

# Treasury Management Update

Quarterly report  
31st December 2021

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# Treasury Management Update

## Quarter Ended 31st December 2021

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

### 1. Economics update

#### MPC meeting 16<sup>th</sup> December 2021

- The Monetary Policy Committee (MPC) voted 8-1 to **raise Bank Rate by 0.15% from 0.10% to 0.25%** and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.
- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over **the end of the furlough scheme on 30<sup>th</sup> September** without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.
- **On 10<sup>th</sup> December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.
- **On 14<sup>th</sup> December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme ended on 30<sup>th</sup> September, (about one million people were still on furlough), was smaller and shorter than the Bank of England had feared: unemployment did not increase hugely in October. Indeed, vacancies rose to a record 1.219m in the three months to November showing there were acute shortages of labour.
- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron in late November potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.
- **On 15<sup>th</sup> December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).
- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues have reduced during the second half of 2021 and are likely to clear during 2022 when prices would be expected to subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.
- The Government has stepped in with some **fiscal support for the economy**, targeted mainly at the hospitality sector. Due to the huge cost of such support to date, it is likely to remain being limited and targeted on narrow sectors. The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!
- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%**. What's more, the hawkish tone of comments indicated that the MPC is now concerned

that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high. The MPC commented that “there has been significant upside news” and that “there were some signs of greater persistence in domestic costs and price pressures”.

- On the other hand, it did also comment that “**the Omicron variant is likely to weigh on near-term activity**”. But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now “these conditions had been met”. It also appeared more worried about the possible boost to inflation from Omicron itself. It said that “the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation”. It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning “global price pressures might persist for longer”. (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)
- On top of that, there were no references in December to inflation being expected to be below the **2% target in two years’ time**, which at November’s meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.
- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only a “**modest tightening**” in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. “Modest” seems slower than that. As such, the Bank could be thinking about **raising interest rates two or three times in 2022 to 0.75% or 1.00%**.
- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory**, and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.
- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November’s statement that Bank Rate would be raised “in the coming months”. That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3<sup>rd</sup> February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).
- **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.
- **COVID-19 vaccines.** These have been the game changer which had enormously boosted confidence that **life in the UK could largely return to normal during the second half of 2021** after a third wave of the virus threatened to overwhelm hospitals in the spring. The bursting onto the scene of **the Omicron mutation** at the end of November had threatened to cancel the Christmas holidays, but the Government decided not to impose more severe restrictions in the hope that this mild, but highly contagious variant, would not overwhelm hospitals. The big question is whether further 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.

**US.** See comments below on US treasury yields.

**EU.** The ECB joined with the Fed by also announcing on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases during the first half of 2022. Although headline inflation reached 4.9% in November, over half of that was due to energy but oil

and gas prices are expected to fall sharply after the winter. As overall inflation will fall back sharply during 2022, it is likely that the ECB will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below its target rate of 2% despite all the ECB's major programmes of monetary easing by cutting rates into negative territory and providing QE support.

**China.** The pace of economic growth has now fallen back after the initial surge of recovery from the pandemic and China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. However, with Omicron having now spread to China and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future; this strategy poses a potential renewed threat to world supply chains. The People's Bank of China made a start in December 2021 on cutting its key interest rate to encourage flagging economic growth.

**Japan.** 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy is rebounding rapidly now that the bulk of the population is fully vaccinated, and new virus cases have plunged. However, Omicron could reverse the success of 2021 in combating Covid. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon.

**World growth.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of **world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

## 2. 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 PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1<sup>st</sup> November 2012.

The latest forecast on 20<sup>th</sup> December is compared below to the last forecast (29<sup>th</sup> September) in the previous quarter. A comparison of these forecasts shows that PWLB rates have fallen, more so in the longer maturities, and show a speed up in the rate of increase in Bank Rate as inflation is now posing a greater risk. Some of the fall in PWLB rates during December was probably due to window dressing by pension and investment funds preparing their finances for the year and quarter end position for 2021 on 31<sup>st</sup> December: it was therefore expected that part of those falls would be unwound in the new year.

