

Report of	Meeting	Date
Director of Finance	Governance Committee	28 <sup>th</sup> July 2021

## Treasury Management Annual Report 2020/21 And Quarter One Monitoring 2021/22

### Purpose of report

- To report on Treasury Management performance and compliance with Prudential Indicators for the financial year ended 31 March 2021.
- To present monitoring figures for the quarter ended 30 June 2021, including updated interest rate forecasts from Link Asset Services.

### Recommendation(s)

- That the report be noted.

### Executive summary of report

- This report advises on compliance with Prudential and Treasury Indicators in 2020/21. The return on investments for the year was 0.09%, which was slightly below the benchmark of 0.10%. Details of borrowing and investments as at 31 March 2021 are presented.
- Borrowings and investments as at 30 June 2021 are also presented, and Link Asset Services have provided updated interest rate forecasts for 2021/22 and subsequent financial years.

<b>Confidential report</b> Please bold as appropriate		<b>No</b>
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### Corporate priorities

- This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	✓

### Background

- The Treasury Strategy for 2020/21 to 2022/23 was approved by Council on 25 February 2020. The strategy included prudential and treasury indicators, the treasury management strategy, annual investment strategy (including the list of approved investment counterparties), and the annual Minimum Revenue Provision (MRP) Policy.

8. A mid-year review of Treasury Management activity was presented to Governance Committee on 25 November 2020. This reported that, during the first half of 20/21, both the average daily balance and the rates of interest available have been significantly affected by the impacts of the Covid 19 pandemic, with the former being substantially higher than would usually be the case, while the latter have been greatly reduced. The Council had an average daily cash balance of £13.25m and earned interest of £10.8k, a return of 0.16%. The investment balance at the end of September was £7.3m.
9. On 23 February 2021 Council approved the Treasury Strategy for 2021/22 to 2023/24, which included revised prudential and treasury indicators for 2020/21. Where relevant, comparisons with 2020/21 indicators in this outturn report are to those approved most recently.
10. A glossary of technical terms used in this report is presented as Appendix J.

### Capital Expenditure And Financing 2020/21

11. The Council undertakes capital expenditure on long-term activities. These activities may either be:
  - financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
  - if sufficient financing is not available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure for 2020/21.

<b>Table 1 - Capital Expenditure</b>	<b>2020/21 Estimate £000</b>	<b>2020/21 Revised £000</b>	<b>2020/21 Actual £000</b>	<b>2020/21 Variance £000</b>
Customer & Digital	48	222	81	(141)
Early Intervention & Support	1,325	6,117	4,323	(1,794)
Policy & Governance	1,539	1,144	301	(843)
Regeneration & Inward Investment	21,020	7,119	4,382	(2,737)
<b>Capital Expenditure Total</b>	<b>23,932</b>	<b>14,602</b>	<b>9,087</b>	<b>(5,515)</b>

In addition to the usual range of factors which can affect the timing of capital projects, the progression of the 2020/21 programme was affected by the impacts of the Covid 19 pandemic. This is reflected in the reduction in the revised budget and actual levels of expenditure shown above.

Additional analysis of the schemes included in the 2020/21 Capital Programme was presented to Executive Cabinet on 17 June 2021 in the report 'Revenue and Capital Budget Monitoring 2020/21 Outturn'.

Financing of the capital expenditure is shown in the following table.

Table 2 - Capital Financing	2020/21	2020/21	2020/21	2020/21
	Estimate	Revised	Actual	Variance
	£000	£000	£000	£000
Capital expenditure from Table 1	23,932	14,602	9,087	(5,515)
Capital Receipts	(440)	(505)	(204)	301
Grants & Contributions	(5,732)	(5,803)	(6,329)	(526)
Revenue and Reserves	(627)	(648)	(435)	213
<b>Net financing needed for year</b>	<b>17,133</b>	<b>7,646</b>	<b>2,119</b>	<b>(5,527)</b>

## The Council's Overall Borrowing Need

### 12. Capital Financing Requirement 2020/21

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the unfinanced capital expenditure in 2020/21 plus prior years' unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activity is to address the funding requirement for this borrowing need. Depending on the capital expenditure programme, the Council's cash position is organised to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLB), or the money markets), or utilising temporary cash resources within the Council.

The CFR is not matched in full by external borrowing, so the Council is said to have under borrowed by using its own cash balances to finance capital expenditure. There is some loss of interest as a result, but had external loans been taken, then the interest payable would have been at a higher rate. Use of the Council's own cash helps to achieve savings in net interest.

The Council's underlying borrowing need is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can be borrowed and repaid, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The 2020/21 MRP Policy (as required by MHCLG Guidance) was approved by Council as part of the Treasury Strategy 2020/21 to 2022/23 on 25 February 2020.

The Council's CFR for the year is shown in Table 3 below and represents a key prudential indicator. It includes financing by means of a finance lease for leisure related capital investment, which increases the Council's borrowing need.

