Report to:	**Cabinet**
Date:	**14 December 2021**
By:	**Chief Operating Officer**
Title of report:	**Treasury Management – Stewardship Report 2020/21**
Purpose of report:	**To present a review of the Council's performance on treasury management for the year 2020/21 and Mid Year review for 2021/22.**

RECOMMENDATION: Cabinet is recommended to note the Treasury Management performance in 2020/21 incorporating the Mid Year review for the first half of 2021/22.

1. Background

1.1 The annual stewardship report presents the Council's treasury management performance for 2020/21 and Mid Year performance for 2021/22 as required by the Code of Practice for Treasury Management.

2. Supporting Information

2.1 The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance. The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates the treasury management function in compliance with this Code. These require that the prime objective of the treasury management activity is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable and sustainable basis and treasury management practices demonstrate a low risk approach. The Code requires the regular reporting of treasury management activities to:

- Forecast the likely activity for the forthcoming year (in the Annual Treasury Strategy Report); and
- Review actual activity for the preceding year (this Stewardship Report).
- A mid year performance review (this Stewardship Report).

2.2 This report sets out:

- A summary of the original strategy agreed for 2020/21 and the economic factors affecting this strategy (Appendix A).
- The treasury management activity during the year 2020/21 (Appendix B);
- The treasury management mid year activity for 2021/22 (Appendix C);
- The Prudential Indicators, which relate to the Treasury Management function, Minimum Revenue Policy (MRP) and compliance with limits (Appendix D).

3. The economic conditions compared to our Strategy for 2020/21

3.1 The strategy and the economic conditions prevailing in 2020/21 are set out in Appendix A. 2020/21 remained a challenging environment with concerns over the UK, European and global economies rising especially in the latter part of 2020/21. The global impact of the coronavirus pandemic and the national response and subsequent lockdowns started to be felt during 2020/21.

4. The Treasury activity during the year on short term investments and borrowing

<u>The Treasury Management Strategy</u>

4.1 The strategy for 2020/21, agreed in February 2020, continued the prudent approach and ensured that all investments were only to the highest quality rated institutions with regard to security, liquidity and yield. At its meeting of 15 October 2019, Full Council declared a Climate Emergency (Item 37), as a consequence, Treasury Management officers have been exploring ways in which the Council's cash balances can be utilised to support the Council's commitment to tackle climate change. As a result, consideration of Environmental, Social and Governance (ESG) factors has been built into the 2020/21 Annual Investment Strategy.

Short term lending

4.2 The Bank of England (BoE) Base Rate remained 0.10% during 2020/21 a record low for the UK and set as a measure to support the economy during the COVID 19 pandemic.

4.3 The total amount received in short term interest for 2020/21 was £1.7m at an average rate of 0.72%. This was above the average base rates in the same period (0.10%) and above the average returns achieved with peer authorities from treasury advisors (Link Asset Services) investment benchmarking. The Return for 2020/21 was against a backdrop of ensuring, so far as possible in the current financial climate, the security of principal and the minimisation of risk about liquidity to support the Council's cashflow should it be required.

Longer term lending

4.4 During 2020/21 a number of longer term local authority investments were placed with the aim of locking in certainty of return. These investments have secured a fixed level of return without compromising credit quality in a low interest rate environment.

Long term borrowing

4.5 Details of long term borrowing are included in Appendix B of the report. The important points are:

- No new borrowing was undertaken in 2020/21.
- The average interest rate of all debt at 31 March 2021 (£236.6m) was 4.65% (4.73% at 31 March 2020).
- Public Works Loan Board (PWLB) Debt maturing during 2020/21 totalled £2.6m and was at an average rate of 8.13%.

Minimum Revenue Provision (MRP)

4.6 Full details of the 2020/21 MRP policy are set out in appendix D.

5. Treasury Management Mid Year Review 2021/22

5.1 The Treasury Management and Annual Investment Strategy for 2021/22 were approved by Full Council on 9 February 2021 and was prepared within the context of the financial challenge being faced by the County Council.

5.2 Working practices adopted during the outbreak of the COVID 19 pandemic continued into 2021/22 within Treasury Management with no business disruption to report.

5.3 The risk to cashflow during the period was reduced due to grant funding and timing of cashflows, however, funds remained liquid in order to support the Council's cashflow demand.

5.4 As in previous years several Local Authority investments were placed during the period to secure a fixed rate of return. In July 2021 two fixed term bank deposits totalling £30m were placed with Standard Chartered that are ringfenced within a sustainable lending ESG framework. These investments fulfilled the key principals of security, liquidity and yield with the overlay of ESG included.

5.5 The total amount received in short term interest for 6 months to 30 September 2021 was £607,000 at an average rate of 0.39%. This was above the average base rates in the same period (0.10%) and investment benchmarking with peer authorities.

5.6 No additional PWLB borrowing was undertaken in the period and no cost effective opportunities to restructure debt have taken place. During 2021/22 PWLB to mature totals £3.6m, taking total debt down to £232.9m by 31 March 2022; this historic debt is at an average rate of 6.84%.

5.7 Bank of England Base Rate during the first 6 months of 2021/22 were held at 0.10%. Market sentiment for a rate rise has shifted following the latest Monetary Policy Committee (MPC) meeting held in September 2021. The latest economic commentary provided by Link Asset Services (LAS) is set out in appendix D.

