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Leeds CITY COUNCIL

Report of Chief Officer Financial Services

Report to Executive Board

Date: 23rd June 2021

Subject: TREASURY MANAGEMENT OUTTURN REPORT 2020/21

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?	☑ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☑ No

Summary of main issues

1 **Main Issues**

1.1 This report sets out for Members' approval the Treasury Management Outturn Report for 2020/21.

1.2 This report shows that net external debt at 31st March 2021 was £2,252m, £31m lower than the February 2021 forecast. This movement is due to lower than anticipated revenue balances of £5m, an increase in MRP of £2m and a decrease in assumed treasury borrowing of £24m for the capital programme. The level of debt and liabilities should be viewed in the context of the Council's assets which were valued at £6.2bn as at 31st March 2020. The value of assets as at 31st March 2021 are pending the completion of the Councils draft balance sheet and statement of accounts which are not finalised at this time.

1.3 The level of debt has remained within the authorised limit and operational boundary as approved by the Council in February 2021.

1.4 The average rate of interest paid on the Council's external debt was 3.28% for 2020/21 compared to 3.30% for 2019/20.

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 strategy for 2020/21 has resulted in an underlying surplus of £1.4m by funding at lower rates than anticipated however strategic use of capital receipts and a switch to revenue support for the costs of MRP has resulted in an overall deficit the details of which can be found in the Revenue outturn report elsewhere on this agenda.

Recommendations

1. Executive Board are asked to note the Treasury Management outturn position for 2020/21 and that treasury activity has remained within the Treasury Management Strategy and policy framework.

1 Purpose of this report

1.1 This report provides members with a final update on Treasury Management 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 2017 in particular:

- The amended 2017 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 agreed by Council.
- Policy statements are prepared for approval by the Council at least twice a year.

2.2 These codes have been updated and re-issued late in 2017/18 together with the Ministry of Housing, Communities and Local Government (MHCLG) guidance in relation to Investments and Minimum Revenue Provision (MRP). These codes are currently subject to consultation with a view to updating both codes during 2021/22 and a further update will be provided when these new codes are issued. The CIPFA codes and MHCLG guidance have been formally adopted.

3 Main Issues

3.1 <u>Review of Strategy 2020/21</u>

3.1.1 Table 1, below shows that net borrowing in 2020/21 was £2,252m, £31m lower than the February 2021 forecast. This movement is due to lower than anticipated revenue balances of £5m, an increase in MRP of £2m and a decrease in assumed treasury borrowing of £24m for the capital programme. The actual movement in the capital programme is explained in the revenue outturn report elsewhere on the agenda.

