Cyngor **Abertawe**
Swansea Council

Report of the Section 151 Officer

Council – 28 January 2021

Treasury Management – Interim Year Review Report 2020/21

Purpose:	To receive and note the Treasury Management Interim Year Review Report 2020/21
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For Information	

1 Background

1.1 This report is presented in line with the recommendations contained within the The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management which requires an interim year review of Treasury Management operations to be presented to Council

1.2 Treasury Management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. " A glossary of terms is at Appendix 1.

1.3 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council in February 2010.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead; a Mid-year Review Report and an Annual Report covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions.
5. Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body.

This Interim Year Review Report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first half of 2020/21
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- A review of the Council's investment portfolio for 2020/21
- A review of the Council's borrowing strategy for 2020/21
- A review of any debt rescheduling undertaken during 2020/21
- A review of compliance with Treasury and Prudential Limits for 2020/21

2 Impact of Covid 19 Pandemic

2.1 The implementation of national lockdown measures in March 2020 had an adverse impact on a number of the usual Council income streams e.g. car park income, leisure income as well as putting additional pressure on Council services. Although Welsh Government implemented a programme of local government financial support totalling approximately £21m in respect of some of these streams, there was inevitably a time lag in claiming and receiving the cash which required careful treasury management to ensure normal Council financial business could be managed effectively.

2.2 In addition to the pressures above, the Council's Finance department was expected to manage, administer and distribute the Welsh Government programme of financial support to local businesses affected by the various Covid 19 lockdowns, which, again it was expected to distribute and then reclaim after the event which again placed pressure on the cashflows of the Authority. To date these sums total approximately £110m.

2.3 Also, as part of the regional response to the pandemic, Swansea Council was asked by The Swansea Bay Health Board and Welsh Government to design, build and construct the £24m 1,000 bed Covid Field Hospital on the site of the old Bay Studios site. Noting the expediency required, the Authority was required to fund the cost of construction pending the costs being signed off and approved by Welsh Government, again placing pressure on the cashflows of the Authority.

2.4 It can be seen the prudent, careful management of Council balances/reserves enables a nimble reactive treasury management function in times of crisis. The Council's Treasury Management function was able to address and meet all the demands above and continues to do so in the ongoing lockdown.

3 Economic Update

3.1

- **UK** As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

    - The fall in **GDP** in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
    - The peak in the **unemployment rate** was revised down from 9% in Q2 to 7½% by Q4 2020.
    - It forecast that there would be excess demand in the economy by Q3 2022 causing CPI **inflation** to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

- It also squashed any idea of using **negative interest rates**, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and the use of forward guidance.
- The MPC expected the £300bn of **quantitative easing** purchases announced between its March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.
- In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to **downside risks,** which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the

dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. Admittedly, the Chancellor announced in late September a second six month package from 1st November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid September.

- Overall, **the pace of recovery** is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.
- There will be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.
- One key addition to **the Bank's forward guidance** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate
- The **Financial Policy Committee** (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

3.2

- **US.** The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked **its inflation target** from 2% to maintaining an average of 2% over an unspecified time period i.e. following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The Federal Open market Committee's (FOMC) updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

3.3

- **EU.** The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support

3.4

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

3.5

- **Japan.** There are some concerns that a second wave of the virus is gaining momentum and could dampen economic recovery from its contraction of 8.5% in GDP. It has been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.

3.6
- **World growth.** Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

4 Review of the Treasury Management Strategy Statement and Investment Strategy

4.1 The Treasury Management Strategy Statement for 2020/21 was approved by Council in February 2020. The Council's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement, outlines the Council's investment priorities as follows in order of priority:

- Security of capital
- Liquidity
- Yield

4.2 The Council shall aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered only appropriate to invest with highly credit rated financial institutions, using our advisor's suggested creditworthiness appraisal approach, including sovereign credit rating and credit default swap (CDS) overlay information.

