

# **Audit and Governance Committee**

## **Monday, 27 September 2021**

### **Treasury Management Annual Report**

#### **For Decision**

**Portfolio Holder:** Cllr G Suttle, Finance, Commercial & Capital Strategy

**Local Councillor(s):** All

**Executive Director:** A Dunn, Executive Director, Corporate Development

**Report Author:** David Wilkes  
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**Report Status:** Public

#### **Recommendation:**

That the Committee note and comment upon the report.

#### **Reason for Recommendation:**

To better inform members of treasury management activity, in accordance with the corporate requirement to ensure money and resources are used wisely.

#### **1. Executive Summary**

This report summarises the treasury management performance and position information for Dorset Council for the year ended 31 March 2021.

Treasury management at the Council is conducted within the framework of CIPFA's Treasury Management Code of Practice. In adopting the code, recommended best practice is for members to approve an annual treasury management strategy report, and to then receive a mid-year update on progress against the strategy and a year-end review of actual performance against the strategy (this report).

Covid-19 had a huge impact in many ways on treasury management activity in 2020-21. The Treasury and Investments team (in common with many other Council services) had to adapt processes quickly for home-working, and to manage the dramatic changes in cashflows in and out of the Council, whilst continuing to be aware of the impact of volatility in financial markets on borrowing and investment decisions.

The Council's Capital Financing Requirement (CFR) (or borrowing need) at 31 March 2021 was £335m, compared to £320m at the start of the year and an estimated closing position of £361m when the treasury management strategy was approved in February 2020. The borrowing need has not increased as much as was expected due to slippage in the capital programme.

Total actual external borrowing and other capital financing liabilities of the Council at 31 March 2021 was £245m and the total interest paid servicing external debt for the year was £7.7m.

The difference between the CFR and actual borrowing was approximately £90m, financed temporarily by 'internal borrowing' – using reserves and working capital that could otherwise have been invested to offset the need to borrow externally.

As at 31 March 2021 the Council held cash and cash equivalents of £84m and treasury investments valued at £85m – in total £169m. The total interest and investment income for the Council for the year was approximately £3.5m.

## **2. Financial Implications**

This report summarises the performance of the Council's treasury management activity in 2020/21. There are no other financial implications arising from this report.

## **3. Well being and health implications**

There are no well being and health implications arising from this report.

## **4. Climate implications**

Dorset Council owns units in a number of investment funds which will have holdings in companies in all sectors of the economy, including the extraction, refinement and supply of fossil fuels.

## **5. Other Implications**

There are no other implications arising from this report.

## **6. Risk Assessment**

Having considered the risks associated with this decision, the level of risk has been identified as:

Current Risk: HIGH

Residual Risk: Medium

Treasury management is an inherently risky area of activity and a number of controls are embedded in its operation. The key treasury management risks are highlighted as part of the treasury management strategy approved by Council as part of the budget setting process. This report highlights any variances from this strategy and draws out any specific risks which have arisen

## **7. Equalities Impact Assessment**

There are no equalities implications arising from this report.

## **8. Appendices**

Appendix 1: Economic Background Commentary (Arlingclose)

Appendix 2: Outstanding Borrowing 31 March 2021

## **9. Background Papers**

### **10. Introduction**

- 10.1 The Council's treasury management strategy for 2020/21 was approved by a meeting of Dorset Council on 18 February 2020.
- 10.2 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.
- 10.3 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a

minimum, a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

- 10.4 The Council employs professionally qualified and experienced staff with responsibility for making borrowing and investment decisions. Officers are supported by external advisers who are specialists in their fields. The Council currently employs Arlingclose Limited as treasury management advisers.
- 10.5 This approach ensures that the Council has access to a wide pool of relevant market intelligence, knowledge and skills, that would be very difficult and costly to replicate internally. However, whilst advisers provide support to the internal treasury function, final decisions on treasury matters always remain with the Council.