TABLE 1

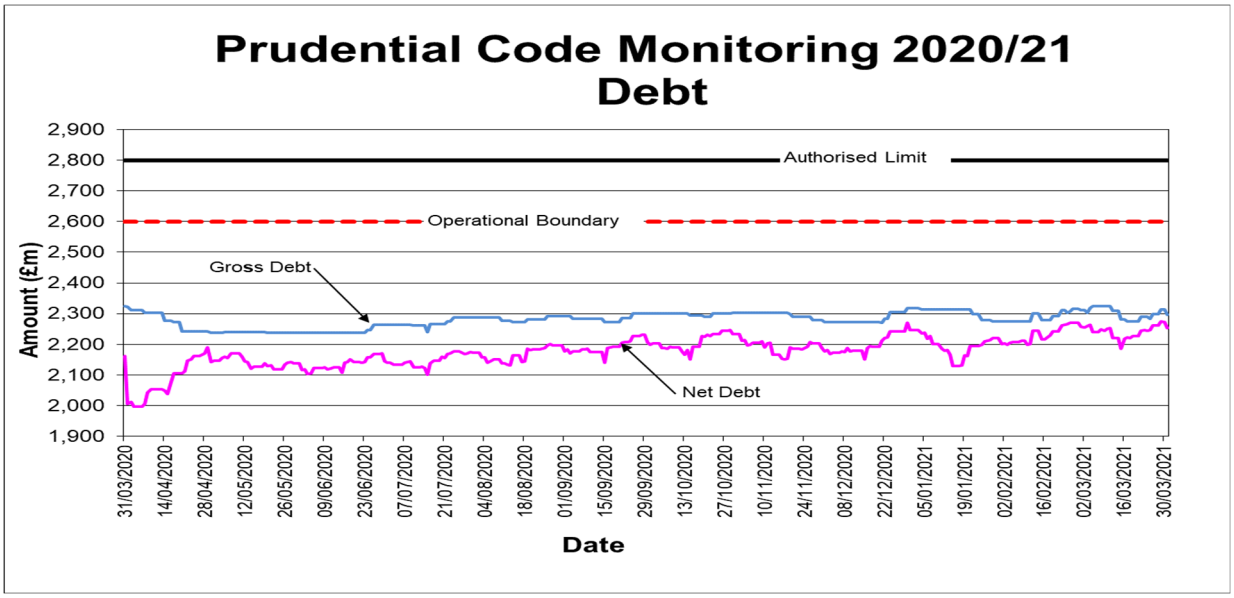
ANALYSIS OF BORROWING 2020/21	2020/21 Nov 20 Report £m	2020/21 Feb 21 Report £m	2020/21 This Report £m
Net Borrowing at 1 April	2,162	2,162	**2,162**
New Borrowing for the Capital Programme – GF	164	124	**96**
New Borrowing for the Capital Programme – HRA	4	6	**10**
Debt redemption costs charged to Revenue (Incl HRA)	(51)	(51)	**(53)**
Reduced/(Increased) level of Revenue Balances	67	42	**37**
Net Borrowing at 31 March	2,346	2,283	**2,252**
Capital Financing Requirement*			**2,565**
Other long term liabilities capital financing requirement			**581**
Net Borrowing 31st March comprised as follows			
Long term Fixed	2,209	2,234	2,230
Variable (less than 1 Year)	25	0	0
New Borrowing	152	89	65
Short term Borrowing	0	0	0
Total External Borrowing	2,386	2,323	2,295
Less Investments	40	40	43
Net External Borrowing	**2,346**	**2,283**	**2,252**
% borrowing funded by short term and variable rate loans	7%	4%	3%
Limit for variable rate Borrowing	40%	40%	40%

* 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.

3.1.2 The level of debt and liabilities should be viewed in the context of the Council's assets which are valued at approximately £6.2bn as at 31st March 2020. The value of assets as at 31st March 2021 are pending the completion of the Councils draft balance sheet and statement of accounts which are not finalised at this time. The Capital programme outturn position is reported in the June Financial Performance - Outturn Report to Executive Board elsewhere on the agenda.

3.1.3 Graph 1, below shows that the level of debt during 2020/21 remained within Authorised limits during the year. The Authorised Limit is the maximum permitted amount of borrowing the Council can have outstanding at any given time and has not been breached during 2020/21. The operational boundary is a key management tool and can be breached temporarily depending on cash flow. This limit acts as a warning mechanism to prevent the Authorised limit from being breached. Treasury management activity has resulted in no breach of its prudential indicators which are detailed in Appendix A. All of these other prudential indicators are within the normal tolerance levels of treasury management.

Graph 1



3.1.4 The 2020/21 borrowing strategy continued to fund the capital programme borrowing requirement from short dated loans and internal cash balances whilst looking for opportunities to lock into attractive longer dated funding. Whilst this approach continues to deliver lower costs of financing, the proportion of borrowing funding by short terms loans has been reduced to 3% (Table1) due to increasing the use of the Council's balance sheet to fund its borrowing requirement from the start of the year. This exposure to interest rate refinancing has decreased slightly from 2019/20 however it is expected to rise to approximately 26% in 2023/24 if only short term funding is utilised. Provision exists in 2022/23 and 2023/24 within the MTFS to enable the switching of all short term borrowing to Long term funding in which case the interest rate exposure would fall to 3.5%.

3.1.5 Since the economic update to Members in February, the uncertainty surrounding the impact of the Covid-19 outbreak provide the backdrop for the economic performance outlined below. Generally the economy suffered a contraction larger than the financial crash of 2008/09 however the rollout of vaccination programme promises a return to something approaching normality. In addition with the exceptionally high household

saving rates seen since March 2020, it is thought that significant pent up consumer demand exists and leads some commentators to predict the UK economy could recover to pre-pandemic levels during Q1 of 2022. The key movements are:

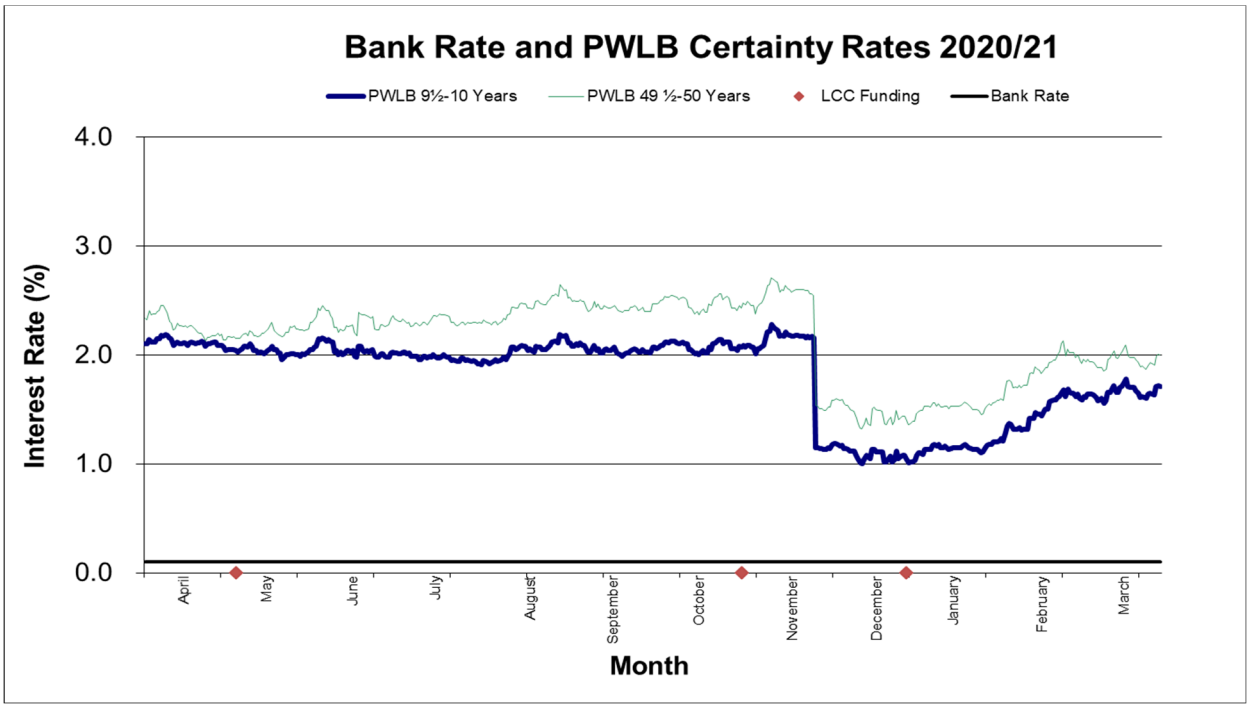
- The Monetary Policy Committee (MPC) reduced bank rate from 0.75% to 0.25% and then 0.1% in March 2020 and these rates remain unchanged. In addition the MPC introduced a further £450bn of Quantitative Easing (QE) during the crisis bringing the total issuance of QE to £895bn. During the year negative bank base interest rates were discussed but these have not materialised. Also in its August report the MPC stated that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". This leads some commentators to expect base rates to remain at current levels for some time despite short term expectations of a moderate inflation spike above 2% forecast for the end of this year.
- The government has also been active in providing support to businesses by way of cheap loans and other measures such as business rate grant support to support businesses in furloughing staff.
- The Brexit agreement was signed on 24th December 2020 and eliminated a significant downside risk to the UK economy although it is noted that much work remains to be completed in this area.
- Inflation as measured by the CPI index, started the year at 1.5% in March 2020 but fell rapidly as lockdown measures were implemented and rose at the end of the year to finish at 0.7% in March 2021.
- In the US the economy suffered a contraction as the pandemic escalated in early 2020 and like the UK led to a policy response by the Federal Markets Open Committee (FMOC) to reduce rates to near 0% together with significant fiscal stimulus through QE. In December a package of support totalling $900bn was issued followed by a further $1.9trn (8.8% of GDP) in March from the incoming administration after the November election. US inflation has generally undershot the 2% inflation target for most of the last decade and the risk of a Japanese style deflationary trap is noted by many economists. Markets are also aware of the longer term potential inflationary risks around the accommodative policy stance and this led to an increase in longer term Bond yields. Again as in the UK the key metric will be the amount of spare capacity in the economy as normality returns.
- In Europe also remain well below the 2% target however the European Central bank (ECB did not cut its policy rate which was already at -0.5%. The ECB did however embark on an expansion of its QE programme in March 2020 and December 2020 to the tune of 1.85trn Euro.
- In China economic growth contracted in Q1 2020 however a strong response to the outbreak enabled them to recover all of the Q1 contraction. In addition a programme of fiscal and monetary support has been effective at stimulating short term growth.
- In Japan 3 rounds of government fiscal support relatively effective virus containment and vaccines rollout in 2021 are thought to ensure a strong recovery in 2021 with an expectation of being back to pre-covid levels by Q3.
- World growth was in recession in 2020 however inflation in most countries is not thought to be a problem for some years due to excess production capacity and depressed demand.

