Name of meeting: Corporate Governance and Audit Committee

Date: 23 July 2021

Title of report: Annual Report on Treasury Management 2020-21

Purpose of report
Financial Procedure Rules (Section 9.5) require that the Council receives an annual report on Treasury Management activities for the previous financial year. The report to this committee reviews borrowing and investment performance before it gets considered by Cabinet and Council.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	**Not applicable**
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports)?	**Yes**
The Decision - Is it eligible for "call in" by Scrutiny?	**Yes**
Date signed off by Service Director & name **Is it also signed off by the Service Director for Finance, IT and Transactional Services?** **Is it also signed off by the Service Director for Governance and Commissioning Support?**	**Eamonn Croston 13 July 2021** **As above** **Julie Muscroft 13 July 2021**
Cabinet member portfolio	**Cllr Paul Davies**

Electoral wards affected: Not applicable

Ward councillors consulted: Not applicable

Public or private: **Public**

GDPR: This report contains no information that falls within the scope of General Data Protection Regulations

1. Summary

1.1 The Council's treasury management operation for the year has followed the strategy approved by Council on 12 February 2020. Investments averaged £63.6 million and were largely deposited in instant access accounts earning an average interest rate of 0.13%.

1.2 Total external borrowing at 31st March 2021 decreased by £1.1 million to £425.8 million (£426.9 million as at 31st March 2020). The main highlight is that the Council has taken out a new £10 million Government long loan from the Public Works Loan Board (PWLB) in March 2021 (see paragraph 2.6.2 for more detail). Temporary borrowing increased for the year by £0.6 million to £41.5 million (£40.9 million 31st March 2020). The majority of borrowing is on fixed rate terms and the average long-term borrowing rate for 2020-21 was 4.46%. Short-term borrowing rates averaged 0.20%.

1.3 In 2017-18 the Council approved a revision to its Minimum Revenue Provision (MRP) policy, which relates to the amount of revenue resources set aside each year to provide for its outstanding debt repayments over the longer term. This was done by updating its approach to Supported Borrowing from 2007-08 onwards, moving from a 4% reducing balance to an annuity basis in its repayment of debt.

1.4 In updating the approach the Council effectively over-provided in previous years the re-payment of debt to the sum of £91.1 million. Within the Treasury Management Strategy 2018-19 the Council set out its approach to unwind this over-provision at £9.1 million each year over the next 10 years, starting from 2017-18 onwards.

1.5 Following approval within the 2018-19 Treasury Management Strategy there was a further increase in the un-winding in the General Fund MRP for 2020-21. The maximum amount of un-wind in any one year cannot be more than the overall annual MRP calculation, as otherwise the Council would end up in a negative MRP position, which is not allowable under accounting rules. The calculation estimated for the Treasury Management Strategy was £13.5 million. The actual MRP calculation for 2020-21 was £14.3 and hence the maximum unwind allowable. However in 2020-21 the unwind increased by only a further £0.2 million to £13.7 million.

1.6 Treasury management costs incurred in the year include £9.0 million on net interest payments. The Council complied with its treasury management prudential indicators in the year.

2. Information required to take a decision

2.1 Background

2.1.1 The Council has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and operates its treasury management service in compliance with this Code and various statutory requirements. These require that the prime objective of the activity is to secure the effective management of risk, and that borrowing is undertaken on a prudent, affordable and sustainable basis.

2.1.2 Council Financial Procedure Rules require that the Council receives an annual report on Treasury Management activities for the year. Cabinet is responsible for the implementation and monitoring of the treasury management policies. Corporate Governance and Audit Committee undertake a scrutiny role with regard to treasury management.

2.1.3 In reviewing 2020-21 performance, reference will be made to the Treasury Management Strategy Report approved by Budget Council on 12 February 2020.

