

## **Appendix C**

### **Borrowing Strategy for 2020/21**

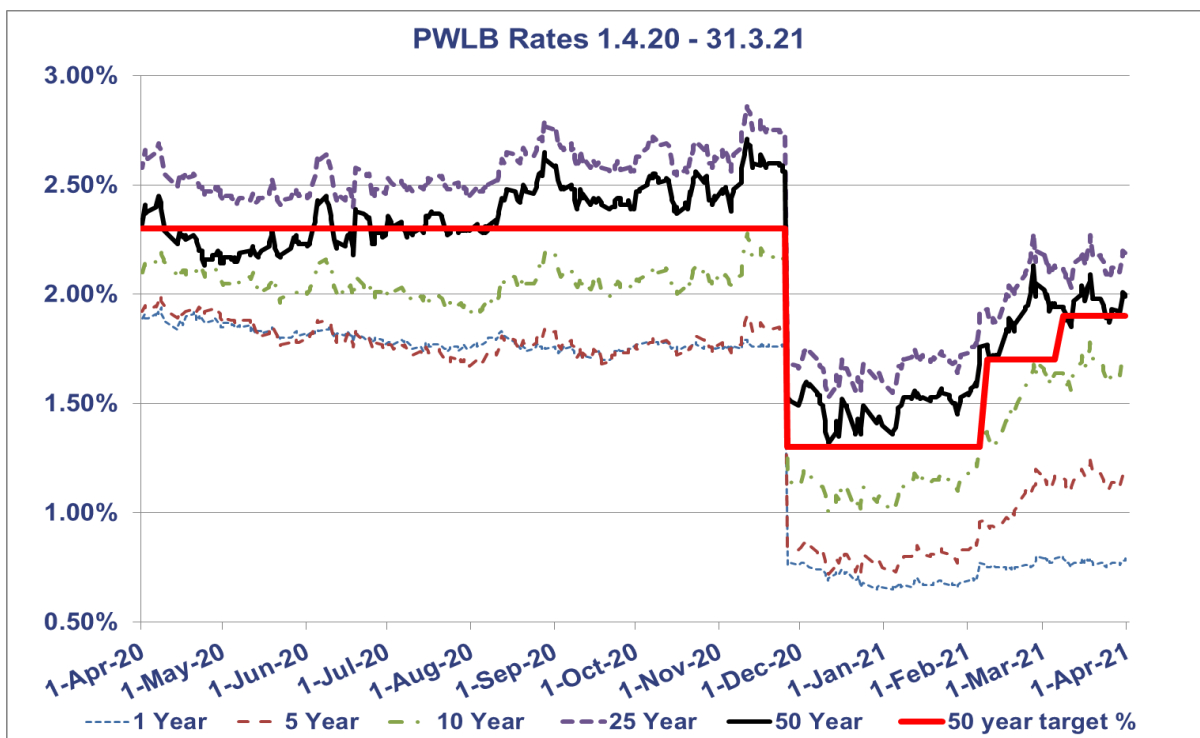
The Council's only borrowing requirement identified within the Capital Programme 2019/20 to 2021/22 was self-financing prudential borrowing of £6.030m therefore no external borrowing was required but based on the prospects for interest rates outlined in the Treasury Strategy, the Council would adopt a pragmatic approach if circumstances changed when considering any new borrowing.

Short term Public Works Loan Board (PWLB) rates were expected to be significantly cheaper than longer term borrowing rates during the year therefore borrowing in the under 10 year period early on in the financial year when rates were expected to be at their lowest would be considered. Variable rate borrowing was also expected to be cheaper than long term fixed rate borrowing throughout the year.

An alternative strategy was to defer any new borrowing as long term borrowing rates were expected to be higher than investment rates during the year. This would maximise savings in the short term and also have the added benefit of running down investments which would reduce credit risk.

### **Borrowing outturn for 2020/21**

The Treasury Team take advice from its external treasury advisor, Link Asset Services, on the most opportune time to borrow. Movements in rates during 2020/21 are shown in the graph below.



Members have previously been advised of the unexpected change of policy on PWLB lending arrangements in October 2010 following the Comprehensive Spending Review. In addition, in October 2019, the Treasury and PWLB announced an increase in rates of 1% across all borrowing periods. This made new borrowing more expensive and repayment relatively less attractive. That increase was then, at least partially, reversed for some forms of borrowing on 11<sup>th</sup> March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and on 25<sup>th</sup> November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but 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.

The table below shows PWLB borrowing rates for a selection of maturity periods. The table also shows the high and low points in rates during the year, average rates during the year and individual rates at the start and the end of the financial year.