3.1.6 Graph 3 below shows the movement in PWLB interest rates over the year. Although underlying Gilt yields have risen during 2020/21 by around 0.5% PWLB rates accessible by the Council are actually lower. This is due to the removal of the 1% margin imposed by Her Majesty's Treasury (HMT). This additional margin over gilts was imposed on 9th October 2019 and removed on 26th November 2020. It should be noted the PWLB borrowing is now only accessible provided the Council states that it is not investing in capital assets primarily for yield. Longer term PWLB rates (49½-50 year) have varied during the year but ended the year 1.99% and achieved a low point which occurred in mid-December. Shorter term rates (9½-10 year) have also fallen from the start of the year and again hit a low point in mid-December. PWLB rates can now be summarised as follows

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

The graph below also shows the long term funding activity undertaken as detailed in table 2 below.

Graph 3



3.1.7 The strategy for 2020/21 has resulted in an underlying surplus of £1.4m. However, strategic use of capital receipts and a switch to revenue support for the costs of MRP has resulted in an overall deficit the details of which can be found in the Revenue outturn report elsewhere on this agenda. The treasury surplus is due to lower borrowing levels and increased income from eternal investments.

3.1.8 Table 2 shows £5m of longer term funding was secured during the year and no PWLB was taken after the £486.5m funding taken during 2019/20. The table also shows that no market loans options were exercised during the entire year, whilst £8.8m of PWLB loans reached maturity during the period. Approximately half of market loans outstanding are termed Lenders Option Borrowers Option (LOBO) and contain clauses which allows the lender, at pre-determined dates, to vary the interest rate on the loan. If one of these options is exercised and the new rate is not accepted, the borrower then has the option to repay the loan without penalty. £110m of these

market loans were subject to a class action initiated by a total of 7 Councils. However a decision in an unrelated case significantly weakened the position of the class action and an application to strike out the claims was decided in Barclays' favour. As a result all parties agreed not to pursue the legal proceedings any further, and to bear their own costs.

Table 2

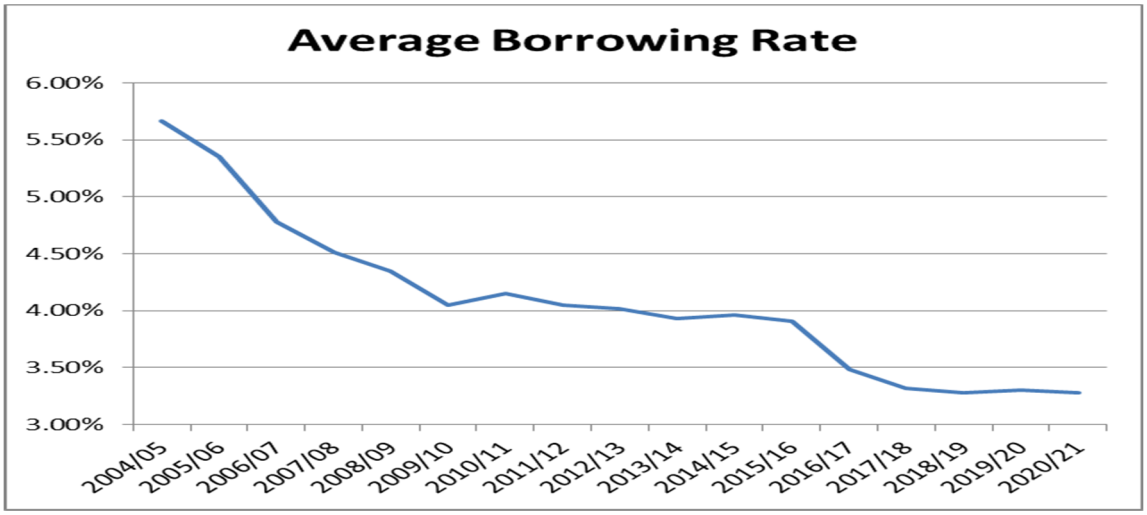
Loan repayments and borrowing 2020/21							
Loan Repayments				New Borrowing			
Date	Amount (£m)	Original Rate (%)	Discount Rate	Date	Amount (£m)	Term (Years)	Interest Rate (%)
PWLB Loans				PWLB			
04/09/2020	8.8	3.30%	n/a				
Sub Total	**8.8**				**0.0**		
Non PWLB Loans				Non PWLB Loans			
				SALIX PH1	5.0	8	0.00
Sub Total	**0.000**				**5.0**		
Total	**8.8**			**Total**	**5.0**		

