Financial Year 2022/23 Mid-Year Treasury Report

Committee considering report:	Governance and Ethics Committee
Date of Committee:	16 January 2023
Portfolio Member:	Councillor Ross Mackinnon
Date Portfolio Member agreed/sent report:	16 November 2022
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	GE4308

1 Purpose of the Report

The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA TM Code) requires the Council to approve both mid-year and annual treasury management reports. This report provides an overview of the treasury management activity for financial year 2022/23 as at 30th September 2022.

2 Recommendation

This report is to note only. The Section 151 Officer is satisfied that treasury management practices in year have operated in accordance with the approved performance management criteria.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	The Treasury function is responsible for the daily cash flow management of the Council. Income from investments contributes to the Council's annual budget. Bank Rate increased from 0.75% in April to 2.25% in September, following a series of stepped increases from May. The increase in rates is expected to result in an over achievement of investment income of £703k against budget for the financial year. The Council did not take on new external borrowing in the period to end September 2022.

Human Resource:	Not applicable			
Legal:	Not applicable			
Risk Management:	The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA TM Code) requires the Council to approve an annual treasury management strategy and mid-year review. All investments are undertaken with a view to minimising the risk of financial loss. The Investment and Borrowing Strategy approved by the Council sets parameters to ensure this. Key treasury indicators are adopted as part of the annual strategy and compliance with these indicators is detailed in sections 7.3 and 7.4 of this report.			
Property:	Not applicable			
Policy:	Not applicable			
	Positive	**Neutral**	**Negative**	**Commentary**
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		

Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		
Council Strategy Priorities:	X			The treasury function supports the delivery of the Council Strategy through the financing of the Council's approved Capital Programme and monitoring of Council cash flows.
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Joseph Holmes – Director of Resources Cllr Ross Mackinnon – Portfolio Holder for Finance Treasury Management Group			

4 Executive Summary

4.1 The Council's Investment and Borrowing Strategy for 2022/23 was approved by Council on 3 March 2022. The Council has 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.

4.2 On 31 March 2022, the Council had a Capital Financing Requirement (CFR) of £278.4 million (i.e. the underlying need to borrow for capital purposes is measured by the CFR, while usable reserves and working capital are the underlying resources available for investment). The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. In keeping with this objective, whilst short-term interest rates remained much lower than long-term rates and temporary investments earning Bank Rate or lower, it has been considered to be more cost effective in the near term to use borrowed rolling temporary / short-term loans. At 30 September 2022 the Council held £189.4 million of loans, as part of its strategy for funding previous and current years' capital programmes. The Council's borrowing position is summarised in the table below.

Borrowing Position as at 30 September 2022	31.03.22 Balance £m	Net Movement £m	30.09.22 Balance £m
Public Works Loan Board	(191.0)	2.4	(188.6)
Community Bond	(0.8)	0.1	(0.7)
Total Borrowing	**(191.8)**	**2.5**	**(189.3)**

4.3 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year to 30 September 2022, the Council's investment balances have ranged between £34.3m and £64.0 million due to timing differences between income and expenditure. The investment position as at 30 September 2022 compared to 31 March 2022 is shown in the table below.

Investment Summary	31.03.22 Balance £m	Net Movement £m	30.09.22 Balance £m
Banks & Building Societies (Unsecured)	5.0	(2.8)	2.2
Government (incl. Local Authorities)	18.0	12.0	30.0
Money Market Funds	14.8	(2.8)	12.0
Total Unvestments	**37.8**	**6.4**	**44.2**

4.4 The economic backdrop during the period April to September has been characterised by high oil, gas and commodity prices and inflationary pressures. The Bank of England increased the official Bank Rate to 2.25% over this period, rising from 0.75% in March as a result of 0.25% rises in both May and June and 0.50% rises in the August and September. As a result of the rise in Bank Rate, investment income is forecast to be £703k over achieved for the year. The Council's existing external borrowings are fixed rates and no new long term borrowing has been undertaken in the six month period to September 2022. The Council has financed its capital programme during 2022/23 through undertaking short term borrowing with other Local Authorities (i.e. loans with other Local Authorities for a duration of under one year). Treasury Management Group maintains and scrutinises a listing of other Local Authorities deemed to be appropriate from a risk perspective with which to undertake short term borrowing activities.