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
<b>BANK RATE</b>	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

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 eamings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave eamings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave eamings	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

Additional notes by Link on this forecast table: -

- *LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, our forecasts are based on expected average earnings by local authorities for 3 to 12 months.*
- *Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.*

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 until it raised it from 0.10% to 0.25% at the MPC meeting of 16<sup>th</sup> December 2021.

### A summary overview of the future path of Bank Rate

- In December 2021, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3<sup>rd</sup> February.
- With inflation expected to peak between 5 and 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5<sup>th</sup> May, the release date for its Quarterly Monetary Policy Report.
- However, rising gas and electricity prices last 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 inflationary pressures.
- On the other hand, consumers are sitting on around £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- 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.
- We have put year end 0.25% increases into Q1 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 mutations remain a major potential downside threat in all three years as we ARE likely to get further mutations. How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?

- Purchases of gilts under QE ended in December 2021. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

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 whatever the new news is.

## Forecasts for PWLB rates and gilt and treasury yields

The current PWLB rates are set as margins over gilt yields as follows: -

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

**Gilt yields.** Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. Our forecasts show a steady, but slow, rise in both Bank Rate and PWLB rates during the forecast period to March 2025 but there will doubtless be a lot of unpredictable volatility during this forecast period.

**Upside risk to gilt yield forecasts.** While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields. **As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields.** This is a significant upward risk exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.

**US treasury yields.** During 2020, US President Biden and the Democratic party pushed through a huge programme of fiscal stimulus and are still trying to get another major package approved – the American Families Plan; this is still caught up in political haggling. Financial markets were alarmed that all this stimulus was happening at a time when:-

1. A fast vaccination programme had enabled a rapid opening up of the economy during 2021.
2. The economy was growing strongly during the first half of 2021 although it has weakened overall during the second half.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its recent December meeting with an aggressive response to damp inflation down during 2022 and 2023.

**At its 3<sup>rd</sup> November Fed meeting,** the Fed decided to make a start on tapering its \$120bn per month of QE purchases so that they ended next June. However, at its **15<sup>th</sup> December meeting** it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields will rise over the taper period, all other things being equal. It also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy.

**Downside risk to gilt yield forecasts.** There are also possible downside risks from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

## 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 suppresses 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 - on-going global power influence struggles between Russia/China/US/Iran.

#### 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.

#### The balance of risks to medium to long term PWLB rates: -

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

#### A new era – a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on ‘achieving broad and inclusive “maximum” employment in its entirety’ in the US before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be ‘sustainably over 2%’ and the ECB now has a similar policy.
- **For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.**
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

### 3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2021/22, which includes the Annual Investment Strategy, was approved by the Council on 11th February 2021. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council’s investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council’s risk appetite. In the current economic climate it is considered appropriate to keep investments short-term to cover cash flow needs, but also to seek out value available in periods up to 24 months.



As shown by the interest rate forecasts in section 2, it is currently impossible to earn the level of interest rates commonly seen in previous decades. However, rates have improved during quarter 3 of 21/22 and are expected to improve further as Bank Rate continues to increase over the next two years.

### Creditworthiness.

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.

### Investment counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

### CDS prices

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. **However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.**

### Investment balances

The average level of funds available for investment purposes during the quarter was **£64.6m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The Council holds **£20m** core cash balances for investment purposes (i.e. funds available for more than one year).

