

<b>Report to:</b>	Council	<b>Date of Meeting:</b>	16 September 2021
<b>Subject:</b>	Treasury Management Outturn 2020/21 and Position to July 2021		
<b>Report of:</b>	Executive Director of Corporate Resources and Customer Services	<b>Wards Affected:</b>	All Wards
<b>Portfolio:</b>	Cabinet Member - Regulatory, Compliance and Corporate Services		
<b>Is this a Key Decision:</b>	Yes	<b>Included in Forward Plan:</b>	Yes
<b>Exempt / Confidential Report:</b>	No		

### Summary:

This outturn report provides Members with a review of the Treasury Management activities undertaken to 31st March 2021 and also provides an update to 31st July 2021. Council receives this outturn report to allow monitoring against the Treasury Management Policy & Strategy and Prudential Indicators approved by Cabinet and Council in February 2020. This report is also provided to Audit & Governance Committee, whose role it is to carry out scrutiny of treasury management policies and practices. The update to 31st July 2021 reflects an updated position from that previously reported to Cabinet in July which included an update to 31st May 2021.

### Recommendation(s):

Members are requested to note the Treasury Management position to 31st March 2021 and the update to 31st July 2021, to review the effects of decisions taken in pursuit of the Treasury Management Strategy and to consider the implications of changes resulting from regulatory, economic and market factors affecting the Council's treasury management activities.

### Reasons for the Recommendation(s):

To ensure that Members are fully apprised of the treasury activity undertaken to 31st March 2021 and to 31st July 2021 in order to meet the reporting requirements set out in Sefton's Treasury Management Practices and those recommended by the CIPFA code.

### Alternative Options Considered and Rejected: (including any Risk Implications)

N/A

### What will it cost and how will it be financed?

- (A) Revenue Costs**  
None

**(B) Capital Costs**  
None

**Implications of the Proposals:**

<p><b>Resource Implications (Financial, IT, Staffing and Assets):</b> A shortfall in investment income has been experienced for 2020/21 financial year and is expected to continue into 2021/22 due to prevailing market conditions.</p>									
<p><b>Legal Implications:</b> The Council has a statutory duty under the Local Government Act 2003 to review its Prudential Indicators and Treasury Management Activities.</p>									
<p><b>Equality Implications:</b> There are no equality implications.</p>									
<p><b>Climate Emergency Implications:</b></p> <p>The recommendations within this report will</p> <table border="1"> <tr> <td>Have a positive impact</td> <td>N</td> </tr> <tr> <td>Have a neutral impact</td> <td>Y</td> </tr> <tr> <td>Have a negative impact</td> <td>N</td> </tr> <tr> <td>The Author has undertaken the Climate Emergency training for report authors</td> <td>N</td> </tr> </table> <p>The Council has during 2020/21, invested its reserves and balances overnight with either banks or money market funds in order to maintain high security and liquidity of such balances. It has not had the opportunity to invest in longer term financial instruments or investment funds for which there may be a chance to consider the impact on the Council's Climate Emergency motion.</p> <p>In the event that the Council has more surplus balances available in future that may lead to longer term investing, the Council will take account of the climate emergency when discussing the options available with the Treasury Management Advisors.</p>		Have a positive impact	N	Have a neutral impact	Y	Have a negative impact	N	The Author has undertaken the Climate Emergency training for report authors	N
Have a positive impact	N								
Have a neutral impact	Y								
Have a negative impact	N								
The Author has undertaken the Climate Emergency training for report authors	N								

**Contribution to the Council's Core Purpose:**

Protect the most vulnerable: n/a
Facilitate confident and resilient communities: n/a
Commission, broker and provide core services: n/a
Place – leadership and influencer: Good treasury management supports strategic planning and promotes innovative, affordable and sustainable capital investment projects through application of the CIPFA Prudential Code.
Drivers of change and reform: The Treasury Management function ensures that cash flow is adequately planned, and cash is available when needed by the Council for improvements to the borough through its service provision and the Capital Programme.

Facilitate sustainable economic prosperity: Pursuit of optimum performance on investments activities and minimising the cost of borrowing and the effective management of the associated risk continues to contribute to a balanced budget for the Council.
Greater income for social investment: n/a
Cleaner Greener: n/a

**What consultations have taken place on the proposals and when?**

**(A) Internal Consultations**

The Executive Director of Corporate Resources and Customer Services (FD6507/21) is the author of the report.

The Chief Legal and Democratic Officer (LD4708/21) has been consulted and any comments have been incorporated into the report.

**(B) External Consultations**

The Council’s external Treasury Management Advisors: Arlingclose have provided advice with regards to Treasury Management activities undertaken during the financial year.

**Implementation Date for the Decision**

Immediately following the meeting.

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**Appendices:**

None

**Background Papers:**

There are no background papers available for inspection.

