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CABINET

12 July 2022

ANNUAL REPORT ON TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2021/22

Report of the Portfolio Holder for Finance, Governance and Performance, Change and Transformation

Strategic Aim:	All	
Key Decision: No	Forward Plan Reference: N/A	
Exempt Information	No	
Cabinet Member(s) Responsible:	Cllr K Payne, Portfolio Holder for Finance, Governance and Performance, Change and Transformation	
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Ward Councillors	N/A	

DECISION RECOMMENDATIONS
That Cabinet: 1. Notes the actual 2021/22 prudential indicators within the report. 2. Notes that the treasury management stewardship for 2021/22 was in compliance with the treasury management strategy.

1 PURPOSE OF THE REPORT

1.1 Report 161/2020 set the Treasury Management Strategy for 2021/22 linked to the Council's Budget, Medium Term Financial Plan and Capital Plans. It is inextricably linked to delivering the Council's aims and objectives.

1.2 This report sets out how the Council has performed against the Strategy.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 The Council's annual treasury report in Appendix A includes information on the

performance of the treasury management service. The key points to note in year are:

- The Council has invested with institutions as determined by the revised creditworthiness criteria approved by the Section 151 Officer;

- The Council made a return on investment of 0.38% compared to the SONIA (Sterling Overnight Index Average) rate of 0.34% (Appendix A, paragraph 2.3.3 refers);

- The Council did not undertake any external borrowing in year and therefore did not breach the operational boundary for borrowing (£28m) (Appendix A, paragraph 3.4.5 refers);

- No external debt was repaid early as there was not a financial business case to do so. The total premium (i.e. the charge for repaying early) for the Council's debt portfolio was £13.890m (Appendix A para 3.4.3);

- The Council's previous decision to notionally set-aside £10m for Commercial Investments was removed as part of the Treasury Management Strategy 2022/23 (report 02/2022); and

- The Council have underperformed against the Affordability Prudential Indicator due to investment returns decreasing as a result of the bank rate falling to 0.1% as a result of the Pandemic (Appendix A, Para 3.5.11).

3 TREASURY MANAGEMENT UPDATES

3.1 There are a number of legislative updates regarding Treasury Management Practices coming forward. these changes are listed below and cross referenced to the relevant point in the Annual Report in Appendix A.

- The Government has announced new measures to address excessive risk stemming from borrowing and investment practices and making a prudent Minimum Revenue Provision (MRP). The Council supports this direction of travel and has not followed the line of other Council's that have commercial investments for purely financial gain and are now experiencing difficulties.

- The introduction of IFRS16 which changes how the Council must account for leases and may impact some of the Prudential Indicators, has been delayed from 1st April 2022 to 1st April 2024 (Appendix A para 3.5.15).

4 CONSULTATION

4.1 No formal consultation is required.

5 ALTERNATIVE OPTIONS

5.1 This report is for noting there are no alternative options.

6 FINANCIAL IMPLICATIONS

6.1 There are no financial implications arising from this report.

7 LEGAL AND GOVERNANCE CONSIDERATIONS

7.1 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management, the CIPFA Prudential Code for Capital Finance in Local Authorities and the Council's Financial Procedure Rules. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

7.2 The Council's treasury management activities for 2021/22 were regulated by a variety of professional codes, statutes and guidance (which were updated for 2019/20):

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken;
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act MHCLG has issued Investment Guidance to structure and regulate the Council's investment activities; and
- Under Section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

7.3 The Council's Treasury Management Strategy explains how it intends to comply with the legal framework and this annual report confirms compliance.

8 DATA PROTECTION IMPLICATIONS

8.1 A Data Protection Impact Assessments (DPIA) has not been completed because there are no risks/issues to the rights and freedoms of natural persons.

9 EQUALITY IMPACT ASSESSMENT

9.1 An Equality Impact Assessment (EqIA) has not been completed because there are no service, policy or organisational changes being proposed.