4.4 Borrowing rates and available investment interest rates have remained at historically low rates during 2020/21, with certain periods of extreme volatility, reflecting the political uncertainty prevailing each time. As planned by The S 151 Officer, no external borrowing has been undertaken during the interim period, pending the outcome of HM Treasury Consultation in 4.6 below.

4.5 As outlined in Section 3 above, there is still considerable uncertainty and volatility in financial and banking markets, both globally and particularly in the UK, during the onset of the pandemic and pending the full impact of the Brexit agreement. In this context, it is considered that the strategy approved in February 2020 is still appropriate in the current economic climate and has been reviewed whilst considering and formulating the strategy for 2021/22 as funding for capital and cashflow requirements dictate.

4.6 Public Works Loan Board (PWLB)

HM Treasury made a shock determination on the 9th October 2019 affecting all future borrowing from the Public Works Loan Board (PWLB) which would now be subject to an additional 1.00% 'premium' over and above existing margins above prevailing Gilt yields, primarily in response and to deter exponential growth in borrowing to fund speculative investment by a small number of local authorities in England. Strong representations were made via WLGA, and WG about the negative impact this change would have on capital programmes in progress throughout local authorities in Wales.

4.7 Following the strength of representations, HM Treasury launched a consultation process on the PWLB borrowing process. The results of the consultation and accompanying guidance was issued in November 2020 when the 1.00% premium was removed. The accompanying guidance outlines what constitutes eligible expenditure for PWLB borrowing:

The guidance clearly <u>prohibits</u> 'investing primarily for yield' which it defines as:

Investment assets bought primarily for yield would usually have one or more of the following characteristics:

a. buying land or existing buildings to let out at market rate

b. buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification

c. buying land or existing buildings other than housing which generate income and are intended to be held indefinitely, rather than until the achievement of some meaningful trigger such as the completion of land assembly

The guidance DOES allow borrowing for regenerative purposes, which it defines as:

Regeneration projects would usually have one or more of the following characteristics:

a. the project is addressing an economic or social market failure by providing services, facilities, or other amenities that are of value to local people and would not otherwise be provided by the private sector

b. the local authority is making a significant investment in the asset beyond the purchase price: developing the assets to improve them and/or change their use, or otherwise making a significant financial investment

c. the project involves or generates significant additional activity that would not otherwise happen without the local authority's intervention, creating jobs and/or social or economic value

d. while some parts of the project may generate rental income, these rents are recycled within the project or applied to related regeneration projects, rather than being applied to wider services

Preventative action would have all of the following characteristics:

a. *the intervention prevents a negative outcome, such as by buying and conserving assets of community value that would otherwise fall into* *disrepair, or providing support to maintain economic activity that would otherwise cease*

b. there is no realistic prospect of support from a source other than the local authority

The guidance is also clear that PWLB borrowing cannot be used to replace other Council funds which are then used to finance the 'primarily for yield' investment.

4.8 It should be noted that this Council undertook £90m of borrowing, wholly fulfilling its then capital financing requirement in 2018/19 at historically low interest rates, materially bringing down the average cost of capital to the Council, ahead of the punitive change in 4.6 being implemented. No PWLB borrowing has been implemented since the implementation of the premium, pending resolution of the consultation. As outlined in the Treasury Management Strategy approved by Council, the primary borrowing strategy was to utilise internal balances where possible to reduce the cost of carry but shall externalise borrowing when value opportunities/ cashflow requirements dictate. It is planned to start externalising the remainder of the capital financing requirement now the premium has been removed in the forthcoming years when opportunities arise.

5 Review of Investment Portfolio 2020/21

5.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite

5.2 A full list of internally managed investments held as at 31st Dec 2020, is shown in Appendix 3. To 31st Dec 2020, the portfolio has returned 0.28% against a 7 day benchmark rate of 0.1%

6 Review of Borrowing 2020/21

6.1 The latest projected capital financing requirement (CFR) for 2020/21 is £655.574m. No additional borrowing has been undertaken in 2020/21 nor since the borrowing undertaken in 2018/19. Total external debt is currently £557.396m at an average interest rate of 4.06%.