* Taken for the HRA account

3.2 Interest Rate Performance and Average Maturity Profile

3.2.1 The average rate of interest paid on the Council's external debt was 3.28% (down from 3.30%) as shown in Graph 3. This decrease is due to the level of short term funding at attractive rate and the resources available to defray external borrowing.

Graph 3



3.2.2 Whilst the average borrowing rate remains low it is important to note the average maturity profile of the Council's debt. The average length of all loans to final maturity including temporary loans is 35.6 years. The average length of all loans to the next option date including temporary loans is 30.1 years. This provides a large degree of funding certainty within the overall debt portfolio. Appendix B analyses debt as at 31st March 2021 by interest rate band and the year of maturity or first option date for LOBO loans. The final maturity of LOBO loans is shown as a memo item in the table at the bottom of Appendix B.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report is an update on strategy as presented to Executive Board in February 2021, as such no consultation has taken place. However, consultation with the Council's treasury advisors takes place regularly throughout the year.

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 February capital programme report.

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.

4.3 Council Policies and Best Council Plan

4.3.1 Treasury management strategy secures funding for the council's capital programme that supports the authority's policies and priorities as set out in the Best Council Plan. These include our Best Council ambition to be an efficient and enterprising organisation.

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 update on the 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 An underlying surplus of £1.4m has been generated by funding at lower rates than anticipated. However strategic use of capital receipts and a switch to revenue support for the costs of MRP has resulted in an overall deficit the details of which can be found in the Revenue outturn report elsewhere on this agenda.

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. Monitoring reports are considered by Executive Board and are subject to call in. There are no further legal, access to information or call in issues.

4.6 Risk Management

4.6.1 This report sets out performance against the 2020/21 treasury strategy. The execution of strategy and associated risks are kept under regular review through:

- Monthly monitoring of debt costs and reporting forms part of the monthly update on the Council's Revenue position to Executive Board.
- 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 This Treasury Management Outturn Report for 2020/21 provides a final update on loans undertaken to fund the capital programme requirements for both General Fund and HRA. Treasury activity during the year was conducted within the approved borrowing limits for the year and resulted in an overall deficit to the revenue budget as detailed in 3.1.7.

6 Recommendations

6.1 Executive Board are asked to note the Treasury Management outturn position for 2020/21 and that treasury activity has remained within the treasury management strategy and policy framework.

7 Background documents [1]

None

[1] The background documents listed in this section are available for 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 **Appendix A**

No.	PRUDENTIAL INDICATOR	Feb 20 Report	Feb 21 Report	Outturn (This Report)
	(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS			
	Ratio of Financing Costs to Net Revenue Stream			
1a	General Fund (Borrowing Only)	18.08%	19.08%	19.34%
1b	General Fund (Borrowing and Other Long Term Liabilities)	27.13%	28.28%	28.53%
2a	HRA (Borrowing Only)	11.52%	11.60%	11.54%
2b	HRA (Borrowing and Other Long Term Liabilities)	18.19%	18.32%	18.23%
5	**Gross external borrowing requirement (Gross Debt and CFR)**	2,414,000	2,323,726	2,294,946
	The Net Borrowing Requirement should not exceed the capital financing requirement **(Note 3)**	OK	OK	OK
	Estimate of total capital expenditure (including PFI)	**£'000**	**£'000**	**£'000**
6	General Fund	434,209	357,890	332,771
7	HRA	154,067	78,649	71,064
	TOTAL	588,276	436,539	403,835
	Capital Financing Requirement (as at 31 March)	**£'000**	**£'000**	**£'000**
8	General Fund	2,353,759	2,357,637	2,327,411
9	HRA	851,819	814,503	818,599
	TOTAL	3,205,578	3,172,140	3,146,010

