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Leeds CITY COUNCIL

Report of Chief Officer Financial Services

Report to Executive Board

Agenda Item 7C

Date: 10th February 2021

Subject: TREASURY MANAGEMENT STRATEGY 2021/22

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	√ No
Has consultation been carried out?	☐ Yes	√ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	√ No
Is the decision eligible for Call-In? Except recommendation 6.2 to 6.4	√ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	√ No

Summary

1. Main issues

1.1 This report sets out for Members' approval the Treasury Management Strategy for 2021/22 and also provides an update on the implementation of the 2020/21 strategy.

1.2 The Council's level of net external debt is anticipated to be £2,283m by 31/03/2021, £63m below expectations in November 2020 as a result of £38m slippage in the capital programme and £25m of increased internal resources.

1.3 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 £10.3m in 2021/22 principally due to an increase in MRP and the external cost of debt.

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. 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 £2.229bn that has an average maturity of just under 36 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 £0.5m to the interest costs in 2021/22.

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 2020/21 is forecast to deliver a saving of £1.0m.

Recommendations

That the Executive Board:

1 Approve the treasury strategy for 2021/22 as set out in Section 3.3 and note the review of the 2020/21 strategy and operations set out in Sections 3.1 and 3.2.

That Executive Board recommend to full Council that:

2 The borrowing limits for 2020/21, 2021/22, 2022/23 and 2023/24 be set as detailed in Section 3.4 and note the changes to both the Operational Boundary and the Authorised limits.

3 The treasury management indicators for 2020/21, 2021/22, 2022/23 and 2023/24 be set as detailed in Section 3.5.

4 The investment limits for 2020/21, 2021/22, 2022/23 and 2023/24 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 2021/22 and the revised affordable borrowing limits under the prudential framework. It also provides Members with a review of strategy and operations in 2020/21.

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 2020/21

The Council's level of net external debt is anticipated to be £2,283m by 31/03/2021, £63m below expectations in November 2020 as a result of £38m slippage in the capital programme and £25m of Increased internal resources.

Table 1

ANALYSIS OF BORROWING 2020/21		2020/21 Feb 20 Report £m	2020/21 Nov 20 Report £m	2020/21 This Report £m
Net Borrowing at 1 April		2,209	2,162	**2,162**
New Borrowing for the Capital Programme – General Fund		161	164	**124**
New Borrowing for the Capital Programme – HRA		47	4	**6**
Debt redemption costs charged to Revenue (Incl HRA)		(45)	(51)	**(51)**
Reduced/(Increased) level of Revenue Balances		12	67	**42**
Net Borrowing at 31 March*		2,384	2,346	**2,283**
Capital Financing Requirement				**2,591**
* Comprised as follows				
Long term borrowing	Fixed	2,029	2,209	2,234
	Variable (less than 1 Year)	60	25	0
New Borrowing		175	152	89
Short term Borrowing		150	0	0
Total External Borrowing		2,414	2,386	2,323
Less Investments		30	40	40
Net External Borrowing		**2,384**	**2,346**	**2,283**
% gross borrowing exposed to interest rate risk		16%	7%	4%

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 11th March 2020 reduced its bank rate from 0.70% to 0.25% and on 19th March 2020 further reduced the rate to 0.1% in reponse to the emerging COVID empedemic.

This rate has remained at this level throughout 2020 and is the lowest Bank rate since records began in 1694.

3.1.2 The combined impacts of Brexit and COVID continues to be a source of uncertainty to markets in forecasting GDP growth and inflation. UK GDP Growth in 2020 has recorded a significantly fall, down 18.8% in Q2 alone but recovered subsequently to record an annual fall in Q4 of 8.60%. The re-imposition of lockdown measure is likely to have depressed these results even further. In response the Government has issued during 2020 a further £450bn of Quantative Easing (QE) this is on top of the £475bn issued in response to the crash following the 2008 financial crisis. The Office for Budget Responsibility forecast in November 2020 that Public borrowing is likely to reach £394bn for 2020/21 which is the highest ever peace time figure recorded and equates to 19% of GDP. The MPC aim is to achieve its inflation target of 2% over a 2 year timeframe and in its policy "it does not intend to tighten monetary policy untill there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". Inflation is expected to briefly peak above 2% later in 2021 but this is expected to be temporary and is therefore not expected to lead to an increase in bank base rates. The MPC have reitierated that "recovery would take time" and noted that risks were skewed to the downside but upside risks were also noted.

