

APPENDIX A**TREASURY MANAGEMENT POSITION FOR THE FIRST QUARTER OF 2022/23****A1. SUMMARY OF TREASURY MANAGEMENT INDICATORS**

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) when it considered the budget on 15th February 2022. The Council's debt on 30th June was as follows:

Prudential Indicator	Limit £m	Actual £m
Authorised Limit - the maximum amount of borrowing permitted by the Council	1,009	759
Operational Boundary - the maximum amount of borrowing that is expected	995	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%	40%
Actual proportion of loans maturing	1%	1%	4%	13%	14%	6%	34%	27%

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%	7%	11%	23%	25%	15%	15%

Surplus cash invested for periods longer than 365 days on 30th June 2022 was:

	Limit	Quarter 1 Actual
	£m	£m
Maturing after 31/3/2023	125	55
Maturing after 31/3/2024	50	9
Maturing after 31/3/2025	50	5

A2. GOVERNANCE

The Treasury Management Policy approved by the City Council on 15th March 2022 provides the framework within which treasury management activities are undertaken.

There have been no breaches of these policies during 2022/23 up to the quarter ending 30th June 2022.

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	09.08.22												
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	2.25	2.50	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.00
3 month ave earnings	2.50	2.80	3.00	2.90	2.80	2.50	2.40	2.30	2.30	2.30	2.20	2.20	2.20
6 month ave earnings	2.90	3.10	3.10	3.00	2.90	2.80	2.70	2.60	2.50	2.50	2.40	2.30	2.30
12 month ave earnings	3.20	3.30	3.20	3.10	3.00	2.90	2.80	2.70	2.40	2.40	2.40	2.40	2.40
5 yr PWLB	2.80	3.00	3.10	3.10	3.00	3.00	2.90	2.90	2.80	2.80	2.80	2.70	2.70
10 yr PWLB	3.00	3.20	3.30	3.30	3.20	3.10	3.10	3.00	3.00	3.00	2.90	2.90	2.80
25 yr PWLB	3.40	3.50	3.50	3.50	3.50	3.40	3.40	3.30	3.30	3.20	3.20	3.20	3.10
50 yr PWLB	3.10	3.20	3.20	3.20	3.20	3.10	3.10	3.00	3.00	2.90	2.90	2.90	2.80

PWLB is the Public Works Loans Board

After the Bank of England became the first major western central bank to put interest rates up in the current cycle in December, it has quickly followed up its first 0.15% rise by a further four 0.25% rises to 1.25% on 30th June 2022. The Bank of England raised its base rate by a further 0.50% to 1.75% in August. Link now expect a further 0.50% increase in September; another 0.25% increase in November and a further 0.25% hike in February.

Link view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook

A4. BORROWING ACTIVITY

No borrowing was undertaken during the first quarter of 2022.

The Council's gross borrowing on 30th June 2022 of £759m is within the Council's Authorised Limit (the maximum amount of borrowing approved by City Council) of £1,009m and within the Council's Operational Boundary (the limit beyond which borrowing is not expected to exceed) of £995m.

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 quarter of 2022/23 as it has not been financially advantageous for the Council to do so.

A5. INVESTMENT ACTIVITY

The Council's investments averaged £469m to 30th June. 95% of the Council's investments were in simple vanilla deposits, 3% was invested in long term managed funds and 2% was invested in a tradable collared floating rate note. The Council's investments made an average annualised return of 0.31% in the first quarter of 2022/23.

Available investment returns were low through the Covid pandemic but improved dramatically in the first quarter of 2022/23. This is shown in the table below.

Period	20/21 Q1	20/21 Q2	20/21 Q3	20/21 Q4	21/22 Q1	21/22 Q2	21/22 Q3	21/22 Q4	22/23 Q1
Long Term Managed Funds	24.28	38.16	25.97	-3.36	9.96	-2.84	1.2	-27.03	-20.59
Structured Notes	22.55	23.26	1.63	-3.06	-0.47	-1.84	0.37	-3.4	-10.74
Vanilla Deposits	0.98	0.43	0.45	0.22	0.27	0.45	0.77	0.61	1.16
Overall Return	2.02	1.66	0.94	0.08	0.42	0.28	0.77	0.02	0.31

When market interest rates increase, the returns available to investors also increase. This can be seen in the near doubling of the return on the Council's vanilla deposits in the first quarter of 2022/23. However, the returns on long term managed funds and tradable structured notes often move the other way. This can be seen in the first half of 2020/21 when the returns on vanilla deposits were falling, but the returns from long term managed funds and structured notes were increasing because the previous higher market interest rates had been locked into, causing these investments to trade at a premium above their face value. Conversely, in the first quarter of 2022/23, when returns on vanilla deposits increased, the returns on long term managed funds and structured notes fell because the previous lower market rates had been locked into, causing these investments to trade at a discount below their face value. Despite trading at a discount below their face value structured notes and the underlying investments in long term managed funds will still make the contractual payments of principal and interest providing that the underlying investments do not default. It can also be seen from the graph above that, although the returns on long term managed funds and tradable structured notes are volatile with returns sometimes being negative, overall, they have had a stabilizing influence on the investment portfolio, increasing overall returns when the returns on vanilla deposits have fallen, but reducing overall returns when the returns on vanilla deposits have risen.

Significant levels of downgrades to Short- and Long-Term bank 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 have reopened, 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 30th June 2022 is summarised in the table below.

	Principal	Average Interest Rate	Interest to 30th June 2022
Borrowing (including finance leases & private finance initiative (PFI) schemes)	£759m	3.40%	£6.45m
Investments	(£472m) *	(0.31%)	(£0.36m)
Net Debt	£287m		£6.09m

*Although the Council's investments were £472m on 30th June 2022, the average sum invested over this period was £469m.