Table 3 - Capital Financing Requirement	2020/21	2020/21	2020/21	2020/21
	Estimate	Revised	Actual	Variance
	£000	£000	£000	£000
Opening CFR	90,864	88,865	88,865	0
Net financing need for the year (Table 2)	17,133	7,646	2,119	(5,527)
Less MRP/VRP	(1,311)	(1,303)	(1,295)	8
<b>Closing CFR</b>	<b>106,686</b>	<b>95,208</b>	<b>89,689</b>	<b>(5,519)</b>

See also Note 35 Capital Expenditure and Financing in the Statement of Accounts 2020/21.

### 13. The CFR and Gross Debt

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR. In order to ensure that borrowing levels are prudent over the medium term and are only for capital purposes, the Council ensures that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year (2019/20) plus the estimates of any additional CFR for the current (2020/21) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator would allow the Council some flexibility to borrow in advance of its immediate capital needs, but this facility was not required in 2020/21.

In addition to its borrowing for capital purposes, at 1 April 2020 the Council also had short-term borrowing of £4.5m in respect of its immediate cash flow needs. This figure was higher than would normally be the case (the comparative figure for 1 April 2019 was £1m) because of the exceptional circumstances arising in March 2020, with the onset of the Covid 19 pandemic and the introduction of measures for the payment of support to local businesses. In order to do this promptly, payments were potentially to be made in advance of the receipt of the associated government funding and, although the gap was only of a few days, the amounts involved were significant and the funds immediately available were not sufficient to cover the potential outward cash flow. The temporary borrowing was repaid in April 2020.

On the basis that it did not relate to capital expenditure and in order to provide clarity in respect of the underlying position, Table 4 excludes reference to the £4.5m of temporary borrowing. The table shows the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 4 - Portfolio Position	2020/21	2020/21	2020/21	2020/21
	Estimate £000	Revised £000	Actual £000	Variance £000
Debt at 1 April	64,036	64,026	64,026	0
Other long-term liabilities (OLTL)	15	15	15	0
Total gross debt 1 April	64,051	64,041	64,041	0
Change in Debt	19,247	5,751	(1,866)	(7,617)
Change in OLTL	0	0	0	0
Change in gross debt	19,247	5,751	(1,866)	(7,617)
Gross debt 31 March	83,298	69,792	62,175	(7,617)
Capital Financing Requirement (Table 3)	106,686	95,208	89,689	(5,519)
<b>Under / (over) borrowing</b>	<b>23,388</b>	<b>25,416</b>	<b>27,514</b>	<b>2,098</b>

An analysis of external borrowing as at 31 March 2021 is presented in Appendix A. The figures for short-term borrowing include accrued interest payable to lenders, so that the external borrowing matches the total shown in the Balance Sheet in the Statement of Accounts 2020/21.

No additional actual borrowing was entered into during 2020/21, because of the impacts of the pandemic in reducing levels of capital expenditure and so of the borrowing needed to support it.

**The authorised limit.** This is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level, except that, under s5 of the Act, the authorised limit may be treated as increased in relation to any payment which:

- (i) (is due to the authority which has not yet been received by it, and
- (ii) was not a delayed receipt of a payment which was taken into account when the limit was first arrived at.

The revised limit set for 2020/21 by Council on 23 February 2021 was £79.315m and actual gross debt shown in Table 4 was £62.175m. Measured against this figure, the Council has maintained gross borrowing within its authorised limit throughout the year.

**The operational boundary.** This is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached. The revised operational boundary set for 2020/21 was £73.715m and actual gross debt at 31 March 2021 was £62.175m. The Council remained within its operational boundary throughout the year.

**Actual financing costs as a proportion of net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income), against the revenue stream (council tax, business rates, and various Government grants).

<b>Table 5 - Ratio of Financing Costs to Net Revenue Stream</b>	<b>2020/21 Estimate %</b>	<b>2020/21 Revised %</b>	<b>2020/21 Actual %</b>	<b>2020/21 Variance %</b>
Ratio	14.85	15.64	13.46	(2.18)

The actual ratio was lower than estimated in 2020/21, principally because of the impacts of the pandemic, which resulted in capital expenditure, and so the borrowing needed to support it, being lower than expected and the revenue stream being increased by additional government grants.

## Treasury Position As At 31 March 2021

### 14. Treasury management debt and investment position

The Council's treasury management debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security for investments, and to manage risks within all treasury management activities. Gross debt is shown in Table 4, and Investments (including Cash and Cash equivalents but excluding accrued interest) are shown in Table 6.

<b>Table 6 - Year-End Resources 2020/21</b>	<b>2020/21 Estimate £000</b>	<b>2020/21 Revised £000</b>	<b>2020/21 Actual £000</b>	<b>2020/21 Variance £000</b>
Core Funds/Working Balances	(24,388)	(26,416)	(36,613)	(10,197)
Under/(over) borrowing (Table 4)	23,388	25,416	27,514	2,098
<b>Investments</b>	<b>(1,000)</b>	<b>(1,000)</b>	<b>(9,099)</b>	<b>(8,099)</b>

The working balances held at 31 March 2021 were of a similar level to those for 31 March 2020 (£8.761m), with both being higher than would normally be the case (the figure for 31 March 2019 was £2.848m). This is because of the continued impacts of measures taken in response to the pandemic. A detailed analysis of Short Term Investments and Cash and Cash Equivalents is presented as Appendix B. Accrued interest is shown so that figures match those in the Balance Sheet and notes in the Statement of Accounts 2020/21. The maximum balance invested with each counterparty complied with the limits approved by the Council. Appendix C presents the approved counterparty limits for 2020/21.

Council approved that a maximum of £4m should be invested with UK local authorities for more than 365 days and up to two years, with a maximum of £2m per individual authority. No sums were invested for more than 365 days.

Table 7 - Maximum Principal Sums Invested > 365 Days	2020/21	2020/21	2020/21	2020/21
	Estimate	Revised	Actual	Variance
	£000	£000	£000	£000
UK Government	0	0	0	0
UK Local Authorities **	4,000	4,000	0	(4,000)
UK Banks & Building Societies	0	0	0	0
Non-UK Banks	0	0	0	0
<b>Total</b>	<b>4,000</b>	<b>4,000</b>	<b>0</b>	<b>(4,000)</b>

\*\* Maximum of £2 million per local authority

## Investment Performance 2020/21

### 15. Review of Performance

Investment returns dropped to historically exceptionally low levels from late March 2020 onwards and remained there throughout 2020/21. When the treasury management strategy for the year was approved, the Bank Rate stood at 0.75% and was expected to remain at that level throughout 2020/21. What happened was that the rate fell sharply, first to 0.25% and then to 0.10%, in response to the economic impacts of the Covid 19 pandemic abruptly. It then remained unchanged throughout the year. This has inevitably had a significant impact on investment rates, taking them down to well below even the historically relatively low returns available in 2019/20.

Given the low returns available compared to borrowing rates, the Council has continued to achieve budget savings by maintaining a position of under borrowing, which means that it has used its own cash balances to finance capital expenditure rather than taking additional external loans.

Investment Policy. The Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by Council for 2020/21. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as ratings outlooks, credit default swaps, banks share prices etc.). Link Asset Services, the Council's treasury advisors, provide suggested investment durations for the approved counterparties. During 2020/21 cash was not invested in term deposits. To manage the Council's cash flow, balances were held only in highly liquid accounts, specifically in call accounts and MMFs, with the need for money to be available at short notice having been heightened by the unusual pattern of cash flows resulting from the impacts of the pandemic.

Investment performance in 2020/21 is presented in Table 8.

<b>Table 8 - Investment Performance 2020/21</b>	<b>Average Daily Investment £000</b>	<b>Interest 2020/21 £</b>	<b>Average Rate %</b>
Fixed Term Deposits	0	0	n/a
Notice Accounts	0	0	n/a
Call Accounts	4,418	5,002	0.11
Money Market Funds	7,463	7,353	0.10
Debt Management Office DMADF	1,962	385	0.02
<b>Total</b>	<b>13,843</b>	<b>12,740</b>	<b>0.09</b>

The average return of 0.09% in 2020/21 compares to the 0.64% achieved in 2019/20, and reflects the exceptionally low level of returns available from March 2020 and throughout the financial year.

The original earnings target for 2020/21, set in February 2020, was 7-day LIBID plus 15%, but the exceptional market conditions applying in 2020/21 meant that this would produce a negative target figure. This was noted by the Committee in the half-yearly update in November 2020 and, in line with the advice of the Council's treasury management consultants, the target was revised to 0.10%. The outturn figure fell just short of this.

The Council would usually make only limited use of the Debt Management Office, and then only for very short periods (typically just one or two days), because the interest rates offered would be significantly lower than those available elsewhere. However, throughout 2020/21, the heightened need to keep funds available at short notice to deal with the unusual pattern of major cash flows, together with the lack of alternative investment opportunities, has led to more extensive use being made of this facility, with a daily average investment with the DMO of £1.962m. This compares to a figure of £295k for 2019/20. The effect of this on investment returns has, however, not been especially marked, because the generally low levels of interest rates available elsewhere has reduced the differential between these and DMO rates.

## **Monitoring June Quarter 2021/22**

### **16. Borrowing and Investments**

External borrowing as at 30 June 2021 is presented in Appendix E. No additional long term borrowing has been entered into, but it is expected that further loans will be taken out during the year. This will be to finance the capital programme and the borrowing has been budgeted for.

Investments as at 30 June 2021 are presented in Appendix F. Cash balances available to invest fluctuate throughout the year, depending on the timing of receipts and payments. The balance at the end of the first quarter was slightly higher than at the beginning of the year, and it is likely to be higher still at points during the remainder of the financial year. However, the tendency is for the balance to reduce by 31 March 2022 and this reduction is expected to be especially marked for 2021/22, as the affects of the pandemic on cash flows come to an end.

Appendix G presents the counterparty limits for 2021/22. It is unlikely that cash will be invested in anything other than liquid accounts with instant access.

#### 17. Prudential and Treasury Indicators and Investment Counterparty Limits

These remain unchanged from those approved by Council on 23 February 2021 and there are no current proposals for any changes.

#### Advice Of Link Asset Services

#### 18. Treasury Advisors' review of 2020/21 and forward looking commentaries

Link Asset Services' review of the Economy and Interest Rates in 2020/21 is presented as Appendix D.

A detailed economic commentary on developments during the quarter ended 30 June 2021 is presented as Appendix H.

Appendix I is a detailed commentary on interest rate forecasts.

#### Implications of report

19. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

#### Risk

20. Risk is an important issue for Treasury Management activity, and management of risk is at the heart of the Treasury Strategy for each financial year.

#### Comments of the Statutory Finance Officer

21. This report meets statutory reporting requirements. Its statistical content is consistent with the Council's financial accounts for the financial year 2020/21.

#### Comments of the Monitoring Officer

22. The Monitoring Officer has no comments.

Louise Mattinson  
Director of Finance

Background Papers		
Document	Date	File
Treasury Strategy 2020/21	25/2/20	***
Treasury Strategy 2021/22	23/2/21	

Report Author	Ext	Date
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Tony Furber	5027	20 July 2021
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## APPENDIX A

### External Borrowing 31 March 2021

Type of loan	Loan number	Start date	Maturity date	Interest Rate %	Short-Term Borrowing £000	Long-Term Borrowing £000	Total £000
PWLB loan - Annuity	502694	29/11/2013	26/11/2063	4.34	37	1,580	1,617
PWLB loan - Annuity	502695	29/11/2013	26/11/2043	4.18	69	1,636	1,705
PWLB loan - Annuity	502696	29/11/2013	26/11/2038	4.02	84	1,517	1,601
PWLB loan - Annuity	502697	29/11/2013	26/05/2033	3.69	108	1,310	1,418
PWLB loan - Annuity	502698	29/11/2013	26/05/2028	3.18	146	982	1,128
PWLB loan - Annuity	502699	29/11/2013	26/05/2023	2.42	223	337	560
PWLB loan - Maturity	506764	21/12/2017	21/12/2067	2.31	16	2,500	2,516
PWLB loan - EIP	506766	21/12/2017	21/12/2031	1.76	188	1,786	1,974
PWLB loan - EIP	508381	17/01/2019	17/01/2054	2.51	100	2,743	2,843
PWLB loan - EIP	508382	17/01/2019	17/01/2059	2.58	90	2,775	2,865
PWLB loan - EIP	509178	24/04/2019	24/04/2044	2.23	122	2,250	2,372
PWLB loan - Annuity	509641	09/08/2019	09/08/2059	1.87	642	30,610	31,252
PWLB loan - Annuity	509689	16/08/2019	16/08/2059	1.86	39	1,914	1,953
PWLB loan - EIP	509691	16/08/2019	16/08/2039	1.32	154	2,625	2,779
PWLB loan - EIP	165470	28/02/2020	28/02/2060	2.71	164	5,700	5,864
Public Works Loan Board total					2,182	60,265	62,447
Local Authorities total					0	0	0
<b>External Borrowing total</b>					<b>2,182</b>	<b>60,265</b>	<b>62,447</b>

## List of Investments as at 31 March 2021

Counterparty	Type	Sum Invested £000	Accrued Interest £000	Total 31	Rate %	Link	CBC	Date Invested	Maturity Date
				March 2021 £000		Suggested Duration	Approved Duration		
Santander	Call	4,990	6	4,996	0.12%	6 mths	6 mths	On Call	n/a
Barclays BPA Deposit Account	Call	2,118	0	2,118	0.01%	6 mths	6 mths	On Call	n/a
<b>Call Accounts sub total</b>		<b>7,108</b>	<b>6</b>	<b>7,114</b>					
Aberdeen Standard	MMF	2,000	0	2,000	0.01% (1)		AAA-rated	On Call	n/a
<b>Money Market Funds sub total</b>		<b>2,000</b>	<b>0</b>	<b>2,000</b>					
<b>Other Cash &amp; Cash Equivalents Balance:</b>		162	0	162					
<b>Cash and Cash Equivalents</b>		<b>9,270</b>	<b>6</b>	<b>9,276</b>					

Notes

(1) MMF rates are variable. This is the calculated average for the year to March

## Investment Counterparties 2020/21

Applicable from 1 April 2020 to 23 February 2021

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
<b>Banks &amp; Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)</b>				
Government related/guaranteed entities	DMADF (DMO)	Yellow	6 months	Unlimited
	UK Local Authority	Yellow	1 year 2 years	£3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange	1 year	£3m per group (or institution if independent)
		Red	6 months	
		Green	3 months	
<b>Money Market Funds</b>				
Money Market Funds (CNAV and LVNAV)	MMFs of high credit quality - AAA rated		Instant access	£3m per fund

**Applicable from 24 February 2021 to 31 March 2021**

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
<b>Banks &amp; Building Societies: Call Accounts /Term Deposits / Certificates of</b>				
Government related/guaranteed	DMADF (DMO) UK Local Authority	Yellow Yellow	6 months 1 year 2 years	Unlimited £3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange	1 year	£5m per group (or institution if independent)
		Red	6 months	
		Green	3 months	
<b>Money Market Funds</b>				
Money Market Funds (CNAV and LVNAV)	MMFs of high credit quality - AAA rated		Instant access	£5m per fund

**Maximum durations suggested by Link Asset Services (LAS)**

<b>Yellow</b>	5 years
<b>Purple</b>	2 years
<b>Blue</b>	1 year (only applies to nationalised or semi nationalised UK Banks)
<b>Orange</b>	1 year
<b>Red</b>	6 months
<b>Green</b>	100 days
<b>No colour</b>	Not to be used

## The Economy and Interest Rates 2020/21

**UK. Coronavirus.** The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown, so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020 was a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination, which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.

Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs.

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

**Average inflation targeting.** This was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern to the MPC.

**Government support.** The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures, and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 20/21 and 21/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%. An area of concern, though, is that the government's debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low e.g. by using fiscal policy in conjunction with the monetary policy action by the Bank of England to keep inflation

from rising too high, and / or by amending the Bank's policy mandate to allow for a higher target for inflation.

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

**USA.** The US economy did not suffer as much damage as the UK economy due to the pandemic. The Democrats won the presidential election in November 2020 and have control of both Congress and the Senate, although power is more limited in the latter. This enabled the Democrats to pass a \$1.9trn (8.8% of GDP) stimulus package in March on top of the \$900bn fiscal stimulus deal passed by Congress in late December. These, together with the vaccine rollout proceeding swiftly to hit the target of giving a first job to over half of the population within the President's first 100 days, will promote a rapid easing of restrictions and strong economic recovery during 2021. The Democrats are also planning to pass a \$2trn fiscal stimulus package aimed at renewing infrastructure over the next decade. Although this package is longer-term, if passed, it would also help economic recovery in the near-term.

After Chair Jerome Powell spoke on the Fed's adoption of a flexible average inflation target in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed a new inflation target - that "it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time." This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. There is now some expectation that where the Fed has led in changing its policy towards implementing its inflation and full employment mandate, other major central banks will follow, as indeed the Bank of England has done so already. The Fed expects strong economic growth during 2021 to have only a transitory impact on inflation, which explains why the majority of Fed officials project US interest rates to remain near-zero through to the end of 2023. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping treasury yields at historically low levels. However, financial markets in 2021 have been concerned that the sheer amount of fiscal stimulus, on top of highly accommodative monetary policy, could be over-kill leading to a rapid elimination of spare capacity in the economy and generating higher inflation much quicker than the Fed expects. They have also been concerned as to how and when the Fed will eventually wind down its programme of monthly QE purchases of treasuries. These concerns have pushed treasury yields sharply up in the US in 2021 and is likely to have also exerted some upward pressure on gilt yields in the UK.

**EU.** Both the roll out and take up of vaccines has been disappointingly slow in the EU in 2021, at a time when many countries are experiencing a sharp rise in cases which are threatening to overwhelm hospitals in some major countries; this has led to renewed severe restrictions or lockdowns during March. This will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. Recovery will now be delayed until Q3 of 2021 and a return to pre-pandemic levels is expected in the second half of 2022.

Inflation was well under 2% during 2020/21. The ECB did not cut its main rate of -0.5% further into negative territory during 2020/21. It embarked on a major expansion of its QE operations (PEPP) in March 2020 and added further to that in its December 2020 meeting when it also greatly expanded its programme of providing cheap loans to banks. The total PEPP scheme of €1,850bn

is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore, unlikely to be a euro crisis while the ECB is able to maintain this level of support.

**China.** After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth.

**Japan.** Three rounds of government fiscal support in 2020 together with Japan's relative success in containing the virus without draconian measures so far, and the roll out of vaccines gathering momentum in 2021, should help to ensure a strong recovery in 2021 and to get back to pre-virus levels by Q3.

**World growth.** World growth was in recession in 2020. Inflation is unlikely to be a problem in most countries for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

**Deglobalisation.** Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. In March 2021, western democracies implemented limited sanctions against a few officials in charge of government policy on the Uighurs in Xinjiang; this led to a much bigger retaliation by China and is likely to mean that the China / EU investment deal then being negotiated, will be torn up. After the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products and vice versa. This is likely to reduce world growth rates.

**Central banks' monetary policy.** During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

## External Borrowing 30 June 2021

Type of loan	Loan number	Start date	Maturity date	Interest Rate %	Total Borrowing £000
PWLB loan - Annuity	502694	29/11/2013	26/11/2063	4.34	1,586
PWLB loan - Annuity	502695	29/11/2013	26/11/2043	4.18	1,658
PWLB loan - Annuity	502696	29/11/2013	26/11/2038	4.02	1,548
PWLB loan - Annuity	502697	29/11/2013	26/05/2033	3.69	1,355
PWLB loan - Annuity	502698	29/11/2013	26/05/2028	3.18	1,050
PWLB loan - Annuity	502699	29/11/2013	26/05/2023	2.42	447
PWLB loan - Maturity	506764	21/12/2017	21/12/2067	2.31	2,500
PWLB loan - EIP	506766	21/12/2017	21/12/2031	1.76	1,875
PWLB loan - EIP	508381	17/01/2019	17/01/2054	2.51	2,829
PWLB loan - EIP	508382	17/01/2019	17/01/2059	2.58	2,850
PWLB loan - EIP	509178	24/04/2019	24/04/2044	2.23	2,300
PWLB loan - Annuity	509641	09/08/2019	09/08/2059	1.87	31,170
PWLB loan - Annuity	509689	16/08/2019	16/08/2059	1.86	1,949
PWLB loan - EIP	509691	16/08/2019	16/08/2039	1.32	2,775
PWLB loan - EIP	165470	28/02/2020	28/02/2060	2.71	5,850
Public Works Loan Board total					61,742
Local Authorities total					0
<b>External Borrowing total</b>					<b>61,742</b>

## List of Investments as at 30 June 2021

Counterparty	Type	Total 30 June 2021		Link	CBC	Date Invested	Maturity Date
		£000	Rate %	Suggested Duration	Approved Duration		
Santander	Call	4,990	0.12%	6 mths	6 mths	On Call	n/a
Barclays BPA Deposit Account	Call	1,361	0.01%	6 mths	6 mths	On Call	n/a
<b>Call Accounts sub total</b>		<b>6,351</b>					
Federated	MMF	2,000	0.01% (1)		AAA-rated	On Call	n/a
Blackrock	MMF	3,000	0.01% (1)		AAA-rated	On Call	n/a
<b>Money Market Funds sub total</b>		<b>5,000</b>					
<b>Cash Balance</b>		<b>11,351</b>					

## Notes

(1) MMF rates are variable. This is the calculated average for the year to June

## Investment Counterparties 2021/22

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
<b>Banks &amp; Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)</b>				
Government related/guaranteed entities	DMADF (DMO)	Yellow	6 months	Unlimited
	UK Local Authority	Yellow	1 year 2 years	£3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange	1 year	£5m per group (or institution if independent)
		Red	6 months	
		Green	3 months	
<b>Money Market Funds</b>				
Money Market Funds (CNAV and LVNAV)	MMFs of high credit quality - AAA rated		Instant access	£5m per fund

## Maximum durations suggested by Link Asset Services (LAS)

<b>Yellow</b>	5 years
<b>Purple</b>	2 years
<b>Blue</b>	1 year (only applies to nationalised or semi nationalised UK Banks)
<b>Orange</b>	1 year
<b>Red</b>	6 months
<b>Green</b>	100 days
<b>No colour</b>	Not to be used

## Economics Update 2021/22

**UK.** The 24 June Monetary Policy Committee meeting voted unanimously to keep Bank Rate unchanged at 0.10%. They voted by a majority of 8-1 to continue unchanged the existing programme of UK government bond purchases of £875bn which is due to end by the end of this year. In the press release, it was noted that:-

“Since May, developments in global GDP growth have been somewhat stronger than anticipated, particularly in advanced economies. Global price pressures have picked up further, reflecting strong demand for goods, rising commodity prices, supply-side constraints and transportation bottlenecks, and these have started to become apparent in consumer price inflation in some advanced economies. Financial market measures of inflation expectations suggest that the near-term strength in inflation is expected to be transitory”.

The MPC noted the developing upside risks in the UK to both activity and inflation. It said that the news on activity “had predominately been to the upside” and that Bank staff had “revised up their expectations for 2021 Q2 GDP growth to 5½% from 4¼%”. For the first time, the policy statement noted that “there are increasing signs of recruitment difficulties for some businesses” and the minutes said, “it was possible that the near-term upward pressure on prices could prove somewhat larger than expected”. Indeed, by saying that inflation “is likely to exceed 3% for a temporary period” the MPC admitted the Governor will have to write to the Chancellor later this year explaining why inflation is more than 1% above the 2% target.

But the key point is that the MPC still appears willing to ride out the inevitable spike in inflation over the next six months as it thinks it will be short-lived and caused by one-off reopening price rises and supply shortages relative to demand - boosted by consumers having built up huge savings of around £145bn during lockdown. These spikes will drop out of the CPI calculation over the next twelve months. The forward guidance in the policy statement designed to demonstrate the MPC’s patience was left intact, and the emphasis remained on “the medium-term prospects for inflation” rather than factors that are “likely to be transient”. The minutes said the MPC should “ensure that the recovery was not undermined by a premature tightening in monetary conditions”. It also repeated that it will not raise Bank Rate until the 2% inflation target has been attained sustainably i.e. the mere fact that it is forecasting inflation to be over 2% during 2021 and 2022 is not in itself sufficient to justify an increase in Bank Rate in the near future. The MPC indicated in the minutes that some members would prefer to wait for a clearer picture of the underlying pace of the recovery once the furlough scheme expires at the end of September, before making any judgement on medium-term inflationary pressures. This implies that the MPC may be unlikely to be in a position to consider a change in policy until early in 2022 at the earliest.

In addition, the Bank is undertaking a review of its stated current policy to raise Bank Rate first before unwinding quantitative easing (QE) purchases of gilts. Indeed, it now appears to be likely that the Bank could unwind QE first before raising Bank Rate as it sees QE as a very useful quick acting weapon to use to combat any sudden dysfunction in financial markets, as happened in March 2020. However, it is currently nearly maxed out on the total level of QE. Unwinding QE first would cause short term gilt yields to remain anchored at low levels and medium and long term gilt yields to steepen. Money markets are currently expecting Bank Rate to start rising in mid-2022 but they are probably being too heavily influenced by looking across the Atlantic where inflationary pressures are much stronger than in the UK and building up further under a major boost from huge Federal government stimulus packages. Overall, there could be only a minimal increase in Bank Rate in 2023 or possibly no increases before 2024.

