

**Report of Chief Officer Financial Services**

**Report to Council**

**Agenda Item 8 (iv)**

**Date: 26<sup>th</sup> February 2020**

**Subject: TREASURY MANAGEMENT STRATEGY 2020/21**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Has consultation been carried out?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In? Except recommendation 6.3 to 6.5	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary**

**1. Main issues**

- 1.1 This report sets out for Members' approval the Treasury Management Strategy for 2020/21 and also provides an update on the implementation of the 2019/20 strategy.
- 1.2 The Council's level of net external debt is anticipated to be £2,209m by 31/03/2020, £28m below expectations in November 2019 as a result of £30m slippage in the capital programme offset by £2m less minimum revenue provision (MRP) than forecast.
- 1.3 During 2019/20 the Council took the opportunity to convert its existing prior years short term debt to historic low long term funding. This has created further scope to continue funding the borrowing requirement from low short term interest rates, balances and reserves whilst still allowing the Council to take advantage of longer term funding opportunities. The low rate funding environment is expected to continue with rises in base rate expected to be introduced cautiously. The cost of debt is forecast to increase by £14.4m in 2020/21 principally due to unwinding of MRP saving's over the last 3 years.

- 1.4 The Authorised Limits for both External Debt and Other Long Term Liabilities have been reviewed and it is proposed to change them as detailed in Section 3.4.4. The Operational Boundaries have also been reviewed and likewise are proposed to be changed as detailed in Section 3.4.5. The Council's Authorised Limit is set above the Capital Financing Requirement to provide for short term cash flow needs.
- 1.5 The strategy is to take longer term fixed rate funding as market opportunities arise and to continue to look at forward funding opportunities. The Council will continue to utilise shorter borrowing pending locking into longer term borrowing. Against this the Council has a stable long term loan portfolio of £2.098bn that has an average maturity of just under 38 years and is funded at 3.4%. An increase in the short term funding costs of 0.25% over the base assumptions (Table 5) would add £0.6m to the interest costs in 2020/21.

## **2. Best Council Plan Implications**

- 2.1 Treasury Management strategy secures funding to support the Council's Policies and City Priorities as set out in the Council capital programme and is consistent with the Best Council Plan.

## **3. Resource Implications**

- 3.1 This treasury strategy recognises the borrowing necessary to fund the capital programme requirements of both General Fund and HRA. The revenue costs of borrowing are included within the revenue budgets of the general fund and HRA.
- 3.2 The updated strategy 2019/20 is forecast to deliver a saving of £1.9m.

## **Recommendations**

That the Executive Board:

- 1 Approve the treasury strategy for 2020/21 as set out in Section 3.3 and note the review of the 2019/20 strategy and operations set out in Sections 3.1 and 3.2.
- 2 Note the proposals for forward funding detailed in 3.3.6 to 3.3.9.

That Executive Board recommend to full Council that:

- 3 The borrowing limits for 2019/20, 2020/21, 2021/22 and 2022/23 be set as detailed in Section 3.4 and note the changes to both the Operational Boundary and the Authorised limits.
- 4 The treasury management indicators for 2019/20, 2020/21, 2021/22 and 2022/23 be set as detailed in Section 3.5.
- 5 The investment limits for 2019/20, 2020/21, 2021/22, and 2022/23 be set as detailed in Section 3.6.

## 1 Purpose of this report

1.1 This report sets out for approval by Members the Treasury Management Strategy for 2020/21 and the revised affordable borrowing limits under the prudential framework. It also provides Members with a review of strategy and operations in 2019/20.

## 2 Background information

2.1 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities as amended 2017 in particular:

- The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential Indicators.
- Any in year revision of these limits must be set by Council.
- Policy statements are prepared for approval by the Council at least two times a year.

## 3 Main Issues

### 3.1 Review of Strategy and Borrowing Limits 2019/20

The Council's level of net external debt is anticipated to be £2,209m by 31/03/2020, £28m below expectations in November 2019 as a result of £30m slippage in the capital programme offset by £2m less MRP. The reduced MRP is due to a higher level of assets under construction that do not attract MRP until completed and a longer average asset life which results in MRP being spread over a longer period than assumed.