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	0.65%	0.72%	1.00%	1.53%	1.32%
<b>Date</b>	04/01/2021	11/12/2020	11/12/2020	11/12/2020	11/12/2020
<b>High</b>	1.94%	1.99%	2.28%	2.86%	2.71%
<b>Date</b>	08/04/2020	08/04/2020	11/11/2020	11/11/2020	11/11/2020
<b>Average</b>	1.43%	1.50%	1.81%	2.33%	2.14%
<b>Spread</b>	1.29%	1.27%	1.28%	1.33%	1.39%

Following discussions with Link, as general fund borrowing rates were significantly higher than investment rates during the year it was agreed that if any new borrowing was required during the year it would be deferred in order to maximise savings in the short term and reduce credit risk by reducing investments. No new external borrowing was required in 2020/21.

The Council's total debt portfolio at 31 March 2021 is set out below:-

<b>Type of Debt</b>	<b>Balance £m</b>	<b>Average Borrowing Rate 2020/2021</b>
General Fund Fixed rate - PWLB	171.02	5.01%
HRA Fixed rate - PWLB	83.35	3.51%
Fixed rate - Market	49.20	4.10%
Variable rate	0	N/A

The maturity profile of the debt is evenly spread to avoid large repayments in any one financial year. The average debt period for PWLB loans is 19 years, market loans have an average debt period of 49 years. The total debt portfolio has a maturity range from 1 year to 57 years.

The Treasury Strategy allows up to 15% of the total outstanding debt to mature in any one year. It is prudent to have the Council's debt maturing over many years so as to minimise the risk of having to re-finance when interest rates may be high. The actual debt maturity profile is within these limits (Appendix A).

### **Debt rescheduling**

No debt restructuring was undertaken during 2020/21. The introduction of a differential in PWLB rates on the 1 November 2007, which was compounded further following a policy change in October 2010 and subsequent changes in 2019 and 2020, as outlined above has meant that large premiums would be incurred if debt restructuring was undertaken, which cannot be justified on value for money grounds.

Although these changes have restricted debt restructuring, the current debt portfolio is continually monitored in conjunction with external

advisers in the light of changing economic and market conditions to identify opportunities for debt rescheduling. Debt rescheduling will only be undertaken:

- To generate cash savings at minimum risk.
- To help fulfil the Treasury Strategy.
- To enhance the balance of the long term portfolio by amending the maturity profile and/or volatility of the portfolio.

### **Investment Strategy for 2020/21**

Our treasury advisor originally felt when the strategy was approved by Council in February 2020 that the bank rate would remain at 0.75% during 2020/21. These forecasts factored in the uncertainty surrounding the future of the trading relationship between the UK and EU, and an agreed deal on Brexit, including agreement on the terms of trade. It was not expected the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled but would only rise to 1.25% in 2022/23. The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. The Bank of England took emergency action in March 2020 to cut Bank Rate to first 0.25%, and then to 0.10%, where it has remained. Consequently, our treasury advisor's interest rate forecast was reviewed, and their updated forecast was approved by Council in December 2020 as part of the mid-year report. Their revised forecast took account of the expectation that Bank Rate would stay at 0.10% during 2020/21.

In 2020/21 investment of surplus cash was managed by the internal treasury team. The strategy for the in-house team was influenced by the need to keep funds relatively short for cash flow purposes. Lending continued to be restricted to UK banks, one overseas bank, three Building Societies, two Money Market Funds (AAA credit rating), Part Nationalised Banks, UK Government and other Local Authorities in line with the Council's policy on creditworthiness which was approved in the Annual Investment Strategy.