3.1.3 In the Eurozone, Q2 GDP growth was 15% below its pre-pandemic levels but recovered strongly leaving GDP down by 4.4%. The European Central Bank (ECB) inflation target of 2% is unlikely to be achieved over the next two years but it is not thought that the ECB will cut its policy rate of minus 0.5% further. In its December Meeting the ECB announced a further 500bn Euro QE purchases (total now 1,850bn Euro) along with other measures to support the EU economy. The banks forecast is for the economy to reach pre pandemic levels by the end of 2021 but with stronger growth in 2022.

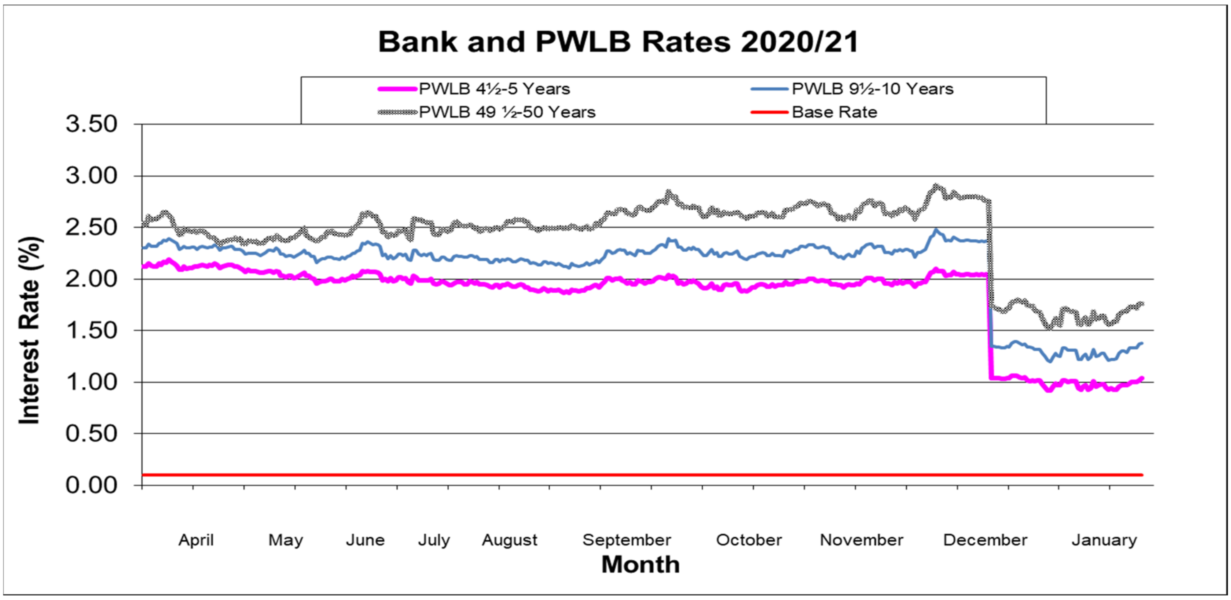
3.1.4 The US Q2 Growth contracted by 10.2% due to COVID but rebounded strongly to a projected 3.5% decline during the rest of 2020. However the resurgence of infections and subsequent imposition of measures may dent growth further as the US enters it fourth wave. Inflation has undershot the Federal Open Markets Committee (FOMC) target of 2% for most of the last decade. The FOMC's latest projections indicate that it expects to leave its policy rate at near zero untill at least the end of 2023 although some market commentators believe this stance may be maintained in 2024 and beyond.

3.1.5 In Asia, China's GDP contracted in Q1 However this was entirely recovered by Q4 through quick action at the outbreak of the Pandemic and by implementing a programme of monetary and fiscal support. This included major government spending on infrastructure spending which was an issue prior to 2020 and may lead to weaker economic returns in future years and consequently weaker growth. Japan issued a third round of fiscal stimulus for the year in December which brought the total to close to 12% of pre crisis GDP. The economy is expected to reach precrisis levels by Q3 2021 around the same time as the US and sooner than the EU.

3.1.6 Generally world growth will have been in recession in 2020 due to the pandemic however inflation is not thought to be a problem for seveal years due to excess production capcacity and depressed demand.

