FAREHAM
BOROUGH COUNCIL

APPENDIX A

Report to the Executive for Decision
05 July 2021

Portfolio:	Policy and Resources
Subject:	**Capital and Treasury Management Outturn 2020/21**
Report of:	The Deputy Chief Executive Officer
Corporate Priorities:	A dynamic, prudent and progressive Council

Purpose:
This report provides the Executive with details of the capital and treasury management outturn for 2020/21 to comply with the reporting requirements of the Code of Practice for Treasury Management. The report also seeks approval for the proposed methods of financing the General Fund capital programme.

Executive summary:
In February 2020 the Executive approved a capital programme totalling £26,869,9000 for 2020/21. Due to the impact of the Covid-19 pandemic on the economy the programme was reviewed as part of the emergency budget set in September 2020 and reduced to £11,987,600. This was further reduced in February 2021 to £6,606,8000 as part of the Capital Strategy update for 2021/22 to reflect the continued delay of significant projects as the pandemic continued.

Actual capital expenditure on General Fund schemes in 2020/21 was £5,499,557 (£16.5 million in 2019/20) compared with the revised capital programme of £6,606,800. The overall variance was £1,107,243. A detailed analysis of the variations is given in Appendix A to this report.

Total savings from individual projects of £66,120 were achieved, additional expenditure of £90,086 was incurred and a total of £1,131,209 will be carried forward into 2021/22. Details of the various methods used to finance this expenditure are set out in this report.

Full details of Treasury Management investment and borrowing activity in 2020/21 are also set out in this report and is summarised below:

	31 March 2020 Actual £'000	2020/21 Movement £'000	31 March 2021 Actual £'000
Total borrowing	57,659	(1,692)	55,967
Total investments	(16,300)	(2,325)	(18,625)
Net borrowing	**41,359**	**(4,017)**	**37,342**

Net interest received in 2020/21 was £661,684 (£603,316 in 2019/20) and net interest paid was £1,684,440 (£1,676,656 in 2019/20).

During 2020/21, the Council complied with its legislative and regulatory requirements of the Prudential Code.

Recommendation:
It is recommended that the Executive:

(a) approves the General Fund capital programme for 2020/21 to be financed as set out in this report;

(b) agrees that the additional expenditure incurred, amounting to £90,086 be financed retrospectively from unallocated capital resources; and

(c) notes the treasury management activity for 2020/21.

Reason:
To provide the Executive with details of the capital and treasury management outturn in 2020/21 and to comply with the reporting requirements of the Code of Practice for Treasury Management.

Cost of proposals:
The necessary resources are available to finance the General Fund capital programme for 2020/21 including the additional expenditure of £90,086.

Appendices:
A: Capital Expenditure 2020/21
B: Economic Commentary by Treasury Advisors, Arlingclose
C: Prudential and Treasury Indicators 2020/21

Background papers: None

Reference papers:
Capital Programme and Capital Strategy 2020/21, Executive Committee, 6 January 2021

Finance Strategy, Capital Programme, Revenue Budget and Council Tax 2020/21, Executive Committee, 3 February 2020

Finance Strategy, Capital Programme, Revenue Budget and Council Tax 2021/22, Executive Committee, 1 February 2021

Treasury Management Strategy and Prudential Indicators 2020/21, Council, 21 February 2020

CIPFA Code of Practice for Treasury Management

FAREHAM
BOROUGH COUNCIL

Executive Briefing Paper

Date:	05 July 2021
Subject:	Capital and Treasury Management Outturn 2021/21
Briefing by:	The Deputy Chief Executive Officer
Portfolio:	Policy and Resources

INTRODUCTION

1. This report provides the Executive with details of the capital and treasury management outturn for 2020/21 to comply with the reporting requirements of the Code of Practice for Treasury Management.

GENERAL FUND CAPITAL OUTTURN REPORT 2020/21

2. In February 2020, members approved a capital programme for 2020/21 totalling £26,869,9000. Due to the impact of the Covid-19 pandemic and the effect on the economy, the capital investment plans were revisited as part of the emergency budget setting in September to determine if the original business cases remained sound. This resulted in a number of projects being revised or put on hold, such that the programme was reduced to £11,987,600.

