Cyngor Abertawe
Swansea Council

Report of the Section 151 Officer

Council - 4 November 2021

Treasury Management Annual Report 2020/21

Purpose:	This report provides details of the Council's Treasury Management activities during 2020/21 and compares actual performance against the strategy laid down at the start of the year.
Policy Framework:	Treasury Management Policy Statement
Consultation:	Finance, Access to Services and Legal
Report Author:	Jeff Dong
Finance Officer:	Ben Smith
Legal Officer:	Debbie Smith
Access to Services Officer:	Rhian Millar
For Information	

1. Introduction

1.1 Under the CIPFA Code of Practice on Treasury Management in Public Services, there is a requirement: "….*for the Council to receive reports on its treasury management policies, practices and activities".*

1.2 This report summarises the activities for the year. The Prudential Code for Capital Finance in Local Authorities also requires the reporting of outturn Prudential Indicators for the year.

2. Executive Summary of Activities During The Year

2.1 There is unfunded net in year capital financing requirement of £82m (against original budget) as at end of 2020/21. No additional external borrowing was undertaken during 2020/21, however please see section 11 of the attached report which highlights significant post year end external borrowing. This will be reported in next year's annual report, but it is material to members' understanding of the overall strategy and this year's report.

2.2 The average interest rate on all outstanding Council borrowing was 3.99% in 2020/21 down from 4.11% 2019/20.

2.3 Internally Managed investments achieved a return of 0.23%. This represents an outperformance of +0.13% from the average 7 day LIBID benchmark rate of 0.1% returning £0.281m of investment income

2.4 The Council has operated within all of the determined Prudential and treasury limits outlined in appendix 1

3. Financial Implications

3.1 There are no direct financial implications arising directly from this report

4. Legal Implications

4.1 There are no legal implications arising directly from the report.

5. Integrated Assessment Implication

5.1 The Council is subject to the Equality Act (Public Sector Equality Duty and the socio-economic duty), the Well-being of Future Generations (Wales) Act 2015 and the Welsh Language (Wales) Measure, 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 Acts.
- 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.
- Deliver better outcomes for those people who experience socio-economic disadvantage.
- Consider opportunities for people to use the Welsh language.
- Treat the Welsh language no less favourably than English. - Ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs.

The Well-being of Future Generations (Wales) Act 2005 mandates that public bodies in Wales must carry out sustainable development. Sustainable development means the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in accordance with the sustainable development principle, aimed at achieving the 'well-being goals'.

Our integrated Impact Assessment process ensures we have paid due regard to the above. It also takes into account other key issues and priorities, such as poverty and social exclusion, community cohesion, carers, the United Nations Convention on the Rights of the Child (UNCRC) and Welsh language

Background Papers: None

Appendices:
Appendix A – Treasury Management Annual Report 2020/21

APPENDIX A

Treasury Management Annual Report

2020/21

Contents

1. Executive Summary

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2. Introduction and Background

2.1 Treasury Management in local government is regulated by the CIPFA Code of Practice on Treasury Management in Public Services (the Code). The City and County of Swansea has adopted the Code and complies with its requirements. A glossary of terms used throughout this report is included at Appendix 2.

2.2 The primary requirements of the Code are the:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives
- Receipt by the Council of an annual Treasury Management strategy report for the year ahead , a mid term update report and an annual review report of the previous year
- 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 to the Section 151 Officer.
- Treasury Management, in this context, is defined as:

"*The management of the local authority'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 the optimum performance or return consistent with those risks.*"

2.3 The Council has previously received in Feb 2020 and updated in March 2021 the Treasury Strategy Statement and Investment Strategy and MRP Strategy for 2020/21 and The Revised MRP Policy originally approved by Council in Dec 2018.

2.4 The Prudential Code for Capital Finance in Local Authorities has been developed as a professional code of practice to support local authorities in determining their programmes for capital investment. The Code was updated in 2017. Local authorities are required by Regulation under Part 1 of the Local Government Act 2003 to comply with the Prudential Code.