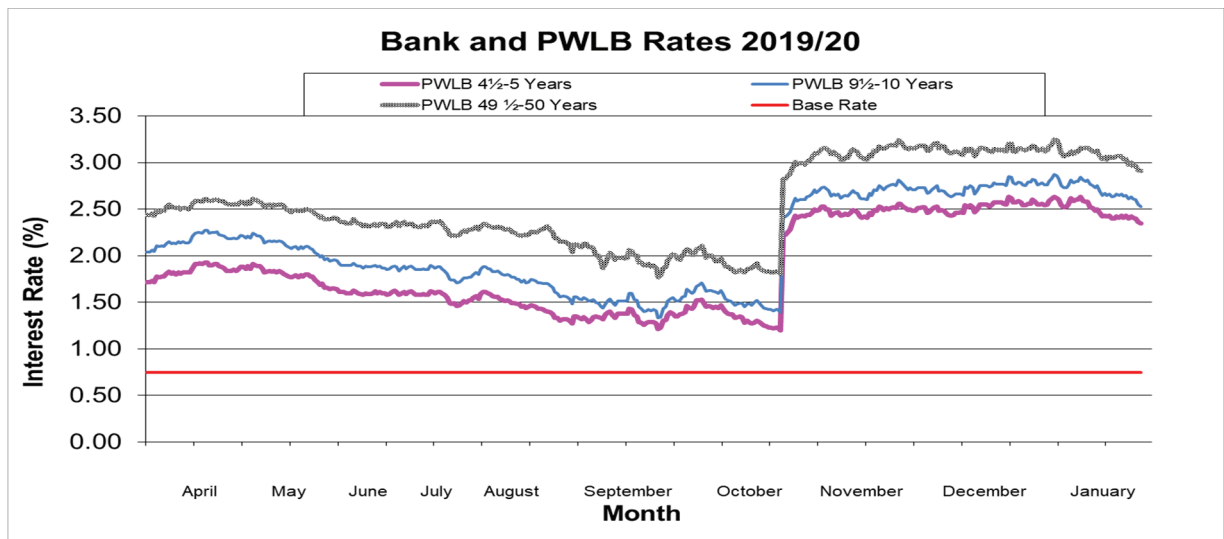
**Table 1**

	2019/20 Feb 19 Report	2019/20 Nov 19 Report	2019/20 This Report
	£m	£m	£m
<b>ANALYSIS OF BORROWING 2018/19</b>			
<b>Net Borrowing at 1 April</b>	2,127	2,063	<b>2,063</b>
New Borrowing for the Capital Programme – General Fund	167	162	<b>132</b>
New Borrowing for the Capital Programme – HRA	24	6	<b>6</b>
Debt redemption costs charged to Revenue (Incl HRA)	(15)	(20)	<b>(18)</b>
Reduced/(Increased) level of Revenue Balances	8	26	<b>26</b>
<b>Net Borrowing at 31 March*</b>	<b>2,311</b>	<b>2,237</b>	<b>2,209</b>
<b>Capital Financing Requirement</b>	<b>2,488</b>		
* Comprised as follows			
Long term borrowing Fixed	1,603	2,078	2,098
Variable (less than 1 Year)	55	20	0
New Borrowing	184	169	141
Short term Borrowing	499	0	0
Total External Borrowing	2,341	2,267	2,239
Less Investments	30	30	30
<b>Net External Borrowing</b>	<b>2,311</b>	<b>2,237</b>	<b>2,209</b>
% gross borrowing exposed to interest rate risk	32%	8%	6%

**Note:** The Capital Financing Requirement (CFR) is the maximum level of debt (i.e. borrowing and finance leasing) that the Council can hold for its current year capital purposes. The Council is also allowed to borrow in advance for up to two future years capital programmes.

- 3.1.1 The Bank of England's Monetary Policy Committee (MPC) at its meeting on 2<sup>nd</sup> August 2018 raised its bank rate from 0.50% to 0.75% this rate has remained at this level throughout 2019.
- 3.1.2 The impact of Brexit continues to be a source of uncertainty to markets in forecasting GDP growth and inflation. UK GDP Growth in 2019 is still below its long term trend levels and the growth figure for November recorded a fall of -0.3% down from the market expectation of 0% however the election and Brexit concerns have thought to have suppressed growth in Q4 and this is likely to continue into 2020. Therefore it is also likely that further upwards moves in the bank rate will be brought forward slowly and the Council's advisors have indicated the next increase in rates may not occur until Q1 2021. At its January 2020 meeting the MPC voted 7-2 to keep bank rate at 0.75% with the 2 dissenting voters wanting a cut to 0.5% centred on concerns over Brexit and weak global growth and the next move could therefore be downwards depending on how the UK and Global economy performs. Inflation was around the 2% target until the final quarter of the year when it fell over successive months to 1.5% currently and this should be viewed in the context of average wage growth which have likewise fallen to 3.5%.
- 3.1.3 In the Eurozone, both GDP growth and Inflation continue to remain subdued with the slowdown in global growth and trade dispute hitting Germany particularly hard on the manufacturing front. The ECB reduced its bank rate to minus 0.5% and has resumed support for the economy by re-establishing quantitative easing.
- 3.1.4 The US growth was strong in 2018 primarily due to the fiscal stimulus injected by US authorities but this has begun to fall out in 2019 resulting in lower growth and lower employment growth. Inflation is currently at 1.8% singularly caused by petrol prices The Federal Open Markets Committee (FOMC) implemented a series of cuts from the high point in 2018 of 2.00%-2.25% and bank rate now stands at 1.50%-1.75%. The FED has also started buying short term bonds again against a backdrop of slowing world growth, slowing US growth and trade disputes.
- 3.1.5 In Asia, Japan continues to struggle to stimulate consistent significant growth and to get inflation up to its target of 2% despite sustained monetary and fiscal stimulus over a number of decades. In China economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Further unresolved trade disputes with the US have also compounded this and impacted the slowdown in global growth. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property and to address the level of non-performing loans in the banking and credit systems.
- 3.1.6 Central banks are therefore likely to come under more pressure to support growth by looser monetary policy measures and this is thought will militate against central banks increasing interest rates.
- 3.1.7 The Council's treasury advisors' latest forecasts for Quarter 1, 2020 are that PWLB rates for 50 year borrowing will be around 3.20%, 10 year borrowing around 2.70% and 5 Year at 2.40%. Yields are expected to rise although the path and timing remain very uncertain. See table 3 for current rates and forecasts.

Chart 1



3.1.8 During 2019/20 the Council was able to convert its existing prior years short term debt to historic low long term funding. This has created further scope to continue the strategy in 2020/21 of funding the borrowing requirement from low short term interest rates, balances and reserves whilst still allowing the Council to take advantage of longer term funding opportunities. The debt budget outturn is projected to deliver a saving of £1.9m. The ability to take longer term funding is discussed in the strategy for 2020/21 however table 2 below details the new borrowing and repayment of long term external debt during 2019/20.

3.1.9 On 9th October 2019 the PWLB unilaterally and without warning increased rates across all structures and periods by 100bp (1%). The Council has, prior to this increase secured £350m of funding which would now cost the Council £3.5m in additional costs per annum. The PWLB is the Council's primary source of long term borrowing and this rise increased the margin over the Governments own cost of borrowing from 80bp to 180bp. This increase should be viewed against the borrowing levels that the Council has achieved from this body as detailed in table 2 below.

3.1.10 The strategy for managing and acquiring long term debt for spend to save schemes ensures that funding is secured when the business case is approved. This is to negate any interest rate risk to delivering the business case assumption.