3.1.7 The Council's treasury advisors' latest forecasts for Quarter 1, 2021 are that PWLB rates for 50 year borrowing will be around 1.3%, 10 year borrowing around 1.10% and 5 Year at 0.80%. Yields are expected to rise moderately over the forecast period 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 £1.0m. The ability to take longer term funding is discussed in the strategy for 2021/22 however table 2 below details the new borrowing and repayment of long term external debt during 2020/21.

3.1.9 On 9th October 2019 the PWLB unilaterally and without warning increased rates across all structures and periods by 100bp (1%). This increase was reviewed after a consultation by HM treasury into the use of PWLB loan financing and as a result on 25th November 2020 PWLB rates were reduced back to margins prevalent before October 2019 as part of the Autumn 2020 spending review. New long term borrowing and repayment of maturity loan structures is 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

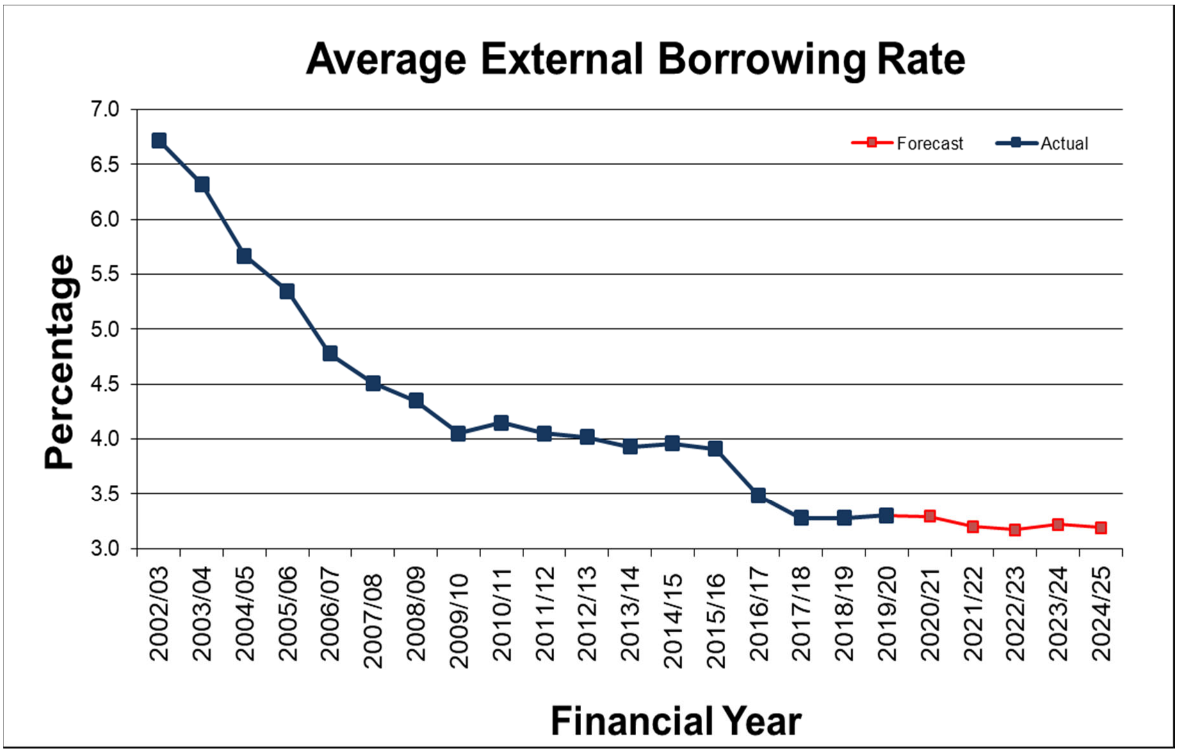
Loan repayments and borrowing 2020/21							
Loan Repayments				New Borrowing			
Date	Amount (£m)	Original Rate (%)	Discount Rate	Date	Amount (£m)	Term (Years)	Interest Rate (%)
PWLB Loans				PWLB			
04/09/2020	8.8	3.3	n/a				
Sub Total	**8.8**				**0.0**		
Non PWLB Loans				Non PWLB Loans			
				Salix PH1***	0.9	8	0.0
				Salix PH1***	2.2	8	0.0
				Salix PH1***	0.6	8	0.0
Sub Total	**0.0**				**3.7**		
Total	**8.8**			**Total**	**3.7**		

*** Loan is on an Equal Instalment of Principal (EIP) repayment profile

3.2 Interest Rate Review

3.2.1 The average rate of interest paid on the Council's external debt for 2019/20 was 3.30% as reported in the Annual Treasury Management report 2019/20 to Executive Board on 24th June 2020. This rate is forecast to fall slightly to 3.29% for 2020/21 mainly due to running the borrowing need on short term or from internal funding sources. 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 beyond the forecast period out to Q1 2024, as shown in Table 3.