7 Review of Debt Rescheduling 2020/21

7.1 Debt rescheduling opportunities are constantly evaluated but have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling has been undertaken in 2020/21 to date.

8 Review of Compliance with Treasury & Prudential Limits 2020/21

8.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". The Council's approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy Statement.

8.2 During the financial year to date the Council has operated within the Treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. Compliance with the Prudential and Treasury Indicators are shown in Appendix 4.

9 Financial Implications

9.1 The financial implications associated with this report have been reported at Council in February 2020 in the Revenue and Capital Budget Reports 2020/21

10 Legal Implications

10.1 There are no direct legal implications associated with this report

11 Equality and Engagement Implications

11.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment (EIA) process ensures that we have paid due regard to the above. We have undertaken an EIA screening which demonstrates there are no equality impact implications arising directly from this report (Appendix 5)

Background papers: The revised CIPFA Treasury Management Code of Practice 2009
The revised CIPFA Prudential Code for Capital Finance in Local Authorities 2013
The revised CIPFA Prudential Code for Capital Finance in Local Authorities 2017

Appendices
Appendix 1 – Glossary of Terms
Appendix 2 –Interest Rate Forecast
Appendix 3 – Schedule of investments
Appendix 4 - Prudential Indicators
Appendix 5 – Equality Impact Assessment

Appendix 1

Treasury Management – Glossary of Terms

Annualised Rate of Return	Represents the average return which was achieved each year.
Authorised Limit	The authorised limit must be set to establish the outer boundary of the local authority's borrowing based on a realistic assessment of risks. The authorised limit is not a limit that a Council will expect to borrow up to on a regular basis. It is crucial that it is not treated as an upper limit for borrowing for capital expenditure alone since it must also encompass borrowing for temporary purposes. It is the expected maximum borrowing need, with some headroom for unexpected requirements.
Bank Rate	The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short term interest rates in the money markets.
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Borrowing	In the Code, borrowing refers to external borrowing. Borrowing is defined as both:- • Borrowing repayable with a period in excess of 12months • Borrowing repayable on demand or within 12months
Capital Expenditure	The definition of capital expenditure starts with all those items which can be capitalised in accordance with the Statement of Recommended Practice (SORP). To this must be added any items that have/will be capitalised in accordance with legislation that otherwise would not be capitalised. Prudential indicators for current and future years are calculated in a manner consistent with this definition.
Capital Financing Charges	These are the net costs of financing capital i.e. interest and principal, premia less interest discounts received.
Capital Financing Requirement	The Capital Financing Requirement is capital expenditure, which needs to financed from borrowing.

	It is essentially a measure of the Council's underlying borrowing need.
CIPFA	The Chartered Institute of Public Finance and Accountancy. One of the leading professional accountancy bodies in the UK and the only one which specialises in the public services.
Counterparty	The organisations responsible for repaying the Council's investment upon maturity and for making interest payments.
CPI (Consumer Price Index)	The consumer price index (CPI) is a measure of the average price of consumer goods and services purchased by households. It is one of several price indices calculated by national statistical agencies. The percent change in the CPI is a measure of inflation.
Credit Rating	This is a scoring system that lenders use to determine how credit worthy borrowers are. The Credit Rating components are as follows: 1. The AAA ratings through to C/D are long-term rating definitions and generally cover maturities of up to five years, with the emphasis on the ongoing stability of the institution's prospective financial condition. AAA are the most highly rated, C/D are the lowest. This Council does not invest with institutions lower than AA - for investments over 364 days 2. F1/A1/P1 are short-term rating definitions used by Moody's, S&P and Fitch Ratings for banks and building societies based on their individual opinion on an institution's capacity to repay punctually its short-term debt obligations (which do not exceed one year). This Council does not invest with institutions lower than F1/A1/P1 for investments under 364 days.
Debt	For the purposes of the Code, debt refers to the sum of borrowing (see above) and other long-term liabilities (see below). It should be noted that the term borrowing used in the Act includes both borrowing as defined for the balance sheet and other long terms liabilities defined as credit arrangements through legislation.

