Cabinet Meeting on Wednesday 15 September 2021

Treasury Management Report for the Year Ended 31 March 2021

Ian Parry, Cabinet Member for Finance and Corporate Matters said,

"We always look to achieve the best value for money for our tax payers and we do this by running an efficient county council. Coping with the Covid-19 pandemic continues to put additional pressures on resources, but we continue to manage our finances prudently while doing and spending what is required. By using cash reserves rather than borrowing more, we have been able to achieve substantial savings in what still remain challenging times. As well as being prudent, our low risk investment strategy which focuses on lending to low risk institutions, means we have been well placed to deal with challenges arising from the UK leaving the European Union and the ongoing pandemic. We continue to provide advice and support along with access to funding for local businesses, as we work to get our economy back on track. Like many other councils we continue to face financial pressures and uncertainty over long term funding of some services. We will continue to spend and invest where necessary, focusing our efforts and resources on where they are most needed."

Report Summary:

1. This report describes the County Council's investment and borrowing activity during 2020/21. It considers both borrowing and investment decisions taken throughout the year considering the interest rates and economic conditions prevailing at the time.

2. These activities involve large sums of money and reflect the huge scale of the County Council's operations. As at the 31 March 2021, the County Council's overall debt level stood at £568 million, which reflects capital expenditure decisions made in the past. Investments totalled £279 million.

3. Our treasury management activities were carried out prudently during the year and our policy of funding new borrowing from internal cash balances continues to generate significant savings.

4. As well as being prudent, our low risk investment strategy which focuses on lending to low risk institutions and the need for liquidity and diversification, has ensured the County Council has been strategically placed to deal with market challenges arising from the UK to leaving the European Union and the Covid-19 pandemic.

Recommendation(s)

I recommend that:

a. the treasury management activities for the year ended 31 March 2021, including the Prudential Indicators outturn detailed in **Appendix 4**, be noted.

b. Cabinet approve the use of the Minimum Revenue Provision at 31 March 2021 as set out in **paragraphs 31 and 32**.

c. Cabinet note the current Annual Investment Strategy is considered prudent and sufficiently robust to meet any market challenges created by the UK's decision to leave the European Union and pressures caused by the Covid-19 pandemic and that Officers will continue to monitor the position.

Local Members Interest If report is relevant to ALL Members, type 'N/A' into table and delete what is not required	
Insert Members Name	Insert Electoral Division

Cabinet – Wednesday 15 September 2021

Treasury Management Report for the Year Ended 31 March 2021

Recommendations of the Cabinet Member for Finance and Corporate Matters

I recommend that:

a. the treasury management activities for the year ended 31 March 2021, including the Prudential Indicators outturn detailed in **Appendix 4**, be noted.

b. Cabinet approve the use of the Minimum Revenue Provision at 31 March 2021 as set out in **paragraphs 30 and 31**.

c. Cabinet note the current Annual Investment Strategy is considered prudent and sufficiently robust to meet any market challenges created by the UK's decision to leave the European Union and pressures caused by the Covid-19 pandemic and that Officers will continue to monitor the position.

Report of the County Treasurer

Reasons for Recommendations:

1. At their meeting on 18 January 2012, Cabinet adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code).

2. Treasury risk management at the County Council is conducted within the framework of the revised 2017 Edition of the CIPFA Code. This requires the County Council to approve a treasury management strategy before the start of each financial year and, as a minimum, provide a semi-annual and annual treasury outturn report. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

3. This report provides a summary of the County Council's treasury management activities for 2020/21, in the context of the strategy for the year, which was agreed by Cabinet on 8 January 2020. It considers both the borrowing and investment decisions taken throughout the year in the light of the interest rates and economic conditions prevailing at the time.

External context

4. The financial year 2020/21 will go down in history as being the year of the COVID-19 pandemic. Despite the Government and Bank of England taking rapid action to support the economy and protecting jobs, the first national lockdown in late March 2020 did huge damage to the economy. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways so much less damage was done. Vaccination of the UK population began in November 2020 and the pace at which it has been rolled out has been instrumental in speeding up the economic recovery and the reopening of the economy. In addition, the household savings rate has been exceptionally high since the first lockdown in March 2020, so there is pent-up demand and purchasing power stored up for goods and services for when the economy is fully re-opened. It is therefore expected that the UK economy could recover to its pre-pandemic level of economic activity by quarter 1 of 2022.

5. Since the beginning of the pandemic, the Chancellor has implemented repeated rounds of government support to businesses by way of cheap loans and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit, which has ballooned and caused total government debt to now stand at around 100% of GDP. The most recent Budget on 3 March 2021 further increased fiscal support to the economy and employment during 2021 and 2022, which is to be followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. The response of the government has helped strengthen the economic recovery from the pandemic but has an eye on returning the budget to a more sustainable balanced position by 2025/26.

6. The final Brexit agreement on 24 December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU, which needs to be formalised on a permanent basis. There was much disruption in January 2021 as the increased paperwork to trade with the EU proved to be a formidable barrier; this now appears to have eased as businesses acclimatise but is an area that needs further work to ease difficulties, which are still acute in some areas.

7. The US economy did not suffer as much damage as the UK economy due to the pandemic. The Democrats won the presidential election in November 2020 and have control of both Congress and the Senate. This enabled the Democrats to pass a $1.9trn (8.8% of GDP) stimulus package in March on top of the $900bn fiscal stimulus deal passed by Congress in late December. These, together with the vaccine rollout, will promote a rapid easing of restrictions and a strong economic recovery during 2021.

8. Unlike the UK and US, the roll-out and take up of vaccines has been disappointingly slow in the EU in 2021. This has been at a time when many countries have been experiencing a sharp rise in COVID-19 cases and led to renewed lockdowns during March 2021. After the economic recovery in the EU had begun strongly in Q3 of 2020, this now means the forecast is for the EU to not recover to pre-pandemic levels until the second half of 2022.

Long-term borrowing 2020/21

9. The Treasury Management Strategy Report for 2020/21, approved by Cabinet on 8 January 2020, outlined the long-term borrowing strategy for the year, which was:

   "to favour using cash in lieu of borrowing."

10. The ability to borrow new loans was authorised as it was recognised that cash balances could fall as a result of unexpected changes in;
    - the capital programme;
    - budget pressures;
    - changes in the County Council's cash funding; and
    - the repayment of Lender Option Borrower Option loans (LOBOs).

    The following table summarises the use of cash for 2020/21:

2020/21	**£m**
Balance funded from cash brought forward	**105.011**
New debt	16.660
Minimum Revenue Provision (MRP) *	(20.933)
Loan repayments at maturity	0.034
Loans taken out	0
Balance funded from cash carried forward	**100.772**

* *£19.104m of the MRP is payable by the County Council, but the treasury team manage the entire position, including MRP for transferred services.*

11. In 2020/21, the amount of debt funded from internal cash balances has decreased from £105.011m at the start of the financial year to £100.772m by the end of the year. New debt created was less than MRP and there was a small loan amount maturing meaning that the overall use of cash decreased.

12. The strategy of using cash continues to rely upon two main factors:
    - interest rates, and in particular the difference between short-term investment rates and longer-term borrowing rates; and
    - having cash available to fund the strategy.

Interest rates

13. The Bank of England's Monetary Policy Committee (MPC) cut Bank Rate from 0.75% to 0.25% and then to 0.10% and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields) in March 2020. The MPC then further increased QE by £100bn in June 2021 and £150bn in November 2021, to take it to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be beneficial.

14. Average inflation targeting was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August 2021 was the new phrase in the policy statement 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***". In effect this indicates, that even if inflation rises to 2%, this may not mean that action is taken by the MPC to raise Bank Rate. This sets a high bar for raising Bank Rate and no increase is expected in the short term. Inflation has been well under 2% during 2020/21; it is expected to peak at over 2% in 2021, but this will be seen as temporary so is unlikely to concern the MPC.

15. The economic global shock caused by the COVID-19 virus has impacted on demand through employment, consumer confidence and on-going social distancing measures. Staffordshire County Council's treasury management advisers expect the Bank of England to maintain Bank Rate at 0.10% until March 2023. It is likely that central banks across the world will follow this approach.

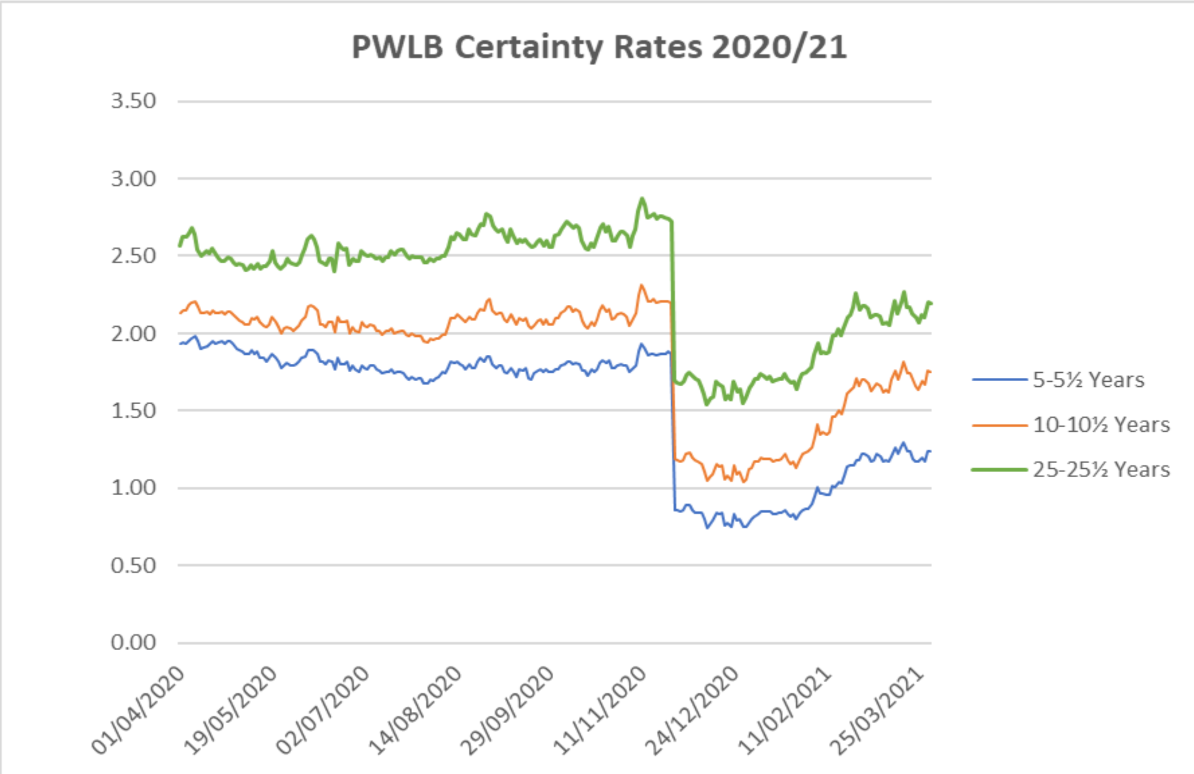
16. Whilst the economic future is not certain, a strategy of using cash remains supported by the current economic situation and the forecast for relatively low interest rates in the future.

17. Longer term interest rates are more relevant when the County Council wants to take up a new loan; these are mainly sourced from the Public Works Loan Board (PWLB) whose loan interest rates vary daily reflecting changes in gilt yields in the UK Government bond market.

18. On the 9th October 2019 the government announced a 1% increase in the interest rate margin on borrowing from the PWLB. Borrowing from the loan facility has increased at a rapid rate in recent years as a result of low interest rates with some borrowers using the money to invest in commercial property to produce a financial return. By taking this action HM Treasury restored interest rates to the levels seen in 2018 to prevent borrowing for commercial purposes.

19. On the 11 March 2020 HM Treasury released a comprehensive consultation on future lending terms of the PWLB to codify the approach that should be taken towards lending to public bodies in the future in respect of commercial loans. Following responses this margin was removed 26 November 2020.

20. The following chart shows PWLB interest rates (at certainty rate) for three indicative loans throughout 2020/21:

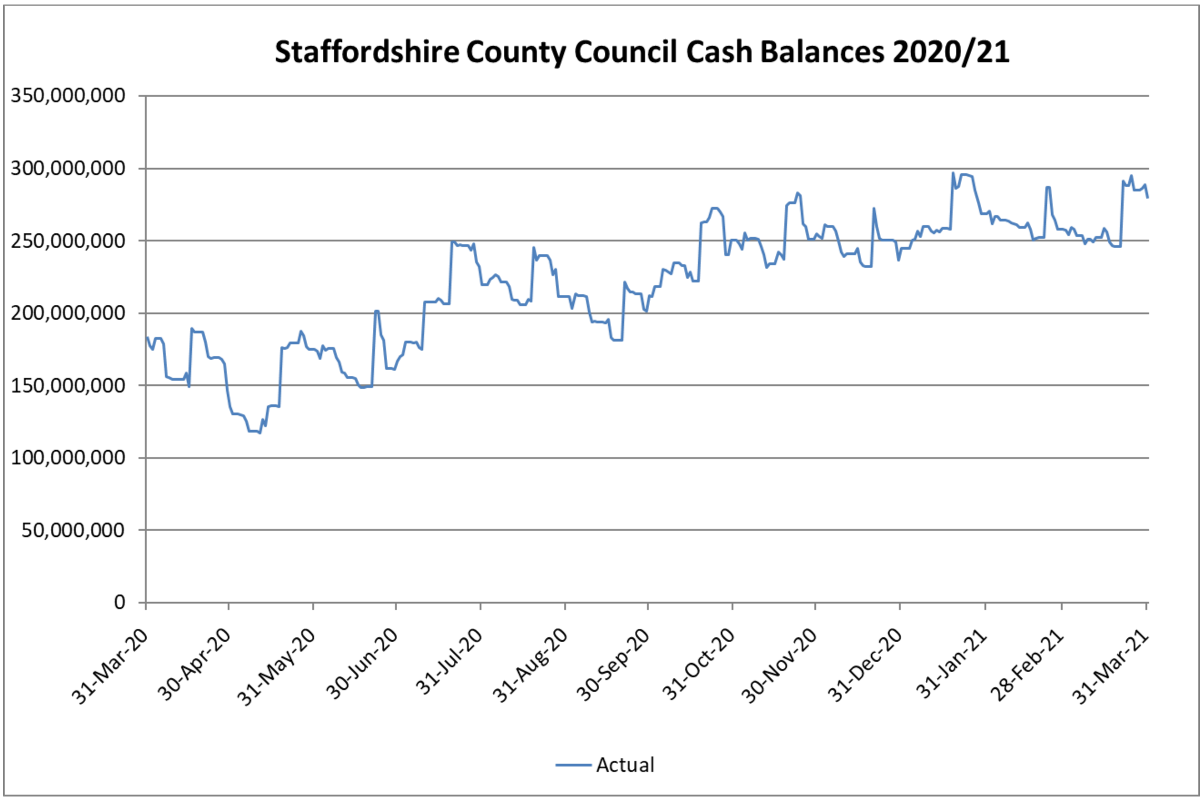


21. The chart shows rates mainly flat with a slight rise in the first half of 2020/21, before falling dramatically in the second half of the year due to the change in policy by HM Treasury. PWLB loans are priced with reference to gilt yields and the slight rise in PWLB rates (excluding the rate cut) and thus gilt yields reflected an increase in inflation expectations. When Bank Rate is not expected to increase, demand and prices for existing UK Government debt will increase (when gilt prices increase, yields fall). As mentioned in **paragraph 14** expectations for a Bank Rate increase had fallen due to a slow-down in the global economy due to the COVID-19 pandemic.

22. It is important to understand the current relationship between short-term investment rates and longer-term rates. If borrowing in the form of a loan is taken, the proceeds could only be invested at rates significantly lower than the cost of the borrowing. At present this difference would be around 1% to 2% depending on the length of the loan, so avoiding raising new loans can result in significant savings (see **paragraph 25**).

Availability of Cash

23. An equally important consideration to support the policy of using cash in lieu of borrowing, is whether cash is available. The following graph shows the investment balances for 2020/21, which were sufficient to fund the use of cash of £100.772m (**see paragraph 12**). The drop in cash balances experienced in April and May 2020 were as a result of the County Council accelerating payments to suppliers and care providers to help mitigate the initial financial impact of the COVID-19 pandemic.



24. The following table shows the average interest rate incurred on the County Council's loan portfolio, and an adjustment to this to reflect the use of cash.

	2019/20 %	**2020/21 %**
Weighted average rate of interest for external loans	4.64%	4.64%
Adjusted for the use of cash	4.02%	3.83%

25. The average rate on external loans is the same as last year as there has been minimal loan maturities in 2020/21 which have not materially affected rates. On average, internally funding from cash balances in lieu of borrowing has saved the County Council £1.734 million in interest payments this year. The interest rate adjusted for the use of cash was lower in 2020/21 as with investment interest

rates falling, the opportunity cost of using the cash in lieu of borrowing became less, and this portion of the County Council's debt was funded at a lower cost.

26. A graph illustrating the maturity profile of the long-term debt at 31 March 2021 is provided at **Appendix 2**.

27. The financing of the County Council's long-term debt at 31 March 2021 is summarised in the following table.

	£m	**% of Total**
PWLB fixed maturity loans and other	416.585	73
Lender Option Borrower Option (LOBO) loans	51.000	9
Internal funding from cash	100.772	18
Total debt position	**568.357**	**100**

Loan rescheduling in 2020/21

28. Movements in interest rates over time may provide opportunities to restructure the loan portfolio in one of two ways:
    - to replace existing loans with new loans at a lower rate (known as loan rescheduling); or
    - to repay loans early, without replacing the loans. This would increase the use of cash.

29. A combination of factors throughout 2020/21 meant that loan restructuring was not financially viable:
    - gilt yields were still near historical lows, which means a large penalty would be payable;
    - Government policy is to apply a margin to the early repayment of a PWLB loan, which further increases the penalty payable; and
    - the gap between short-term interest rates and longer-term interest rates meant that no LOBO loans were called.

Annual provision for principal repayments (Minimum Revenue Provision)

30. Under the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008, local authorities are given some flexibility in making an annual revenue provision for the repayment of debt.

31. In accordance with the approved policy, the Minimum Revenue Provision of £20.933 million has been used to reduce the County Council's level of debt.

Annual Investment Strategy - Approved lending list

32. The Annual Investment Strategy (AIS) sets out the parameters for the parties the County Council will lend its money to. The AIS sets out the requirements of government guidance and the CIPFA Code of Practice for Treasury Management. Both documents set out two prime risk issues:

- the security of capital; and
- the liquidity of investments.

33. The following characteristics underpin the AIS.

    - the use of regulation investments and counterparties recommended by the treasury adviser (high level of security);
    - the use of diversified sterling “AAA” Money Market Funds (MMFs) and same day liquidity accounts (high level of security and liquidity); and
    - a maximum duration of 12 months for bank and building society investments (high level of security).

Treasury Management activity 2020/21

Treasury Management Panel

34. The treasury team monitor the financial markets as part of a risk management strategy. Regular reports are provided to the County Treasurer, who chairs the Treasury Management Panel (‘the Panel’) which is attended by senior finance and treasury officers.

35. The CIPFA Guidance on Commercial Property Investment was followed amid a legal concern over local authorities borrowing to invest in property. It was confirmed that the County Council’s commercial investment strategy was based on the use of capital receipts and not funded from borrowing. As a result of the practice of some authorities using borrowing to fund commercial investment, the treasury team have followed a policy of maximising exposure to £5m per local authority.

36. The Panel discussed the high level of County Council cash balances throughout the year and agreed secure ways to hold the funds in line with the Annual Investment Strategy (AIS). The AIS sets out clearly the parameters that the authority uses to invest its money prescribing limits, time frames, institutions and types of investment officers can make. These are discussed monthly by the Panel and County Treasurer and all investments were made in compliance with these limits.

37. The Panel monitored Brexit developments and the implications of Brexit on short-term investments; foreign domiciled Money Market Funds (MMF) were perceived to have some liquidity risk in the event of a no deal Brexit. As an alternative, the Panel ensured the County Council had access to the Government’s DMO deposit account facility with the flexibility to increase limits temporarily for UK domiciled MMFs. As the County Councils investment strategy was viewed as cautious, no additional measures were required.

38. As a result of the COVID-19 pandemic the Panel took the decision to hold more cash on a short-term basis so that the County Council had the ability to respond rapidly to any situation which may have arisen in an uncertain and changing environment. In addition, the cashflow of the Authority was also reviewed regularly, so that an insight into possible pressures could be gained to further inform decisions. As discussed in this report the interest rates for investments fell

sharply as the pandemic affected global market and the threat of negative interest rates was raised by the Bank of England. Whilst this did not happen, some investment returns did fall below 0% but the County Council was able to avoid making deposits in such investment vehicles.

39. During the year, the Panel discussed the treasury reports required for 2020/21 following the revision of the CIPFA Codes of Practice on Treasury Management and the Prudential Code, and revised guidance on Local Government Investments and MRP from the Ministry of Housing, Communities and Local Government (MHCLG). In addition to the reports outlined in **paragraph 2**, the Panel approved the Capital Strategy and the Commercial Investment Strategy.

40. The Commercial Investment Strategy covers the requirements of MHCLG Guidance, in relation to investments held for service purposes, or for commercial profit. Although commercial investments could be considered for 2020/21, the County Council's 2020/21 annual investment strategy remained low risk, with a focus on safeguarding assets by investing in low risk institutions, and with a view to liquidity and diversification. The Panel considered there was no need to change this strategy during 2020/21.

41. The Panel appointed Link as the County Council's treasury management advisors at the end of 2020/21, as a replacement for Arlingclose. This was done through a fully competitive tender process and was compliat with all County Council procurement regulations. Officers have already begun to work closely with representitives from Link.

Credit risk management

42. The following table sets out the credit ratings awarded by credit rating agencies for the counterparties that the County Council was invested with at 31 March.

Credit Rating	**31 March 2020**	**31 March 2021**
	£m	**£m**
AAA	85.2	247.5
'A' range (including 'A+' and 'A-')	4.7	2.1
Local authorities	94.0	30.0
Total investments	**183.9**	**279.6**

43. The 2020/21 AIS set the minimum credit-rating of a counterparty at a long-term rating of 'A - ', where available. Counterparties rated below this level were automatically precluded from being on the lending list. From the table above, the highest rating ('AAA') was that given to MMFs, whilst the bank investments were graded in the 'A' range.

44. Whilst most local authorities are unrated by credit rating agencies, both regulations (which list local authorities as acceptable bodies to invest in) and their status as tax raising bodies make them highly creditworthy.

45. A copy of the lending list as at the 31 March 2021 is attached at **Appendix 3**.

Treasury Management Investment transactions

46. Surplus cash is invested in money market instruments to earn interest in accordance with the AIS. All investments must comply with Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 which ensure authorities cannot 'speculate' with public funds, for example, authorities cannot invest surplus cash directly in the stock market.

47. Treasury officers are authorised to invest in approved counterparties without further approval from the Panel or Members. These are called 'Standard Investments' and include the UK Government, short term Money Market funds and banks and building societies recommended by the County Council's treasury advisors.

48. In addition, the AIS allows investments in 'Non-standard Investments' subject to approval from the Panel chaired by the County Treasurer. Collective Investment Schemes are a category within non-standard investments which include Enhanced MMFs.

49. The County Council has an investment in the Royal London Cash Plus MMF; this Enhanced MMF has the same characteristics as same day liquidity MMFs but has a 3-day notice period and recommended investment duration of at least 6 months, due to a longer investment horizon. The Royal London Cash Plus MMF has allowed the County Council to earn an increased yield in a low interest rate environment.

50. The County Council's same day notice MMFs converted from a Constant Net Asset Value (CNAV) to a Low Volatility Net Asset Value (LVNAV) structure in January 2019. The assets of LVNAV MMFs are marked to market, meaning the dealing NAV (unit price) may fluctuate. However, the regulations confirm they will be allowed to maintain a constant dealing NAV provided they meet strict criteria and minimum liquidity requirements.

51. The following table summarises some key facts about the investment transactions over the last two years.

	2019/20	**2020/21**
Total Transactions in year	£0.934 billion	£0.855 billion
Total Interest receipts	£2.019 million	£1.591 million
Average return on investments	1.46%	0.68%
7-day LIBID* (benchmark)	0.50%	(0.02%)
Additional return generated	0.96%	0.70%

Adjusted without long-term local authority investments	0.67%	0.15%

** London Interbank BID interest rate*

52. The previous table shows that the level of total interest receipts in 2020/21 were lower than in the previous year. This reflects the impact of the global pandemic on the financial markets with interest rates falling drastically. The County Council did not make any investments with a negative rate during the year which were offered by some institutions. The total interest receipts figure includes interest receipts from £30m of long-term local authority investments. These were made at an average rate of 4.02%, significantly higher than current market interest rates.

53. The long-term local authority investments were originally approved by Cabinet in 2013, for a maximum of £45m. Although the County Council made a number of short-term local authority investments during 2019/20, no further long-term investments have been made due to a lack of demand from borrowers.

54. Approved investments at 31 March 2021 stood at £279.549 million (£183.910 million at 31 March 2020) and these can be analysed as follows:

Long-term local authority	**£m**	**Term**
Derby City Council	7.500	28/11/2030
Derby City Council	7.500	28/11/2031
Redcar and Cleveland Borough Council	7.500	29/11/2032
Redcar and Cleveland Borough Council	7.500	29/11/2033
Banks and building societies		
Lloyds (as banking provider)	2.049	Instant Access
Money Market Funds		
Black Rock	68.000	Instant Access
Insight	49.500	Instant Access
Federated	30.000	Instant Access
Aberdeen	68.000	Instant Access
State Street	12.000	Instant Access
Enhanced Money Market Funds		
Royal London Cash Plus	20.000	2-day notice
TOTAL	**279.549**	

Of the funds invested, £36.2 million are held on behalf of third parties such as the Midland Engine and the Local Enterprise Partnership. In addition, the County Council has some COVID-19 grant funding which has inflated year end balances.

Compliance with other matters

55. The following other matters can be confirmed:

    (i) In accordance with financial regulations, the Treasury Management Panel, chaired by the County Treasurer (Section 151 Officer) and comprising other senior finance and treasury officers, met regularly to consider treasury matters;

    (ii) All treasury related transactions were undertaken by authorised officers and within the limits approved by the County Council;

    (iii) All investments were to counterparties on the approved lending list current at the time and fully met the requirements of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2008; and

    (iv) The County Council operated within the limits and Prudential Indicators for treasury management as set out in the County Council's Treasury Management Practices except for the indicator relating to variable interest rates. This indicator is calculated based on the highest expected cash balance in the year which was surpassed as a result of a government grant in respect of the Covid-19 pandemic, Local Enterprise Partnership funds and the Midland Engine. This was discussed by the Treasury Management Panel during the year and arrangements made for the secure deposit of funds in line with the AIS. The outturn for all Prudential Indicators is shown in **Appendix 4**.

    (v) As part of the County Council's 2020/21 Strategic Internal Audit Plan, the Treasury Management section was audited during the year. The outcome of the audit was that a Substantial Assurance rating was provided by Internal Audit indicating the areas reviewed were adequately controlled and that internal controls were in place and operating effectively.

List of Background Documents

1. Treasury Management in the Public Services: Code of Practice (CIPFA) (2017)
2. Prudential Code for Capital Finance in Local Authorities (CIPFA) (2017)
3. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
4. Statutory Guidance on Local Government Investments – Issued under Section 15(1) (a) of the Local Government Act 2003 (2018)
5. Statutory Guidance on Minimum Revenue Provision – Issued under section 21 (1A) of the Local Government Act 2003 (2018)
6. Localism Act 2011 – Guidance on the General Power of Competence in sections 1 to 6.

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Appendix 1

Cabinet 15 September 2021

Equalities implications – There are no equalities implications arising from this report.

Legal implications – There are no legal implications arising from this report.

Resource and value for money implications – The resource and value for money implications are contained within the body of the report.

Risk implications – Counterparty, interest rate and refinancing risk arising because of treasury management activity have been considered in the body of this report.

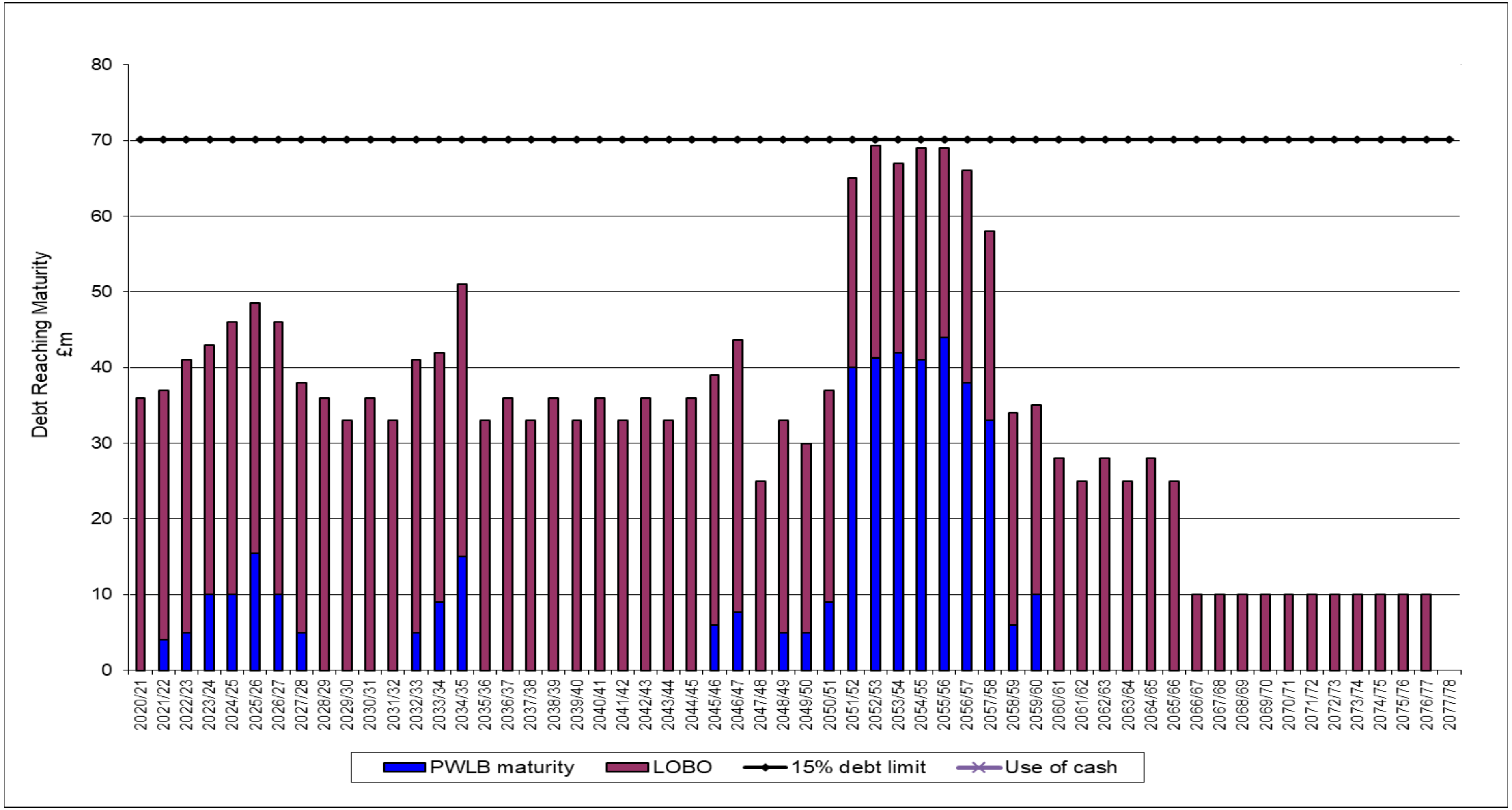
Climate change implications – There are no climate change implications arising from this report.

Health impact assessment screening – There are no health impact assessment implications arising from this report.

Appendix 2

Cabinet 15 September 2021

Staffordshire County Council Debt Maturity Profile 31 March 2021



Appendix 3

Cabinet 15 September 2021

Approved lending list – 31 March 2021	
	Time limit
Regulation investments	
DMADF account	6 months
UK Government Treasury Bills	6 months
UK local authority	12 months
Banks and building societies	
Barclays	35 days
Lloyds	35 days
Nationwide	35 days
Santander	35 days
MMF's	
Black Rock	same day
Insight	same day
Federated	same day
Aberdeen	same day
State Street	same day
Enhanced MMF's	
Royal London Cash Plus	3-day notice

Appendix 4

Cabinet 15 September 2021

<u>Prudential Indicators for Treasury Management</u>

Indicator	Estimate 2020/21	Actual Position at 31/03/21
1. External debt		
Authorised Limit for borrowing	£640m	£468m
Authorised Limit for other liabilities	£252m	£242m
TOTAL	**£892m**	**£710m**
Operational Boundary for borrowing	£518m	£468m
Operational Boundary for other liabilities	£252m	£242m
TOTAL	**£770m**	**£710m**
External loans	**£468m**	**£468m**
The Authorised Limit is the maximum level of external borrowing which should not be exceeded. It is linked to the estimated level of borrowing assumed in the capital programme. *The Operational Boundary represents an estimate of the day to day limit for treasury management borrowing activity based on the most likely i.e. prudent but not worst-case scenario.* *"Other liabilities" relate to PFI schemes which are recorded in the County Council's accounts.*		
2. Interest rate exposures		
a. Upper Limit (Fixed)	£565m	£438m
b. Upper Limit (Variable)	(£183m)	(£246m)
The County Council has set upper limits of fixed and variable borrowing and investments. The effect of setting these upper limits is to provide ranges within which the County Council will manage its exposure to fixed and variable rates of interest. Negative figures are shown in brackets; these relate to the 'high-point' of investments at a variable rate which are not offset by variable borrowings. The exposure to variable rate movements has been reduced by using cash in lieu of borrowing.		
3. Maturity structure of borrowing		
See Graph at **Appendix 2**		
This indicator relates to the amount of loans maturing in specified periods. The overarching principle is that steps should be taken from a risk management point of view to limit exposure to significant refinancing risk in any short period of time. The County Council currently applies the practice of ensuring that no more than 15% of its total gross fixed rate loans mature in any one financial year. *Because this is a complex situation for the County Council, involving PWLB loans, LOBO loans with uncertain call dates and the use of internal cash, specific indicators have not been set. Instead the County Council will manage its exposures within the limits shown in the graph at* ***Appendix 2****. This graph shows all LOBO call options on a cumulative basis; in fact, the actual pattern of repayment, although uncertain, will not be of this magnitude.*		
4.Upper limit for total principal sums invested for longer than a year (from maturity)		
This limit has been set at the total amount that could be invested in non-standard investments as per the County Council's policy which is the maximum that could be invested for 1 year or over.	£95m	£30m