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	0.10	0.77	1.10	1.67	1.49
March 2021	0.10	0.80	1.10	1.50	1.30
June 2021	0.10	0.80	1.10	1.60	1.40
Sept 2021	0.10	0.80	1.10	1.60	1.40
Dec 2021	0.10	0.80	1.10	1.60	1.40
March 2022	0.10	0.90	1.20	1.60	1.40
June 2022	0.10	0.90	1.20	1.70	1.50
Sept 2022	0.10	0.90	1.20	1.70	1.50
Dec 2022	0.10	0.90	1.20	1.70	1.50
Mar 2023	0.10	0.90	1.20	1.70	1.50
June 2023	0.10	1.00	1.30	1.80	1.60
Sept 2023	0.10	1.00	1.30	1.80	1.60
Dec 2023	0.10	1.00	1.30	1.80	1.60
Mar 2024	0.10	1.00	1.30	1.80	1.60

- Source Council's Treasury Advisors

3.3 Strategy for 2021/22

3.3.1 Table 4 shows that net borrowing is expected to rise by £173m to £2,456m during the course of 2021/22. 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

ANALYSIS OF BORROWING 2020/21 – 2023/24		2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Net Borrowing at 1 April		2,162	2,283	2,456	2,612
New Borrowing for the Capital Programme – GF		124	135	141	103
New Borrowing for the Capital Programme - HRA		6	53	59	46
Debt redemption costs charged to Revenue(GF)		(51)	(54)	(58)	(60)
Reduced/(Increased) level of Revenue Balances		42	39	14	15
Net Borrowing at 31 March		2,283	2,456	2,612	2,716
* Comprised as follows					
Long term borrowing	Existing Fixed	2,234	2,172	2,123	2,031
	Existing Variable (Less than 1yr)	0	35	45	95
	Net New Borrowing	89	173	156	104
Short term Borrowing		0	116	328	526
Total External Borrowing		2,323	2,496	2,652	2,756
Less Investments		40	40	40	40
Net External Borrowing		2,283	2,456	2,612	2,716
% Exposure after planned LT Borrowing		4%	13%	20%	26%

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 26% in 2023/24. 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 2021/22.

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 strike out application hearing initiated by Barclays has been heard on 18th to 20th January 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, it's borrowing Capital Financing Requirement (CFR), at 31/03/2021 of £2,591m of which net external funding is expected to be £2,283m, the difference of £308m 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 £2,234m 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 £357m.

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 £981m in 2023/24. 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.

3.3.7 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 during the forecast period (Q1 2024) .

3.3.8 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;

- Continuing impact of the COVID pandemic
- Investment returns are likely to remain relatively low during 2021/22 and beyond as rate rises are expected to be slow and gradual;
- Borrowing interest rates 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.

3.3.9 The Council's current long term debt of £2.234bn has an average maturity of just under 36 years if all its debt runs to maturity. Approximately 10% 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 over 31 years. This compares favourably with the average maturity of the UK Government gross debt portfolio of 15.05 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 79% or £1,730m matures in periods greater than 10 years.

3.3.10 The cost of debt is forecast to increase by £10.3m in 2021/22 principally due to an increase in MRP and the external cost of debt. Forecasts for the debt budget beyond 2021/22 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 £37.4m in 2022/23 and £11.2m in 2023/24 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 2021/22, before establishing the 2022/23 debt budget.

Table 5

Assumed average funding rates	
Year	Average Interest Rate
2021/22	1.75%
2022/23	2.25%
2023/24	2.50%

3.3.11 These assumptions on borrowing rates have associated risks. For example in 2021/22, if the cost of borrowing was 0.25% higher than assumed, full year debt costs would increase by circa £0.5m. As funding levels have reduced the debt budget now contains sufficient scope to fully switch from short term to long term.

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 2020/21.

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 2020/21, 2021/22 and 2022/23 as detailed below. For 2023/24 a new limit should be set at £3,200m. The limit for Other Long Term Liabilities is recommended to Increase for the years 2020/21 to 2022/23 to accommodate new lease arrangements recognised in 2019/20 and to main sufficient headroom for further inclusions as a result of anticipated accounting changes. It is further recommended that a new limit be set for the year 2023/24 of £600m to reflect the forecast amortisation of PFI liabilities and finance leases.