Debt Management Office (DMO)	Government Agency responsible for the issuance of government borrowing and lending.
De- leveraging	Paying back borrowed sums of money
Discounts	Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount. This is calculated on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.
Financing Costs	The financing costs are an estimate of the aggregate of the following:- • Interest payable with respect to borrowing • Interest payable under other long-term liabilities • Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount to be met from government grants and local taxpayers (premiums and discounts) • Interest earned and investment income • Amounts required in respect of the minimum revenue provision plus any additional voluntary contributions plus any other amounts for depreciation/impairment that are charged to the amount to be met from government grants and local taxpayers
Financial Reporting Statements (FRSs)	These are standards set by governing bodies on how the financial statements should look.
Gilts	Gilts are bonds issued by the UK government. The term is of British origin, and refers to the securities certificates issued by the Bank of England, which had a gilt (or gilded) edge.
Investments	Investments are the aggregate of:- • Long term investments • Short term investments (within current assets) • Cash and bank balances including overdrawn balances
IMF	International Monetary Fund
Leverage	Borrowed sums of money

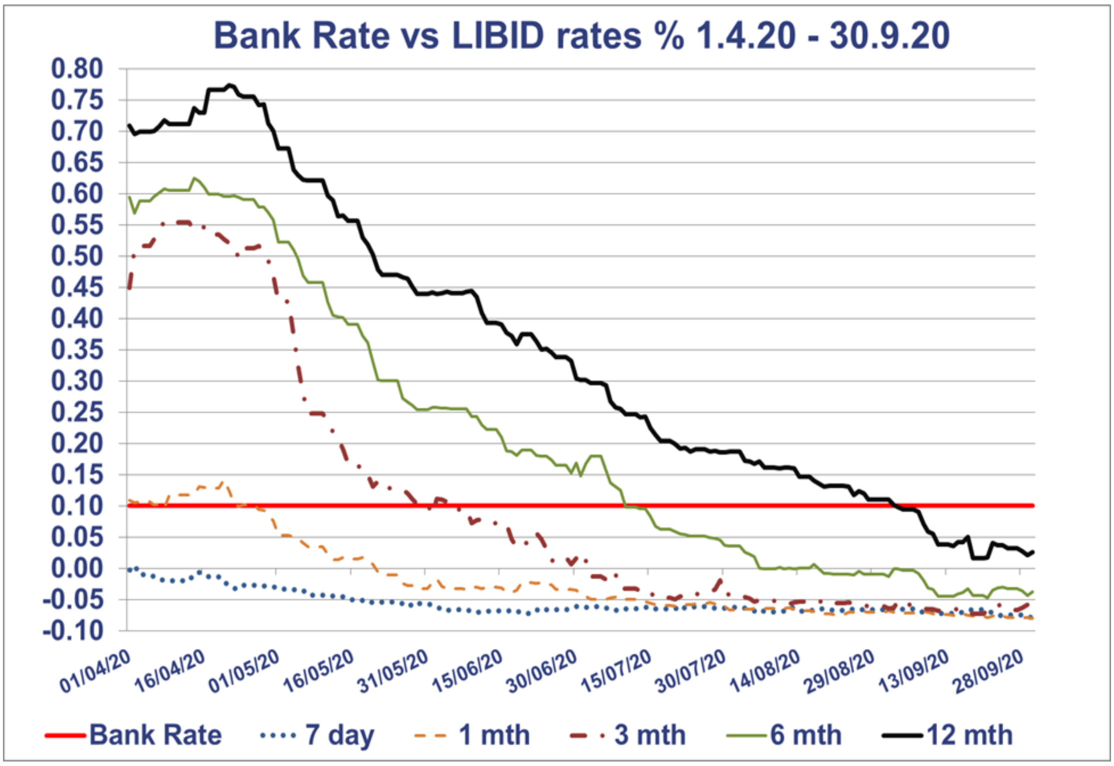
LOBO (Lender's Option/ Borrower's Option)	Money Market instruments that have a fixed initial term (typically one to ten year) and then move to an arrangement whereby the lender can decide at pre-determined intervals to adjust the rate on the loan. At this stage the borrower has the option to repay the 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.
Managed Funds	<u>In-House Fund Management</u> Surplus cash can be managed either by external fund managers or by the Council's staff in-house. The in-house funds are invested in fixed deposits through the money markets. <u>Externally Managed Funds</u> Fund managers appointed by the Council invest surplus cash in liquid instruments such as bank certificates of deposit and government stocks. The fund managers' specialist knowledge should ensure a greater diversification of investments and higher expected returns
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.
Monetary Policy Committee (MPC)	This is a body set up by the Government in 1997 to set the repo rate (commonly referred to as being base rate). Their primary target (as set by the Government) is to keep inflation within plus or minus 1% of a central target of 2% in two years time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.
Money Market	Consists of financial institutions and deals in money and credit. The term applied to the institutions willing to trade in financial instruments. It is not a physical creation, but an electronic/telephone one.
Net Borrowing	For the purposes of the Code, net borrowing refers to borrowing (see above) net of investments (see above).
Net Revenue Stream	Estimates for net revenue stream for current and future years are the local authority's estimates of the

