APPENDIX A

TREASURY MANAGEMENT POSITION FOR THE THIRD 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 on 31st December was as follows:

Prudential Indicator	Limit £m	Actual £m
Authorised Limit - the maximum amount of borrowing permitted by the Council	963	759
Operational Boundary - the maximum amount of borrowing that is expected	945	759

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 on 31st December 2021 was:

	Limit £m	**Quarter 1 Actual** £m
Maturing after 31/3/2022	200	104
Maturing after 31/3/2023	134	48
Maturing after 31/3/2024	103	9

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 31st December 2021.

A3. INTEREST RATE FORECASTS

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.

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

PWLB is the Public Works Loans Board

In December the Bank of England put interest rates up by 0.15% from 0.10% to 0.25% reflecting the upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020. The next increase in Bank Rate is likely to occur by May. With inflation expected to peak at around 6% in April, the Monetary Policy Committee (MPC) may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report. The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.

Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022. However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next downturn; all rates under 2% are providing stimulus to economic growth. Link have put year end 0.25% increases into Q4 of each financial year from 2023 to recognise this upward bias in Bank Rate, but the actual timing in each year is difficult to predict. Covid remains a major potential downside threat in all three years as there could be further mutations.

A4. BORROWING ACTIVITY

No borrowing was undertaken during the year to 31st December 2021.

The Council's gross borrowing on 31st December 2021 of £759m is within the Council's Authorised Limit (the maximum amount of borrowing approved by City Council) of £963m and within the Council's Operational Boundary (the limit beyond which borrowing is not expected to exceed) of £945m.

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.

Apart from 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 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 three quarters of 2021/22 as it has not been financially advantageous for the Council to do so.

A5. INVESTMENT ACTIVITY

The Council's investments averaged £445m to 31st December and made an average annualised return of 0.42%.

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. The Bank of England did increase Bank Rate by 0.15% to 0.25% in December. Typically, a rate hike would fully flow through to market pricing, especially for shorter durations. However, many banks are already awash with cash and have little appetite for yet more monies, especially over year-end. This may limit the extent to which the full increase in Bank Rate is reflected in the rates offered for shorter term investments. For longer term investments, the increase in the pace of monetary policy tightening, rather than any increase in the peak level, may impact longer term interest rates.

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.

A6. COMBINED BORROWING AND INVESTMENT POSITION (NET DEBT)

The Councils net debt position on 31st December 2021 is summarised in the table below.

	Principal	Average Interest Rate	Interest to 31st December 2021
Borrowing (including finance leases & private finance initiative (PFI) schemes)	£759m	3.39%	£19.3m
Investments	(466m)*	(0.42%)	(£1.4m)
Net Debt	£293m		£17.9m

*Although the Council's investments were £466m on 31st December 2021, the average sum invested over this period was £445m.