6. Prudential Indicators which relate to the Treasury function and compliance with limits

6.1 The Council is required by the CIPFA Prudential Code to report the actual prudential indicators after the end of each year. There are eight indicators which relate to treasury management and they are set out in Appendix D, the Council is fully compliant with these indicators.

7. Conclusion and reason for recommendation

7.1 This report updates the Cabinet and fulfils the requirement to submit an annual/half yearly report in the form prescribed in the Treasury Management Code of Practice. The report has been considered by the Audit Committee. Short term lending throughout the 18 month period covered achieved returns between 0.37% and 1.01%. The key principles of security, liquidity and yield are still relevant. Officers are currently investigating further opportunities within the strategy to increase investment income whilst minimising costs and maintaining security, in a period of significant uncertainty.

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Chief Operating Officer

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BACKGROUND DOCUMENTS

Cabinet 28 January 2020 Treasury Management Strategy for 2020/21
26 January 2021 Treasury Management Strategy for 2021/22

CIPFA Prudential Code and Treasury Management in the Public Services- Code of practice
Local Government Act 2003 Local Government Investments guidance.

Appendix A

A summary of the strategy agreed for 2020/21 and the economic factors affecting this strategy

1. Background information

1.1 Full Council approved the annual Treasury Management Strategy report in February 2020, which sets out the proposed strategy for the year ahead. This strategy includes the limits and criteria for organisations to be used for the investment of cash surpluses and has to be approved by the Council.

1.2 This Council has always adopted a prudent approach to its investment strategy and in the last few years, there have been regular changes to the list of the approved organisations used for investment of surpluses. This list is regularly reviewed to ensure that the Council is able to invest in the best available rates consistent with low risk; the organisations are regularly monitored to ensure that their financial strength and low risk has been maintained.

1.3 The original strategy for 2020/21 was prepared within the context the financial challenge being faced by the County Council over the Medium Term Financial Plan (MTFP). The 2020/21 strategy sought to complement the Council's MTFP:

- Utilising long term cash balances as effectively as possible by investing in longer term instruments and/or using to fund borrowing to reduce borrowing costs;
- Ensuring the investment portfolio is working hard to maximise income by exploring alternative appropriate investment opportunities during 2020/21;
- Ensuring effective management of the borrowing portfolio by exploring rescheduling opportunities and identifying and exploiting the most cost effective ways of funding the Council's borrowing requirement.

1.4 At the same time, the Treasury Management Policy Statement was agreed as unchanged for 2020/21.

East Sussex County Council defined its treasury management activities as:

"The management of the organisation's cash flows, its banking, money market and Capital market transactions (other than those of the Pension Fund) the effective management of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council regards the successful identification, monitoring and management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

This authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management".

2. Investment

2.1 When the strategy was agreed in January 2020, it emphasised the continued importance of credit quality. The Treasury Management Advisors Link Asset Services commented on short term interest rates, the UK economy, inflation, the outlook for long term interest rates and these factors were taken into account when setting the strategy. The 2020/21 Investment Strategy permitted officers to explore new opportunities to invest long-term cash in suitable longer term instruments in order to assist in delivering treasury savings by increasing investment income. Modelling of the Council's use or reserves and planned capital programme identified balances that could be invested for a longer duration (for approximately 3 years). An options appraisal review was undertaken during 2019/20 to identify investment options which matched the three year time horizon.

2.2 On 15 October 2019, Full Council declared a Climate Emergency (Item 37). Subsequently, Treasury Management officers have been exploring ways in which the Council's cash balances can be utilised to support the Council's commitment to tackle climate change. As a result, consideration of ESG factors has been built into the 2020/21 Annual Investment Strategy.The key principles of security, liquidity and yield are still relevant. Officers are currently investigating further opportunities within the strategy to minimise costs and increase investment income within the key principles.

2.3 Officers regularly review the investment portfolio, counterparty risk and construction, and use market data, information on government support for banks and the credit ratings of that government support. Latest market information is arrived at by reading the financial press and through city contacts as well as access to the key brokers involved in the London money markets.

2.4 This Council in addition to other tools uses the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- credit default swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

2.5 The strategy going forward was to continue with the policy of ensuring minimum risk, but was also intended to deliver secure investment income on the Councils cash balances.

2.6 As was clear from events globally and nationally since 2008, it is impossible in practical terms to eliminate all credit risk.

2.7 The strategy aimed to ensure that in the economic climate it was essential that a prudent approach was maintained. This would be achieved through investing with selected banks and funds which met the Council's rating criteria. The emphasis would continue on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed) rather than yield.

2.8 The Council's investment policy has regard to the Ministry of Housing, Communities & Local Government's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Link Asset Services al Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, and then return.

2.9 Investment instruments identified for use in the financial year are listed in section 3.2 and 4.1 under the 'Specified and Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

2.10 The weighted scoring system produces an end product of a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments, i.e., using counterparties within the following durational bands provided they have a minimum AA+ sovereign rating from three rating agencies:

- Yellow 2 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour, not to be used

Y	P	B	O	R	G	N/C
Up to 2yrs	*Up to 2yrs*	*Up to 1yr*	*Up to 1yrs*	*Up to 6 mths*	*Up to 100days*	*No Colour*

2.11 The Link Asset Services credit worthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue influence to just one agency's ratings.

2.12 Typically the minimum credit ratings criteria the Authority use, will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. The Authority is alerted to changes to ratings of all three agencies through its use of the Link Asset Services credit worthiness service.

- if a downgrade results in the counterparty or investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

2.13 The Link Asset Services methodology determines the maximum investment duration under the credit rating criteria. Key features of Link Asset Services credit rating policy are:

- a mathematical based scoring system is used taking ratings from all three credit rating agencies;
- negative and positive watches and outlooks used by the credit rating agencies form part of the input to determine a counterparty's time band (i.e. 3, 6, 9, 12 months etc.).
- CDS spreads are used in Link Asset Services creditworthiness service as it is accepted that credit rating agencies lag market events and thus do not provide investors with the most instantaneous and "up to date" picture of the credit quality of a particular institution. CDS spreads provide perceived market sentiment regarding the credit quality of an institution.
- After a score is generated from the inputs a maximum time limit (duration) is assigned and this is known as the Link Asset Services colour which is associated with a maximum suggested time boundary.

2.14 All of the investments were classified as Specified (i.e., investment is sterling denominated and has a maximum maturity of 1 year) and non-Specified Investments (i.e., any other type of investment not defined as Specified). These investments were sterling investments for up to two years maturity with institutions deemed to be high credit quality or with the UK Government (Debt Management Account Deposit Facility). These were considered low risk assets where the possibility of loss of principal or investment income was small.

2.15 If investment instruments identified in the financial year under the 'Non-Specified and Specified' Investments categories were used, the Council funds would be invested as follows:

3. Specified Investments

3.1 An investment is a specified investment if all of the following apply:

- the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
- the investment is not a long term investment (i.e. up to 1 year);
- the making of the investment is not defined as Capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended];
- the investment is made with a body or in an investment scheme of high credit quality (see below) or with one of the following public-sector bodies:
    - The United Kingdom Government;
    - A local authority in England or Wales (as defined under section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland; and
    - High credit quality is defined as a minimum credit rating as outlined in section 4.2 of this strategy.

3.2 The use of Specified Investments

Investment instruments identified for use in the financial year are as follows:

- The Table below set out the types of investments that fall into each category, counterparties available to the Council, and the limits placed on each of these. A detailed list of each investment type is available in the Treasury Management Practices guidance notes;
- all investments will be within the UK or AA+ sovereign rated countries.

Criteria for specified Investments:

Counterparty	Country/ Domicile	Instrument	Min. Credit Criteria/LAS colour band	Max. Amount	Max. maturity period
Debt Management and Deposit Facilities (DMADF)	UK	Term Deposits (TDs)	N/A	unlimited	12 Months
Government Treasury bills	UK	TDs	UK Sovereign Rating	unlimited	12 Months
UK Local Authorities	UK	TDs	UK Sovereign Rating	£60m	12 Months
Banks – part nationalised	UK	▪ TDs ▪ Deposits on Notice ▪ Certificates of Deposit (CDs)	N/A	£60m	12 Months
Banks	UK	▪ TDs ▪ Deposits on Notice ▪ CDs	Blue	£60m	12 Months
			Orange	£60m	12 Months
			Red	£60m	6 Months
			Green	£60m	100 Days
Building Societies	UK	▪ TDs	Blue	£60m	12 Months

Counterparty	Country/ Domicile	Instrument	Min. Credit Criteria/LAS colour band	Max. Amount	Max. maturity period
		▪ Deposits on Notice ▪ CDs	Orange	£60m	12 Months
			Red	£60m	6 Months
			Green	£60m	100 Days
Individual Money Market Funds (MMF) CNAV and LVNAV	UK/Ireland/ EU domiciled	AAA Rated Money Market Fund Rating	N/A	£60m	Liqiuid
VNAV MMF's and Ultra Short Dated Bond Funds	UK/Ireland/EU domiciled	AAA Rated Bond Fund Fund Rating	N/A	£60m	Liquid
Banks – Non-UK	Those with sovereign rating of at least AA+*	▪ TDs ▪ Deposits on Notice ▪ CDs	Blue	£60m	12 Months
			Orange	£60m	12 Months
			Red	£60m	6 Months
			Green	£60m	100 Days

4. Non Specified Investments

4.1 Non-Specified investments are any other types of investment that are not defined as specified. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below.

Counterparty	Minimum credit criteria	Maximum investments	Period
UK Local Authorities	Government Backed	£60m	2 years
Corporate Bond Fund(s)	Investment Grade	£30m	2 - 5 years
Pooled Property Fund(s)	N/A	£30m	5+ years
Mixed Asset Fund(s)	Appropriate rating	£30m	2 - 5 years
Short Dated Bond Fund(s)	N/A	£30m	2 – 5 years

4.2 The maximum amount that can be invested will be monitored in relation to the Council surplus monies and the level of reserves. The approved counterparty list will be maintained by referring to an up-to-date credit rating agency reports, and the Council will liaise regularly with brokers for updates. Where Externally Managed Funds are not rated a selection process will evaluate relative risks & returns. Security of the council's money and fund volatility will be key measures of suitability. Counterparties may be added to or removed from the list only with the approval of the Chief Finance Officer.

5. The economy in 2020/21 – Commentary from Link Asset Services (Treasury Management Advisors) in April 2021

5.1 The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one.

5.2 The advent of vaccines starting in November 2020, was a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.

5.3 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.

5.4 The Monetary Policy Committee (MPC) cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing (QE - purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

5.5 Average inflation targeting. This was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "*it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably*". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern to the MPC.

5.6 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.

5.7 Employment - Government support. The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 2020/21 and 2021/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%. An area of concern, though, is that the government's debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low e.g. by using fiscal policy in conjunction with the monetary policy action by the Bank of England to keep inflation from rising too high, and / or by amending the Bank's policy mandate to allow for a higher target for inflation.

5.8 BREXIT - the final agreement on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.

Appendix B

The Treasury Management activity during the year 2020/21

1. Investment activity interest rates

1.1 Investments were placed with reference to the core balance and cash flow requirements and the outlook for interest rates. Base interest rates during the period were 0.10%, the current record low for UK interest rates.

1.2 Following consultation, changes to the strategy were made from 2017/18 to broaden the risk profile by reducing liquidity and to include some suitable, alternative investment products that are held for the medium (2-5 years) to longer term (5 years+). These products can generate better overall returns but there is a higher risk of volatility of performance so a longer term commitment is required.

1.3 The following table below summarises the changes made. The inclusion of an investment product category in the strategy does not automatically result in investments being placed.

Investment options	2017/18	2018/19	2019/20	2020/21
Money Market Funds (Including LVNAV)	✓	✓	✓	✓
Bank Notice Accounts	✓	✓	✓	✓
Fixed Term Bank Deposits	✓	✓	✓	✓
UK Local Authorities	✓	✓	✓	✓
Enhanced Money Market Funds (VNAV)	✓	✓	✓	✓
Building Societies	✗	✓	✓	✓
Pooled Property Funds	✗	✓	✓	✓
Corporate Bond Funds	✗	✓	✓	✓
Mixed Asset Funds	✗	✓	✓	✓
Equity Funds	✗	✗	✓	✓

The primary principle governing the Council's investment criteria is the security of its investments, although the return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security;
- It has sufficient liquidity in its investments;
- It receives a yield that is aligned with the level of security and liquidity of its investments;
- Where possible, it actively seeks to support Environmental, Social and Governance (ESG) investment products and institutions that meet all of the above requirements.
- The preservation of capital is the Council's principal and overriding priority.

1.4 The total amount received in short term interest for 2020/21 was £1.7m at an average rate of 0.72%. This was above the average of base rates in the same period (0.10%) and against a backdrop of ensuring, so far as possible in the financial climate, the security of principal and the minimisation of risk within a broader boundary.

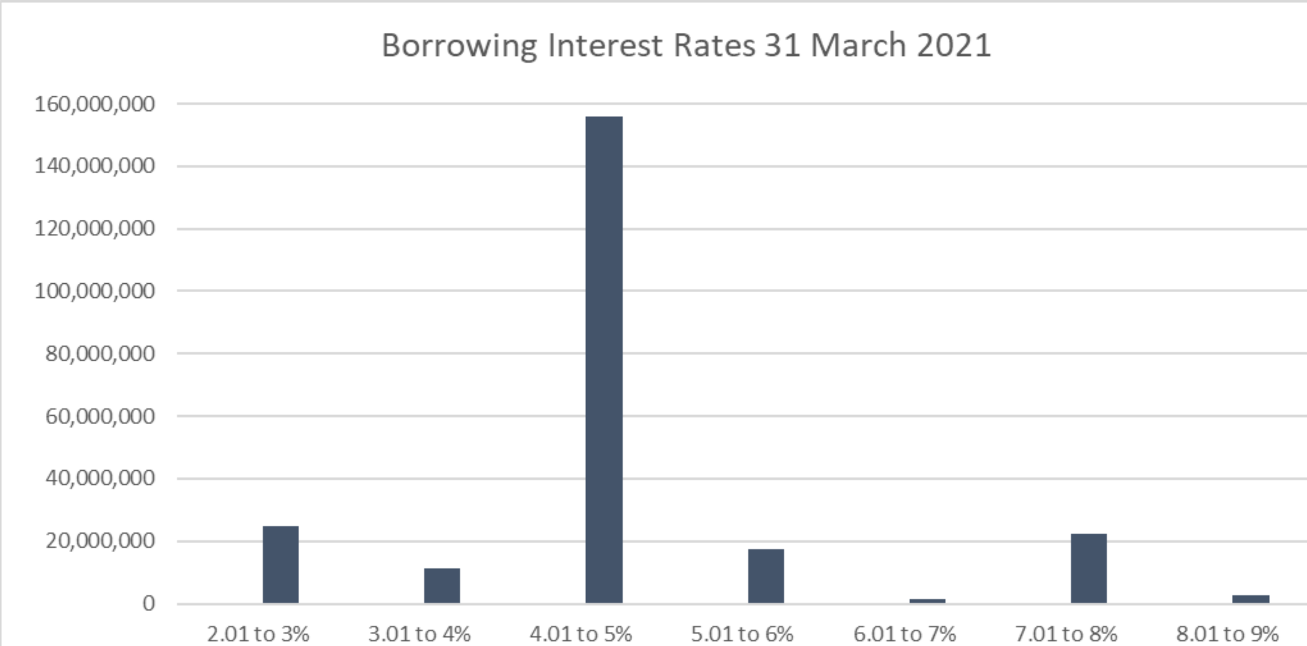
2. Long term borrowing

2.1 Officers constantly reviewed the need to borrow taking into consideration the potential movements in borrrowing costs, the need to finance new capital expenditure, refinancing maturing debt, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns.

2.2 During 2020/21 £2.6m of PWLB debt matured at a coupon rate of 8.13%. This historic maturing debt was not replaced with additional in year new borrowing.

2.3 The average interest rate of all debt at 31 March 2021 of £236.6m was 4.65%. No beneficial rescheduling of debt has been available, due to a considerable widening of the difference between new borrowing and repayment rates, which has made PWLB debt restructuring much less attractive. Consideration would have to be given to the large premiums (cash payments) which would be incurred by prematurely repaying existing PWLB loans. It is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing.

2.4 The range of interest rates payable in all of the loans is illustrated in the graph below:



3. Short term borrowing

3.1 A short term loan was arranged on the 1st April 2020 with another Local Authority to cover potential gaps in the Council's cashflow, the £10m loan was paid back on maturity 15th May 2020 and was at a rate of 0.15%. Further short-term borrowing during 2020/21 was not required.

4. Treasury Management Advisers

4.1 The Strategy for 2020/21 explained that the Council uses Link Asset Services as its treasury management consultant on a range of services which include:

- Technical support on treasury matters, Capital finance issues and advice on reporting;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings from the three main credit rating agencies and other market information;
- Assistance with training on treasury matters

4.2 Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remained with the Council. This service remains subject to regular review.

4.3 Link Asset Services is the largest provider of Treasury Management advice services to local authorities in the UK and they claim to be the market leading treasury management service provider to their clients. The advice has been and will continue to be monitored regularly to ensure a continued excellent advisory service.

Appendix C

The Treasury Management Activity Mid-Year Report – 2021/22

1. Background

1.1 The Treasury Management and Annual Investment Strategy for 2021/22 were approved by the Cabinet 26 January 2021. The 2021/22 strategy maintained the approved instruments adopted previously to improve yield and diversify the investment portfolio. Changes to the strategy are summarised below.

Investment options	2017/18	2018/19	2019/20	2020/21	2021/22
Money Market Funds (Including LVNAV)	✓	✓	✓	✓	✓
Bank Notice Accounts	✓	✓	✓	✓	✓
Fixed Term Bank Deposits	✓	✓	✓	✓	✓
UK Local Authorities	✓	✓	✓	✓	✓
Enhanced Money Market Funds (VNAV)	✓	✓	✓	✓	✓
Building Societies	✗	✓	✓	✓	✓
Pooled Property Funds	✗	✓	✓	✓	✓
Corporate Bond Funds (Including Short Dated Bond Funds)	✗	✓	✓	✓	✓
Multi Asset Funds	✗	✓	✓	✓	✓
Equity Funds	✗	✗	✓	✓	✓

1.2 This report considers treasury management activity over six months of the financial year.

2. Treasury Management Strategy

2.1 The Council approved the 2021/22 treasury management strategy at its meeting on 29 January 2021. The Council’s stated investment strategy is to prudently manage an investment policy achieving first of all, security (protecting the Capital sum from loss), liquidity (keeping money readily available for expenditure when needed), and to consider what yield can be obtained consistent with those priorities.

2.2 The 2021/22 Investment Strategy has been set in the context of diminishing returns and opportunities in the current economic environment. The provides the framework for officers to seek new opportunities to invest long-term cash in suitable longer term instruments in order to assist in delivering treasury efficiencies by securing a level of investment income.

2.3 The pandemic, and resultant market uncertainty, has limited the scope for new investments. Actions to explore the available options for Short Dated Bond Funds and Multi Asset Funds have been paused but will be explored in the future when appropriate.

2.4 In response to the Council declaring a Climate Emergency, the Annual Investment Strategy for 2021/22 included Environmental Social and Governance (ESG) as a factor when undertaking investment decisions to allow the Treasury Management Strategy to actively support the Council’s aspirations to tackle climate change and other ESG factors. Officers have been exploring how the Council’s current counterparties are contributing to this area and are being asked how investment solutions can compliment this strategy. In reality, the market for green and ESG investments is relatively immature, which reduces the ability to actively invest in products that support the Council’s aspirations. However, research and the consideration of suitability of ESG investment products will continue into 2021/22.

2.5 The Chief Finance Officer is pleased to report that all treasury management activity undertaken from April 2021 to September 2021 period complied with the approved strategy, the CIPFA Code of Practice, and the relevant legislative provisions.

3 Summary of financial implications / activity

3.1 The Bank of England's Monetary Policy Committee held interest rates at 0.10% over the period. Our Treasury Advisors Link Asset Services are forecasting a low interest rate environment for the next 2 years and beyond with gradual stepped increases.

3.2 During the first half year investments have been held in money market funds, bank notice accounts, other local authorities and the CCLA Local Authority Property Fund. Counterparty credit quality remains a primary concern for the treasury team, with security, liquidity and yield in that order a priority.

3.3 Measures have been undertaken to ensure that levels of liquidity are available during the last 6 months but also opportunities explored to protect investment returns into the current year and beyond. Several local authority investments were placed up to a 2 year period securing a fixed rate of return between 0.12-0.45% within a low credit risk parameter.

3.4 Bank deposits have been placed up to a 6 month duration and notice accounts that have held their rate of return have been utilised.

3.5 Two £15m deposits have been made with regard to ESG and sustainable lending, through Standard Chartered Bank. These investments are assigned to sustainable assets with the aim of addressing the UN sustainable development goals. The offering fulfils the key principle of security, liquidity and yield and is consistent with the banks current other fixed term deposit rates.

3.6 The average investment balance to September 2021 was £309m and generated investment income of £607,000. The forecast for 2021/22 is £1.2m and is within budgeted provision.

3.7 No short term loan borrowing was arranged during the period. Future short-term borrowing in the current year is not forecasted but remains an option to cover temporary cashflow requirements.

3.8 The level of Council long-term debt at 30 September 2021 was £234.9m a loan totalling £1.65m matured with the PWLB on the 30th June 2021 held at a rate of 5.75%. The next maturity is on the 31 December 2021, £1.98m at a rate of 7.75%. The forecast for interest paid on long-term debt in 2021/22 is approximately £10.9m and is within the budgeted provision.

3.9 Opportunities to reduce the cost of carry (interest paid against interest received) are constantly being explored as and when options arise.

4. Economic Review (provided by Link Asset Services, September 2021)

4.1 The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.

4.2 There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, the MPC had been prepared to look through a temporary spike in inflation.

4.3 So, in August the country was just put on alert. However, this time the MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement; this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.

4.4 Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.

4.5 The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -

1. Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

4.6 COVID-19 vaccines. These have been the game changer which have enormously boosted confidence that life in the UK could largely return to normal during the summer after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

5.0 Link Asset Services interest rate forecasts

5.1 The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings.

5.2 As shown in the forecast table below, one increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 23/24 and a third one to 0.75% in quarter 4 of 23/24.

Link Group Interest Rate View	29.9.21									
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

5.3 Significant risks to the forecasts:

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The pandemic causes major long-term scarring of the economy.
- The Government implements an austerity programme that supresses GDP growth.
- The MPC tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- Major stock markets e.g. in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the “moral hazard” risks of having to buy shares and corporate bonds to reduce the impact of major financial market sell-offs on the general economy.
- Geo-political risks are widespread e.g. German general election in September 2021 produces an unstable coalition or minority government and a void in high-profile leadership in the EU when Angela Merkel steps down as Chancellor of Germany; on-going global power influence struggles between Russia/China/US.

5.4 The balance of risks to the UK economy:

- The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

5.5 Forecasts for Bank Rate:

Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC’s 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts may well need changing within a relatively short time frame for the following reasons: -

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer and now into the autumn. This could lead into stagflation which would create a dilemma for the MPC as to which way to face.
- Will some current key supply shortages e.g., petrol and diesel, spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool

inflation. Then we have the Government's upcoming budget in October, which could also end up in reducing consumer spending power.

- On the other hand, consumers are sitting on around £200bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- There are 1.6 million people coming off furlough at the end of September; how many of those will not have jobs on 1st October and will, therefore, be available to fill labour shortages in many sectors of the economy So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate the MPC's current concerns.
- There is a risk that there could be further nasty surprises on the Covid front, on top of the flu season this winter, which could depress economic activity.

In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with what the new news is.

It also needs to be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Appendix D

1. Prudential Indicators which relate to the Treasury function and compliance with limits

1.1 The Council is required by the Prudential Code to report the actual prudential indicators after the end of each year. There are eight indicators which relate to treasury management and they are set on an annual basis and monitored, they comprise:-:

- Operational and authorised borrowing limits which includes short term borrowing (paragraph 2.1 below)
- Interest rate exposure (paragraph 3.1 below)
- Interest rate on long term borrowing (paragraph 4.1 below)
- Maturity structure of investments (paragraph 5.1 below)
- Compliance with the Treasury Management Code of Practice (paragraph 6.1 below)
- Interest on investments (paragraph 7.1 below)
- Capital Financing Requirement and Minimum Revenue Provision (paragraph 8.1 below)

2. Operational and authorised borrowing limits.

2.1 The tables below sets out the estimate and projected Capital financing requirement and long-term borrowing in 2020/21

	Capital Financing Requirement	**2020/21 Estimate**	**2020/21 Actual**
		£m	**£m**
	Capital Financing Requirement at 1 April 2020	**344**	**342**
add	Capital Expenditure	99	72
add	Impact for IFRS 16 Leases	20	-
less	Capital Financing	(61)	(72)
less	Provision for repayment of debt	(7)	(7)
	Capital Financing Requirement at 31 March 2021	**395**	**335**
add	Short Term Borrowing Provision	10	
	Operational Boundary	**405**	
add	Short Term Borrowing Provision	20	
	Authorised Limit	**425**	

	Actual Borrowing	**2020/21 Actual**
		£m
	Long Term Borrowing at 1 April 2020	**239**
less	Loan redemptions	(3)
add	New Borrowing	-
	Long Term Borrowing at 31 March 2021	**236**

2.2 The Estimated Capital Financing Requirement included a balance of £20m to factor in the introduction of IFRS 16. CIPFA have further delayed the implementation until 1st April 2022. The actual Capital Financing Requirement included PFI Schemes and Finance Leases totalling £80.4m, excluding these results in an underlying need to borrow of £255m.

2.3 The Operational Boundary was consistent with the Council’s current commitments, existing plans and the proposals for Capital expenditure and financing, and with its approved treasury management policy statement and practices. It was based on the estimate of most likely, prudent but not worst case scenario. Risk analysis and risk management strategies were taken into account as were plans for Capital expenditure, estimates of the Capital financing requirement and estimates of cash flow requirements for all purposes. The Operational boundary represents a key management tool for in year monitoring and long term borrowing control.

2.4 The Authorised Limit for borrowing was based on the same estimates as the Operational Boundary but includes additional headroom for a short term borrowing to allow, for example, for unusual cash movements or late receipt of income.

2.5 The Authorised limit is the “Affordable Borrowing Limit” required by S3 of the Local Government Act 2003 and must not be breached. The Long Term borrowing at 31st March 2021 of £236m is under the Operational boundary and Authorised limit set for 2020/21. The Operational boundary and Authorised limit have not been exceeded during the year.

3. Interest rate exposure

3.1 The Council continued the practice of seeking to secure competitive fixed interest rate exposure for 2019/20. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs or improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the council’s exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

	2020/21	**2021/22**	**2022/23**
Interest rate exposure	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	15%	15%	15%
Maturity structure of fixed interest rate borrowing 2020/21			
	Lower	**Upper**	**Actual 2020/21**
Under 12 months	0%	25%	2%
12 months and within 24 months	0%	40%	2%
24 months and within 5 years	0%	60%	6%
5 years and within 10 years	0%	80%	13%
10 years and within 20 years	0%	80%	23%
20 years and within 30 years	0%	80%	21%
30 years and within 40 years	0%	80%	33%
40 years and above	0%	80%	0%

3.2 The Council has not exceeded the limits set in 2020/21. Not more than £20m of debt should mature in any financial year and not more than 15% to mature in any two consecutive financial years. Borrowing has been undertaken giving due consideration to the debt maturity profile, ensuring that an acceptable amount of debt is due to mature in any one financial year. This helps to minimise the authority’s exposure to the risk of having to replace a large amount of debt in any one year or period when interest rates may be unfavourable. The bar chart in the attached Annex 1 shows the maturity profile.

4. Interest rate on long term borrowing

4.1 The rate of interest taken on any new long term borrowing will be been defined with the assistance of Link Asset Services.

5. Maturity structure of investments

5.1 The Investment Guidance issued by the government, allowed local authorities the freedom to invest for more than for one year. All investments over one year were to be classified as Non-Specified Investments. The Council had taken advantage of this freedom and non-Specified Investments are allowed to be held within our overall portfolio of investments and in line with our prudent approach in our strategy.

6. Compliance with the Treasury Management Code of Practice

6.1 East Sussex County Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA), Code of Practice for Treasury Management in the Public Services. In December 2018, CIPFA, issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.
A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. The outcome is the new Capital Strategy document now forms part of the annual budget papers.

7. Interest on investments 2020/21

7.1 The table below sets out the average monthly rate received on our investments and compares it to the Bank of England Base rate to reflect both the interest rates available in the market and limitation in the use of counterparties.

Month	Amount £'000	Monthly rate	Margin against Base Rate*
April	183	1.01%	0.91%
May	193	0.99%	0.89%
June	150	0.79%	0.69%
July	163	0.81%	0.71%
August	165	0.78%	0.68%
September	151	0.75%	0.65%
October	152	0.73%	0.63%
November	132	0.67%	0.57%
December	130	0.64%	0.54%
January	112	0.53%	0.43%
February	99	0.52%	0.42%
March	110	0.50%	0.40%
Total for 2020/21	**1,740**	**0.72%**	**0.62%**

*Average base rate during 2020/21 was 0.10%.

7.2 The total amount received in short term interest for the year was £1.74m at an average rate of 0.72%. This was above the average of base rates in the same period (0.10%) but ensuring, so far as possible in the financial climate, the security of principal and the minimisation of risk. This Council has continued to follow a prudent approach with security and liquidity as the main criteria before yield.

8. Capital Financing Requirement and Minimum Revenue Provision (MRP)

8.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement - CFR) through a revenue charge (the Minimum Revenue Provision - MRP). Ministry of Housing, Communities and Local Government (MHCLG) regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options are available to Councils, so long as the principle of any option selected ensures a prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

8.2 The Council was recommended to approve the following MRP Statement for 2020/21 onwards:

For borrowing incurred before 1 April 2008, the MRP policy will be:

- Annuity basis over a maximum of 40 years.

From borrowing incurred after 1 April 2008, the MRP policy will be:

- Asset Life Method (annuity method) – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations. A maximum useful economic life of 50 years for land and 40 years for other assets. This option will also be applied for any expenditure capitalised under a capitalisation directive.

For PFI schemes, leases and closed landfill sites that come onto the Balance Sheet, the MRP policy will be:

- Asset Life Method (annuity method) - The MRP will be calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. Any related MRP will be equivalent to the "capital repayment element" of the annual charge payable.

There is the option to charge more than the prudent provision of MRP each year through a Voluntary Revenue Provision (VRP).

8.3 For loans to third parties that are being used to fund expenditure that is classed as capital in nature, the policy will be to set aside the repayments of principal as capital receipts to finance the initial capital advance in lieu of making an MRP.

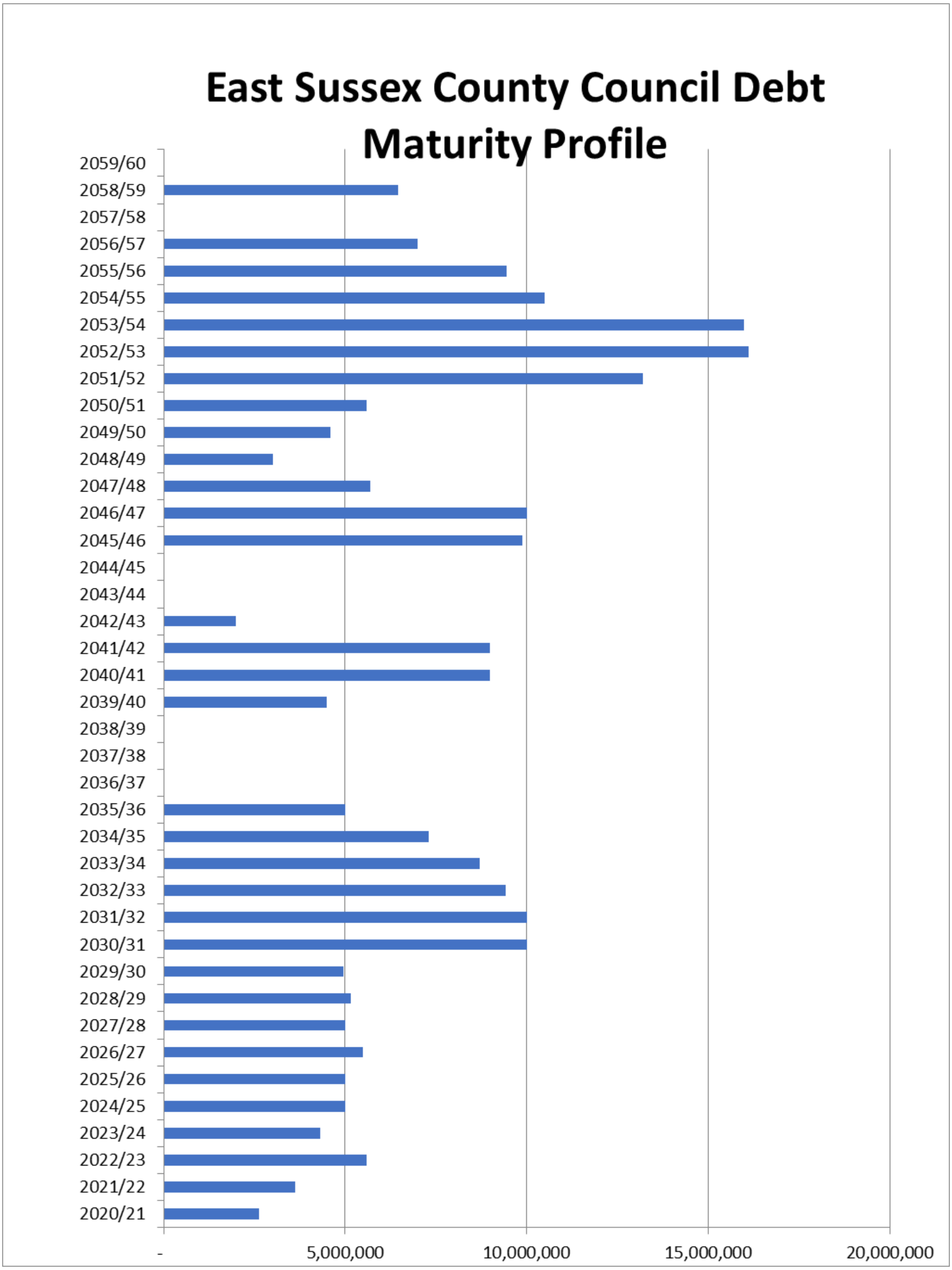
8.4 In view of the variety of different types of capital expenditure incurred by the Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure. This approach also allows the Council to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending.

8.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

CFR including appropriate balances and MRP charges for PFI Schemes and Finance Leases.

	2020/21 Actual	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	£m	**£m**	**£m**	**£m**
Total CFR	**335**	**379**	**395**	**400**
Movement in CFR	-	44	16	5

Annex 1


East Sussex County Council Debt Maturity Profile
2059/60
2058/59
2057/58
2056/57
2055/56
2054/55
2053/54
2052/53
2051/52
2050/51
2049/50
2048/49
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