

Report to	On
Governance Committee	Tuesday, 27 July 2021



TITLE	REPORT OF
Treasury Management Annual Report 2020/21 and June Quarter Monitoring 2021/22	Director of Finance

Is this report confidential?	No
------------------------------	----

PURPOSE OF THE REPORT

1. To present the outturn for Treasury Management activity in financial year 2020/21 and monitoring information in respect of the first quarter of 2021/22.

RECOMMENDATIONS

2. Members are asked to note the report.

EXECUTIVE SUMMARY

3. The report summarises Treasury Management activity and performance against approved indicators over the financial year 2020/21 and in the first three months of 2021/22, across the following headings:

- Capital Expenditure And Financing (paragraphs 9-11)
- Overall Borrowing Need (paragraphs 12-24)
- Treasury Position As At 31 March 2021 (paragraphs 25-29)
- Investment Performance 2020/21 (paragraphs 30-37)
- Monitoring June Quarter 2021/22 (paragraphs 38-40)
- Advice of Link Asset Services (paragraphs 41-43)

4. Key points to note are:

- The Council's actual capital expenditure for the year was fully financed (paragraph 10/Table 2).
- Actual external borrowing to finance capital expenditure remained unchanged at zero over the year, with the only recorded liability at the beginning of the year being that in respect of a finance lease. This lease liability was fully discharged by 31 March 2021. (Paragraph 20/Table 4).
- In late March 2020, exceptional circumstances arising from the onset of the Covid 19 pandemic resulted in the Council entering into temporary borrowing of £10m. This borrowing continued to be held for the first few weeks of 2020/21. While this amount was in excess of the Council's approved authorised limit for borrowing, the relevant legislation makes provision for the authorised limit to be 'treated as increased' in such circumstances and so no breach of the limit occurred (paragraphs 21-22).

- The Bank of England's Base Rate remained unchanged at 0.10% throughout the whole of the year (paragraph 30).
- In 2020/21, the Council had an average investment balance of £53.089m and earned interest on this of £176.6k (0.36%). This exceeded the target rate of 0.10% (paragraphs 33-36).
- At the end of June 2021, the average investment balance over the first quarter of the financial year was £52.803m, on which interest of £14.7k (0.11%) had been earned, reflecting the continuing exceptionally low level of interest rates (paragraph 38).

CORPORATE OUTCOMES

5. The report relates to the following corporate priorities:

An exemplary council	X	Thriving communities	
A fair local economy that works for everyone		Good homes, green spaces, healthy places	

BACKGROUND TO THE REPORT

6. The Treasury Strategy for 2020/21 to 2022/23 was approved by Council on 26 February 2020. The strategy included prudential and treasury indicators, the treasury management strategy, the annual investment strategy, and the annual Minimum Revenue Provision (MRP) Policy.
7. A mid-year review of Treasury Management activity was presented to Governance Committee on 17 November 2020.
8. The prudential and treasury indicators for 2020/21, approved as part of the Treasury Management Policy Statement for 2020/21 remained unchanged throughout the year and all comparisons made in this report are based on those same indicators.

THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING

9. 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 insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
10. The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure for 2020/21.

	2020/21	2020/21	2020/21	2020/21
--	---------	---------	---------	---------

Table 1 - Capital Expenditure 2020/21	Estimate £000	Revised £000	Actual £000	Variance £000
2019/20 Capital Programme	10,094	6,602	4,044	(2,558)
Additional finance lease liability	0	0	120	120
Capital Expenditure Total	10,094	6,602	4,164	(2,438)

Additional analysis of the schemes included in the 2020/21 Capital Programme was presented to Cabinet on 16 June 2021 in the report 'Revenue and Capital Budget Monitoring 20-21 Outturn'.