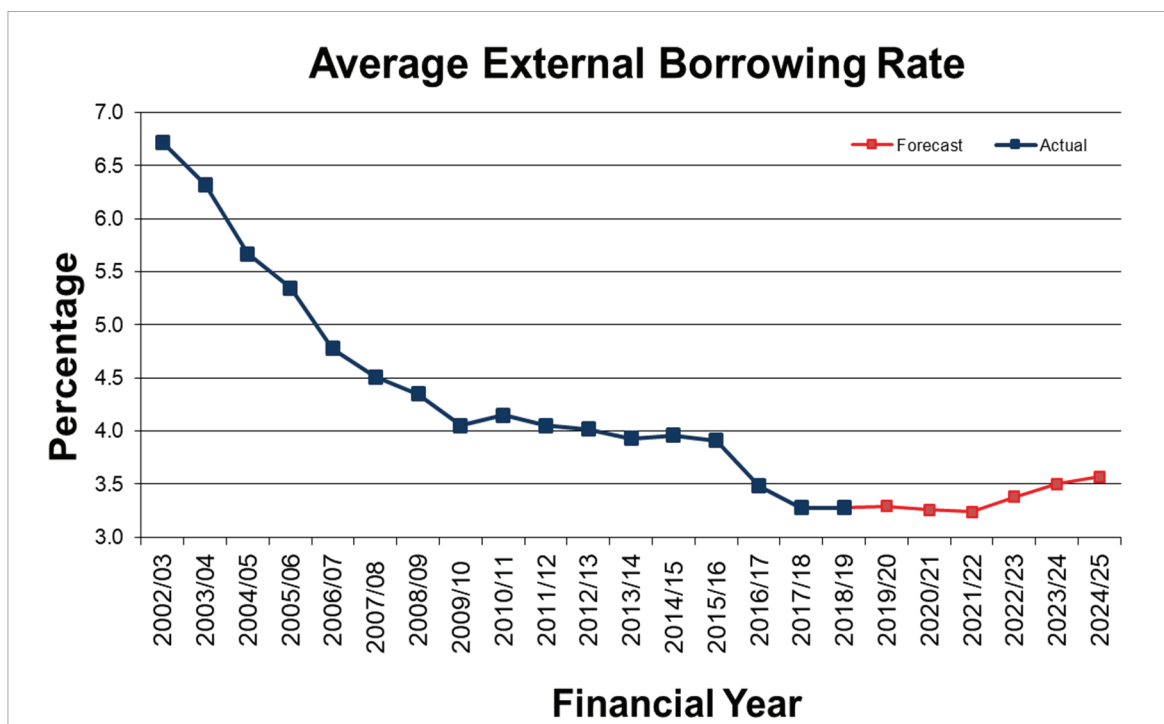
Table 2

Loan repayments and borrowing 2019/20							
Loan Repayments				New Borrowing			
Date	Amount (£m)	Original Rate (%)	Discount Rate	Date	Amount (£m)	Term (Years)	Interest Rate (%)
PWLB Loans				PWLB			
15/07/2019	26.4	3.83	n/a	04/06/2019	30.0	16	2.08
				04/06/2019	20.0	50	2.16
				05/07/2019	25.0	15	1.87
				05/07/2019	25.0	50	2.01
				06/08/2019	50.0	50	1.99
				09/08/2019	50.0	40	1.86
				16/08/2019	25.0	10	1.30
				16/08/2019	25.0	40	1.84
				19/08/2019	25.0	11	1.31
				19/08/2019	25.0	40	1.76
				05/09/2019	25.0	12	1.24
				05/09/2019	25.0	41	1.60
<b>Sub Total</b>	<b>26.4</b>				<b>350.0</b>		
Non PWLB Loans				Non PWLB Loans			
<b>Sub Total</b>	<b>0.0</b>				<b>0.0</b>		
<b>Total</b>	<b>26.4</b>			<b>Total</b>	<b>350.0</b>		

## 3.2 Interest Rate Review

3.2.1 The average rate of interest paid on the Council's external debt for 2018/19 was 3.28% as reported in the Annual Treasury Management report 2018/19 to Executive Board on 26<sup>st</sup> June 2019. This rate is forecast to rise slightly to 3.29% for 2019/20 mainly due to the quantum of longer term debt taken above at the expense of short term funding at even lower levels. Chart 2 shows how the average, external borrowing rate has fallen from 6.72% in 2002/03. The longer term expectation is that the Councils average cost of borrowing will begin to rise as the cost of borrowing increases and short term funding is switched to more expensive longer term funding. Taking longer term fixed rate borrowing will however reduce the Councils future exposure to potential interest rate increases at the point of switching and as such continues the prudent and sustainable management of the Council's borrowing need. The average rate may fall further if the rates currently available continue to persist.

Chart 2



3.2.2 The projections for the next increase in the bank rate is now for Q1 2021, as shown in Table 3. The forecast as shown in table 3 is for steady increases over the forecast period.

3.2.3 The current strategy is to take longer term fixed rate funding at the most opportune time to lock out interest rate exposure. At the point of acquiring longer term funding consideration will be given to:-

- The forecast capital borrowing requirement has reduced or slipped into the following year
- The levels of reserves/balances were forecast to increase or reduce including whether the Council had received up front for capital schemes.

**Table 3**

	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)			
		5 year	10 Year	25 year	50 year
Now	0.75	2.40	2.60	3.09	2.92
Dec 2019	0.75	2.30	2.60	3.20	3.10
March 2020	0.75	2.40	2.70	3.30	3.20
June 2020	0.75	2.40	2.70	3.40	3.30
Sept 2020	0.75	2.50	2.70	3.40	3.30
Dec 2020	0.75	2.50	2.80	3.50	3.40
March 2021	1.00	2.60	2.90	3.60	3.50
June 2021	1.00	2.70	3.00	3.70	3.60
Sept 2021	1.00	2.80	3.10	3.70	3.60
Dec 2021	1.00	2.90	3.20	3.80	3.70
March 2022	1.00	2.90	3.20	3.90	3.80
June 2022	1.25	3.00	3.30	4.00	3.90
Sept 2022	1.25	3.10	3.30	4.00	3.90
Dec 2022	1.25	3.20	3.40	4.10	4.00
Mar 2023	1.25	3.20	3.40	4.10	4.00

• Source Council's Treasury Advisors

### 3.3 Strategy for 2020/21

3.3.1 Table 4 shows that net borrowing is expected to rise by £175m to £2,384m during the course of 2020/21. This is a result of net new borrowing to fund the capital programme net of MRP. The Capital Programme report is presented elsewhere on this agenda.

**Table 4**

	2019/20	2020/21	2021/22	2022/23
<b>ANALYSIS OF BORROWING 2019/20 – 2022/23</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Net Borrowing at 1 April</b>	2,063	2,209	2,384	2,568
New Borrowing for the Capital Programme – GF	132	161	173	159
New Borrowing for the Capital Programme - HRA	6	47	52	42
Debt redemption costs charged to Revenue(GF)	(18)	(45)	(55)	(60)
Reduced/(Increased) level of Revenue Balances	26	12	14	14
<b>Net Borrowing at 31 March</b>	<b>2,209</b>	<b>2,384</b>	<b>2,568</b>	<b>2,723</b>
* Comprised as follows				
Long term borrowing Existing Fixed	2,098	2,029	2,018	1,990
Existing Variable (Less than 1yr)	0	60	45	35
Net New Borrowing	141	175	184	155
Short term Borrowing	0	150	351	573
Total External Borrowing	2,239	2,414	2,598	2,753
Less Investments	30	30	30	30
<b>Net External Borrowing</b>	<b>2,209</b>	<b>2,384</b>	<b>2,568</b>	<b>2,723</b>
% Exposure after planned LT Borrowing	6%	16%	22%	28%

**Note:** Borrowing exposed to interest rate risk in any one year is made up of short term borrowing, new long term borrowing and existing variable loans (i.e. LOBOs with an option falling within the year).