10 COMMUNITY SAFETY IMPLICATIONS

10.1 There are no community safety implications.

11 HEALTH AND WELLBEING IMPLICATIONS

11.1 There are no health and wellbeing implications.

12 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

12.1 The report summarises treasury management performance in the year and meets the requirements set out in section 6.

13 BACKGROUND PAPERS

13.1 Statement of Accounts 2021/22

14 APPENDICES

14.1 Appendix A - Treasury Management Annual Report

14.2 Appendix B - Link Commentary on 2021/22

14.3 Appendix C - Glossary

A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.

Appendix A.

TREASURY MANAGEMENT ANNUAL REPORT 2021/22

1 OVERVIEW OF STRATEGY

1.1 What is Treasury Management?

1.1.1 Treasury management is the term used to describe the way a Council manages the cash it needs to meet both its day-to-day running costs and borrowing for capital expenditure. The treasury management function for a Council will make the arrangements to borrow and invest money either over the short or the longer term in order to ensure that it has money available when it needs it.

1.1.2 CIPFA defines treasury management as"…the management of the organisation's investments and 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".

1.2 What framework or rules do we need to follow?

1.2.1 In making arrangements for treasury management, a Council is required to follow CIPFA's Treasury Management Code. The Code aims to help ensure that Councils manage the significant risks associated with the function while also ensuring the Council receives value for money.

1.2.2 The Council approved a Strategy in February 2021 (report 161/2020) which covered:

- borrowing strategy, including capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time); and
- the treasury management strategy (strategy guidelines for choosing and placing investments, the principles to be used to determine the maximum periods for which funds can be committed, what specified and non specified investments will be considered how the investments and borrowings are to be organised) including treasury indicators

1.2.3 Councils need to prove that they are complying with the Prudential Code and this is done through a series of prudential indicators that are set locally and approved at the same time as the Council sets its budget for the following year.

2 TREASURY PERFORMANCE

2.1 How much did we have to invest during 2021/22?

2.1.1 The Council receives lots of income from council tax, business rates and central government. The majority of council tax and business rates payments are received between April and January, with expenditure being fairly static throughout the year.

2.1.2 At any point of time in the year, the Council had between £44m - £58m available to invest. This level of cash is higher than normally funding available because of significant Government funding received for Covid-19 including business grants. The table below shows the level of investments held during the year, the average level of investments during the year was £52.284m.

2020/21 Actual £000	2021/22 Quarter 1 as at 30-Jun-21 £000	2021/22 Quarter 2 as at 30-Sep-21 £000	2021/22 Quarter 3 as at 31-Dec-21 £000	2021/22 Quarter 4 as at 31-Mar-22 £000
42,813	47,257	50,925	55,369	55,638

2.2 Did we achieve our investment objectives? Did we invest in line within approved rules?

2.2.1 Like us as individuals, the Council will invest surplus money in various ways to get a return on balances thus generating extra income. As per our overall objectives, we ensure that these surplus balances are managed in a way to maximise the income potential whilst having regard to security risk.

2.2.2 The Council's investment strategy primary objectives, in order of importance are:

- safeguarding the re-payment of the principal and interest of its investments on time – losing any funds like in the case of Icelandic banks would be very significant in this financial climate;
- adequate liquidity – the Council does not want to run short of money so it cannot pay its bills or does not have money available to make investments in capital expenditure;
- Maximising the investment return – this is clearly important but the Council does not want to maximise returns at the expense of the first two objectives.

2.2.3 All of the Council's investments during the financial year were made with approved institutions within the agreed limits contained within the Treasury Management Strategy 2021/22 (161/2020). These limits are:

- £7m for a maximum of 3 years for institutions within the upper limit of the credit ratings;
- £7m for a maximum of 364 days for institutions within the middle limit of credit ratings; other local authorities and Money Market Funds;

- £1m for a maximum of 6 months those institutions without a credit rating, normally certain Building Societies whose operation does not require a credit rating.

