Executive Board – 21 July 2020

Subject:	Treasury Management 2019/20 Annual Report
Corporate Director(s)/Director(s):	Laura Pattman, Director of Strategic Finance
Portfolio Holder(s):	Councillor Sam Webster, Portfolio Holder for Finance, Growth and the City Centre
Report author and contact details:	Theresa Channell, Head of Strategic Finance and Deputy S151 Officer 0115 8764157 theresa.channell@nottinghamcity.gov.uk

Subject to call-in: ☐ Yes ☒ No

Key Decision: ☐ Yes ☒ No

Criteria for Key Decision:

(a) ☐ Expenditure ☐ Income ☐ Savings of £1,000,000 or more taking account of the overall impact of the decision

and/or

(b) Significant impact on communities living or working in two or more wards in the City
☐ Yes ☐ No

Type of expenditure: ☐ Revenue ☐ Capital

Total value of the decision: Nil

Wards affected: All

Date of consultation with Portfolio Holder(s): Throughout the year

Relevant Council Plan Key Theme:

Nottingham People	☐
Living in Nottingham	☐
Growing Nottingham	☐
Respect for Nottingham	☐
Serving Nottingham Better	☐

Summary of issues (including benefits to citizens/service users):

This report sets out the 2019/20 performance in respect of the management of the Council's external debt and investments (i.e. treasury management). The key issues are:

- the balance of external loan debt increased by £121.3m to £1,074.5m (see section 4.3);
- the average rate of interest payable on the debt portfolio decreased from 3.359% at 31 March 2019 to 3.138% at 31 March 2020 (see section 4.3);
- the average rate of interest earned on short-term investments in 2019/20 was 0.892%. This is benchmarked against the 7 day London Inter-bank (LIBID) rate provided by the Bank of England, which averaged 0.530% for the same period (see section 4.7);
- the actual General Fund Treasury Management expenditure was on budget at £79.531m (see section 5.1);
- there were no breaches of the Prudential Indicators in 2019/20 (see section 4.10);
- Covid 19 presented an increased risk to liquidity which was mitigated by increasing the level of liquid investments available to cover additional payments and reduced receipts;
- PWLB rates reduced for new HRA loans and the HM Treasury have published new PWLB lending arrangements for consultation for General Fund borrowing at reduced rates excluding 'debt for yield' schemes (see section 4.12.3).

Exempt information:

None

Recommendation(s):

1 To note the performance information in relation to Treasury Management for 2019/20.

1 Reasons for recommendations

1.1 The treasury management function is governed by provisions set out under Part 1 of the Local Government Act 2003, whereby the City Council must have regard to the CIPFA Prudential Code and the CIPFA Code of Practice. Under the latter Code, an annual report is required to be submitted to and considered by councillors.

1.2 The Council's Treasury Management Strategy for 2019/20 was approved by full Council on 4 March 2019.

1.3 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

2 Background (including outcomes of consultation)

2.1 **Treasury Management**
The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:
"The management of the local authority's borrowing, investments and 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."

2.2 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead. Receipt by Executive Board

of a Mid-year Review Report and an Annual Report, covering activities during the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

2.4 This Annual report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the 2019/20 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, and prudential indicators;
- A review of the Council's investment portfolio for 2019/20;
- A review of the Council's borrowing strategy for 2019/20;
- A review of any debt rescheduling undertaken during 2019/20;
- A review of compliance with Treasury and Prudential Limits for 2019/20.

3 Other options considered in making recommendations

3.1 Options for management of the Council's debt and investment portfolio are continually reviewed. The overall aim is to minimise the net revenue costs of our debt whilst maintaining an even debt profile in future years and to maximise investment returns within stated security and liquidity guidelines.

4 TREASURY MANAGEMENT ACTIVITY IN 2019/20

4.1 Growth and Inflation:

4.1.1 Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% year on year. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the coronavirus outbreak. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two.

Inflation has posed little concern for the Monetary Policy Committee (MPC) during the last year, being mainly between 1.5 – 2.0%. It is not expected to be an issue for the near future as the world economy will be heading into a recession.

4.1.2 UK Monetary Policy:

After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to make no further changes until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in quantitative easing

(QE), essentially the purchases of gilts (mainly) by the Bank of England of £200bn.
Appendix 3 shows the money market interest rates and the Public Works Loans Board (PWLB) borrowing rates for 2019/20.

4.2 Local Context

4.2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources based on robust financial modelling, the capital expenditure will give rise to a borrowing need.

4.2.2 The CFR is a gauge of the Council's indebtedness and results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2019/20 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

At 31 March 2020 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1,382.0m.

Table 1 below shows the original and the actual financing arrangements of the capital programme. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need will also be increased by maturing debt and other treasury requirements.

TABLE 1: CAPITAL EXPENDITURE	2019/20 Original Estimate £m	2019/20 Actual £m
Total capital expenditure	221.556	171.741
Financed by:		
Capital receipts	21.47	15.874
Capital grants & Contributions	68.057	69.546
Internal Funds / Revenue (inc. Major Repairs Reserve)	38.019	26.369
Total financing	127.546	111.789
Borrowing requirement	94.010	59.952

Note to table: Original estimate was Q3 2018/19 used for the Treasury Management Strategy Report.

The decrease in total capital expenditure is due to slippage on major capital projects which has also resulted in an equivalent reduction in capital expenditure that was financed by borrowing in 2019/20. Slippage of capital expenditure will result in an increase to the 2020/21 forecast borrowing requirement without changing the overall total forecast level of borrowing required.

4.2.3 The Council's 2019/20 strategy was to maintain an under-borrowed position and continue to utilise short term loans at low interest rates. Against the risks within the economic forecast and the forecast interest rates for 2019/20 a cautious and pragmatic approach to the changing market conditions was taken.

4.3 Borrowing

4.3.1 To finance the CFR (the Capital Financing Requirement), the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

4.3.2 During 2019-20, the Council maintained an under-borrowed position. This meant that the capital borrowing need, was not fully funded with loan debt. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

4.3.3 Total outstanding loans debt in 2019/20 increased by £121.3m to £1,074.5m as at 31 March 2020. The total long term debt increased by £10.8m while temporary borrowing had increased by £110.5m as at 31 March 2020. The average rate of interest on total loan debt decreased, from 3.359% at 31 March 2019 to 3.138% at 31 March 2020 due to active management of the debt portfolio. Table 2 below analyses the debt portfolio:

TABLE 2: DEBT PORTFOLIO

	01-Apr-19		31-Mar-20		Movement
DEBT	**£m**	**Average Interest %**	**£m**	**Average Interest %**	**£m**
PWLB borrowing	882.0	3.368	892.8	3.399	10.8
Market loans	49.0	4.348	49.0	4.348	-
Temporary borrowing & other	22.2	0.843	132.7	0.933	110.5
TOTAL LOANS DEBT	**953.2**	**3.359**	**1074.5**	**3.138**	**121.3**
Other inc PFI	201.0		191.4		-9.6
TOTAL DEBT	**1154.2**		**1265.9**		**111.7**

4.3.4 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

4.3.5 In 2019/20 the Council has borrowed a further £65m from the Public Works Loans Board (PWLB) £40m for the general fund split over £20m on a fixed rate of 1.91%, on a 31 year maturity loan basis and £20m at a fixed rate of 1.62%, on a 38 year maturity loan basis to replace maturing loans. A further £25m was borrowed for the HRA at an average rate of 1.83% on a 38 year maturity basis.

The Council used the majority of the new loans to replace £54.2m existing PWLB debt that matured during 2019/20.

The PWLB was the Authority's preferred source of long term borrowing given the transparency and control that its facilities provide.

4.3.6 Temporary loans borrowed from the markets, predominantly from other local authorities, has also remained affordable and attractive. £423m of such loans were borrowed at an average rate of 0.738% and an average life of 59 days this total includes the replacement of maturing loans. The Council's outstanding balance of temporary loans has increased by £110.5m with the debt portfolio showing £132.5m outstanding as at 31 March 2020.

The increase in temporary loans was partly a strategic move to take advantage of the changing market outlook for long term borrowing rates but then in February/March the balanced increased further to fund short term requirements for liquidity as a response to the Covid 19 outbreak and the associated additional cash outflows and anticipated reductions in cash flow from council income streams.

4.3.7 The Council's under-borrowed position has temporarily reduced by £112.8m in 2019/20 due to the increase in new short-term term borrowing taken and used/held for liquidity at the end of the financial year to mitigate liquidity risks caused by Covid 19. This has reduced the Internal Borrowing to c.£116.1m as at 31 March 2020. This meant that the overall capital borrowing need including prior year capital expenditure (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as a temporary measure. This strategy remained prudent as investment returns were relatively low and counterparty risk was still an issue that needed to be considered.

4.3.8 **Appendix 3** shows the Money Market and borrowing interest rates during 2019/20. The global outlook for growth now also looks to be weak as the economic impact of Covid 19 is beginning to unfold. Treasury yields have therefore fallen sharply during 2020 and gilt yields / PWLB rates have also fallen.

4.3.9 The interest equalisation reserve has been maintained to mitigate the risk of unexpected rises in long term interest rates with c.£10.4m ring-fenced to smooth the impact of further increasing the proportion of fixed long term loans.

4.4 Lender Option Borrower Option *(*LOBOs)

4.4.1 The Council holds £34.000m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £19.000m of these LOBO loans had options during the year, none have been exercised by the lender. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

4.4.2 The council previously held LOBO loans with Barclays Bank, but in 2016/17 the Bank cancelled all the embedded options within the loans. This effectively converted the £15m of Barclays LOBO loans to fixed rate loans removing the uncertainty on both interest cost and maturity date.

4.5 Debt Rescheduling

4.5.1 The PWLB continued to operate a spread of approximately 1% between "premature repayment rate" and "new loan" rates so the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

4.6 <u>Housing Revenue Account (HRA) Borrowing</u>

4.6.1 From 1 April 2002, the Council's HRA was allocated a separate debt portfolio based on the appropriate proportion of the Councils existing debt at that time. As a result of existing debt maturing and not being replaced, the HRA accumulates a variable rate internal borrowing position. During 2019/20 the HRA fixed £25m of new PWLB borrowing. These loans had an average life of 38 years and an average rate of 1.83% with a full year revenue cost of c.£0.456m per annum in interest payable. By using long term fixed rate loans the HRA gains cost certainty and removes the exposure to increases in long term interest rates for the HRA CFR as at 31 March 2020.

4.6.2 The HRA element of the CFR was £292.5m and is fully financed at an average rate of 4.34% as at 31 March 2020. The HRA interest charge for 2019/20 was £12.8m.

4.6.3 In October 2018 the Government announced the HRA debt cap was to be abolished, but the now notional cap has been retained as a useful indicator shown in **Appendix 1.** Any capital expenditure financed by borrowing would need to comply with the requirements of the CIPFA prudential code including ensuring the scheme was affordable, sustainable and in proportion to the resources available.

4.6.4 On the 11 March 2020 HM Treasury announce a 1% reduction on new PWLB loans that are ring-fenced to finance HRA capital expenditure at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. This reverses the October 2019 PWLB rate increase and is available for new HRA loans taken from 11 March 2020. The £25m new HRA loans were taken at this new reduced rate.

4.7 <u>Investments</u>

4.7.1 Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy for 2019/20.

4.7.2 Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating was A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

4.7.3 In the past 12 months, the Council's investment balance has ranged between £57.6m and £129.2m. The average sum invested during the year was £90.1m, earning total interest of £0.804m at an average rate of 0.892%. The Council benchmarks its average return against the 7-day London Interbank (LIBID) rate provided by the Bank of England. For 2019/20, the average 7-

day LIBID rate was 0.530%. This performance was above the market due to active management of the investment portfolio.

4.7.4 The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the Monetary Policy Committee (MPC) would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after the Brexit issue was settled, but would only rise to 1.0% during 2020.

Appendix 3 shows the 2019/20 Money Market interest rates. During 2019/20 rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

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

The Council has continued to manage it’s exposure to bank credit risk by depositing balances for investment in short term notice accounts and in highly diverse and liquid money market funds. It has also placed longer term fixed interest rate deposits with other local authorities as shown in table 3 below.

<u>TABLE 3 - Investment Activity in 2019/20</u>

Investments	Balance on 01/04/2019	Balance on 31/03/2020	Avg Rate / Yield (%) Avg days to maturity as at 31/03/2020
	£m	£m	
Short term Investments (call accounts, deposits)			
- Banks and Building Societies with ratings of A- or higher	-	20.0	1.00% / 82
- Local Authorities	57.5	25.0	0.90% / 164
Long term Investments	-	10.0	0.90% / 390
Money Market Funds	33.1	74.0	0.39% / 1
TOTAL INVESTMENTS	**90.6**	**129.0**	**0.62% / 75**
- Increase/ (Decrease) in Investments £m		38.4	

4.7.6 The council has retained its use of instant access money market funds with the dual benefit of increased diversity and a credit rating of AAAm.

4.7.7 The investment activity during the year conformed to the approved strategy, and the Council managed the increased need for liquidity in Feb/March due to Covid 19 by increasing cash held in money market funds.

4.7.8 **Appendix 2** provides details of the Council's external investments at 31 March 2020, analysed between investment type and individual counterparties showing the Fitch long-term credit rating.

4.8 External advisors

4.8.1 External treasury management advisors are retained to provide additional input on treasury management matters. The service comprises economic and interest rate forecasting, advice on strategy, portfolio structure, debt restructuring, investment policy and credit ratings and technical assistance on other matters, as required.

4.8.2 The council has retained Link Asset Services (previously known as Capita Asset Services) as its treasury management advisors.

4.9 Compliance with Prudential Indicators

4.9.1 The Council confirms compliance with its Prudential Indicators for 2019/20 set on 4 March 2019 as part of the Council's Treasury Management Strategy Statement.

4.9.2 The Council measures and manages its exposures to treasury management risks using the following indicators.

4.9.3 **Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. The limits variable rate interest rate exposures are:

	2018/19 £m	2019/20 £m	2020/21 £m
Upper limit on variable interest rate exposure	300	300	350
Actual	95.5	168.9	

4.9.4 **Maturity Structure of Borrowing**: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower	Upper	Actual
Under 12 months	0%	25%	14%
12 months and within 24 months	0%	25%	2%
24 months and within 5 years	0%	25%	8%
5 years and within 10 years	0%	25%	14%
10 years and within 25 years	0%	50%	8%
25 years and within 40 years	0%	50%	23%
40 years and above	0%	50%	31%

4.9.5 **Principal Sums Invested for Periods Longer than 365 days**: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2018/19 £m	2019/20 £m	2020/21 £m
Limit on principal invested beyond year end	100	100	100
Actual	0	10	

4.9.6 **Operational Boundary and Authorised Limit for External Debt**: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

	2019/20 Original Estimate £m	2019/20 Max Debt in year £m
Borrowing	992.7	1,074.5
Other Long-term Liabilities *	191.4	191.4
Total External Debt	1,184.1	1,265.9
Operational Boundary	1,421.0	
Authorised Limit	1,471.0	

'* Includes PFI and Leases liabilities

4.10 Treasury Management Reserve

4.10.1 The Treasury Management Reserve is maintained to smooth the impact of any volatility in treasury management revenue charges in any one year including new technical accounting entries relating to IFRS 9 expected loss model based impairments on Treasury related investments and capital investments such as loans to third parties and financial guarantees.

A reserve is maintained for interest equalisation specifically to balance the risk of having to secure new long term loans at higher interest rates than anticipated including the unwinding of internal borrowing position detailed in section 4.3.

The balance on these reserves at 31 March 2020 is £5.892m. In 2019/20 a further technical adjustment of £8.673m has been made to account for the annual impairment review on non-treasury investments as at 31 March 2020 under the IFRS 9 requirements. There was no expected loss impairment made to treasury investments.

4.11 Risk Management

4.11.1 Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is maintained for the treasury function.

4.11.2 The treasury management risk register's overall risk rating at 31 March 2020 was 6.58, Likelihood = possible, Impact = moderate which represents an increase from 4.23, Likelihood = unlikely, Impact = moderate as at 31 March 2019. The increase in risk rating reflects risks around the impacts of Covid 19, the working from home arrangements and the proposed changes to the PWLB lending arrangements currently in a consultation period. The Treasury Management working group continue to manage this risk and take appropriate actions as required.

4.12 <u>Other Issues</u>

4.12.1 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.
A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the council at a much higher level than can be attained by treasury investments.

A Capital Investment Strategy report was considered alongside the Treasury Management Strategy at Executive Board and approved at Full Council on 4 March 2019. These reports provides a high level summary of the overall capital strategy and enables councillors to see how the cash resources of the council have been apportioned between treasury and non-treasury investments. These reports are as per the updated requirements within the CIPFA codes.

4.12.2 **IFRS 9**. The statement of accounts will need to take account of the 2019/20 Accounting Code of Practice requirements for the valuation of investments.

- Expected credit loss model. Whilst this is not be material for vanilla treasury investments such as bank deposits, this can result in a revenue impact for non-treasury management investments dealt with in the Capital Investment Strategy.

4.12.3 **PWLB Rate Changes & Consultation on Revised Lending Terms**
The HM Treasury has imposed two changes in the margins over gilt yields for PWLB rates in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this ends on 31 July. It is clear that the Treasury intends to put a stop to local authorities borrowing money from the PWLB to purchase commercial property and other debt for yield assets if the aim is solely to generate an income stream.

Following the changes on 11 March 2020 in margins over gilt yields, the current situation is as follows: -

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

There is likely to be little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover all the momentum they will lose in the sharp recession that will be caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020-21.

5 Finance colleague comments (including implications and value for money/VAT)

5.1 General Fund Revenue Implications

5.1.1 Revenue costs associated with borrowing and lending can be volatile, being affected by a number of factors including movements in interest rates, the timing of capital spending, the extent of reserves held and actual cash flows during the year.

5.1.2 The General Fund outturn in 2019/20 for treasury management costs was £79.531m comprising of interest charges less receipts, provisions for the repayment of debt and PFI related expenditure. A proportion of the Council's debt relates to capital expenditure on council housing and £12.838m of these costs was charged to the HRA. The PFI expenditure accounted for £28.214m which includes the NET lines 1 & 2.

The General Fund costs of £79.531m gave a nil variance which is included within the General Fund corporate Budget Outturn Report on the 29 June 2020 Executive Board agenda.

5.2 Value for Money

5.2.1 Management of borrowing and investments is undertaken in conjunction with our appointed advisors, with the aim of minimising net revenue costs, maintaining an even debt maturity profile and ensuring the security and liquidity of investments.
Finance advice provided by Glyn Daykin/Sue Risdall, Technical Accounting dated 30 June 2020.

5 Legal and Procurement colleague comments (including risk management issues, and legal, Crime and Disorder Act and procurement implications)

5.1 None.

6 Strategic Assets & Property colleague comments (for decisions relating to all property assets and associated infrastructure)

6.1 None.

7 Social value considerations

7.1 N/A

8 Regard to the NHS Constitution

8.1 N/A

9 Equality Impact Assessment (EIA)

9.1 The report has no proposal to change processes or systems therefore no equality impact assessment has been completed.

10 List of background papers relied upon in writing this report (not including published documents or confidential or exempt information)

10.1 None

11 Published documents referred to in this report

11.1 Treasury Management Strategy 2019/20 and Capital Investment Strategy 2019/20

11.2 Treasury Management Strategy 2020/21 and Capital Investment Strategy 2020/21

11.3 Money Market and PWLB loan rates

11.4 Treasury Management in the Public Services Code of Practice 2017–CIPFA

11.5 Prudential Code 2017-CIPFA

11.6 Treasury Management in the Public Services Guidance Notes 2018 – CIPFA

11.7 Statutory guidance on local government investments 3rd Edition 2018

11.8 Statutory guidance on Minimum Revenue Provision (MRP) 2018