Recommended: Authorised Limits as follows

Authorised Limit	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**
Borrowing	2800	3,000	3,150	3,200
Other Long Term Liabilities	700	670	630	600
Total	**3,500**	**3,670**	**3,780**	**3,800**

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 2020/21, 2021/22 and 2022/23. For 2023/24, a new limit should be set at £2,850m. The limit for Other Long Term Liabilities is recommended to Increase for the years 2020/21 to 2022/23 to accommodate new lease arrangements recognised in 2019/20 and to main sufficient headroom for further inclusions as a result of anticipated accounting changes. It is further recommended that a new limit be set for the year 2023/24 of £580m to reflect the forecast amortisationof PFI liabilities and finance leases.

Recommended: Operational Boundaries as follows

Operational Boundary	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Borrowing	2,650	2,850	2,850	2,850
Other Long Term Liabilities	680	650	610	580
Total	**3,330**	**3,500**	**3,460**	**3,430**

3.4.6 Table 7 details separately the borrowing and Other Long Term Liabilities element of the Authorised limit and compares this to the projected CFR. 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 or external investment of Council balances.

Table 7

year	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	
External Borrowing					
CFR Projection.	2,596	2,779	2,931	3,016	
Authorised Limit					
Current	2,800	3,000	3,150	-	
Proposed	2,800	3,000	3,150	3,200	
Increase / (Decrease)	-	-	-	3,200	a
Operational boundary					
Current	2,650	2,850	2,850	0	
Proposed	2,650	2,850	2,850	2,850	
Increase / (Decrease)	-	-	-	2,850	a
Other Long Term Liabilities					
CFR Projection.	581	551	519	486	
Authorised Limit					
Current	660	580	540	-	
Proposed	700	670	630	600	
Increase / (Decrease)	40	90	90	600	a
Operational boundary					
Current	640	560	520	-	
Proposed	680	650	610	580	
Increase / (Decrease)	40	90	90	580	a

a) Note 2023/24 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 2023/24

Recommended: Upper limit on fixed interest rate exposures 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 2023/24.

Recommended: Upper limit on variable interest rate exposures for 2020/21, 2021/22, 2022/23 and 2023/24 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.

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

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 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 2023/24

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

Total principal sum invested for a period longer than 364 days	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**
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 2020/21 is forecast to deliver a saving of £1.0m.

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 6.2 to 6.4 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 31st March 2021 is anticipated to be £2,283m, £63m lower than expected in November 2020, rising to £2,456m in 2021/22 and to £2,612m by 2022/23.

5.2 The cost of debt is forecast to outturn a saving of £1.0m against budget in 2020/21. 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 £10.3m in 2021/22.

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 2021/22 as set out in Section 3.3 and note the review of the 2020/21 strategy and operations set out in Sections 3.1 and 3.2.

That Executive Board recommend to full Council that:

6.2 The borrowing limits for 2020/21, 2021/22, 2022/23 and 2023/24 be set as detailed in Section 3.4 and note the changes to both the Operational Boundary and the Authorised limits.

6.3 The treasury management indicators for 2020/21, 2021/22, 2022/23 and 2023/24 be set as detailed in Section 3.5.

6.4 The investment limits for 2020/21, 2021/22, 2022/23 and 2023/24 be set as detailed in Section 3.6

7 Background documents [1]

None

[1] 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.

Leeds City Council - Prudential Indicators 2020/21 to 2023/24 — Appendix A

No.	PRUDENTIAL INDICATOR	2020/21	2021/22	2022/23	2023/24
	(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS				
	Ratio of Financing Costs to Net Revenue Stream				
1a	General Fund (Borrowing Only)	19.08%	20.58%	21.09%	21.20%
1b	General Fund (Borrowing and Other Long Term Liabilities)	28.28%	30.25%	30.24%	29.98%
2a	HRA (Borrowing Only)	11.60%	11.45%	11.69%	11.88%
2b	HRA (Borrowing and Other Long Term Liabilities)	18.32%	18.14%	18.25%	18.21%
		£'000	**£'000**	**£'000**	**£'000**
5	**Gross external borrowing requirement (Gross Debt and CFR)**	2,323,726	2,496,690	2,652,690	2,756,654
	The Net Borrowing Requirement should not exceed the capital financing requirement **(Note 3)**	OK	OK	OK	OK
	Estimate of total capital expenditure	**£'000**	**£'000**	**£'000**	**£'000**
6	General Fund	357,890	367,147	251,853	120,518
7	HRA	78,649	160,045	163,569	128,450
	TOTAL	436,539	527,192	415,422	248,968
	Capital Financing Requirement (as at 31 March)	**£'000**	**£'000**	**£'000**	**£'000**
8	General Fund	2,357,637	2,433,735	2,511,249	2,548,533
9	HRA	814,503	860,834	911,706	949,570
	TOTAL	3,172,140	3,294,569	3,422,955	3,498,103