2.2.4 Following the principles set out in paragraph 2.2.2, the Council made investment returns as shown below:

	Original Estimate 2021/22 £000	Revised Estimate 2021/22 Q2 £000	Actuals 2021/22 £000
Investment Income	228	93	105
Other Interest Received *	12	12	12
Total	**240**	**105**	**117**

***** The Council also receives interest from sources other than investments. A Housing Association has been recharged £12k for the principal and interest of loans that the Council has made to it, the final payment will be in 2051/52.

2.3 How did the Council investments perform?

2.3.1 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. An example of a performance indicator often used for the investment treasury function is internal returns above the 6-month LIBOR rate (the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another).

2.3.2 The Council used the 6-month LIBOR rate to assess investment performance until the end of 2021 when the provision of LIBOR and associated LIBID rates ceased to exist. The new benchmark used is SONIA (Sterling Overnight Index Average) 6 months rate, this is the risk-free rate for sterling markets administered by Bank of England. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors

2.3.3 The Council monitored performance against the LIBOR/ SONIA rate during 2021/22 and the results are shown below.

	2020/21	2021/22 (Q2)	2021/22 (Q4)
RCC Returns (%)	0.50	0.19	0.38
LIBOR (%)[1]	0.11	0.16	
SONIA (%)[1]			0.34

***** 1 LIBOR (London Interbank Offered Rate) ceased to exist December 2021 and was replaced by SONIA (Sterling Overnight Index Average)

2.3.4 The average rate achieved was lower when compared to the performance from 2020/21. This is the impact of the base rate being cut to 0.10% as a response to the Coronavirus pandemic in March 2020. The base rate increased in December 2021 to 0.25% and there were two further increases by the end of March 2022 when the base rate was 0.75%.

2.3.5 The Council outperformed the SONIA rate however there is a time lag between the base rate increasing and an improvements of the Council's average rate achieved due to fixed rate investments placed prior to the base rate increase that achieve a lower rate of return. For example, 6-month investment traded in November 2021 achieved an interest rate of 0.20%, comparatively an investment traded in March 2022 with the same maturity achieved an interest rate of 0.95%.

2.3.6 The Government announced in May 2022 new measures to address excessive risk stemming from borrowing and investment practices. To address these concerns, the Government has previously made changes to statutory guidance and tightened the lending requirements of the PWLB. The PWLB guidance has been updated to address lending to authorities where there is a more than negligible risk of non-repayment. Changes to the regulations underpinning Minimum Revenue Provision are also in progress. The new measures are being taken forward as part of the Levelling Up and Regeneration Bill, the Bill sets out the following areas where risk may arise

i) Proportionality of debt

ii) Over-reliance on commercial income

iii) Provision to repay debt

iv) Source and type of debt, for example use of credit arrangements

The Council does not envisage any issues with meeting these requirements; DLUHC has already been in contact with the small number of Councils that would fall within the scope of these powers.

3 PRUDENTIAL (BORROWING AND DEBT) INDICATORS

3.1 Why do we borrow?

3.1.1 Council's borrow to fund capital expenditure or refinance/reschedule existing borrowings e.g. replace one loan with one at a lower rate.

3.1.2 Effectively, the Council works out its capital expenditure plans and then calculates how much it needs to borrow having considered whether it should fund capital expenditure using other options.

3.2 What was our Capital Expenditure and how did we fund it?

3.2.1 The Council's capital expenditure during 2021/22 was £5.173m. The outturn report (105/2022) contains detailed analysis of the capital programme and financing.

3.2.2 The £5.173m was financed as per the table on the following page. The financing need represents an increase in borrowing requirements.

	2020/21 Actual*	2021/22 Revised Estimate**	2021/22 Actual***
	£000	£000	£000
Capital Expenditure	**6,508**	**12,230**	**5,173**
Financed by:			
Capital Receipts/Developers Contributions	179	61	32
Capital Grants & Contributions	6,093	11,741	5093
Revenue Contributions	214	77	46
Net financing need for the year	**22**	**351**	**2**

*Audited Statement of Accounts 2020/21
** Revised Estimate per Mid-Year Treasury Report (141/2021)
*** Note 20 - Statement of Accounts 2021/22 (unaudited) and outturn report (104/2022).

3.3 What was the Council's borrowing need (the Capital Financing Requirement)?

3.3.1 Any borrowing in a given year is added to the Council's Capital Financing Requirement. The Council prudentially borrowed £2k in line with the approved budget to support the role out of superfast broadband (Digital Rutland). The Council has not taken out any additional loans, instead has borrowed from the cash reserves see 2.1.2.

3.3.2 The Council's Capital Financing Requirement (CFR) is simply the total capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The CFR is reduced every year as the Council incurs a 'borrowing charge' in the Revenue Account which reduces it (this is called Minimum Revenue Provision).

3.3.3 The Council's CFR for the year is shown below and represents a key prudential indicator.

	2020/21 Actual* £000	2021/22 Revised Estimate** £000	2021/22 Actual*** £000
CFR – 1 April	**20,630**	**20,038**	**20,038**
Movement in Year - CFR	(592)	(263)	(612)
CFR – 31 March	**20,038**	**19,775**	**19,426**
Movement in CFR Represented by			

	2020/21 Actual* £000	2021/22 Revised Estimate** £000	2021/22 Actual*** £000
Net financing need for the year (from table at para 3.2.2)	22	351	2
MRP	(614)	(614)	(614)
Voluntary Revenue Provision (VRP)	-	-	-
Movement in CFR	**(592)**	**(263)**	**(612)**

* Audited Statement of Accounts 2020/21
** Revised Estimate per Mid-Year Treasury Report (141/2021)
*** Note 20 - Statement of Accounts 2020/21 (unaudited) and outturn report (104/2022).

3.4 What is the current level of debt and how might it change?

3.4.1 The Council currently has loans outstanding of £22.436m of which £21.386m are long term loans with the Public Works Loans Board (PWLB). The remainder comprises a Salix Loan of £420k (final instalment paid April 2022) and a Local Enterprise Partnership loan (LEP) of £630k, which matures in 2023. The Salix and LEP loans are shown in the accounts at concessionary rates with the amount borrowed increasing year on year until the final year where the full value is recognised. Details of the outstanding loans can be found in the table in paragraph 3.4.3.

3.4.2 All PWLB loans have been borrowed on a maturity basis. Interest payments will be made every six months on equal instalments throughout the term of the loan, with the principal being repaid on the maturity date.

3.4.3 The overall debt position is monitored continuously, and advice provided by Link Asset Services to identify opportunities for the repayment or restructuring of debt. No such opportunities were identified as cost effective in the year. Repayment of debt is subject to either a premium or dividend equating to the difference in interest payable for the remainder of the term of the loan and that which could be earned by the lender on a new loan for the same period.

3.4.4 The latest advice from Link, the Council's Treasury Management Advisors, indicates that the premium at 20 May 2022 was £13.890m. This would mean it would cost £13.890m in addition to the £21.386m principal to repay the Council's PWLB loans. At this date gilt yields were higher, the premiums on these loans have come down at the time of writing since the start of the year when gilt yields were lower. The Council has some historical loans (15% of total PWLB debt) where the interest rate on the loans are in excess of 7%, these loans in particular will be harder to repay and recoup much benefit unless gilt yields climb significantly higher in order to reduce the premium

3.4.5 The debt position at the 31 March 2022 compared to the previous year is shown in the following table:

	31 March 2021		31 March 2022	
	Principal	**Average rate**	**Principal**	**Average rate**
Long Term Debt Public Works Loan Board (all fixed rate debt)	£21.386m	4.83%	£21.386m	4.83%
Local Enterprise Partnership (LEP)	£0.607m*	0.00%	£0.618m*	0.00%
Salix Loan	£0.122m*	0.00%	£0.042m*	0.00%
Total long term debt (all fixed rate debt)	£22.115m		£22.046m	
Operational Boundary	£28.000m		£28.000m	
Capital Financing Requirement	£20.039m		£19.426m	
Over/(under) borrowing	(£2.076m)		(£2.620m)	
Total investments	(£42.813m)	0.50%	(£54.205m)	0.38%
Net borrowing position	**(£20.698m)**		**(£32.159m)**	
***** The Council has not increased its LEP loan but the actual loan (£630k over 10 years) is shown in the accounts at a concessionary rate which increases year on year until the final year where the full value is recognised. The Salix (£420k over 5 Years) is also shown in the accounts at a concessionary rate until the final year where the full value is recognised, this loan is repaid in instalments and not on maturity.				

3.5 What borrowing limits did we set and how did we comply?

3.5.1 The Council cannot simply borrow indefinitely. There are a number of prudential indicators to ensure the Council operates its activities within well-defined limits. The indicators focus on two key aspects:

- Setting limits to control borrowing; and
- Assessing the affordability of the capital investment plans.

3.5.2 In addition, we also set limits on interest rate exposure.

3.5.3 <u>Controlling borrowing prudential indicators</u>

3.5.4 The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This indicator is important as it effectively measures whether your actual external debt exceeds your need to borrow. If it does, then it could suggest that Councils have been borrowing when they do not need to do so or for inappropriate purposes. It could also mean that the Council has made a reduction to its CFR by undertaking VRP. This is the case for the Council, with additional VRP's being made in 2013/14 for £1.414m and 2015/16 £0.597m.

3.5.5 The table below shows that the Council has complied with this indicator for 2021/22.

	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Gross Debt	22,436	22,436	22,016	21,386
Capital Financing Requirement (CFR)	19,426	18,810	18,195	17,580
Under / (Over) borrowing	**(3,010)**	**(3,626)**	**(3,821)**	**(3,806)**

3.5.6 In 2021/22, the Council was in an "overborrowed" position, which can be explained as follows:

- The position did not materialise from borrowing for revenue purposes, which this indicator is a key test of. Since 2008 when the Council borrowed £4m PWLB for the by-pass, the Council has taken only two loans i) an interest free loan from the Local Enterprise Partnership to contribute to the purchase and renovation of Oakham Enterprise Park (£630k); and ii) a Salix loan at 0% for Street Lighting upgrades (£420k). This borrowing is for capital purposes and not to fund revenue.

- The Council has also made voluntary contributions to reduce its CFR as a means of reducing the capital financing charge on the revenue account. In 2013/14 the application of unused Capital Receipts was used to reduce the CFR by £1.4m and in 2015/16 to repay the advance borrowing in relation to Adult Soccer a reduction of £597k. If the Council had not done this, the CFR would be £2m higher and the revenue account would receive a higher capital financing charge.

3.5.7 Ideally, to reduce interest costs, the Council would have preferred to use capital receipts etc to repay external debt. However, there has not been a viable business case to do so. The Council would have to pay a premium to repay early, which would cost the Council more in the long term.

3.5.8 A further key prudential indicator represents a control on the maximum level of borrowing. The Council approved the Authorised Limit of £33m. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term

3.5.9 The table in paragraph 3.4.3 shows that Council did not breach this limit for 2021/22.

3.5.10 An additional indicator is the Operational Boundary – this is the maximum amount of money a Council expects to borrow during the year. This is lower than the Authorised Limit and acts as a useful warning sign if it is breached during the year, as it could mean that underlying spending may be higher or income lower than budgeted. The Council approved an Operational Boundary of £28m within the 2021/22 Treasury Strategy. The table in paragraph 3.4.3 shows that Council did not breach this limit for 2021/22.

3.5.11 Affordability Prudential Indicators

3.5.12 The previous section covered the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

3.5.13 One of the key affordability indicators is the ratio of financing costs to net revenue stream. This indicator helps a Council identify if borrowing costs become too high as a proportion of its budget. This is important as borrowing costs always have to be paid and are very hard to cut if resources fall.

	Budgeted £000	**Actual £000**	
Capital Financing Costs	1,647	1,647	
Interest Receivable	(0,240)	(0,116)	
	1,407	1,531	A
Revenue Stream			
Government Grants	4,965	6,974	
Retained Business Rates	4,983	5,478	
Council Tax	28,876	28,585	
	38,824	41,037	B
Ratio (A divided by B as a percentage)	3.62%	3.73%	

3.5.14 The table above shows that this indicator is higher than target, however the Council have complied with the indicator as this is not due to additional borrowing, but lower than expected returns on investments. The net financing costs (A) were higher than budgeted, due to lower interest earned on investments. This has been partially offset by the Revenue Stream (B) being higher due to additional income from government grants.

3.5.15 The new accounting standard IFRS16 Leases was due to be implemented from 1st April 2022. This has now been delayed until 1st April 2024. This requires all arrangements that convey the right for the Council to use an asset – whether or not there is a formal lease agreement in place, and regardless of whether any payment is made – to be considered potentially as a finance lease. The introduction of this IFRS is fundamentally a technical accounting adjustment and does not the financial position of the Council. It may impact some of Prudential Indicator. The Council will continue data collection to meet the new implementation date and should any amendments be required to these levels this will be reported at the earliest opportunity.

Appendix B. Link Asset Services Commentary on The Economy and Interest Rates

1 UK.

1.1 **Economy** 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.

1.2 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.

1.3 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.

1.4 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.

1.5 **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.

2 USA

2.1 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.

2.2 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.

2.3 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). 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%.

3 EU

3.1 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."

3.2 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 a bright note, unemployment fell to only 6.8% in February.

4 CHINA

4.1 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.

5 JAPAN

5.1 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.

6 WORLD GROWTH

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

Appendix C. Treasury Management Glossary of Terms

Authorised Limit (Also known as the Affordable Limit): A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).
Balances and Reserves: Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bank Rate: The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Basis Point: A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in interest rates and bond yields. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%.
Bond: A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure: Expenditure on the acquisition, creation or enhancement of capital assets.
Capital Financing Requirement (CFR): The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital Receipts: Money obtained on the sale of a capital asset.
Credit Rating: Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Counterparty List: List of approved financial institutions with which the Council can place investments with.
Debt Management Office (DMO): The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the

DMADF. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.
Gilts: Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged'. Being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
LIBID: The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks).
LIBOR: The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.
Maturity: The date when an investment or borrowing is repaid.
Money Market Funds (MMF): Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Minimum Revenue Provision (MRP): An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.
Voluntary Revenue Provision (VRP): An additional contribution over and above the MRP that the Council can choose to make to reduce the CFR which in turn will reduce the MRP for future years.
Non Specified Investment: Investments which fall outside the CLG Guidance for Specified investments (below).
Operational Boundary: This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.
Prudential Code: Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear,

affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators: Prudential indicators are a set of financial indicators and limits that are calculated in order to demonstrate that Councils' capital investment plans are affordable, prudent and sustainable. They are outlined in the CIPFA Prudential Code of Practice. They are indicators that must be used to cover the categories of affordability, prudence, capital spending, external debt/borrowing and treasury management. They take the form of limits, ratios or targets which are approved by Council before 1 April each year and are monitored throughout the year on an on-going basis. A Council may also choose to use additional voluntary indicators.
Public Works Loans Board (PWLB): The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Revenue Expenditure: Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
(Short) Term Deposits: Deposits of cash with terms attached relating to maturity and rate of return (Interest).
Sterling Overnight Index Average (SONIA): the risk-free rate for sterling markets administered by the Bank of England. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors
Specified Investments: Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.
Supported Borrowing: Borrowing for which the costs are supported by the government or third party.
Temporary Borrowing: Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.
Unsupported Borrowing: Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Yield: The measure of the return on an investment.