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PUBLIC REPORT

CABINET

15 November 2022

MID YEAR REPORT ON TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2022/23

Report of the Strategic Director for Resources

<table>
<tr><td>Strategic Aim:</td><td colspan="3">A modern and effective Council</td></tr>
<tr><td colspan="2">Key Decision: No</td><td colspan="2">Forward Plan Reference: FP/160922</td></tr>
<tr><td colspan="2">Reason for Urgency:</td><td colspan="2">N/A</td></tr>
<tr><td colspan="2">Exempt Information</td><td colspan="2">No</td></tr>
<tr><td colspan="2">Cabinet Member(s) Responsible:</td><td colspan="2">Cllr K Payne, Portfolio Holder for Finance, Governance and Performance, Change and Transformation</td></tr>
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DECISION RECOMMENDATIONS
That Cabinet notes the contents of the report.

1 PURPOSE OF THE REPORT

1.1 This report updates Members with the progress against the Treasury Management Strategy, prudential indicators and highlights whether any policies require revision.

1.2 The underlying purpose of this report supports the objective in the CIPFA Code of Practice on Treasury Management (revised 2017) and the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance which requires that Members receive reports on and adequately scrutinise the treasury management service.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 The Council's mid-year treasury report is included in Appendix A. The key points to note for the six months to 30 September 2022 are:

- The Council has invested with institutions as determined by the creditworthiness criteria approved by the Section 151 Officer. Since investments were made, one Council (Thurrock) has been subject to Government intervention due to financial mismanagement. The Council originally invested a total of £7m with Thurrock Council, of which £2m has now been repaid. The Council has received a letter from Thurrock confirming that all debt will be repaid as they have received PWLB support.

- The Council has made an average return on investment of 1.32%. The Council is outperforming its investment income budget by c£730k due to cash holdings being greater than expected and increases in the base rate allowing the Council to take advantage of higher rates.

- The Council's rate of return is lower than the SONIA 6 month rate of 4.13%, which averages out as 2.11% for the year to date. The speed of the base changes has made achieving this target difficult as the Council already had substantial sums invested prior to the increases in rates. However, the Council's short term investment approach, as per Appendix A 3.2.2, has meant that the Council has been able to take advantage of higher rates as investments have matured. The expectation is that the performance gap will be closed as older investments mature and are replaced with those at higher returns;

- One of the credit rating agencies, Moody's, has changed the outlook on the UK Government's ratings from stable to negative because of a perceived heightened unpredictability in policymaking amid weaker growth prospects and high inflation, as well as risks to the UK's debt affordability. This has resulted in a change to the long-term outlook for some UK Banks to "negative" from "stable" (short-term ratings largely remain on stable outlook). Should there be a significant impact on UK banks' credit ratings then a report would be brought to Cabinet requesting an update to the investment counterparty criteria with all or some of the recommendations below:

    a) Amend the required ratings for Banks and Building Societies from AA-/F1+ (higher quality) and A-/F1 (medium quality);

    b) Amend the requirements for smaller Building Societies not meeting the criteria above, the investment limit is currently £1m for 6 months; and

    c) Increase use of foreign banks, currently the limit is 10% of portfolio and minimum sovereign rating AA+.

- The Council has not undertaken any external borrowing in the six months to 30 September 2022. The Council is still below its authorised limit for borrowing of £33m (Appendix A para 2.2.2); and

- 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 is £4.905m (Appendix A para 2.2.6).

3 CONSULTATION

3.1 No formal consultation is required.

4 ALTERNATIVE OPTIONS

4.1 The report is for noting, there are no alternative options.

5 FINANCIAL IMPLICATIONS

5.1 There are no financial implications arising from this report as the report is to note.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

6.1 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.

6.2 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- 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 DLUHC 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.

6.3 The Council's Treasury Management Strategy explains how it complies with this legal framework.

7 DATA PROTECTION IMPLICATIONS

7.1 A Data Protection Impact Assessment (DPIA) has not been completed as there are no data protection implications.

8 EQUALITY IMPACT ASSESSMENT

8.1 An Equality Impact Assessment (EqIA) has not been completed because the report does not represent the introduction of a new policy or service or a change / to an existing policy or service that has an impact on any particular group.

9 COMMUNITY SAFETY IMPLICATIONS

9.1 There are no community safety implications.

10 HEALTH AND WELLBEING IMPLICATIONS

10.1 There are no health and wellbeing implications.

11 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

11.1 The report summarises treasury management performance in the year to date and meets the requirements set out in Section 6.

