

**Manchester City Council
Report for Information**

Report To: Audit Committee – 28 July 2020
Subject: Treasury Management Annual Report 2019-20
Report of: Deputy Chief Executive and City Treasurer

Purpose

To report on the Treasury Management activities of the Council 2019-20.

Recommendations

The Audit Committee is asked to note the contents of the report.

Wards Affected: Not Applicable

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Background documents (available for public inspection):

Treasury Management Strategy Statement and Borrowing Limits and Annual Investment Strategy Report 2019-20 (Executive - 13 February 2019, Resource and Governance Scrutiny Committee - 25 February 2019, Council - 8 March 2019).

1 Introduction and Background

- 1.1 Treasury Management in Local Government is regulated by the CIPFA Code of Practice on Treasury Management in Local Authorities. The City Council has adopted the Code and complies with its requirements. A primary requirement of the Code is the formulation and agreement by full Council of a Treasury Policy Statement which sets out Council, Committee and Chief Financial Officer responsibilities, and delegation and reporting arrangements.
- 1.2 CIPFA amended the CIPFA Treasury Management in the Public Services Code of Practice in late 2011. The revised Code recommended local authorities include, as part of their Treasury Management Strategy Statement, the requirement to report to members at least twice a year on the activities of the Treasury Management function. This report, along with the Interim Treasury Management report received by the Audit Committee on the 12th November 2019, therefore ensures that the Council meets the requirements of the Strategy, and therefore the Code.
- 1.3 Treasury Management in this context is defined as:
'The management of the organisation's 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'.
- 1.4 This outturn report covers:
- Section 1: Introduction and Background
 - Section 2: The Council's Portfolio Position as at 31st March 2020
 - Section 3: Review of Economic Conditions
 - Section 4: External Borrowing in 2019-20
 - Section 5: PWLB Policy Change
 - Section 6: Compliance with Prudential Indicators and Treasury Limits
 - Section 7: Investment Strategy for 2019-20
 - Section 8: Temporary Borrowing and Investment for 2019-20
 - Section 9: COVID-19 Pandemic
 - Section 10: Conclusion
- Appendix A: Public Works Loans Board (PWLB) Interest Rates
Appendix B: Treasury Management Prudential Indicators
Appendix C: Review of Economic Conditions, provided by advisors
Appendix D: Glossary of Terms

2 The Council's Portfolio Position as at 31st March 2020

- 2.1 As outlined in the approved Treasury Management Strategy for 2019-20 it was anticipated that there would be a need to undertake some permanent borrowing in 2019-20 to fund the capital programme and to replace some of the internally borrowed funds. However, as noted in the interim report, cash balances during the year remained relatively high and no borrowing was required for most of the year. Temporary borrowing was taken at the end of the financial year to unwind internal borrowing and support the cash flow in response to the effects of the COVID-19 pandemic, and to fund the novation of the Homes and Communities Agency (HCA) City Deal Receipts to the Greater Manchester Combined Authority (GMCA).

2.2 The Council's debt position at the beginning and the end of the year was as follows:

Loan Type	31 st March 2019				31 st March 2020			
			Principal	Average			Principal	Average
	GF	HRA		Rate	GF	HRA		Rate
	£m	£m	£m	%	£m	£m	£m	%
PWLB	150.0	0.0	150.0	2.45	150.0	0.0	150.0	2.45
Temporary Borrowing	4.9	0.0	4.9	0.75	30.8	0.0	30.8	0.98
Market Loans	338.0	62.2	400.2	4.50	336.8	61.9	398.7	4.48
Stock	0.9	0.0	0.9	4.00	0.9	0.0	0.9	4.00
Government Lending	52.0	0.0	52.0	0.00	26.8	0.0	26.8	0.00
Gross Total	545.8	62.2	608.0	3.58	545.3	61.9	607.2	3.60
Housing Investment Fund (HIF) Temporary Borrowing	118.8	0.0	118.8	0.00	0.0	0.0	0.0	0.00
Temporary Deposits	(80.6)	0.0	(80.6)	0.64	(128.4)	0.0	(128.4)	0.33
Internal Balances (GF/HRA)	35.4	(35.4)	0.00	0.00	42.3	(42.3)	0.00	0.00
Net Total	619.4	26.8	646.2	-	459.2	19.6	478.8	-

2.3 The temporary borrowing and deposit figures fluctuate daily to meet the cash flow requirements of the Council. The figures for these categories in the table above represent, therefore, a snapshot at a particular point in time.

2.4 Total debt has decreased slightly by £0.8m during the year. This has been mainly due to the maturity of £1.5m Commerzbank AG loan on the 31st of January 2020 as well as the transfer to the GMCA on the 30th March 2020 of £29.2m HCA government lending which included £1.6m received in year. These transactions were partially offset by new temporary borrowing of £25.9m, and a net increase of £2.4m SALIX loans throughout the year.

2.5 Since its inception the Housing Investment Fund (HIF) for Greater Manchester has been managed by the City Council at a transactional level on the basis that the GMCA did not have the relevant borrowing powers to be able to hold the Government funding for the activity. Once the relevant borrowing powers were granted in 2018-19, the debt was novated to the GMCA and the process of novating the associated investments began – this meant that the GMCA provided temporary borrowing at a nil interest rate to the value of the investments outstanding. By 31st of March 2020, all investments have novated across to GMCA, as shown in the table above.

3 Review of Economic Conditions: April 2019-20

3.1 The Bank of England maintained the lending rate at 0.75% during most of the financial year. On 11th March 2020 the rate was changed to 0.25% which was subsequently followed by another drop to 0.10% on the 19th of March 2020 in efforts to stimulate the economy during COVID-19.

3.2 Appendix C provides a more detailed review of the economic situation.

4 External borrowing in 2019-20

4.1 PWLB interest rates during the year are illustrated in the table below and the graph at Appendix A.

PWLB Borrowing Rates 2019-20 for 1 to 50 years					
	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.37%	1.20%	1.33%	1.93%	1.77%
Date	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
High	2.67%	2.65%	2.96%	3.45%	3.25%
Date	05/12/2019	13/03/2020	19/03/2020	19/03/2020	31/12/2019
Average	2.03%	1.97%	2.20%	2.76%	2.60%

4.2 Manchester is on the approved list of authorities that can access the PWLB Certainty Rate going forward, giving the Council access to a 20 basis points reduction on the published PWLB rates.

4.3 In October 2019, there was a 100 basis point rise in PWLB lending rate which had significant implications on the borrowing costs for all future borrowing. Further details on the reasons for the change are provided in section 5.

4.4 Further temporary borrowing of £25m was taken for 364 days on the 26th of March 2020 to support the cash flow, due to pressures created by the COVID-19 pandemic and the novation of HCA City Deal Receipts to the GMCA.

Homes and Communities Agency (HCA)

4.5 As noted in previous reports, the HCA has made funding available to Greater Manchester (GM), which is in effect a 'loan' of the HCA's receipts from the disposal of its land and property within GM. The Council held the funds, though they were administered by the GMCA.

4.6 In the year the Council received a further £1.6m of HCA funding. The Council held this arrangement on behalf of GM throughout the year and the funds were used for housing or commercial projects within GM. The funds totalling £29.2m have now been transferred across to GMCA on the 30th of March 2020 following their new borrowing powers being granted.

Housing Investment Funding (HIF)

- 4.7 As noted in the interim report, on 13th March 2019 the total HIF debt of £197.7m was transferred from MCC to GMCA. GMCA in return put MCC in funds for the value of the outstanding loans with developers. All the individual investments have novated across to the GMCA by the 31st of March 2020.

Salix Borrowing

- 4.8 Salix Finance Ltd provides interest-free Government funding to the public sector to improve their energy efficiency, reduce carbon emissions and lower energy bills. The initial advance was received in respect of specific LED lighting Council projects and will be repaid by 1st April 2023.
- 4.9 In the year the Council received £4.1m of new funding and £1.7m has been repaid, bring the total value of Salix to £18.4m on 31st of March 2020.

5 Public Works Loan Board (PWLB) policy change

- 5.1 On the 9th of October the PWLB changed its policy to increase the margin on Gilts to Gilts plus 200 basis points, and therefore the margin on the certainty rate to Gilts plus 180 basis points. This means that interest costs on future debt have increased substantially. Interest rates on PWLB debt the Council already hold have not changed.
- 5.2 Treasury have taken this step as small minority of local authorities have started using the low-cost loans from PWLB to buy investment property primarily for rental income increasing their risk exposure.
- 5.3 By increasing rates by 100 basis points the interest costs now faced by the Council are similar to those towards the end of the 2018 calendar year, which were included within the assumptions for the capital financing budget set in February of 2019.
- 5.4 Therefore, whilst the existing capital programme and forecast borrowing remains affordable, the true impact of the policy change is on the capacity for further borrowing in the future.
- 5.5 The government has launched a consultation to work with local authorities to develop a targeted intervention to stop 'debt-for-yield' activity while protecting the crucial work the local authorities perform on service delivery, housing, and regeneration. When announcing the consultation government suggested that the intention is that if PWLB borrowing for 'debt-for-yield' activity can be curtailed they would look to reduce the margin on PWLB interest rates above gilts, which currently stands at 2.00%. The consultation was intended to finish in early June, but due to COVID-19 it has been extended until the end of July.

6 Compliance with Prudential Indicators and Treasury Limits

- 6.1 During the financial year, the Council operated within the prudential indicators set out in the Treasury Management Strategy Statement, and performance against these is shown in Appendix B.
- 6.2 Further to this, the Council sets an operational limit on the cleared balance that is left within the Council's current accounts. This is aimed at minimising the cash held in accounts which will attract no interest and thereby maximise the investment return for the authority. The limit is set at £400k and has been met during the year with the exception of seventeen breaches described below.

- 6.3 Where the limit is breached it means that the Council either incurred interest costs due to being in overdraft, or lost potential investment income due to excess cash not being invested. It is important to note that any such breach will be rectified the following working day, and therefore the financial impact is minimised.
- 6.4 The breaches of the Council's daily £400k limit on the Barclays Current Account between the 1st of April 2019 and 31st of March 2020 can be grouped under the following categories:
- i. On fourteen occasions Treasury Management staff had not been advised of expected receipts, which resulted in the Current Account being outside of the £400k limit. Each occurrence was late in the day meaning there was no opportunity to transfer funds to the Call Account to remain within limits.
 - ii. At one occasion Treasury Management breached the £400k limit due to a payment being rejected because of inactive account details. The Shared Service Centre has been informed and the vendor has been blocked. Additional security checks with the help of Barclays have been implemented such as the Confirmation of Payee to avoid future payments going to old bank accounts.
 - iii. At one occasion the PWLB's direct debit failed resulting with cash not being drawn on the day and therefore breaching the £400k limit. The PWLB was informed of the error, and has since fixed the issue on their end.
 - iv. At one occasion, Barclays experienced a technical difficulty which prevented the Treasury Management team from being able to see closing balances. To attempt to keep the account in surplus, the £400k limit was breached which meant that overdraft charges were avoided.
- 6.5 Each breach was notified to the Deputy Chief Executive and City Treasurer and action taken on the following working day to bring balances back within approved limits.
- 6.6 All of the above breaches incurred no additional overdraft charges, however there has been some loss in potential investment income due to excess cash not being invested until the following working day.

7 Investment Strategy for 2019-20

- 7.1 The Treasury Management Strategy Statement (TMSS) for 2019-20 was approved by Executive on 13th February 2019. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as: (a) the security of capital, and (b) the liquidity of investments.
- 7.2 The TMSS for 2019-20 contained a number of measures to broaden the Council's treasury management investment base, including use of money market funds (MMFs).
- 7.3 There are currently a total of five MMFs with CCLA being the latest one added on 13th August 2019. On 5th November 2019, Treasury Management Officers sought after approval from the Deputy Chief Executive and City Treasurer to increase the cash holding capacity of each fund from £12.0m to £15.0m. This was due to the current economic environment where it was becoming increasingly difficult to place

funds within the low rate inter local authority market. Changes to the TMSS 2020-21 have since been adjusted to reflect the higher capacity with MMFs.

- 7.4 During the year, additional changes were made to the Blackrock MMF allowing for a higher yield by 7.5 basis points as a result of securing lower fund management fees while maintaining equivalent levels of security and liquidity.
- 7.5 The current strategy means that a significant proportion of the Council's investments are with the chosen five Money Market Funds, the Debt Management Office (DMO), and other Local Authorities. This highlights the relatively low rate of credit risk that the Council takes when investing.
- 7.6 It should be noted that, whilst seeking to broaden the investment base, officers will continue to seek high quality investments to limit the level of risk taken by the Council. It is not expected that the measures considered above will have a significant impact on the rates of return the Council currently achieves.
- 7.7 During the financial year the Council's temporary cash balances have been managed by the Deputy Chief Executive and City Treasurer in-house and invested with those institutions listed in the Council's Approved Lending List. Officers can confirm these institutions meet the security criteria set out in the Annual Investment Strategy.

8 Temporary Borrowing and Investment Outturn 2019-20

- 8.1 Investment rates available in the market continue to be at an historical low point. The average level of funds available for investment purposes in 2019-20 was just over £94m. These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of precept payments, the receipt of grants, progress on the capital programme, and working capital.
- 8.2 The average level of temporary borrowing during the financial year was £4.7m.
- 8.3 Detailed below is the temporary investment and borrowing undertaken by the Council. As illustrated, the Council over performed the benchmark by 19 basis points on investments due to the effective search for better inter Local Authority market rates and the use of Money Market Funds which on average had a higher return.
- 8.4 The temporary borrowing portfolio consisted of loans with various investment tenors ranging from call terms to fixed 2 year maturities. The average cost was therefore higher by 5 basis points when compared to the 12 month benchmark rate demonstrating value for money as the rate curve extends.

	Average temporary Investment/borrowing	Net Return/Cost	Benchmark Return / Cost *
Temporary Investments	£94.1m	0.72%	0.53%
Temporary Borrowing	£4.7m	0.97%	0.92%

**Average 7-day LIBID / 12-month LIBOR rate*

8.5 None of the institutions in which investments were made, such as banks, local authorities and MMFs, showed any difficulty in repaying investments and interest during the year. The list of institutions in which the Council invests is kept under continuous review.

9 COVID-19 Pandemic

9.1 The COVID-19 pandemic has helped to create a challenging market environment in which the Council must conduct its treasury management activities. Prior to the lockdown beginning on the 23rd of March 2020, the pressure on the forecast cash flow due to the impact of COVID-19 on, for example, business rates and council tax income was becoming apparent.

9.2 In such turbulent market conditions, liquidity is extremely important and ensuring cash was available to support both COVID-19 related activity and the underlying budgeted activity was paramount.

9.3 Therefore, to provide assurance over the cash flow stability, short term borrowing of £175m was taken in early 2020-21. The borrowing consisted of cash on notice as well as 364 day fixed maturity to allow for the repayment of borrowing if the cash flow position was to improve throughout the year, helping to mitigate the risk of additional cash flow support from the Government being not made available. The loans were sourced from other local authorities, and the rates reflected the historically low rate environment in the current market.

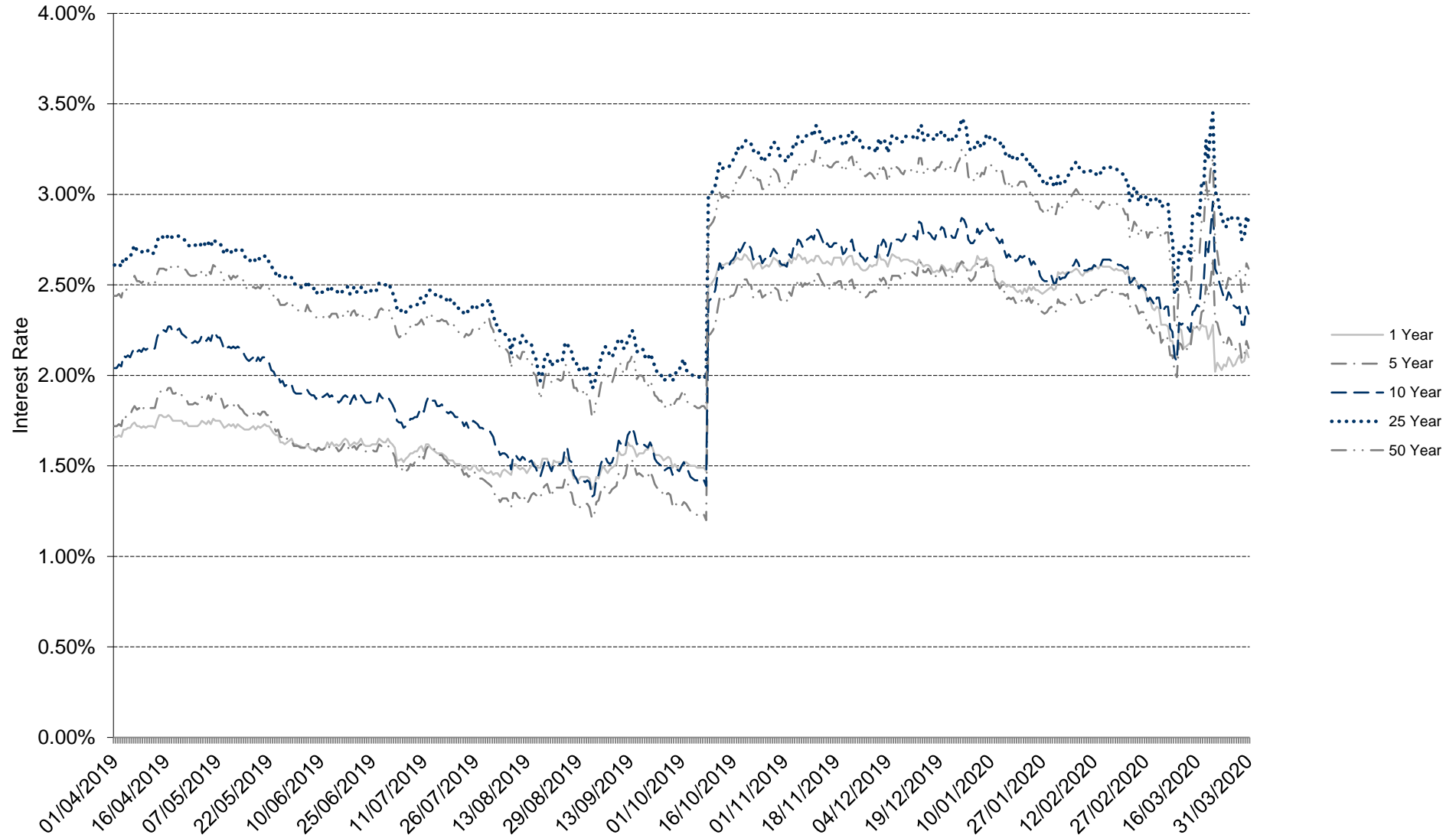
10 Conclusion

10.1 The current borrowing position continues to reflect the strong balance sheet of the Council. It enables net interest costs to be minimised and reduces credit risk by making temporary use of internal borrowing (sourced from reserves, provisions, positive cash flows, etc.). It remains the Council's policy to keep cash as low as possible and not to borrow in advance of need for capital purposes. Cash balances have been relatively high during the year however towards the end of 2019-20 temporary borrowing was required to provide additional liquidity.

10.2 Proactive treasury management during the year has enabled the Council to achieve an average net return on investments of 0.72%, which is higher than the benchmark average 7-day LIBID rate of 0.53% and also higher than the rate offered by the DMO, which is the default option if there are no other investment opportunities based on the credit criteria set.

10.3 Based on the current cash flow forecast, it is expected that the Council will need to borrow further funds in 2020-21. All available borrowing options will be considered, as per the Treasury Management Strategy Statement for 2020-21.

**Appendix A –
PWLB Interest**



Treasury Management Prudential Indicators: 2019-20

	Original (from 2019-20 TMSS) £m	Minimum In Year to 31st Mar 2020 £m	Maximum In Year to 31st Mar 2020 £m
Operational Boundary for External Debt:			
Borrowing	940.9	713.6	790.7
Other Long Term Liabilities	216.0	161.5	161.5
Authorised Limit for External Debt:			
Borrowing	1,351.4	713.6	790.7
Other Long Term Liabilities	216.0	161.5	161.5
		Actual as at 31st Mar 2020	
The Council has adopted CIPFA's Code of Practice for Treasury Management in the Public Services	Yes		Yes
Upper Limit for Principal Sums Invested for over 364 days	£0		£0

Maturity structure of Fixed Rate Borrowing	Lower Limit	Upper Limit	
	2019-20 Original	2019-20 Original	Actual as at 31st Mar 2020
under 12 months	0%	80%	21%
12 months and within 24 months	0%	70%	15%
24 months and within 5 years	0%	50%	18%
5 years and within 10 years	0%	50%	2%
10 years and above	40%	80%	44%

REVIEW OF ECONOMIC CONDITIONS FOR 2019-20 AND FUTURE OUTLOOK

This section has been prepared by the Council's Treasury Advisors, Link Asset Services, for the 31st of March Closedown and includes their forecast for future interest rates after the PWLB policy change referenced in the report.

1 ECONOMIC PERFORMANCE MARCH 31st 2020

- 1.1 UK. Brexit. The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of Theresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019. The House of Commons duly frustrated that renewed effort and so a general election in December settled the matter once and for all by a decisive victory for the Conservative Party: that then enabled the UK to leave the EU on 31 January 2020. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline; however, the second and third rounds of negotiations have already had to be cancelled due to the virus.
- 1.2 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% y/y. 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. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.
- 1.3 After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to sit on its hands and to do nothing 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. The Government and the Bank were also very concerned to stop people losing their jobs during this lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close

as there is, and will be, insufficient demand for their services. At the time of writing, this is a rapidly evolving situation so there may be further measures to come from the Bank and the Government in April and beyond. The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020-21 from 2%, to nearly 11%. The ratio of debt to GDP is also likely to increase from 80% to around 105%. In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lock down is ended. Provided the coronavirus outbreak is brought under control relatively swiftly, and the lock down is eased, then it is hoped that there would be a sharp recovery, but one that would take a prolonged time to fully recover previous lost momentum.

- 1.4 Inflation has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.
- 1.5 Employment had been growing healthily through the last year but it is obviously heading for a big hit in March – April 2020. The good news over the last year is that wage inflation has been significantly higher than CPI inflation which means that consumer real spending power had been increasing and so will have provided support to GDP growth. However, while people cannot leave their homes to do non-food shopping, retail sales will also take a big hit.
- 1.6 USA. Growth in quarter 1 of 2019 was strong at 3.1% but growth fell back to 2.0% in quarter 2 and 2.1% in quarters 3 and 4. The slowdown in economic growth resulted in the Fed cutting rates from 2.25-2.50% by 0.25% in each of July, September and October. Once coronavirus started to impact the US in a big way, the Fed took decisive action by cutting rates twice by 0.50%, and then 1.00%, in March, all the way down to 0.00 – 0.25%. Near the end of March, Congress agreed a \$2trn stimulus package (worth about 10% of GDP) and new lending facilities announced by the Fed which could channel up to \$6trn in temporary financing to consumers and firms over the coming months. Nearly half of the first figure is made up of permanent fiscal transfers to households and firms, including cash payments of \$1,200 to individuals.
- 1.7 EUROZONE. The annual rate of GDP growth has been steadily falling, from 1.8% in 2018 to only 0.9% y/y in quarter 4 in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), prompted the ECB to take new measures to stimulate growth. At its March 2019 meeting it announced a third round of TLTROs; this provided banks with cheap two year maturity borrowing every three months from September 2019 until March 2021. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting in September 2019, it cut its deposit rate further into negative territory, from -0.4% to -0.5% and announced a resumption of quantitative easing purchases of debt to start in November at €20bn per month, a relatively small amount, plus more TLTRO measures. Once coronavirus started having a major

impact in Europe, the ECB took action in March 2020 to expand its QE operations and other measures to help promote expansion of credit and economic growth. What is currently missing is a coordinated EU response of fiscal action by all national governments to protect jobs, support businesses directly and promote economic growth by expanding government expenditure on e.g. infrastructure; action is therefore likely to be patchy.

- 1.8 CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium-term risks have also been increasing. The major feature of 2019 was the trade war with the US. However, this has been eclipsed by being the first country to be hit by the coronavirus outbreak; this resulted in a lock down of the country and a major contraction of economic activity in February-March 2020. While it appears that China has put a lid on the virus by the end of March, these are still early days to be confident and it is clear that the economy is going to take some time to recover its previous rate of growth. Ongoing economic issues remain, in needing to make major progress to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems.
- 1.9 WORLD GROWTH. The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019, as any downturn in China would spill over into impacting countries supplying raw materials to China. Concerns were particularly focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during 2019. In 2020, coronavirus is the big issue which is going to sweep around the world and have a major impact in causing a world recession in growth in 2020.

Link Asset Services Interest Rate View								
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID	0.45	0.40	0.35	0.30	0.30	0.30	0.30	0.30
6 Month LIBID	0.60	0.55	0.50	0.45	0.40	0.40	0.40	0.40
12 Month LIBID	0.75	0.70	0.65	0.60	0.55	0.55	0.55	0.55
5yr PWLB Rate	1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50

Glossary of Terms

Authorised Limit - This Prudential Indicator represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

Bank Rate – the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

Constant Net Asset Value (CNAV) – refers to Funds which use amortised cost accounting to value all of their assets. The aim is to maintain a Net Asset Value (NAV), or value of a share of the Fund at £1.

Counterparty – one of the opposing parties involved in a borrowing or investment transaction

Credit Rating – A qualified assessment and formal evaluation of an institution's (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

Discount – Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

Fixed Rate Funding - A fixed rate of interest throughout the time of the loan. The rate is fixed at the start of the loan and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

Gilts - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

High/Low Coupon – High/Low interest rate

LIBID (London Interbank Bid Rate) – This is an average rate, calculated from the rates at which individual major banks in London are willing to borrow from other banks for a particular time period. For example, 6 month LIBID is the average rate at which banks are willing to pay to borrow for 6 months.

LIBOR (London Interbank Offer Rate) – This is an average rate, calculated from the rates which major banks in London estimate they would be charged if they borrowed from other banks for a particular time period. For example, 6 month LIBOR is the average rate which banks believe they will be charged for borrowing for 6 months.

Liquidity – The ability of an asset to be converted into cash quickly and without any price discount. The more liquid a business is, the better able it is to meet short-term financial obligations.

LOBO (Lender Option Borrower Option) – This is a type of loan where, at various periods known as call dates, the lender has the option to alter the interest rate on the loan. Should the lender exercise this option, the borrower has a corresponding option to repay the loan in full without penalty.

Market - The private sector institutions - Banks, Building Societies etc.

Maturity Profile/Structure - an illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the Council vulnerable to current interest rates in that year.

Monetary Policy Committee – the independent body that determines Bank Rate.

Operational Boundary – This Prudential Indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

Premium – Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

Prudential Code - The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

PWLB - Public Works Loan Board. Part of the Government's Debt Management Office, which provides loans to public bodies at rates reflecting those at which the Government is able to sell Gilts.

Specified Investments - Sterling investments of not more than one-year maturity. These are considered low risk assets, where the possibility of loss of principal or investment income is very low.

TLTRO – Targeted Longer Term Refinancing Operations are one of the European Central Bank's monetary policy tools used to provide long term loans to banks and offer them an incentive to increase their lending to businesses and consumers.

Non-specified investments - Investments not in the above, specified category, e.g., foreign currency, exceeding one year or outside our minimum credit rating criteria.

Variable Rate Funding - The rate of interest either continually moves reflecting interest rates of the day, or can be tied to specific dates during the loan period. Rates may be updated on a monthly, quarterly or annual basis.

Volatility - The degree to which the debt portfolio is affected by current interest rate movements. The more debt maturing within the coming year and needing replacement, and the more debt subject to variable interest rates, the greater the volatility.

Yield Curve - A graph of the relationship of interest rates to the length of the loan. A normal yield curve will show interest rates relatively low for short-term loans compared to long-term loans. An inverted Yield Curve is the opposite of this.