## **11. External Context**

- 11.1 Treasury management decisions made by the Council must take into consideration external factors, particularly the wider economic backdrop and the outlook for financial markets and interest rates.
- 11.2 The coronavirus pandemic dominated the external (and local) context for the financial year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to reduce dramatically. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures of a size unprecedented in peacetime.
- 11.3 This monetary and fiscal stimulus helped provide support for financial markets which rose over the period, reversing the sharp falls seen in March and April 2020. Markets also received a boost when a trade deal between the UK and the European Union was agreed just days before the year-end deadline.
- 11.4 Very low interest rates prevailed throughout most of the year, with bond yields generally falling between April and December 2020, keeping the cost of borrowing very low. From early in 2021 the improved economic outlook and higher inflation expectations pushed bond yields (i.e. the cost of borrowing) higher more quickly than had been anticipated - but still low by historic standards.

11.5 A detailed commentary on the external context provided by Arlingclose is included in Appendix 1.

## 12. Local Context

12.1 The Council's balance sheet summary and forecast are shown in table 1 below.

**Table 1: Balance Sheet Summary**

	<b>31-Mar 2020 Actual £m</b>	<b>31-Mar 2021 Budget £m</b>	<b>31-Mar 2021 Actual £m</b>	<b>31-Mar 2022 Budget £m</b>	<b>31-Mar 2023 Budget £m</b>
<b>Capital Financing Requirement</b>	<b>320</b>	<b>361</b>	<b>335</b>	<b>369</b>	<b>368</b>
External Debt (incl. PFI & leases):					
External borrowing	216	240	221	240	240
Long Term PFI Liabilities	24	25	22	25	25
Obligations under Finance Leases	3	5	3	5	5
<b>Total External Debt</b>	<b>243</b>	<b>270</b>	<b>246</b>	<b>270</b>	<b>270</b>
Internal Borrowing	77	91	89	99	98
<b>Cash and Investments</b>	<b>108</b>	<b>100</b>	<b>169</b>	<b>100</b>	<b>100</b>

12.2 The treasury management position at 31 March 2021 and the change during the year is shown in Table 2 below.

**Table 2: Treasury Management Summary**

	<b>31.03.20 Balance £m</b>	<b>Net Movement £m</b>	<b>31.03.21 Balance £m</b>
Long-term borrowing	180.0	-1.0	179.0
Short-term borrowing	36.0	5.0	41.0
<b>Total Borrowing</b>	<b>216.0</b>	<b>4.0</b>	<b>220.0</b>
Investments	76.1	9.2	85.3
Cash and cash equivalents	31.5	52.1	83.6
<b>Total Cash and Investments</b>	<b>107.6</b>	<b>61.3</b>	<b>168.9</b>
<b>Net Borrowing</b>	<b>108.4</b>	<b>-57.3</b>	<b>51.1</b>

12.3 During the year the Council received from government more than £300m in Covid-19 grant funding which was distributed to local businesses and

individuals through more than fifty different schemes, including various business grants schemes and business rates reliefs.

### 13. Borrowing

13.1 At 31 March 2021 the Council held £220m of loans, (a net increase of £4m from 31 March 2020), as part of its strategy for funding previous and current years' capital programmes. Outstanding loans as at 31 March 2021 are summarised in Table 3 below.

**Table 3: Borrowing Position**

	<b>31.03.20 Balance £m</b>	<b>Net Movement £m</b>	<b>31.03.21 Balance £m</b>	<b>31.03.21 Average Rate %</b>
Public Works Loan Board	84.9	-1.1	83.9	3.9
Banks (fixed-term)	25.6	0.0	25.6	4.7
Banks (LOBO)	11.0	0.0	11.0	4.6
Local authorities (long-term)	15.0	0.0	15.0	4.4
Local authorities (short-term)	15.0	-5.0	10.0	0.5
Other lenders (fixed-term)	45.0	10.0	55.0	3.2
Other lenders (LOBO)	19.5	0.0	19.5	2.6
<b>Total Borrowing</b>	<b>216.0</b>	<b>4.0</b>	<b>220.0</b>	<b>3.6</b>

13.2 The chief objective of Dorset Council and its predecessors when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should long-term plans change being a secondary objective.