2.5 The objective of the Code is to provide a framework for local authority capital finance that will ensure for individual local authorities that:

- Capital expenditure plans are affordable
- All borrowing and long term liabilities are within prudent and sustainable levels
- Treasury Management decisions are taken in accordance with professional good practice

2.6 The Code includes a set of Prudential Indicators, which are designed to support and inform local decision-making. The 2020/21 Prudential & Treasury Management Indicators are detailed in Appendix 1.

3. Debt Portfolio

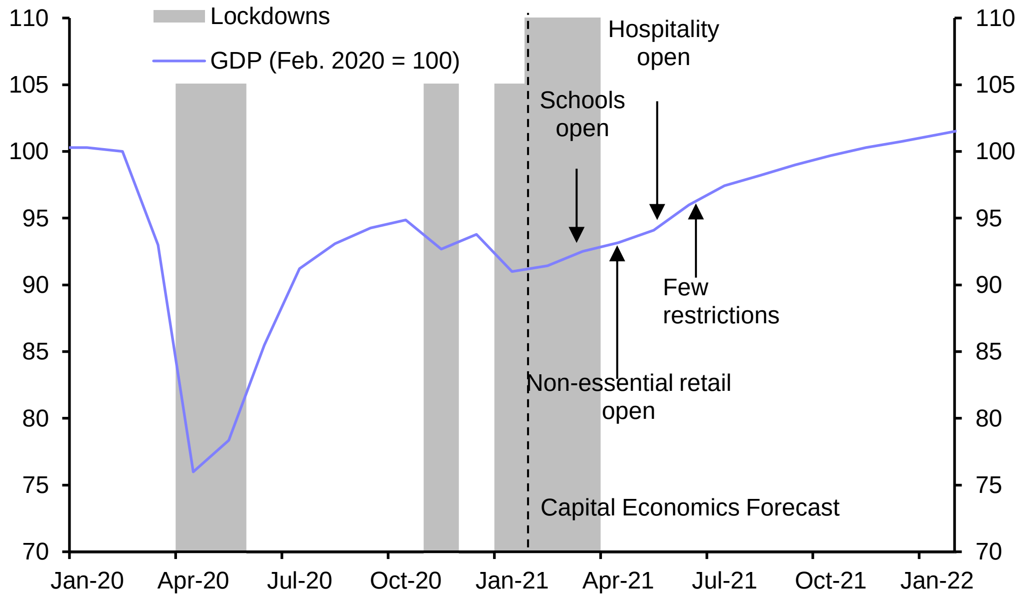
3.1 The Council's external borrowing position at the beginning and end of the year was as follows:

	1 April 2020		**31 March 2021**	
	Principal £'000	Interest Rate %	Principal £'000	Interest Rate %
Long Term Debt				
PWLB - fixed rate	444,082	4.22	441,080	4.22
Money Market (LOBO)	98,000	4.10	98,000	4.10
Welsh Gov	10,970	-	24,647	-
Short Term Debt				
Market	40	0.77	60	0.29
External Bodies	2, 475	0.9	1,411	0.73
Total Debt	555,567	4.11	565,198	3.99

3.2 The average external debt portfolio interest rate was 3.99%. (2019/20 4.11%)

4. Treasury Strategy & Economic Background 2020/21

4.1 **UK. Coronavirus.** The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.



Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs.

The **Monetary Policy Committee** cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

Average inflation targeting. This was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August 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. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern to the MPC.

Government support. The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures, and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government’s budget deficit ballooning in 20/21 and 21/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government’s finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%. An area of concern, though, is that the government’s debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low e.g. by using fiscal policy in conjunction with the monetary policy action by the Bank of England to keep inflation from rising too high, and / or by amending the Bank’s policy mandate to allow for a higher target for inflation.

BREXIT. The final agreement on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.