	amounts to be met from government grants and local taxpayers.
Operational Boundary	This is based on expectations of the maximum external debt of the authority according to probable not simply possible – events and being consistent with the maximum level of external debt projected by the estimates. It is not a limit and actual borrowing could vary around this boundary for short periods.
Other Long Term Liabilities	The definition of other long term liabilities is the sum of the amounts in the Council's accounts that are classified as liabilities that are for periods in excess of 12months, other than borrowing (see definition above).
Premature Repayment of Loans (debt restructuring/ rescheduling)	A facility for loans where the Council can repay loans prior to the original maturity date. If the loan repaid has a lower interest rate than the current rate for a loan of the same maturity period the Council can secure a cash discount on the repayment of the original loan. If the loan replaced has a higher rate of interest than the current rate for a loan of the same maturity period, a cash penalty is payable to the lender.
Premia	Where the prevailing current interest rate is lower than the fixed rate of a long term loan, which is being repaid early, the lender can charge the borrower a premium. This is calculated on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.
Prudential Code	The Prudential Code is the largely self regulatory framework outlined by CIPFA for managing/monitoring capital investment in local government.
Public Works Loan Board (PWLB)	A Government agency which provides loans to local authorities. Each year, it issues a circular setting out the basis on which loans will be made available and a quota formula for the amount that can be borrowed. Loans can be either at a fixed rate or on a variable rate basis. They can be repaid on either an annuity, equal instalment of principal or maturity basis. The interest rate charged is linked to the cost at which the Government itself borrows.

Quantitive Easing	Extreme form of monetary policy used to stimulate an economy where interest rates are either at or close to zero. Normally a central bank stimulates the economy by lowering interest rates but when it cannot lower them further it can attempt to seed the system with new money by quantitive easing. In practical terms, the central bank purchases financial assets including government debt and corporate bonds from financial institutions using money it has created by increasing its own credit limits in its own bank accounts. Also know as ‘printing money’ although no extra physical cash is created.
Risk	<u>Credit /Counterparty Risk</u> The risk that counterparty defaults on its obligations. <u>Inflation Risk</u> The risk that growth in the Authority’s investment income does not keep pace with the effects of inflation on its expenditure. <u>Interest Rate Risk</u> The risk that changes in rates of interest creates an unexpected or unbudgeted burden on the Council’s finances. <u>Liquidity Risk</u> The risk that cash will not be available when it is needed. <u>Operational Risk</u> The risk of loss through fraud, error, corruption, system failure or other eventualities in treasury management dealings, and failure to maintain effective contingency management arrangements. <u>Refinancing Risk</u> The risk that the Authority is unable to replace its maturing funding arrangements on appropriate terms.
Set Aside Capital Receipts	A proportion of money received by the Council for the sale of fixed assets must be set aside to repay debt.
SORP	Statement of Recommended Practice, published by CIPFA (Local Authority Accounting Body). This sets out guidelines regarding the Council’s financial matters.

