APPENDIX A

TREASURY MANAGEMENT POSITION FOR THE FIRST QUARTER OF 2021/22

A1. SUMMARY OF TREASURY MANAGEMENT INDICTORS

The City Council approved the authorised limit (the maximum amount of borrowing permitted by the Council) and the operational boundary (the maximum amount of borrowing that is expected) on 9th February 2021. The Council's debt at 30th June was as follows:

Prudential Indicator	**Limit** £m	**Actual** £m
Authorised Limit - the maximum amount of borrowing permitted by the Council	864	775
Operational Boundary - the maximum amount of borrowing that is expected	846	775

The maturity structure of the Council's fixed rate borrowing was:

	Under 1 Year	**1 to 2 Years**	**3 to 5 Years**	**6 to 10 Years**	**11 to 20 Years**	**21 to 30 Years**	**31 to 40 Years**	**41 to 50 Years**
Minimum proportion of loans maturing	0%	0%	0%	0%	0%	0%	0%	0%
Maximum proportion of loans maturing	10%	10%	10%	20%	30%	40%	40%	50%
Actual proportion of loans maturing	1%	1%	4%	13%	13%	5%	32%	31%

The maturity structure of the Council's variable rate borrowing was:

	Under 1 Year	**1 to 2 Years**	**3 to 5 Years**	**6 to 10 Years**	**11 to 20 Years**	**21 to 30 Years**	**31 to 40 Years**	**41 to 50 Years**
Minimum proportion of loans maturing	0%	0%	0%	0%	0%	0%	0%	0%
Maximum proportion of loans maturing	10%	10%	10%	20%	30%	40%	40%	40%
Actual proportion of loans maturing	2%	2%	6%	11%	23%	25%	17%	14%

Surplus cash invested for periods longer than 365 days at 30th June 2021 was:

	Limit £m	**Quarter 1 Actual** £m
Maturing after 31/3/2022	200	67
Maturing after 31/3/2023	134	31
Maturing after 31/3/2024	103	0

A2. GOVERNANCE

The Treasury Management Policy approved by the City Council on 16th March 2021 provides the framework within which treasury management activities are undertaken.

There have been no breaches of these policies during 2021/22 up to the period ending 30th June 2021.

A3. BORROWING ACTIVITY

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates.

The latest forecasts are shown below. There is also now a first increase in Bank Rate from 0.10% to 0.25% forecast in quarter 2 of 2023/24.

Link Group Interest Rate View	10.5.21											
	Jun-21	Sep-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	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
5 yr PWLB	1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50
10 yr PWLB	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
25 yr PWLB	2.20	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40

PWLB is the Public Works Loans Board

The coronavirus outbreak has caused economic damage to the UK and to economies around the world. After the Bank of England took prompt action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings. As shown in the forecast table above, one tentative increase in Bank Rate from 0.10% to 0.25% has now been factored in for quarter 2 of 2023/24 as an indication that the Bank of England will be moving towards some form of monetary tightening around this time. However, it could well opt for reducing its stock of quantitative easing purchases of gilts as a first measure to use before increasing the Bank Rate so it is quite possible that there will be no increase in Bank Rate in the three-year forecast period shown.

There are a number of significant risks to the forecasts including:

- COVID vaccines do not work to combat new mutations and / or new vaccines take longer than anticipated to be developed for successful implementation.
- The lockdowns cause major long-term scarring of the economy.
- The Government implements an austerity programme that supresses GDP growth.
- The Bank of England's Monetary Policy Committee (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.
- Geo-political risks are widespread e.g. German general election in September 2021 produces an unstable 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 and influence struggles between Russia/China/US.

While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets.

Gilt yields had, therefore, already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields initially spiked upwards in March, yields fell sharply in response to major western central banks taking rapid policy action to deal with excessive stress in financial markets during March and starting large quantitative easing driven purchases of government bonds: these actions also acted to put downward pressure on government bond yields at a time when there was a significant and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply.

At the start of 2021, all gilt yields from 1 to 8 years were negative: however, since then all gilt yields have become positive and have risen sharply, especially in medium and longer-term periods. The main driver of these increases has been investors becoming progressively more concerned at the way that inflation has risen sharply in major western economies during 2021, and further increases in inflation are expected.

Gilt yields PWLB rates have lacked any consistent direction since then over the last three months to 30th June.

No borrowing was undertaken during the quarter ended / year to 30th June 2021.

The Council's gross borrowing at 30th June 2021 of £775m is within the Council's Authorised Limit (the maximum amount of borrowing approved by City Council) of £864m and also within the Council's Operational Boundary (the limit beyond which borrowing is not expected to exceed) of £846m.

The Council plans for gross borrowing to have a reasonably even maturity profile. This is to ensure that the Council does not need to replace large amounts of maturing borrowing when interest rates could be unfavourable.

The actual maturity profile of the Council's borrowing is within the limits contained within the Council's Treasury Management Policy (see paragraph A1).

Early Redemption of Borrowing

Debt rescheduling opportunities have been limited in the current economic climate and following the various increases in the margins added to gilt yields which has impacted PWLB new borrowing rates since October 2010. During the quarter ended 30th June 2021 no debt rescheduling was undertaken.

With the exception of two loans all the Council's borrowings to finance capital expenditure are fixed rate and fixed term loans. This reduces interest rate risk and provides a high degree of budget certainty.

The Council's borrowing portfolio is kept under review to identify if and when it would be financially beneficial to repay any specific loans early. Repaying borrowing early invariably results in a premium (early repayment charges) by the PWLB that are sufficiently large to make early repayment of borrowing financially unattractive to the Council.

No debt rescheduling or early repayment of debt has been undertaken during the first quarter of 2021/22 as it has not been financially advantageous for the Council to do so.

A4. INVESTMENT ACTIVITY

The Council's investments averaged £447m during the first quarter of 2021/22 and made an average annualised return of 0.36%.

As shown by the interest rate forecasts in section A3, it is now impossible to earn the level of interest rates commonly seen in previous decades as all short-term money market investment rates have only risen weakly since Bank Rate was cut to 0.10% in March 2020. Given this environment and the fact that Bank Rate may only rise marginally, or not at all, before the second half of 2023, investment returns are expected to remain low.

Significant levels of downgrades to short and long term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of outlooks being reversed.

Although CDS prices (these are market indicators of credit risk) for banks (including those from the UK) spiked at the outset of the pandemic in 2020, they have subsequently returned to near pre-pandemic levels.

A5. COMBINED BORROWING AND INVESTMENT POSITION (NET DEBT)

The Councils net debt position at 30th June 2021 is summarised in the table below.

	Principal	**Average Interest Rate**	**Interest to 30th June 2021**
Borrowing (including finance leases & private finance initiative (PFI) schemes)	£775m	3.30%	£6.4m
Investments	(437m)	(0.36%)	(£0.4m)
Net Debt	£338m		£6.0m

*Although the Council's investments were £437m at 30th June 2021, the average sum invested over this period was £447m.