12 BACKGROUND PAPERS

12.1 Statement of Accounts 2021/22

13 APPENDICES

13.1 Appendix A Mid Year Report

13.2 Appendix 2 Link Commentary on the six months to 30 September 2022

13.3 Glossary

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

Appendix A. Treasury Management Mid-Year Report

1 THE CAPITAL PRUDENTIAL INDICATORS 2022/23

1.1 Capital Expenditure

1.1.1 The Council's capital expenditure plans as set out in the budget are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

1.1.2 The capital expenditure prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. As at 31 August 2022 the Council has approved capital projects totalling £15.509m. The details of this are shown in the Mid-Year Capital Programme Update (Report No:157/2022)

1.1.3 The Council's forecast capital expenditure for 2022/23 is £10.464m. The £10.464m will be financed as per the table below. The financing need represents an increase in borrowing requirements, which will be financed by the cash balances the Council is holding and not external borrowing.

	2022/23 Treasury Strategy Estimate*	**2022/23 Original Estimate ****	**2022/23 Revised Estimate**
	£000	**£000**	**£000**
Total projects	249	8,940	10,464
Total ring-fenced grants- unallocated	1,690	0	0
Capital Expenditure	**1,939**	**8,940**	**10,464**
Financed by:			
Capital Receipts	0	29	30
Capital Grants & Contributions	1,939	8,319	9,842
Revenue	0	243	243
Total Financing	**1,939**	**8,591**	**10,115**
Net financing need for the year	**0**	**349**	**349**
Net financing need relating to commercial investments	0	0	0
Percentage of total net financing need	0%	0%	0%

* The Treasury Management Strategy report was presented to Cabinet on 12 January 2022, before the Capital Programme was approved.
** The 2021/22 Outturn Report 105/2022 updated the Capital Programme with 2022/23 carry forwards and additional capital schemes.

1.2 The Council's Borrowing Need (the Capital Financing Requirement)

1.2.1 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

1.2.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

1.2.3 The Council's CFR forecast for 2022/23 is shown below. The Council has no commercial activities so has not separately identified the CFR relating to commercial expenditure.

	2021/22 Actual	**2022/23 Treasury Strategy Estimate**	**2022/23 Revised Estimate**
	£000	**£000**	**£0000**
CFR – 1 April	**20,038**	**19,775**	**19,425**
Movement in Year -			
Net financing need for the year (from table at para 1.1.3)	2	0	349
MRP	(615)	(629)	(615)
Total Movement in Year	(613)	(629)	(266)
CFR – 31 March	**19,425**	**19,146**	**19,159**

2 BORROWING

2.1 Current borrowing portfolio

2.1.1 No additional borrowing has been undertaken so far in 2022/23.

2.1.2 The final repayment instalment on the interest free Salix loan of £420k was made on 1st April 2022. The £630k Local Enterprise Partnership interest free loan is due to be repaid on 31st March 2023.

2.1.3 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 re-paid on the maturity date.

2.1.4 The table below shows the actual external debt against the underlying capital borrowing need (the CFR), highlighting any over or under borrowing. A key prudential indicator is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR. If it does then this could be a sign that the Council has borrowed to fund revenue.

	2021/22 Actual £000	2022/23 TMS Estimate £000	2022/23 Revised Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Gross Debt	22,436	21,386	21,386	21,386	21,386
Capital Financing Requirement (CFR)	19,426	19,146	19,159	18,530	17,901
Under / (Over) Borrowing	**(3,010)**	**(2,240)**	**(2,227)**	**(2,856)**	**(3,485)**

2.1.5 The Section 151 Officer reports that the Council has not complied with this prudential indicator due to the historic factors and the position has not materialised from borrowing for revenue purposes. 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 was for capital purposes and not to fund revenue.

2.1.6 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. In 2015/16 the CFR was reduced again by £597k to repay the advance borrowing in relation to Adult Soccer. If the Council had not done this, the CFR would be £2m higher and the revenue account would receive a higher capital financing charge.

2.2 Treasury Indicators: Limits to Borrowing Activity

2.2.1 ***The operational boundary*** - This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources. This is set at £23m. External debt is £21.386m and is within this limit.

2.2.2 ***The authorised limit for external debt***. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is set at £28m. External debt is £21.386m and is within this limit.