3.3.2 Table 4 above shows that over the 4 year time horizon the proportion of the Council's book exposed to interest rate risk is expected to rise to a maximum of 28% in 2022/23. This level is reached after taking £350m of longer term borrowing in 2019/20. The Variable Interest Rate exposure Indicator has been set in relation to the net external borrowing position. This limit has been set at 40% and is

recommended to be maintained at this level in 3.5.4 below. Included within the net external borrowing are two elements that are by definition variable, these are short term loans and Lenders Option Borrowers Option (LOBO) loans with an option which falls within 12 months. No LOBO options are expected to be exercised during 2020/21.

- 3.3.3 The Council has £215m of loans with Barclays of which £110m are the subject of a class action initiated by a total of 7 Councils. These LOBOs contained clauses that referenced London Inter Bank Overnight Rate (LIBOR) at a time when Barclays were subsequently convicted and fined for fraudulently fixing LIBOR. An initial hearing date has been set on 6/7<sup>th</sup> April to consider a preliminary issue. This is an ongoing action and further details will be reported as appropriate.
- 3.3.4 Alongside the prudential code structure the Council's current policy of using its balance sheet strength, reserves, provisions etc. to defray external borrowing presents an exposure to a potential increase in external borrowing should the use of internal balances reduce. The strategy of acquiring Long term borrowing as outlined in 3.2.3 will mitigate against this risk. The Council has a forecast need to borrow, its borrowing Capital Financing Requirement (CFR), at 31/03/2020 of £2,488m of which net external funding is expected to be £2,209m, the difference of £279m is the use of internal balance sheet strength to finance this need. The long term funding element of the external debt is forecast to be £2,098m and therefore, accepting that in current conditions LOBO options are unlikely to be exercised, the Council's gross exposure is the difference between its CFR and its current stock of long term external funding or £390m.
- 3.3.5 This potential exposure will be managed by the strategy outlined in 3.2.3 of taking longer term borrowing when opportunities arise. This exposure should also be viewed against the historical capital programme slippage, the continued strength of the Council's balance sheet and the market for supplying short term funds remaining strong.
- 3.3.6 If the Council continued to fund its borrowing need from short term and internal sources only then this exposure is forecast to be £949m in 2022/23. This presents a number of risks around continued balance sheet strength, the capacity to continue to supply the market with low cost borrowing at relatively low rates, sharper than anticipated increases in rates and improved economic outlook. As part of managing this exposure the Council has been investigating options to take long term financing on a forward basis. Such forward borrowing would in part lock out the risk identified above whilst allowing the Council to benefit from funding the above exposure at short term rates therefore providing greater certainty of funding at or around current long term rates which are forecast to rise as shown in Table 3 above.
- 3.3.7 The main risk from forward funding long term borrowing is that the rate locked in is higher than that which could be acquired at a future point. The Council has been provided with forward indicative pricing structures below where PWLB rates are currently priced and significantly below those rates forecast in Table 3 above. Councils that have transacted forward rate deals also indicate a relatively modest premium to previously available rates however with the increase in PWLB rates market participants have also increased rates but not on a matched basis with the PWLB increase. The Council would also have the benefit of running its borrowing requirement at lower short-term rates before the switch to longer-term rates. Borrowing on a forward basis is therefore an essential tool in managing the risks



involved in continuing to run a short term borrowing position as outlined in this report.

3.3.8 Forward funding structures are indicatively less expensive than in year funding acquired from PWLB currently. The costs are equivalent to public bond placements, but the ongoing monitoring arrangements are less onerous. Comparison of different routes of funding will include all costs associated with the transaction before a decision to commit to forward funding is undertaken. It should also be noted that PWLB does not provide forward funding options.

3.3.9 The Council in addition to forward funding borrowing options is also considering a number of alternatives to PWLB funding including private or public placements and bond issuance to mitigate the PWLB increase and its interest rate exposure.

3.3.10 The strategy outlined in 3.2.3 is to take longer term fixed rate borrowing when opportunities arise which will include the use of short term borrowing temporarily. This strategy is considered prudent as the next base rate rise not expected until Quarter 1 2021.

3.3.11 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- It is possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. Counterparty risks therefore remain an ongoing concern;
- Effect of a change in US economic direction and performance;
- Impact in the UK of Brexit and implications for trade, growth and inflation;
- Investment returns are likely to remain relatively low during 2020/21 and beyond as rate rises are expected to be slow and gradual;
- Borrowing interest rates although higher than recent lows continue to be relatively cheap historically; and
- If longer term borrowing is acquired before it is needed the result could be an increase in investments resulting in a revenue loss between borrowing costs and investment returns.

3.3.12 The Council's current long term debt of £2.098bn has an average maturity of just under 38 years if all its debt runs to maturity. Approximately 11% of the Council's long term debt has options for repayment. In the unlikely event that all these options were exercised at the next option date then the average maturity would be lowered to a little under 33 years. This compares favourably with the average maturity of the UK Government gross debt portfolio of 15.35 years. The existing profile of the Council's debt provides considerable certainty of funding costs. Prudential indicator 16 in Appendix A shows the maturity profile of the Council's long term fixed debt and highlights that 82% or £1,668m matures in periods greater than 10 years.

3.3.13 The cost of debt is forecast to increase by £14.4m in 2020/21 principally due to unwinding of MRP savings over the last 3 years. Forecasts for the debt budget beyond 2020/21 are dependent upon the interest rate assumptions, the likely level of

capital spend and the Councils cash balances. The debt budget is currently forecast to increase by a further £31.8m in 2021/22 and £17.7m in 2022/23 including MRP costs and including usable capital receipts, based upon the assumptions on funding rates in Table 5. The interest rate assumptions and the borrowing requirement arising from the capital programme will be kept under review throughout 2020/21, before establishing the 2021/22 debt budget.

**Table 5**

Assumed average funding rates	
Year	Average Interest Rate
2020/21	1.50%
2021/22	1.75%
2022/23	2.25%

- 3.3.14 These assumptions on borrowing rates have associated risks. For example in 2020/21, if the cost of borrowing was 0.25% higher than assumed, full year debt costs would increase by circa £0.6m.
- 3.3.15 The budget for 2020/21 contains a provision for switching short term funding into long term funding and table 6 below details the assumptions and quantum of long term borrowing behind this provision.