No.	PRUDENTIAL INDICATOR	2020/21	2021/22	2022/23	2023/24
	(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**	**£'000**
10	**Authorised limit for external debt**				
	borrowing	2,800,000	3,000,000	3,150,000	3,200,000
	other long term liabilities	700,000	670,000	630,000	600,000
	TOTAL	3,500,000	3,670,000	3,780,000	3,800,000
11	**Operational boundary -**				
	borrowing	2,650,000	2,850,000	2,850,000	2,850,000
	other long term liabilities	680,000	650,000	610,000	580,000
	TOTAL	3,330,000	3,500,000	3,460,000	3,430,000
14	**Upper limit for fixed interest rate exposure (note 5)**				
	expressed as either:-				
	Net principal re fixed rate borrowing / investments OR:-	115%	115%	115%	115%
	Net interest re fixed rate borrowing / investments				
15	**Upper limit for variable rate exposure (note 5)**				
	expressed as either:-				
	Net principal re variable rate borrowing / investments OR:-	40%	40%	40%	40%
	Net interest re variable rate borrowing / investments				
		£'000	**£'000**	**£'000**	**£'000**
17	**Upper limit for total principal sums invested for over 364 days (Note 6)**	150,000	150,000	150,000	150,000
18	**Net Debt as a percentage of Gross debt**	98.28%	98.40%	98.49%	98.55%

16	**Maturity structure of fixed rate borrowing 2020/21**	**Lower Limit**	**Upper Limit**	**Projected 31/03/2021**	
	under 12 months	0%	15%	1%	
	12 months and within 24 months	0%	20%	4%	
	24 months and within 5 years	0%	35%	10%	
	5 years and within 10 years	0%	40%	7%	
	10 years and within 20 years			6%	
	20 years and within 30 years			0%	
	30 years and within 40 years	25%	90%	36%	79%
	40 years and within 50 years			31%	
	More Than 50 Years			6%	
				100%	

Notes.

1 **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)**

2 **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 addtion Indicator 9 the relating to the MHCLG imposed HRA borrowing debt ceiling has been recinded and is therefore no longer reported**

