Appendix A
CABINET
27 OCTOBER 2022

TREASURY MANAGEMENT MID-YEAR REPORT 2022/2023

1. Summary

1.1 To inform Cabinet of the investment performance of the Council's internally and externally managed funds, to 30 September 2022.

1.2 To update the Treasury Indicators for the six months, to 30 September 2022.

2. RECOMMENDATIONS

2.1 That the investment performance of the Council's funds, be noted.

2.2 That the half-year position of the Council's Treasury Indicators, as detailed in the report, be noted.

3. Background and Discussion

3.1. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code recommends that Members are informed of Treasury Management activities at least twice a year. This report therefore ensures that the Council complies with best practice in accordance with CIPFA's recommendations.

3.2. The Council's Treasury Management Strategy for 2022/2023 was approved by the GAC on 28 February 2022 [Min.No.10].

3.3. The Council has both borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's Treasury Management Strategy.

3.4. CIPFA published its revised Treasury Management Code of Practice (the TM Code) and Prudential Code for Capital Finance in December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The principles within the two Codes took immediate effect although local authorities could defer introducing the revised reporting requirements within the revised Codes until the 2023/24 financial year if they wish. The Council took the decision to defer and will be reporting under the new requirements for the first time when the Treasury Management Strategy, Capital Strategy and Investment Strategy for 2023/24 are produced and presented to the GAC in February 2023.

3.5. **Economic Background and Outlook**

The following has been provided by the Council's treasury advisors, Arlingclose:

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Economic background: The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.

UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and 2.8% for regular pay.

With disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of -44 in August, down -41 in the previous month. Quarterly GDP fell -0.1% in the April-June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England.

The Bank of England increased the official bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. The September vote was 5-4 with five votes for a 0.5% increase, three for a 0.75% increase and one for a 0.25% increase. The committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini-budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7%-1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large-scale redemptions of assets across their portfolios to meet those demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.

Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July and September, taking policy rates to a range of 3%-3.25%.

Eurozone CPI inflation reached 9.1% year-on-year in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from -0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.

Financial markets: Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Toward the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.

Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.

Credit review: Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks in May 2022, Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.

Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remains under constant review.

3.6 Local Context

On 31 March 2022, the Council had £35.75m outstanding loans and investments net of internal borrowing of £169.05m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

<u>Table 1 – Balance Sheet Summary</u>

	31.03.22 Actual £m
General Fund CFR	0.70
HRA CFR	37.52
Total CFR	**38.22**
Less: *other debt liabilities	0.70
Loans CFR	**37.52**
External borrowing	37.52
Internal Borrowing	0.00
Less: General Reserve HRA balances	 3.00 7.65

Earmarked/capital reserves	119.11
Less: Working capital	 29.28
Investments net of internal borrowing	**159.04**

*finance leases form part of the Council's total debt.

The treasury management position at 30th September 2022 and the change during the period is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.03.22 Balance £m	Movement £m	30.09.22 Balance £m
Long-term borrowing	(33.98)	0	(33.98)
Short-term borrowing	(3.54)	1.77	(1.77)
Total Borrowing	**(37.52)**	**1.77**	**(35.75)**
Long-term investments	76.08	(7.21)	68.87
Short-term investments	35.87	(0.89)	34.98
Cash and cash equivalents	47.09	18.11	65.20
Total investments	**159.04**	**10.01**	**169.05**
Net Investments	**121.52**	**11.78**	**133.30**

The movement in short-term borrowing was the £1.77m scheduled semi-annual repayment of debt and accrued interest in August 2022.

Cash balances have continued to be high in the first half of this year as the Council holds onto business rates funding that is due to be repaid in March 2023. As the year progresses, the balances are likely to reduce as the Council makes payment of business rate funding held, expenditure is incurred on capital projects and the scheduled £1.77m borrowing repayment in February 2023 is made. The Council is however expecting a capital receipt of £14.7m on the sale of land at Stone Lodge early in 2023.

The Council has continued to manage daily liquidity needs through the use of the money market funds. As at 30th September 2022, £65.2m was invested across 6 money market funds. These funds have seen yields increase in line with the Bank of England Bank Rate rises.

The remaining movement in long and short-term investments includes unrealised capital movement on the pooled fund investments.

3.7 Borrowing

Borrowing update

CIPFA's 2021 Prudential Code is clear that authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority.

Public Works and Loans Board (PWLB) loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council is not planning to purchase investment assets primarily for yield within the next three years and so is able to fully access the PWLB.