## **BACKGROUND:**

### **1. Introduction**

- 1.1. The CIPFA Prudential Code for Capital Finance in Local Authorities (The Prudential Code) was introduced following the Local Government Act 2003. The Prudential Code details a number of measures / limits / parameters (Prudential Indicators) that, to comply with legislation, must be set in respect of each financial year to ensure that the Council is acting prudently and that its capital expenditure proposals are affordable.
- 1.2. A requirement of the Prudential Code is the reporting to Cabinet and Full Council of the outturn position of indicators following the end of the financial year. In accordance with this requirement, this report outlines the 2020/21 outturn for the following Prudential Indicators:-
  - i. Capital Expenditure (Section 2);
  - ii. Capital Financing Requirement (Section 3.1);
  - iii. Gross Debt and the CFR (Section 3.2);
  - iv. Borrowing Limits (Section 3.3);
  - v. Financing Costs as a proportion of Net Revenue Stream (Section 3.4);
  - vi. Treasury Management Indicators (Section 6).
- 1.3. The Treasury Management Policy and Strategy Statements are agreed annually by the Council as part of the budget process. A requirement of the Policy Statement is the reporting to Cabinet and Full Council of the results of the Council's treasury management activities in the previous year. Treasury management in this context is defined as:

*'The management of the authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'*
- 1.4. In accordance with the above this report outlines the results of treasury management activities undertaken in 2020/21 covering the following issues:
  - borrowing strategy and practice
  - compliance with Treasury Limits
  - compliance with Prudential Indicators
  - investment strategy and practice.
- 1.5. The Council's Treasury Management activities have been under significant pressure throughout 2020/21 as a result of the Covid-19 pandemic. At the onset of the crisis the exact impact was unknown although it soon became clear that pro-active management and in particular the management of cash balances was key to ensuring cash was available in response to exceptional need. The cash position was reported to the MHCLG to ensure the Council could continue to operate effectively and had significant balances available for grant awards and payments to support residents and local business.
- 1.6. The results of treasury management activities in 2020/21 are reflected in the net expenditure on Capital Financing Costs included within the Council's Revenue

Budget. The Capital Programme is also agreed annually as part of the budget process. It sets out the anticipated capital expenditure to be incurred within the year.

## **2. Capital Expenditure**

- 2.1. The original estimate for 2020/21 expenditure together with the actual capital expenditure calculated on an accruals basis for the financial year is as follows:

	<b>Estimate £m</b>	<b>Actual £m</b>
<b>Capital Expenditure</b>	<b>56.817</b>	<b>26.203</b>

- 2.2. Capital expenditure in 2020/21 was £30.614m less than the original estimate reported in February 2020. The Council has therefore remained within the limits for expenditure set at the start of the year. The variation is due to the phasing of capital budgets and grant allocations to future years. These adjustments were approved by Cabinet and Council as part of the monthly budget monitoring for the capital programme during 2020/21.

## **3. The Council's Overall Borrowing Need**

### **3.1. Capital Financing Requirement**

- 3.1.1. The Capital Financing Requirement (CFR) reflects the Authority's underlying need to borrow for capital purposes and is based on historic capital financing decisions and the borrowing requirement arising from the financing of actual capital expenditure incurred in 2020/21.

- 3.1.2. The Council is currently internally borrowed meaning it temporarily uses its own cash balances to fund some capital schemes instead of external borrowing, a strategy which saves the cost of interest payments on loans. This reflects the current national low interest rates for investment of cash balances and the need to find savings for the revenue budget.

- 3.1.3. The actual level of Capital Financing Requirement as at 31 March 2021 compared to the initial estimate for 2020/21 is as follows:

	<b>Estimate £m</b>	<b>Actual £m</b>
<b>Capital Financing Requirement</b>	<b>239.544</b>	<b>230.150</b>

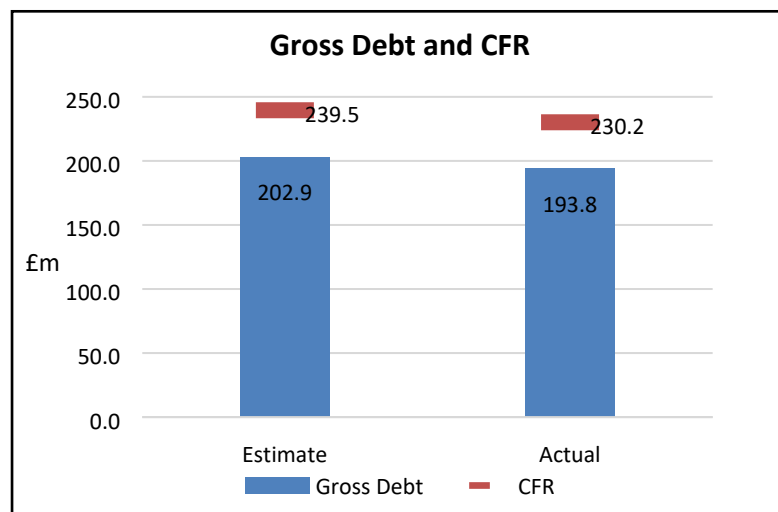
- 3.1.4. As mentioned in paragraph 2.2 (above), the level of capital expenditure for 2020/21 was less than anticipated and therefore the requirement for the financing of this expenditure is also lower.