4.5 In respect of non-treasury investment assets, at the 31st March 2021 the Council held £72.5m of investments in directly owned property categorised as follows:

(a) Directly owned property (commercial property) £58.9 million, details in appendix C. This is property that the Council has borrowed specifically to fund the purchase.

(b) Directly owned property (investment property) £13.6 million, details included in appendix D. This is property that the Council holds as an investment property but the purchase has not been funded by borrowing. In most cases the property has been inherited from Berkshire County Council or Newbury District Council upon the formation of West Berkshire Council in 1998.

4.6 Due to the nature of direct investment in property there is additional risk that the value of the investment may change. In respect of commercial property, this risk is carried alongside the risk of voids and no rental income being recovered adversely impacting on achievable rates of return. These risks are managed through allocation of General Fund Reserve to Earmarked Reserves as part of annual budget setting processes.

These earmarked funds are released against the General Fund at year end to compensate for any voids and reductions in income achieved. For financial year 2022/23 the forecast revenue budget monitoring position at Quarter Two is for a net favourable variance of £148k in respect of commercial and investment property holdings.

5 Supporting Information

Introduction

5.1 The CIPFA TM Code requires the Council to approve semi-annual and annual treasury management reports. This report provides an overview of the treasury management activity for financial year 2022/23 as at 30 September 2022.

5.2 The Council's treasury management strategy for 2022/23 was approved by Council on 3 March 2022. The Council has 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 remains central to the Council's Investment and Borrowing Strategy.

Background

5.3 **Economic background**: The ongoing conflict in the Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. High energy and commodity prices during the first two quarters of 2022/23 have impacted on consumer's cost of living. Annual headline CPI peaked at 10.1% in July, the highest rate for 40 years and RPI registered 12.3% in both July and August. Quarterly GDP fell 0.1% in the quarter to end June 2022 driven by a decline in services output. The Bank of England has increased interest rates from 0.75% in March to 2.25% at the time of writing. A full appraisal of the economic position from the Council's external treasury advisors Arlingclose is contained in appendix A.

5.4 **Local Context**: On 31st March 2021, the Council had net borrowing (i.e. gross external borrowing less net investments) of £154m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the CFR, while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in the table below which is based on the Council's 2021/22 draft financial statements.

Investment Summary	**31.03.22 Actual £m**
General Fund CFR	278.40
Less: Other debt liabilities: Waste Private Finance Initative	(11.50)
Loans CFR	266.90
External borrowing	(191.80)
Internal borrowing	75.10
Less: Usable reserves	(77.30)
Less: working capital	(35.60)
Net Investments	**(37.80)**

5.5 The Council has not needed to undertake new external borrowing during the period April to September 2022 and instead has continued to pursue a strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk. The treasury management position on 30 September 2022 and the change over the six months is shown in the table below in section 5.7.

5.6 **Borrowing Update**: Local authorities can borrow from the Public Works and Loan Board (PWLB) provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 Officer. Council's that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes servicing expenditure on operational assets, housing, regeneration, preventative action, and treasury management e.g. refinancing of existing debt. The CIPFA Prudential Code notes that since access to the PWLB is important to ensure local authorities' liquidity in the long term and that leveraged (i.e. debt driven) investment always increases downside risks, that local authorities must not borrow to fund acquisitions where obtaining financial returns is the primary aim. The Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able fully access the PWLB. Details of the PWLB guidance is included in appendix B.

Borrowing Position as at 30 September 2022:

5.7 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. In keeping with these objectives no new borrowing was undertaken. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. At 30 September 2022 the Council held £189.3m of loans, a decrease of £2.5m from 31 March 2022 due to annuity payments made in the period. Outstanding loans on 30 September are summarised in the table below.

Borrowing Position as at 30 September 2022	31.03.22 Balance	Net Movement	30.09.22 Balance	30.09.22 Weighted Average Rate	30.09.22 Weighted Average Maturity
	£m	£m	£m	%	Years
Public Works Loan Board	(191.0)	2.4	(188.6)	3.35	30.48
Community Bond	(0.8)	0.1	(0.7)	1.20	3.04
Total Borrowing	**(191.8)**	**2.5**	**(189.3)**	**3.35**	**30.38**

5.8 **Other Debt Activity**: Although not classified as borrowing, the Council also has a Private Finance Initiative (PFI) liability in respect of the Padworth Waste Recycling Facility. This debt, which is included in the total borrowing shown on the Council's balance sheet, stood at £11.1 million at end of September 2022. (Repayments of this debt are included in the monthly waste contract charges, which are paid from the revenue budget for waste management).

Treasury Management Activity 1 April 2022 – 30 September 2022:

5.9 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year to date, the Council's investment balances ranged between £34.3m and £64.0 million due to timing differences between income and expenditure, as detailed in the table below.

Investment Summary	31.03.22 Balance £m	Net Movement £m	30.09.22 Balance £m	30.09.22 Income Return %	30.09.22 Weighted Average Maturity Days
Banks & Building Societies (Unsecured)	5.0	(2.8)	2.2	0.11	1
Government (incl. Local Authorities)	18.0	12.0	30.0	1.13	79
Money Market Funds	14.8	(2.8)	12.0	1.1	1
Total Unvestments	**37.8**	**6.4**	**44.2**	**1.07**	**54**

5.10 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 treasury investments before seeking the optimum 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.

Non Treasury Investments:

5.11 The definition of investments in the CIPFA TM Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the Investment Guidance issued by the Department for Levelling Up, Housing and Communities, in which the definition of investments is further broadened to also include all such assets held partially for financial return. At the 31 March 2022 the Council held £72.5m of such investments in directly owned property categorised as follows:

(a) Directly owned property (commercial property) £58.9 million, details in appendix C. This is property that the Council has borrowed specifically to fund the purchase.

(b) Directly owned property (investment property) £13.6 million, details included in appendix D. This is property that the Council holds as an investment property but the purchase has not been funding by borrowing. In most cases the property has been inherited from Berkshire County Council or Newbury District Council upon the formation of West Berkshire Council in 1998.

5.12 The estimated rate of return on these investments for 2022/23 is summarised in the table below. The rate of return is based on the latest valuation of the properties at the 31 March 2022. The estimated net income for 2022/23 is based on budget monitoring as at the 30 September 2022. The rate of return does not include the change in value of the properties during the period.

Directly Owned Property: 'Commercial Property'	£'000
Valuation at 31 March 2022	58,985
Estimated 22/23 net income	(3,235)
Rate of return, excluding MRP and interest	**5.48%**
MRP costs 22/23	666
Interest costs 22/23	1,529
Estimated outturn, net of MRP and interest	(1,040)
Rate of return, after MRP and interest	**1.76%**

Directly Owned Property: 'Investment Property'	£'000
Valuation at 31 March 2022	13,571
Estimated 22/23 net income	(465)
Rate of return, excluding MRP and interest	**3.43%**

Directly Owned Property: 'Commercial' and 'Investment' Property, Combined	£'000
Valuation at 31 March 2022	72,556
Estimated 22/23 net income	(3,700)
Rate of return, excluding MRP and interest	**5.10%**
MRP costs 22/23	666
Interest costs 22/23	1,529
Estimated outturn, net of MRP and interest	(1,505)
Rate of return, after MRP and interest	**2.07%**

5.13 The rate of return shown in table above does not include any change in value of the properties during the period. Due to the nature of direct investment in property there is additional risk (upside and downside) that the value of the investment may change. In respect of commercial property, this risk is carried alongside the risk of voids and no rental income being recovered adversely impacting on achievable rates of return. These risks are managed through allocation of General Fund Reserve to Earmarked Reserves as part of annual budget setting processes. These earmarked funds are released against the General Fund at year end to compensate for any voids and reductions in income achieved. For financial year 2022/23 the forecast revenue budget monitoring position at Quarter Two is for a net favourable variance of £148k in respect of commercial and investment property holdings.

Proposals

There are no proposals within this report.

6 Other options considered

Not applicable

7 Conclusion

7.1 The economic backdrop is affected by inflationary pressures and a squeeze on consumer income. The Bank of England has increased interest rates from 0.75% to 2.25% at the time of writing. The Council, with the support of its Treasury Advisors, Arlingclose, will continue to monitor the situation and adjust planned borrowing and investment opportunity accordingly.

7.2 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in the table below:

Total Council Debt	Actual Interest Cost 01.04.22-30.09.22	Forecast Interest Cost 01.04.22-31.03.23	Budgeted Interest Cost 01.04.22-31.03.23	Costs (Over) / Under Budget	Actual Interest Rate at 30.09.22
	£'000	£'000	£'000	£'000	%
Short-Term borrowing	0	0	(9)	9	-
Public Works Loan Board	(3,715)	(6,366)	(6,198)	(168)	3.35
Community Bond	(5)	(9)	0	(9)	1.20
Total Borrowing	**(3,720)**	**(6,375)**	**(6,207)**	**(168)**	**3.35**
PFI Debt	(292)	(701)	(731)	30	6.10
Total Debt	**(4,012)**	**(7,076)**	**(6,937)**	(139)	**3.49**

Total Council Investments	Actual Interest Received 01.04.22-30.09.22	Forecast Interest Income 01.04.22-31.03.23	Budgeted Interest Income 01.04.22-31.03.23	Income Over / (Under) Budget	Actual Interest Rate Year To Date	Benchmark Interest Rate	Over / (Under) Achievement
	£'000	£'000	£'000	£'000	%	%	Basis Points
Short-Term Investments	172	467	113	354	1.13	n/a	n/a
Cash and Cash Equivalents	92	210	5	205	0.97	n/a	n/a
Total Treasury Investments	**264**	**677**	**118**	**559**	**1.07**	**1.74**	**(67)**
Pre-paid pension contributions	72	144	0	144	2.55	n/a	n/a
Total Treasury Investments (inc. Pre-paid pension contributions)	**336**	**821**	**118**	**703**	**n/a**	**n/a**	**n/a**

NB: "Basis point" means one hundreth of one percentage point

7.3 Compliance: The S151 Officer is required to report on compliance against the adopted CIPFA TM Code and the Council's approved Investment and Borrowing Strategy. The Council's performance against adopted benchmarks is as follows:

(a) Compliance with the authorised limit and operational boundary for external debt.

Authorised Limit & Operational Boundary for Debt	Maximum debt during Reporting Period	Balances as at 30.09.22	2022/23 Operational Boundary	2022/23 Authorised Limit	Complied?
	£m	£m	£m	£m	
Borrowing	(191.8)	(189.4)	(338.7)	(352.7)	Yes
Private Finance Initiative and Finance Leases	(11.5)	(11.1)	(12.0)	(14.4)	Yes
Total Debt	**(203.3)**	**(200.5)**	**(350.7)**	**(367.1)**	**Yes**

The operational boundary is a management tool for in-year monitoring. Main debt levels (both long and short term debt) have remained within the approved boundaries during the reporting period.

(b) Compliance with approved Investment Counter Party Limits

Investment Limits	Maximum Invested during Reporting Period £m	Balances as at 30.09.22 £m	2022/23 Individual Counterparty Limit £m	Complied?
Debt Management Office	41.0	22.0	Unlimited	Yes
UK Local Authorities (incl. Police, Fire & similar)	10.0	8.0	8.0	Yes - Individual limit per counterparty has not been exceeded
UK Building Societies (ranked 1-11 by asset size)	0.0	0.0	8.0	Yes
UK Building Societies (ranked 12-21 by asset size)	0.0	0.0	6.5	Yes
UK Building Societies (ranked 22-25 by asset size)	0.0	0.0	5.0	Yes
UK Banks & other financial institutions with Moody's short term rating P1 or equivalent	5.3	2.0	8.0	Yes
UK Banks & other financial institutions with Moody's short term rating P2 or equivalent	0.0	0.0	6.5	Yes
UK Banks & other financial institutions with Moody's short term rating P3 or equivalent	0.0	0.0	5.0	Yes
UK based Money Market Funds rated AAAmf	23.0	12.1	8.0	Yes - Individual limit per counterparty has not been exceeded
Registered Charities, Public Sector Bodies & Council owned Companies, Joint Ventures	0.0	0.0	8.0	Yes

7.4 During the reporting period the Council has not breached the approved counter party limits. Should a limit be breached it is reported to the Council's Treasury Management Group as part of monthly performance reporting.

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

(a) Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates. The current one-year revenue impact of a 1% rise in interest rates would be £600k.

(b) 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 all borrowing were:

Maturity Structure	30.09.22 Actual %	Upper Limit %	Lower Limit %	Complied?
Under 12 months	2.61	30	0	Yes
12 months and within 24 months	2.55	30	0	Yes
24 months and within 5 years	6.99	30	0	Yes
5 years and within 10 years	14.32	30	0	Yes
10 years and within 15 years	15.79	30	0	Yes
15 years and within 20 years	6.71	30	0	Yes
20 years and within 25 years	7.23	30	0	Yes
25 years and within 30 years	4.73	30	0	Yes
30 years and within 35 years	3.99	30	0	Yes
35 years and within 40 years	1.07	30	0	Yes
40 years and within 45 years	1.01	30	0	Yes
45 years and within 50 years	33.00	30	0	No

7.6 The actual maturity position for the 45 year to 50 year banding of 33.0% is marginally over the 30% intended limit. This was due to an error in calculation of the bandings as originally set, which will be corrected when the limits are revised for 2023/24.

7.7 In conclusion the Section 151 Officer is satisfied that treasury management practices in year have operated in accordance with the approved performance management criteria.

8 Appendices

8.1 Appendix A – Arlingclose Economic Outlook

8.2 Appendix B – Revised PWLB Guidance

8.3 Appendix C - Directly Owned Property – Purchase Funded via Borrowing

8.4 Appendix D - Directly owned Property – Purchase not Funded by Borrowing

Subject to Call-In:

Yes: ☐ No: X

The item is due to be referred to Council for final approval	☐
Delays in implementation could have serious financial implications for the Council	☐
Delays in implementation could compromise the Council's position	☐
Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months	☐
Item is Urgent Key Decision	☐
Report is to note only	X

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Appendix A

Arlingclose Economic Assessment

Performance to 30 September 2022

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 an 0.5% increase, three for an

0.75% increase and one for an 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 these 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% y/y 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. Towards 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.

Arlingclose's Economic Outlook for the remainder of 2022/23

	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 [i.e. 2%] 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.

Appendix B

Revised PWLB Guidance

HM Treasury published further guidance on PWLB borrowing in August 2021 providing additional detail and clarifications predominantly around the definition of an ‘investment asset primarily for yield’. The principal aspects of the new guidance are:

- Capital expenditure incurred or committed to before 26th November 2020 is allowable even for an ‘investment asset primarily for yield’.
- Capital plans should be submitted by local authorities via a DELTA return. These open for the new financial year on 1st March and remain open all year. Returns must be updated if there is a change of more than 10%.
- An asset held primarily to generate yield that serves no direct policy purpose should not be categorised as service delivery.
- Further detail on how local authorities purchasing investment assets primarily for yield can access the PWLB for the purposes of refinancing existing loans or externalising internal borrowing.
- Additional detail on the sanctions which can be imposed for inappropriate use of the PWLB loan. These can include a request to cancel projects, restrictions to accessing the PLWB and requests for information on further plans.

<u>Changes to PWLB Terms and Conditions from 8th September 2021</u>

The settlement time for a PWLB loan has been extended from two workings days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at 0.01% and the interest charged on late repayments will be the higher of Bank of England Base Rate or 0.1%.

Appendix C

Directly Owned Property – Purchase Funded via Borrowing

Directly owned property (commercial property) held at 31 March 2022

Name and address of property	Property type	Valuation at 31 March 2022 £'000
Dudley Port Petrol Filling Station, Tipton	Petrol Filling Station	3,765
79 Bath Road, Chippenham	Retail Warehouse	11,775
Lloyds Bank, 104 Terminus Road, Eastbourne	Retail	1,800
Aldi/Iceland, Cleveland Gate Retail Park, Gainsborough	Retail Warehouse	6,300
303 High Street and 2 Waterside South, Lincoln	Retail	2,950
3&4 The Sector, Newbury Business Park	Office	18,010
Sainsbury's, High Street, North Allerton	Retail	7,185
Ruddington Fields Business Park, Mere Way, Nottingham	Office	7,200
Valuation total per draft 2021/22 Statement of Accounts		**58,985**

Appendix D

Directly owned Property – Purchase not Funded by Borrowing

Directly owned property (investment property) held at 31st March 2022

Name and address of property	Property type	Valuation at 31 March 2022 £'000
The Stone Building, The Wharf, Newbury	Café	31
Pelican Lane Creche, Pelican Lane	Children's Nursery	0
Rainbow Nursery, Priory Road, Hungerford	Children's Nursery	40
Clappers Farm/Beech Hill Farm, Grazely	Tenanted Smallholding	1,800
Bloomfield Hatch Farm, Grazely	Tenanted Smallholding	1,100
Shaw Social Club, Almond Avenue, Shaw	Community Centre	70
Swings n Smiles, Lower Way, Thatcham	Children's Day Centre	400
Units 1 to 7, Kennet Enterprise Centre, Hungerford	Industrial	565
London Road Industrial Estate, Newbury	Industrial	9,565
Valuation total per draft 2021/22 Statement of Accounts		**13,571**