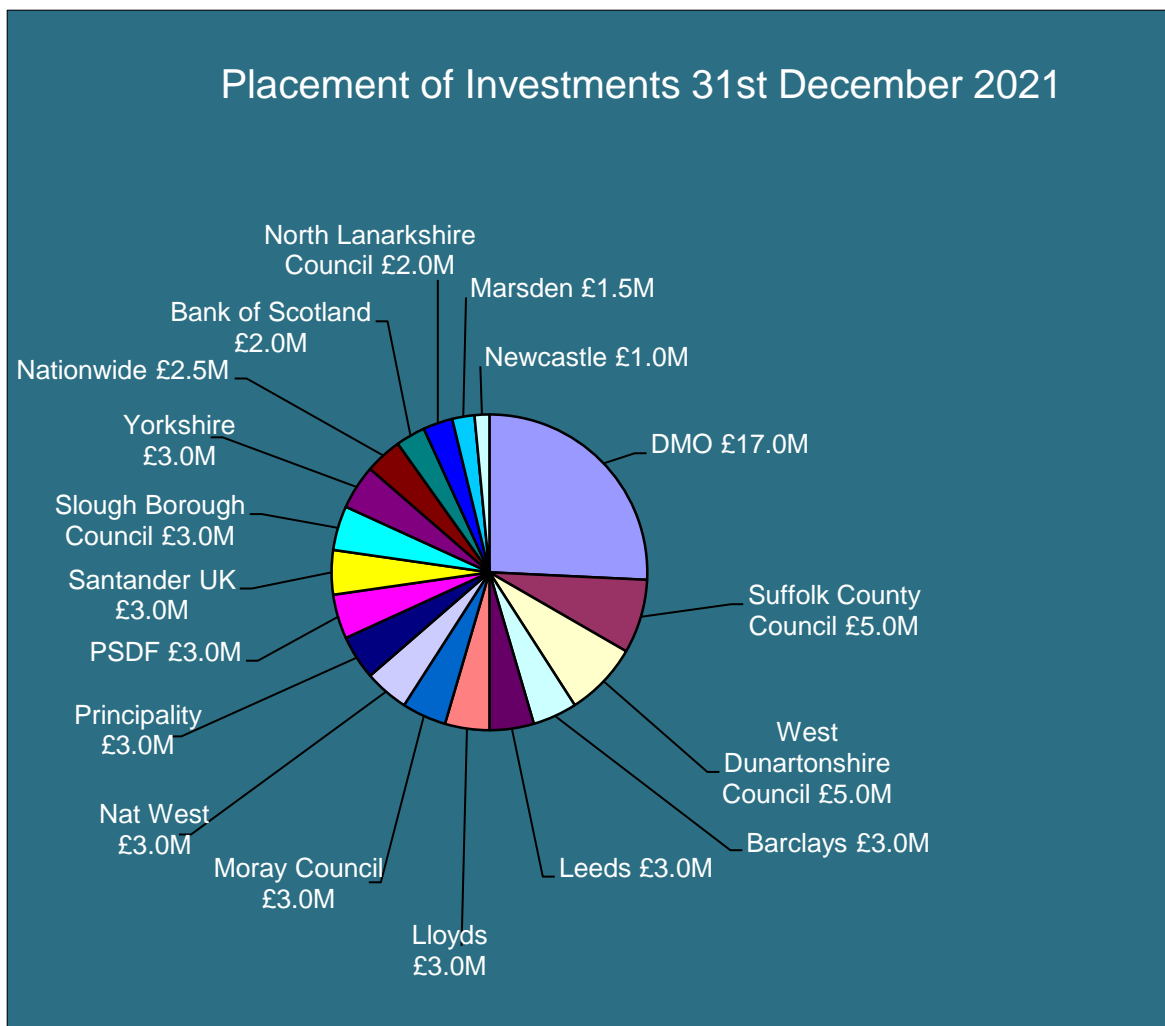
	Amount	Average
	£	Interest Rate %
<b>Managed By NHDC</b>		
Banks	14,000,000	0.17
Building Societies	11,500,000	0.13
Local Authorities	18,000,000	0.09
Money Market Fund	3,000,000	0.10
Government	17,000,000	0.05
<b>NHDC Total</b>	<b>63,500,000</b>	<b>0.11</b>
<b>Managed by Tradition</b>		
Building Societies	2,500,000	0.21
<b>Tradition Total</b>	<b>2,500,000</b>	<b>0.21</b>
<b>TOTAL</b>	<b>66,000,000</b>	<b>0.12</b>

In percentage terms, this equates to:

	Percentage
Money Market Fund	5
Government	26
Banks	21
Building Societies	21
Local Authorities	27

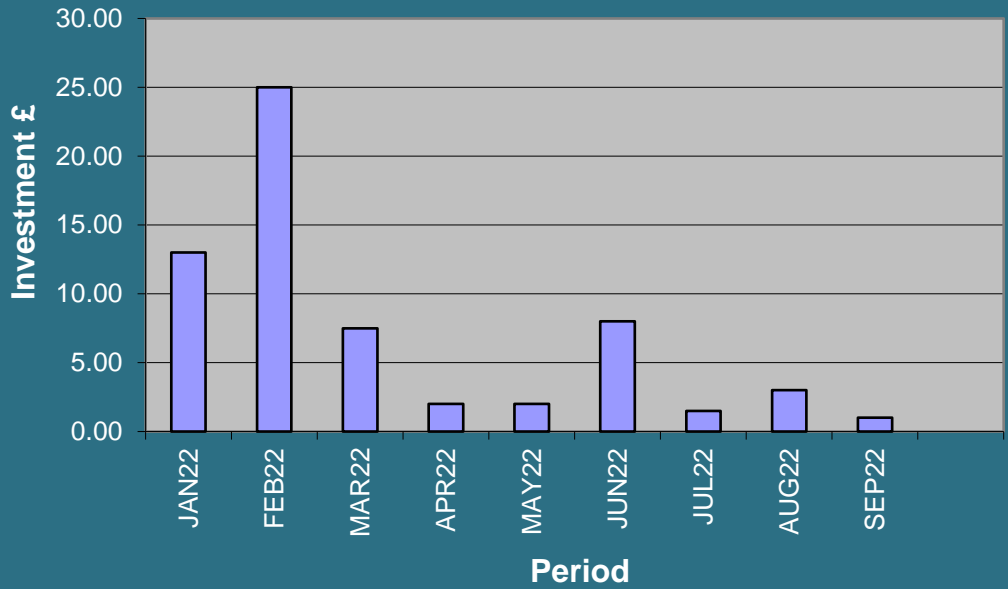
The approved 21/22 strategy is that no more than 60% of investments should be placed with Building Societies and Property Funds with a maximum value of £17M. The value at 31 December was £14.0M.

The pie chart below shows the spread of investment balances as at 31 December 2021. This is a snapshot in time that demonstrates the diversification of investments.



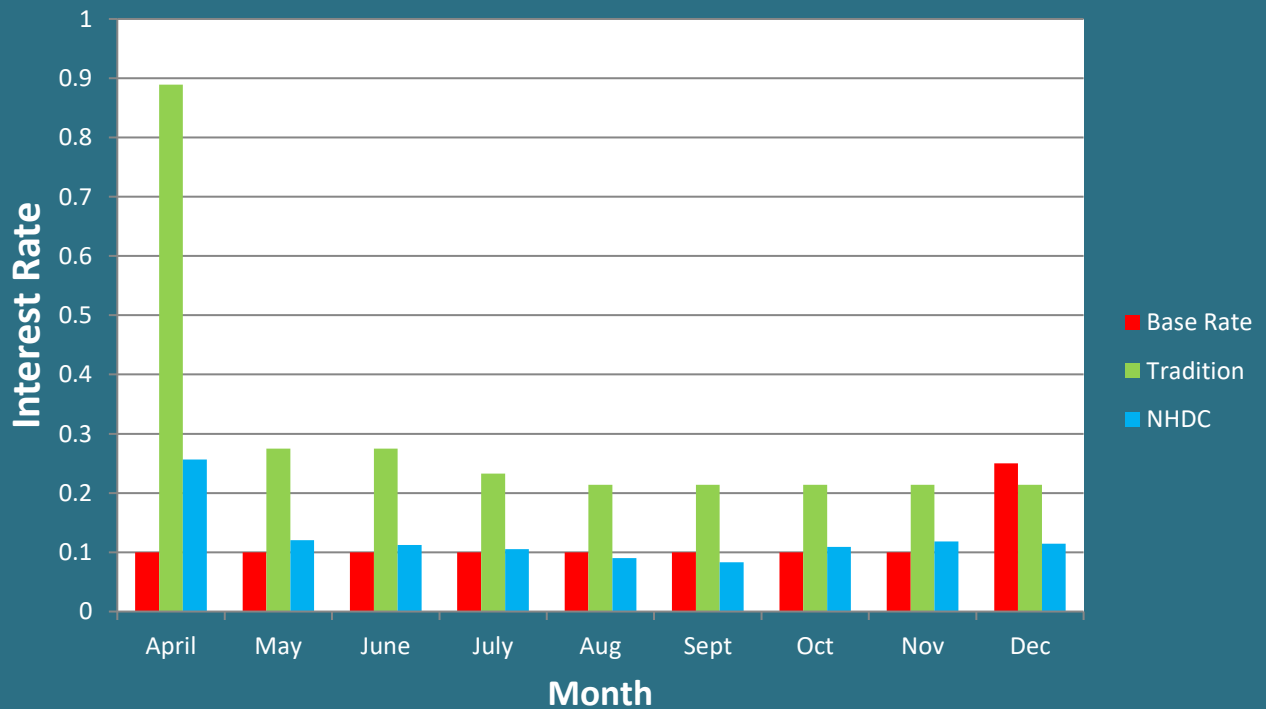
The chart below shows the Council's investment maturity profile. This does not include the £3.0M held in the Public Sector Deposit Fund Money Market account.

### Investment Maturity 31st December 2021 (Excludes PSDF which does not have a fixed term)



The graph below shows the average rate of interest on outstanding investments at 31 December.

### Average Interest Rates on Outstanding Investments



The higher rates achieved through Tradition reflect that these are longer-term investments. In general, the Council can currently achieve similar rates for the same length of investment. The Council only undertakes new investments through Tradition where the rate achieved (after fees) are greater than what the Council could achieve for a similar investment. There are two Tradition deals totalling £2.5M.

### Approved limits

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 31st December 2021. However, the £5M limit on the Council's Current Account was exceeded on 9th December for one day. The balance was £15M. This happened because the whole of the Council's IT systems were down for the majority of the day. By the time the systems were operational in the afternoon, the cut off times for placing investments had passed.

## 4. Borrowing

No borrowing was undertaken during the quarter ended / year to 31st December 2021.)

It is anticipated that further borrowing will not be undertaken during this financial year but this is dependant on the profiled spend in the Capital Programme.

Based on 3rd quarter estimates for capital expenditure, the Council's capital financing requirement (CFR) for 2021/22 is expected to be -£4.135M (-£5.182M at the end of 20/21). The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions and future forecasts.

Loans Outstanding at 31 December 2021:

	Amount	Average Interest Rate
	£	%
Public Works Loans Board	£395k	10.04

Estimated outstanding debt:

Year	Forecast Borrowing £m	Forecast other long-term liabilities £m	Less: Internal Borrowing £m	Forecast Total External Debt £m	Operational Boundary £m	Authorised Limit £m
31 <sup>st</sup> March 2022 (Forecast)	0.387	1.234	0	1.621	7.9	12
31 <sup>st</sup> March 2023 (Forecast)	0.367	1.183	0	1.550	7.1	11
31 <sup>st</sup> March 2024 (Forecast)	0.347	0.603	0	0.950	7.4	12
31 <sup>st</sup> March 2025 (Forecast)	0.325	0.412	0	0.737	13.6	18
31 <sup>st</sup> March 2026 (Forecast)	2.280	0.337	1.975	0.642	14.2	19

\* Comprises the finance lease relating to Letchworth Multi-storey car park and impact of the finance lease for waste vehicles.

The external borrowing forecast can be used to give an indication of the borrowing that may be required, which is combined with outstanding existing borrowing. The Council will also borrow for short-term cash-flow needs if required. The actual borrowing that is taken out will depend on the latest forecasts and the offers that are available at the time that it is required. There will also be a consideration of when any other borrowing becomes due, with the aim of achieving a spread of these dates. This is to try and avoid refinancing risk. The Council is required to set indicators for the maturity structure of its borrowing. Given the low level of borrowing that the Council currently has and is forecast to have, it is considered appropriate to maintain full flexibility as to the exact duration of any borrowing undertaken.

To manage refinancing risk, the Council sets limits on the maturity structure of its borrowing. However, these indicators are set relatively high to provide sufficient flexibility to respond to opportunities to repay or take out new debt (if it was required), while remaining within the parameters set by the indicators. Due to the low level of existing borrowing, the under 12 months limits have a broad range to allow for cash-flow borrowing (if it was required).

Maturity Period	Lower %	Upper %
Under 12 months	0	100
12 months to 2 years	0	50
2 years to 5 years	0	60
5 years to 10 years	0	100
10 years to 20 years	0	100
20 years and above	0	100

The Prudential Indicator below considers the cost of borrowing as a % of the net revenue budget of the Council.

Year	Estimated cost of borrowing £m	Forecast net revenue budget £m	Estimated cost of borrowing as a % of net revenue budget
2021/22	0.040	17.994	0.222
2022/23	0.039	18.198	0.214
2023/24	0.037	17.592	0.210
2024/25	0.035	17.390	0.201
2025/26	0.035	17.177	0.204

The Council is required to set a prudential indicator that estimates financing costs (cost of borrowing less income from investments) as a percentage of its net revenue budget.

Year	Estimated cost of borrowing £m	Less: Forecast of interest earned £m	Net Financing Costs £m	Forecast net revenue budget £m	Estimated cost of borrowing as a % of net revenue budget
2021/22	0.040	0.066	-0.026	17.994	-0.144
2022/23	0.039	0.119	-0.080	18.198	-0.440
2023/24	0.037	0.131	-0.094	17.592	-0.534
2024/25	0.035	0.205	-0.170	17.390	-0.978
2025/26	0.035	0.210	-0.175	17.177	-1.019

## 5. Debt rescheduling

No debt rescheduling was undertaken during the quarter.

## 6. Compliance with Treasury and Prudential Limits

The prudential and treasury Indicators are shown in Appendix 1.

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the year to date as at 31<sup>st</sup> December 2021, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2021/22. However, the £5M limit on the Council's Current Account was exceeded on 9th December for one day. The balance was £15M. This happened because the whole of the Council's IT systems were down for the majority of the day. By the time the systems were operational in the afternoon, the cut off times for placing investments had passed.

## APPENDIX 1: Prudential and Treasury Indicators for 2021-22 as at 31<sup>st</sup> December 2021

Treasury Indicators	2021/22 Budget £'000	31.12.21 Actual £'000
Authorised limit for external debt	12,000	395
Operational boundary for external debt	7,900	395
Gross external debt	5,248	395
Investments	23,200	66,000
Net borrowing	17,952	65,605

Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	18	18
12 months to 2 years	282	19
2 years to 5 years	1,291	62
5 years to 10 years	4,162	55

Upper limit for principal sums invested over 365 days	11,000 Max	0
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Prudential Indicators	2021/22 Budget £'000	31.12.21 Actual £'000
Capital expenditure	16,169	1,000
Capital Financing Requirement (CFR)	5,100	-4,668
Annual change in CFR	10,282	514
In year borrowing requirement	5,248	0
Ratio of financing costs to net revenue stream	0.71%	-0.09%