

## Interest Rate Forecast

## Appendix A

### UK Interest Rate Forecast

Bank Rate												
	NOW	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Group	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Capital Economics	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	-	-	-	-	-
5yr PWLB Rate												
	NOW	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Group	1.74%	1.90%	1.90%	2.00%	2.00%	2.00%	2.00%	2.00%	2.10%	2.10%	2.10%	2.10%
Capital Economics	1.74%	1.80%	1.90%	1.90%	1.90%	1.90%	1.90%	-	-	-	-	-
10yr PWLB Rate												
	NOW	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Group	2.03%	2.10%	2.10%	2.10%	2.10%	2.10%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%
Capital Economics	2.03%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	-	-	-	-	-
25yr PWLB Rate												
	NOW	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Group	2.57%	2.50%	2.50%	2.50%	2.50%	2.60%	2.60%	2.60%	2.70%	2.70%	2.70%	2.70%
Capital Economics	2.57%	2.40%	2.30%	2.30%	2.30%	2.30%	2.30%	-	-	-	-	-
50yr PWLB Rate												
	NOW	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Group	2.40%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%
Capital Economics	2.40%	2.40%	2.20%	2.20%	2.20%	2.20%	2.20%	-	-	-	-	-

The BoE reduced its Bank rate to 0.1% on 19 March 2020 and LAS expect it to remain at that rate until the end of 2021. Interest rates across all periods are expected to remain lower for longer than the LAS forecast set out in the approved TMSS.

**Appendix B**

**Table 1 breakdown of Deposits at 30<sup>th</sup> September 2020**

<b>Institution Type</b>	<b>Start date</b>	<b>Maturity</b>	<b>Rate</b>	<b>Amount</b>
<b>UK Bank</b>				
Santander UK plc – 95 days call account	01/06/18		0.9000%	15,000,000.00
Goldman Sachs International	15/10/19	13/10/20	1.0100%	5,000,000.00
<b>Local Authorities &amp; Other Public Sectors</b>				
Newcastle upon Tyne City Council	29/02/16	26/02/21	1.8000%	5,000,000.00
London Borough of Islington	26/04/16	26/04/21	1.7500%	5,000,000.00
Northumberland County Council	16/11/16	16/11/20	1.0000%	5,000,000.00
Northumberland County Council	16/11/16	16/11/21	1.1000%	5,000,000.00
Powys County Council	22/02/18	22/02/21	1.4500%	5,000,000.00
Cambridgeshire County Council	08/05/18	09/11/20	1.5000%	5,000,000.00
London Borough of Croydon	04/10/19	02/10/20	0.8000%	5,000,000.00
Slough Borough Council	22/11/19	20/11/20	0.9500%	5,000,000.00
Aberdeenshire Council	31/10/19	29/10/20	0.8000%	5,000,000.00
Lancashire County Council	29/11/19	27/11/20	0.8500%	5,000,000.00
Salford City Council	14/11/19	12/11/20	0.9500%	5,000,000.00
London Borough of Southwark	20/11/19	18/11/20	0.9500%	5,000,000.00
Folkestone & Hythe District Council	03/02/20	01/02/21	1.0000%	5,000,000.00
Dudley Metropolitan Borough Council	17/04/20	16/04/21	1.6000%	5,000,000.00
Mid Suffolk District Council	06/07/20	05/07/21	0.8500%	5,000,000.00
Swale Borough Council	25/08/20	24/08/21	0.2700%	5,000,000.00
Plymouth City Council	24/09/20	23/09/21	0.3200%	5,000,000.00
London Borough of Waltham Forest	23/09/20	22/09/21	0.3300%	5,000,000.00
Walsall Metropolitan Borough Council	14/02/20	12/02/21	1.0000%	5,000,000.00
<b>Money Market Fund</b>				
Federated Prime Rate Sterling Liquidity 3	13/11/18		0.0620%	2,900,000.00
<b>Unrated Corporate Bonds</b>				
Rockfire Capital Ltd	15/02/18		3.9999%	3,000,000.00
<b>TOTAL</b>				<b>120,900,000.00</b>

**Appendix C**

**Compliance Report**

All treasury management activities undertaken during the half year complied fully with the CIPFA Code of Practice and the authority's approved Treasury Management Strategy. Compliance with specific treasury limits is demonstrated in tables below.

**1.1 Interest Rate Exposures**

1.1.1 This indicator is set to control the Authority's exposure to interest rate risk on its debt portfolio. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of gross principal borrowed will be:

Table1: Interest rate exposure activity

	2020/21 Limit %	2020/21 Q2 Actual %	2021/22 Limit %	2022/23 Limit %
Upper limit on fixed interest rate exposure	100	96.60	100	100
Upper limit on variable interest rate exposure	25	3.40	30	35

Fixed rate borrowings are those borrowings where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

1.1.2 Having larger amounts of fixed interest rate borrowing gives the Authority greater stability with regards to its interest payments and reduces the risk of higher interest costs should interest rates rise. Traditionally local authorities have taken advantage of fixing interest rates long term to reduce interest rate exposure. The table excludes Salix Finance loans as these are held at zero interest hence no interest rate exposure.

**1.2 Maturity Structure of Borrowing**

- 1.2.1 This indicator is set to control the Authority’s exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 2: Loan maturity structure

	<b>Upper %</b>	<b>Lower %</b>	<b>Actual %</b>
Under 12 months	40	0	6.65
12 months and within 24 months	60	0	0.00
24 months and within 5 years	80	0	0.49
5 years and within 10 years	100	0	25.06
10 years and above	100	0	67.80

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

**1.3 Principal Sums Invested for Periods Longer than 365 days**

- 1.3.1 The purpose of this indicator is to control the authority’s exposure to the risk of incurring losses by seeking early repayment of its investments.
- 1.3.2 The limits set in the 2020/21 treasury management strategy in comparison to the half year are set below. It is the authority’s policy to classify available for sale investments with maturities exceeding one year as short term investments.

Table 3: Investments for periods longer than 365 days

	<b>2020/21 Limit £m</b>	<b>2020/21 Actual 31.09.20 at £m</b>	<b>2021/22 Limit £m</b>
Limit on principal invested beyond year end	75	38	75

**1.4 Gross Debt and the Capital Financing Requirement (CFR)**

1.4.1 In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence.

Table 4: Gross debt and the CFR

	<b>31.03.20 Actual £m</b>	<b>31.03.21 Original Estimate £m</b>	<b>31.03.22 Revised Estimate £m</b>	<b>31.03.23 Estimate £m</b>
Long Term External Debt	235.234	235.234	235.234	235.234
CFR	353.427	573.532	689.048	780.078
Internal Borrowing	118.193	338.298	453.814	544.844

1.4.2 Total debt is expected to remain below the CFR during the year. The actual debt levels are monitored against the Operational Boundary and authorised Limit for External Debt, below. Officers will replace internal borrowing with external borrowing when it is favourable to do so.

## **1.5 Operational Boundary for External Debt**

1.5.1 The operational boundary is based on the authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. The Authority long term debt as at 30.09.2020 is £235m and no limit has been exceeded.

Table 5: Operational Boundary

<b>Operational Boundary</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>
Borrowing	465.000	558.000	631.000
Other long-term liabilities	10.000	10.000	10.000
<b>Total</b>	<b>475.000</b>	<b>568.000</b>	<b>641.000</b>

## **1.6 Authorised Limit for External Debt**

1.6.1 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 6: Authorised limit for external debt

<b>Authorised Limit</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>
Borrowing	698.000	837.000	946.000
Other long-term liabilities	10.000	10.000	10.000
<b>Total Debt</b>	<b>708.000</b>	<b>847.000</b>	<b>956.000</b>
Long Term Debt	235.234	235.234	235.234
<b>Headroom</b>	<b>472.766</b>	<b>611.766</b>	<b>750.766</b>

## Glossary of Terms

## Appendix D

**A bond** is a debt instrument in which an investor lends money for a specified period of time at a fixed rate of interest. The issuing entity could be corporate, financial or government.

**A floating rate note (FRN)** is a money market instrument with a Floating/variable rate of interest, which re-fixes over a reference rate, for example 3 month LIBOR.

**Bail in** is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings. A bail-in is the opposite of a bail-out, which involves the rescue of a financial institution by external parties, typically governments using taxpayer's money.

**Certificates of deposit (CDs)** are a negotiable form of fixed deposit, ranked pari passu with fixed deposits. The difference is that you are not obligated to hold the CD to maturity, you can realise the cash by selling in the secondary market.

**Coupon** is the total amount of interest a security will pay. The coupon period depends on the security. A CD will often pay interest at maturity, while a bond may pay semi annually or annually and an FRN will most likely pay every 3 months.

**Covered bond** Covered bonds are conventional bonds (fixed or floating) issued by financial institutions, that are backed by a separate group of loans, usually prime residential mortgages. This lowers the creditor's exposure to default risk, enhancing the credit. This is why the issue is usually rated AAA, higher than the rating given to the issuer reduces exposure to bail-in risk.

**Credit rating** A measure of the credit worthiness of a borrower. A credit rating can be assigned to country, organisation or specific debt issue/ financial obligation. There are a number of credit ratings agencies but the main 3 are Standard & Poor's, Fitch or Moody's.

**MIFID** is the Markets in Financial Instruments Directive. A European Union Directive.

Principal is the total amount being borrowed or lent.

**Spread** is the difference between the buy and sell price of a security. It can also be the gap, usually in basis points, between the yield of a security and the benchmark security.

**Monetary Policy Committee (MPC)** is a committee of the [Bank of England](#), which meets for three and a half days, eight times a year, to decide the official [interest rate](#) in the [United Kingdom](#) (the [Bank of England Base Rate](#)).

**CPIH (Consumer Prices Index including owner occupiers' housing costs)** The new additional measure of consumer price inflation including a measure of owner occupiers' housing costs (OOH).

**Treasury bills (T-bills)** are UK government rated, short-dated form of Government debt, issued by the Debt Management Office (DMO) via a weekly tender. T-bills are normally issued for one, three or six month duration.

**Borrowing Requirements** The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.

**Capital Financing Requirement (CFR)** Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.

**Counterparties** Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMFs.

**Credit Default Swap (CDS)** A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.

**Credit Watch** A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.

**Interest Rate Exposures** A measure of the proportion of money invested and what impact movements in the financial markets would have on them.

**Market Loans** Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.

**Money Market Fund (MMF)** A 'pool' of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.

**Minimum Revenue Provision (MRP)** This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.