**Table 6**

Year	Long term funding	Assumed Long term Rate
2020/21	£110m	3.00%
2021/22	£180m	3.20%
2022/23	£380m	3.40%

### **3.4 Borrowing Limits for 2019/20, 2020/21, 2021/22 and 2022/23**

- 3.4.1 The authorised limit represents the legislative limit on the Council's external debt under the Local Government Act 2003. It should be set with sufficient headroom above the operational boundary to allow flexibility for planned borrowing to be undertaken, in order for prudent treasury management decisions to be taken and temporary cash flow fluctuations to be managed. The operational boundary should reflect the maximum anticipated level of external debt consistent with budgets and cash flow forecasts. It should be seen as a management tool for on-going monitoring of external debt, and may be breached temporarily due to unusual cash flow movements.
- 3.4.2 Appendix B shows that the Council has kept within the operational boundary and authorised limit in 2019/20.
- 3.4.3 The Chief Officer - Financial Services has delegated responsibility to make adjustments between the two separate limits for borrowing and other long term liabilities, provided that the overall limit remains unchanged. Any such adjustments will be reported to the next available Council meeting following the change. It is recommended that Council approve the following authorised limits for its gross external debt and other long term liabilities for the next three years.

3.4.4 After reviewing the forecast debt and borrowing position together with the forecast for revenue balances and MRP, the Limit for borrowing is recommended to remain the same for 2019/20, 2020/21 and 2021/22 as detailed below. For 2022/23 a new limit should be set at £3,150m. The limit for Other Long Term Liabilities is recommended to remain the same for the years 2019/20 to 2021/22 as detailed below. It is further recommended that a new limit be set for the year 2022/23 of £540m to reflect the forecast decline in PFI liabilities.

**Recommended: Authorised Limits as follows**

<b>Authorised Limit</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>
Borrowing	2,600	2,800	3,000	3,150
Other Long Term Liabilities	690	660	580	540
<b>Total</b>	<b>3,290</b>	<b>3,460</b>	<b>3,580</b>	<b>3,690</b>

3.4.5 In line with the review of the authorised limits above it is proposed to amend the operational boundaries as detailed below. This limit will retain sufficient headroom to accommodate anticipated cash flow variances. The limit for borrowing is recommended to remain the same for the year 2019/20, 2020/21 and 2021/22. For 2022/23, a new limit should be set at £2,850m. The limit for Other Long Term Liabilities is recommended to remain the same for the years 2019/20 to 2021/22 as detailed below. It is further recommended that a new limit be set for the year 2022/23 of £520m to reflect the forecast decline in PFI liabilities.

**Recommended: Operational Boundaries as follows**

<b>Operational Boundary</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>
Borrowing	2,450	2,650	2,850	2,850
Other Long Term Liabilities	670	640	560	520
<b>Total</b>	<b>3,120</b>	<b>3,290</b>	<b>3,410</b>	<b>3,370</b>

3.4.6 Table 7 details the borrowing element of the Authorised limit and compares this to the projected CFR for borrowing only and does not include Other Long term liabilities. The revised Authorised limit and the Operational boundary remain in line with the projected CFR. The CFR is the Councils actual need to borrow based on its historic capital programme and forecast future capital programme. The limits reflect the significant level of balances being used internally to fund the borrowing need. These limits therefore leave headroom for future injections into the programme.

**Table 7**

year	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
<b><u>Borrowing only</u></b>				
CFR Projection.	2,488	2,667	2,856	3,015
<b><u>Authorised Limit</u></b>				
Current	2,600	2,800	3,000	-
Proposed	2,600	2,800	3,000	3,150
Increase / (Decrease)	-	-	-	3,150 a
<b><u>Operational boundary</u></b>				
Current	2,450	2,650	2,850	-
Proposed	2,450	2,650	2,850	2,850
Increase / (Decrease)	-	-	-	2,850 a

a) Note 2022/ 23 has not been set previously as these limits are only set for the current +3 year time horizon

### **3.5 Treasury Management Indicators**

- 3.5.1 Appendix A details the borrowing limits and other prudential indicators
- 3.5.2 The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services 2017.
- 3.5.3 The Council is required to set appropriate indicators to manage interest rate risk and therefore sets an upper limit on its fixed interest rate exposures that represents the maximum proportion of its net borrowing (i.e. measured as a percentage of its total borrowing less investments) which the Council will have at any given time during the period at fixed interest rates. The purpose of the limit is to ensure that the Council has the flexibility to take advantage of falling interest rates by ensuring a minimum level of variable rate debt. However setting a limit less than 100% can restrict the Council's ability to borrow in advance of need when long term fixed interest rates are at their low point. (This is the case since in general amounts borrowed in advance are invested, meaning that the net borrowing figure on which the limit is based will be lower than the total fixed borrowing outstanding.) Therefore to provide the Council with maximum flexibility it is recommended that the limit of 115% remains unchanged and is rolled forward into 2022/23

**Recommended: Upper limit on fixed interest rate exposures for of 115% (no change)**

- 3.5.4 Additionally the Council will set an upper limit on its variable interest rate exposures that represents the maximum proportion of debt the Council will have at any given time during the period at variable interest rates and exposed to interest rate rises. In evaluating this figure, LOBOs are treated as being variable in the year in which an option occurs and fixed in other years. The limit should be set in order to maintain a balance between managing the risk of rate rises and allowing sufficient flexibility to take advantage of any fall in rates. It is therefore recommended that the limit of 40% of debt remains unchanged and is rolled forward into 2022/23.

**Recommended: Upper limit on variable interest rate exposures for 2019/20, 2020/21, 2021/22 and 2022/23 of 40% (no change)**

- 3.5.5 The Council is required to set upper and lower limits for the maturity structure of its borrowings. This is designed to limit the risk of exposure to high interest rates by restricting the level of maturing debt in any given year. The limits represent the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. It is proposed that these limits remain unchanged.

