Cabinet

11 June 2020

Treasury Management Outturn 2019/20

Recommendation

That Cabinet considers and comments on Treasury Management outturn in respect of 2019/20.

1. Introduction

1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code). During 2019/20 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (reported to Council in March 2019);
- a mid-year (minimum) treasury update report (delegated and reported to Cabinet September 2019); and
- an annual review following the end of the year describing the activity compared to the strategy (this report).

1.2 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.3 Treasury management in the context of this report is defined as:

"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks." *(CIPFA Code of Practice).*

2 Investments

2.1 The Council has an investment portfolio consisting of reserves and cash arising from daily receipts being in excess of payments on a short term basis.

2.2 Security and liquidity of cash was prioritised above the requirement to maximise returns. The Council adopted a cautious approach to lending to financial institutions, and continuously monitored credit quality information regarding the institutions on the Council's approved Lending List.

2.3 The Council's investment portfolio at the end the financial year 2019/20 was as follows:

Table 1: Investment Position at 31 March 2020

	Invested at 31st March 2019	Additions (Withdrawals)	Invested at 31st March 2020
In house deposits	167.523	54.489	222.012
Money Market/External Funds	173.453	-42.264	131.189
Total Treasury Management Investments	**340.976**	**12.225**	**353.201**
Cash	18.053	2.991	21.044
Total Cash and Cash Equivalents and Short Term Investment	**359.029**	**15.216**	**374.245**

2.4 Balances overall have increased. This is due to a number of factors including the revenue and capital outturn positions, and the government paying some 2020/21 grants in advance - providing a £14m Covid-19 grant at the very end of the financial year and a £4.8m business rates grant paid before the start of 2020/21.

2.5 The mix of in house and externally managed funds has changed during the year, with the trend continuing towards a greater allocation to internally managed longer-term loans that provide higher returns as detailed in Appendix A. However, towards to the end of the year requirements to hold more short-term cash developed, in particular:

- The emerging risks and pressures driven by the Covid19 pandemic. In the last few weeks of the financial year this issue rapidly escalated in seriousness resulting in a national lockdown beginning in the last week of the year. In order to be able to provide rapid cashflow support wherever it may be needed and in a situation of unprecedented uncertainty, no further fixed term loans were issued, and higher short-term balances were built up.

- The potential to make an early payment of the next 3 years of pension fund contributions (£84.5m) was set out in the Treasury Management report to Cabinet in February. An urgent leader decision has been made which enables this payment to be made if deemed appropriate.

2.6 The performance of the Council's internally and external managed investments (weighted) versus the benchmark is set out in Table 2:

Table 2: Investment Performance to 31 March 2020

	Average Interest rate year to date	Benchmark Rate : 7 day LIBID	Variance
	%	%	%
In house deposits	0.75	n/a	
Money Market/External Funds	1.27		
Total	**0.99**	**0.53**	**0.46**

2.7 At the start of the year interest rates were expected to be 0.75% until September and then rise to 1% but instead stayed at 0.75% until March and then dropped to 0.1%. The rate of interest earned had been increasing through year driven by the longer-term gradual increase in the bank rate compared to the previous year and activity to increase the amount of cash earning higher rates in longer term loans. At Quarter 2 returns were reported of 1.05%. However the reduction in the Bank of England base rate from 0.75% to 0.25% on the 11th March and then to 0.1% on the 19th March alongside activity to maximise liquidity in response to the uncertainty of the Covid-19 pandemic has reduced the overall weighted average rate of return to 0.99%, by the end of the year. This still exceeds the London Interbank Bid Rate (LIBID) that is used as a benchmark by 0.46% (similar to last year when the benchmark was exceeded by 0.47%). The impact in 2019/20 was mitigated by the interest rate changes only happening in the last few weeks of the year, however the impact of the reduced base rate will be much more significant in 2020/21.

2.8 Appendix B illustrates the mix of treasury management investment returns from the different deposits held at the end of the year. The lowest rate was 0.07%, this being the year end rate on a Debt Management Account Debt Facility this fund was utilised at the year end to diversify short term investments as short term balances were increased to improve liquidity. This rate follows the base rate up or down quickly in comparison to other returns which follow with more lag. The highest rate was 4.34% for the CCLA Property Fund whose rate of return is not as directly driven by the bank rate and is a higher return and higher risk profile asset. Risk varies with return across all investments and diversification across different funds is important for security, risk management, and liquidity purposes hence not investing all cash in the fund with the highest rate of return. This analysis excludes cash balances which are not investments and investments that are not held for treasury management purposes.

2.9 The interest earned on the Council's investments was as follows:

Table 3: Interest Earned to March 2020

	Year to date Gross	Manager Fees	Year to date Net
	£m		£m
		£m	
In house deposits	1.417	n/a	1.417
Money Market/External Funds	2.392	0.332	2.060
Total	**3.808**	**0.332**	**3.476**

2.10 The net interest earned increased from £3.047m in 2018/19 to 3.476m in 2019/20 due to higher cash balances available to invest, higher average underlying interest rates, an increase in the proportion of longer-term investments earning higher rates of return, and lower management fees.

2.11 Externally managed funds incur management fees which are noted in Table 3. Internally managed funds do not present fees in the same way, either county council cash is lent to other institutions (e.g. other local authorities) who pay fees as the borrower or are invested in deposit funds that present net returns rather than gross returns with costs. In addition to external manager fees tabled above, there were internal costs of £0.074m, bringing total costs to £0.406m.

2.12 Most of the deposits simply provide a return and the deposit value is static. However, some funds are of a nature where the deposit itself has a value which can rise or fall, presenting an opportunity for higher returns but with higher risk. These are the CCLA Property Fund, Threadneedle Social Bond Fund, Federated Cash Plus fund and the Aberdeen Ultra Short Duration Fund. The changes in the underlying asset value of these investments are not reflected in investment returns above but would be realised upon selling. The movements in asset value during 2019/20 are illustrated in Appendix C.

2.13 Holdings in the **CCLA Property Fund** (£10.3m) have remained static during the year other than accumulating interest earned. The CCLA Property Fund suspended trading in March due to the volatility in markets caused by Covid-19. Valuing assets is currently not possible without significant uncertainty which causes a material risk of disadvantage to entities joining or leaving the fund at this time. The amount invested by the Council is relatively low at £10.3m and this cash is not required for operational purposes in the short term so does not need to be liquidated. Holdings in the **Threadneedle Social Bond Fund** (£32.1m) have also remained static. This fund has a significant difference between bid and offer prices and therefore liquidating this fund would come at a more significant cost, but the fund is still possible to access in 4 days. Holdings in the **Federated Cash Plus** were held for most of the year but during March were moved into instant access funds to provide the flexibility to respond to urgent Covid-19 driven cashflow support requirements, and hence do not appear in the year end balances. Holdings in the **Aberdeen Ultra Short Dated Fund** were held through the year, but the specific class of shares held was changed in May to reduce manager fees.

2.14 Appendix D illustrates the liquidity profile of investments held at the year end, i.e. how quickly in days our investments could be brought back into cash. A significant proportion of investments are available within days, and the majority within 6 months. Trading of the CCLA Property Fund has been suspended and so it is represented as being available at 365 days for the purposed of illustrating liquidity rather than the usual one-month timeframe.

2.15 Table 4 details our consultant's view on interest rates. The impact of Covid-19 and the uncertainty it generates is likely to see interest rates staying very low for some time. This will in turn cause low returns on cash deposits and money market funds. Further commentary on the wider economic environment from our external advisers (Link) is provided at Appendix E. Note that this commentary relates to what was known at the time of the outturn but some events, in particular in relation to Covid-19, have moved on since then.

Table 4: Interest Rate Forecast

	June 2020 – March 2022
Interest Rate Forecast	0.10

Source: Link Asset Services

3 Debt Financing

3.1 The authority had borrowing held with the Public Works Loans Board (PWLB) of £341.4m of principal as at the 31st March 2020 with no outstanding interest due at that date. The weighted average interest payable on the loans during 2019/20 was 4.9%. Total interest payable for the year was £16.9m.

3.2 During the financial year, the authority had £10m maturing debt. The County did not undertake any new long term borrowing in 2019/20 in order to run down spare cash balances and borrowing remained within the prudential limits. The profile of when debt was taken out and when it is due to mature, including the £10m repaid during 2019/20, is set out in Appendix F.

3.3 Interest rates on PWLB debt were increased without warning during the year, driven by the requirement to keep total PWLB borrowing within statutory limits and to discourage what is viewed as excessive borrowing by a number of local authorities seeking commercial returns at significant risk in order to support their budgets.

3.4 Interest rates currently being paid on debt are high compared to rates currently available for new borrowing which were around 2.3% at the end of March, with the exact value depending on the duration of the term for the borrowing. However it was not appropriate to refinance this debt due to the early redemption fees put in place by HM Treasury to protect from the loss of income that would result if local authorities did refinance to lower rates. This position will be kept under review.

3.5 The Council does not currently hold any variable rate debt and so is not exposed to interest rate risk on debt.

4 Compliance with Treasury Limits and Prudential Indicators

4.1 During 2019/20, the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and Treasury Management Strategy. Full details of the Prudential Indicators set for 2019/20 are shown in Appendix G. Explanations of the terminology employed are set out in Appendix H**.**

5 Sensitivity Analysis

5.1 For the purposes of disclosure on Market Risk a sensitivity analysis has been carried out to show the impact of a change in interest rates of + 1% on the debt portfolio.

5.2 The following table shows the results of the sensitivity analysis:

	Actual	+1% increase in Base Rate	
	Fair Value at 31.03.2020	Fair Value at 31.03.2020	Difference
	£m	£m	£m
Debt (new borrowing)	507.529	427.613	79.916
Debt (early repayment)	738.174	603.42	134.754

5.3 The above table demonstrates how as interest rates rise the fair value of a given level of debt reduces. The early repayment figures are higher than the new borrowing figures, and this illustrates the early redemption penalties for Public Works Loan Board debt.

6.0 Non-Treasury Investments

6.1 In 2019/20 the Council initiated an investment strategy for non-treasury management purposes, in order to encompass investments for commercial or service purposes. This section explains the 2019/20 activity in respect of commercial and service investments.

6.2 During the year the Council maintained a position of not making investments primarily for a financial return. All non-Treasury investments have been for primarily service reasons. The Council has introduced a new Commercial Strategy during 2019/20 and this may change the nature of investments going forwards. The governance of any new developments will require the treasury management strategy and investment strategy to be updated as appropriate and approved by Council, including the introduction of appropriate performance indicators to enable the Council to understand and manage investment risks.

6.3 The non-treasury investments held by the Council are summarised below:
Property

6.4 As at the 31st March investment property was valued at £23.6m. Capital receipts of £2.03m were generated by sales during the year. Excluding assets sold during the year, the value of assets held increased by 1.05%. This is in the context of the overall assets of the Council being valued at £1.1bn.

Business Loans

6.5 Loans to the value of £0.3m were in issue to small businesses at the end of the year. These are managed by the Coventry and Warwickshire Reinvestment Trust to whom the Council issues funding via the capital programme.

6.6 Loans to the value of £0.9m were issued by the Coventry and Warwickshire Reinvestment Trust in respect of the Coventry and Warwickshire Duplex fund (the total fund value is £2m). This is a combined loan and grant fund to support local businesses that also receives funding from Coventry City Council and the Coventry and Warwickshire Local Enterprise Partnership.

6.7 Interest of £0.012m has been earned during 2019/20 in respect of these loans.

Companies

6.8 At the 31st March the Council held shareholder interests totalling £2.046m in the following companies.

- University of Warwick Science Park Innovation Centre Ltd (£1.811m)
- Coventry and Solihull Waste Disposal Company (£0.035m)
- Municipal Bonds Agency (£0.200m)
- Eastern Shires Purchasing Organisation (£100)
- SCAPE Group Ltd (£0.075m)
- Warwick Technology Park Management Company Ltd (£3)
- Warwick Technology Park Management Company (No.2) Ltd (£2)

6.9 The Council has two wholly owned local authority trading companies, owning the single £1 share in each:

- Educaterers Ltd
- Warwickshire Legal Services Ltd

6.10 Educaterers has a loan facility for in place with the Council. At the 31st March the loan balance was £1.528m.

7.0 Covid-19 Impact and Update

7.1 In December 2019 China reported the then unidentified initial cases of Covid-19 to the World Health Organisation. By March the UK government

announced a range of measures to control the virus and support the economy, including a lockdown and cash support to businesses and individuals, and the Bank of England significantly reduced the base rate to support the economy.

7.2 By mid-May Covid had been impacting on treasury activity and performance in the following ways:

- Reductions in cash balances driven by:
    - Paying supplier invoices immediately rather than on the normal 31 day terms to support supplier cash flow.
    - Providing loans to businesses to support the local economy.
- Losses in income from returns on investments driven by:
    - The reduction in the Bank of England base rate.
    - Holding lower cash balances due to providing cash support to other entities.
    - Holding cash in a more liquid form in order to be able to respond quickly to potential calls to provide cashflow support.
- Treasury services have supported activity within the Council to look at ways to support the Warwickshire economy and Warwickshire businesses.
- Activity was undertaken in March and April bringing more cash into instant access and shorter-term accounts to improve liquidity.
- Activity was undertaken to open additional short-term accounts to spread short term cash over a larger number of institutions to reduce risk.

7.3 By May some of the initial uncertainty had reduced and activity had been started to normalise treasury holdings. However, this will take a period of time to achieve as it is necessary to identify and secure the most appropriate opportunities and funds to put assets back into.

7.4 Covid-19 has had a relatively small impact on the returns on investments in 2019/20 because it impacted late in the financial year. However, it will have a significant impact in 2020/21 when it will impact for the full year. This and any longer-term impact will be taken into account in the setting of the next Medium Term Financial Strategy.

8.0 Financial Implications

8.1 The financial implications of the Treasury Management outturn are set out in the body of the report. Returns on investment were broadly as forecast for 2019/20 but Covid-19 will have a significant adverse impact on returns in 2020/21.

9.0 Environmental Implications

9.1 Pooled funds invested in will include investment in a range of different companies which will have a range of carbon footprints and climate impacts. The impact is not currently measured but a revised Treasury Strategy for 2020/21 does propose making climate change a higher profile matter for investment considerations but keeping in correct perspective the primary requirements for security, liquidity, and yield.

Background Papers
None

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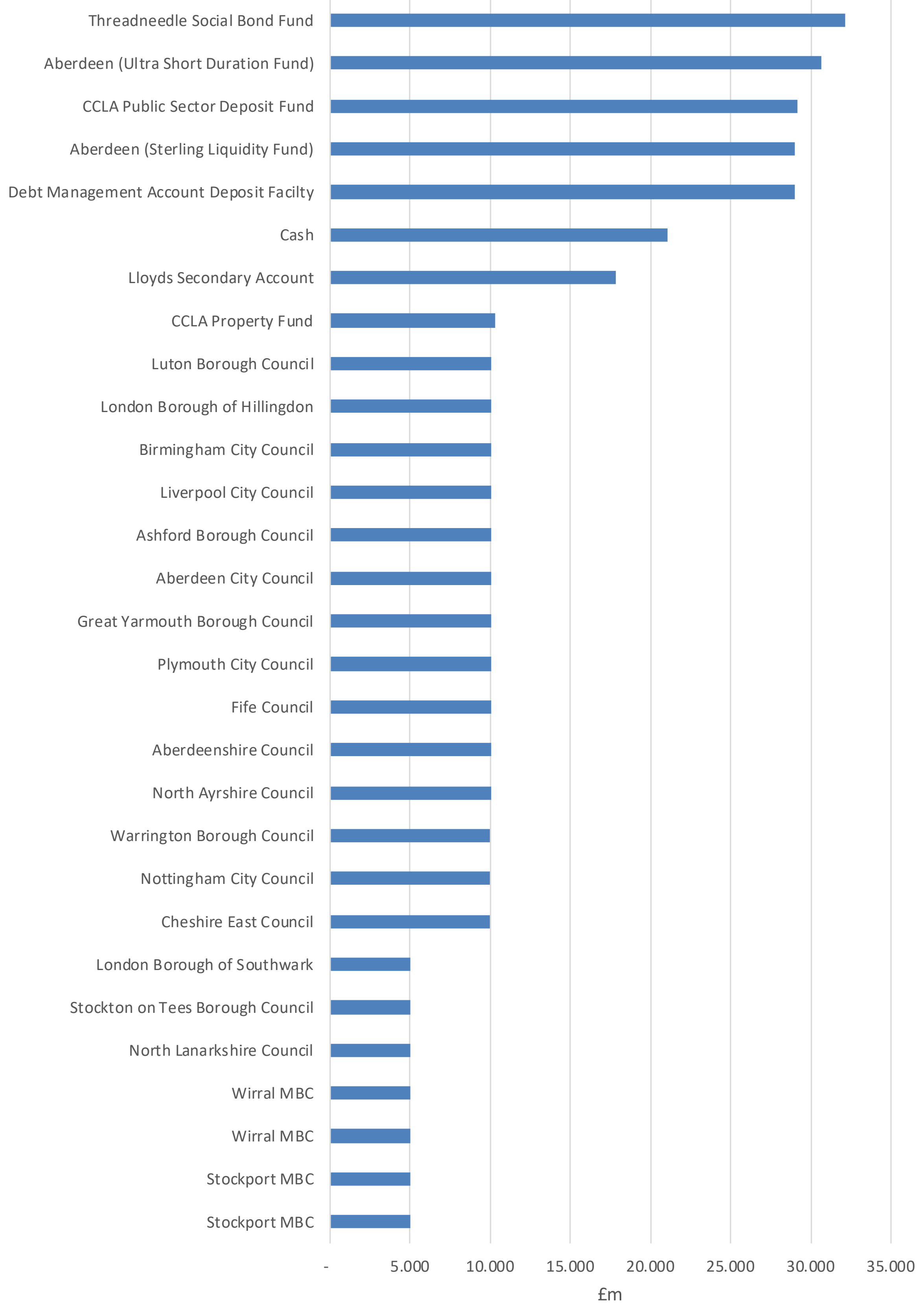
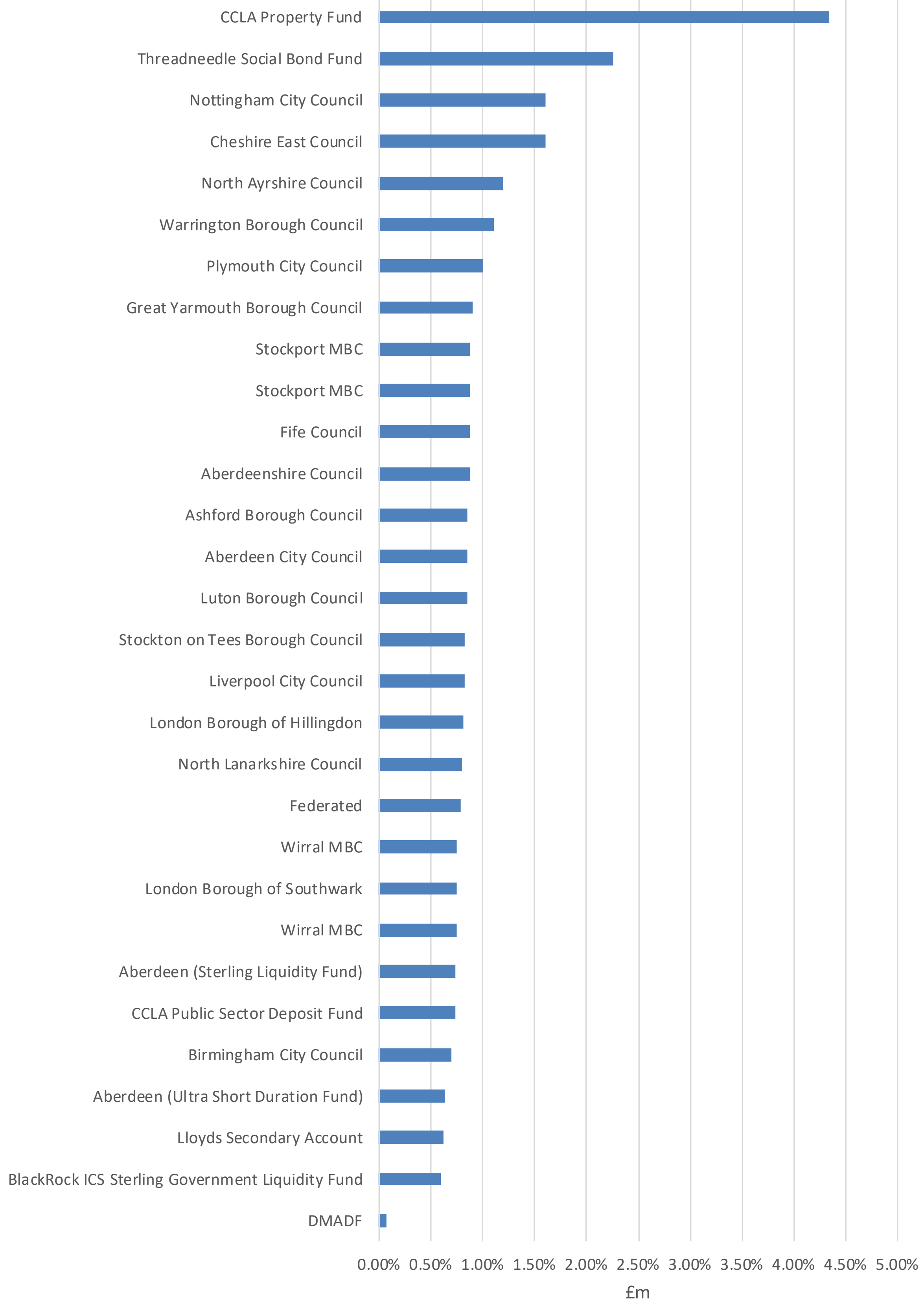
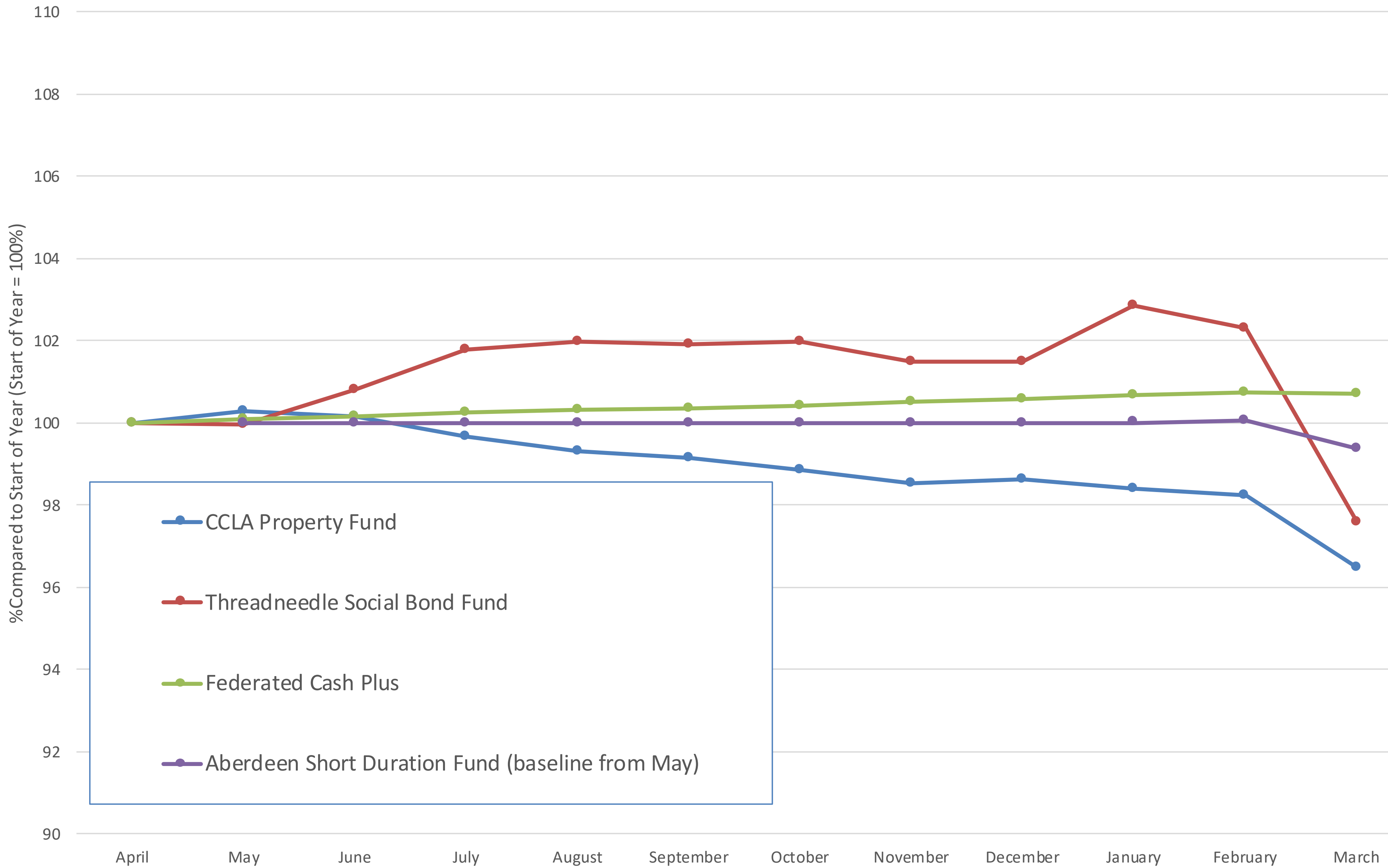
The report was not circulated to members prior to publication.



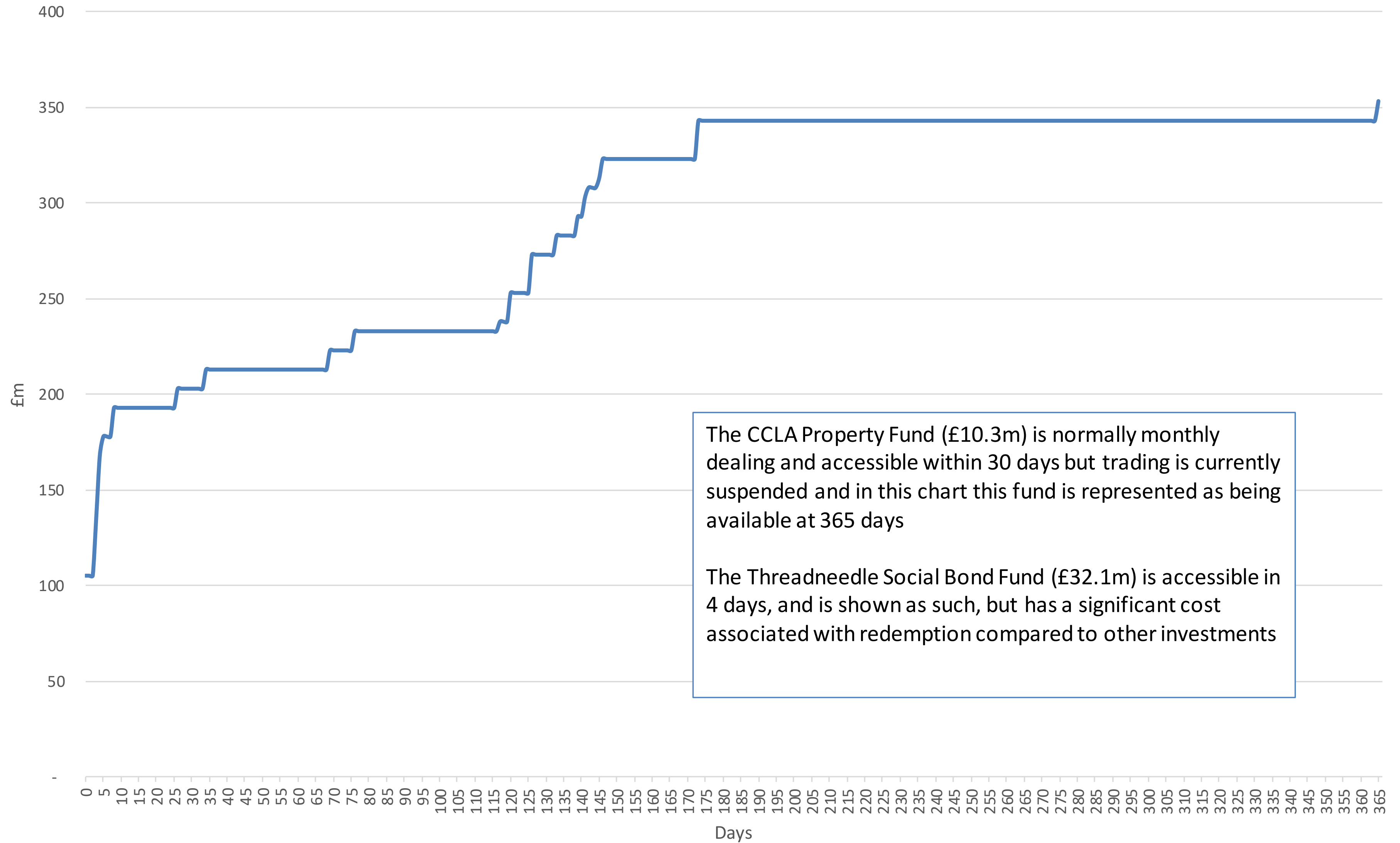
Closing Balances at 31st March
Appendix A
Threadneedle Social Bond Fund
Aberdeen (Ultra Short Duration Fund)
CCLA Public Sector Deposit Fund
Aberdeen (Sterling Liquidity Fund)
Debt Management Account Deposit Facilty
Cash
Lloyds Secondary Account
CCLA Property Fund
Luton Borough Council
London Borough of Hillingdon
Birmingham City Council
Liverpool City Council
Ashford Borough Council
Aberdeen City Council
Great Yarmouth Borough Council
Plymouth City Council
Fife Council
Aberdeenshire Council
North Ayrshire Council
Warrington Borough Council
Nottingham City Council
Cheshire East Council
London Borough of Southwark
Stockton on Tees Borough Council
North Lanarkshire Council
Wirral MBC
Wirral MBC
Stockport MBC
Stockport MBC
-
5.000
10.000
15.000
20.000
25.000
30.000
35.000
£m



Interest Rates
Appendix B
CCLA Property Fund
Threadneedle Social Bond Fund
Nottingham City Council
Cheshire East Council
North Ayrshire Council
Warrington Borough Council
Plymouth City Council
Great Yarmouth Borough Council
Stockport MBC
Stockport MBC
Fife Council
Aberdeenshire Council
Ashford Borough Council
Aberdeen City Council
Luton Borough Council
Stockton on Tees Borough Council
Liverpool City Council
London Borough of Hillingdon
North Lanarkshire Council
Federated
Wirral MBC
London Borough of Southwark
Wirral MBC
Aberdeen (Sterling Liquidity Fund)
CCLA Public Sector Deposit Fund
Birmingham City Council
Aberdeen (Ultra Short Duration Fund)
Lloyds Secondary Account
BlackRock ICS Sterling Government Liquidity Fund
DMADF
0.00%
0.50%
1.00%
1.50%
2.00%
2.50%
3.00%
3.50%
4.00%
4.50%
5.00%
£m



Pooled Fund Asset Values Compared to Start of Year
Appendix C
110
108
106
104
102
100
98
96
94
92
90
%Compared to Start of Year (Start of Year = 100%)
CCLA Property Fund
Threadneedle Social Bond Fund
Federated Cash Plus
Aberdeen Short Duration Fund (baseline from May)
April
May
June
July
August
September
October
November
December
January
February
March


Liquidity of Investments
Appendix D
400
350
300
250
200
150
100
50
-
£m
Days
The CCLA Property Fund (£10.3m) is normally monthly dealing and accessible within 30 days but trading is currently suspended and in this chart this fund is represented as being available at 365 days

The Threadneedle Social Bond Fund (£32.1m) is accessible in 4 days, and is shown as such, but has a significant cost associated with redemption compared to other investments

The Economy and Interest Rates

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 Teresa 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.

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.

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.

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.

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.

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.

The loans for small businesses, which convert into grants if firms use them to maintain their payroll, will cost $367bn and 100% of the cost of lost wages for four months will also be covered. In addition there will be $500bn of funding from the Treasury's Exchange Stabilization Fund which will provide loans for hard-hit industries, including $50bn for airlines.

However, all this will not stop the US falling into a sharp recession in quarter 2 of 2020; some estimates are that growth could fall by as much as 40%. The first two weeks in March of initial jobless claims have already hit a total of 10 million and look headed for a total of 15 million by the end of March.

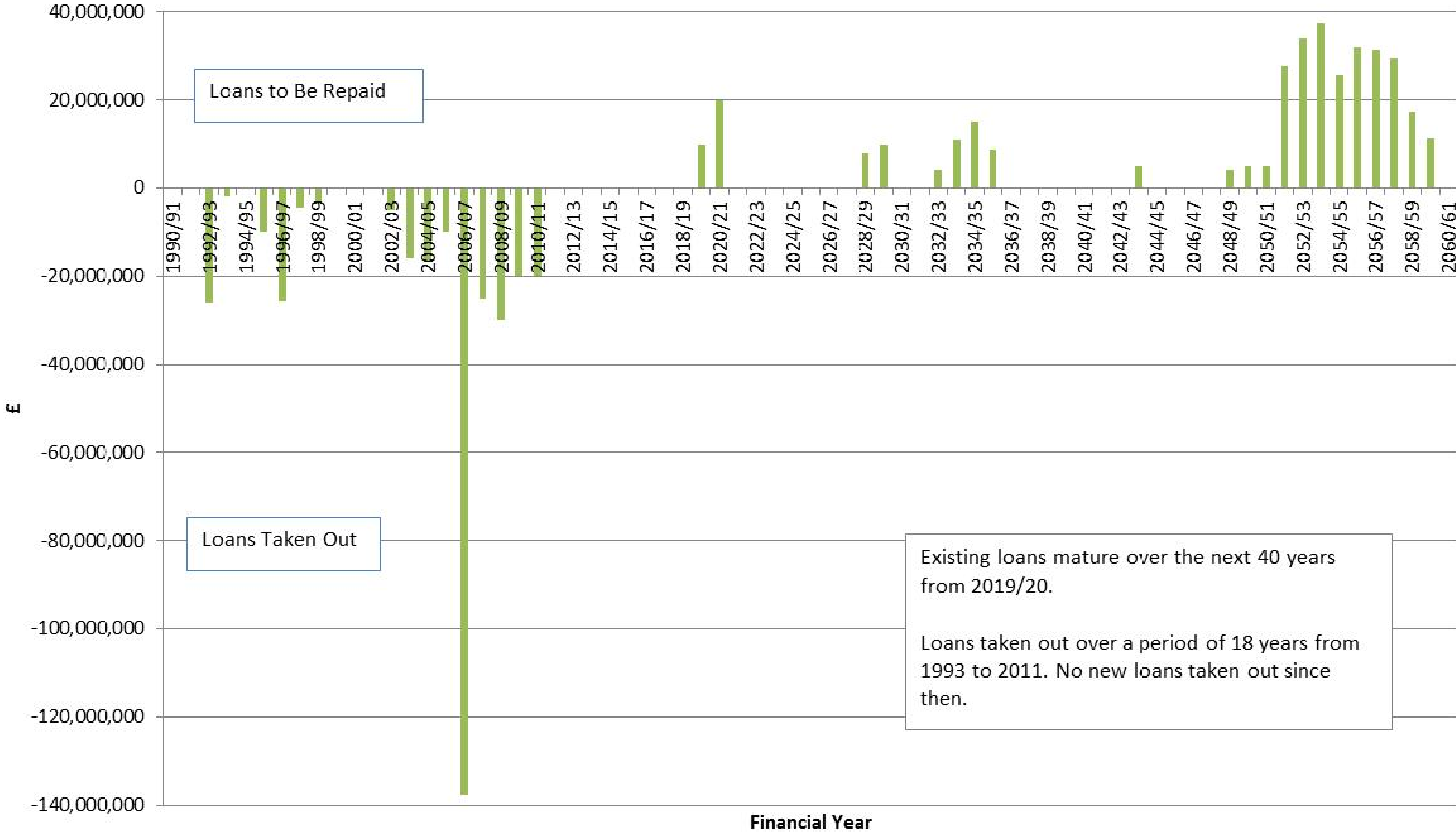
EUROZONE. The annual rate of GDP growth has been steadily falling, from 1.8% in 2018 to only 0.9% y/y in quarter 4 in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended 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.

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.

JAPAN has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It appears to have missed much of the domestic impact from coronavirus in 2019-20 but the virus is at an early stage there.

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.


PWLB Maturity Profile
Appendix F
Loans to Be Repaid
Loans Taken Out
£
Financial Year
Existing loans mature over the next 40 years from 2019/20.
Loans taken out over a period of 18 years from 1993 to 2011. No new loans taken out since then.

Prudential Indicators   Appendix G

(1). AFFORDABILITY PRUDENTIAL INDICATORS	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Actual	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure	84,077	109,628	147,887	84,887	22,101
	%	%	%	%	%
Ratio of financing costs to net revenue stream	6.99	6.78	6.45	6.41	6.33
Gross borrowing requirement	£'000	£'000	£'000	£'000	£'000
Gross Debt	362,274	352,274	332,274	332,275	332,275
Capital Financing Requirement as at 31 March	301,581	289,709	280,056	271,793	261,113
Under/(Over) Borrowing	(60,693)	(62,565)	(52,218)	(60,482)	(71,162)
	£'000	£'000	£'000	£'000	£'000
In year Capital Financing Requirement	(12,367)	(11,872)	(9,653)	(8,263)	(10,680)
	£'000	£'000	£'000	£'000	£'000
Capital Financing Requirement as at 31 March	301,581	289,709	280,056	271,793	261,113

PRUDENTIAL INDICATOR (2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2018/19	2019/20	2020/21	2021/22	2022/23
	estimate	estimate	estimate	estimate	estimate
Authorised limit for external debt -	£'000	£'000	£'000	£'000	£'000
Borrowing	516,818	420,482	420,899	386,983	374,167
other long term liabilities	12,000	12,000	12,000	12,000	12,000
TOTAL	**528,818**	**432,482**	**432,899**	**398,983**	**386,167**
Operational boundary for external debt -	£'000	£'000	£'000	£'000	£'000
Borrowing	430,681	350,402	350,749	322,486	311,806
other long term liabilities	10,000	10,000	10,000	10,000	10,000
TOTAL	**440,681**	**360,402**	**360,749**	**332,486**	**321,806**
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing / fixed term investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Net principal re fixed rate borrowing / fixed term investments	25%	25%	25%	25%	25%
Upper limit for total principal sums invested for over 365 days	£'000	£'000	£'000	£'000	£'000
(per maturity date)	£60,000	£60,000	£60,000	£60,000	£60,000

Maturity structure of new fixed rate borrowing during year	upper limit	lower limit	Actual
under 12 months	20%	0%	0%
12 months and within 24 months	20%	0%	0%
24 months and within 5 years	60%	0%	0%
5 years and within 10 years	100%	0%	0%
10 years and above	100%	0%	0%

Maturity structure of new variable rate borrowing during year	upper limit	lower limit	Actual
under 12 months	20%	0%	0%
12 months and within 24 months	20%	0%	0%
24 months and within 5 years	60%	0%	0%
5 years and within 10 years	100%	0%	0%
10 years and above	100%	0%	0%

Note – The top line capital expenditure figures represent currently approved capital expenditure and hence they tail off in future years. As new capital expenditure plans are developed and approved the actual capital spent in future years will be higher than is set out here.

Appendix H

Prudential Indicators Glossary

Ratio of financing costs to net revenue stream

The ratio of financing costs to net revenue stream shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, plus repayments of capital, as a proportion of annual income from council taxpayers and central government. The estimates of financing costs include current and future commitments based on the capital programme.

Gross Borrowing

Gross borrowing refers to the Authority's total external borrowing and other long term liabilities versus the Capital Financing Requirement.

Actual and Estimated Capital Expenditure

Actual and estimates of capital expenditure for the current and future years.

Capital Financing Requirement

The Capital Financing Requirement (CFR) represents capital expenditure financed by external debt and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR measures the Authority's underlying need to borrow externally for a capital purpose. The Authority has a treasury management strategy which accords with the CIPFA Code of Practice for Treasury Management in the Public Services.

Authorised Limit

In respect of its external debt, the Authority approves authorised limits for its total external debt gross of investments. These limits separately identify borrowing from other long-term liabilities such as finance leases. Authorised Limits are consistent with the Authority's current commitments, service plans, proposals for capital expenditure and associated financing, cash flow and accord with the approved Treasury Management Policy statement and practices. The Authorised Limit is based on the estimate of most likely prudent, but not necessarily the worst case scenario and provides sufficient additional headroom over and above the Operational Boundary.

Operational Boundary

The Operational Boundary for external debt is based on the same estimates as the authorised limit but reflects the Head of Finance's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

Limits on Interest Rate Exposure

This means that the Authority will manage fixed and variable interest rate exposure within the ranges. This provides flexibility to take advantage of any favourable movements in interest rates.