3. The capital programme for the General Fund for 2020/21, was further reduced to £6,606,8000 as part of the Capital Strategy update for 2021/22. This reflected the continuing progression of the pandemic causing significant projects such as Fareham Live, and investment projects at Fareham Leisure Centre and Solent Airport to be delayed further.

4. The actual capital expenditure, detailed in Appendix A, was £5,499,557 (£16.5 million in 2019/20) giving an overall variation of £1,107,243. A summary, including savings and additional expenditure, is summarised in the table below.

	Revised Budget £	Actual £	Savings £	Additional Expenditure £	Carry forward £
Streetscene	30,100	10,644	(19,456)	0	0
Leisure & Community	2,687,300	2,250,037	0	500	437,763
Housing	568,000	567,292	0	26,623	27,331
Planning & Development	444,000	119,869	(10,227)	0	313,904
Policy & Resources	2,877,400	2,551,715	(36,437)	62,963	352,211
Total	**6,606,800**	**5,499,557**	**(66,120)**	**90,086**	**1,131,209**

SAVINGS AND ADDITIONAL EXPENDITURE

5. Total savings of £66,120 were recognised. The main scheme savings were:

   - Holly Hill Cemetery Extension - £19,456
   - Faretec Air Conditioning - £14,660
   - Secure Access to the Western Side of Solent Airport - £12,977

6. The main schemes where additional expenditure of £90,086 was incurred were:

   - ICT Development Programme – additional spend of £62,963 on ICT equipment including laptops, monitors, headsets and webcams to support remote working. To be funded from increased revenue contributions to the capital programme.
   - 123 Bridge Road Improvements - £26,623 due to several exclusions, unforeseen and additional works to complete the project. To be funded from unallocated capital receipts.

7. In addition, £112,262 of expenditure was incurred ahead of budget and will be carried forward to reduce next year's capital budget.

CARRY FORWARDS TO 2021/22

8. There are a number of schemes still in progress and a total budget of £1,131,209 will be carried forward to 2021/22.

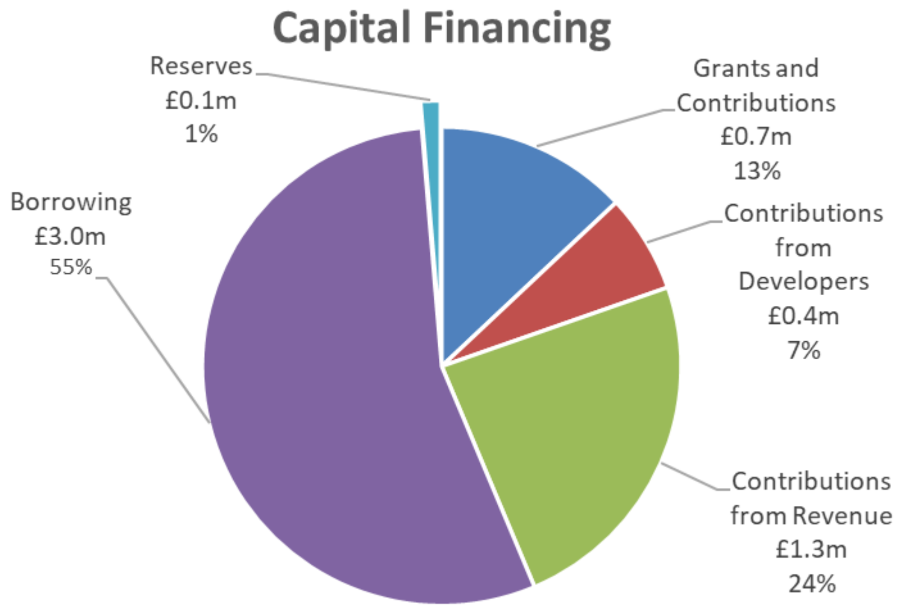
9. The largest carry forwards are for the Leisure Centre Capital Investment of £399,478, Car Parks New Machines of £273,904 and the Civic Offices Improvement Programme of £207,833.