2.2 Borrowing and Investment Strategy 2020-21

2.2.1 The Council's overall Treasury Management Strategy prioritises security, liquidity and risk management which was adhered to in 2020-21. The Council aims to invest externally, balances of £30 million, largely for the purpose of managing day-to-day cash flow requirements, with any remaining balances invested "internally", offsetting borrowing requirements. The investment strategy is designed to minimise risk, investments being made primarily in instant access accounts or short-term deposits, with the major British owned banks and building societies, Money Market Funds, Local Authorities and Central Government.

2.2.2 Covid-19 had a significant impact on treasury management during the year. Due to the cyclical nature of local government cashflows and the uncertainty around the implications for future cashflows, various Central Government mitigations were implemented to ease sectoral concerns about short-term access to funds and market liquidity. For the Council, this position was eased with the receipt in advance of several tranches of Central Government funding for 2020-21.

2.2.3 Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

2.3 The Economy and Interest Rates

Below paragraphs 2.3.1-2.3.7 are a commentary from our external treasury management advisors, Arlingclose.

2.3.1 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. 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 31st March 2021.

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

2.3.3 The Bank of England (BoE) held the 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. 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.

2.3.4 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 on year in February, below expectations (0.8%) and still well below the Bank of England's 2% target.

2.3.5 After contracting sharply in Quarter 2 (Apr-Jun) 2020 by 19.8% quarter on quarter, growth in Quarter 3 and Quarter 4 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 Quarter 1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.

2.3.6 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.

2.3.7 Credit rating 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. 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.

2.4 Investment Activity

2.4.1 The Council's treasury management investments totalled £37.1 million as at 31 March 2021 (£52.0 million 31 March 2020). The Council invested an average balance of £63.6 million externally during the year (£32.7 million 2019-20). Interest income of £0.071 million was generated through these investments (£0.204 million 2019-20) and £0.366 million dividend income from the CCLA Property Fund (£0.183 million 2019-20). Appendix 1 shows where investments were held at the beginning of April 2020, the end of September 2020 and the end of March 2021, by counterparty, by sector and by country. The Council's average lending rate for the year was 0.13% (0.73% 2019-20).

2.4.2 The high cash levels during the year were a result of the Council receiving central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. A total of £113 million was received in April 2020 and further significant amounts throughout the year. The Council also received financial support to fund the additional spend and lost income in response to the national emergency.

2.4.2 The majority of investments were placed in liquid instruments such as instant access bank deposit accounts, DMO (Debt Management Office) and Money Market Funds (MMFs). MMFs offer greater diversification of counterparties, thus lowering risk as well as instant access. Continued downward pressure on short-dated cash rates brought net returns on MMFs 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 also largely around zero.

2.4.3 The Council still has £10 million invested in the CCLA Property Fund as part of the 2019-20 Treasury Management Strategy (see paragraph 2.11.5).

2.5 Borrowing Update

2.5.1 In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. From 26th 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.

2.5.2 The acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, re-financing 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. The Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of the reduction in the PWLB borrowing rate.

2.5.3 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.

2.5.4 PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and consider these lower cost solutions and opportunities with its advisor Arlingclose.

2.5.5 In the 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.

2.6 Borrowing Requirement and Debt Management

2.6.1 In terms of borrowing, long-term loans maturing greater than one year totalled £375.8 million and short-term loans maturing within 12 months (excluding interest accrued) totalled £50.0 million (£373.7 million and £53.2 million 31 March 2020), an overall decrease of £1.1 million. Appendix 2 details repayments of long-term loans during the year and short-term loans outstanding as at 31 March 2021.

2.6.2 The Council has an increasing Capital Financing Requirement (CFR) due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital. The Council's chief objective 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. Having considered the appropriate duration and structure of the borrowing need based on realistic projections, it was decided to take a combination of short-term borrowing and longer-term repayment loans. The Authority borrowed £10 million of new long-term borrowing from the PWLB in March 2021. This is the first loan from the PWLB to fund capital expenditure since 2007 and is a 20 year Equal Instalment of Principal (EIP) loan at a rate of 1.64%. An EIP pays back principal over the life of the loan, and the interest associated with the loan goes down as the principal outstanding reduces.

2.6.3 Fixed rate loans account for 83.63% of total long-term debt (see also Appendix 5) giving the Council stability in its interest costs. The maturity profile for all long-term loans is shown in Appendix 3 and shows that no more than 8.64% of all debt is due to be repaid in any one year. This is good practice as it reduces the Council's exposure to a substantial borrowing requirement in any one particular future year, when interest rates might be at a relatively high level.

2.6.4 The primary source of the Council's borrowing is from the Governments PWLB representing 70.64% of total external borrowing.

2.6.5 The Council continues to hold £61.5 million of LOBO (Lender's Option Borrower's Option) loans which represents 16.01% of total external borrowing. LOBO loans are where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option to propose an increase in the interest rates during the year.

2.6.6 The table below sets out the actual external borrowing requirement against estimated requirements;

	2019-20 £m actual	2020-21 £m forecast	2020-21 £m actual
General Fund CFR - Non PFI	461.6	504.4	500.1
PFI	45.8	42.5	42.5
HRA CFR - Non PFI	175.3	171.6	170.3
PFI	50.5	48.1	48.1
Total CFR	733.2	766.6	761.0
Less: PFI debt liabilities	96.3	90.6	90.6
Borrowing CFR	**636.9**	**676.0**	**670.4**
Other deferred liabilities	3.9	3.7	3.7
Internal borrowing	206.1	206.2	240.9
External borrowing:			
PWLB Loans	273.3	263.3	271.5
LOBOs	61.6	60.0	61.5
Loan Stock (Fixed Rate)	7.0	7.0	7.0
Other Loans (Fixed Rate)	44.1	43.6	44.3
Temporary borrowing	40.9	92.2	41.5
Total External borrowing	426.9	466.1	425.8
Total Funding	**636.9**	**676.0**	**670.4**
Investments	52.0	30.0	37.1

2.6.7 In terms of debt rescheduling, the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity in 2020-21.

2.6.8 The average long term borrowing rate for 2020-21 for the Council's long-term loans outstanding was 4.46% (4.67% 2019-20).

2.7 Trends in treasury management activity

2.7.1 Appendix 4 shows the Council's borrowing and investment trends over the last 6 years. The trend has been to re-pay long term debt at maturity and where required borrow over the short term to take advantage of short term rates. Going forward the need to borrow long term will be reviewed using the liability benchmark as mentioned above.

2.8 Risk and Compliance Issues

2.8.1 The Council reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy, including the prudential indicators. Details can be found in Appendix 5. Indicators relating to affordability and prudence are highlighted in this appendix.

2.8.2 When the Council has received unexpected monies late in the day, officers have no alternative but to put the monies into the Barclays Business Reserve Account overnight. The account is maintained so that usually, daily balances are under £0.1 million. The maximum daily amount deposited in this account overnight as a result of unexpected late payments was £1.8 million. Whilst this is not an ideal situation, the Council is still within investment limits as per the Treasury Management Strategy which is set at £10 million per counterparty.

2.8.3 In line with Council Treasury Management Strategy, the Council has not placed any direct investments in companies as defined by the Carbon Underground 200.

2.8.4 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of the Council's consultants (Arlingclose), has proactively managed the debt and investments over the year.

2.8.5 The CIPFA Code of Practice requires that treasury management performance be subject to regular member scrutiny. The Corporate Governance and Audit Committee performs this role and members have received reports on strategy, half yearly monitoring and now the outturn for the year 2020-21. Training was provided to Members on the 20 January 2021.

Looking ahead – Treasury Management developments in 2021-22

2.9 Re-financing/re-payment of current Long Term Borrowing

2.9.1 As outlined within the Council approved Treasury Management Strategy 2021-22, the Council will continue to look to repay existing long term debt when the opportunity arises where it becomes beneficial for the Council to do so.

2.9.2 In light of a number of lenders currently reviewing their holding of LOBO loans, there may be further opportunities to convert or re-finance existing LOBOs. With LOBO loans the Lender has the option to exercise their right to change the interest rate at which point the borrower can then choose to accept the new interest rate or choose to re-pay at no additional cost. Should any opportunities arise in the future then these would be investigated and reported back to members.

2.9.3 It is intended that Council officers liaise with the Council's external Treasury Management advisors, Arlingclose, to review lender options, and proceed if they are considered to be in the longer-term best interests of the Council.

2.10 Loan Funding Sources

2.10.1 The Council may be presented with additional sources of long-term funding at certain points in time, beyond those currently listed in the Council's current Treasury Management Strategy. These may be at preferential rates of interest and therefore the Service Director Finance (Section 151 Officer) will look to maximise the use of source funds when it is preferential to do so.

2.10.2 One such opportunity is with SALIX Finance Ltd. SALIX Finance Ltd provides interest free Government funding to the public sector to improve their energy efficiency, reduce carbon emissions and lower energy bills. The Council to date has taken the opportunity to secure £6.8 million interest free loans to part fund the £13.4 million approved street lighting replacement scheme in the Council's approved capital plan.

2.11 Investment Opportunities

2.11.1 The Service Director Finance, supports the approach that the borrowing and investment strategy for 2021-22 continues to place emphasis on the security of the Council's balances.

2.11.2 The Council is invested in the Local Authorities Pooled Investment Fund (LAPF). The Local Authorities Property Fund was established in 1972 and is managed by CCLA Fund Managers. As at March 2021 there are assets under management of £1,203 million. The Fund aims to provide investors with a high level of income and long-term capital appreciation, and it is an actively managed, diversified portfolio of UK commercial property. It principally invests in UK assets, but may invest in other assets.

2.11.3 The fund returned a gross dividend yield of 4.3% in 2020-21 (4.4% 2019-20), which compares with average 0.13% on other short-term investments (see paragraph 2.4.1 above). Net income of £0.366 million was received by the Council in 2020-21 (£0.183 million in 2019-20 which reflects a part-year effect as the £10 million was invested in two £5 million tranches in May 2019 and February 2020).

2.11.4 During the initial phase of the pandemic in March 2020, the sharp falls in corporate bond and equity markets had a negative impact on the value of the Council's pooled fund holdings and was reflected in the 31st March 2020 fund valuations with the fund registering negative capital returns over a 12-month period. Since March 2020 there here has been improvement in market sentiment, although the recovery in the UK markets has lagged those of US and European markets. The value of the fund at 31st March 2021 has remained at a similar level.

2.11.5 Similar to many other property funds, dealing (i.e. buying or selling units) in the CCLA LAPF was suspended by the fund in March 2020 and lifted in September. There was also a change to redemption terms for the CCLA LAPF; from September 2020 investors are required to give at least 90 calendar days' notice for redemptions.

2.11.6 Unrealised cumulative capital losses of £1.0m will not have an impact on the General Fund as the Council is utilising a Government dispensation for LAPF financial investment capital losses/gains at each year end to be notionally adjusted for within the Council's annual accounts, rather than it being a charge to the General Fund. It should be noted, that the current dispensation ends in 2023-24.

2.11.7 The investment in the fund is part of a longer-term investment strategy to mitigate against any short-term market volatility or risk. As this fund has no defined maturity date its performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

2.12 <u>New Borrowing</u>

2.12.1 As mentioned previously the Council has an increasing CFR due to the capital programme. The Council's current approach is to continue to borrow short term, however the Council will look to fund the capital plan with a combination of short and long-term borrowing. Having considered the appropriate duration and structure of the borrowing need based on realistic projections, and with ongoing consultation with Arlingclose.

3. Implications for the Council

3.1 **Working with People** – no impact
3.2 **Working with Partners** – no impact
3.3 **Place Based Working** – no impact
3.4 **Climate Change and Air Quality** – no impact
3.4 **Improving outcomes for children** - no impact
3.5 **Other (e.g. Legal/Financial or Human Resources)** – Any changes in assumed borrowing and investment requirements, balances and interest rates will be reflected in revenue budget monitoring reports during the year.

4. Consultees and their opinions

None.

5. Next steps and timelines

5.1 Comments and feedback from CGAC will be incorporated into this report which will be subsequently considered at Cabinet in July and Council in September 2021 as part of the overall financial outturn and rollover report 2020-21.

6. Officer recommendations and reasons

6.1 CGAC are asked to note the treasury management performance in 2020-21 as set out in this report, prior to its submission to Cabinet and Council;

7. Cabinet portfolio holder's recommendations

To follow

8. Contact officer

James Anderson	Head of Accountancy
Rachel Firth	Finance Manager

9. Background Papers and History of Decisions

CIPFA's and Accountancy's Code of Practice on Treasury Management in the Public Services.
CIPFA's Prudential Code for Capital Finance in Local Authorities.
Public Works Loan Board Website.
Treasury Management 19-20 Strategy Report approved by Council on 13 February 2019.
COVID-19 - Impact upon Council Finances Report approved by Cabinet on 21 May 2020.

10. Service Director responsible

Eamonn Croston 01484 221000

APPENDIX 1

Kirklees Council Investments 2020/21				1 April 2020			30 September 2020			31 March 2021		
Counterparty		**Credit Rating Mar 2021***	**£m**	**Interest Rate**	**Type of Investment**	**£m**	**Interest Rate**	**Type of Investment**	**£m**	**Interest Rate**	**Type of Investment**
Specified Investments											
Santander	Bank	F1/A+	0.0	0.85%	35 Day Notice	8.0	0.47%	35 Day Notice	5.0	0.30%	35 Day Notice
Barclays	Bank	F1/A+	0.0	0.01%	Instant Access	0.0	0.01%	Instant Access	0.6	0.01%	Instant Access
Aberdeen Standard	MMF**	AAAmmf	10.0	0.48%	Instant Access	9.5	0.08%	Instant Access	8.6	0.01%	Instant Access
Aviva	MMF**	Aaa-mf	6.6	0.45%	Instant Access	10.0	0.06%	Instant Access	7.0	0.01%	Instant Access
Deutsche	MMF**	AAAmmf	2.9	0.41%	Instant Access	9.4	0.06%	Instant Access	5.9	0.01%	Instant Access
Goldman Sachs	MMF**	AAAmmf	7.5	0.28%	Instant Access	5.0	0.01%	Instant Access	0.0	0.00%	Instant Access
Thurrock Council	Local Authority		10.0	2.50%	Local Authority	0.0	N/A	Local Authority	0.0	N/A	Local Authority
Surrey County Council	Local Authority		5.0	1.25%	Local Authority	0.0	N/A	Local Authority	0.0	N/A	Local Authority
CCLA	Property Fund		10.0	N/A	Property Fund	10.0	N/A	Property Fund	10.0	N/A	Property Fund
			52.0			**51.9**			**37.1**		
Sector Analysis			**£m**	**%age**		**£m**	**%age**		**£m**	**%age**	
Bank			0.0	0%		8.0	16%		5.6	15%	
MMF**			27.0	52%		33.9	65%		21.5	58%	
Local Authorities/Cent Govt			15.0	29%		0.0	0%		0.0	0%	
Property Fund			10.0	19%		10.0	19%		10.0	27%	
			52.0	100%		**51.9**	100%		**37.1**	100%	
Country analysis			**£m**	**%age**		**£m**	**%age**		**£m**	**%age**	
UK			25.0	48%		18.0	35%		15.6	42%	
MMF**			27.0	52%		33.9	65%		21.5	58%	
			52.0	100%		**51.9**	100%		**37.1**	100%	

*Fitch short/long term ratings, except Aviva MMF (highest Moody rating). See next page for key. ** MMF – Money Market Fund. These funds are domiciled in Ireland for tax reasons, but the funds are made up of numerous diverse investments with highly rated banks and other institutions. The credit risk is therefore spread over numerous countries, including the UK. The exception to this is the Aviva Government Liquidity Fund which invests directly in UK government securities and in short-term deposits secured on those securities.

Key – Fitch's credit ratings:

		Long	Short
Investment Grade	Extremely Strong	AAA	
		AA+	
	Very Strong	AA	F1+
		AA-	
		A+	
	Strong	A	F1
		A-	
		BBB+	F2
	Adequate	BBB	
		BBB-	F3
Speculative Grade		BB+	
	Speculative	BB	
		BB-	
		B+	B
	Very Speculative	B	
		B-	
		CCC+	
		CCC	
	Vulnerable	CCC-	C
		CC	
		C	
	Defaulting	D	D

Appendix 2

Long-term loans repaid and short-term loans outstanding 31 March 2021

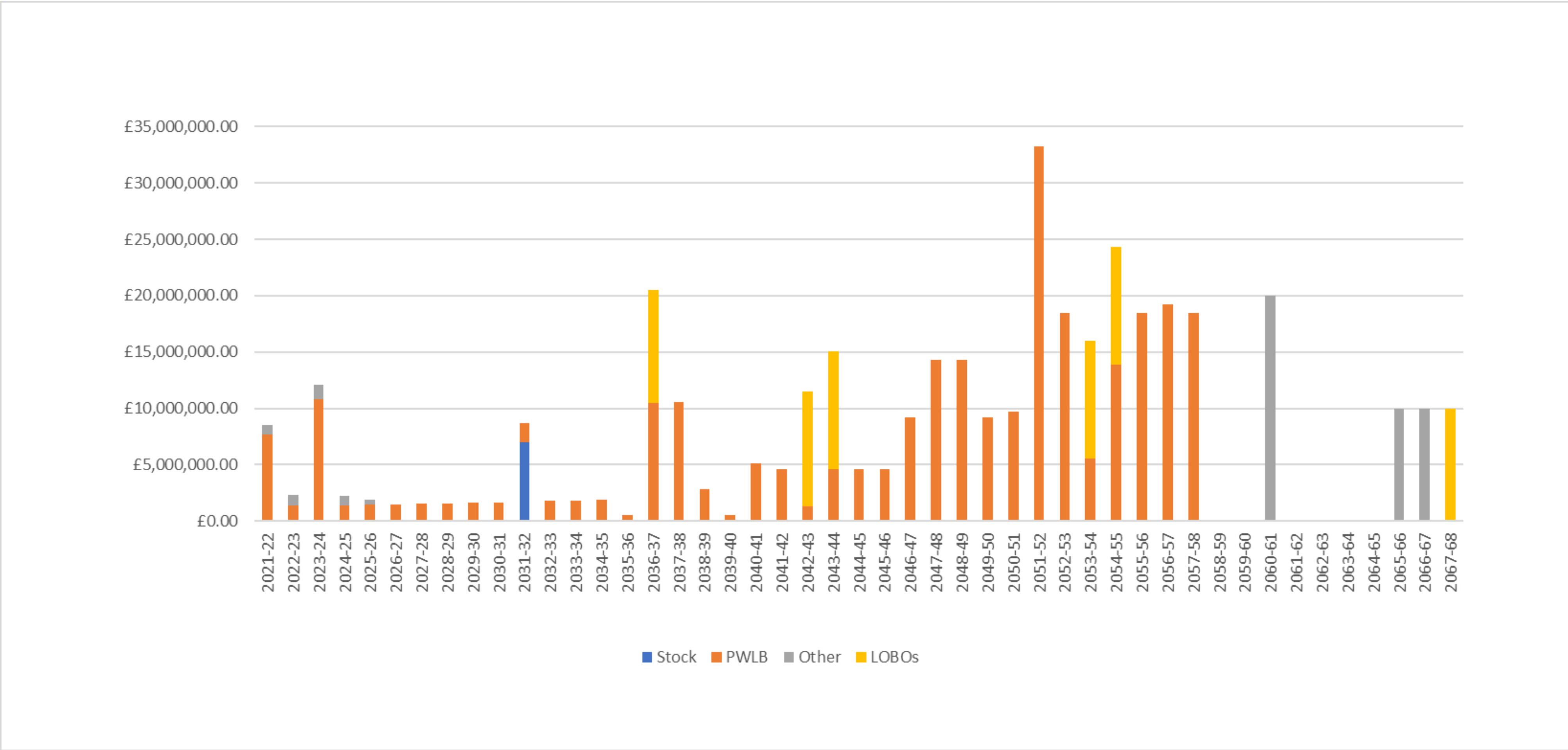
Long-term loans repaid during 2020-21

	Amount £000s	Rate %	Date repaid
Repayments on maturity			
PWLB (474647)	4,613	8.50	10 Aug 20
PWLB (475155)	6,458	8.625	15 Feb 21
Repayments on annuity loans			
PWLB (496956)	369	4.58	29 Sep 20
PWLB (496956)	377	4.58	29 Mar 21
Total	**11,817**		

Short-term loans outstanding 31 March 2021

	Amount £000s	Rate %	Length (days)
Temporary borrowing from the Money Market			
West Yorkshire Combined Authority	5,000	0.10	182
London Borough of Islington	5,000	0.10	141
London Borough of Islington	5,000	0.10	120
London Borough of Islington	5,000	0.10	114
Wealden District Council	5,000	0.10	115
Northern Ireland Housing Executive	5,000	0.10	123
North of Tyne Combined Authority	5,000	0.07	90
Crawley Borough Council	5,000	0.08	112
Local lenders/Trust Funds	1,476		
Total Temporary borrowing	**41,476**		
Long-term loans due to mature in the next twelve months	8,549		
Total	50,025		

Kirklees Council Loan Maturity Profile (All Debt) **Appendix 3**



Appendix 4

Kirklees Council - Borrowing and Investment Trends

At 31 March	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
Investments	37.1m	52.0m	39.1m	36.1m	31.3m	38.3m
ST Borrowing (excl interest accrued)	50.0m	53.2m	11.8m	20.8m	37.7m	16.0m
LT Borrowing	375.8m	373.7m	384.1m	392.4m	400.5m	408.4m
Total Borrowing	425.8m	426.9m	395.9m	413.2m	438.2m	424.4m
Deferred liabilities (non PFI)	3.6m	3.7m	3.9m	4.1m	4.1m	4.3m
Net debt position	**392.3m**	**378.6m**	**360.7m**	**381.2m**	**411.0m**	**390.4m**
Capital Financing Requirement (excl PFI)						
General Fund	500.1	461.6m	436.6m	420.3m	412.8m	411.3m
HRA	170.3	175.3m	175.3m	182.8m	186.2m	192.4m
Total CFR	**670.4**	**636.9m**	**611.9m**	**603.2m**	**599.0m**	**603.7m**
Balances “internally invested”	240.9m	206.1m	212.1m	185.9m	156.7m	175.0m
Ave Kirklees’ investment rate for financial year	0.1%	0.7%	0.7%	0.3%	0.4%	0.5%
Ave Base rate (Bank of England)	0.1%	0.7%	0.7%	0.3%	0.3%	0.5%
Ave LT Borrowing rate (1)	2.3%	2.4%	2.5%	2.5%	2.5%	3.2%

(1) Based on average PWLB rate throughout the year on a 25 to 30 year loan (less 0.2% PWLB certainty rate) repayable on maturity

APPENDIX 5

Treasury Management Prudential Indicators

Interest Rate Exposures

While fixed rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance justifies retaining a degree of flexibility through the use of variable interest rates on at least part of the treasury management portfolio. The Prudential Code requires the setting of upper limits for both variable rate and fixed interest rate exposure:

	Limit Set 2020-21	Actual 2020-21
Interest at fixed rates as a percentage of net interest payments	60% - 100%	84%
Interest at variable rates as a percentage of net interest payments	0% - 40%	16%

The interest payments were within the limits set.

Maturity Structure of Borrowing

This indicator is designed to prevent the Council having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

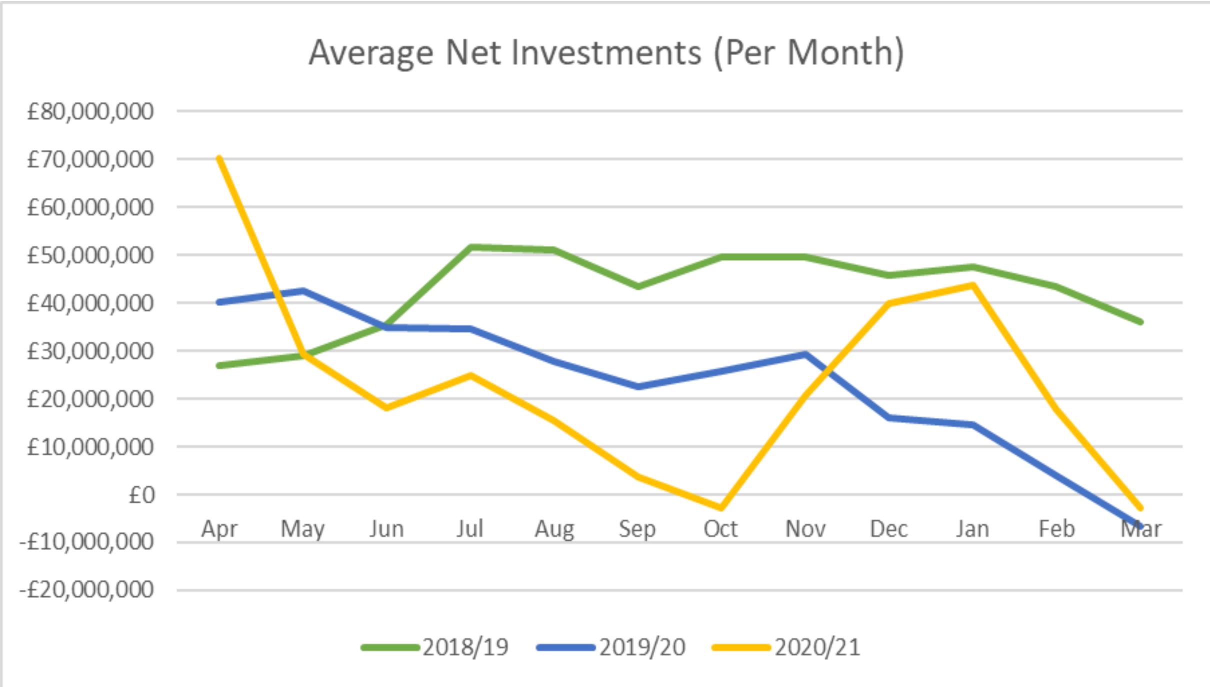
Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate	Limit Set 2020-21	Actual Levels 2020-21
Under 12 months	0% - 20%	3%
12 months to 2 years	0% - 20%	1%
2 years to 5 years	0% - 60%	5%
5 years to 10 years	0% - 80%	2%
More than 10 years	20% - 100%	89%

The limits on the proportion of fixed rate debt were adhered to.

Total principal sums invested for periods longer than 364 days

The Council has not invested any sums longer than 364 days.

APPENDIX 6



Average Net Investments (Per Month)
£80,000,000
£70,000,000
£60,000,000
£50,000,000
£40,000,000
£30,000,000
£20,000,000
£10,000,000
£0
-£10,000,000
-£20,000,000
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2018/19
2019/20
2020/21