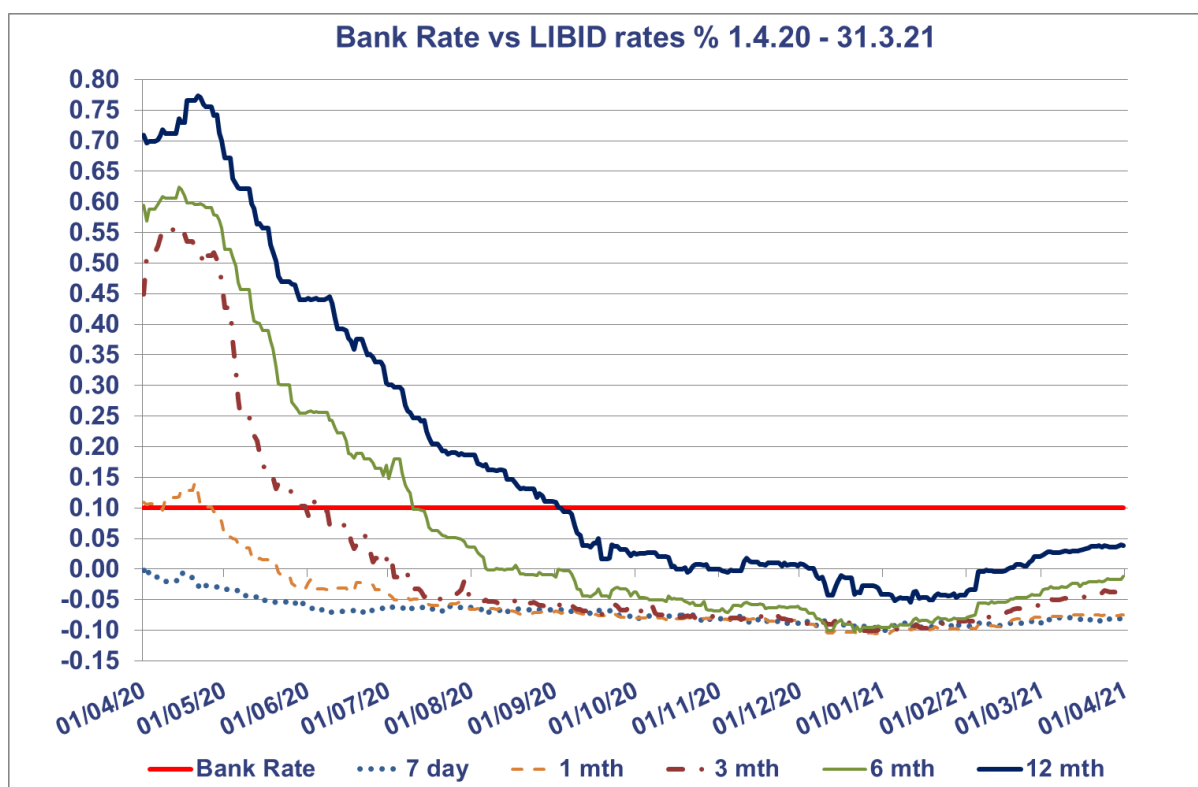
### **Investment outturn 2020/21**

The rates forecast, detailed in 10.1, was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to

survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

To counter the low investment rates and following advice from Link, use was made of direct deals with main UK banks, for various periods from three months to one year. Direct deals offered enhanced rates over the equivalent rates available through brokers. This provided opportunities to lock into higher, long term rates at times when it was thought they offered substantial enhancement over short term benchmark rates. Enhanced market rates when compared to bank rate has resulted in the total portfolio outperforming the benchmark. Use of instant access accounts with Svenska Handelsbanken was continued, together with use of Money Market Funds with Aberdeen & Insight Investment. These accounts offered instant access to funds, however they also saw suppressed yields in line with levels when placing short term deposits through brokers.

Movements in short term rates through the year are shown in the below.



Throughout the year the average interest rate earned on investments was suppressed due to unexpected cuts to bank rate, in response to the Covid 19 pandemic. This resulted in the internal treasury team achieving a lower level of interest on revenue balances than budgeted. This lower than projected amount earned on investments was offset by

an under-spend on debt charges due to no long-term general fund borrowing being undertaken in 2020/21. The total £3.21 million underspend was mainly due to MRP savings following a review of the Council’s policy and interest payable savings.

At 31 March 2021 the allocation of the cash portfolio was as follows:

	<b>£m</b>
• In-house short dated deposits for cash flow management	62.8
• In-house long dated deposits (up to 1 year)	12.0
• Other Local Authorities	73.0
<b>Total</b>	<b>147.8</b>

The following table shows the average return on cash investments for the internal treasury team during the year and for the last 3 years to 31 March 2021. Recognising the need to manage short term cash flow requirements, the target for the internal team is the 7 day LIBID rate.

	<b>Return 2020/21</b>	<b>Return 3 years to 31 March 2021</b>
	<b>%</b>	<b>% p.a.</b>
Internal Treasury Team	0.40	0.72
Benchmark (7 Day LIBID rate)	-0.07	0.32

The conclusions to be drawn from the table are:

- During 2020/21 the internal treasury team outperformed their benchmark by 0.47%.
- Over the 3 year period the internal team’s performance has been 0.40% per annum above the benchmark.

### **Compliance with Treasury Limits and Prudential Indicators**

All borrowing and lending transactions undertaken through the year have complied with the procedures and limits set out in the Council’s Treasury Management Practices and Treasury Strategy. In addition, all investments made have been within the limits set in the approved counterparty list. No institutions, in which

investments were made, showed any difficulty in repaying investments and interest in full during the year.

Appendix B shows the Prudential Indicators approved by Council as part of the 2020/21 and 2021/22 (revised estimate) Treasury Strategies compared with the actual figures for 2020/21. In summary, during 2020/21 treasury activities have been within the prudential and treasury limits set in the Treasury Strategy.