Lending Scheme (FLS) on 13 July 2012. The FLS is designed to incentivise banks and building societies to boost their lending to the UK real economy. It does this by providing funding to banks and building societies for an extended period, with both the price and quantity of funding provided linked to their lending performance.

GDP
Gross Domestic Product.

Gilt
Long term fixed income debt security (bond) issued by the UK Government and traded on the London Stock Exchange

LAMIT
Local Authority Mutual Investment Trust.

LOBO (Lender's Option / Borrowers Option)
Money Market instruments that have a fixed initial term (typically one to ten years) and then move to an arrangement whereby the lender can decide at pre-determined intervals to adjust the rate on the loan. At this stage the borrower has the option to repay the loan.

London Inter-Bank Bid Rate (LIBID)
The interest rate at which major banks in London are willing to borrow (bid for) funds from each other.

Minimum Revenue Provision
The minimum amount which must be charged to an authority's revenue account each year and set aside towards repaying borrowing

Money Market
The term applied to the institutions willing to trade in financial instruments. It is not a physical creation, but an electronic/telephonic one.

PFI Liabilities
A requirement under current accounting standards to include all Private Financing arrangements within the borrowing requirement, to reflect the additional liability on the Council from these schemes.

Pooled Fund
Investments are made with an organisation that pool together investments from other organisations and apply the same investment strategy to the portfolio. Pooled fund investments benefit from economies of scale, which allows for lower trading costs per pound, diversification and professional money management.

Premium
An additional sum - calculated on normal actuarial principles – which the authority pays to a lender if a loan is repaid early and if interest rates are presently lower than the loan rate. The premium reflects the loss to the lender of foregoing the remaining instalments of interest, and receiving funds which have to be re-invested at current interest rates.

Prudential Indicator
Indicators set out in the Prudential Code that calculates the financial impact and sets limits for treasury management activities and capital investment.

PWLB – Public Works Loan Board
An independent statutory body operated within the **Debt Management Office**, which is able to meet all of a local authority's needs for long-term borrowing. The PWLB is prepared to lend to authorities who act prudently and comply with all relevant legislation.

RISK:
Credit and counterparty risk
The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

Liquidity risk
The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's

Interest Rate risk
The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.

Refinancing risk
The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

Legal Risk
The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

Operational Risk
The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

Market Risk
The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

Stable Net Asset Value Money Market Funds
The principle invested remains at its invested value and achieves a return on investment.

Voluntary Revenue Provision
Any amount set aside to reduce the Capital financing Requirement over and above the MRP.

Economic Update

The bullet points below provided by our treasury advisors, are a summary of the economic climate over the financial year 2020/21 that has impacted on the treasury management environment of the Council:

- **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.
- 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.
- A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union on Christmas Eve.
- 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.
- 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. Since March 2020, the government schemes have help protect more than 11 million jobs.
- 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.
- 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.
- After collapsing at an annualised rate of 31.4% in Q2, the US economy rebounded by 33.4% in Q3 and then a further 4.1% in Q4. The US recovery has

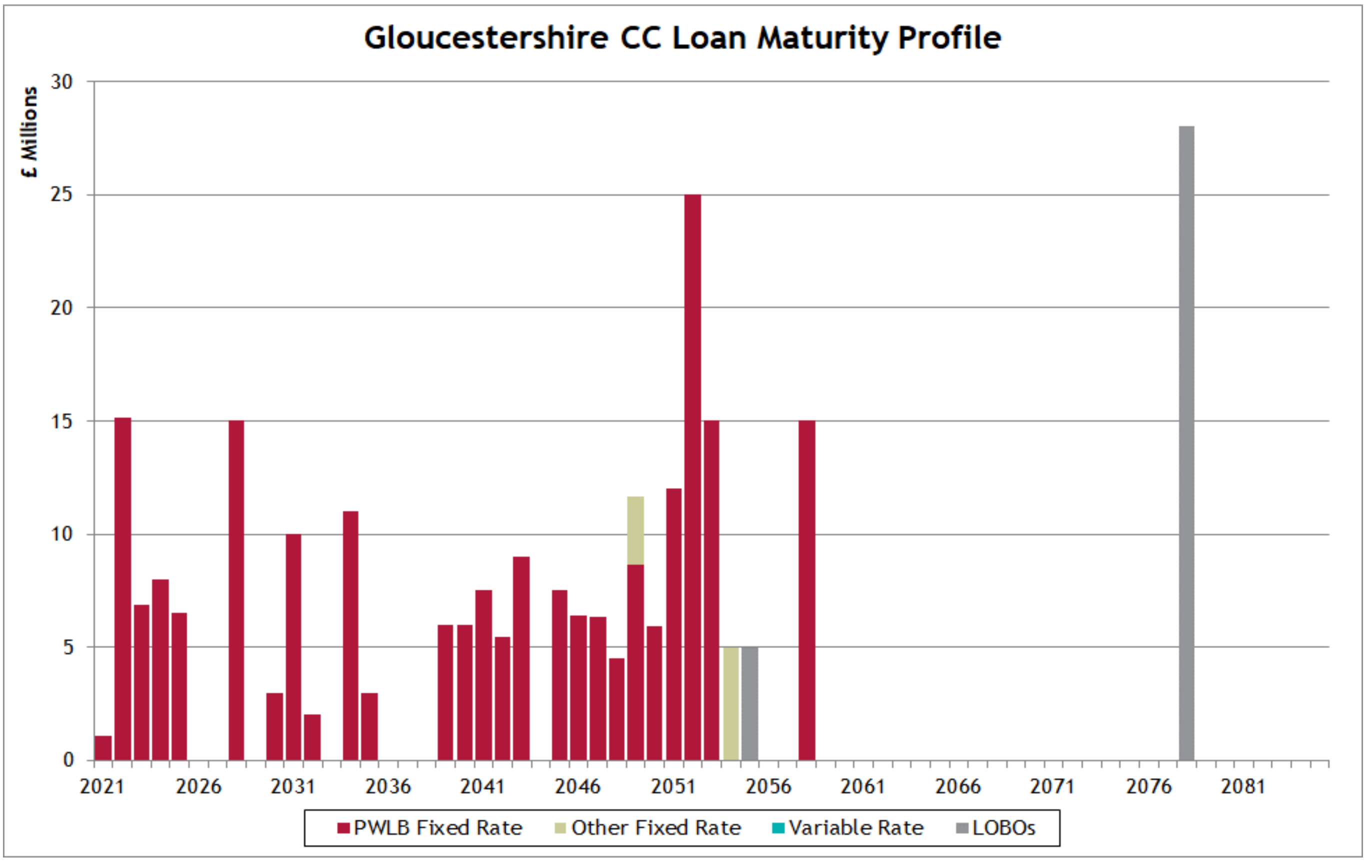
been fuelled by three major pandemic relief stimulus packages totalling over $5 trillion. The Federal Reserve cut its main interest rate to between 0% and 0.25% in March 2020 in response to the pandemic and it has remained at the same level since. Joe Biden became the 46th US president after defeating Donald Trump.