2.2.3 The update to the Prudential Code published in December 2021 requires the adoption of a new liability benchmark indicator being estimated for a minimum of 2 years with a 10-year profile recommended, from 23/24. The liability benchmark is made up of four elements:

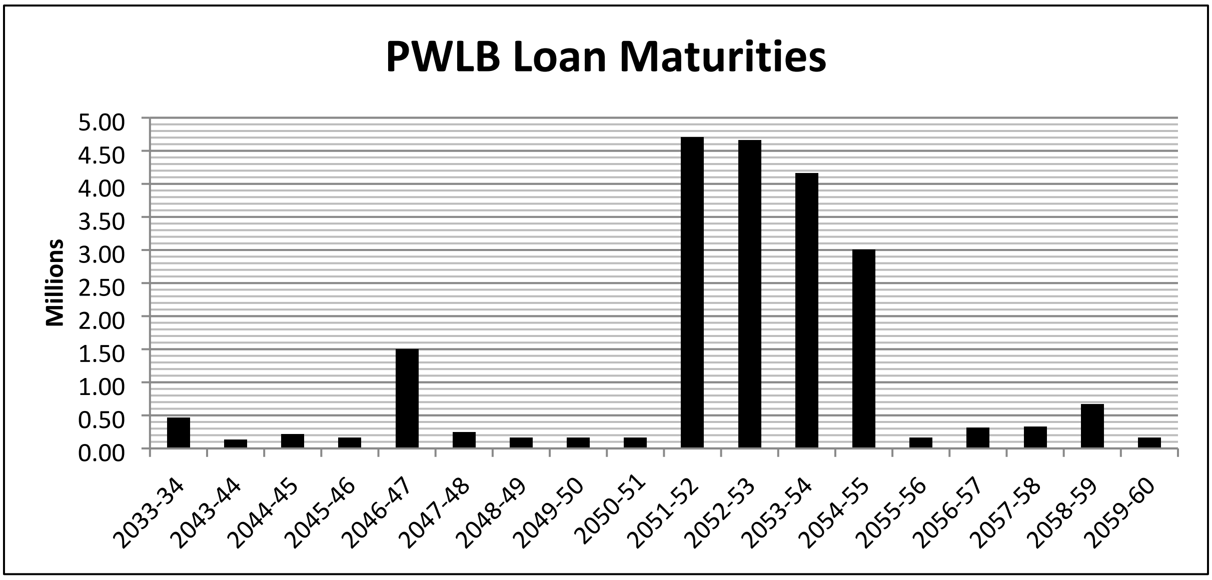
- Existing Loan Debt Outstanding - Total Debt

- Capital Financing Requirement - The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed- Total CFR
- Net Loans Requirement - the Council's loan debt less treasury management investments, projected into the future based on approved borrowing and planned MRP.
- Liability Benchmark - the Council's Net Loans Requirement plus short-term liquidity allowance. The liability benchmark is a measure of how well the existing loans portfolio matches the authority's planned borrowing needs.

2.2.4 The Council now have all the data to implement this prudential indicator and will include it as part of the Treasury Management Strategy for 23/24.

2.3 Debt Repayment and rescheduling

2.3.1 The table below demonstrates when PWLB debt is due to be repaid.



2.3.2 The latest advice from Link, the Council's Treasury Management Advisors, indicates that the current premium is £4.905m (all debts currently have a premium i.e., there is an additional charge to repay the debt early). This would mean it would cost £4.905m in addition to the £21.386m principal to repay the Council's PWLB loans.

2.3.3 The Council have reviewed the position as the market has been volatile and there has been no business case to repay any loan early when factoring in Principal Repayment, Premium/Discounts and loss on investment income.

3 INVESTMENT STRATEGY

3.1 Investment overview

3.1.1 The Council receives substantial 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.

3.1.2 During the first half year investments have ranged from £53.841m to £60.129m. The table below shows the level of investments held at 30 September 2022 and the forecast balances to the end of the Financial Year. Cash balances remain relatively high compared to pre-Covid levels and this has been factored into the forecast shown in 3.1.4. Balances are anticipated to fall in the final quarter of 2022/23 mainly because most Council Tax income is paid over 12 months.

	Investments 31-Mar-22 **£000**	**Investments 30-Sep-22** **£000**	**Forecast Investments 31-Mar-23** **£000**
UK Banks *(f)*	18,205	26,010	19,000
UK Building Societies *(f)*	23,000	23,000	16,000
UK Local Authorities *(f)*	13,000	9,000	2,000
Total Fixed Interest Rates *(f)*	**54,205**	**58,010**	**37,000**
Total Variable Interest Rates *(v)*	**0**	**0**	**0**
Total Investments	**54,205**	**58,010**	**37,000**

3.1.3 Most of the Councils investments are made at fixed interest rates over 3 -12 months. For cash flow purposes, some funds are held in instant access accounts.

3.1.4 The revised budget position for investment income is:

	Original Estimate 2022/23 **£000**	**Received to 30-Sep-22** **£000**	**Revised Estimate 2022/23** **£000**
Investment Income	188	289	922
Other Interest Received *	12	0	12
Total	200	289	934

* 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.

3.1.5 The Council is outperforming its budget by c£730k due to increases in the Base Rate during 2022. The budget was set when interest rate was 0.25% and Link, our Treasury Advisors, advised 0.25% increases in June and September. The Base Rate has increased to 2.25% in September 2022, with further increases expected in November 2022, December 2022 and March 2023 to a peak of 5%.

3.2 Investment Performance

3.2.1 The Council's primary investment strategy objectives remain Security, Liquidity then Yield. In addition to these objectives there is a supplementary aim to be ethically responsible in how it invests.

3.2.2 During the first 6 months of 2022/23 £7m has been invested in sustainable fixed term deposits, these deposits are with counterparties that meet the Council's counterparty credit criteria. They differ from 'traditional' fixed term deposits as they have an underlying commitment to supporting activities that provide sustainable and environmentally friendly services and products. The investments are referenced against the United Nations Sustainable Development, so funds are put to work addressing some of the world's biggest long-term threats including, but not limited to, climate change, health, financial inclusion and education.

3.2.3 During the first 6 months of 2022, a local authority (Thurrock Council), that the Council had £7m invested with, had intervention measures introduced by DLUHC due to concerns about its financial management. Link, our Treasury advisors, score Local Authorities based on credit risk and thus apply a risk score of 1, this is equivalent to government credit quality. One investment of £2m was repaid in October 2022, the remaining £5m invested matures in November 2022 and January 2023. There are no concerns regarding the repayment of these funds. The Council received a letter from Thurrock confirming that all debt will be repaid as they have received PWLB support.

3.2.4 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 SONIA rate (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). The Council's monitored performance against the 6-month SONIA rate is shown below.

	2021/22	**2022/23 (Q1)**	**2022/23 (Q2 Cumulative)**
RCC Returns (%)	0.38	0.60	1.32
SONIA (%)	0.34	1.98	4.13

3.2.5 The Council is underperforming against the 6-month SONIA rate due to fixed rate investments placed that achieved a lower rate of return prior to the base rate increases during 2022. For example, a 6-month investment traded in October 2021 achieved an interest rate of 0.11%. Comparatively, a 5-month investment traded in September 2022 achieved an interest rate of 3.59%. Investments are being held for varying maturity dates up to six months in a laddering approach to investments to capitalise on current rates whilst not locking in long term so the Council can take advantage of future increases.

3.2.6 The remaining historical maturities with interest rates of below 0.20% mature in the third quarter of 2022/23 so the Council's average investment return will increase in the future. SONIA has significantly increased in the first 6 months of the year due to steep increases in the yield curve and drastically changing market conditions.

3.2.7 The daily SONIA rate is 2.19% as at 30th September 2022. The average for the first 6 months of 2022/23 was 1.35% compared to the Council's rate of return of 1.32%. This is considered to be a more appropriate benchmark in the current market conditions and also reflects the Council's laddering approach to investments and holding some liquid cash to be able to respond to market conditions.

3.3 Affordability Prudential Indicators

3.3.1 The previous sections cover 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.

3.3.2 **Ratio of Financing Costs to Net Revenue Stream** - This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	Original Estimate 2022/23 **£000**	**Forecast Quarter 2 2022/23** **£000**
Financing Costs		
Capital Financing Costs	1.646	1.646
A	1.646	1.646
Revenue Stream		
Government Grants	5.379	5.743
Retained Business Rates	5.776	3.462
Council Tax	30.000	30.451
B	41.16	39.66
Ratio (A divided by B as a percentage)	4.00%	4.15%

3.3.3 The estimates of financing costs include current commitments and the proposals in the budget report.

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

ECONOMICS UPDATE

- The second quarter of 2022/23 saw:
    a) GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;

    b) Signs of economic activity losing momentum as production fell due to rising energy prices;

    c) CPI inflation increased to 10.1% in September and domestic price pressures show little sign of abating in the near-term;

    d) The unemployment rate fell to a 48-year low of 3.5% for the 3 months to September, largely due to the continued shortfalls in labour supply;

    e) Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;

    f) Gilt yields surge and sterling fall following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September.

- There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.
- The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.
- The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.
- CPI inflation increased from 9.9% in August to 10.1% in September, though inflation has not peaked yet. Whilst global inflationary pressures have started to ease, domestically,

the tight labour market and the change in govt policy in relation to the utility price freeze [now due to end in April 2023 rather than October 2024], will likely result in a higher peak (c11%) next April as well as a higher average rate for next year; (Closer to 9% rather than the 6% previously anticipated).

- However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.
- Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.
- During the first half of 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) have made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.
- Previous Government policy led to fears that the government had no fiscal anchor on the back of its announcements, resulting in the pound weakening and adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's "fiscal event", it has since recovered to around $1.13 since the 'reversal' of the 'mini-budget'. It is still anticipated that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.
- The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.
- We expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank

Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

- Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.
- Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.
- There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.
- After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

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).
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 MHCLG 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 MHCLG 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.