### 3.2. Gross Debt and the CFR

3.2.1. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following statement as a key factor of prudence:

*"In order to ensure that over the medium-term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."*

3.2.2. In the report to Cabinet in February 2020, it was stated that the Authority would comply with this requirement in 2020/21. During the financial year, gross external borrowing did not exceed the total of the Capital Financing Requirement. The chart below shows the out-turn position compared to the original estimate:



### 3.3. Borrowing Limits

	2020/21 £m
<b>Authorised limit</b>	<b>249.000</b>
<b>Operational boundary</b>	<b>239.000</b>
<b>Maximum Gross Borrowing Position</b>	<b>212.492</b>

3.3.1. The Operational Boundary sets a boundary on the total amount of long term borrowing that the Council should enter into. It reflects an estimate of the Authority's current commitments, existing capital expenditure plans, and is consistent with its approved Treasury Management Policy Statement and practices.

3.3.2. The Authorised Limit sets a limit on the amount of external borrowing (both short and long term) that the Council can enter into. It uses the Operational Boundary as its base but also includes additional headroom to allow for exceptional cash movements.

3.3.3. The Maximum Gross Borrowing Position shows the highest level of actual borrowing undertaken during 2020/21 financial year. This level remained within the Operational Boundary and did not exceed the Authorised limit.

#### 3.4. Financing Costs as a Proportion of Net Revenue Stream

3.4.1. This indicator measures the financing costs of capital expenditure as a proportion of the net resource expenditure of the General Fund.

	<b>Estimate 2020/21</b>	<b>Actual 2020/21</b>
<b>Financing Costs / Net Revenue</b>	<b>4.1%</b>	<b>4.2%</b>

3.4.2. The overall ratio is slightly higher than the original estimate by 0.1% There has been a reduction in the Council's revenue streams over 2020 as a result of the COVID-19 crisis, the full impact of which is subject to a separate report presented to Cabinet and Council on a regular basis. The above variance is considered minor and financing costs for 2020/21 remain at affordable levels with the total borrowing requirement remaining below the operational boundary set at the beginning of the year.

### 4. Borrowing Strategy and Practice

4.1. The Council's debt portfolio at the 31<sup>st</sup> March 2021 and a comparison to the position at the end of last financial year is summarised as follows:

<b>Actual Debt Outstanding</b>	<b>31<sup>st</sup> March 2020 £m</b>	<b>31<sup>st</sup> March 2021 £m</b>
Public Works Loans Board	162.674	185.434
Other Long-Term Liabilities	9.274	8.355
<b>TOTAL</b>	<b>171.948</b>	<b>193.789</b>

4.2. The category of other long-term liabilities represents transferred debt from the Merseyside Residuary Body (£2.188m) and finance lease liabilities (£6.167m).

4.3. The Council's PWLB debt activity during 2020/21 is summarised in the following table:

<b>Movement in Year</b>	<b>Actual £m</b>
PWLB opening debt 1 <sup>st</sup> April 2020	162.674
Less principal repayments	(20.801)
Add new borrowing	43.561
<b>Closing PWLB debt 31<sup>st</sup> March 2020</b>	<b>185.434</b>

- 4.4. The policy of internally borrowing, running down the Authority's cash balances rather than taking out new borrowing, continued with regards to the Capital Programme in 2020/21 as no new expenditure was financed from external borrowing. The Council did however, opt to make an up-front payment to Merseyside Pension Fund (£43.561m) funded from borrowing. This was approved by Budget Council on 27<sup>th</sup> February 2020.
- 4.5. The Merseyside Pension Fund offered the Council the opportunity to prepay (in April 2020) a proportion of the total expected contributions for the three-year valuation period at a discount. The Council has previously taken a similar opportunity at the start of the last two valuation periods. Officers discussed the proposal with both the Merseyside Pension Fund and the Council's external auditors.
- 4.6. The borrowing will be repaid across the three years of the valuation period, funded by the Council making significantly reduced payments the Merseyside Pension Fund each month during the period. After allowing for these borrowing costs, as stated, this will generate a significant net saving to the Council.
- 4.7. The average rate of interest on Council loans with the Public Works Loans Board (PWLB) in 2020/21 and a comparison to the previous year is shown below:

	<b>2019/20</b>	<b>2020/21</b>
<b>Average PWLB Interest Rate in Year</b>	<b>3.94%</b>	<b>3.54%</b>

- 4.8. The reduction in the average rate of interest from 2019/20 to 2020/21 is due to new borrowing being undertaken at significantly lower rates when compared to historic loans within the portfolio that were taken out when rates were much higher.