<b>Maturity structure of fixed rate borrowing</b>	<b>Lower Limit</b>	<b>Upper Limit</b>
under 12 months	0%	15%
12 months and within 24 months	0%	20%
24 months and within 5 years	0%	35%
5 years and within 10 years	0%	40%
10 years and within 20 years	25%	90%
20 years and within 30 years		
30 years and within 40 years		
40 years and within 50 years		
50 years and above		

**Recommended: Upper and Lower limits on fixed rate maturity structure remains unchanged as above.**

### **3.6 Treasury Management Investment Strategy and Limits**

- 3.6.1 The CIPFA codes and Guidance require Local authorities to report on and monitor Non treasury Investments, service loans, guarantees and commercial investments. These are outside the scope of Treasury Management due to the differing risk profile and complexity of these transactions. These are therefore included within the new Capital Strategy Report attached as an appendix to Capital report elsewhere on the agenda.
- 3.6.2 The Council's actual external borrowing need is reduced by the availability of revenue balances. The Treasury policy allows for the external investment of these balances at advantageous rates but with due regard for security of capital invested. Investment of surplus balances in general will be limited to cash flow and liquidity management although the interest rate outlook will be kept under review to identify any opportunities for longer term investment.
- 3.6.3 The approved lending list is based upon the assessment of the financial standing of counterparties as determined by international credit rating agencies and further refined and updated by the Council's advisors on a continual basis. The lending list is often further restricted based upon the Council's own view of the credit worthiness of counter-parties
- 3.6.4 The investment strategy allows for the Council to invest in the most highly rated financial institutions around the world. The Council will only lend up to a maximum of £15m to financial institutions that are rated as excellent. There is also a limit of £5m for financial institutions that are rated as very good.
- 3.6.5 Any changes in the investment environment are being monitored closely as is the effect on the credit list supplied by the Council's treasury advisors. Other factors are also used in determining potential counterparties for the investment of funds over and above credit ratings

- 3.6.6 The Council under its existing Treasury Management Policy Statement has the authorisation to use Money Market Funds which it has not utilised to date. The rates offered on notice accounts by both the Council's bankers and by other banks offering similar products continues to be at low levels. This is thought to reflect the cost of carrying such cash on the balance sheet of these organisations under Basel III rules. As a result the levels on offer are at or below rates available from Money Market Funds which carry a higher credit worthiness rating. A review of the utility of these funds is being undertaken for depositing short term cash balances and any decision to utilise these accounts will be made under delegations already in place to the Chief Officer Financial Services.
- 3.6.7 The Prudential code requires that Councils set limits on investments for periods longer than 364 days. It is proposed to maintain the limits as outlined below and roll the limit forward into 2022/23

**Recommended: Upper limit on sums invested for periods longer than 364 days (no change):**

<b>Total principal sum invested for a period longer than 364 days</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>
Upper limit	150	150	150	150

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 This report sets the treasury management strategy and as such there is no need to consult the public. In establishing this strategy, consultation with the Council's treasury advisors has taken place.
- 4.1.2 The borrowing requirement is an outcome of the capital programme which has been the subject of consultation and engagement as outlined in the capital programme report elsewhere on this agenda.

### **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 Equality, diversity, cohesion and integration requirements are addressed as part of individual capital scheme and programme approvals. The borrowing to deliver these capital schemes is executed through treasury strategy and as such there are no further equality diversity cohesion and integration issues. An equality screening document is attached at Appendix C.

### **4.3 Council policies and Best Council Plan**

- 4.3.1 Treasury Management strategy secures funding to support the Council's Policies and City Priorities as set out in the Council capital programme and is consistent with the Best Council Plan.

#### **Climate Emergency**

- 4.3.2 The Council declared a Climate Emergency at full Council in March 2019. As the Treasury Management strategy secures funding for the Council's capital programme the impact of the Council's activity and implications for the climate emergency will be

considered in each individual capital programme and scheme project report.

#### **4.4 Resources, procurement and Value for Money**

4.4.1 This treasury strategy recognises the borrowing necessary to fund the capital programme requirements of both General Fund and HRA. The revenue costs of borrowing are included within the revenue budgets of the general fund and HRA.

4.4.2 The updated strategy 2019/20 is forecast to deliver a saving of £1.9m.

#### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 In accordance with the Council's Budget and Policy Framework, decisions on borrowing limits, treasury management indicators, investment limits and the Treasury Management Policy Statement are approved by Council. As such, recommendations 6.3 to 6.5 are not subject to call in.

#### **4.6 Risk Management**

4.6.1 This report sets out the framework for the treasury strategy for the year ahead. The execution of strategy and associated risks are kept under regular review through:

- Monthly reports to the Finance Performance Group;
- Quarterly strategy meetings with the Chief Officer Financial Services and the Council's treasury advisors; and
- Regular market, economic and financial instrument updates and access to real time market information.

### **5 Conclusions**

5.1 The Council's level of net external debt at 31<sup>st</sup> March 2020 is anticipated to be £2,209m, £28m lower than expected in November 2019, rising to £2,384m in 2020/21 and to £2,568m by 2021/22.

5.2 The cost of debt is forecast to outturn a saving of £1.9m against budget in 2019/20. The impact of the capital programme and forecast interest rate increases will see an overall increase in the debt costs, including the minimum revenue provision of £14.4 in 2020/21.

5.3 The uncertainty and risks around economic forecasts will result in further caution being adopted in the management of debt and investments and the opportunity to secure longer term debt at the appropriate time will be kept under review.

5.4 The Capital and Investment Strategy report has been produced and this is attached as an appendix to the Capital report elsewhere on the agenda.

## **6 Recommendations**

That the Executive Board:

- 6.1 Approve the treasury strategy for 2020/21 as set out in Section 3.3 and note the review of the 2019/20 strategy and operations set out in Sections 3.1 and 3.2.
- 6.2 Note the proposals for forward funding detailed in 3.3.6 to 3.3.9

That Executive Board recommend to full Council that:

- 6.3 The borrowing limits for 2019/20, 2020/21, 2021/22 and 2022/23 be set as detailed in Section 3.4 and note the changes to both the Operational Boundary and the Authorised limits.
- 6.4 The treasury management indicators for 2019/20, 2020/21, 2021/22 and 2022/23 be set as detailed in Section 3.5.
- 6.5 The investment limits for 2019/20, 2020/21, 2021/22 and 2022/23 be set as detailed in Section 3.6

## **7 Background documents <sup>1</sup>**

None

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.