4.2 PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession.

4.3 Gilt yields fell sharply from the start of 2020 and then spiked up during a financial markets melt down in March caused by the pandemic hitting western countries; this was rapidly countered by central banks flooding the markets with liquidity. While US treasury yields do exert influence on UK gilt yields so that the two often move in tandem, they have diverged during the first three quarters of 2020/21 but then converged in the final quarter. Expectations of economic recovery started earlier in the US than the UK but once the UK vaccination programme started making rapid progress in the new year of 2021, gilt yields and gilt yields and PWLB rates started rising sharply as confidence in economic recovery rebounded. Financial markets also expected Bank Rate to rise quicker than in the forecast tables in this report

4.4 At the close of the day on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19 – 0.58% while the 10-year and 25-year yields were at 1.11% and 1.59%.

4.5 HM Treasury imposed **two changes of margins over gilt yields for PWLB rates in 2019/20** without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and **on 25th 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 new margins over gilt yields are as follows:

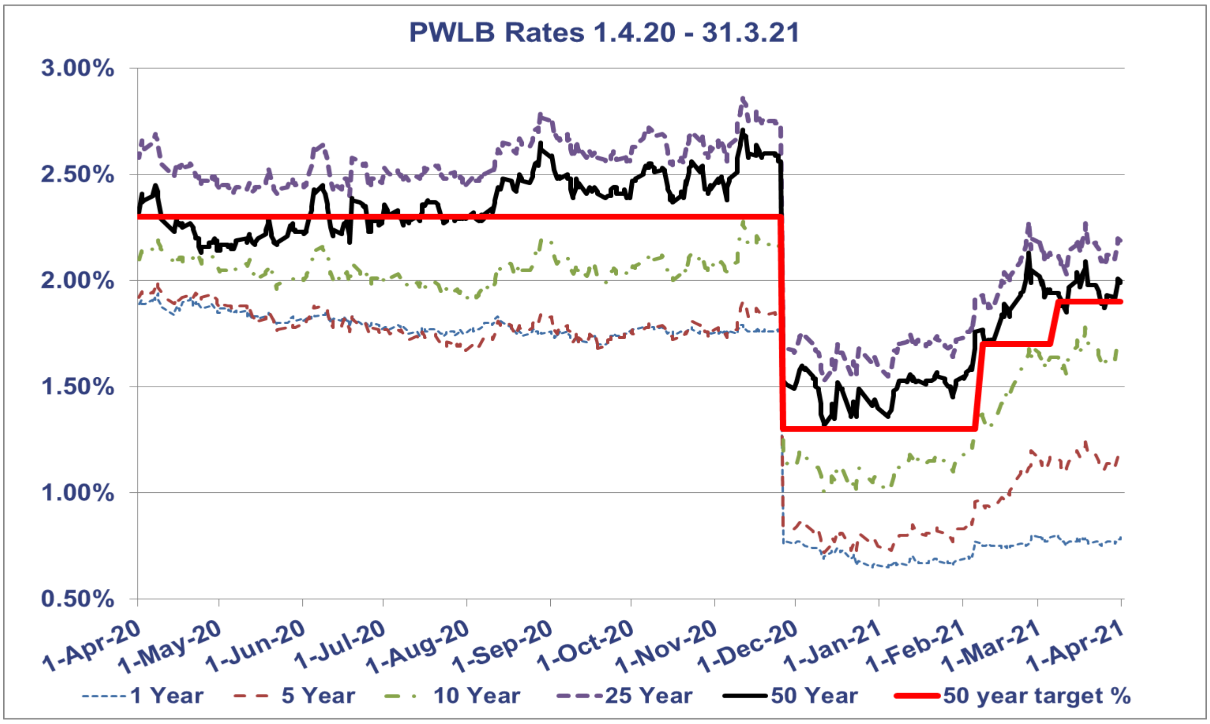
- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