Specified/Non Specified investments	Specified investments are sterling denominated investments for less than 364 days as identified in Appendix A in line with statutory investment regulations. Non-specified investments are all other investments identified in Appendix A in line with statutory investment regulations.
Supranational Bonds	These are bonds issued by institutions such as the European Investment Bank and World Bank. As with Government bonds (Gilts) they are regarded as the safest bond investments with a high credit rating.
Temporary Borrowing and Investment	Loans which are capable of being repaid within one year. The term of the loans will be negotiated from overnight to 364 days.
Treasury Management	Treasury management has the same definition as in CIPFA's code of Practice of Treasury Management in the Public Services. "The management of the organisation's cash flows its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
Yield Curve	The line resulting from portraying interest rate graphically for a series of periods, e.g. 7days, 1month, 3, 6, 9, and 12months. When longer-term interest rates are higher than short-term rates the yield curve slopes upwards and is described as positive. When the opposite prevails the yield curve is referred to as inverse.

Appendix 2



Appendix 3

Investments as at 31/12/20

Counterparty	**£**
Lloyds Bank	21,650,000.00
Santander Bank	13,700,000.00
Blaenau Gwent CBC	5,000,000.00
Conwy Council	3,000,000.00
Coventry Building Society	7,000,000.00
Lincolnshire CC	5,000,000.00
Monmouthshire County Council	5,000,000.00
Slough Council	10,000,000.00
Surrey County Council	5,000,000.00
	73,350,000.00

Appendix 4

Prudential Indicators

Capital Prudential Indicators	**2019/20**	**2020/21**
	Outturn	**Original Estimate**
	£'000	**£'000**
Capital Expenditure		
GF	74,720	115,437
HRA	51,839	52,621
TOTAL	126,559	168,058
Ratio of financing costs to net revenue stream	**%**	**%**
GF	5.61	5.99
HRA	12.79	15.60
Capital Financing Requirement	**£'000**	**£'000**
GF	364,607	471,469
HRA	157,846	176,063
TOTAL	522,453	647,532

Treasury Management Prudential Indicators		
	2019/20	**2020/21**
	Outturn	**Original Estimate**
	£'000 or %	**£'000 or %**
Authorised limit for external debt	554,023	798,728
Operational boundary for external debt	554,023	758,728
Upper limit for fixed interest rate exposure	82.32%/ £456,023	100%/ £798,728
Upper limit for variable interest rate exposure	17.68%/ £98,000	40%/ £319,491
Upper limit for total principal sums invested for over 364 days	0	40,000

Maturity Structure of Fixed Rate Borrowing in 2020/21			
	Upper Limit	**Lower Limit**	**Actual**
Under 12 months	50%	0%	0.7
12 months and within 24 months	50%	0%	0.5
24 months and within 5 years	50%	0%	0.1
5 years and within 10 years	85%	0%	9.7
10 years and above	95%	15%	89

The treasury management prudential indicators identified above as:

- Upper limit for fixed interest rate exposure
- Upper limit for variable interest rate exposure
- Upper limit for total principal sums invested for over 364 days
- Maturity Structure of fixed rate borrowing in 2020/21

Above figures are as at 31st Dec 2020. None of the above limits/Prudential Indicators have been breached during 2020/21 to date.

Appendix 5

Please ensure that you refer to the 'Screening Form Guidance' while completing this form. If you would like further guidance please contact your support officer in the Access to Services team (see guidance for details).

Section 1
What service area and directorate are you from?
Service Area: Finance & Delivery
Directorate:Resources

Q1(a) WHAT ARE YOU SCREENING FOR RELEVANCE?

Service/ Function	Policy/ Procedure	Project	Strategy	Plan	Proposal
☐	☐	☐	✓	☐	☐

(b) Please name and describe below

TREASURY MANAGEMENT INTERIM YEAR REPORT 20/21

Q2(a) WHAT DOES Q1a RELATE TO?

Direct front line service delivery	Indirect front line service delivery	Indirect back room service delivery
☐ (H)	☐ (M)	✓(L)

(b) DO YOUR CUSTOMERS/CLIENTS ACCESS THIS SERVICE…?

Because they need to	Because they want to	Because it is automatically provided to everyone in Swansea	On an internal basis i.e. Staff
☐ (H)	☐ (M)	☐ (M)	✓ (L)

Q3 WHAT IS THE POTENTIAL IMPACT ON THE FOLLOWING…

	High Impact (H)	Medium Impact (M)	Low Impact (L)	Don't know (H)
Age	☐	☐	✓	☐
Disability	☐	☐	✓	☐
Gender reassignment	☐	☐	✓	☐
Marriage & civil partnership	☐	☐	✓	☐
Pregnancy and maternity	☐	☐	✓	☐
Race	☐	☐	✓	☐

Religion or (non-)belief	☐	☐	✓	☐
Sex	☐	☐	✓	☐
Sexual Orientation	☐	☐	✓	☐
Welsh Language	☐	☐	✓	☐
Poverty/social exclusion	☐	☐	✓	☐
Carers	☐	☐	✓	☐
Community cohesion	☐	☐	✓	☐

Q4 Have you / will you undertake any public consultation and engagement relating to the initiative?

☐ Yes ✓ No (If no, you need to consider whether you should be undertaking consultation and engagement – please see the guidance)

If yes, please provide details below

~~Q5(a) HOW VISIBLE IS THIS SERVICE/FUNCTION/POLICY/PROCEDURE/~~ PROJECT/ STRATEGY TO THE GENERAL PUBLIC?

High visibility to general public	Medium visibility to general public	Low visibility to general public
☐ (H)	☐ (M)	✓ (L)

(b) WHAT IS THE POTENTIAL RISK TO THE COUNCIL'S REPUTATION? ***(Consider the following impacts – legal, financial, political, media, public perception etc…)***

High risk to reputation	Medium risk to reputation	Low risk to reputation
☐ (H)	✓ (M)	☐ (L)

Q6 Will this initiative have an impact (however minor) on any other Council service?

✓ Yes ☐ No

If yes, please provide details below
The cost of capital for all capital projects undertaken by the Authority is informed by the TM strategy

Q7 HOW DID YOU SCORE? ***Please tick the relevant box below – NOTE: Q3 counts as a single H, M or L (and one H / M outscores any nº of Ls)***

MOSTLY H and/or M → HIGH PRIORITY → ☐ EIA to be completed

Please go to Section 2

MOSTLY L → LOW PRIORITY / NOT RELEVANT → ✓ Do not complete EIA

Please go to Q8 followed by Section 2

Q8 If after completing the EIA screening process you determine that this service/function/policy/project is not relevant for an EIA you must provide adequate explanation below.

This is a back office function which although important has little or no direct impact on the groups identified in Q3

Section 2

Please send this completed form to the Access to Services Team for agreement before obtaining email approval from your Head of Service.

Screening form completed by:
Name: Jeff Dong
Location: 1.4.1c civic centre
Telephone Number: 6934
Date: 4/01/21

Approval by Head of Service:
Name: Ben Smith
Position: S 151 Officer
Date: 4/01/21

Please return the completed form to accesstoservices@swansea.gov.uk