13.3 With short-term interest rates remaining much lower than long-term rates, the Council considers it to be more cost effective in the near term to use internal resources or borrow rolling short-term loans instead. This strategy has enabled the Council to reduce net borrowing costs (despite foregone investment income) and to reduce overall treasury risk. The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing has been maintained.

13.4 The Council holds £30.5m of Lender's Option Borrower's Option (LOBO) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to

either accept the new rate or to repay the loan at no additional cost. No banks exercised their options during the year.

- 13.6 In addition, capital finance may be raised by the following methods that are not borrowing but are classed as other debt liabilities: leasing, hire purchase, Private Finance Initiative (PFI) and sale and leaseback.

#### 14. Investments

- 14.1 The Council holds significant levels of invested funds, representing income received in advance of expenditure plus balances and reserves held and money borrowed in advance of need.
- 14.2 During 2020-21 the Council received central government funding of over £300m largely to support small and medium businesses during the coronavirus pandemic through grant schemes. Monies received were temporarily invested in short-dated, liquid instruments such as call accounts and Money Market Funds prior to distribution.
- 14.3 Cash, cash equivalents and treasury investments held on 31 March 2021 are summarised in Table 4 below.

**Table 4: Cash and Treasury Investments Position**

	<b>Balance £m</b>	<b>Movement £m</b>	<b>Balance £m</b>
<b>Cash and Cash Equivalents:</b>			
Banks & Building Societies (unsecured)	13.1	0.9	14.0
Money Market Funds	47.4	39.5	86.9
Less Dorset LEP Balances*	-29.0	11.7	-17.3
<b>Total Cash and Cash Equivalents</b>	<b>31.5</b>	<b>52.1</b>	<b>83.6</b>
<b>Investments:</b>			
Short-dated bond funds	2.8	0.2	3.0
Strategic bond funds	9.9	1.3	11.2
Equity income funds	36.8	7.6	44.4
Property funds	20.4	0.0	20.4
Multi asset income funds	5.7	0.6	6.3
<b>Total Investments</b>	<b>75.6</b>	<b>9.7</b>	<b>85.3</b>
<b>Total Cash and Investments</b>	<b>107.1</b>	<b>61.8</b>	<b>168.9</b>

*\*The Dorset Local Enterprise Partnership's bank balances are held in the same NatWest Bank interest group as Dorset Council's bank balances. Interest is only charged if the interest group as a whole is overdrawn.*

- 14.4 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 14.5 The net return on Money Market Funds net of fees, which had fallen after Bank Rate was cut to 0.1% in March 2020, are now at or very close to zero; fund management companies have temporarily lowered or waived fees to avoid negative net returns. Deposit rates with the Debt Management Account Deposit Facility (DMADF) have continued to fall and are now largely around zero.
- 14.6 The Council has investments in bond, equity, multi-asset and property funds valued at £85.3m in total as at 31 March 2021, compared to £76.1m as at 31 March 2020. During the initial phase of the pandemic in March 2020, the sharp falls corporate bond and equity markets had a negative impact on the value of the Council's pooled fund holdings reflected in the 31 March 2020 fund valuations with all funds registering negative capital returns over a 12-month period. Since March 2020 there has been improvement in market sentiment which is reflected in an increase in capital values of these short-dated, strategic bond, equity and multi-asset income funds in the Authority's portfolio. The recovery in UK equities has lagged those of US and European markets.
- 14.7 Such investments are held for the longer term with the acceptance that capital values will fluctuate over the short term but with the expectation that over a three to five-year period total returns will exceed cash interest rates.

## **15. Treasury Performance**

- 15.1 The Council measures the financial performance of its treasury management as shown in table 5 below.



**Table 5: Treasury Performance**

	<b>Budget £m</b>	<b>Actual £m</b>	<b>Variance £m</b>	
Interest Payable	9.5	7.7	1.8	F
Interest and Investment Income	-4.0	-3.5	-0.5	A
<b>Net Payable / (Receivable)</b>	<b>5.5</b>	<b>4.2</b>	<b>1.3</b>	<b>F</b>
Unrealised (Gains) / Losses in Fair Value	0.0	-9.2	9.2	A
<b>Net (Surplus) / Deficit</b>	<b>5.5</b>	<b>-5.0</b>	<b>10.5</b>	<b>A</b>

15.2 The unrealised gains of £9.2m in the fair value of investments relate to the Council's investments in strategic pooled investment vehicles. (In 2019-20 there were unrealised losses of £8.8m.) Unrealised gains or losses in the fair value of these investments are accounted for through reserves and do not have an impact on the general fund.

## **16. Compliance**

16.1 All treasury management activities undertaken during the year complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

16.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6 below.

**Table 6: Debt Limits**

	<b>Maximum 2020-21 £m</b>	<b>31.03.21 Actual £m</b>	<b>Operational Boundary £m</b>	<b>Authorised Limit £m</b>	<b>Complied Yes/No</b>
Borrowing	220.0	220.0	380.0	400.0	Yes
PFI & Finance Leases	27.0	25.0	35.0	40.0	Yes
<b>Total Capital Financing</b>	<b>247.0</b>	<b>245.0</b>	<b>415.0</b>	<b>440.0</b>	

## **17. Treasury Management Indicators**

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

17.2 Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. Arlingclose calculate the credit score by applying a score to each investment (AAA = 1, AA+ = 2 etc.) and taking the average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

**Table 7: Security**

	<b>31.03.21 Actual</b>	<b>2020/21 Target</b>	<b>Complied Yes/No</b>
Portfolio average credit rating or score	4.0	6.0	Yes

17.3 Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period without additional borrowing. In addition, the Council aims to hold a minimum of £10m readily available in same day access bank accounts and Money Market Funds.

**Table 8: Liquidity**

	<b>31.03.21 Actual</b>	<b>2020/21 Target</b>	<b>Complied Yes/No</b>
Total cash available within 3 months	85%	30%	Yes

17.4 Interest Rate Exposure: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests were:

**Table 9 Interest Rate Exposure**

	<b>31.03.21 Actual £000s</b>	<b>2020/21 Target £000s</b>	<b>Complied Yes/No</b>
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	-165	500	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	165	500	Yes

17.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced. It assumes that there will be a 1% change in the interest payable rate on short term

borrowing as at 31 March 2021, and a 1% change in interest receivable rate on average cash balances for the year.

- 17.6 Sums invested for periods longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

**Table 10: Investments beyond year end**

	<b>2020/21 £m</b>
Actual principal invested beyond year end	0.0
Limit on principal invested beyond year end	20.0
Complied (Yes/No)	Yes

- 17.7 Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing were:

**Table 11: Maturity Structure of Borrowing**

	<b>31.03.21 Actual £m</b>	<b>% of Total Borrowing</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Complied Yes/No</b>
Under 12 months	41.0	18.6%	25%	0%	Yes
12 Months to 2 Years	1.1	0.5%	25%	0%	Yes
2 Years to 5 Years	10.0	4.5%	25%	0%	Yes
5 Years to 10 Years	10.0	4.5%	35%	0%	Yes
10 Years to 15 Years	20.0	9.1%	35%	0%	Yes
15 Years to 20 Years	0.0	0.0%	35%	0%	Yes
20 Years to 25 Years	0.0	0.0%	45%	0%	Yes
25 Years to 30 Years	8.9	4.0%	45%	0%	Yes
30 Years to 35 Years	33.0	15.0%	45%	0%	Yes
35 Years to 40 Years	15.0	6.8%	45%	0%	Yes
40 Years to 45 Years	25.0	11.4%	45%	0%	Yes
45 Years and above	56.0	25.5%	75%	0%	Yes
<b>Total</b>	<b>220.0</b>	<b>100.0%</b>			

**Footnote:**

Issues relating to financial, legal, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.

## **Appendix 1: External Context (Arlingclose April 2021)**

### **Economic background:**

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

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

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

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

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

Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9%

in real terms (3.4% for regular pay). Unemployment is still expected to increase once the various government job support schemes come to an end.

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

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

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

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

### **Financial markets:**

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

Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages

(particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

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

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

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

German bund yields continue to remain negative across most maturities.

### **Credit review:**

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

Credit rating actions to the period ending September 2020 have been covered in previous outturn reports. Subsequent credit developments include Moody's downgrading the UK sovereign rating to Aa3 with a stable outlook which then impacted a number of other UK institutions, banks and local government. In the last quarter of the financial year S&P upgraded Clydesdale Bank to A- and revised Barclay's outlook to stable (from negative) while Moody's downgraded HSBC's Baseline Credit Assessment to baa3 whilst affirming the long-term rating at A1.

The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the

economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

## **Borrowing Update**

In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. From 26<sup>th</sup> November the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8% providing that the borrowing authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. As part of the borrowing process authorities will now be required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 Officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.

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

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

Municipal Bonds Agency (MBA): The MBA revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency has issued 5-year floating rate and 40-year fixed rate bonds in 2020, in both instances Lancashire County Council is the sole borrower and guarantor. A planned third bond issuance by Warrington Borough Council was withdrawn in early December after the reduction in PWLB borrowing rates.

If the Authority intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.



UK Infrastructure Bank: In his March 2021 budget the Chancellor confirmed that a UK Infrastructure Bank will be set up with £4bn in lending earmarked for local authorities from the summer of 2021. Loans will be available at gilt yield plus 0.60%, 0.20% lower than the PWLB certainty rate. A bidding process to access these loans is likely with a preference to projects likely to help the government meet its Net Zero emissions target. However other “high value and complex economic infrastructure projects” may also be considered.

## Appendix 2: Borrowing as at 31 March 2021

Ref	Lender	Loan Type	Draw down Date	Next Option	Date Matures	Years Remaining	Amount O/S £000s	Rate %
Loan 2	PWLB	Annuity	25/07/2003	n/a	25/03/2023	2.0	2,080	4.70
Loan 3	PWLB	Annuity	21/12/2004	n/a	25/03/2023	2.0	37	4.65
Loan 10	PWLB	Maturity	01/03/2006	n/a	25/03/2051	30.0	8,816	3.95
Loan 11	PWLB	Maturity	09/10/2006	n/a	25/03/2052	31.0	15,000	4.10
Loan 12	PWLB	Maturity	02/08/2007	n/a	25/09/2052	31.5	8,000	4.55
Loan 14	PWLB	Maturity	23/08/2007	n/a	25/09/2053	32.5	10,000	4.45
Loan 28	PWLB	Maturity	07/09/2010	n/a	25/02/2025	3.5	10,000	3.74
Loan 29	PWLB	Maturity	07/09/2010	n/a	25/03/2030	9.0	10,000	3.98
Loan 30	PWLB	Maturity	03/11/2011	n/a	25/09/2021	0.5	20,000	3.30
Loan 13	Barclays Bank	Maturity	30/07/2007	n/a	30/07/2077	56.3	15,600	4.625
Loan 61	Barclays Bank	Maturity	14/11/2006	n/a	16/11/2076	55.6	10,000	4.79
Loan 62	KBC Bank N.V.	LOBO	14/11/2006	14/11/2021	16/11/2076	55.6	11,000	4.59
Loan 24	Lancashire CC	Maturity	25/09/2011	n/a	25/11/2059	38.7	15,000	4.39
Loan 65	Wandsworth Borough Council	Maturity	03/09/2020	n/a	03/06/2021	0.2	10,000	0.50
Loan 47	BAE Systems	LALN	07/11/2019	07/11/2042	07/11/2067	46.6	20,000	3.90
Loan 48	BAE Systems	LALN	11/12/2017	11/12/2035	11/12/2065	44.7	25,000	3.90
Loan 66	Dorset LEP	Maturity	26/03/2021	n/a	01/04/2021	0.0	10,000	0.00
Loan 31	Siemens	LOBO	25/09/2012	25/09/2022	25/09/2032	11.5	10,000	2.60
Loan 32	Siemens	LOBO	16/11/2011	21/12/2022	21/12/2032	11.7	9,500	2.53
<b>Total / Weighted Average</b>						<b>28.9</b>	<b>220,033</b>	<b>3.62</b>

PWLB - Public Works Loan Board  
LALN - Local Authority Loan Note  
LOBO - Lender Option Borrower Option