## **5. Debt Maturity Profile**

- 5.1. This is a profile measuring the amount of borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate:

<b>Fixed Rate Debt Maturity</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Actual 31<sup>st</sup> March 2021</b>
<b>Under 12 months</b>	35%	0%	<b>13%</b>
<b>12 months and within 24 months</b>	40%	0%	<b>9%</b>
<b>24 months and within 5 years</b>	40%	0%	<b>22%</b>
<b>5 years and within 10 years</b>	40%	0%	<b>11%</b>
<b>10 years and within 15 years</b>	40%	0%	<b>12%</b>
<b>15 years and above</b>	90%	30%	<b>33%</b>

- 5.2. The spread of debt across the various maturity periods shows how the authority has acted prudently and controlled its exposure to refinancing risk by not having overly



large amounts of debt concentrated in one period, especially those in the shorter term.

## **6. Compliance with Treasury Limits**

6.1. The following Treasury Limits were approved by Council during the 2020/21 Budget Setting process:

### **6.1.1 Borrowing Limits**

	<b>Limit £m</b>	<b>Maximum Borrowing 2020/21 £m</b>
<b>Authorised Borrowing Limit</b>	249.000	<b>212.492</b>
<b>Short Term Borrowing Limit</b>	30.0	<b>0.0</b>
<b>Proportion of external borrowing subject to variable interest rates</b>	20%	<b>0%</b>

### **6.1.2 Investment Limits**

	<b>Upper Limit</b>	<b>Maximum Invested 2020/21</b>
<b>Principle sums invested for longer than 365 days</b>	40%	<b>8%</b>

6.2. The amounts above show the maximum amounts borrowed or invested during the year compared to the limits set. The council therefore remained within the limits for borrowing and investments set for the year and no short term borrowing or borrowing subject to variable rates was undertaken.

## **7. Investment Strategy and Practice**

7.1. The Council invests all available cash balances, which includes school balances and the insurance fund, following a policy of obtaining maximum returns whilst minimising risks.

### **i. Externally Managed Investments**

No externally managed funds are held.

### **ii. Internally Managed Investments**

The Council's available funds during the year averaged £88.01m and were managed internally with advice from our treasury consultants.

7.2. The level of the Council's investments during 2020/21 and comparable figures from the previous year are summarised in the following table:

	<b>2019/20</b>	<b>2020/21</b>
<b>Total Investment of Cash Balances at year end</b>	£42.36m	£70.26m
<b>Average Investment Balance during the year</b>	£30.37m	£88.01m
<b>Average Return on Investments</b>	1.41%	0.36%

7.3. In 2020/21 a weighted average return of 0.36% was achieved. This is more than the benchmark 7-day LIBID figure of -0.08% and is considered to be an acceptable return. The majority of the funds are invested with major banks and Money Market Funds (MMF's), with the remaining balance of £5m invested with the CCLA Property Fund. The return of 0.36% can be disaggregated into a return of 0.10% on bank and MMF investments, whilst 3.85% was returned by the CCLA investment.

7.4. Following the cut in Bank rate from 0.75% to 0.10% in March 2020, the Council had expected to receive significantly lower income from its cash and short-dated money market investments, including money market funds in 2020/21, as rates on cash investments are close to zero percent. Whilst the arrival and approval of vaccines against COVID-19 and the removal of Brexit uncertainty that had weighed on UK equities were encouraging developments, dividend and income distribution was dependent on company earnings in a very challenging and uncertain trading environment as well as enforced cuts or deferral required by regulatory authorities.

7.5. These external economic factors have therefore impacted the actual performance of investments that have under-achieved against the total budget for 2020/21 as follows:

<b>Budget Profile</b>	<b>Budget £m</b>	<b>Actual £m</b>	<b>Variance £m</b>
<b>Outturn 2020/21</b>	0.415	0.313	0.102