CAPITAL PROGRAMME 2021/22 TO 2025/26

10. The General Fund capital programme will be reviewed by officers in light of the slippage and re-phasing of works and an updated programme for 2021/22 to 2025/26 will be presented to the Executive as part of the Finance Strategy for 2022/23.

CAPITAL FINANCING

11. The various methods used to finance the capital expenditure in 2020/21 are set out in the chart below.



12. The capital programme was predominantly funded by borrowing (55%) for the Leisure Centres Capital Investment and schemes at Daedalus, totalling £3 million. External contributions funded a total of 20% of the programme and contributions from revenue and capital reserves funded the remaining 25%.

SIGNIFICANT SCHEMES

13. Capital expenditure of £1,888,500 was incurred at Fareham Leisure Centre during 2020/21. Works started in November with the major external construction work of the extension to the building, consisting of foundations and steel work including the roof covering now complete. Works also commenced on the facade, fitness studio and changing rooms, cafe and entrance lobby, swimming pool and the car park extension.

14. Developments at Daedalus have continued with further investment in the assets and infrastructure across the site of £1,580,000 including the commencement of new industrial units at Faraday Business Park and securing access to the Western Side of Solent Airport.

15. The Vehicles and Plant Replacement programme incurred expenditure of £732,250. This included four refuse collection vehicles (two new and two second hand), a used glass collection vehicle, a street cleansing tipper van, five tipper vans and five mowers/desks for grounds maintenance and a van funded from the Emergency Assistance Grant from the Department for Environment, Food and Rural Affairs (DEFRA).

16. Disabled Facilities Grants totalling £451,000 were awarded in the year.

17. Capital expenditure of £248,000 has been made in 2020/21 to deliver the vision of a new community, art and entertainment facility in Fareham.

18. A further £113,600 has been spent on the ICT development programme upgrading servers, software and new equipment to support remote working across the organisation.

TREASURY MANAGEMENT OUTTURN REPORT 2020/21

19. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (the CIPFA Code) requires the Council to approve a treasury management annual report after the end of each financial year. This report fulfils the Council's legal obligation to have regard to the CIPFA Code.

20. The Council's Treasury Management Strategy 2020/21 was approved by full Council on 21 February 2020. The Council has borrowed and invested large sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

21. An economic commentary by the Council's Treasury Advisor, Arlingclose, can be found in Appendix B.

LOCAL CONTEXT

22. The treasury management position as at 31 March 2021 and the year-on-year change in shown in the table below.

	31 March 2020 Actual £'000	2020/21 Movement £'000	31 March 2021 Actual £'000
Long-term borrowing	40,000	-	40,000
Short-term borrowing	17,659	(1,692)	15,967
Total borrowing	**57,659**	**(1,692)**	**55,967**
Long-term investments	(12,000)	525	(11,475)
Short-term investments	-	-	-
Cash and cash equivalents	(4,300)	(2,850)	(7,150)
Total investments	**(16,300)**	**(2,325)**	**(18,625)**
Net borrowing	**41,359**	**(4,017)**	**37,342**

Note: the figures in the table are from the Balance Sheet in the Council's statement of accounts, but are adjusted to exclude operational cash, accrued interest and other accounting adjustments.

23. The Council's strategy was to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low.

24. The decrease in net borrowing is a result of a fall in short-term borrowing due to the Council's internal borrowing policy and an increase in total investments.

BORROWING ACTIVITY

25. At 31 March 2021, the Council held £56 million of loans, a decrease of £1.7 million on the previous year. The year-end borrowing position is shown in the table below.

	Balance on 31 March 2020 £'000	Balance on 31 March 2021 £'000	Average Rate
Long-term borrowing	40,000	40,000	3.50%
Short-term borrowing	15,000	13,000	0.40%
Portchester Crematorium	2,659	2,967	0.00%
Total borrowing	**57,659**	**55,967**	

26. The Council holds investments from Portchester Crematorium Joint Committee which are treated as temporary loans.

27. The Council's main 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.

28. With short-term interest rates remaining much lower than long-term rates, it is more cost effective in the near term to use internal resources or borrow rolling temporary / short-term loans instead.

BORROWING UPDATE

29. In November 2020 the Public Works Loan Board (PWLB) published its response to the consultation on 'Future Lending Terms'. From 26 November the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8% providing that the borrowing authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years.

30. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. As part of the borrowing process authorities will now be required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 Officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.

31. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that Authority unwinds problematic transactions, suspending access to the PWLB and repayment of loans with penalties.

32. Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.

33. The Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of the reduction in the PWLB borrowing rate.

INVESTMENT ACTIVITY

34. During 2020/21 the Council received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. £35 million was received and temporarily invested in short-dated, liquid instruments such as call accounts and Money Market Funds. £28 million was disbursed by the end of March.

35. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2020/21 the Council's investment balances ranged between £14 million and £44 million due to timing differences between income and expenditure. The year-end position is shown in the table below:

	Balance on 31 March 2020 £'000	Balance on 31 March 2021 £'000	Average Rate
Banks	-	1,750	0.01%
Money Market Funds	4,300	5,400	0.01%
Externally Managed Pooled Funds	10,539	11,475	4.21%
Total Investments	**14,839**	**18,625**	

36. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

37. Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

38. 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 2020/21.

EXTERNALLY MANAGED POOLED FUNDS

39. £12 million of the Council's investments are invested in externally managed strategically pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular income and long-term price stability. These funds generated an average total return of £1.38 million (13.1%), comprising a £443,000 (4.21%) income return which is used to support services in year, and £936,000 (8.88%) of capital growth.

40. During the initial phase of the pandemic in March 2020, the sharp falls of corporate bond and equity markets had a negative impact on the value of the Council's pooled fund holdings and was reflected in the 31 March 2020 fund valuations with every fund registering negative capital returns over a 12-month period. Since March 2020 there here has been improvement in market sentiment which is reflected in an increase in capital values of these funds in the Council's portfolio.

41. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three-to five-year period total returns will exceed cash interest rates.

INTEREST RECEIVED AND PAID

42. 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.

43. However, the net interest received in 2020/21 was £661,684 (£603,316 in 2019/20) against a revised budget £559,700 for the General Fund. Interest was £102,000 higher

than anticipated due an increase in grants received due to the pandemic. This led to more investment opportunities and reduced the need for temporary borrowing to keep cash flows in balance.

44. Net interest paid for the Housing Revenue Account was £1,684,440 (£1,676,656 in 2019/20) against a revised budget of £1,697,000.

COMMERCIAL PROPERTY INVESTMENTS

45. The definition of investments in CIPFA's Treasury Management Code covers all the Council's financial assets as well as other non-financial assets which the Council holds primarily for financial return.

46. Since the Executive approval of a Commercial Property Investment Acquisition Strategy in January 2013, the Council has purchased 10 commercial investment properties, as summarised below.

Property Type	Purchase Cost £'000	Value at 31 March 2020 £'000	Value at 31 March 2021 £'000
Retail	27,783	22,195	19,545
Commercial (Industrial)	10,100	11,078	10,665
Other (Healthcare)	1,890	2,050	2,130
Total	**39,773**	**35,323**	**32,340**

47. Since March 2020 the value of this portfolio has decreased by £3 million but contracted rental income was £2.8 million per annum.

48. The reduction in value is principally due to exposure to in the retail sector. This sector has had well publicised difficulties due to structural change and the COVID 19 Pandemic. The Council's exposure to High Street retail is limited and the focus is out of town, which is performing slightly better. The most recent evidence since the valuation date suggests that this sector is now trending more strongly. Key lease events on these properties have also had an effect, reflecting the cyclical nature of property. Value has also been affected by the reduction in the Average Weighted Unexpired Lease Term of this portfolio.

49. Performance in other sectors has been stronger with Healthcare seeing a modest gain. The change in industrial values is due to the method of financial reporting rather than a reduction in the value of the assets.

50. Throughout the past 12 months debts have been managed carefully and currently account for 6% of the rent role. Agreements have been reached with all COVID 19 debtors and it is not foreseen that any rent will need to be written off.

51. The Council's total investment property portfolio is shown below. This is more balanced, albeit retail holdings do increase with more exposure to the High Street. This is due to longstanding strategic ownerships, rather than pure investments.

Property Type	Value at 31 March 2020 £'000	Value at 31 March 2021 £'000	Movement £'000
Retail	36,077	30,672	**(5,405)**
Commercial	18,796	19,675	**879**
Other	4,403	4,645	**242**
Office	3,590	4,000	**410**
Leisure	1,202	2,533	**1,331**
Total	**64,068**	**61,525**	**(2,543)**

52. The overall investment property portfolio has decreased in value by £2.5 million (increase of £7.4 million in 2019/20). Contracted income on this portfolio between 2020 and 2021 was approximately £4.6 million per annum.

53. Again, the reduction in value is mainly due to exposure in the retail sector. It has been offset by capital gains in areas such as industrial, ground rents, residential and beach huts.

54. Property valuations are undertaken annually, to ensure that the Council's balance sheet reflects the current opinion of the value of the Council's assets. Fluctuations in value do not represent actual gains or losses, but do indicate market sentiment, which is often linked to rental income levels and lease terms and conditions.

PRUDENTIAL AND TREASURY INDICATORS

55. During 2020/21, all treasury management activities complied fully with the CIPFA Code and the Council's approved Treasury Management Strategy. Appendix C shows the actual prudential and treasury indicators for 2020/21.

SUMMARY

56. This report gives details of General Fund capital and treasury management outturn in 2020/21 in accordance with the reporting requirements set out in the CIPFA Code of Practice for Treasury Management.

RISK ASSESSMENT

57. There are no significant risk considerations in relation to this report.

Enquiries:

For further information on this report please contact Caroline Hancock. (Ext 4589)

APPENDIX A

CAPITAL EXPENDITURE 2020/21

	Budget £	Actual £	Savings £	Additional Expenditure £	Carry over to 2021/22 £
STREETSCENE					
Holly Hill Cemetery Extension	30,100	10,644	(19,456)		0
STREETSCENE TOTAL	**30,100**	**10,644**	**(19,456)**	**0**	**0**
LEISURE AND COMMUNITY					
Buildings					
Leisure Centres Capital Investment	2,288,000	1,888,522			399,478
New Fareham Arts and Entertainment Venue	270,000	248,015			21,985
Community Buildings Review	13,000	13,500		500	0
	2,571,000	2,150,037	0	500	421,463
Play and Parks Schemes					
Daedalus Common Play Area	100,000	100,000			0
	100,000	100,000	0	0	0
Other					
Allotment Improvements	16,300				16,300
	16,300	0	0	0	16,300
LEISURE AND COMMUNITY TOTAL	**2,687,300**	**2,250,037**	**0**	**500**	**437,763**
HOUSING					
Home Improvements					
Disabled Facilities Grants	500,000	450,894			49,106
	500,000	450,894	0	0	49,106
Enabling					
Sea Lane, Stubbington - Self Builds	10,000	31,775			(21,775)
123 Bridge Road Improvements	58,000	84,623		26,623	0
	68,000	116,398	0	26,623	(21,775)
HOUSING TOTAL	**568,000**	**567,292**	**0**	**26,623**	**27,331**
PLANNING AND DEVELOPMENT					
Car Parks					
Car Parks: Surfacing	40,000				40,000
Car Parks: New Machines and Control Room Upgrade	358,000	84,096			273,904
	398,000	84,096	0	0	313,904
Coastal Protection					
Timber Groyne Repairs at Salterns and Monks Hill Beaches	46,000	35,773	(10,227)		0
	46,000	35,773	(10,227)	0	0
PLANNING AND DEVELOPMENT TOTAL	**444,000**	**119,869**	**(10,227)**	**0**	**313,904**

	Budget	Actual	Savings	Additional Expenditure	Carry over to 2021/22
	£	£	£	£	£
POLICY AND RESOURCES					
Replacement Programmes					
Vehicles and Plant Replacement Programme	838,000	732,250			105,750
ICT Development Programme	188,600	113,648	(8,800)	62,963	129,115
	1,026,600	845,898	(8,800)	62,963	234,865
Operational Buildings					
Civic Offices Improvement Programme	250,000	42,167			207,833
	250,000	42,167	0	0	207,833
Property Developments					
Faretec Air Conditioning	98,000	83,340	(14,660)		0
Solent Airport at Daedalus Schemes	1,502,800	1,580,310	(12,977)		(90,487)
	1,600,800	1,663,650	(27,637)	0	(90,487)
POLICY AND RESOURCES TOTAL	**2,877,400**	**2,551,715**	**(36,437)**	**62,963**	**352,211**
GENERAL FUND TOTAL	**6,606,800**	**5,499,557**	**(66,120)**	**90,086**	**1,131,209**

APPENDIX B

ECONOMIC COMMENTARY BY TREASURY ADVISORS ARLINGCLOSE – APRIL 2021

Economic background: The coronavirus pandemic dominated 2020/21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March.

A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union on Christmas Eve.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help. Since March 2020, the government schemes have help protect more than 11 million jobs.

Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay). Unemployment is still expected to increase once the various government job support schemes come to an end.

Inflation has remained low over the 12 month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England's 2% target. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.7% year/year (1.0% expected).

After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8% q/q, growth in Q3 and Q4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Q1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.

After collapsing at an annualised rate of 31.4% in Q2, the US economy rebounded by 33.4% in Q3 and then a further 4.1% in Q4. The US recovery has been fuelled by three major pandemic relief stimulus packages totalling over $5 trillion. The Federal Reserve cut its main interest rate to between 0% and 0.25% in March 2020 in response to the pandemic and it has remained at the same level since. Joe Biden became the 46th US president after defeating Donald Trump.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020 increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

Financial markets: Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks. The FTSE indices performed reasonably well during the period April to November, before being buoyed in December by both the vaccine approval and Brexit deal, which helped give a boost to both the more internationally focused FTSE 100 and the more UK-focused FTSE 250, however they remain lower than their pre-pandemic levels.

Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.

1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.

The yield on 2-year US treasuries was 0.16% at the end of the period, up from 0.12% at the beginning of January but down from 0.21% at the start of the financial year. For 10-year treasuries the end of period yield was 1.75%, up from both the beginning of 2021 (0.91%) and the start of the financial year (0.58%).

German bund yields continue to remain negative across most maturities.

Credit review: After spiking in March 2020, credit default swap spreads declined over the remaining period of the year to broadly pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities remained, albeit Santander UK is still an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 57bps and Standard Chartered the lowest at 32bps. The other ringfenced banks were trading around 33 and 34bps while Nationwide Building Society was 43bps.

Credit rating actions to the period ending September 2020 have been covered in previous outturn reports. Subsequent credit developments include Moody's downgrading the UK sovereign rating to Aa3 with a stable outlook which then impacted a number of other UK institutions, banks and local government. In the last quarter of the financial year S&P upgraded Clydesdale Bank to A- and revised Barclay's outlook to stable (from negative) while

Moody’s downgraded HSBC’s Baseline Credit Assessment to baa3 whilst affirming the long-term rating at A1.

The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions and durations on the Authority’s counterparty list recommended by treasury management advisors Arlingclose remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

APPENDIX C

PRUDENTIAL, TREASURY AND COMMERCIAL INVESTMENT INDICATORS 2020/21

PRUDENTIAL INDICATORS

1) Capital Expenditure

The Council's capital expenditure and financing is summarised as follows:

Capital Expenditure and Financing	2020/21 Revised £'000	2020/21 Actual £'000	Difference £'000
Streetscene	30	11	19
Leisure & Community	2,687	2,250	437
Housing	568	567	1
Planning & Development	444	120	324
Policy & Resources	2,878	2,551	327
Total General Fund	**6,607**	**5,499**	**1,108**
HRA	**6,972**	**6,531**	**441**
Total Expenditure	**13,579**	**12,030**	**1,549**
Capital Receipts	668	641	27
Capital Grants/Contributions	1,995	1,559	436
Capital Reserves	5,642	4,520	1,122
Revenue	2,163	2,285	(122)
Borrowing	3,111	3,025	86
Total Financing	**13,579**	**12,030**	**1,549**

2) Capital Financing Requirement

The Council's Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

£'000	2019/20 Actual	2020/21 Revised	2020/21 Actual	2020/21 Difference
General Fund	52,649	54,659	53,891	-768
HRA	51,141	51,141	51,823	682
Total CFR	**103,790**	**105,800**	**105,714**	**-86**

The CFR increased by £1,924 year on year as capital expenditure financed by debt was higher than the in-year minimum revenue provision payment (MRP).

Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement. This is a key indicator of prudence.

£'000	2020/21 Revised	2020/21 Actual	Difference
Capital Financing Requirement	105,800	105,714	-86
Less: Gross Debt	59,700	55,967	3,733
Under/(Over) Borrowing	**46,100**	**49,747**	**3,647**

Total debt remained below the Capital Financing Requirement during the period.

3) Operational Boundary and Authorised Limit for External Debt

The **operational boundary** is based on the Council's estimate of the most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

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.

£'000	2020/21 Revised	2020/21 Actual	Complied
Operational Boundary	123,000	59,699	✓
Authorised Limit	131,000	59,699	✓

4) Financing Costs as % of Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

	2020/21 Revised	2020/21 Actual	Difference
General Fund	6%	5%	-1%
HRA	14%	13%	-1%

TREASURY MANAGEMENT INDICATORS

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

1) Principal Sums Invested for longer than a year

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 long-term principal sum insured to final maturities beyond the period end were:

£M	2020/21 Revised	2020/21 Actual	Complied
Principal sums invested > 364 days	15	12	✓

2) Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper limits on the maturity structure of fixed rate borrowing were:

Maturity structure of borrowing	Upper Limit	2020/21 Actual	Complied
	%	**%**	
- Loans maturing within 1 year	50	29	✓
- Loans maturing within 1 - 2 years	50	0	✓
- Loans maturing within 2 - 5 years	50	0	✓
- Loans maturing within 5 - 10 years	50	0	✓
- Loans maturing in over 10 years	100	71	✓

3) Housing Revenue Account (HRA) Ratios

As a result of the HRA Reforms in 2012, the Council moved from a subsidy system to self-financing and was required to take on £49.3 million of debt. The table below shows additional local indicators relating to the HRA in respect of this debt.

	2020/21 Revised	2020/21 Actual	Difference
HRA Debt £'000	49,268	49,268	-
HRA Revenues £'000	12,263	12,577	314
Number of HRA Dwellings	2,401	2,395	-6
Ratio of Debt to Revenues %	4.02:1	3.92:1	-
Debt per Dwelling £	£20,518	£20,569	£51
Debt Repayment Fund £'000	£4,560	£4,560	-

COMMERCIAL INVESTMENT INDICATORS

The Council measures and manages its exposures to commerical investments using the following indicators.

1) Proportionality

The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the proportion of expenditure funded by investment income.

£'000	2019/20 Actual	2020/21 Revised	2020/21 Actual
Gross service expenditure	50,017	46,353	46,686
Investment income	4,442	4,521	4,645
Proportion	**9.5%**	**9.8%**	**9.9%**

2) Total Risk Exposure

This indicator shows the Council's total exposure to potential investment losses.

Total Investment Exposure	2019/20 Actual £'000	2020/21 Revised £'000	2020/21 Actual £'000
Treasury Management Investments	16,300	12,000	18,625
Commercial Investments	64,068	64,068	61,525
Total	**80,368**	**76,068**	**80,150**

The variation in the revised to actual is due to a higher level of investments held than anticipated at year end partly due to unspent business grants.

3) How Investments are Funded

Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Investments Funded by Borrowing	2019/20 Actual £'000	2020/21 Revised £'000	2020/21 Actual £'000
Treasury Management Investments	0	0	0
Commercial Investments	31,790	31,042	31,042
Total	**31,790**	**31,042**	**31,042**

4) Rate of Return Received

This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested.

Investments Net Rate of Return	**2019/20 Actual**	**2020/21 Revised**	**2020/21 Actual**
Treasury Management Investments	3.0%	2.8%	3.3%
Commercial Investments	5.3%	4.4%	5.2%
Total	**4.8%**	**4.1%**	**4.7%**