GMCA GREATER MANCHESTER COMBINED AUTHORITY

Date: **25 September 2020**

Subject: **TREASURY MANAGEMENT OUTTURN REPORT 2019/20**

Report of: **Councillor David Molyneux, Portfolio Lead Leader for Investment and Resources**

PURPOSE OF REPORT

To report the Treasury Management activities of the Greater Manchester Combined Authority (GMCA) during the 2019/20 financial year.

RECOMMENDATIONS:

The GMCA is requested to note the contents of the report.

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Risk Management – The CIPFA Treasury Management in the Public Services Code of Practice recommends that local authorities include, as part of their Treasury Management Strategy Statement, the requirement to report to members at least twice a year on the activities of the Treasury Management function.

Legal Considerations – There are no specific legal implications in this report

Financial Consequences – The implications for revenue position as a result of Treasury Management performance are referred to in the report in relation to interest paid and earned on borrowing and investment.

Financial Consequences – Capital – There are no specific capital considerations contained within the report.

Equalities Implications: There are no specific equality implications contained within the report

BACKGROUND PAPERS:

- GMCA Audit Committee, 9 October 2019, Treasury Management Interim Update 2019/20
- GMCA Audit Committee 16 January 2019, GMCA Treasury Management Strategy, Borrowing Limits and Annual Investment Strategy 2019/20
- GMCA Audit Committee 8 September 2020, Treasury Management Annual Report

<table>
<tr><td colspan="2">TRACKING/PROCESS</td><td></td></tr>
<tr><td colspan="2">Does this report relate to a Key Decision, as set out in the GMCA Constitution or in the process agreed by the AGMA Executive Board</td><td>No</td></tr>
<tr><td colspan="3">EXEMPTION FROM CALL IN</td></tr>
<tr><td colspan="2">Are there any aspects in this report which means it should be considered to be exempt from call in by the AGMA Scrutiny Pool on the grounds of urgency?</td><td>No</td></tr>
<tr><td>AGMA Commission</td><td>TfGMC</td><td>Scrutiny Pool</td></tr>
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1. INTRODUCTION AND BACKGROUND

1.1 Treasury Management in Local Government is regulated by the CIPFA Code of Practice on Treasury Management in Local Authorities. The Authority has adopted the Code and complies with its requirements. A primary requirement of the Code is the formulation and agreement by the Authority of a Treasury Policy Statement which sets out Authority, Committee and Chief Financial Officer responsibilities, and delegation and reporting arrangements. This was approved by the Authority on the 27 April 2012, as part of the revised Treasury Management Strategy Statement for 2012/13.

1.2 CIPFA amended the CIPFA Treasury Management in the Public Services Code of Practice in late 2011, and the revised Code recommended that local authorities include, as part of their Treasury Management Strategy Statement, the requirement to report to members at least twice a year on the activities of the Treasury Management function. This report, along with the interim Treasury Management report received by the Audit Committee of the GMCA on the 9 October 2019, therefore ensures that the Authority meets the requirements of the Strategy, and therefore the Code.

1.3 Treasury Management in this context is defined as:

'The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.

1.4 This annual report covers:

Section 1: Introduction and Background
Section 2: Key Consideration Update
Section 3: The GMCA's Portfolio Position as at 31 March 2020
Section 4: Review of Economic Conditions
Section 5: External Borrowing for 2019/20
Section 6: Compliance with Treasury Limits and Prudential Indicators
Section 7: PWLB Policy Change
Section 8: Investment Strategy for 2019/20
Section 9: Temporary Borrowing and Investment Outturn for 2019/20
Section 10: Conclusion

Appendix A: Public Works Loans Board (PWLB) Interest Rates
Appendix B: Treasury Management Prudential Indicators
Appendix C: Review of Economic Conditions, provided by advisors
Appendix D: Glossary of Terms

2 KEY CONSIDERATIONS UPDATE

2.1 Contained within the GMCA Interim Report 2019/20, presented to the Audit Committee on 9 October 2019, were details regarding:

- Greater Manchester Housing Investment Loan Fund (GMHILF)
- City Deal Receipts
- European Investment Bank (EIB)
- Lender Option Borrower Options (LOBOs)

Greater Manchester Housing Investment Loan Fund (GMHILF)

2.2 Following borrowing powers being granted to GMCA and delegation of the necessary legal requirements, the novation of the GMHILF to the Authority commenced in the year. The loan finance from MHCLG had already been transferred from Manchester City Council to the GMCA in the previous financial year. All Manchester City Council investments were novated across to GMCA by the 31 March 2020. New and future funds from MHCLG and advances to developers will all be processed via GMCA.

City Deal Receipts

2.3 The City Deal Receipts from Homes and Communities Agency, which have previously been held and invested by Manchester City Council on behalf of the GMCA, have also been novated. The GMCA now holds the debt and the related investments.

European Investment Bank (EIB)

2.4 Discussions are continuing regarding a new loan for the Trafford Park Metrolink Scheme and a draft contract has been received by GMCA for a loan. To allow the signing of the loan agreement in a timely manner the Audit Committee previously delegated to the Treasurer, in conjunction with the Monitoring Officer, authority to finalise the loan agreement. Currently EIB rates are being monitored to determine whether this provides a competitive source of long term borrowing.

Lender Option Borrower Options (LOBOs)

2.5 Within the portfolio there were originally two Lender Option Borrower Option loans with Barclays which were taken out in 2005 and 2006 for a period of 60 years. At Barclays' initiative in 2018 these were converted to standard vanilla loans. Along with a number of Local Authorities, GMCA continues to engage with specialist legal support to pursue a claim against Barclays in relation to the historic elements of their LOBO loans. This claim remains ongoing

3 THE GMCA'S PORTFOLIO POSITION AS AT 31st MARCH 2020

3.1 The approved Treasury Management Strategy for 2019/20 forecast a borrowing requirement of £235.5m for permanent borrowing in 2019/20 to fund the capital programme. It was noted in the reports that should some of the forecast cash flows alter in scale or timing the requirement might be materially different.

3.2 The GMCA's debt position at the beginning and end of year was as follows:

	31st March 2019	**31st March 2020**

	Principal £m	Average Rate %	Principal £m	Average Rate %
PWLB	612.0	4.44	583.4	4.51
EIB	595.4	3.65	581.9	3.64
Market	105.0	4.20	105.0	4.20
Temporary	50.5	0.81	80.0	0.68
TfGM	0.0	0.00	10.7	0.00
	1,362.9	**4.06**	**1,361.0**	**3.88**
Housing Invest. Fund HIF	**182.9**	**0.00**	**181.3**	**0.00**
Homes England	**0.0**	**0.00**	**29.2**	**0.00**
Gross debt	**1,545.8**	**3.47**	**1,571.5**	**3.42**
Deposits	(57.5)	0.66	(58.9)	0.24
Interbank	(5.8)	0.50	(0.0)	0.00
Gross investments	**(63.3)**	**0.65**	**(58.9)**	**0.24**

3.3 When reviewing the table above it is important to note that the temporary borrowing and deposit figures fluctuate daily to meet the daily cash flow requirements of the Authority. The temporary figures in the table above are therefore only a snapshot at a particular point in time.

3.4 Total gross debt has increased by £25.7m throughout 2019/20. The details of these changes are described below.

3.5 PWLB funding decreased by £28.6m throughout the year. This was as a result of a £5m loan maturity on the 10 May 2019 as well as a £10m loan on the 25 June 2019. The remaining £13.6m decrease was due to principal repayments under the annuity loan structures.

3.6 EIB funding of £13.5m was also repaid in the year in the form of principal repayments as part of the annuity structure of the debt.

3.7 All temporary borrowing carried forward was repaid in the year. New temporary borrowing of £30m was taken on the 14 November 2019 to maintain liquidity while the novation for the HCA City Deal Receipts from Manchester City Council was finalised. Subsequent further temporary borrowing of £25m was taken on the 30 March 2020 and another £25m on the 31 March 2020 to ensure liquidity by helping bridge the gap of year end and the arrival of grant funding.

3.8 Pooling arrangements were put in place with Transport for Greater Manchester (TfGM) where the Authority would invest any surplus funds alongside its own. Hence, TfGM is shown above as temporary borrowing.

3.9 The Authority has been granted the statutory powers necessary to operate the HIF. Following the approval of the statutory powers and the legal process to novate contracts the HIF was transferred to the Authority from MCC on 13 March 2019. All investments out with developers have subsequently been novated across to GMCA by the 31 March 2020. The total HIF value started at £182.9m of which £64.9m was paid back to MHCLG on the 24 April 2019. Quarterly funding was received from MHCLG of £19.4m, £18.2m, £16.1m and £9.5m.

3.10 As noted above, Homes England funding totalling £29.2m was transferred on the 30 March 2020 from Manchester City Council to GMCA.

4 REVIEW OF ECONOMIC CONDITIONS 2019/20

4.1 The Bank of England maintained the lending rate at 0.75% in the first half of the financial year. On 11 March 2020 the rate was changed to 0.25% which was subsequently followed by another drop to 0.10% on the 19 March 2020 in efforts to stimulate the economy during COVID-19.

4.2 Appendix C provides a more detailed review of the economic situation.

5 EXTERNAL BORROWING IN 2019/20

5.1 PWLB interest rates have fluctuated during the year as shown in the summary table below and in the graph on Appendix A.

PWLB Borrowing Rates 2019-20 to date for 1 to 50 years

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.37%	1.20%	1.33%	1.93%	1.77%
Date	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
High	2.67%	2.65%	2.96%	3.45%	3.25%
Date	05/12/2019	13/03/2020	19/03/2020	19/03/2020	31/12/2019
Average	2.03%	1.97%	2.20%	2.76%	2.60%

5.2 GMCA is on the approved list of authorities that can access the PWLB Certainty Rate going forward, giving the Authority access to a 20 basis points reduction on the published PWLB rates. In October 2019, there was a 100 basis point rise in PWLB lending rate which had significant implications on the borrowing costs for all future borrowing. Further details are found in section 7 of this report.

5.3 Temporary borrowing of £80m was taken in the second half of the year taking advantage of the historically low rate inter local authority market. Funding consisted of money on notice as well as maturity to allow for the flexibility of early repayment of cash once grant funding arrived in the early parts of 20/21. This ensured both liquidity and stability during the COVID-19

Pandemic.

6 COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

6.1 The Authority operated within the treasury limits and prudential indicators set out in the Treasury Management Strategy Statement on 29th March 2019. Performance against these targets is shown in Appendix B.

7 PWLB POLICY CHANGE

7.1 On the 9 October the PWLB changed its policy to increase the margin on Gilts to Gilts plus 200 basis points, and therefore the margin on the certainty rate to Gilts plus 180 basis points. This means that interest costs on future debt increased substantially. Interest rates on PWLB the Authority already hold have not changed.

7.2 By increasing rates by 100 basis points the interest costs now faced by the Authority are similar to those towards the end of the 2018 calendar year. Therefore, whilst the existing capital programme and forecast borrowing remains affordable, the true impact of the policy change is on the capacity for further borrowing in the future.

7.3 The government has launched a consultation to work with authorities to develop a targeted intervention to stop ‘debt-for-yield’ activity while protecting the crucial work the authorities perform. The consultation was intended to finish in early June, but due to COVID-19 it has been extended until the end of July.

8 INVESTMENT STRATEGY FOR 2019/20

8.1 A revised Treasury Management Strategy Statement (TMSS) for 2019/20 was approved by the Authority on the 29 March 2019. The GMCA’s Annual Investment Strategy, which is incorporated in the TMSS, outlines the Authority’s investment priorities as, a) the security of capital and b) liquidity of investments.

8.2 The Authority’s temporary cash balances are managed by the Manchester City Council’s Treasury Management team and are invested with those institutions listed in the Authority’s Approved Lending List. Officers can confirm these institutions meet the security criteria set out in the Annual Investment Strategy and the approved limits were not breached in 2019/20.

9 TEMPORARY BORROWING AND INVESTMENT OUTTURN FOR 2019/20

9.1 Investment rates available in the market continue to be at an historical low point. The average level of funds available for investment purposes in 2019/20 was just over £136.7m. These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of levy receipts, receipt of grants, and progress on the capital programme.

9.2 As shown below, the Authority’s return was higher than the benchmark return. The relatively high level of cash balances held by the Authority has provided an opportunity to optimise the number of investments with other local authorities and Money Market Funds (MMFs), returning a higher level of yield.

	Average temporary Investment/ borrowing	Net Return/Cost	Benchmark Return / Cost
Temporary Investments	£136.8m	0.72%	0.53%*
Temporary Borrowing	£17.3m	0.87%	0.66%**

** Average 7-day LIBID rate sourced from Link*

*** Average 7-day LIBOR rate sourced from Link*

9.3 None of the institutions in which investments were made, such as banks, local authorities and MMFs, showed any difficulty in repaying investments and interest during the year. The list of institutions in which the Authority invests is kept under continuous review.

10 CONCLUSION

10.1 The current borrowing position reflects the strong balance sheet of the Authority. Cash resources have increased following the transfer of the HCA Funding on the 30 March 2020.

10.2 Temporary borrowing was taken at the end of the year to maintain liquidity and ensure the cash was available to support both COVID-19 related activity and underlying budgeted activity.

10.3 The Authority exceeded the benchmark rate of return on temporary investments during the 2019/20 financial year. Work will continue to review all investment options, to see if a greater rate of return could be attracted without compromising the Authority’s strong risk management position.

Appendix A – PWLB Interest

APPENDIX B

TREASURY MANAGEMENT PRUDENTIAL INDICATORS: 2019/20

	Original £m	Minimum In Year £m	Maximum In Year £m
Operational Boundary for External Debt:			
Borrowing	£1,991.2	£1,411.4	£1,555.8
Other Long Term Liabilities	£0.0	£0.0	£0.0
Authorised Limit for External Debt:			
Borrowing	£2,203.2	£1,411.4	£1,555.8
Other Long Term Liabilities	£0.0	£0.0	£0.0
	Original	**Actual as at 31 March 2020**	
Authority has adopted CIPFA's Code of Practice for Treasury Management in the Public Services	Yes	Yes	
Upper Limits for Interest Rate Exposure:			
Net Borrowing at Fixed Rate as a percentage of Total Net Borrowing	100%	96.6%	
Net Borrowing at Variable Rate as a percentage of Total Net Borrowing	50%	3.45%	
Upper Limit for Principal Sums Invested for over 364 days	£0	£0	

	Lower Limit	Upper Limit	
Maturity structure of Fixed Rate Borrowing	**2019/20 Original**	**2019/20 Original**	**Actual as at 31 March 2020**
under 12 months	0%	100%	2.1%
12 months and within 24 months	0%	100%	2.7%
24 months and within 5 years	0%	100%	11.4%
5 years and within 10 years	0%	100%	19.5%
10 years and above	0%	100%	64.3%

Appendix C

REVIEW OF ECONOMIC CONDITIONS FROM APRIL 2019 TO MARCH 2020 AND FUTURE OUTLOOK

This section has been prepared by the Authority's Treasury Advisors, Link Asset Services, and includes their forecast for future interest rates after the PWLB policy change referenced in the report.

1 ECONOMIC PERFORMANCE TO DATE MARCH 31st 2020

1.1 UK. Brexit. The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of Theresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019. The House of Commons duly frustrated that renewed effort and so a general election in December settled the matter once and for all by a decisive victory for the Conservative Party: that then enabled the UK to leave the EU on 31 January 2020. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline; however, the second and third rounds of negotiations have already had to be cancelled due to the virus.

1.2 Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the coronavirus outbreak. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

1.3 After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to sit on its hands and to do nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in quantitative easing (QE), essentially the purchases of gilts (mainly) by the Bank of England of £200bn. The Government and the Bank were also very concerned to stop people losing their jobs during this lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. At the time of writing, this is a rapidly evolving situation so there may be further measures to come from the Bank and the Government in April and beyond. The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020/21 from 2%, to nearly 11%. The ratio of debt to GDP is also likely to increase from 80% to around 105%. In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lock down is ended. Provided the coronavirus outbreak is brought under control relatively swiftly, and the lock down is eased, then it is hoped that there would be a sharp recovery, but one that would take a prolonged time to fully recover previous lost momentum.

1.4 Inflation has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

1.5 Employment had been growing healthily through the last year but it is obviously heading for a big hit in March – April 2020. The good news over the last year is that wage inflation has been significantly higher than CPI inflation which means that consumer real spending power had been increasing and so will have provided support to GDP growth. However, while people cannot leave their homes to do non-food shopping, retail sales will also take a big hit.

1.6 USA. Growth in quarter 1 of 2019 was strong at 3.1% but growth fell back to 2.0% in quarter 2 and 2.1% in quarters 3 and 4. The slowdown in economic growth resulted in the Fed cutting rates from 2.25-2.50% by 0.25% in each of July, September and October. Once coronavirus started to impact the US in a big way, the Fed took decisive action by cutting rates twice by 0.50%, and then 1.00%, in March, all the way down to 0.00 – 0.25%. Near the end of March, Congress agreed a $2trn stimulus package (worth about 10% of GDP) and new lending facilities announced by the Fed which could channel up to $6trn in temporary financing to consumers and firms over the coming months. Nearly half of the first figure is made up of permanent fiscal transfers to households and firms, including cash payments of $1,200 to individuals.

1.7 EUROZONE. The annual rate of GDP growth has been steadily falling, from 1.8% in 2018 to only 0.9% y/y in quarter 4 in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth, together with inflation falling well under the upper limit of its target range of

0 to 2%, (but it aims to keep it near to 2%), prompted the ECB to take new measures to stimulate growth. At its March 2019 meeting it announced a third round of TLTROs; this provided banks with cheap two year maturity borrowing every three months from September 2019 until March 2021. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting in September 2019, it cut its deposit rate further into negative territory, from -0.4% to -0.5% and announced a resumption of quantitative easing purchases of debt to start in November at €20bn per month, a relatively small amount, plus more TLTRO measures. Once coronavirus started having a major impact in Europe, the ECB took action in March 2020 to expand its QE operations and other measures to help promote expansion of credit and economic growth. What is currently missing is a coordinated EU response of fiscal action by all national governments to protect jobs, support businesses directly and promote economic growth by expanding government expenditure on e.g. infrastructure; action is therefore likely to be patchy.

1.8 CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium-term risks have also been increasing. The major feature of 2019 was the trade war with the US. However, this has been eclipsed by being the first country to be hit by the coronavirus outbreak; this resulted in a lock down of the country and a major contraction of economic activity in February-March 2020. While it appears that China has put a lid on the virus by the end of March, these are still early days to be confident and it is clear that the economy is going to take some time to recover its previous rate of growth. Ongoing economic issues remain, in needing to make major progress to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems.

1.9 WORLD GROWTH. The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019, as any downturn in China would spill over into impacting countries supplying raw materials to China. Concerns were particularly focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during 2019. In 2020, coronavirus is the big issue which is going to sweep around the world and have a major impact in causing a world recession in growth in 2020.

APPENDIX D

Glossary of Terms

Authorised Limit - This Prudential Indicator represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. 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.

Counterparty – one of the opposing parties involved in a borrowing or investment transaction

Credit Rating – A qualified assessment and formal evaluation of an institution's (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

Discount – Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

Fixed Rate Funding - A fixed rate of interest throughout the time of the loan. The rate is fixed at the start of the loan and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

Gilts - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

High/Low Coupon – High/Low interest rate

LIBID (London Interbank Bid Rate) – This is an average rate, calculated from the rates at which individual major banks in London are willing to borrow from other banks for a particular time period. For example, 6 month LIBID is the average rate at which banks are willing to pay to borrow for 6 months.

LIBOR (London Interbank Offer Rate) – This is an average rate, calculated from the rates which major banks in London estimate they would be charged if they borrowed from other banks for a particular time period. For example, 6 month LIBOR is the average rate which banks believe they will be charged for borrowing for 6 months.

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

LOBO (Lender Option Borrower Option) – This is a type of loan where, at various periods known as call dates, the lender has the option to alter the interest rate on the loan. Should the lender exercise this option, the borrower has a corresponding option to repay the loan in full without penalty.

Market - The private sector institutions - Banks, Building Societies etc.

Maturity Profile/Structure - an illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the Authority vulnerable to current interest rates in that year.

Monetary Policy Committee – the independent body that determines Bank Rate.

Operational Boundary – This Prudential 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 indicator to ensure the Authorised Limit is not breached.

Premium – Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

Prudential Code - The Local Government Act 2003 requires the Authority to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

PWLB - Public Works Loan Board. Part of the Government's Debt Management Office, which provides loans to public bodies at rates reflecting those at which the Government is able to sell Gilts.

Specified Investments - Sterling investments of not more than one-year maturity. These are considered low risk assets, where the possibility of loss of principal or investment income is very low.

Non-specified investments - Investments not in the above, specified category, e.g., foreign currency, exceeding one year or outside our minimum credit rating criteria.

Variable Rate Funding - The rate of interest either continually moves reflecting interest rates of the day, or can be tied to specific dates during the loan period. Rates may be updated on a monthly, quarterly or annual basis.

Volatility - The degree to which the debt portfolio is affected by current interest rate movements. The more debt maturing within the coming year and needing replacement, and the more debt subject to variable interest rates, the greater the volatility.

Yield Curve - A graph of the relationship of interest rates to the length of the loan.

A normal yield curve will show interest rates relatively low for short-term loans compared to long-term loans. An inverted Yield Curve is the opposite of this.