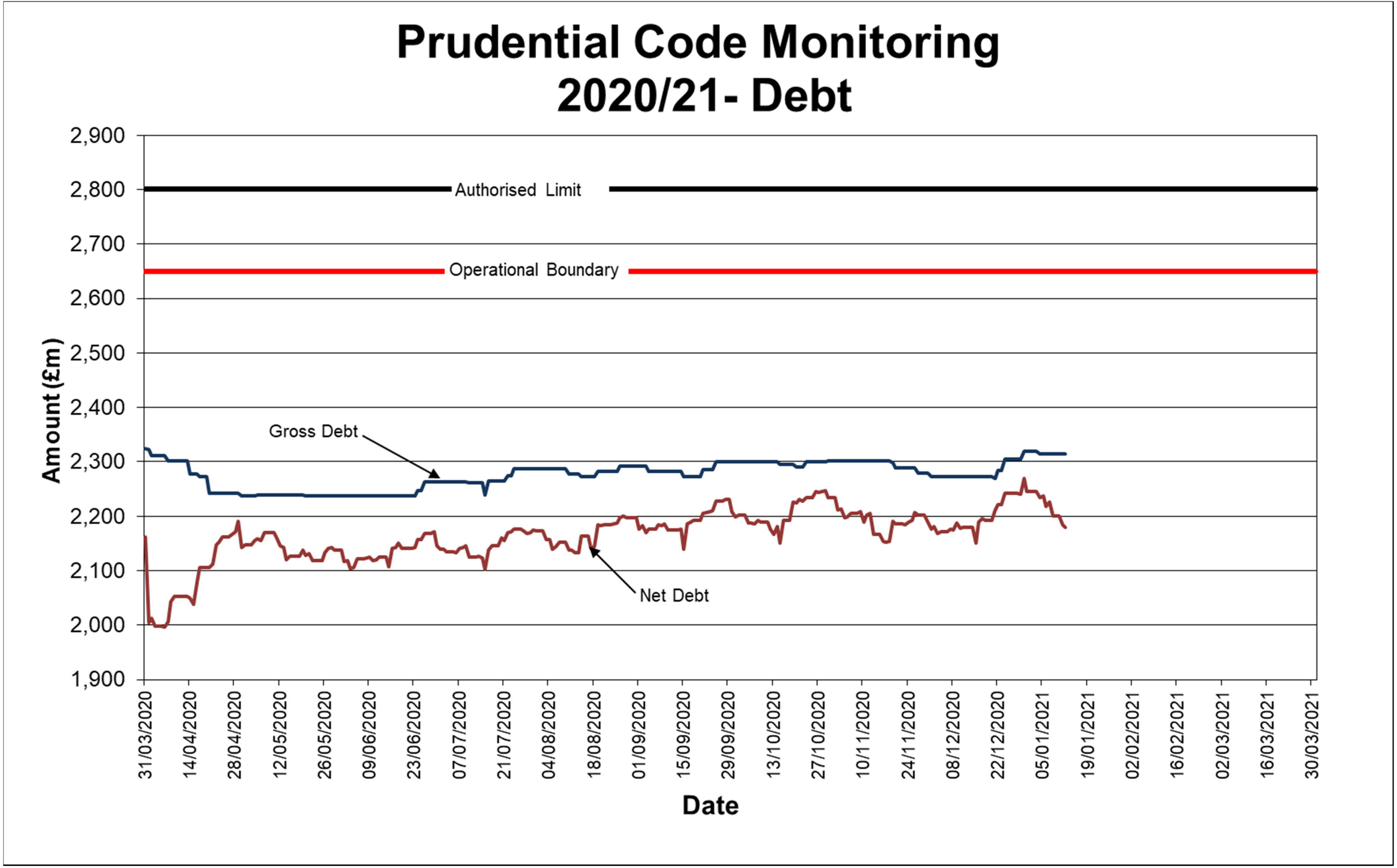
3 **In order to ensure that over the medium term gross borrowing will only be for a capital purpose, the Council should ensure that gross external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for 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.**

4 **Prudential indicator 12 relates to actual external debt at 31st March, which will be reported in the Treasury Management Annual Report.**

5 **Indicators 14 and 15 are no longer explicit within the updated codes however these have been but have been retained pending further review**

6 **Indicator 17 relates solely to Treasury Management investments made under Section 12 of the Local Governement act 2003**

APPENDIX B


Prudential Code Monitoring
2020/21- Debt
Amount (£m)
2,900
2,800
2,700
2,600
2,500
2,400
2,300
2,200
2,100
2,000
1,900
Authorised Limit
Operational Boundary
Gross Debt
Net Debt
31/03/2020
14/04/2020
28/04/2020
12/05/2020
26/05/2020
09/06/2020
23/06/2020
07/07/2020
21/07/2020
04/08/2020
18/08/2020
01/09/2020
15/09/2020
29/09/2020
13/10/2020
27/10/2020
10/11/2020
24/11/2020
08/12/2020
22/12/2020
05/01/2021
19/01/2021
02/02/2021
16/02/2021
02/03/2021
16/03/2021
30/03/2021
Date

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.

Directorate: Resources & Housing	**Service area: Capital, Insurance and Treasury Management**
Lead person: Bhupinder Chana	**Contact number: 88044**

1. Title: Treasury Management Strategy 2021/22
Is this a: [X] **Strategy / Policy** [ ] **Service / Function** [ ] **Other** **If other, please specify**

2. Please provide a brief description of what you are screening
The report sets out the treasury management strategy for 2021/22. 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 • Eliminating unlawful discrimination, victimisation and harassment • Advancing equality of opportunity • Fostering good relations		 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	19th January 2021
Date screening completed		19th January 2021

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 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 **Governance Services**	Date sent: 19th January 2021
For Delegated Decisions or Significant Operational Decisions – sent to appropriate **Directorate**	Date sent:

All other decisions – sent to equalityteam@leeds.gov.uk	Date sent: