Appendix C

Borrowing Strategy for 2021/22

The Council's borrowing requirement identified within the Capital Programme 2021/22 to 2023/24 was self-financing prudential borrowing of £118.909m therefore no external borrowing was required but based on the prospects for interest rates outlined in the Treasury Strategy, the Council would adopt a pragmatic approach if circumstances changed when considering any new borrowing.

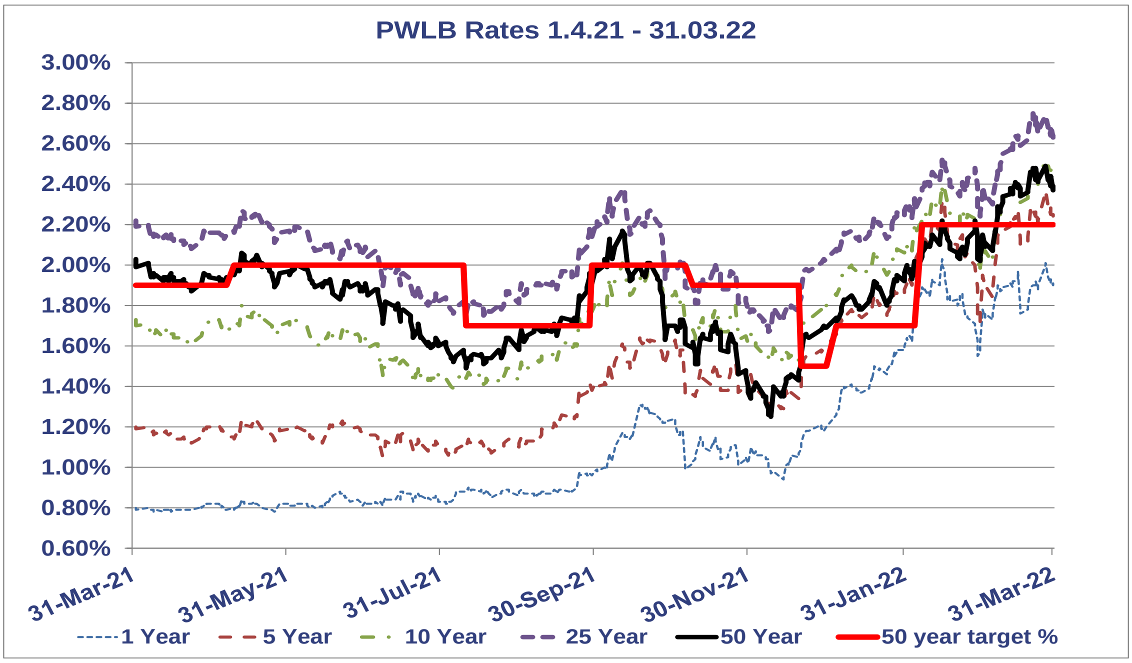
Short term Public Works Loan Board (PWLB) rates were expected to be significantly cheaper than longer term borrowing rates during the year therefore borrowing in the under 10 year period early on in the financial year when rates were expected to be at their lowest would be considered. Variable rate borrowing was also expected to be cheaper than long term fixed rate borrowing throughout the year.

An alternative strategy was to defer any new borrowing as long term borrowing rates were expected to be higher than investment rates during the year. This would maximise savings in the short term and also have the added benefit of running down investments which would reduce credit risk.

Consideration of changing strategy would be taken if it was felt that there was a significant risk in a sharp fall in long and short term rates then long term borrowings will be postponed. If it was felt there was a significant risk of a sharp rise in long and short term rates then the portfolio position would be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

Borrowing outturn for 2021/22

The Treasury Team take advice from its external treasury advisor, Link Asset Services, on the most opportune time to borrow. Movements in rates during 2021/22 are shown in the graph below.



Members have previously been advised of the unexpected change of policy on PWLB lending arrangements in October 2010 following the Comprehensive Spending Review. In addition, in October 2019, the Treasury and PWLB announced an increase in rates of 1% across all borrowing periods. This made new borrowing more expensive and repayment relatively less attractive. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and on 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.

The table below shows PWLB borrowing rates for a selection of maturity periods. The table also shows the high and low points in rates during the year, average rates during the year and individual rates at the start and the end of the financial year.

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2021	0.80%	1.20%	1.73%	2.22%	2.03%
31/03/2022	1.91%	2.25%	2.43%	2.64%	2.39%
Low	0.78%	1.05%	1.39%	1.67%	1.25%
Low date	08/04/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
High	2.03%	2.37%	2.52%	2.75%	2.49%
High date	15/02/2022	28/03/2022	28/03/2022	23/03/2022	28/03/2022
Average	1.13%	1.45%	1.78%	2.10%	1.85%
Spread	1.25%	1.32%	1.13%	1.08%	1.24%

Following discussions with Link, as general fund borrowing rates were significantly higher than investment rates during the year it was agreed that if any new borrowing was required during the year it would be deferred in order to maximise savings in the short term and reduce credit risk by reducing investments. No new external borrowing was required in 2021/22.

The Council's total debt portfolio at 31 March 2022 is set out below:-

Type of Debt	Balance £m	Average Borrowing Rate 2021/2022
General Fund Fixed rate – PWLB	159.02	4.90%
HRA Fixed rate - PWLB	83.35	3.51%
Fixed rate – Market	49.20	4.10%
Variable rate	0	N/A

The maturity profile of the debt is evenly spread to avoid large repayments in any one financial year. The average debt period for PWLB loans is 18 years, market loans have an average debt period of 48 years. The total debt portfolio has a maturity range from 1 year to 56 years.

The Treasury Strategy allows up to 15% of the total outstanding debt to mature in any one year. It is prudent to have the Council's debt maturing over many years so as to minimise the risk of having to re-finance when interest rates may be high. The actual debt maturity profile is within these limits (Appendix A).

Debt rescheduling

No debt restructuring was undertaken during 2021/22. The introduction of a differential in PWLB rates on the 1 November 2007, which was compounded further following a policy change in October 2010 and subsequent changes in 2019 and 2020, as outlined above has meant that large premiums would be incurred if debt restructuring was undertaken, which cannot be justified on value for money grounds.

Although these changes have restricted debt restructuring, the current debt portfolio is continually monitored in conjunction with external advisers in the light of changing economic and market conditions to identify opportunities for debt rescheduling. Debt rescheduling will only be undertaken:

- To generate cash savings at minimum risk.
- To help fulfil the Treasury Strategy.
- To enhance the balance of the long term portfolio by amending the maturity profile and/or volatility of the portfolio.

Investment Strategy for 2021/22

Our treasury advisor originally felt when the strategy was approved by Council in February 2021 that the bank rate would remain at 0.10% during 2021/22. These forecasts were based on the Bank of England assuming that the emergency level of rates introduced at the start of the Covid-19 pandemic would still be required to protect the economy.

The Governor of the Bank of England made it clear that he thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. Investment returns were likely to remain exceptionally low during 2021/22 with little increase in the following two years.

The below forecast table was included in the Treasury Strategy report 2021/22.

Link Group Interest Rate View	9.11.20													
	Dec-20	Mar-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	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.80	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90	2.00	2.00	2.00	2.00
10 yr PWLB	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.80
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.60

The below forecast table was included in the Mid Year Treasury Strategy report 2021/22.

Link Group Interest Rate View	8.11.21													
	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	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	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	1.10	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50

In 2021/22 investment of surplus cash continued to be managed by the internal treasury team. The strategy for the in-house team was influenced by the need to keep funds relatively short for cash flow purposes. Lending continued to be restricted to UK banks, one overseas bank, three Building Societies, two Money Market Funds (AAA credit rating), Part Nationalised Banks, UK Government and other Local Authorities in line with the Council's policy on creditworthiness which was approved in the Annual Investment Strategy.

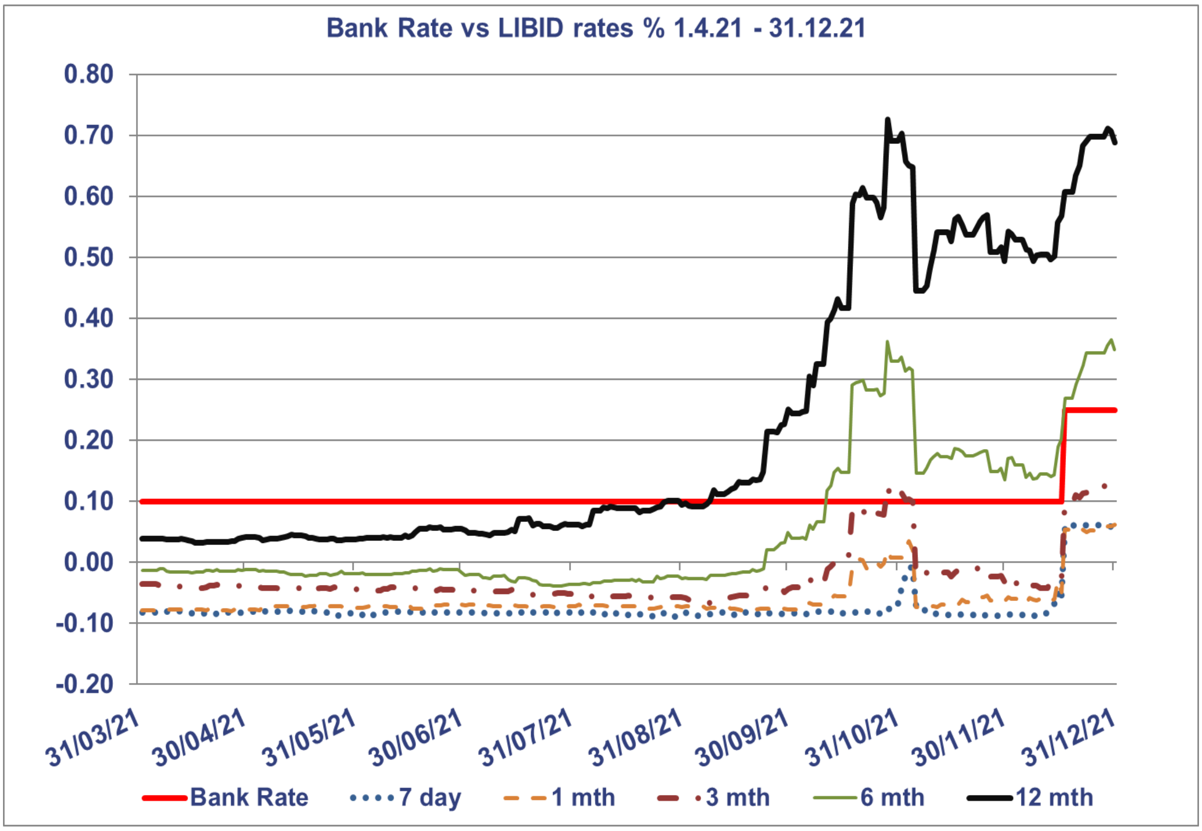
Investment outturn 2021/22

Over the last two years, 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 until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates stayed supressed for most of the year.

To counter the low investment rates and following advice from Link, use was made of direct deals with main UK banks, for various periods from three months to one year. Direct deals offered enhanced rates over the equivalent rates available through brokers. This provided opportunities to lock into higher, long term rates at times when it was thought they offered substantial enhancement over short term benchmark rates. Enhanced market rates when compared to bank rate has resulted in the total portfolio outperforming the benchmark. Use of instant access accounts with Svenska Handelsbanken was continued, together with use of Money Market Funds with Aberdeen & Insight Investment. These accounts offered instant access to funds, however they also saw suppressed yields in line with levels when placing short term deposits through brokers.

Movements in short term rates through the year are shown in the below.



Throughout the first half of the year, the average interest rate earned on investments was supressed due to the low bank rate, in response to the Covid 19 pandemic. However, as detailed earlier, the MPC started to increase rates from December 2021 with a further two increases in February 2022 and March 2022. This resulted in the internal treasury team achieving a slightly higher level of interest on revenue balances than budgeted. This slightly higher than projected amount earned on investments was coupled with an under-spend on debt charges due to no long-term general fund borrowing being undertaken in 2021/22. The total £2.195 million underspend was mainly due to MRP savings following a review of the Council's policy and interest payable savings.

At 31 March 2022 the allocation of the cash portfolio was as follows:

	£m
• In-house short dated deposits for cash flow management	104.5
• In-house long dated deposits (up to 1 year)	31.0
• Other Local Authorities	28.0
Total	**163.5**

The following table shows the average return on cash investments for the internal treasury team during the year and for the last 3 years to 31 March 2022. Recognising the need to manage short term cash flow requirements, the target for the internal team is the 7 day LIBID rate.

	Return 2021/22	**Return 3 years to 31 March 2022**
	%	**% p.a.**
Internal Treasury Team	0.17	0.51
Benchmark (7 Day LIBID rate)	-0.07	0.13

Due to the economic shock and historically low rates in 21/22, even though rates started to increase in the latter part of that year; the benchmark rate was in a negative position for most of the financial year.

The conclusions to be drawn from the table are:

- During 2021/22 the internal treasury team outperformed their benchmark by 0.24%.
- Over the 3 year period the internal team's performance has been 0.38% per annum above the benchmark.

Compliance with Treasury Limits and Prudential Indicators

All borrowing and lending transactions undertaken through the year have complied with the procedures and limits set out in the Council's Treasury Management Practices and Treasury Strategy. In addition, all investments made have been within the limits set in the approved counterparty list. No institutions, in which investments were made, showed any difficulty in repaying investments and interest in full during the year.

Appendix B shows the Prudential Indicators approved by Council as part of the 2021/22 and 2022/23 (revised estimate) Treasury Strategies compared with the actual figures for 2021/22. In summary, during 2021/22 treasury activities have been within the prudential and treasury limits set in the Treasury Strategy.