Borrowing during the period

The Council borrowed £86.95m to fund the Housing Self Financing settlement on 28th March 2012. At the time of borrowing, it was possible to set the instalment dates to suit the Council's cash flow. 1st February and 1st August were chosen. Table 3 below shows the current position of outstanding debt of £35.75m.

Table 3 – Borrowing

Loan Type	Maturity Date	Years to Maturity	Principal Borrowed (28/03/12) £m	Principal Outstanding (30/09/22) £m	Interest Rate %	Semi-annual repayment £m
EIP	01/02/2039	17.35	18.00	**11.00**	2.90%	0.33
EIP	01/02/2026	4.34	9.00	**2.25**	1.82%	0.32
EIP	01/02/2032	10.35	26.95	**12.80**	2.44%	0.68
EIP	01/02/2037	15.35	9.00	**5.22**	2.79%	0.18
EIP	01/02/2031	9.35	10.00	**4.48**	2.35%	0.26
		11.08	**86.95**	**35.75**	**2.53%**	**2.22**

There has been no overnight/short term borrowing since 1st April 2022.

The next scheduled repayment is 1st February 2023.

3.8 Other debt activity

The Council has vehicle leases embedded within its waste contract with Urbaser. The Council has to recognise this lease as a finance lease. The value of the lease liability as at 31st March 2022 was £0.86m. This will have reduced to £0.70m by 31st March 2023.

3.9 Treasury Investment Activity

The CIPFA revised TM Code defines treasury management investments as those which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2022/23, the Council's total investment balances have ranged between £164.65m and £183.50m. Table 4 below shows the investment position as at 30th September 2022 and the total investments made and maturities/investments sold since 1st April 2022.

Table 4 – Treasury Investment Position

Investments	Balance on 31/03/2022 £m	Investments made £m	Maturities/ Investments sold £m	Change in value – unrealised gain/(loss) £m	Balance on 30/09/2022 £m	Income Return 2022/23 to 30/09/22* £m
Money Market Funds	42.09	96.66	(73.55)		65.20	0.39
Instant access deposit	5.00		(5.00)		0.00	0.00
Cash plus funds	19.86			(0.21)	19.65	0.07
Short-dated bond funds	15.06			(0.69)	14.37	0.04
Long dated bond funds	17.23			(1.40)	15.83	0.26
Equity income funds	31.28			(2.85)	28.43	0.61
Property funds	2.22			0.06	2.28	0.04
Multi asset income funds	26.30			(3.01)	23.29	0.63
Total Investments	**159.04**	**96.66**	**(78.55)**	**(8.10)**	**169.05**	**2.04**

**income return includes dividends declared but not yet received*

The following categories of investments in Table 4 include funds on accumulating basis, which means no income is paid out but instead rolled up into the valuation: Cash plus funds £5m, Short-dated bond funds £10.2m and long-dated bond funds £1.09m.

Both the CIPFA TM Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

The increases in Bank Rate over the period under review, and with the prospect of more increases to come, short-dated cash rates, which had ranged between 0.7%-1.5% at the end of March, rose by around 1.5% for overnight/7-day maturities and by nearly 3.5% for 9-12 month maturities.

The Council continued to utilise sterling low volatility net asset value (LVNAV) Money Market Funds for liquidity management during the period and the return on these investments ranged between 0.53% and 0.64% in early April and between 1.70% and 2.13% at the end of September. A total of £0.39m of investment income has been received from these investments up to 30th September 2022.

Externally Managed Pooled Funds

£103.85m of the Council's investments is invested in externally managed strategic pooled cash plus, bond, equity, multi-asset and property funds where short-term security and liquidity are lesser considerations and the objectives instead are regular revenue income and long-term price stability. These funds generated £1.65m income return, but have seen an £8.1m unrealised capital loss, since 1st April 2022.

The April-September period was a very difficult environment for bonds engendered by global central banks' determination to bring high and persistent inflation under control through increases in policy rates and strong rhetoric. The sell-off in gilts, other sovereign bonds and corporate bonds with a rise in gilt/bond yields (i.e. a fall in price) was reflected in the Council's bond and multi-asset income funds. The increase in policy rates in the UK, US and Eurozone and the prospect of low or no growth and a recessionary period ahead was also a challenging period for equities, the FTSE All Share index falling from 4187 on 31st March to 3763 on 30th September, whilst the MSCI World index fell from 3053 to 2378 over the same period. The fall in equity valuations is reflected in the equity and multi-asset income funds.

Significant financial market volatility and uncertainty remain due to stagflation fears, little sight of the war in Ukraine ending soon and ongoing supply chain issues, a lingering problem over the past 30 months, yet to be fully resolved.

The change in the Council's funds' capital values and income earned over the 6-month period is shown in Table 4.

Because the Council's funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns normally exceed cash interest rates.

The externally managed pooled funds have achieved an income return of £1.23m with a further £0.43m declared and due to be received within the next two months.

Total investment income, including both internal and externally managed pooled fund income and declared income not yet received, is £2.04m. The budget of £2m has already been achieved.

3.10 Non-Treasury Investments

The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Council as well as other non-financial assets, which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also includes within the definition of investments all such assets held partially or wholly for financial return.

The Council holds £9.13m of such investments in directly owned property, which are primarily held for service objectives and a full list is shown below in table 5.

Table 5: Non-treasury Investments

Property	31.03.2022	
	Value in accounts £m	Income expected 2022/23 £m
59-65 Hythe Street	0.30	0.03
The Bridge development	2.39	0
Crown buildings (land only)	0.88	0.13
146 Lowfield Street (land only)	0.05	0
16 Market Street	0.12	0.01
Fleet Estate Freehold Interests	0.04	0.01
Orchard Shopping Centre (land only)	2.73	0.22
37 Essex Road (Nightclub – land only)	0.31	0.10

HRA Investment properties	2.31	0.16
TOTAL	9.13	0.66

These investments are expected to generate £0.66m per annum.

3.11 Compliance

All treasury management activities undertaken during the first half of 2022/23 have complied fully with the CIPFA TM Code and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 6 and 7 below.

Table 6 – Debt Limits

	H1 Maximum	30.9.22 Actual	2022/23 Operational Boundary	2022/23 Authorised Limit	Complied
Borrowing	£37.52m	£35.75m	£100m	£120m	✓
Finance Leases	£0.69m	£0.69m	£15m	£20m	✓
Total debt	£38.21m	£36.44m	£115m	£140m	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as compliance failure.

Table 7 – Investment Limits

	H1 Maximum	30.9.22 Actual	2022/23 Counterparty Limit	Complied
UK Government	£25m	£0m	Unlimited	✓
Local authorities & other government entities	£0m	£0m	£15m	✓
Secured investments*	£0m	£0m	£15m	✓
Banks (unsecured)*	£5m	£0m	£7.5m	✓
Building societies (unsecured)*	£0m	£0m	£7.5m	✓
Registered providers (unsecured)*	£0m	£0m	£7.5m	✓
Money market funds*	£15m	£15m	£15m	✓
Strategic pooled funds	£13.53m £21.84m	£12.55m £21.15m	£20m per fund £30m per fund manager	✓
Real estate investment trusts	£0m	£0m	£15m	✓

Other investments*	£0m	£0m	£7.5m	✓

3.12 **Treasury Management Indicators**

The Council measures and manages its exposures to treasury management risks using the following indicators:

Security
The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.9.22 Actual	2022/23 Target	Complied
Portfolio average credit rating	A+	A	✓

Liquidity
The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling one month period, without additional borrowing.

	Target
Total cash available within 1 month	£5m

Since the 1st April 2022 the Council had at least £5m available within one month at all times.

Interest Rate Exposures
This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	30.9.22 Actual	Target	Complied
One-year revenue impact of a 1% rise in interest rates	£452,556	£1,000,000	✓
Upper limit on a one-year revenue impact of a 1% fall in interest rates	(£452,556)	(£1,000,000)	✓

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The Council's debt is at fixed rates of interest, maturing debt is not being replaced with new borrowing and will not be impacted by an increase in interest rates. The Council will benefit from any increase in interest rates on its cash investments, Money Market Funds and short bond funds.

Maturity Structure of Borrowing
This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing were:

Maturity structure of fixed rate borrowing	Lower Limit for 2022/23 %	Upper Limit for 2022/23 %	Actual Maturity % as at 30/09/2022	Actual Fixed Rate Borrowing at 30/09/2022 £m	Complied
under 12 months	0%	30%	9.91%	3.54	✓
12 months and within 24 months	0%	30%	9.91%	3.54	✓
24 months and within 5 years	0%	50%	27.04%	9.67	✓
5 years and within 10 years	0%	60%	36.48%	13.04	✓
10 years and above	0%	40%	16.66%	5.96	✓
Total			**100.00%**	**35.75**	

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for longer than a year
The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2022/23	**2023/24**	**2024/25**
Actual principal invested beyond year end – externally managed funds	£103.85m	£103.85m	£103.85m
Limit on principal invested beyond year end – externally managed funds	£145m	£145m	£145m
Actual principal invested beyond year end – internally managed funds	£0m	£0m	£0m
Limit on principal invested beyond year end – internally managed funds	£25m	£20m	£15m
Complied	✓	✓	✓

3.13 Other

IFRS9 pooled fund statutory override consultation

DLUHC published a consultation on the IFRS9 pooled fund statutory override, which is due to expire with effect from 2023/24. The override allows the Council to take fair value gains or losses on the externally managed pooled funds to an unusable reserve – the pooled investment fund adjustment account, thereby not hitting revenue. The consultation sought views on whether the override should be made permanent, extended or be allowed to lapse. The consultation closed on 6th October 2022.

The Council responded to the consultation, arguing in favour of a permanent override. CIPFA and the ICAEW have published their joint response to the consultation and are in favour of allowing the override to lapse. If the override is removed, the Council will need to take fair value gains and losses to the comprehensive income and expenditure statement (CIES). The Council has an investment volatility reserve to smooth the impact of these movements. The Council is now waiting for the outcome of the consultation.

3.14 Arlingclose's economic outlook for the remainder of 2022/23 (based on 26th September 2022)

Interest rate forecast:

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.25	4.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.25	3.75	3.25
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

Arlingclose expects Bank Rate to rise further during 2022/23 to reach 5% by the end of the year.

The MPC is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages.

The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps of increases this calendar year.

This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024.

Gilt yields will face further upward pressure in the short term due to lower confidence in UK fiscal policy, higher inflation expectations and asset sales by the BoE. Given the recent sharp rises in gilt yields, the risks are now broadly balanced to either side. Over the longer term, gilt yields are forecast to fall slightly over the forecast period.

Background:

Monetary policymakers are behind the curve having only raising rates by 50bps in September. This was before the “Mini-Budget”, poorly received by the markets, triggered a rout in gilts with a huge spike in yields and a further fall in sterling. In a shift from recent trends, the focus now is perceived to be on supporting sterling whilst also focusing on subduing high inflation.

There is now an increased possibility of a special Bank of England MPC meeting to raise rates to support the currency. Followed by a more forceful stance over concerns on the looser fiscal outlook. The MPC is therefore likely to raise Bank Rate higher than would otherwise have been necessary given already declining demand. A prolonged economic downturn could ensue.

Uncertainty on the path of interest rates has increased dramatically due to the possible risk from unknowns, which could include for instance another Conservative leadership contest, a general election, or further tax changes including implementing windfall taxes.

The government's blank cheque approach to energy price caps, combined with international energy markets priced in dollars, presents a fiscal mismatch that has contributed to significant decline in sterling and sharp rises in gilt yields, which will feed through to consumers' loans and mortgages and business funding costs.

UK government policy has mitigated some of the expected rise in energy inflation for households and businesses flattening the peak for CPI, whilst extending the duration of elevated CPI. Continued currency weakness could add inflationary pressure.

The UK economy already appears to be in recession, with business activity and household spending falling. The short- to medium-term outlook for the UK economy is relatively bleak.

Global bond yields have jumped as investors focus on higher and stickier US policy rates. The rise in UK government bond yields has been sharper, due to both an apparent decline in investor confidence and a rise in interest rate expectations, following the UK government’s shift to borrow to loosen fiscal policy. Gilt yields will remain higher unless the government’s plans are perceived to be fiscally responsible.

The housing market impact of increases in the Base Rate could act as a “circuit breaker” which stops rates rising much beyond 5.0%, but this remains an uncertainty.

4. Relationship to the Corporate Plan

Council Performing Strongly Theme PS1 – Deliver high quality services, offering value for money and demonstrating a culture of continuous improvement.

Regular monitoring and scrutiny of the Council's financial position, and, in particular its treasury management function is key to maintaining a high quality service and value for money.

5. **Financial, legal, staffing and other administrative implications and risk assessments**

Financial Implications	As detailed in the report
Climate impact assessment	Not applicable
Legal Implications	Treasury management is a complex subject and local authority treasury management is subject to a range of regulations, government guidance and professional codes that add to the complexity.
Staffing Implications	There are none as a result of this report
Administrative Implications	There are none as a result of this report
Risk Assessment	Treasury operations are tightly regulated and the Council's external advisors consulted regularly, thus minimising the risk to the Council. A prudent approach is taken in relation to investment activity with priority being given to security and liquidity over yield.

6. Details of Exempt Information Category

Not applicable

BACKGROUND PAPERS

Documents consulted	Date / File Ref	Report Author	Section and Directorate	Exempt Information Category
Banking records and Arlingclose guidance		Catherine Bailey (01322) 343312	Financial Services, Corporate Services	N/A