## 8. Treasury Position for 2021/22 – Update to 31<sup>st</sup> July 2021

### 8.1. Investments Held

8.1.1. Investments held to 31<sup>st</sup> July 2021 comprise to the following:

Institution	Deposit £m	Rate %	Maturity	Rating
<b>Money Market Funds:</b>				
Aberdeen	10.85	0.01	01.08.21	AAA
Aviva	10.85	0.01	01.08.21	AAA
Blackrock	10.85	0.01	01.08.21	AAA
BNP Paribas	10.70	0.02	01.08.21	AAA
Goldman-Sachs	0.14	0.00	01.08.21	AAA
HSBC	7.17	0.01	01.08.21	AAA
Invesco	8.90	0.01	01.08.21	AAA
Morgan Stanley	10.85	0.03	01.08.21	AAA
Federated	10.71	0.01	01.08.21	AAA
Insight	6.36	0.00	01.08.21	AAA
Total	87.38			
<b>Deposit Accounts:</b>				
Bank of Scotland	2.35	0.01	01.08.21	A+
Natwest SIBA	2.42	0.01	01.08.21	A+
Santander	2.35	0.02	01.08.21	A+
Total	7.12			
<b>Notice Accounts:</b>				
Lloyds	3.00	0.03	32 days	A+
Natwest	3.00	0.10	35 days	A+
Santander	3.00	0.15	35 days	A+
Total	9.00			
<b>Property Fund:</b>				
CCLA	5.00	4.21	n/a	n/a
Total	5.00			
<b>TOTAL INVESTMENTS</b>	<b>108.50</b>			

8.1.2. The Authority holds significant invested funds, representing grant income received in advance of expenditure plus balances and reserves held. The cash is initially held in a number of highly liquid Money Market Funds to ensure security of the funds until they are required to be paid out. This approach is consistent with the Council's approved Treasury Management Policy and Strategy for 2021/22. The balance of investments is therefore expected to fall over the coming months as the income is fully expended.

8.1.3. All of the investments made since April 2021 have been with organisations on the current counterparty list. The maximum level of investment permitted in the

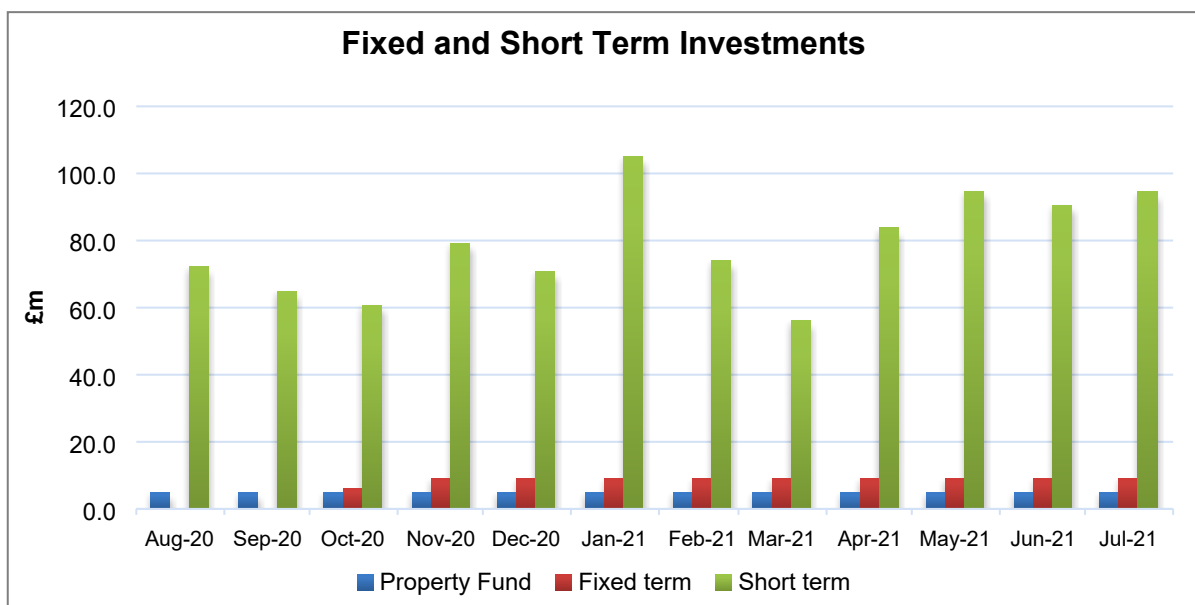
Treasury Management Strategy in any one institution, or banking group, is currently £15m. Whilst the maximum should be retained, in light of current economic conditions, a day to day operational maximum of 10% of the total portfolio is currently being imposed for investments. This will spread the risk for the Council but will have a small detrimental impact on the returns the Council will receive in the future. The Council has remained within that boundary during the year. At present, it is not expected that there will be any need to review this limit.

8.1.4. The Council will only invest in institutions that hold a minimum Fitch rating of A- for banking institutions, or AAA for money market funds. The ratings applied to investment grade institutions, and the much riskier speculative grade institutions, as defined by Fitch, have been placed into a risk matrix (paragraph 8.1.8.).

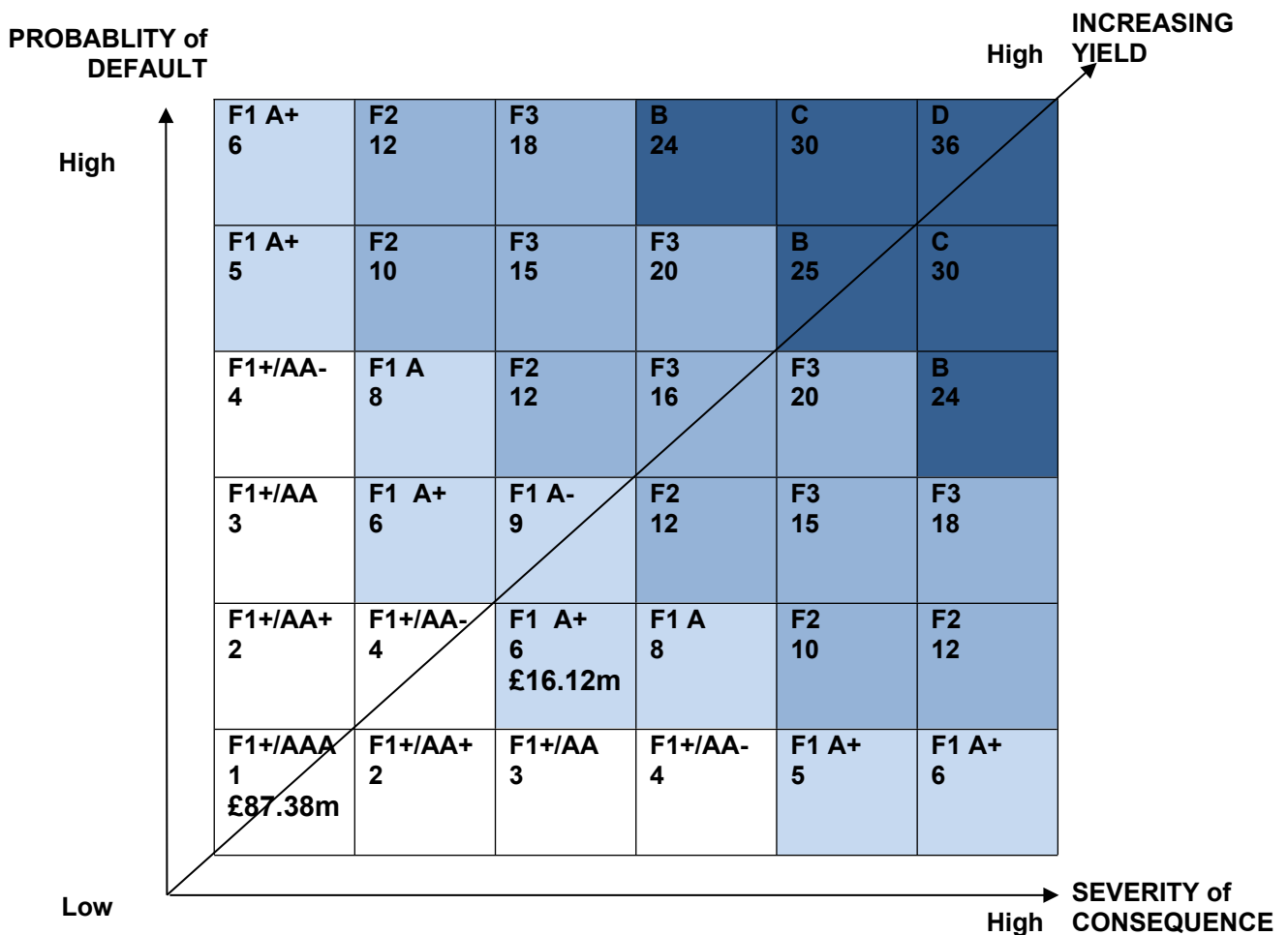
8.1.5. An investment has been made with the Church, Charities and Local Authority Investment Fund (CCLA) in June 2014. CCLA invest in commercial property which is rented out to enterprises such as retail units, warehousing, and offices. The majority of properties owned are in the south of the country where the market is often more buoyant than the north. The Council has in effect bought a share of the property portfolio and returns paid are in the region of 4%. This is seen as a long-term investment with the potential for the capital value of the investment to vary as property prices fluctuate.

8.1.6. The Net Asset Value (NAV) of the Property Fund has increased over a 12-month period to July 2021 from 282.60p per unit to 307.77p per unit, an increase of 8.9%. The income yield on the Property fund at the end of July 2021 was 4.12% which is consistent with returns received in the past.

8.1.7. The ratio of overnight deposits (short term) to fixed term investments and the property fund is shown below:



8.1.8. The matrix below shows how the Council has set its risk appetite by being risk averse and putting security and liquidity before yield when investing:



**SEFTON RISK TOLERANCE:**

Risk Level	Score	Grade	Amount Invested
LOW	1 - 4	Investment Grade	£87.38m
LOW - MEDIUM	5 - 9	Investment Grade	£16.12m
MEDIUM	10 - 20	Investment Grade	£0
HIGH	21 - 36	Speculative Grade	£0

8.1.9. The Council will continue to maximise any investment opportunities as they arise, but in light of current economic conditions and low investment yields it is not envisaged that any substantial increase in returns can be achieved for the remainder of the current financial year. Cash balances available for investment will be held in overnight deposits to allow the Council to respond to any exceptional demands for cash as they arise. The possibility for making long term deposits will be reviewed once economic conditions improve.

## 8.2. Interest Earned

8.2.1. The actual performance of investments against the profiled budget to the end of July 2021 and the forecast performance of investments against total budget at year end is shown below:

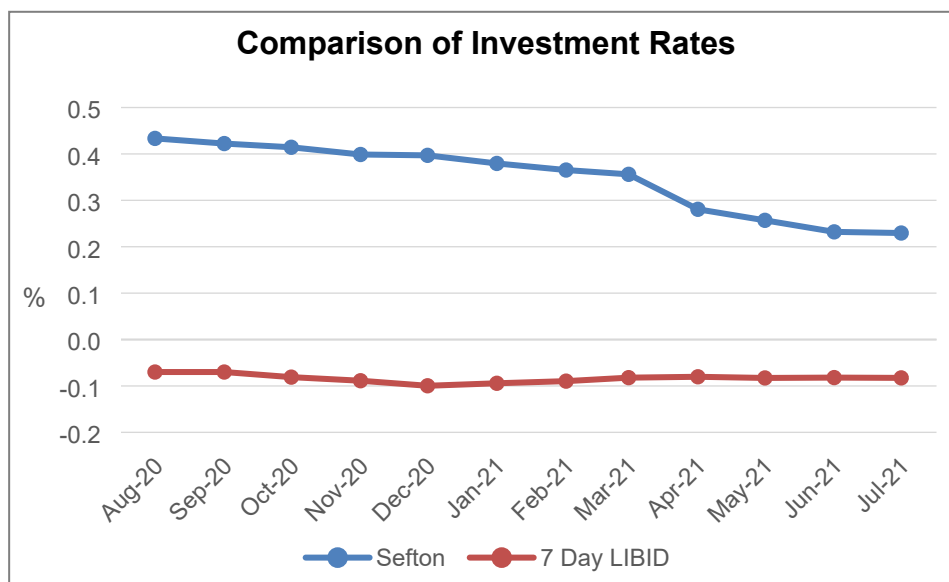
	<b>Budget £m</b>	<b>Actual £m</b>	<b>Variance £m</b>
<b>Jul-21</b>	0.118	0.059	0.059

	<b>Budget £m</b>	<b>Forecast £m</b>	<b>Variance £m</b>
<b>Outturn 2021/22</b>	0.415	0.257	0.158

8.2.2. The forecast outturn for investment income shows a significant shortfall against the budget for 2021/22. The impact of COVID-19 and current economic conditions in general mean that investment rates are low, and yields are expected to be well below the estimate originally forecast in the budget.

8.2.3. As mentioned in paragraph 8.1.9, it is not envisaged that improved rates will lead to a significant increase in the current forecast income from investments during 2021/22 as cash balances are diminishing and held in short term deposits.

8.2.4. The Council has achieved an average rate of return on its investments of 0.23% that has out-performed the 7-day LIBID to the end of July 2021.



## 9. Interest Rate Forecast

9.1. Arlingclose, the Council's treasury advisors, have provide the following interest rate view:

- *The medium-term global economic recovery has continued with the reopening of economies and most look set to grow at a decent pace. Recovery in world demand has been more highly concentrated in goods than in services. The UK has continued to benefit from its initial rapid vaccine rollout, which appears to have weakened the link between infections and hospitalisations.*
- *Arlingclose expects Bank Rate to remain at the current 0.10% level. We believe the risk of movement in the immediate term remains low, although the risks over the MPC's 3-year horizon have increased and are leaning to the upside.*
- *Gilt yields have fallen recently, but volatility is likely given the uncertainties over the economic outlook and central bank asset purchase programmes.*
- *Longer term yields may face upward pressure towards the end of our forecast period as the economy moves back to a sustained footing and policy expectations start to strengthen.*
- *Downside risks remain – the risk of further virus mutations including the Delta variant could destabilise the recovery. Downside risks also arise from potential future vaccine shortages as the demand for vaccines increases.*

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
<b>Official Bank Rate</b>													
Upside risk	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.40	0.40	0.40	0.40	0.40	0.40
<b>Arlingclose Central Case</b>	<b>0.10</b>	<b>0.10</b>	<b>0.10</b>	<b>0.10</b>	<b>0.10</b>	<b>0.10</b>	<b>0.10</b>	<b>0.10</b>	<b>0.10</b>	<b>0.10</b>	<b>0.10</b>	<b>0.10</b>	<b>0.10</b>
Downside risk	-0.10	-0.10	-0.10	-0.10	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15
<b>3-month money market rate</b>													
Upside risk	0.10	0.10	0.15	0.20	0.30	0.30	0.35	0.40	0.40	0.40	0.40	0.45	0.45
<b>Arlingclose Central Case</b>	<b>0.10</b>	<b>0.15</b>	<b>0.20</b>	<b>0.20</b>	<b>0.15</b>	<b>0.15</b>	<b>0.15</b>	<b>0.15</b>	<b>0.15</b>	<b>0.15</b>	<b>0.15</b>	<b>0.15</b>	<b>0.15</b>
Downside risk	-0.10	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15
<b>5yr gilt yield</b>													
Upside risk	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.60	0.65	0.65	0.70	0.70	0.70
<b>Arlingclose Central Case</b>	<b>0.30</b>	<b>0.30</b>	<b>0.35</b>	<b>0.35</b>	<b>0.35</b>	<b>0.35</b>	<b>0.35</b>	<b>0.40</b>	<b>0.40</b>	<b>0.45</b>	<b>0.45</b>	<b>0.50</b>	<b>0.50</b>
Downside risk	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
<b>10yr gilt yield</b>													
Upside risk	0.40	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70	0.70	0.70
<b>Arlingclose Central Case</b>	<b>0.65</b>	<b>0.70</b>	<b>0.75</b>	<b>0.75</b>	<b>0.70</b>	<b>0.70</b>	<b>0.70</b>	<b>0.70</b>	<b>0.70</b>	<b>0.70</b>	<b>0.75</b>	<b>0.85</b>	<b>0.95</b>
Downside risk	-0.25	-0.35	-0.35	-0.40	-0.40	-0.40	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50
<b>20yr gilt yield</b>													
Upside risk	0.45	0.45	0.45	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70	0.70	0.70
<b>Arlingclose Central Case</b>	<b>1.00</b>	<b>1.05</b>	<b>1.10</b>	<b>1.10</b>	<b>1.05</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.05</b>	<b>1.10</b>	<b>1.20</b>
Downside risk	-0.35	-0.40	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>50yr gilt yield</b>													
Upside risk	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70	0.70	0.70
<b>Arlingclose Central Case</b>	<b>0.90</b>	<b>0.95</b>	<b>1.00</b>	<b>1.00</b>	<b>0.95</b>	<b>0.90</b>	<b>0.90</b>	<b>0.90</b>	<b>0.90</b>	<b>0.90</b>	<b>0.95</b>	<b>1.00</b>	<b>1.10</b>
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

## **10. CIPFA Consultations**

- 10.1. In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.
- 10.2. In the Prudential Code the key area being addressed is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's corporate objectives, i.e. recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.
- 10.3. Proposed changes to the Treasury Management Code include requiring job specifications and "knowledge and skills" schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.
- 10.4. Officers will monitor the progress of the consultation process and any changes to the codes will be incorporated into the Council's future Treasury Management Policy and Strategy documents following advice from our Treasury Management Advisers.

## **11. IFRS 16 Leasing Accounting Standards**

- 11.1. The implementation of the new IFRS 16 Leases accounting standard has been delayed for a further year until 2022/23 financial year. Any impact on the Council's leases from the changes to this accounting standard will be fully assessed and reported as part of future Treasury Management updates.

## **12. MHCLG Improvements to Capital Finance Framework**

- 12.1. The Ministry of Housing Communities & Local Government (MHCLG) has published a brief policy paper announcing plans to improve the capital finance framework for local authorities in England. The document sets out the government's plans for strengthening the current system while protecting the principles of local decision making
- 12.2. Many of the actions announced in the paper are quite general, but there are some more specific plans which include:
  - Developing an analytical process to pre-emptively identify risks in the sector, including those local authorities that might be engaging in risky activity or non-compliance with the framework.



- Commissioning a review of the current governance and skills landscape for investment and borrowing within local authorities to identify the systemic issues that prevent good practice.
- Working with partners to develop training and guidance targeted at the identified issues.
- Reviewing the statutory powers for capping borrowing and considering how and when MHCLG will apply these to protect local financial sustainability.
- Reviewing the investment guidance to ensure it is consistent with and reinforces CIPFA's new Prudential Code expected in December.
- Reviewing local authority capital plans for compliance with the PWLB lending terms.
- Further clarifying the regulations and guidance relating to Minimum Revenue Provision (MRP).

12.3. Any updates resulting from changes to legislation and MHCLG guidance will be incorporated into the Council's future Treasury Management Policy and Strategy documents following advice from our Treasury Management Advisers.