No.	PRUDENTIAL INDICATOR	Feb 20 Report	Feb 21 Report	Outturn (This Report)
	(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000	£'000
10	**Authorised limit for external debt - (Note 3)**			
	borrowing	2,800,000	2,800,000	2,800,000
	other long term liabilities	660,000	700,000	700,000
	TOTAL	3,460,000	3,500,000	3,500,000
11	**Operational boundary - (Note 3)**			
	borrowing	2,650,000	2,650,000	2,650,000
	other long term liabilities	640,000	680,000	680,000
	TOTAL	3,290,000	3,330,000	3,330,000
14	**Upper limit for fixed interest rate exposure**			
	expressed as either:-			
	Net principal re fixed rate borrowing / investments OR:-	115%	115%	115%
15	**Upper limit for variable rate exposure**			
	expressed as either:-			
	Net principal re variable rate borrowing / investments OR:-	40%	40%	40%
	Net interest re variable rate borrowing / investments			
		£'000	**£'000**	**£'000**
17	**Upper limit for total principal sums invested for over 364 days** (per maturity date)	150,000	150,000	150,000
18	**Net Debt as a Percentage of gross Debt**	**98.76%**	**98.28%**	**98.07%**

16	**Maturity structure of fixed rate borrowing 2020/21**	**Lower Limit**	**Upper Limit**	**Actual 31/03/21**	
	under 12 months	0%	15%	1%	
	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%	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%	
				100.0%	

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**

Debt as at 31st March 2021 — Appendix B

Table below shows a breakdown of the maturity structure of the authority giving totals

Year Ending 31st March	to 2%	2% to 2.99%	3% to 3.99%	4% to 4.99%	Greater Than 5%	Principal
Fixed Rate Loans - LOBO to First Option						
2022	315	-	41,436	20,000	-	61,751
2023	630	20,000	27,624	35,000	-	83,254
2024	630	-	30,000	106,436	-	137,066
2025	630	25,000	20,000	-	-	45,630
2026	630	-	5,000	20,000	-	25,630
2027	6,305	-	28,812	-	-	35,117
2028	630	25,000	-	-	-	25,630
2029	630	15,000	20,000	-	-	35,630
2030	25,315	-	-	-	-	25,315
2031	25,000	-	-	-	-	25,000
2032	25,000	-	-	-	-	25,000
2033	-	16,500	-	-	-	16,500
2034	-	10,000	-	-	-	10,000
2035	25,000	-	5,000	-	-	30,000
2036	-	30,000	-	-	-	30,000
2037	-	25,000	-	-	-	25,000
2052	-	-	-	28,727	-	28,727
2053	-	-	-	145,396	-	145,396
2054	-	-	-	49,347	-	49,347
2055	-	-	5,000	75,782	-	80,782
2056	-	-	10,000	72,173	-	82,173
2057	-	-	-	115,436	-	115,436
2058	-	-	-	102,218	14,099	116,317
2059	-	25,000	-	-	-	25,000
2060	100,000	-	-	-	-	100,000
2061	25,000	-	-	17,624	-	42,624
2062	-	-	17,624	-	-	17,624
2063	-	50,000	-	-	-	50,000
2064	-	40,000	10,000	-	-	50,000
2065	-	70,000	-	-	-	70,000
2066	-	40,000	10,000	35,000	-	85,000
2067	-	55,000	30,000	5,000	-	90,000
2068	-	100,000	-	-	-	100,000
2069	-	115,000	-	-	-	115,000
2070	50,000	55,000	-	-	-	105,000
2077	-	-	20,000	-	-	20,000
2078	-	-	-	85,000	-	85,000
2079	-	-	-	20,000	-	20,000
Sub Total	**285,715**	**716,500**	**280,495**	**933,137**	**14,099**	**2,229,947**
Temporary Loans						
2021	65,000	-	-	-	-	65,000
Sub Total	**65,000**	**-**	**-**	**-**	**-**	**65,000**
CABP	**350,715**	**716,500**	**280,495**	**933,137**	**14,099**	**2,294,947**
Memo : LOBO Variable Rate Loans to Maturity						
2047	-	-	-	-	-	-
2055	-	-	-	15,000	-	15,000
2056	-	-	-	45,000	-	45,000
2066	-	-	10,000	10,000	-	20,000
2067	-	-	25,000	15,000	-	40,000
2077	-	-	40,000	15,000	-	55,000
2078	-	-	-	55,000	-	55,000
2079	-	-	-	-	-	-
Sub Total	**-**	**-**	**75,000**	**155,000**	**-**	**230,000**