**GDP.** The Bank revised up its expectations for the level of UK GDP in 2021 Q2 by around 1½% since the May Report due to the easing of restrictions on economic activity; this now leaves total GDP in June only around 2½% below its pre-Covid 2019 Q4 level. UK GDP grew by 1.5% in the three months to April 2021: this was the first expansion since the three months to December 2020. Forward looking monthly business surveys are running at exceptionally high levels indicating that we are heading into a strong economic recovery. Capital Economics do not think that the UK economy will suffer major scarring from the lockdowns. The one month delay to the final easing of restrictions in July is unlikely to have much effect on the progress of recovery with GDP getting back to pre-Covid levels during August.

**CPI.** The annual inflation rate in the United Kingdom rose to 2.1% y/y in May from 1.5% y/y in April: this is the first time that the measure has been above the Bank of England's 2% target since July 2019.

**COVID-19 vaccines.** These have been the game changer which have enormously boosted confidence that life in the UK could largely return to normal during the second half of 2021 after a third wave of the virus threatened to overwhelm hospitals in Q1 this year. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The UK has made fast progress, giving both jabs to nearly half of the total population and one jab to two thirds, (84% of all adults). This programme should be completed in the second half of the year. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

**US.** Since the Democrats won the elections in late 2020 and gained control of both Congress and the Senate, (although power is more limited in the latter), they have passed a \$1.9trn (8.8% of GDP) stimulus package in March 2021 on top of the \$900bn fiscal stimulus deal passed by Congress in late December. These, together with the vaccine rollout proceeding swiftly to hit the target of giving a first jab to over half of the population within the President's first 100 days, will promote a rapid easing of restrictions and strong economic recovery during 2021. The Democrats are also now negotiating to pass a \$1trn fiscal stimulus package aimed at renewing infrastructure over the next decade. Although this package is longer-term, if passed, it would also help economic recovery in the near-term.

After Chair Jerome Powell unveiled the Fed's adoption of a flexible average inflation target in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that "it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time." This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation had actually been under-shooting the 2% target significantly for most of the last decade, so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after that meeting. There is now some expectation that where the Fed has led in changing its policy towards implementing its inflation and full employment mandate, other major central banks will follow by allowing inflation to run higher for longer, even if they do not call it a policy of average inflation targeting as such.

In the Fed's June meeting, it stuck to its line that it expects strong economic growth this year to have only a transitory impact on inflation which is being temporarily boosted by base effects, spikes in reopening inflation and supply shortages. The big surprise was the extent of the upward shift in the "dot plot" of interest rate projections: having previously expected no hikes until 2024 at the earliest, most officials now anticipate two in 2023, with 7 out of 18 expecting to raise rates next year. This was a first indication that there was rising concern about the risks around inflationary pressures building up on a more ongoing basis and is somewhat hard to reconcile to the words around inflation pressures being only transitory.

Treasury yields in the US ought to rise much more strongly than gilt yields in the UK due to the divergence in the levels of inflationary pressures and the levels of surplus capacity currently in both economies, (the US is much nearer full capacity than the UK). Bond investor sentiment could lean in the direction that even if central banks refrain from raising central rates in the short term, all they are doing is setting up sharper increases further down the line. This is likely to cause increases in longer-term bond yields without any actual increases in central rates. There will then be a question as to how strong an influence rising treasury yields will have on gilt yields. Due to the divergence

between the US and UK economies, it is expected that the Fed rate will need to increase first before Bank Rate and that there could be a significant delay before the Bank of England follows suit.

**EU.** Both the roll out and take up of vaccines was disappointingly slow in the EU in the first few months of 2021 but has since been rapidly catching up. This delay will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. After contracting by another 0.3% in Q1 of 2021, recovery will now be delayed until Q3 of 2021. At its June meeting, the ECB forecast strong economic recovery with growth of 4.6% and 4.7% in 2021 and 2022 respectively.

Inflation is likely to rise sharply to around 2.5% during 2021 for a short period, but as this will be transitory, due to one-off factors, it will cause the ECB little concern. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December 2020 meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The total PEPP scheme of €1,850bn of QE, which started in March 2020, is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore, unlikely to be a euro crisis while the ECB maintains this level of support. The March ECB meeting also took action to suppress the rise in long bond yields by stepping up its monthly PEPP purchases. Meetings in April and June confirmed these policies so monetary policy will remain highly accommodative with no sign yet of tapering of asset purchases.

**China.** After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of 2020; this enabled China to recover all the contraction in Q1 2021. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. After making a rapid recovery in 2020/21, growth is likely to be tepid in 2021/22.

**Japan.** A third round of fiscal stimulus in December 2020 took total fresh fiscal spending in 2020 in response to the virus close to 12% of pre-virus GDP. That is huge by past standards, and one of the largest national fiscal responses. The resurgence of Covid in Q1 2021, coupled with a slow roll out of vaccines, has pushed back economic recovery. However, quickening of vaccinations in the second half of 2021 will lead to a strong economic recovery to get back to pre-virus levels by the end of 2021 – around the same time as the US and sooner than the Eurozone.

**World growth.** World growth was in recession in 2020 but should recover during 2021. Inflation is unlikely to be a significant problem in most countries for some years due to the creation of excess production capacity and depressed demand during the coronavirus crisis.

**Impact on gilt yields and PWLB rates in 2021.** Since the start of 2021 gilt yields and PWLB rates have risen sharply. What has unsettled financial markets has been a \$1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic, in addition to the \$900bn support package passed in December. Financial markets have been concerned that the two packages, on top of the Fed already stimulating the economy by cutting the Fed rate to near zero and unleashing massive QE, could cause an excess of demand in the economy which unleashes strong inflationary pressures; these could then force the FOMC to take much earlier action to start increasing the Fed rate from near zero, despite their stated policy being to target average inflation and saying that increases were unlikely in the next few years.

A further concern in financial markets is when will the Fed end quantitative easing (QE) purchases of treasuries and how they will gradually wind it down. These ongoing monthly purchases are currently acting as downward pressure on treasury yields. Nonetheless, during late February and

in March, yields rose sharply. As the US financial markets are, by far, the biggest financial markets in the world, any trend upwards there will invariably impact and influence financial markets in other countries. It is noticeable that gilt yields moved higher after the MPC meeting in early February as a result of both developments in the US, and financial markets also expecting a similarly rapid recovery of the UK economy as in the US; both countries were expected to make similarly rapid progress with vaccinating their citizens and easing Covid restrictions. They are, therefore, expecting inflation to also increase more quickly in the UK and cause the MPC to respond by raising Bank Rate more quickly than had previously been expected.

**Deglobalisation.** Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. In March 2021, western democracies implemented limited sanctions against a few officials in charge of government policy on the Uighurs in Xinjiang; this led to a much bigger retaliation by China which caused considerable consternation in western countries. After the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products and vice versa. This is likely to reduce world growth rates from rates in prior decades.

**Central banks' monetary policy.** During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is, therefore, very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. The Fed has changed its policy on inflation to targeting an average level of inflation. Greater emphasis will also be placed on hitting subsidiary targets e.g. full employment, before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

## Updated Interest Rate Forecasts 2021/22

Provided as separate document.

## Glossary of Terms

**Authorised Limit** –represents the limit beyond which borrowing is prohibited, and needs to be set and revised by the Council. 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.

**Capital expenditure** – material expenditure on capital assets, such as land and buildings, capitalised in accordance with regulations.

**Capital Financing Requirement (CFR)** – the level of capital expenditure to be financed from borrowing. This requirement will eventually be met by revenue resources through the Minimum Revenue Provision (MRP) mechanism.

**CIPFA** – Chartered Institute of Public Finance and Accountancy

**Counterparty** – the other party involved in a borrowing or investment transaction.

**Credit Rating** – a qualified assessment and formal evaluation of the credit history and capability of repaying obligations of an institution (bank or building society). It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time. Ratings are prepared by Finch, Moody's and Standard & Poor's, and these are monitored by Link Asset Services.

**Gilt** - is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock exchange.

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

**LIBID** – London Interbank Bid Rate - the interest rate at which London banks ask to pay for borrowing Eurocurrencies from other banks. Unlike LIBOR, which is the rate at which banks lend money, LIBID is the rate at which banks ask to borrow. It is not set by anybody or organisation, but is calculated as the average of the interest rates at which London banks bid for borrowed Eurocurrency funds from other banks. It is also the interest rate London banks pay for deposits from other banks.

**LVNAV MMF** (Low Volatility Net Asset Value MMF) - a type of fund categorised as a Short Term MMF. Units in the fund are purchased or redeemed at a constant price, as long as the value of the assets in the fund do not deviate by more than 0.2% from par.

**MHCLG** – Ministry of Housing, Communities and Local Government (formerly DCLG)

**Minimum Revenue Provision (MRP)** - is a provision the council has set-aside from revenue to repay loans arising from capital expenditure financed by borrowing. MRP is required even when borrowing is internal rather than external.

**Monetary Policy Committee (MPC)** – independent body which determines the Bank Rate.

**Money Market Fund (MMF)** - mutual fund that invests only in highly liquid instruments such as cash, cash equivalent securities, and high credit rating debt-based securities with a short-term, maturity—less than 13 months. As a result, these funds offer high liquidity with a very low level of risk.

**Operational Boundary** – This 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 early warning indicator to ensure the Authorised Limit is not breached.

**Prudential Code** – the Local Government Act 2003 requires the Council to ‘have due 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. The Prudential Code is published by CIPFA.

**PWLB** – Public Works Loan Board. An institution managed by the Government to provide loans to public bodies at rates which reflect the rates at which the government is able to sell gilts.

**Revenue expenditure** – day to day items which may not be capitalised without a Government direction, including employees’ pay, transport and premises costs, supplies and services, and benefits.