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

Table 2 - Capital Financing 2020/21	2020/21 Estimate £000	2020/21 Revised £000	2020/21 Actual £000	2020/21 Variance £000
Capital expenditure from Table 1	10,094	6,602	4,164	2,438
Capital Receipts	(75)	0	(27)	27
Grants & Contributions	(4,755)	(3,844)	(1,971)	(1,873)
Revenue and Reserves	(3,901)	(2,758)	(2,046)	(712)
Net financing needed for year	1,363	0	120	(120)

THE COUNCIL'S OVERALL BORROWING NEED

12. 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 the current year, plus unfinanced capital expenditure from prior years which has not yet been paid for by revenue or other resources. The CFR includes any Other Long Term Liabilities, and in particular finance leases. Such leases increase the CFR, but incorporate a borrowing facility, provided by the lessor, so the Council is not required to borrow separately for these schemes. At 2020/21 outturn, the only additional unfinanced capital expenditure in 2020/21 was the £120k incurred by the Council's leisure provider under the terms of the finance lease which terminated on 31 March 2021.

13. Part of the Council's treasury activity is to address the funding requirement for its 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. In 2020/21 it did not prove necessary to borrow for this purpose.

14. 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 the interest payable would have been at a higher rate. Use of the Council's own cash helps to achieve savings in net interest.
15. 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.
16. 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).
17. The 2020/21 MRP Policy (as required by MHCLG Guidance) was approved by Council as part of the Treasury Strategy 2020/21 to 2023/24 on 26 February 2020.
18. 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. As noted above, no borrowing is actually required in respect of the finance lease because this is included in the contract.

Table 3 - Capital Financing Requirement 2020/21	2020/21 Estimate	2020/21 Revised	2020/21 Actual	2020/21 Variance
	£000	£000	£000	£000
Opening CFR	4,202	2,999	2,999	0
Net financing need for the year (Table 2)	1,363	0	120	(120)
Less MRP/VRP	(649)	(619)	(619)	0
Closing CFR	4,916	2,380	2,500	(120)

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

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

Table 4 - Portfolio Position 31 March 2020/21	2020/21 Estimate £000	2020/21 Revised £000	2020/21 Actual £000	2020/21 Variance £000
Debt at 1 April	0	0	0	0
Other long-term liabilities (OLTL)	322	390	390	0
Total gross debt 1 April	322	390	390	0
Change in Debt	743	0	0	0
Change in OLTL	(322)	(390)	(390)	0
Expected change in gross debt	421	(390)	(390)	0
Gross debt 31 March	743	0	0	0
Capital Financing Requirement (Table 3)	4,916	2,380	2,500	(120)
Under borrowing	4,173	2,380	2,500	(120)

- 21. The authorised limit.** This is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The original limit set by Council on 26 February 2020 was £3.750m. 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:
- is due to the authority which has not yet been received by it, and
 - was not a delayed receipt of a payment which was taken into account when the limit was first arrived at.
- 22.** This exception applied to the Council during the first part of April 2020, when the Council held £10m of temporary borrowing, entered into at the end of March 2020, when it was anticipated that significant expenditure, in excess of £10m, would be incurred in paying small business support grants in advance of the receipt the associated government funding. For this reason, the Authorised Limit was treated as increased by £10m and the temporary borrowing of this amount was within this temporarily revised limit. The Council has therefore maintained gross borrowing within its authorised limit. The debt was repaid as scheduled in April 2021.
- 23. The operational boundary.** This is the expected borrowing position of the Council during the year. Periods where the actual position is either below or above the boundary are acceptable subject to the authorised limit not being breached. The operational boundary set for 2020/21 was £0.350m. This limit was exceeded by £9.650m in the first few weeks of the year, for the reason set out in paragraph 22 above. At 31 March 2021, with the previous finance lease liability having come to an end, actual gross debt was zero.
- 24. 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).

Table 5 - Ratio of Financing Costs to Net Revenue Stream 2020/21	2020/21 Estimate	2020/21 revised	2020/21 Actual	2020/21 Variance
	%	%	%	%
Ratio	2.46	3.81	4.26	0.45

The increase compared to the original estimate is attributable to the fall in investment income (which is netted off against MRP/VRP to produced the figure for net financing costs) set out in paragraphs 33-34 below.

TREASURY POSITION AS AT 31 MARCH 2021

25. 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.

Table 6 - Year-End Resources 2019/20	2020/21 Estimated	2020/21 Revised	2020/21 Actual	2020/21 Variance
	£000	£000	£000	£000
Core Funds/Working Balances	(40,369)	(46,974)	(46,346)	628
Under borrowing (Table 4)	4,173	2,380	2,500	120
Investments	(36,196)	(44,594)	(43,846)	748

26. A detailed analysis of Short Term Investments and Cash and Cash Equivalents is presented as Appendix A. Term Deposits by counterparty are shown in Table 7.

Table 7 - Summary of Term Deposits by Counterparty 31 March 2021	Type	Amount 31 March 2021	Limit
		£000	£000
Bank of Scotland	Term	6,000	6,000
Goldman Sachs International Bank	Term	4,000	6,000
Santander UK	Term	6,000	6,000
UK Banks		16,000	
Cheltenham Borough Council	Term	3,000	6,000
Highland Council	Term	5,000	6,000
Plymouth BC	Term	5,000	6,000
UK Local Authorities		13,000	
Fixed Term Deposits sub total		29,000	

27. All counterparty limits were adhered to throughout 2020/21.

28. Appendix B presents the approved limits for 2020/21.

29. Council approved that a maximum of £6m should be invested with any single UK local authorities for more than 365 days and up to two years. No sums were invested for more than 365 days.

Table 8 - Maximum Principal Sums Invested > 365 Days 2020/21	2020/21 Estimate	2020/21 Revised	2020/21 Actual
	£000	£000	£000
UK Government	0	0	0
UK Local Authorities	6,000	6,000	0
UK Banks & Building Societies	0	0	0
Non-UK Banks	0	0	0
Total	6,000	6,000	0

INVESTMENT PERFORMANCE 2020/21

30. 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.

31. 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.

32. **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. From time to time, suggested durations reduce after a term deposit has been placed, for instance from twelve to six months, but this did not occur during 2020/21.

33. Investment performance for 2020/21 is presented in Table 9.

Table 9 - Investment Performance 2020/21	Average Daily Investment £000	Interest £	Average Rate %
Fixed Term Deposits	20,748	116,034	0.51
Notice Accounts	12,000	50,150	0.42
Call Accounts	3,624	2,551	0.07
Money Market Funds	11,878	7,626	0.06
Debt Management Office DMADF	1,839	275	0.01
Total	50,089	176,636	0.36

34. The average return of 0.36% in 2020/21 compares to the 0.89% achieved in 2019/20, and reflects both the generally exceptionally low level of returns and the specific difficulties experienced in placing fixed term deposits with other local authorities. This in turn reflects the unusual patterns of local authority cash flows in 2020/21, resulting from Government measures to address the impacts of the pandemic. In general terms, this has meant that most authorities have had higher cash balances than would usually have been the case, so fewer have had short-term borrowing needs.

35. The Council has itself felt the effect of this, with the average daily balance of £50.089m shown above being 16% higher than the 2019/20 figure of £43.018m. This has slightly mitigated the loss in interest earned, with the total of £177k being down by 54% compared to the £385k earned in 2019/20, whereas the average interest rate (see above) was down by 60%.

36. The Council would usually only rarely place money with 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 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 £1.839m. 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.

37. 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%. This was exceeded.

MONITORING QUARTER 1 2021/22 – 3 months to 30th June 2021

38. **Borrowing.** No borrowing was entered into in the first quarter of 2021/22.

39. **Investments as at 30 June 2021** are presented in Appendix D. Cash balances available to invest fluctuate throughout the year, depending on the timing of receipts and payments. The balance of £58.533m was just over £7m (13.6%) higher than the £51.525m at 30 June 2020. This is again principally because of the impact of measures introduced in response to the pandemic, which have resulted in some major cash flows being displaced forwards. This will largely reverse during 2021/22. The average daily balance was £52.803m, earning interest of £14.7k (0.11%). More extensive use than usual has again been made of the DMO, with a balance of £15m at 30 June 2021 (see paragraph 36 for more details of the reasons for this).

40. **Prudential and Treasury Indicators and Investment Counterparty Limits** remain unchanged from those approved by Council on 24 February 2021 and there are no current proposals for any changes. Appendix E presents the counterparty limits for 2021/22.

ADVICE OF LINK ASSET SERVICES

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

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

43. Appendix G is a detailed commentary on interest rate forecasts.

CONSULTATION CARRIED OUT AND OUTCOME OF CONSULTATION

44. No consultation was undertaken in preparing this report.

AIR QUALITY IMPLICATIONS

45. The report has now air quality implications.

COMMENTS OF THE STATUTORY FINANCE OFFICER

46. There are no financial implications arising directly as a result of this report. All financial implications in respect of treasury management activity arise as a result of the annual Treasury Strategies for 2020/21 and 2021/22 approved previously by Council. This report presents details of actual performance achieved as a result of implementing the approved strategies. Variances from the revised budgets for interest receivable and payable for

2020/21 were reflected in the report 'Revenue and Capital Budget Monitoring 20-21 Outturn', presented to Cabinet on 16 June 2021.

COMMENTS OF THE MONITORING OFFICER

47. Presentation of this report is required to comply with the CIPFA Code of Practice on Treasury Management in the Public Services (2017 edition).

OTHER IMPLICATIONS:

<p>► Risk</p> <p>► Equality & Diversity</p>	<p>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.</p> <p>The report has no equality and diversity implications.</p>
---	--

BACKGROUND DOCUMENTS (or There are no background papers to this report)

- CIPFA Treasury Management in the Public Services: Code of Practice & Cross-Sectoral Guidance Notes (December 2017 edition)
- CIPFA Treasury Management in the Public Services: Guidance Notes for Local Authorities (July 2018 edition)
- CIPFA Prudential Code for Capital Finance in Local Authorities (December 2017 edition)
- CIPFA Standards of Professional Practice: Treasury Management
- MHCLG Guidance on Local Government Investments
- MHCLG Guidance on Minimum Revenue Provision
- Treasury Management Policy Statement 2020/21 to 2023/24 (Council 26 February 2020)
- Treasury Management Policy Statement 2021/22 to 2024/25 (Council 24 February 2021)

APPENDICES

Appendix A: Investments as at 31 March 2021
Appendix B: Investment Counterparties 2020/21
Appendix C: Link Asset Services' review of the Economy and Interest Rates 2020/21
Appendix D: Investments as at 30 June 2021
Appendix E: Investment Counterparties 2021/22
Appendix F: Link Asset Services' Economic Commentary 2021/22
Appendix G: Link Asset Services' commentary on Interest Rates 2021/22
Appendix H: Glossary of Terms

Louise Mattinson
Director of Finance

Report Author:	Telephone:	Date:
Tony Furber, Principal Financial Accountant	01772 625625	15 July 2021

List of Investments as at 31 March 2021

Counterparty	Type	Sum Invested £000	Accrued Interest £000	Total 31 March 2020 £000	Rate %	Link	SRBC	Date Invested	Maturity Date
						Suggested Duration	Approved Duration		
Cheltenham BC	Term	3,000	1	3,001	0.10%	60 mths	24 mths	15-Oct-20	15-Apr-21
Goldman Sachs International Bank	Term	4,000	1	4,001	0.13%	6 mths	6 mths	29-Jan-21	30-Jul-21
Highland Council	Term	5,000	4	5,004	0.21%	60 mths	24 mths	09-Nov-21	08-Sep-21
Plymouth BC	Term	5,000	6	5,006	0.25%	60 mths	24 mths	25-Sep-20	09-Sep-21
Fixed Term Deposit sub total		17,000	12	17,012	Listed in Order of Maturity				
Bank of Scotland	Term	6,000	5	6,005	0.06%	12 mths	12 mths	30-Nov-17	n/a
Santander UK PLC	Term	6,000	0	6,000	0.40%	6 mths	6 mths	15-Mar-16	n/a
Notice Accounts sub total		12,000	5	12,005					
Short-Term Investments		29,000	17	29,017					
Barclays BPA Deposit Account	Call	846	0	846	0.01%	6 mths	6 mths	On Call	n/a
Other Cash Balances		298	1	299					
Call Accounts sub total		1,144	1	1,145					
Aberdeen Standard	MMF	5,000	3	5,003	0.11%	(1)	AAA-rated	On Call	n/a
Blackrock	MMF	4,000	0	4,000	0.04%	(1)	AAA-rated	On Call	n/a
Federated Sterling Liquidity Fund	MMF	5,000	0	5,000	0.04%	(1)	AAA-rated	On Call	n/a
Money Market Funds sub total		14,000	3	14,003					
Other Cash & Cash Equivalents Balances		0	0	0					
Cash and Cash Equivalents		15,144	4	15,148					
Total Investments/Cash & Equivalents		44,144	21	44,165					

Notes

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

Investment Counterparties 2020/21

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed	DMADF (DMO) UK Local Authority	Yellow Yellow	6 months 2 years	Unlimited £6m per LA
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£6m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange	1 year	£6m per group (or independent institution)
		Red	6 months	
		Green	3 months	
Non-UK Banks	Non-UK banks of high credit quality	Orange	1 year	£4m per group (or independent institution); £8m in total for this category
		Red	6 months	
		Green	3 months	
Money Market Funds				
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)

Yellow	5 years
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	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.

List of Investments as at 30 June 2021

Counterparty	Type	Total 30	Rate	Link	SRBC	Date Invested	Maturity Date
		June 2020 £000		Suggested Duration	Approved Duration		
Goldman Sachs International Bank	Term	4,000	0.130%	6 mths	6 mths	29-Jan-21	30-Jul-21
Highland Council	Term	5,000	0.210%	60 mths	24 mths	09-Nov-21	08-Sep-21
Plymouth BC	Term	5,000	0.250%	60 mths	24 mths	25-Sep-20	09-Sep-21
Fixed Term Deposit sub total		14,000	Listed in Order of Maturity				
Debt Management Office		15,000	0.01%	60 mths	6 mths	30-Jun-21	01-Jul-21
Debt Management Office sub total		15,000					
Santander UK PLC	180 Day Notice	6,000	0.400%	6 mths	6 mths	15-Mar-16	n/a
Bank of Scotland	175 Day Notice	6,000	0.060%	12 mths	12 mths	30-Nov-17	n/a
Notice Accounts sub total		12,000					
Short-Term Investments		41,000					
Barclays Fibca Deposit Account	Call	2,533	0.01%	6 mths	6 mths	On Call	n/a
Call Accounts sub total		2,533					
Federated	MMF	5,000	0.01% (1)		AAA-rated	On Call	n/a
		5,000	0.01% (1)		AAA-rated	On Call	n/a
Aberdeen Standard	MMF	5,000	0.01% (1)		AAA-rated	On Call	n/a
Money Market Funds sub total		15,000					
Cash and Cash Equivalents		17,533					
Total Investments/Cash & Equivalents		58,533					

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
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed	DMADF (DMO) UK Local Authority	Yellow Yellow	6 months 2 years	Unlimited £6m per LA
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£6m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange	1 year	£6m per group (or independent institution)
		Red	6 months	
		Green	3 months	
Non-UK Banks	Non-UK banks of high credit quality	Orange	1 year	£4m per group (or independent institution); £8m in total for this category
		Red	6 months	
		Green	3 months	
Money Market Funds				
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)

Yellow	5 years
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	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.