- The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020 increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.
- **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.
- 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.
- 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%).
- German bund yields continue to remain negative across most maturities.
- **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.
- 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.
- 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.

Appendix C

Loan Profile



Although the spread of borrowing is generally smooth there are a number of peaks. The peak in 2051/52 is because there are three loans maturing, one of which is for £15m. The peak in 2077/78 is the final date of maturity for a number of LOBOs loans. Note that LOBO loans are shown at maturity rather than the earliest call (option) date.

Appendix D

Credit Score Analysis

Scoring:

Long-Term Credit Rating	**Score**
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit

The Council aimed to achieve a score of 7 or lower, to reflect the Council's overriding priority of security of monies invested and the minimum credit rating of threshold of A- for investment counterparties.

Appendix E

Compliance Statement: Prudential Indicators

Capital Financing Requirement

The Capital Financing Requirement is the total amount required by the Council to fully fund the Capital Programme. In effect, it is therefore the total borrowing requirement of the Council. The outturn position for the Council's cumulative maximum external borrowing requirement for 2020/21 is shown in the table below:

	31/03/2021 Actual £m
CFR	393.678
Less: Existing Profile of Borrowing	261.823
Less: Other Long Term Liabilities*	97.070
Cumulative Maximum External Borrowing Requirement	**34.785**
Useable Reserves **	(320.703)
Cumulative Net Borrowing Requirement/(investments)	**(285.918)**

**Other long term liabilities are the Council's PFI schemes and the Energy from Waste contract. The PFI schemes include a Fire Joint Training Centre, and 4 Fire Stations and a Community Life Skills Centre. Under current accounting regulations the Council must show these liabilities as part of the total debt of the Council.*

***Reserves shown here may differ slightly to those shown in the final Statement of Accounts following approval by Cabinet for carry forwards, which may increase the final reserves amount.*

Prudential Indicator Compliance

Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Council to set an affordable Authorised Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. The Council's Authorised Borrowing Limit was revised during February 2021 as the liability for Waste was less than originally envisaged, with the limit being decreased from £950m to £455m.

This limit represents a worse case scenario for debt required and is calculated as the total capital financing requirement (including lease liabilities), plus the minimum revenue provision, plus maturing debt and capital receipts. Added to this is an allowance to cover the possibility of not being able to make monthly salary payments. This allows the Council flexibility with its total borrowing requirement.

The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. The Operational Boundary was revised during February 2021, decreasing from £930m to £435m as per the above to take account of the over estimate of the Waste contract.

There were no breaches to the Authorised Limit and the Operational Boundary during the year; borrowing at its peak was £367m.

Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. The table below shows the principal position.

Maturity Structure of Fixed Rate Borrowing	Upper Limit	Lower Limit	Actual Fixed Rate £m Borrowing as at 31/03/21	Actual Fixed Rate £m Borrowing as at 31/03/21	Actual Fixed Rate £m Borrowing as at 31/03/21	Fixed Rate Borrowing as at 31/03/21	Compliance with Set Limits?
	%	%	LOBO*	Market	PWLB	%	
under 12 months	25	0	33.050		15.145	18.4	Yes
12 months and within 24 months	25	0			6.900	2.6	Yes
24 months and within 5 years	50	0			14.500	5.5	Yes
5 years and within 10 years	75	0			30.000	11.5	Yes
10 years and within 20 years	100	0			38.968	14.9	Yes
20 years and within 30 years	100	0		3.000	85.260	33.7	Yes
30 years and within 40 years	100	0		5.000	30.000	13.4	Yes

* Note that LOBO's are included in the table above at earliest call date and not at maturity.

Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing (short and long-term) plus other deferred liabilities. The indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Debt	2020/21 Actual
	£m
Borrowing	261.823
Other long liabilities	97.070
Total Debt	**358.893**

Total principal sums invested for periods longer than 364 days

This indicator allows the Council to manage the risk inherent in investments longer than 364 days. The limit for 2020/21 was set at £200m. At its peak sums invested for longer than 365 totalled £135m.

Proportion of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The ratio is based on costs net of investment income.

Proportion of financing costs to net revenue stream

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Proportion of Financing Costs to Net Revenue Stream	6.20%	6.23%	6.63%	6.70%