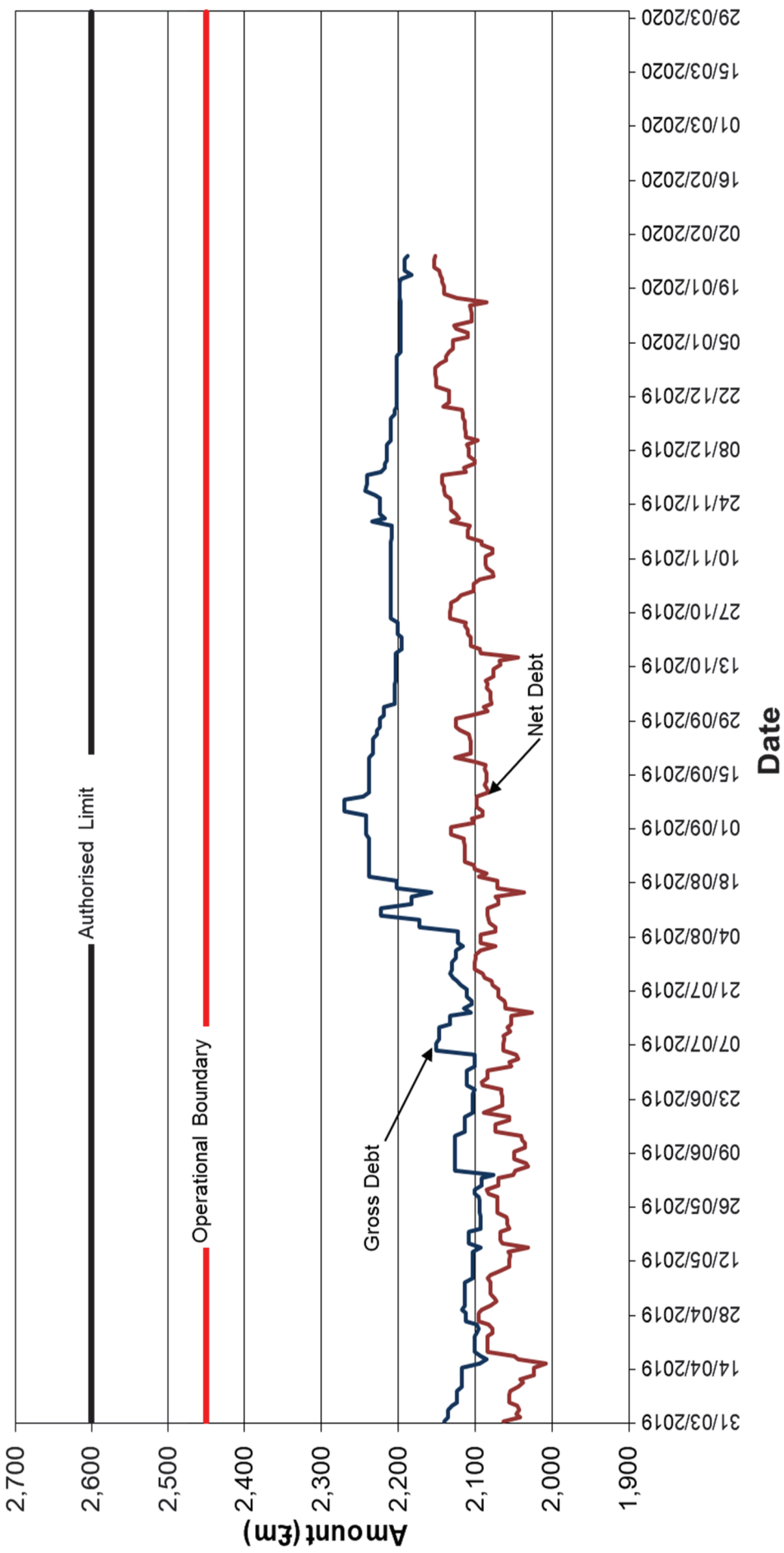
No.	PRUDENTIAL INDICATOR	2019/20	2020/21	2021/22	2022/23
<b>(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS</b>					
<b>1a</b>	<b>Ratio of Financing Costs to Net Revenue Stream</b> General Fund (Borrowing Only)	12.35%	18.08%	20.43%	22.10%
<b>1b</b>	General Fund (Borrowing and Other Long Term Liabilities)	21.36%	27.13%	29.50%	30.74%
<b>2a</b>	HRA (Borrowing Only)	11.63%	11.52%	11.53%	11.78%
<b>2b</b>	HRA (Borrowing and Other Long Term Liabilities)	18.64%	18.19%	18.13%	18.27%
<b>5</b>	<b>Gross external borrowing requirement (Gross Debt and CFR)</b> The Net Borrowing Requirement should not exceed the capital financing requirement ( <b>Note 3</b> )	<b>£'000</b> 2,239,000 OK	<b>£'000</b> 2,414,000 OK	<b>£'000</b> 2,598,000 OK	<b>£'000</b> 2,753,000 OK
<b>6</b>	<b>Estimate of total capital expenditure</b> General Fund	<b>£'000</b> 290,386	<b>£'000</b> 434,209	<b>£'000</b> 289,556	<b>£'000</b> 172,978
<b>7</b>	HRA TOTAL	97,680 388,066	154,067 588,276	155,671 445,227	143,018 315,996
<b>8</b>	<b>Capital Financing Requirement (as at 31 March)</b> General Fund	<b>£'000</b> 2,242,013	<b>£'000</b> 2,353,759	<b>£'000</b> 2,467,790	<b>£'000</b> 2,562,618
<b>9</b>	HRA TOTAL	810,753 3,052,766	851,819 3,205,578	896,676 3,364,466	930,512 3,493,130

No.	PRUDENTIAL INDICATOR	2019/20	2020/21	2021/22	2022/23
<b>(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS</b>					
<b>10</b>	<b>Authorised limit for external debt</b> borrowing other long term liabilities TOTAL	<b>£'000</b> 2,600,000 690,000 3,290,000	<b>£'000</b> 2,800,000 660,000 3,460,000	<b>£'000</b> 3,000,000 580,000 3,580,000	<b>£'000</b> 3,150,000 540,000 3,690,000
<b>11</b>	<b>Operational boundary -</b> borrowing other long term liabilities TOTAL	2,450,000 670,000 3,120,000	2,650,000 640,000 3,290,000	2,850,000 560,000 3,410,000	2,850,000 520,000 3,370,000
<b>14</b>	<b>Upper limit for fixed interest rate exposure (note 5)</b> expressed as either:- Net principal re fixed rate borrowing / investments OR:- Net interest re fixed rate borrowing / investments	115%	115%	115%	115%
<b>15</b>	<b>Upper limit for variable rate exposure (note 5)</b> expressed as either:- Net principal re variable rate borrowing / investments OR:- Net interest re variable rate borrowing / investments	40%	40%	40%	40%
<b>17</b>	<b>Upper limit for total principal sums invested for over 364 days (Note 6)</b>	<b>£'000</b> 150,000	<b>£'000</b> 150,000	<b>£'000</b> 150,000	<b>£'000</b> 150,000
<b>18</b>	<b>Net Debt as a percentage of Gross debt</b>	98.66%	98.76%	98.85%	98.91%

