

<b>ISLE OF ANGLESEY COUNTY COUNCIL</b>		
<b>Report to:</b>	<b>EXECUTIVE COMMITTEE</b>	
<b>Date:</b>	<b>2 MARCH 2023</b>	
<b>Subject:</b>	<b>TREASURY MANAGEMENT MID-YEAR REVIEW REPORT 2022/23</b>	
<b>Portfolio Holder(s):</b>	<b>COUNCILLOR R WILLIAMS, PORTFFOLIO HOLDER FOR FINANCE, CORPORATE BUSINESS AND CUSTOMER EXPERIENCE</b>	
<b>Head of Service / Director:</b>	<b>R MARC JONES, DIRECTOR OF FUNCTION (RESOURCES) &amp; SECTION 151 OFFICER</b>	
<b>Report Author:</b>	<b>JEMMA ROBINSON</b>	
<b>Tel:</b>	<b>01248 752675</b>	
<b>E-mail:</b>	<b>JemmaRobinson@ynysmon.gov.wales</b>	
<b>Local Members:</b>	<b>n/a</b>	
<b>A –Recommendation/s and reason/s</b>		
<ul style="list-style-type: none"> <li>To recommend to the full Council to approve the change in counterparty limit to other local authorities as per section 5.3;</li> <li>To consider the content of the report and forward any comments onto the full Council.</li> </ul>		
<b>B – What other options did you consider and why did you reject them and/or opt for this option?</b>		
n/a		
<b>C – Why is this a decision for the Executive?</b>		
<ul style="list-style-type: none"> <li>To comply with regulations issued under the Local Government Act 2003 and with the Council's Treasury Management Scheme of Delegation for 2022/23 (Appendix 8 of the Treasury Management Strategy Statement 2022/23). In accordance with the Scheme of Delegation, this report was scrutinised by the Governance &amp; Audit Committee on 8 December 2022. The report will be presented to the full Council once it has been accepted by this Committee.</li> </ul>		
<b>CH – Is this decision consistent with policy approved by the full Council?</b>		
Yes		
<b>D – Is this decision within the budget approved by the Council?</b>		
N/A		
<b>DD – Who did you consult? What did they say?</b>		
<b>1</b>	<b>Chief Executive / Senior Leadership Team (SLT)(mandatory)</b>	
<b>2</b>	<b>Finance / Section 151(mandatory)</b>	n/a – this is the Section 151 Officer's report
<b>3</b>	<b>Legal / Monitoring Officer (mandatory)</b>	
<b>4</b>	<b>Human Resources (HR)</b>	
<b>5</b>	<b>Property</b>	
<b>6</b>	<b>Information Communication Technology (ICT)</b>	
<b>7</b>	<b>Procurement</b>	
<b>8</b>	<b>Scrutiny</b>	
<b>9</b>	<b>Local Members</b>	
<b>10</b>	<b>Other</b>	The Governance & Audit Committee resolved to:- <ul style="list-style-type: none"> <li>To accept the Treasury Management Mid-Year Review report for 2022/23, and to recommend it to the Executive without comment..</li> </ul>

<b>E – Assessing the potential impact (if relevant):</b>		
1	<b>How does this decision impact on our long term needs as an Island</b>	
2	<b>Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority. If so, how:-</b>	
3	<b>Have we been working collaboratively with other organisations to come to this decision, if so, please advise whom:</b>	
4	<b>Have Anglesey citizens played a part in drafting this way forward? Please explain how:-</b>	
5	<b>Note any potential impact that this decision would have on the groups protected under the Equality Act 2010.</b>	
6	<b>If this is a strategic decision, note any potential impact that the decision would have on those experiencing socio-economic disadvantage.</b>	
7	<b>Note any potential impact that this decision would have on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.</b>	
<b>F - Appendices:</b>		
Appendix A –Treasury Management Mid-Year Review for 2022/23		
<b>FF - Background papers (please contact the author of the Report for any further information):</b>		
<ul style="list-style-type: none"> <li>• Treasury Management Strategy Statement 2022/23</li> <li>• Prudential and Treasury Indicators 2022/23</li> <li>• Treasury Management Outturn Report 2021/22</li> </ul>		

## 1. Background

### 1.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

A report setting out our Capital Strategy was taken to the Executive Committee on 3 March 2022, and a revised Strategy for 2023/24 will be taken to the full Council before 31 March 2023.

### 1.2 Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially, before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially, the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses and, on occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:-

*"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

## 2. Introduction

This report has been written in accordance with the requirements of CIPFA's Code of Practice on Treasury Management (revised 2017). The primary requirements of the Code are as follows:-

- (i) Creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Council's treasury management activities.
- (ii) Creation and maintenance of Treasury Management Practices, which set out the manner in which the Council will seek to achieve those policies and objectives.
- (iii) Receipt by the full Council of an Annual Treasury Management Strategy Statement, which includes the Annual Investment Strategy and Minimum Revenue Provision Policy (MRP) for the year ahead, a Mid-year Review Report (this report) and an Annual Report, covering activities during the previous year.
- (iv) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- (v) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council, the delegated body is the Governance and Audit Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:-

- An economic update for the first half of the 2022/23 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2022/23;
- A review of the Council's borrowing strategy for 2022/23;
- A review of any debt rescheduling undertaken during 2022/23;
- A review of compliance with Treasury and Prudential Limits for 2022/23.

### 3. Economic Update

- 3.1 The Council's treasury advisers provided an economic update and can be found in Appendix 1. They have also recently provided the following interest rate forecast:-

	Dec 2022	Mar 2023	Jun 2023	Sep 2023	Dec 2023	Mar 2024	Jun 2024	Sep 2024	Dec 2024	Mar 2025
Bank Rate (%)	4.00%	5.00%	5.00%	5.00%	4.50%	4.00%	3.75%	3.25%	3.00%	2.75%
5yr PWLB rate (%)	5.00%	4.90%	4.70%	4.50%	4.20%	3.90%	3.70%	3.50%	3.40%	3.30%
10yr PWLB rate (%)	4.90%	4.70%	4.60%	4.30%	4.10%	3.80%	3.60%	3.50%	3.40%	3.30%
25yr PWLB rate (%)	5.10%	4.90%	4.80%	4.50%	4.30%	4.10%	3.90%	3.70%	3.60%	3.60%
50yr PWLB rate (%)	4.80%	4.60%	4.50%	4.20%	4.00%	3.80%	3.60%	3.40%	3.30%	3.30%

- 3.2 The Council's treasury advisers recently provided a commentary alongside the interest rate forecast above. This commentary can be found in Appendix 2.

### 4. Treasury Management Strategy Statement and Annual Investment Strategy Update

- 4.1 The Treasury Management Strategy Statement (TMSS) for 2022/23 was approved by the full Council on 10 March 2022. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

### 5. Annual Investment Strategy

- 5.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.
- 5.2 The Council held £55.224m of investments as at 30 September 2022 (£46.115m at 31 March 2022), and the investment portfolio yield for the first six months of the year was 1.11%. However, it should be noted that yields have increased during the 2<sup>nd</sup> quarter and are expected to continue to increase during the second half of the year. A full list of investments as at 30 September 2022 can be found in Appendix 3. A summary of the investments and rates can be found in Appendix 4.
- 5.3 The approved limits within the Annual Investment Strategy were not breached during the first six months of 2022/23, however, it is being requested that the limit to which we can lend to other Local Authorities is increased from £5m to £10m. This is in light of our increased cash balances and demand from other local authorities, in order for us to avail of the best possible investment opportunities.

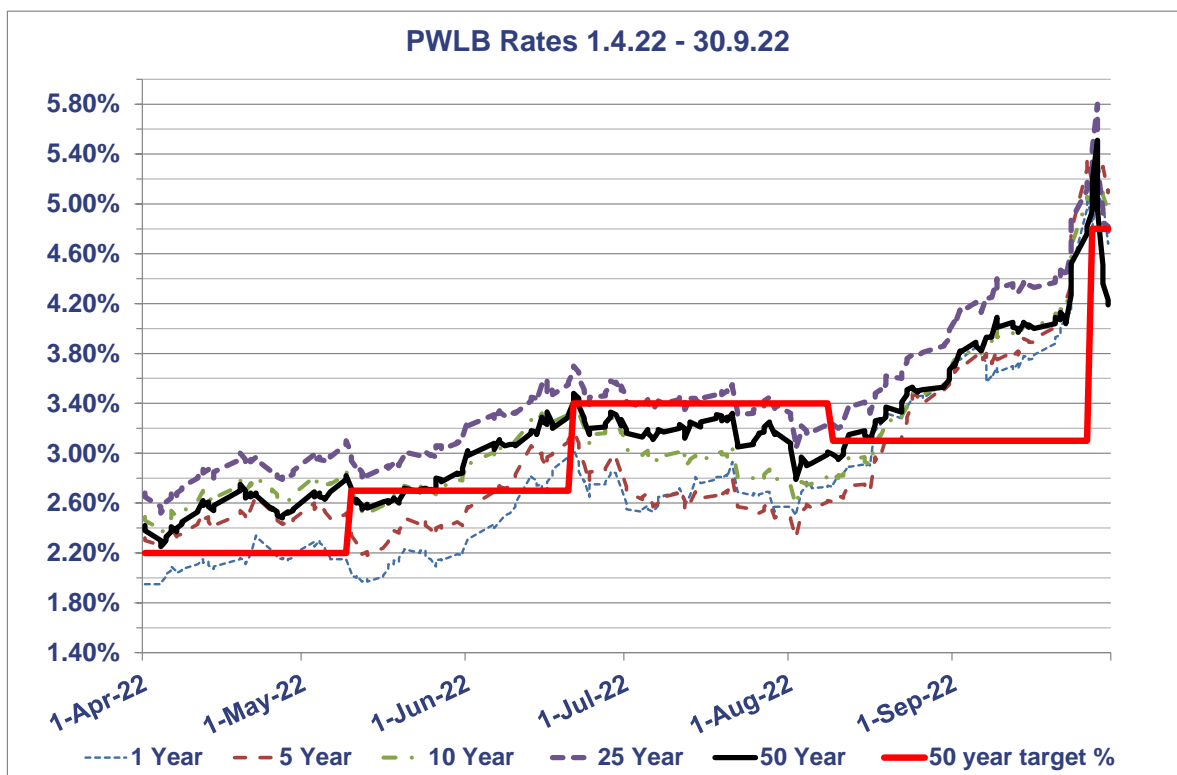
- 5.4** The Council's budgeted investment return for the whole of 2022/23 is £0.004m and performance for the year to date is not in line with the budget, with £0.208m received to the end of Quarter 2. Our projection to year end is that we will overachieve the budget as, with our cash balances having been higher than normal, this is offset by the higher than anticipated interest rates than the forecast was when we set the budget.
- 5.5** The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.
- 5.6** The approved countries for investments can be seen in Appendix 5.
- 5.7** The table below shows a list of investments made during the first half of this financial year. Given that security of funds is the key indicator of this Council, and the lack of demand from other Local Authorities, bank call accounts are seen as the most secure way of investing funds, and this gives a greater rate of return following the increase in interest rates, although the Council is aiming to widen the number of counterparties available in order to minimise the amount held in call accounts

Counterparty	Start Date	End Date	Interest Rate %	Amount £	Interest earned for the period £
National Westminster Bank	11/04/2022	11/10/2022	1.30	10,000,000	65,178
Santander	10/05/2022	10/11/2022	1.47	7,500,000	55,578
Nationwide Building Society	17/05/2022	17/08/2022	0.97	7,500,000	18,337
Goldman Sachs	22/07/2022	22/12/2022	2.18	7,500,000	68,536
Nationwide Building Society	17/08/2022	17/11/2022	1.87	7,500,000	35,351

## 6. Borrowing

- 6.1** The projected capital financing requirement (CFR) for 2022/23 is £146.9m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive, the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has projected year end borrowings of £122.7m and will have used £24.2m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate, but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.
- 6.2** No borrowing was undertaken during the first half of this financial year, and it is not anticipated that any additional external borrowing will need to be undertaken during the second half of the financial year. There will be a borrowing requirement to fund a part of the 2022/23 capital programme, but this will be through internal borrowing (drawing down cash balances). This will delay capital financing costs while the Council's cash balances can absorb this internal borrowing. In the more medium-term, this might need externalising if Council cash balances become low. The capital programme is being kept under regular review due to the effects of inflationary pressures, shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, in order to achieve optimum value and risk exposure in the long-term.

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date. Gilt yields and PWLB rates were on a rising trend between 1<sup>st</sup> April and 30<sup>th</sup> September. The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20%, before increasing to 4.80% in September. (Please note, however, that we see PWLB rates trending downwards through 2023 and 2024.)



	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	1.95%	2.18%	2.36%	2.52%	2.25%
<b>Date</b>	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
<b>High</b>	5.11%	5.44%	5.35%	5.80%	5.51%
<b>Date</b>	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
<b>Average</b>	2.81%	2.92%	3.13%	3.44%	3.17%
<b>Spread</b>	3.16%	3.26%	2.99%	3.28%	3.26%

**6.3** Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields, which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has, therefore, been undertaken to date in the current financial year. However, now that the whole of the yield curve has shifted higher, there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

## 7. The Council's Capital Position (Prudential Indicators)

**7.1** This part of the report is structured to update:-

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

## 7.2 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure in comparison to the capital budget:-

Capital Expenditure	2022/23 Original Estimate £'000	Position as at 30 September 2022 £'000	2022/23 Current Estimate £'000
Council Fund	36,691	13,450	34,068
HRA	15,034	4,015	12,085
<b>Total</b>	<b>51,725</b>	<b>17,465</b>	<b>46,153</b>

7.2.1 The projected expenditure shows that the majority of projects are on target to be completed within budget, with some projects forecasting to be underspent by year end, with the scheme and funding slipping into the next financial year. The HRA is also forecasting a significant underspend. This is reflected in the above table. A full breakdown on the planned capital expenditure for 2022/23 is provided in the Capital Budget Monitoring Report Q2, presented to the Executive on 29 November 2022.

## 7.3 Changes to the Financing of the Capital Programme

7.3.1 There are some changes to the financing of the capital programme, as can be seen in the table below. The main reason for the change is as noted in paragraph 7.2.1, as there will be significant underspend in capital schemes in 2022/23. However, these schemes will slip into 2023/24, along with their funding, and it is not anticipated, at this point, that any funding will be lost due to the delays.

7.3.2 The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original funding of the capital programme, and the expected funding arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Financing	2022/23 Original Estimate £'000	2022/23 Revised Estimate £'000
Capital Grants	19,253	18,331
Capital Receipts	1,108	830
Reserves	7,112	6,331
Revenue Contribution	10,365	7,602
Supported Borrowing	7,068	6,240
Unsupported Borrowing	6,742	6,742
Loan	77	77
<b>Total</b>	<b>51,725</b>	<b>46,153</b>

## 7.4 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

7.4.1 Tables 7.4.2 and 7.4.3 below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary, which is set annually by the Council as part of the Treasury Management Strategy Statement.

#### 7.4.2 Prudential Indicator – the Operational Boundary for external debt

	2022/23 Operational Boundary as per TMSS 2022/23 £'000	2022/23 Opening Borrowing Position £'000	Amount Within the Boundary £'000	2022/23 Estimated Borrowing Position £'000	Amount Within the Boundary £'000
<b>Prudential Indicator – External Debt / The Operational Boundary</b>					
Borrowing	175,000	125,349	49,651	122,677	52,323
Other long term liabilities	5,000	0	5,000	0	5,000
<b>Total Debt 31 March</b>	<b>180,000</b>	<b>125,349</b>	<b>54,651</b>	<b>122,677</b>	<b>57,323</b>

#### 7.4.3 Prudential Indicator – Capital Financing Requirement (CFR)

7.4.3.1 We are currently slightly below the original forecast for Capital Financing Requirement due to the forecast underspend in borrowing, mainly down to the HRA forecast underspend and receiving additional grant funding received as substitute funding.

	2022/23 Original Estimate £'000	2022/23 Revised Estimate £'000
<b>Prudential Indicator – Capital Financing Requirement</b>		
CFR – Council Fund	107,867	106,957
CFR – HRA	43,646	39,897
Total CFR	151,513	146,854
<b>Net movement in CFR</b>	<b>10,567<sup>1</sup></b>	<b>9,050<sup>2</sup></b>

<b>Original CFR Forecast</b>	<b>151,513</b>
Reduced MRP between TMSS 2022/23 forecast and Capital Q2 2022/23 revised forecast	150
Underspend in Unsupported Borrowing for HRA in 2022/23	-3,750
Difference on loan (difference between TMSS 2022/23 forecast and Capital Q2 revised forecast) – additional Salix loan received not known at time of producing TMSS 2022/23	400
Overspend in Unsupported Borrowing in 2021/22 and underspend in 2022/23 due to Band B expenditure in 2021/22 not anticipated when producing the TMSS, and the underspend in 2022/23 due to reductions in spend on band A and Band B when comparing to the figures available when the TMSS was produced.	-911
Underspend in Supported Borrowing in 2021/22 due to additional grant received in 2021/22 as substitute funding which reduced the need for Supported Borrowing	-549
<b>Revised CFR Forecast</b>	<b>146,854</b>

<sup>1</sup> Movement between 2021/22 estimate and 2022/23 estimate in TMSS 2022/23

<sup>2</sup> Movement between 2021/22 actual (per Statement of Accounts 2021/22) and 2022/23 revised estimate



## 7.5 Limits to Borrowing Activity

**7.5.1** The first key control over the treasury activity is a prudential indicator to ensure that, over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need, which will be adhered to if this proves prudent. The current borrowing position is £124.155m, which is below the CFR forecast for this and the next two financial years (see table below), therefore, this indicator has not been breached.

	2022/23 £'000	2023/24 £'000	2024/25 £'000
<b>CFR (year-end forecast)</b>	<b>146,854</b>	<b>161,468</b>	<b>167,556</b>

	2022/23 Original Estimate £'000	Current Position at 30 September 2022 £'000	2022/23 Revised Estimate £'000
External Borrowing	144,333	124,155	122,677
Internal Borrowing	7,180	22,699	24,177
Plus other long term liabilities	0	0	0
<b>CFR (year-end position)</b>	<b>151,513</b>	<b>146,854</b>	<b>146,854</b>

**7.5.2** It is not envisaged that there will be any difficulties for the current year in complying with this prudential indicator.

**7.5.3** A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit, which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members, currently £185m. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under Section 3 (1) of the Local Government Act 2003.

Authorised Limit for External Debt	2022/23 Original Indicator £'000	Current Borrowing Position as at 30 September 2022 £'000	Estimated Borrowing Position as at 31 March 2023 £'000
Borrowing	180,000	124,155	122,677
Other long term liabilities	5,000	0	0
<b>Total</b>	<b>185,000</b>	<b>124,155</b>	<b>122,677</b>

## **8. Compliance with Treasury and Prudential Limits**

- 8.1** It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2022, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2022/23. No difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in compliance with the Council's Treasury Management Practices.

**MARC JONES  
DIRECTOR OF FUNCTION (RESOURCES)  
& SECTION 151 OFFICER**

**Diweddariad ar yr Economi hyd yma a'r rhagolygon / Economic Update & Forecasts**

- The second quarter of 2022/23 saw:-
  - 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;
  - Signs of economic activity losing momentum as production fell due to rising energy prices;
  - CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
  - The unemployment rate fell to a 48-year low of 3.6% due to a large shortfall in labour supply;
  - Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
  - Gilt yields surge and sterling fall following the “fiscal event” of the new Prime Minister and Chancellor on 23<sup>rd</sup> September.
- The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.
- 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 eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below \$90pb, we would expect to see fuel prices fall further in the coming months.
- 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 H1 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 6<sup>th</sup> 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.
- Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, 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 \$1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3<sup>rd</sup> November and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23<sup>rd</sup> November but has subsequently been moved forward to an expected release date in October. 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.
- Since the fiscal event on 23<sup>rd</sup> September, we now 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 government's fiscal loosening, 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 21<sup>st</sup> 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 31<sup>st</sup> October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14<sup>th</sup> 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 28<sup>th</sup> 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 14<sup>th</sup> October or it decides to delay quantitative tightening beyond 31<sup>st</sup> 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.

***Rhan o gyngor dderbyniwyd gan / An extract from advice received from: Link Asset Services***

**Sylwadau ar y rhagolygon diweddaraf ar raddfeydd llog /  
Commentary on the latest interest rates forecasts**

- The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1<sup>st</sup> November 2012.
- The latest forecast on 27<sup>th</sup> September sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.
- The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but its job is that much harder now.
- Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1<sup>st</sup> November 2012.

***Rhan o gyngor dderbyniwyd gan / An extract from advice received from: Link Asset Services***

**Crynodeb Benthycyca a Buddsoddi – Chwarteroedd 1 a 2 2022/23**  
**Borrowing and Investment Summary – Quarters 1 and 2 2022/23**

	30 Medi / Sept 2022		30 Mehefin / June 2022	
	£'m	% (talwyd ar fenthycyca a dderbyniwyd ar fuddsoddi) / % (paid on borrowing and received on investment)	£'m	% (talwyd ar fenthycyca a dderbyniwyd ar fuddsoddi) / % (paid on borrowing and received on investment)
Benthycyca – graddfa sefydlog Borrowing – fixed rate				
BBGC / PWLB	120.9	4.58	121.9	4.58
Dim BBGC / Non-PWLB	3.3	0	3.3	0
Benthycyca – graddfa amrywiol Borrowing – variable rate	Dim / Nil	d/b / n/a	Dim / Nil	d/b / n/a
Adneuon – galw hyd at 30 diwrnod Deposits – Call to 30 days	22.7	0.30	30.1	0.08
Adneuon – Tymor sefydlog < 1 bl. Deposits – Fixed Term < 1 year	32.5	1.67	32.5	1.14
Adneuon – Tymor sefydlog 1 bl. + Deposits – Fixed Term 1 year +	Dim / Nil	d/b / n/a	Dim / Nil	d/b / n/a
Cyfanswm Adneuon Total Deposits	55.2	1.11	63.2	0.62
Adneuon Uchaf yn y Chwarter Highest Deposits in the Quarter	63.2	d/b / n/a	64.7	d/b / n/a
Adneuon Isaf yn y Chwarter Lowest Deposits in the Quarter	55.2	d/b / n/a	46.1	d/b / n/a
Cyfartaledd Adneuon yn y Chwarter Average Deposits in the Quarter	58.5	0.88	60.8	0.51

ATODIAD / APPENDIX 4

**Graddfeydd Credyd Gwrthbartion buddsoddi a'r adneuron a ddelir gyda phob un ar 30 Medi 2022\***  
**Credit ratings of investment counterparties and deposits held with each as at 30 September 2022\***

Grŵp Bancio/ Banking Group	Sefydliad/ Institution	Adneuron / Deposit £'000	Hyd (Galw / tymor sefydlog) / Duration (Call / Fixed Term**)	Cyfnod (O / I) / Period (From / To)	Graddfa Dychweliad / Rate of Return %	Graddfa Tymor Hir Fitch Long Term Rating	Graddfa Tymor Byr Fitch Short Term Rating	Graddfa Tymor Hir Moody's Long Term Rating	Graddfa Tymor Byr Moody's Short Term Rating	Graddfa Tymor Hir Standard & Poor's Long Term Rating	Graddfa Tymor Byr Standard & Poor's Short Term Rating	Lliw Sector / Hyd Awgrymiedig / Sector Colour / Suggested Duration
Lloyds Banking Group plc	Bank of Scotland plc	0.000	Galw / Call	d/b / n/a	0.01	A+	F1	A1	P-1	A+	A-1	Coch – 6 mis / Red - 6 Months
Santander Group plc	Santander UK plc	0.000	Galw / Call	d/b / n/a	0.41	A+	F1	A1	P-1	A	A-1	Coch – 6 mis / Red - 6 months
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc (Rhan / Gwladoli / Part / Nationalised)	0.002	Galw / Call	d/b / n/a	0.10	A+	F1	A1	P-1	A	A-1	Glas - 12 mis / Blue – 12 months
The Royal Bank of Scotland Group plc	National Westminster Bank Deposit	22.722	Galw / Call	d/b / n/a	0.30	A+	F1	A1	P-1	A	A-1	Glas - 12 mis / Blue – 12 months
The Royal Bank of Scotland Group plc	National Westminster Bank	10.000	Sefydlog / Fixed	11/4/22 – 11/10/22	1.30	A+	F1	A1	P-1	A	A-1	Glas - 12 mis / Blue – 12 months
Santander Group plc	Santander UK plc	7.5000	Sefydlog / Fixed	10/5/22 – 10/11/22	1.47	A+	F1	A1	P-1	A	A-1	Coch – 6 mis / Red - 6 months
Goldman Sachs	Goldman Sachs	7.5000	Sefydlog / Fixed	22/7/22 – 22/12/22	2.18	A+	F1	A1	P-1	A	A-1	Coch – 6 mis / Red - 6 months
Nationwide Building Society	Nationwide Building Society	7.5000	Sefydlog / Fixed	17/8/22 – 17/11/22	1.87	A	F1	A1	P-1	A+	A-1	Coch – 6 mis / Red - 6 months

\* Ceir y Rhestr Benthycia Cymeradwyedig yn Atodiad 8 o'r Datganiad Strategaeth Rheoli Trysorlys 2022/23 / Strategaeth Buddsoddi Blynyddol / The Approved Lending List can be found at Appendix 8 of the 2022/23 Treasury Management Strategy Statement / Annual Investment Strategy

\*\* Sef tymor ar pwynt y buddsoddi / Being term at the point of investment.



**Gwledydd cymeradwy ar gyfer buddsoddi**  
**Approved countries for investments**

*Yn seiliedig ar y gyfradd credyd sofran isaf sydd ar gael*  
*Based upon lowest available sovereign credit rating*

AAA

- Awstralia / Australia
- Denmarc / Denmark
- Yr Almaen / Germany
- Lwcsembwrg / Luxembourg
- Yr Iseldiroedd / Netherlands
- Norwy / Norway
- Singapôr / Singapore
- Sweden
- Y Swistir / Switzerland

AA+

- Canada
- Y Ffindir / Finland
- U.D.A. / U.S.A.

AA

- Abu Dhabi (UAE)
- Ffrainc / France

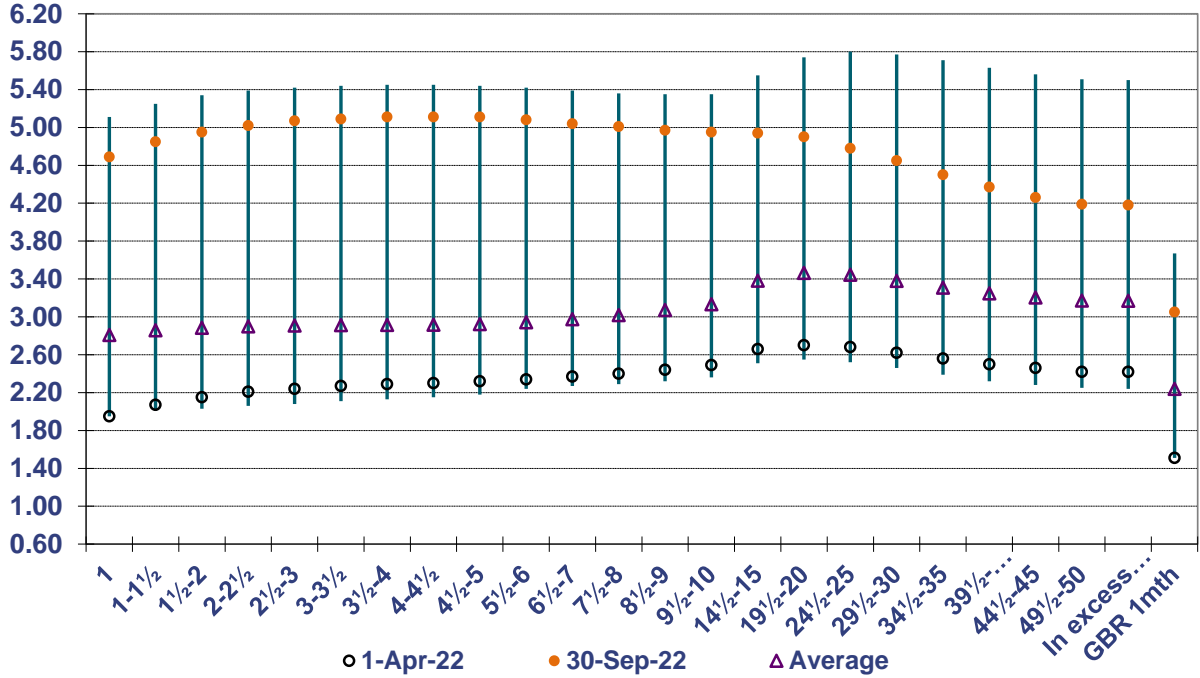
AA-

- Gwlad Belg / Belgium
- Hong Kong
- Qatar
- D.U. / U.K.

Graffiau Ychwanegol / Additional Graphs

Cymhariaeth o baramedrau benthyca â benthyca allanol gwirioneddol / Comparison of borrowing parameters to actual external borrowing

PWLB Certainty Rate Variations 1.4.22 to 30.9.22



Bank Rate vs term SONIA rates % 1.4.22 - 30.9.22