4.6 There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

4.7 The policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years (eliminating the 'cost of carry' where the interest rates of borrowing are greater than available investment rates). During 2018-19, in light of the planned capital spend in subsequent years, it was determined prudent to materially fund its outstanding capital financing requirement during the year, fixing in some historically low interest PWLB financing for the portfolio during the course of 2018/19. This borrowing was well timed in light of the implementation of the premium referenced in 4.5 above. A conscious decision was taken by the S 151 Officer to suspend any PWLB borrowing whilst the consultation was being undertaken, therefore no new borrowing was undertaken in 2020/21, (NB please see section 11)

4.8 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Section 151 Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy to manage interest rate risks, evaluating opportunities to average in the capital financing requirement as opportunities arose (post removal of the PWLB premium) during the year during periods of market volatility/ market sentiment caused by Brexit uncertainty and Trade war rhetoric, however no action was taken to take any new borrowing, noting the material funding undertaken in 2018/19 and the whilst the consultation was being undertaken referenced in 4.5.

4.9 As depicted in the graph below, PWLB 5,10, 25 and 50 year rates have been volatile during the year with little consistent trend. The graphs and tables for PWLB rates show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year



5. Actual Borrowing 2020/21

5.1 The Treasury Management strategy 2020/21 originally agreed by the Council in February 2020 and updated in March 2021 projected a total capital financing requirement of £639m as at end of 2020/21.

5.2 As identified in 4.8 above, the general overall strategy is to mitigate the 'cost of carry' in the current economic environment.. As such, having largely fulfilled its historic CFR requirement in 2018/19, no new borrowing was undertaken in 2020/21, however please see section 11 of this report, which outlines opportunistic borrowing undertaken in April 2021 which seeks to mitigate the outstanding funding risk in the remainder of the capital programme approved in Feb 2021 by undertaking some record low long term value borrowing after the year end.

6. Compliance with Treasury Limits

6.1 During the year, the Council operated within the limits set out in the Council's Treasury Management Strategy 2020/21 under the Prudential Code. The outturn for the prudential indicators are shown in Appendix 1.

7. Capital Financing Charges 2020/21

7.1 The capital financing charges made to the Council's accounts for 2020/21 including capital repayments net of discounts/premiums and interest receivable are detailed below.

	Actual 2019/20	Actual 2020/21
	£'000	£'000
Housing Revenue A/c	9,930	10,101
General Fund	24,933	27,091

7.2 The net capital financing interest rates charged differ from the average rate of interest for external debt due to the fact that part of the Council's borrowing for capital purposes is funded by the investment of internal reserves and the use of internal balances and the amortisation of historical discounts/premia applied. The capital financing charges 2020/21 also include the revised Minimum Revenue Provision (MRP) Policy adopted by Council in Dec 2018.

8. Investment Strategy for 2020/21

8.1 Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast 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.

8.2 Investment balances have been managed in line with the agreed long term strategy of using reserves and balances to support internal borrowing, rather than borrowing extensively from the financial markets, however opportunistic historic low long term borrowing has been taken where advantageous and since year end opportunities have arisen to undertake some long term value borrowing (section 11)

8.3 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

8.4 The Council's investment policy is also governed by WAG guidance, which was implemented in the annual investment strategy 2020/21 approved by the Council in February 2020. This policy sets out the approach for choosing investment counterparties, and is based on our Treasury Advisors' investment colour matrix based on credit ratings provided by the three main credit rating agencies supplemented by additional market data such as rating outlooks, credit default swaps information, bank share prices etc. New investments were restricted to UK based institutions only, which satisfied these criteria.

9. Actual Investments 2020/21

9.1 The Council manages its cashflow and core balance investments internally, having realised its cash balances held with its external cash fund managers previously. These balances were invested on the Money Market via brokers or directly with banks and building societies, other local authorities and the Debt Management Office (DMO) within the criteria set out in 8.4 above. The balances held during the year were as follows:

Balance 1 April 2020	Balance 31 March 2021	Average Value 2020/21	Interest	Rate of Return	Benchmark 7 day LIBID
£'000 93,529	£'000 84,500	£'000 124,156	£'000 281	% 0.23	% 0.1

9.2 The interest achieved on internally managed investments was £0.281m or 0.23%. This return outperformed the benchmark seven-day rate of 0.1% by +0.13%.

9.3 As a further measure to mitigate and control risk following the financial crisis, the Authority determined to restrict investments to UK domiciled only banks and financial institutions in October 2008 resulting in an even smaller number of available counterparties to invest with. This policy was maintained in light of continued sovereign debt crises throughout Europe since. The list of investments as at 31st March 2021 is attached at Appendix 3.

10. Debt Repayment/Rescheduling

10.1 Market conditions are constantly monitored for opportunities to repay or reschedule debt in line with good Treasury Management practice. Appraising the current portfolio, no such opportunities arose in 2020/21 which would be economically beneficial to the Authority.

11. Significant Treasury Management Activity After Year End

11.1 Following the revocation of the PWLB premium in Nov 2020, the relative long term value of fixing long term PWLB funding increased significantly. Therefore as market volatility increased early in financial year 2021/22, the market was monitored for long term funding opportunities.

11.2 Therefore in April, May and June 2021,the S 151 Officer authorised **£75m** of PWLB long term borrowing which was drawn down from HM Treasury :

Date	Amount	Maturity Date	Interest Rate
13th April 2021	£20m	12th April 2070	1.96
13th April 2021	£25m	12th April 2071	1.95
28th May 2021	£15m	27th May 2069	1.91
1st June 2021	£15m	31st May 2068	1.94
TOTAL	**£75m**		**1.94**

11.3 The borrowing identified in 11.2 represented the **cheapest long term borrowing ever undertaken by this Authority.**

POST SCRIPT:

11.4 At time of writing, inflationary pressures (energy, fuel, transportation, materials, food, labour markets) are making imminent short term interest rate rises all the more likely.Therefore the S 151 Officer gave the instruction to monitor the volatile Gilt market with a view to take the opportunity to mitigate further funding risk within the Council's approved capital programme and drawdown a further **£45m** of PWLB borrowing .

11.5 Therefore on the 15th October 2021, the S 151 Officer instructed the drawdown of the following £45m of PWLB long term borrowing from HM Treasury:

Date	Amount	Maturity Date	Interest Rate
15th Oct 2021	£15m	14th April 2068	1.94
15th Oct 2021	£15m	14th April 2069	1.93
15th Oct 2021	£15m	14th Oct 2070	1.93
TOTAL	**£45m**		**1.93**

11.6 The borrowing identified in 11.5 **NOW** represents the **cheapest long term borrowing ever undertaken by this Authority.**

11.7 These additional post year end borrowings have reduced the overall historic cost of borrowing identified in 3.1 from 3.99% to 3.63%.

Appendix 1

Prudential & Treasury Management Indicators

Prudential Indicators	2019/20	2020/21	2020/21
	Actual	Budget	Actual
	£'000	£'000	£'000
Capital Expenditure			
GF	74,720	206,992	162,553
HRA	51,839	44,116	41,601
TOTAL	126,559	251,108	204,154
Ratio of financing costs to net revenue stream			
GF	5.61	5.99	5.79
HRA	12.79	15.60	12.93
Capital Financing Requirement			
GF	364,607	471,469	433,916
HRA	157,846	176,063	159,530
TOTAL	522,453	647,532	593,446

Treasury Management Indicators			
	2019/20	2020/21	2020/21
	Actual	Budget	Actual
	£'000 or %	£'000 or %	£'000
Authorised limit for external debt	555,567	798,728	565,198
Operational boundary for external debt	555,567	758,728	565,198
Upper limit for fixed interest rate exposure	82.36%/ £457,567	100%/ £798,728	82.66%/ 467,198
Upper limit for variable interest rate exposure	17.64%/ £98,000	40%/ £319,491	17.34%/ £98,000
Upper limit for total principal sums invested for over 364 days	0	40,000	0

Maturity Structure of Fixed Rate Borrowing in 2020/21			
	Upper Limit %	**Lower Limit %**	**Actual %**
Under 12 months	60	0	0.7
12 months and within 24 months	60	0	0.5
24 months and within 5 years	60	0	0.1
5 years and within 10 years	90	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

are shown as at balance sheet date 31st March 2021, however it can be reported that none of the above limits were breached during 2020/21.

Appendix 2

Treasury Management – Glossary of Terms

Annualised Rate of Return	Represents the average return which would have been achieved each year.
Authorised Limit ***(can also be considered as the affordable borrowing limit)***	The authorised limit must be set to establish the outer boundary of the local authority's borrowing based on a realistic assessment of the risks. The authorised limit is certainly not a limit that an authority 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 movement.
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.
Basis Points (bp)	A basis point is 0.01 of 1% (100 bp = 1%)
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 (see financing costs also)	These are the net costs of financing capital i.e. interest and principal, premium less interest received and discounts received.
Capital Financing Requirement	The Capital Financing Requirement is simply the total outstanding capital expenditure, which has not yet been paid for from either revenue or capital resources. 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.
Credit Rating	This is a scoring system that lenders issue people with to determine how credit worthy they 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 with the Act includes both borrowing as defined for the balance sheet and other long terms liabilities defined as credit arrangements through legislation.
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 Standards (FRSs)	These are standards set by governing bodies on how the financial statements should look and be presented.
Investments	Investments are the aggregate of:- • Long term investments • Short term investments (within current assets)

	• Cash and bank balances including overdrawn balances From this should be subtracted any investments that are held clearly and explicitly in the course of the provision of, and for the purposes of, operational services.
IMF	International Monetary Fund
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 arising from unused capital receipts 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 for periods up to one year. <u>Externally Management Funds</u> Fund managers appointed by the Council invest surplus cash arising from unused capital receipts in liquid instruments such as bank certificates of deposit and government stocks. The fund managers' specialist knowledge should ensure a higher rate of earnings on the managed funds than would be otherwise obtained.
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.
Minimum Revenue Provision (MRP)	The amount required by statute to be principal repayment each year.
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 year 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. 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.
Range Trade Accrual	A Callable Range Accrual is so called because it is callable or cancellable by the bank after the initial period, as above. However, where it differs, is that interest accrues only as long as Libor (London Interbank Offer Rate, or another independently derived and published benchmark rate) stays within a pre-agreed range. The lender can choose the range, the non-call period, the Libor they wish to use, the call periods and the potential return they wish to receive.. The bank has the right to cancel this trade after the first 3 months, and every 3 months thereafter. With a range trade, the lender is backing his judgement on interest rate movements and in exchange for that can achieve a significantly enhanced return. This is done as part of portfolio management. The risk of rates going above Libor on a small part of the portfolio (and therefore none, or little payment on a

	range accrual) will be offset by the fact that the rest of the portfolio will be returning more than expected. The key risk to a callable range accrual is obviously that the contractual Libor rate goes outside the specified range. It is possible to mitigate this risk by analysing the historical behaviour of any specified Libor relative to base rate. By taking a view on expected base rate (which is done on all deposits), a lender can minimise exposure, and choose a range to match his risk appetite.
Risk	<u>Counterparty Credit Risk</u> The risk that a 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 in line with statutory investment regulations. Non- specified investments are all other investments identified 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 3

Portfolio of Investments 31st March 2021

Counterparty	£
Lloyds Bank Treasury Account	30,000,000
Santander Bank	19,000,000
Calderdale Council	2,000,000
Coventry Building Society	11,500,000
Derby City Council	4,000,000
Goldman Sachs	7,000,000
Surrey County Council	5,000,000
Telford & Wrekin Council	3,000,000
Wirral Metropolitan Borough Council	3,000,000
Total	**84,500,000**