16	Maturity structure of fixed rate borrowing 2019/20	Lower Limit	Upper Limit	Projected 31/03/2020	
	under 12 months	0%	15%	0%	
	12 months and within 24 months	0%	20%	3%	
	24 months and within 5 years	0%	35%	10%	
	5 years and within 10 years	0%	40%	5%	
	10 years and within 20 years			5%	
	20 years and within 30 years			0%	
	30 years and within 40 years	25%	90%	35%	82%
	40 years and within 50 years			35%	
	More Than 50 Years			6%	
<b>Notes.</b>				100%	

- The indicator for the ratio of financing costs to net revenue stream for General Fund is now calculated based on the External Borrowing costs only and Borrowing and Other long term Liabilities (PFI and leasing)
- The Changes to the Prudential Code 2017 retired the Indicator 3 and 4 on the incremental impact of New Capital decision on HRA and GF as well as Indicator 13 the need to explicitly adopt the Code of Practice. In addition Indicator 9 the relating to the MHCLG imposed HRA borrowing debt ceiling has been recinded and is therefore no longer reported
- In order to ensure that over the medium term gross borrowing will only be for a capital purpose, the Council should ensure that gross external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence and was changed from Net Borrowing to gross borrowing under the update to the Codes in 2017.
- Prudential indicator 12 relates to actual external debt at 31st March, which will be reported in the Treasury Management Annual Report.
- Indicators 14 and 15 are no longer explicit within the updated codes however these have been but have been retained pending further review
- Indicator 17 relates solely to Treasury Management investments made under Section 12 of the Local Government act 2003

# Prudential Code Monitoring 2019/20- Debt



## Appendix C

### Equality, Diversity, Cohesion and Integration Screening

As a public authority we need to ensure that all our strategies, policies, service and functions, both current and proposed have given proper consideration to equality, diversity, cohesion and integration.

A **screening** process can help judge relevance and provides a record of both the **process** and **decision**. Screening should be a short, sharp exercise that determines relevance for all new and revised strategies, policies, services and functions. Completed at the earliest opportunity it will help to determine:

- the relevance of proposals and decisions to equality, diversity, cohesion and integration.
- whether or not equality, diversity, cohesion and integration is being/has already been considered, and
- whether or not it is necessary to carry out an impact assessment.

<b>Directorate: Resources &amp; Housing</b>	<b>Service area: Capital, Insurance and Treasury Management</b>
<b>Lead person: Bhupinder Chana</b>	<b>Contact number: 88044</b>

<b>1. Title: Treasury Management Strategy 2020/21</b>		
Is this a:		
<input checked="" type="checkbox"/> <b>Strategy / Policy</b>	<input type="checkbox"/> <b>Service / Function</b>	<input type="checkbox"/> <b>Other</b>
<b>If other, please specify</b>		

<b>2. Please provide a brief description of what you are screening</b>
The report sets out the treasury management strategy for 2020/21. The strategy outlines the approach to managing the Council's borrowing requirements in the light of its capital programme, cash balances and reserves and economic conditions including forecasts of interest rates.

--

**3. Relevance to equality, diversity, cohesion and integration**

All the council’s strategies/policies, services/functions affect service users, employees or the wider community – city wide or more local. These will also have a greater/lesser relevance to equality, diversity, cohesion and integration.

The following questions will help you to identify how relevant your proposals are.

When considering these questions think about age, carers, disability, gender reassignment, race, religion or belief, sex, sexual orientation. Also those areas that impact on or relate to equality: tackling poverty and improving health and well-being.

Questions	Yes	No
Is there an existing or likely differential impact for the different equality characteristics?		X
Have there been or likely to be any public concerns about the policy or proposal?		X
Could the proposal affect how our services, commissioning or procurement activities are organised, provided, located and by whom?		X
Could the proposal affect our workforce or employment practices?		X
Does the proposal involve or will it have an impact on <ul style="list-style-type: none"> <li>• Eliminating unlawful discrimination, victimisation and harassment</li> <li>• Advancing equality of opportunity</li> <li>• Fostering good relations</li> </ul>		X X X

If you have answered **no** to the questions above please complete **sections 6 and 7**

If you have answered **yes** to any of the above and;

- Believe you have already considered the impact on equality, diversity, cohesion and integration within your proposal please go to **section 4**.
- Are not already considering the impact on equality, diversity, cohesion and integration within your proposal please go to **section 5**.

**4. Considering the impact on equality, diversity, cohesion and integration**

If you can demonstrate you have considered how your proposals impact on equality, diversity, cohesion and integration you have carried out an impact assessment.

Please provide specific details for all three areas below (use the prompts for guidance).

- **How have you considered equality, diversity, cohesion and integration?** (think about the scope of the proposal, who is likely to be affected, equality related information, gaps in information and plans to address, consultation and engagement activities (taken place or planned) with those likely to be affected)

- **Key findings**

**(think about** any potential positive and negative impact on different equality characteristics, potential to promote strong and positive relationships between groups, potential to bring groups/communities into increased contact with each other, perception that the proposal could benefit one group at the expense of another)

• **Actions**

**(think about** how you will promote positive impact and remove/ reduce negative impact)

**5.** If you are **not** already considering the impact on equality, diversity, cohesion and integration you **will need to carry out an impact assessment.**

Date to scope and plan your impact assessment:	
Date to complete your impact assessment	
Lead person for your impact assessment (Include name and job title)	

**6. Governance, ownership and approval**

Please state here who has approved the actions and outcomes of the screening

Name	Job title	Date
Bhupinder Chana	Head of Finance - Technical	14 <sup>th</sup> January 2020
<b>Date screening completed</b>		14 <sup>th</sup> January 2020

**7. Publishing**

Though **all** key decisions are required to give due regard to equality the council **only** publishes those related to **Executive Board, Full Council, Key Delegated Decisions** or a **Significant Operational Decision.**

A copy of this equality screening should be attached as an appendix to the decision making report:

- Governance Services will publish those relating to Executive Board and Full Council.
- The appropriate directorate will publish those relating to Delegated Decisions and Significant Operational Decisions.
- A copy of all other equality screenings that are not to be published should be sent to [equalityteam@leeds.gov.uk](mailto:equalityteam@leeds.gov.uk) for record.

Complete the appropriate section below with the date the report and attached screening was sent:

For Executive Board or Full Council – sent to <b>Governance Services</b>	Date sent: 14 <sup>th</sup> January 2020
For Delegated Decisions or Significant Operational Decisions – sent to appropriate <b>Directorate</b>	Date sent:

All other decisions – sent to  
[equalityteam@leeds.gov.uk](mailto:equalityteam@leeds.gov.uk)

Date sent: