Agenda Item	**11.b**
Report No	**RES/23/22**

HIGHLAND COUNCIL

Committee: **Corporate Resources Committee**

Date: 8 September 2022

Report Title: **Annual Treasury Management Report – 2021/22**

Report By: Head of Corporate Finance

1. Purpose/Executive Summary

1.1 This report on treasury management for the financial year 2021/22 is prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) revised Code of Practice on Treasury Management in Local Authorities.

1.2 The report highlights the Council's treasury management activities undertaken, provides a commentary on the year and compares activity to the expected activities contained in the annual Treasury Strategy Statement and Investment Statement which was approved by Corporate Resources on 25 February 2021.

1.3 The Prudential Code also requires the Council to report the actual prudential indicators after the financial year end and these are shown in **Appendix 1.**

2. Recommendations

2.1 Members are asked to:

i. Consider the Annual Treasury Management report for 2021/22.

3. Implications

3.1 Resource implications include the cost of borrowing to fund the capital programme and are covered in section 7 and Risk implications are covered in section 8.

3.2 There are no Legal, Community (Equality, Poverty and Rural), Climate Change/Carbon Clever or Gaelic implications arising as a direct result of this report.

4. Background

4.1 The Local Government in Scotland Act 2003 (the Act) and supporting regulations requires the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. The CIPFA Code of Practice on Treasury Management (November 2009) was adopted by the Council on 4 March 2010.

The Code was further updated in December 2017 and then in December 2021. The new requirements of the 2021 revised Treasury Management and Prudential codes must be fully adopted in 2023/24. Therefore the 2017 Treasury Management code applied to financial year 2021/22. The Council fully complies with the Code requirements.

4.2 The primary requirements of the Treasury Management Code are the:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the Council of an Annual Strategy Report for the year ahead, a mid–year report and an Annual Review Report of the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management policies to a specific named body, which in this Council is the Corporate Resources Committee.

4.3 Treasury Management is defined as: "*The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks*".

4.4 This report sets out:

- An overview of the strategy agreed for 2021/22 considering the economy and interest rates position for the year and incorporating the professional views of the Council's external treasury management advisors (section 5)
- Performance measurement for the year including the Council's treasury position as at 31 March 2022 compared to the previous financial year (section 6)
- A summary of treasury decisions taken and effects on the revenue budget (section 7)
- A commentary on performance and risk (section 8)
- A review of compliance with the Council's procedures and Prudential Indicators (sections 9 and 10)

5. The strategy agreed for 2021/22

5.1 The expectation for interest rates within the strategy for 2021/22 was that investment yields were likely to remain low during 2021/22 but be on a gently rising trend with gradually increasing Public Works Loan Board (PWLB) rates forecast over the coming years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

5.2 The treasury strategy was to continue to use short-term borrowing to fund the capital programme but to consider a strategy of de-risking by taking longer term borrowing PWLB borrowing with the aim of mitigating the risk of increased borrowing cost as interest rates start to rise.

5.3 The narrative in sections 5.3 to 5.7 of this report reflects the view of Link Group, the Council's treasury advisor, as at April 2022.

PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and 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. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. Recently, yields have risen since the turn of the year on the back of global inflation concerns.

5.4 Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% – 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.

5.5 Regarding PWLB borrowing rates, the margins over gilt yields are as follows:

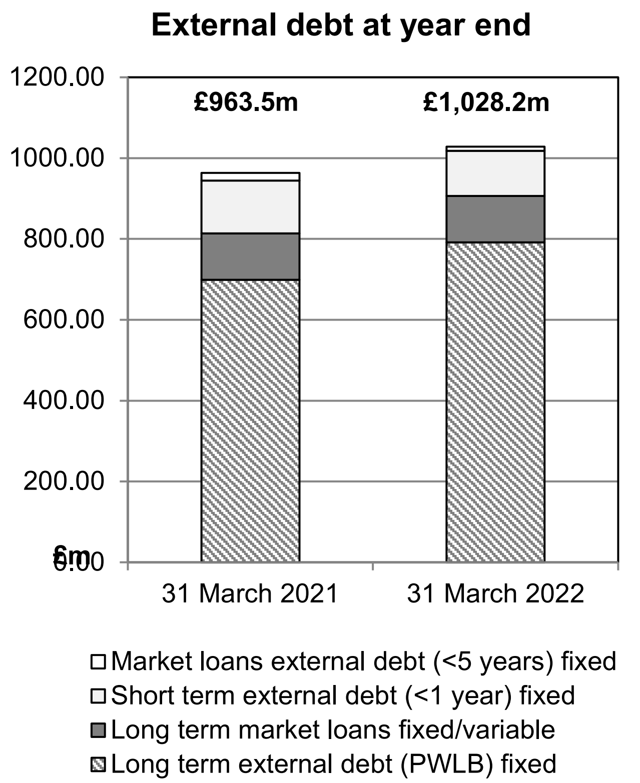
- PWLB Standard Rate is gilt plus 100 basis points (1.0%) (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (0.8%) (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (1%) (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (0.8%) (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (0.6%) (G+60bps)

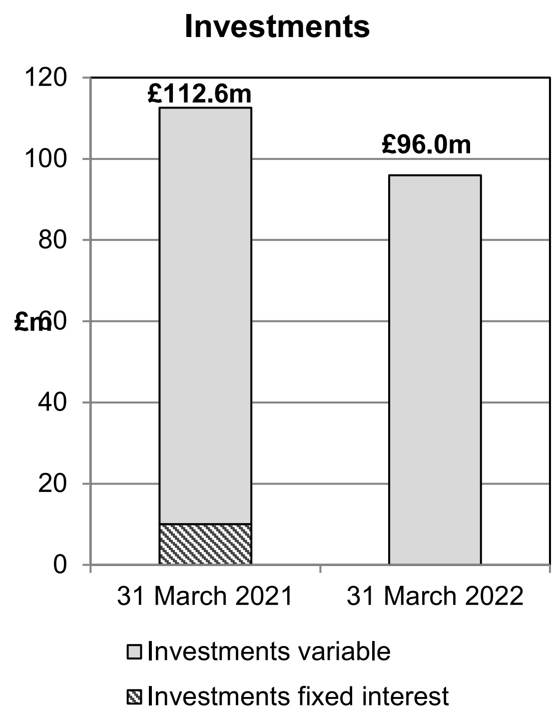
5.6 There is likely to be a further rise in short dated gilt yields and PWLB rates over the next three years as Bank Rate is forecast to rise from 0.75% in March 2022 to 1.25% later this year, with upside risk likely if the economy proves resilient in the light of the cost-of-living squeeze. Medium to long dated yields are driven primarily by inflation concerns but the Bank of England is also embarking on a process of Quantitative Tightening when Bank Rate hits 1%, whereby the Bank's £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

5.7 Further information on the economy and interest rates during the year can be found at **Appendix 2**.

6. Performance measurement

6.1 The treasury position at the 31 March 2022 compared with the previous year is shown in the graphs below.





Average interest rates comparison	**31/03/21**	**31/03/22**
Short term external debt (<1 year) fixed	0.29%	0.45%
Market loans fixed/variable	4.24%	4.41%
Long term external debt (PWLB) fixed	4.18%	3.85%
Total debt	**3.66%**	**3.55%**
Investments fixed interest	0.00%	Nil
Investments variable	0.01%	0.59%
Total investments	**0.01%**	**0.59%**

6.2 The figures show a decrease in the average interest rate on external debt borrowings from 3.66% at March 2021 to 3.55% at March 2022 which is due to replacing matured PWLB debt with PWLB borrowing at lower rates. The investment return for 2021/22 was higher than the previous year following the bank rate increases (16 December 2021 from 0.10% to 0.25%, 3 February 2022 to 0.50% and 17 March to 0.75%)

6.3 During 2021, there was was £100m of PWLB borrowing undertaken at favourable rates. Details of all PWLB long-term borrowing repaid, are in **Appendix 3** and all external borrowing is in **Appendix 4.** The average rate for temporary loans as at 31 March 2022 was 0.45%.

7. Treasury decisions taken and revenue effects

Borrowing requirement and debt

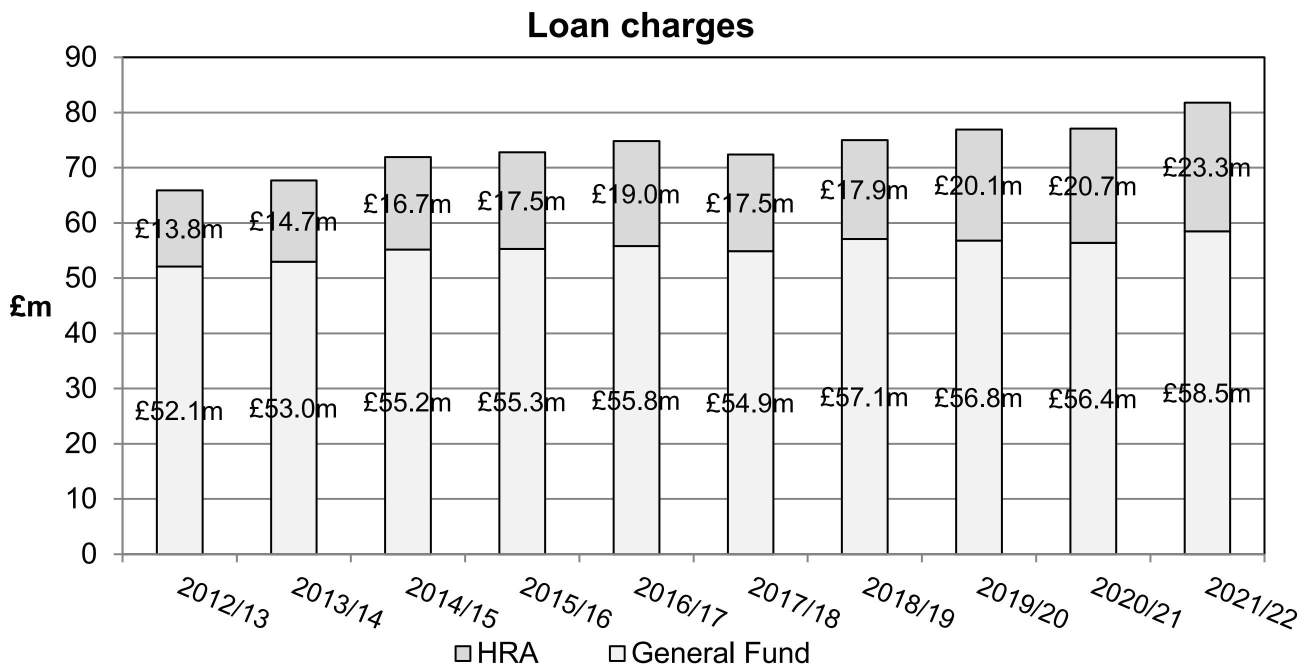
7.1 The Council undertakes capital expenditure on long-term assets which is funded as follows:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing requirement.

7.2 The total net capital expenditure for 2021/22 was £111.1m (General Fund £65.7m and HRA £45.4m) against planned net capital expenditure of £110.0m (General Fund £81.0m and HRA £29.0m). Reasons for variations in Service and project capital expenditure for the year are reported to Strategic Committees as part of the final 2021/22 out-turn capital monitoring process. Details of gross and net capital spend for the year and the borrowing requirement against the estimated position are in **Appendix 1**.

7.3 There has been an increase in external debt of £64.7m (see graph at **para 6.1**) which is less than the borrowing requirement of £65.9m. The Council is currently under-borrowed by £69.9m (6.37% of the underlying borrowing requirement of £1,098.1m). This means that the underlying borrowing requirement is also funded by internal borrowing as well as the external borrowing noted above (explained in more detail at **para 10.5**).

7.4 In terms of the impact on revenue budgets, the increased capital expenditure has increased the level of loan charges the Council has incurred. The graph below shows the changes in loans charges over the last 10 years.



7.5 Due to the level of capital expenditure, financing costs (loan charges) are a significant proportion of the Council's net revenue stream. The ratio of financing costs to net revenue stream for the general fund including PPP/NPD is 11.7% (estimate 13.1%) and 41.0% for HRA (estimate 40.7%) (**Appendix 1, prudential indicator 4**). The reason for the general fund ratio being lower than estimated is due to lower capital expenditure than planned. The HRA ratio is higher than original indicator due to the levels of capital expenditure.

7.6 Rescheduling

There was no rescheduling completed during 2021/22. While refinancing rates were closely monitored throughout the year no significant opportunities arose to make savings due to breakage costs.

7.7 A summary of outstanding deferred revenue costs attributable to debt rescheduling exercises undertaken in years to date, is provided in the table below. These represent early debt repayment costs (premiums) and discounts, associated with debt rescheduling. It is accounting practice for these to be written off over the periods of the new loans taken as part of the rescheduling and included as part of the annual loan charges.

	Outstanding 31 Mar 2021	**Incurred 2021/22**	**Written off 2021/22**	**Outstanding 31 Mar 2022**
	£000	**£000**	**£000**	**£000**
Premiums	23,559	-	(1,992)	21,567
Discounts	(6,762)	-	37	(6,725)
Net Deferred Revenue Costs	16,797	-	(1,955)	14,842

7.8 Overall performance

The Council's average borrowing and investment rate for the year was 3.47% compared to 3.70% in 2020/21. As stated above (**para 6.2**), capital expenditure and maturities were funded using £100m of PWLB borrowing and short-term borrowing.

7.9 Revenue effect: The final position shows an underspend for the General Fund loans charges (£0.037m) and an underspend for HRA (£0.015) compared to budget for the year. The underspend was due to low interest rates for short-term borrowing and replacing PWLB maturities with PWLB borrowing at lower rates.

7.10 Investments held by the Council

The Council's investment policy is governed by the Scottish Government Investment Regulations, which were adopted in the Annual Investment Strategy 2010/11 and approved by the Council on 24 June 2010. This policy sets out the approach for choosing investment categories and counterparties and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

7.11 The Council's policy states the maximum investment period is 2 years. However, during 2021/22 deposits were placed for periods of 1 year or less than 1 year to reflect credit risk.

7.12 The Council maintained an average end of month balance of £98.7m of internally managed funds which earned an average rate of return of 0.14%. The comparable performance indicator is the average 7-day LIBID rate, which was -0.04% for 2021/22. No institutions in which investments were made showed any difficulty in repaying the investment and interest in full during the year.

8. Performance and risk

8.1 In the Council's debt portfolio as of 31 March 2022, 77% (£791.4m) of the total gross debt is at fixed long-term rates with the PWLB.

8.2 All major borrowing and capital financing requirement (CFR) decisions taken by officers were discussed with the Council's external treasury management advisors.

8.3 Returns on the Council's investments are predominantly determined by short-term variable rates. Whilst this can introduce an element of volatility to returns, it is minimal in terms of the total debt portfolio. Risk, in relation to the potential loss of principal, is minimised through the Council's restricted lending list (using a diversified list of counterparties and based on credit assessment).

8.4 The Council uses several Money Market brokers to facilitate short-term borrowing and investment deals. This ensures competitive market rates are obtained. All brokers charged the same level of commission per transaction and performed satisfactorily. In addition, the Council's treasury management officers have direct lines to some major banks to facilitate direct investment with suitably rated institutions.

8.5 Short term borrowing decreased from £131.0m (31/03/21) to £112.0m (31/03/22) though levels of short-term borrowing are likely to remain high to achieve cost savings depending on rates. However, in order to mitigate exposure to interest rate risk, PWLB rates will be monitored, and longer-term borrowing undertaken where rates are favourable.

9. Compliance with the Council's procedures and Prudential Indicators

9.1 The Council complied with its internal procedures and the requirements of the CIPFA Code of Practice on Treasury Management. The Council is bound by best practice requirements, which involve limits to be set and adhered to in relation to short-term borrowing and exposure to variable interest rates and complied with these throughout the year (**Appendix 1, indicator 10**).

10. The Prudential Code – Indicators

10.1 The Council is required by the Prudential Code to report the actual treasury position compared to the prudential indicators at the year-end. **Appendix 1** provides details of all the mandatory, estimated and actual prudential indicators for the year 2021/22.

10.2 Capital Financing Requirement (CFR)

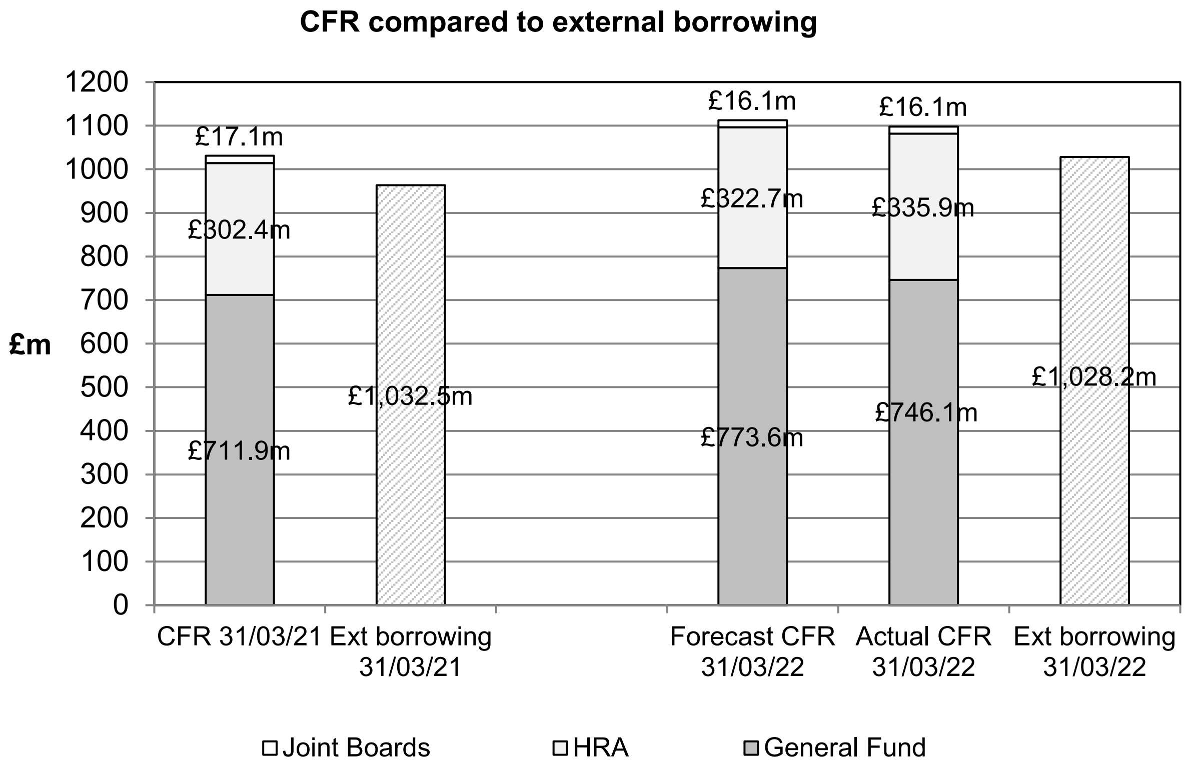
The CFR represents the accumulated net capital expenditure which the Council requires to fund by way of long-term borrowing and other capital financing, until the capital projects, comprising the CFR, are fully written off to revenue (mainly by way of annual loan charges).

10.3 In recent years the Council has been in a position whereby its CFR is greater than its long-term borrowing. This results from the Council using internal cash sources, as well as long-term borrowing to finance the CFR. The use of internal cash sources can represent a more effective and low-cost option for financing, compared to long-term borrowing, given the low returns available on short-term deposits when compared to PWLB rates, even in the current low borrowing rate environment.

10.4 However, the Council must keep the CFR and long-term borrowing position under regular review, as the use of internal cash sources can result in increased re-financing risk i.e. if internal cash sources are utilised, and the Council has no choice but to borrow, and not necessarily at a time of its choosing, borrowing costs could be impacted.

10.5 The CFR is kept under regular review, and in recent years part of the annual treasury strategy has been to take steps to manage the CFR versus long-term borrowing position to an acceptable level. As shown in the graph below the difference between CFR and external borrowing stood at £69.9m as at 31 March 2022. This position will be kept under regular review as part of the Council's on-going treasury management.

10.6 In order to ensure that over the medium-term borrowing net of investments will only be for a capital purpose, net borrowing should not, except in the short term, exceed the CFR for 2021/22. The graph below shows that the Council has complied with this requirement.



10.7 <u>Borrowing Limits</u>

The Council is required to agree an Authorised Limit for borrowing for the year. This figure provides for estimated contingencies which may require to be funded in the year in addition to planned capital expenditure.

10.8 The Operational Boundary, also approved by the Council in compliance with the Code, is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are acceptable subject to the Authorised Limit not being breached.

10.9 During 2021/22 the Council complied with both the Authorised Limit and Operational Boundaries and the maximum is reported at **Appendix 1 indicator 5 and 6.**

Designation: Head of Corporate Finance

Date: 4 August 2022

Author: Catriona Stachan, Principal Accountant

Background Papers: Treasury system and financial ledger reports
Treasury Strategy Statement and Investment Strategy 2021/22

Appendix 1

Estimated and Actual Treasury Position and Prudential Indicators

		2021/22 Indicator £m	2021/22 Actual £m
1	**Capital expenditure**		
	Gross capital expenditure		
	General Fund including PPP/NPD	132.2	143.7
	Housing Revenue Account	48.5	62.9
	Total gross capital expenditure	**180.7**	**206.6**
	Income		
	General Fund	(51.2)	(78.0)
	HRA	(19.5)	(17.5)
	Total income	**(70.7)**	**(95.5)**
	Net capital expenditure		
	General Fund	81.0	65.7
	HRA	29.0	45.4
	Total net capital expenditure	**110.0**	**111.1**
	Loan charge instalments		
	General Fund	(30.9)	(33.3)
	HRA	(11.2)	(11.9)
	Total instalments	**(42.1)**	**(45.2)**
	Net borrowing for new capital expenditure		
	General Fund	50.1	32.4
	HRA	17.8	33.5
	Total net borrowing for new capital expenditure	**67.9**	**65.9**
2	**Capital Financing Requirement (CFR) at 31 March**		
	General Fund excluding PPP/NPD	773.6	746.1
	Housing Revenue Account	322.7	335.9
	PPP/NPD	135.7	136.7
	Sub-total (as per HC annual accounts)	**1,232.0**	**1,218.7**
	Joint Boards	16.1	16.1
	Total	**1,248.1**	**1,234.8**
	Sub-total excluding PPP/NPD	**1,112.4**	**1,098.1**

		2021/22 Indicator £m	2020/21 Actual £m
3	**Treasury Position at 31 March**		
	Borrowing – Long term	806.2	916.2
	Borrowing – Short term	270.2	112.0
	Other Long-Term Liabilities (PPP)	135.7	136.7
	Total Debt	**1,212.1**	**1,164.9**
	Investments	50.0	96.0
	Net Borrowing	**1,162.1**	**1,068.9**
4	**Ratio of financing costs to net revenue stream**		
	General Fund including PPP	13.1%	11.6%
	Housing Revenue Account	40.7%	41.0%
		Limit	**Maximum**
5	**Authorised Limit for Borrowing**	1,129.4	1,028.2 March 22
6	**Operational Boundary for Borrowing**	1,093.4	1,028.2 March 22
7	**Interest rate exposures of debt net of investments**		
	Upper Limit (Fixed)	1,112.4	991.7 March 2022
	Upper Limit (Variable)	389.3	39.6 Sept 21
8	**Maturity structure of fixed rate borrowing**		
	Under 12 months	30.0%	14.5% March 2022
	12 months to 2 years	30.0%	3.6% June 2021
	2 years to 5 years	40.0%	7.1% March 2022
	5 years to 10 years	50.0%	14.6% Sept 2021
	10 years and above	100.0%	69.7% Dec 2021
9	**Upper limit for the maturing of investments made for periods longer than 364 days (against maximum position**)	£20.0m	Nil
10	**Short term borrowing (net of investments) as a % of outstanding long-term debt (maximum position)**	25.0%	11.8% April 2021
	Variable interest debt (net of investments) as a % of outstanding long-term debt (maximum position)	35.0%	4.1% Sept 2021

Appendix 2

Economic update provided by the Council's Treasury Advisor (Link Group), April 2022

UK Over the last two years, the coronavirus outbreak has caused 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 starts 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.

Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

Average inflation targeting. This was the major change in 2020/21 adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August 2020 was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and *achieving the 2% target sustainably*". That mantra now seems very dated. Inflation is the "genie" that has escaped the bottle, and a perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of Russia's invasion of Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.

USA. The flurry of comments from Fed officials following the mid-March FOMC meeting – including from Chair Jerome Powell himself – hammering home the hawkish message from the mid-March meeting, has had markets pricing in a further 225bps of interest rate increases in 2022 on top of the initial move to an interest rate range of 0.25% - 0.5%.

In addition, the Fed is expected to start to run down its balance sheet. Powell noted that the rundown could come as soon as the next meeting in May.

The upward pressure on inflation from higher oil prices and potential knock-on impacts on supply chains all argue for tighter policy (CPI is estimated at 7.8% across Q1), but the hit to real disposable incomes and the additional uncertainty points in the opposite direction.

More recently, the inversion of the 10y-2y Treasury yield spread at the end of March led to predictable speculation that the Fed's interest rate hikes would quickly push the US economy into recession. Q1 GDP growth is likely to be only between 1.0% and 1.5% annualised (down from 7% in Q4 2021). But, on a positive note, the economy created more than 550,000 jobs per month in Q1, a number unchanged from the post-pandemic 2021 average. Unemployment is only 3.8%.

EU. With euro-zone inflation having jumped to 7.5% in March it seems increasingly likely that the ECB will accelerate its plans to tighten monetary policy. It is likely to end net asset purchases in

June – i.e., earlier than the Q3 date which the ECB targeted in March. And the market is now anticipating possibly three 25bp rate hikes later this year followed by more in 2023. Policymakers have also hinted strongly that they would re-start asset purchases if required. In a recent speech, Christine Lagarde said “we can design and deploy new instruments to secure monetary policy transmission as we move along the path of policy normalisation.”

While inflation has hit the headlines recently, the risk of recession has also been rising. Among the bigger countries, Germany is most likely to experience a “technical” recession because its GDP contracted in Q4 2021, and its performance has been subdued in Q1 2022. However, overall, Q1 2022 growth for the Eurozone is expected to be 0.3% q/q with the y/y figure posting a healthy 5.2% gain. Finishing on an optimistic note, unemployment fell to only 6.8% in February.

China. After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; however, 2021 has seen the economy negatively impacted by political policies that have focussed on constraining digital services, restricting individual freedoms, and re-establishing the power of the One-Party state. With the recent outbreak of Covid-19 in large cities, such as Shanghai, near-term economic performance is likely to be subdued. Official GDP numbers suggest growth of c4% y/y, but other data measures suggest this may be an overstatement.

Japan. The Japanese economic performance through 2021/22 is best described as tepid. With a succession of local lockdowns throughout the course of the year, GDP is expected to have risen only 0.5% y/y with Q4 seeing a minor contraction. The policy rate has remained at -0.1%, unemployment is currently only 2.7% and inflation is sub 1%, although cost pressures are mounting.

World growth. World growth is estimated to have expanded 8.9% in 2021/22 following a contraction of 6.6% in 2020/21.

Deglobalisation. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for 18% of total world GDP (the USA accounts for 24%), and Russia’s recent invasion of Ukraine, has unbalanced the world economy. In addition, after the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, 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 (and to a much lesser extent Russia) to supply products and vice versa. This is likely to reduce world growth rates.

Central banks’ monetary policy. During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

Appendix 3 – PWLB Borrowing undertaken and borrowing repaid 2021/22

PWLB Borrowing undertaken during 2021/22

Month undertaken	Amount	Purpose of borrowing	Duration	Rate
June 2021	£5.0m	Capital programme	50 years	1.91%
November 2021	£25.0m	Capital programme	50 years	1.63%
November 2021	£10.0m	Capital programme	50 years	1.51%
December 2021	£10.0m	Capital programme	50 years	1.46%
December 2021	£25.0m	Capital programme	40 years	1.49%
December 2021	£25.0m	Capital programme	50 years	1.35%
Total	**£100.0m**			

PWLB Borrowing repaid during 2021/22

Month repaid	Amount	Purpose of borrowing	Duration	Rate
Sept 2021	£1.0m	Capital programme	28 years	9.370%
Sept 2021	£1.3m	National Housing Trust loans	6 years	2.09%
Sept 2021	£1.3m	National Housing Trust loans	6 years	2.36%
Sept 2021	£0.928m	National Housing Trust loans	6 years	2.46%
March 2022	£0.700m	National Housing Trust loans	6 years	2.47%
March 2022	£0.750m	National Housing Trust loans	6 years	2.36%
March 2022	£1.350m	National Housing Trust loans	6 years	2.31%
Total	**£7.328m**			

Appendix 4 – External Borrowing at 31 March 2022

Market loans fixed

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
M290050	03/08/04	03/02/65	Barclays Bank plc	Maturity	5.05%	11,900,000.00
M290048	02/12/03	02/12/65	Barclays Bank plc	Maturity	5.00%	25,200,000.00
M290049	02/12/03	02/12/65	Barclays Bank plc	Maturity	5.00%	25,000,000.00
M290052	23/03/06	23/03/66	Barclays Bank plc	Maturity	3.80%	16,216,000.00
M290064	08/02/21	08/02/24	Cornwall Council	Maturity	1.00%	10,000,000.00
				Average rate	4.33%	88,316,000.00

Short term external debt (< 1 year) fixed

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
T503420	30/06/21	01/06/22	West Yorkshire Combined Authority	Maturity	0.08%	10,000,000.00
T503422	19/07/21	18/07/22	Renfrewshire Council	Maturity	0.09%	5,000,000.00
T503423	29/09/21	24/08/22	Edinburgh City Council	Maturity	0.08%	5,000,000.00
T503424	14/10/21	12/10/22	Warwickshire County Council	Maturity	0.06%	5,000,000.00
T503425	11/10/21	04/10/22	Shropshire Council	Maturity	0.10%	5,000,000.00
T503426	29/10/21	29/04/22	South Lanarkshire Council	Maturity	0.08%	3,000,000.00
T503427	04/11/21	04/05/22	North Somerset District Council	Maturity	0.08%	3,000,000.00
T503428	11/11/21	11/08/22	Cambridge City Council	Maturity	0.15%	5,000,000.00
T503429	19/11/21	15/11/22	North Somerset District Council	Maturity	0.22%	5,000,000.00
T503430	02/12/21	01/12/22	Mansfield District Council	Maturity	0.20%	2,000,000.00
T503431	19/11/21	17/08/22	West Midlands Combined Authority	Maturity	0.18%	5,000,000.00
T503432	02/12/21	18/11/22	North Somerset District Council	Maturity	0.22%	2,000,000.00
T503433	24/11/21	23/11/22	Hyndburn Borough Council	Maturity	0.18%	2,000,000.00
T503434	24/11/21	23/11/22	Barnsley Metropolitan Borough Council	Maturity	0.18%	5,000,000.00
T503435	02/12/21	01/12/22	Barnsley Metropolitan Borough Council	Maturity	0.18%	5,000,000.00
T503436	14/12/21	07/09/22	South Yorkshire Mayoral Combined Authority	Maturity	0.15%	5,000,000.00
T503437	15/03/22	15/09/22	Leicester City Council	Maturity	0.80%	5,000,000.00
T503438	15/03/22	15/09/22	Tendring District Council	Maturity	0.85%	2,000,000.00
T503439	14/03/22	31/10/22	West Midlands Combined Authority	Maturity	0.85%	5,000,000.00
T503440	01/03/22	04/01/23	Somerset County Council	Maturity	1.25%	5,000,000.00
T503441	15/03/22	16/01/23	Nottingham City Council	Maturity	1.25%	5,000,000.00
T503442	08/03/22	08/11/22	Shropshire Council	Maturity	1.15%	5,000,000.00
T503443	31/03/22	01/11/22	Chichester District Council	Maturity	0.95%	5,000,000.00
T503444	07/03/22	05/08/22	Gwynedd County Council	Maturity	0.80%	5,000,000.00
T503445	16/03/22	15/03/23	East Sussex County Council	Maturity	1.20%	3,000,000.00
				Average rate	0.45%	112,000,000.00

Long term market loans fixed/variable (Lender Option Borrower Option)

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
M290045	30/09/02	30/09/42	Bank of Scotland plc	Maturity	4.50%	5,000,000.00
M240007	12/12/90	12/12/50	Coventry Building Society Superannuation Fund	Maturity	11.12%	1,000,000.00
M290051	26/10/04	26/10/54	Dexia Public Finance Bank	Maturity	4.34%	8,750,000.00
M290046	14/03/03	16/03/65	Dexia Public Finance Bank	Maturity	4.40%	10,000,000.00
M290047	14/03/03	16/03/65	Dexia Public Finance Bank	Maturity	4.40%	11,740,000.00
				Average rate	4.58%	36,490,000.00

Long term external debt (PWLB) fixed

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
P450549	18/10/82	30/09/22	PWLB	Maturity	10.50%	1,053,479.77
P479600	24/06/97	30/09/22	PWLB	Maturity	7.12%	13,800,000.00
P498767	14/07/11	30/09/22	PWLB	Maturity	4.35%	15,000,000.00
P505331	31/08/16	31/03/23	PWLB	Maturity	1.21%	1,200,000.00
P452310	06/06/83	31/03/23	PWLB	Maturity	10.37%	700,000.00
P469054	18/01/91	30/09/23	PWLB	Maturity	11.25%	400,000.00
P479824	07/08/97	31/03/24	PWLB	Maturity	6.87%	8,793,583.00
P479831	07/08/97	31/03/24	PWLB	Maturity	7.12%	766,648.00
P468141	01/03/90	30/09/24	PWLB	Maturity	10.87%	800,000.00
P499029	27/09/11	30/09/25	PWLB	Maturity	3.92%	20,000,000.00
P479272	01/05/97	31/03/27	PWLB	Maturity	7.75%	25,000,000.00
P479704	17/07/97	31/03/27	PWLB	Maturity	7.00%	25,000,000.00
P508923	22/03/19	30/09/28	PWLB	Maturity	1.90%	7,500,000
P509002	28/03/19	30/09/28	PWLB	Maturity	1.82%	7,500,000
P501784	11/12/12	30/09/27	PWLB	Maturity	3.19%	10,000,000.00
P480402	13/01/98	30/09/27	PWLB	Maturity	6.12%	5,000,000.00
P501996	15/03/13	31/03/30	PWLB	Maturity	3.70%	7,500,000.00
P502022	22/03/13	31/03/30	PWLB	Maturity	3.58%	7,500,000.00
P499165	23/11/11	30/09/30	PWLB	Maturity	3.93%	20,000,000.00
P478594	11/12/96	30/09/31	PWLB	Maturity	7.75%	11,135,901.00
P501895	26/02/13	25/07/32	PWLB	Maturity	3.94%	15,000,000.00
P454211	30/03/84	30/09/33	PWLB	Maturity	10.25%	700,000.00
P488282	02/12/03	30/09/33	PWLB	Maturity	5.00%	3,600,000.00
P502832	07/02/14	31/03/34	PWLB	Maturity	4.17%	10,000,000.00
P503806	10/03/15	30/09/34	PWLB	Maturity	3.30%	10,000,000.00
P464213	25/03/88	30/09/37	PWLB	Maturity	9.12%	702,319.85
P475185	16/02/95	30/09/44	PWLB	Maturity	9.00%	500,000.00
P476150	29/06/95	31/03/45	PWLB	Maturity	8.37%	1,000,000.00
P475184	16/02/95	30/09/45	PWLB	Maturity	8.620%	500,000.00
P475052	26/01/95	30/09/48	PWLB	Maturity	8.75%	500,000.00
P474807	24/10/94	30/09/51	PWLB	Maturity	8.62%	1,000,000.00
P492695	15/01/07	31/03/52	PWLB	Maturity	4.25%	13,500,000.00
P474808	24/10/94	30/09/52	PWLB	Maturity	8.62%	1,000,000.00
P492696	15/01/07	31/03/53	PWLB	Maturity	4.25%	23,300,000.00

Long term external debt (PWLB) fixed (continued)

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
P474817	26/10/94	30/09/53	PWLB	Maturity	8.62%	1,000,000.00
P493071	08/03/07	30/09/53	PWLB	Maturity	4.25%	5,000,000.00
P492697	15/01/07	31/03/54	PWLB	Maturity	4.25%	20,000,000.00
P493070	08/03/07	31/03/54	PWLB	Maturity	4.25%	8,600,000.00
P474785	14/10/94	30/09/54	PWLB	Maturity	8.87%	1,000,000.00
P474818	26/10/94	30/09/54	PWLB	Maturity	8.62%	1,000,000.00
P493626	02/08/07	30/09/54	PWLB	Maturity	4.55%	10,000,000.00
P493835	23/08/07	30/09/54	PWLB	Maturity	4.45%	5,000,000.00
P476656	30/11/95	30/09/55	PWLB	Maturity	8.00%	1,000,000.00
P476790	21/12/95	30/09/55	PWLB	Maturity	7.87%	4,000,000.00
P476823	21/12/95	30/09/55	PWLB	Maturity	7.87%	1,000,000.00
P476824	21/12/95	30/09/55	PWLB	Maturity	7.87%	1,000,000.00
P477578	02/05/96	31/03/56	PWLB	Maturity	8.37%	10,000,000.00
P477622	08/05/96	31/03/56	PWLB	Maturity	8.37%	10,000,000.00
P477985	30/08/96	31/03/56	PWLB	Maturity	8.25%	3,000,000.00
49342	05/07/07	30/09/56	PWLB	Maturity	4.80%	60,000,000.00
P502887	05/03/14	30/09/57	PWLB	Maturity	4.20%	20,000,000.00
P498092	13/10/10	31/03/59	PWLB	Maturity	4.09%	10,000,000.00
P497853	06/09/10	31/03/60	PWLB	Maturity	4.03%	10,000,000.00
P509312	04/06/19	30/09/61	PWLB	Maturity	2.18%	5,000,000.00
P509461	04/07/19	31/03/62	PWLB	Maturity	2.10%	10,000,000.00
P503717	05/02/15	31/03/63	PWLB	Maturity	2.84%	20,000,000.00
P502921	18/03/14	30/09/63	PWLB	Maturity	4.19%	20,000,000.00
P505126	21/06/16	31/03/64	PWLB	Maturity	2.51%	25,000,000.00
P503301	12/09/14	31/03/64	PWLB	Maturity	3.95%	20,000,000.00
P509636	09/08/19	31/03/66	PWLB	Maturity	1.84%	10,000,000.00
P507215	05/04/18	30/09/67	PWLB	Maturity	2.27%	25,000,000.00
P507444	31/05/18	31/03/67	PWLB	Maturity	2.25%	10,000,000.00
P509848	05/09/19	31/03/67	PWLB	Maturity	1.58%	10,000,000.00
P509723	19/08/19	31/03/68	PWLB	Maturity	1.74%	10,000,000.00
P509506	09/07/19	30/09/68	PWLB	Maturity	2.03%	5,000,000.00
P169721	11/03/20	30/09/69	PWLB	Maturity	2.07%	5,000,000.00
P175073	24/03/20	30/09/69	PWLB	Maturity	1.48%	29,800,000.00
P509289	30/05/19	31/03/69	PWLB	Maturity	2.19%	5,000,000.00
P509372	18/06/19	31/03/69	PWLB	Maturity	2.11%	5,000,000.00
P509495	08/07/19	31/03/69	PWLB	Maturity	2.01%	5,000,000.00
P509629	08/08/19	31/03/69	PWLB	Maturity	1.94%	20,000,000.00
P366831	25/06/21	31/03/71	PWLB	Maturity	1.91%	5,000,000.00
P431937	04/11/21	30/09/71	PWLB	Maturity	1.63%	25,000,000.00
P438539	16/11/21	30/09/71	PWLB	Maturity	1.51%	10,000,000.00
P448434	03/12/21	31/03/71	PWLB	Maturity	1.46%	10,000,000.00
P450404	08/12/21	31/03/61	PWLB	Maturity	1.49%	25,000,000.00
P450406	08/12/21	31/03/71	PWLB	Maturity	1.35%	25,000,000.00
					3.85%	791,351,931.62
External borrowing average rate and total				**3.55%**		**£1,028,157,931.62**