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HARBOROUGH DISTRICT COUNCIL

REPORT TO THE CABINET MEETING OF 29 NOVEMBER 2021

PUBLIC REPORT: Yes

EXEMPT REPORT: No

Report Title	Mid-Year Treasury Management Report 2021/22 and Prudential Indicators
Report Author	Carolyn Bland, Finance Services Manager
Purpose of Report	Treasury Management is an integral part of the Council's finances relating to cash flow management and financing of capital schemes and therefore underpins all of the Council's aims. The mid-year treasury report is a requirement of the Council's reporting procedures and covers the treasury management activity for the first six months of 2021/22. The report also covers the actual Prudential Indicators for this period in accordance with the requirements of the Prudential Code.
Reason for Decision	The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management (revised 2017) recommends that members be updated on treasury management activities regularly (annual and mid-year or quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.
Portfolio (holder)	Councillor James Hallam, Finance
Corporate Priorities	YOUR COUNCIL: innovative, proactive and efficient CO 10 — Deliver Financial Sustainability for the future
Financial Implications	• These are covered in detail in this report.
Risk Management Implications	• Management of the Council's financial resources is key to achieving targets set out in the budget. Security of the Council's money in the current banking market is paramount.
Environmental Implications	• None
Legal Implications	• This report covers the requirement for capital financing and treasury management as set out in the Local Government Act 2003 and subsequent Regulations.
Equality Implications	• None
Data Protection Implications	• None

Consultation	• The Prudential Indicators contained within this report have been compiled to take account of the borrowing requirements and available resources determined as part of the Council's capital programme and overall budget setting process. Members and officers have been involved in the budget process from the outset.
Options	• None
Background Papers	• Treasury Management, Prudential Code, and Budget working papers held in Finance.
Appendices	• None
Recommendation	• **To note the Mid-Year Treasury Management Report for 2021/22** • **To note the Prudential Indicators** • **To recommend approval of the change to the MRP policy detailed in Section 7 to Council**

Key Facts

In accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, the Council is required to receive, as a minimum, three main treasury reports each year – the annual Treasury Management Strategy Statement, a Mid-year Review Report (this report) and an Annual Report. These incorporate a variety of policies, estimates and actuals for Council to note or approve.

1. **Economic update**

MPC meeting 04.11.2021

- The Monetary Policy Committee (MPC) voted 7-2 to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing.
- The MPC did comment that Bank Rate would have to go up in the short term. It is, relatively evenly balanced as to whether Bank rate will be increased in December, February, or May.
- Over the next year the MPC will be doing a delicate balancing act of weighing combating inflation being higher for longer against growth being held back.

A detailed economic background is provided in **Appendix 1**.

2. **Interest rate forecasts**

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts included below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 8th November is compared below to a previous forecast on 10th May. A comparison of these forecasts shows that some PWLB rates have increased marginally and there are now four increases in Bank Rate, to end at 1%, instead of one to only 0.25%. However, many PWLB rates were significantly lower than forecast during the earlier part of quarter 2.

Link Group Interest Rate View 8.11.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00
3 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40

Link Group Interest Rate View 10.5.21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
5 yr PWLB	1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50
10 yr PWLB	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
25 yr PWLB	2.20	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings.

Further information about the forecasts is included in **Appendix 2**.

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2021/22, which includes the Annual Investment Strategy, was approved by the Council on 22 February 2021. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short-term to cover cashflow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions. The Director: Finance & Assets is commissioning a review of the Council's investments by Link Group with a view to diversifying, in particular making some longer-term investments to gain improved returns.

As shown by the interest rate forecasts in section 2, it is very challenging, without breaching our criteria, to earn the level of interest rates commonly seen in previous decades as all short-term money market investment rates have only risen weakly since Bank Rate was cut to 0.10% in March 2020. Given this environment and the fact that Bank Rate may only rise marginally, or not at all, before the second half of 2023, investment returns are expected to remain low.

Creditworthiness.
Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.
All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on negative watch, but with a small number of actual downgrades.

Investment Counterparty criteria
The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Investment balances
The average level of funds invested during the six months was £19.1m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The Council held £24m of core cash balances.

Investment performance year to date as at 30th September 2021
The Council's budgeted investment return for 2021/22 is £132k, and performance for the year is forecast to be £66k below budget because of the fall in interest rates detailed above. The Council achieved an average rate of return of 0.18% outperforming the benchmark of the 7-day LIBID which was -0.08% as at 30 September 2021.

Fund investments

- Money Market Funds (MMFs) – the Council continued to invest in the CCLA Public Sector Deposit Fund which earned a return of 0.03% during the period. The Council has onboarded with a Money Market Portal, FIS Short Term Cash Management (STCM) Portal, to facilitate the research and possible investment in other MMFs.

- Property Funds – the Council continued to hold shares in the CCLA Local Authority Property Fund which earned a return of 3.37% during the period. The Council takes advantage of the temporary override of the accounting standard IFRS 9 provided by the Ministry of Housing, Communities and Local Government (now Department for Levelling Up, Housing and Communities DLUHC) so that any adverse movements in this pooled fund do not impact on the General Fund, this override is effective for 5 years from 1 April 2018.

Approved limits

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the six months ended 30th September 2021.

A full list of investments held at 30th September 2021 is shown in **Appendix 3.**

4. **Borrowing**

No borrowing was undertaken during the half year ended 30 September 2021. It is anticipated that there will be no borrowing undertaken during this financial year.

PWLB maturity certainty rates
Gilt yields and PWLB rates were on a falling trend between May and August. However, they rose sharply towards the end of September.
The 50-year PWLB target certainty rate for new long-term borrowing started 2021/22 at 1.90%, rose to 2.00% in May, fell to 1.70% in August and returned to 2.00% at the end of September after the MPC meeting of 23rd September. **Appendix 4.**

5. **Debt Rescheduling**

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.

6. **Compliance with Treasury and Prudential Limits**

The prudential and treasury Indicators are shown in **Appendix 5.**

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2021, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2021/22. The Director: Finance & Assets reports that no difficulties are envisaged for the current or future years in complying with these indicators.

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

7. **Revision to Minimum Revenue Provision (MRP) Policy**

The Minimum Revenue Provision is the means by which capital expenditure which is financed by borrowing is funded by council taxpayers. Local authorities are required to set aside some of their revenues as provision for the repayment of this debt each year.

MHCLG regulations require the Council to approve an MRP Statement in advance of each financial year. A number of options are available to Councils so long as there is a prudent provision.

Current Policy

As part of the Treasury Management Strategy approved on 22nd February 2021, the Council approved the following MRP Statement:

For capital expenditure incurred

- before 1 April 2008 or which in the future will be Supported Capital Expenditure, the policy will be:

  Existing practice - MRP will follow the existing practice outlined in former MHCLG regulations (known as option 1). This option provides for an approximate 4% reduction in borrowing need (CFR) each year.

- From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be “Asset life method” – MRP will be based on the estimated life of the assets, in accordance with the regulations (known as **option 3**), starting the year after project completion.

These options provide for a reduction in the borrowing need over approximately the asset’s life.

Where the Council is investing in assets solely with the intention of generating a capital receipt on completion it will defer the charging of MRP until the loan is repaid through receipt of capital receipts. This will be evidenced through explicit setting aside of future Capital Receipts for this purpose at project inception.

Proposed Policy

It is proposed to change the way **option 3** is implemented.

Currently MRP is calculated on a straight-line basis by dividing the borrowing over the asset life of the capital scheme. It is proposed to change this to an annuity calculation instead, which will result in lower payments in the initial years of the borrowing.

Option 3 allows for the use of an appropriate interest rate and the Council proposes to use the weighted average rate (WABR) of the Authority's external borrowing at the date of the change in this annuity calculation. For future years unsupported borrowing the WABR used will be that for the year of borrowing. The change will be effective for 2021/22.

Reason for Change

This provides a fairer charge as takes into account the time value of money, which has the benefit of freeing up cash in the early years. This is an accepted method of calculating MRP which is used by other councils.

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Appendix 1

Economic Background

MPC meeting 4th November 2021

•The Monetary Policy Committee (MPC) voted 7-2 to leave Bank Rate unchanged at 0.10% with two members voting for an increase to 0.25% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn by a vote of 6-3.

•After the Governor and other MPC members had made speeches prior to the MPC meeting in which they stressed concerns over inflation, (the Bank is now forecasting inflation to reach 5% in April when the next round of capped gas prices will go up), thus reinforcing the strong message from the September MPC meeting, financial markets had confidently built in an expectation that Bank Rate would go up from 0.10% to 0.25% at this meeting. However, these were not messages that the MPC would definitely increase Bank Rate at the first upcoming MPC meeting as no MPC member can commit the MPC to make that decision ahead of their discussions at the time. The MPC did comment, however, that Bank Rate would have to go up in the short term. It is, therefore, relatively evenly balanced as to whether Bank rate will be increased in December, February or May. Much will depend on how the statistical releases for the labour market after the end of furlough on 30th September 2021 turn out.

•Information available at the December MPC meeting will be helpful in forming a picture but not conclusive, so this could cause a delay until the February meeting. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would, therefore, need to wait until the May meeting (although it also meets in March) when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation expected around that time. If the statistics show the labour market coping well during the next six months, then it is likely there will be two increases in these three meetings.

•Over the next year the MPC will be doing a delicate balancing act of weighing combating inflation being higher for longer against growth being held back by significant headwinds. Those headwinds are due to supply shortages (pushing prices up and holding back production directly), labour shortages, surging fuel prices and tax increases. However, those headwinds could potentially be offset – at least partially - by consumers spending at least part of the £160bn+ of "excess savings" accumulated during the pandemic. However, it is also possible that more affluent people may be content to hold onto elevated savings and investments and, therefore, not support the economic recovery to the extent that the MPC may forecast.

•The latest forecasts by the Bank showed inflation under-shooting the 3 years ahead 2% target (1.95%), based on market expectations of Bank Rate hitting 1% in 2022. This implies that rates don't need to rise to market expectations of 1.0% by the end of next year.

•It is worth recalling that the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement after the MPC meeting in September yet at its August meeting it had emphasised a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. On balance, once this winter is over and world demand for gas reduces - so that gas prices and electricity prices fall back - and once supply shortages of other goods are addressed, the MPC is forecasting that inflation would return to just under the 2% target.

•**The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -

1. Raising Bank Rate as "the active instrument in most circumstances".
2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

•**COVID-19 vaccines**. These have been the game changer which have enormously boosted confidence that **life in the UK could largely return to normal during the summer** after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread. There is also a potential for the winter flu season combined with Covid to overwhelm NHS hospitals so the UK is not entirely in the clear yet.
•**Since the September MPC meeting**, the economy has been impacted by rising gas and electricity prices which are now threatening to close down some energy intensive sectors of industry – which would then further impact the supply chain to the rest of the economy. Ports are also becoming increasingly clogged up with containers due to a shortage of lorry drivers to take them away. The labour market statistics for August released in mid-October showed a sharp rise in employment but also a continuing steep rise in vacancies. The combination of all these factors is a considerable headwind to a recovery of economic growth in the months ahead.

US. Shortages of goods and intermediate goods like semi-conductors, are fuelling increases in prices and reducing economic growth potential. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target. This could well cause the Fed to focus on supporting economic growth by delaying interest rate rises, rather than combating elevated inflation i.e., there may be no rate rises until 2023.
See also comments in paragraph 3.3 under PWLB rates and gilt yields.

EU. The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery is nearly complete although countries dependent on tourism are lagging. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.
German general election. With the CDU/CSU and SDP both having won around 24-26% of the vote in the September general election, the composition of Germany's next coalition government may not be agreed by the end of 2021. An SDP-led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a CDU/CSU led coalition government is likely to be small. However, with

Angela Merkel standing down as Chancellor, there will be a hole in overall EU leadership which will be difficult to fill.

China. After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth. There are also questions as to how effective Chinese vaccines are proving. Supply shortages, especially of coal for power generation, which is causing widespread power cuts to industry, are also having a sharp disruptive impact on the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

Japan. 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy is rebounding rapidly now that the bulk of the population is fully vaccinated and new virus cases have plunged. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida had promised a large fiscal stimulus package after the November general election which his party has now won.

World growth. World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

Supply shortages. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. At the current time there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.

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Appendix 2

Forecasts for Bank Rate

Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts may well need changing within a relatively short time frame for the following reasons:

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer and now into the autumn. This could lead into stagflation which would create a dilemma for the MPC as to which way to face.
- Will some current key supply shortages e.g., petrol and diesel, spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation. Then we have the Government's upcoming budget in October, which could also end up in reducing consumer spending power.
- On the other hand, consumers are sitting on around £200bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- There are 1.6 million people coming off furlough at the end of September; how many of those will not have jobs on 1st October and will, therefore, be available to fill labour shortages in many sectors of the economy? So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate the MPC's current concerns.
- There is a risk that there could be further nasty surprises on the Covid front, on top of the flu season this winter, which could depress economic activity.

In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with what the new news is.

It also needs to be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB rates and gilt and treasury yields

The current PWLB rates are set as margins over gilt yields as follows: -.

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)

- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

Gilt yields. Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. During September, gilt yields from 5 – 50 years have steadily risen and rose further after the hawkish tone of the MPC's minutes last week. Our forecasts show a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2024.

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on gilt yields. As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison**.**

US treasury yields. During the first part of the year, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020. This was then followed by additional Democratic ambition to spend further huge sums on infrastructure and an American families plan over the next decade which are caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme has enabled a rapid opening up of the economy.
2. The economy has been growing strongly during 2021.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing stimulus through monthly QE purchases.

These factors could cause an excess of demand in the economy which could then unleash strong inflationary pressures. This could then force the Fed to take much earlier action to start increasing the Fed rate from near zero, despite their stated policy being to target average inflation. It is notable that in the September Fed meeting, Fed members again moved forward their expectation of when the first increases in the Fed rate will occur. In addition, shortages of workers appear to be stoking underlying wage inflationary pressures which are likely to feed through into CPI inflation. A run of stronger jobs growth figures could be enough to meet the threshold set by the Fed of "substantial further progress towards maximum employment" for a first increase in the Fed rate.

A further concern in financial markets is when will the Fed end QE purchases of treasuries and how will they gradually wind them down. These purchases are currently acting as a downward pressure on treasury yields. In his late August speech at the Jackson Hole conference, Fed Chair Powell implied that the central bank plans to start tapering its asset purchases before the end of this year. But the plan is conditional on continued improvement in the labour market, which the August employment report suggests is proceeding more slowly than the Fed anticipated. That may mean that any announcement of tapering is pushed back, possibly even into early 2022.

As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases are likely to be faster and stronger than Bank Rate increases in the UK. Nonetheless, any upward pressure on treasury yields could put upward pressure on UK gilt yields too.

There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to keep an eye on.

Significant risks to the forecasts

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The pandemic causes major long-term scarring of the economy.
- The Government implements an austerity programme that supresses GDP growth.
- The MPC tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- Major stock markets e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the “moral hazard” risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.
- Geo-political risks are widespread e.g., German general election in September 2021 produces an unstable minority government and a void in high-profile leadership in the EU when Angela Merkel steps down as Chancellor of Germany; on-going global power influence struggles between Russia/China/US.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

The balance of risks to medium to long term PWLB rates: -

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

A new era – a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' and the ECB now has a similar policy.
- For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

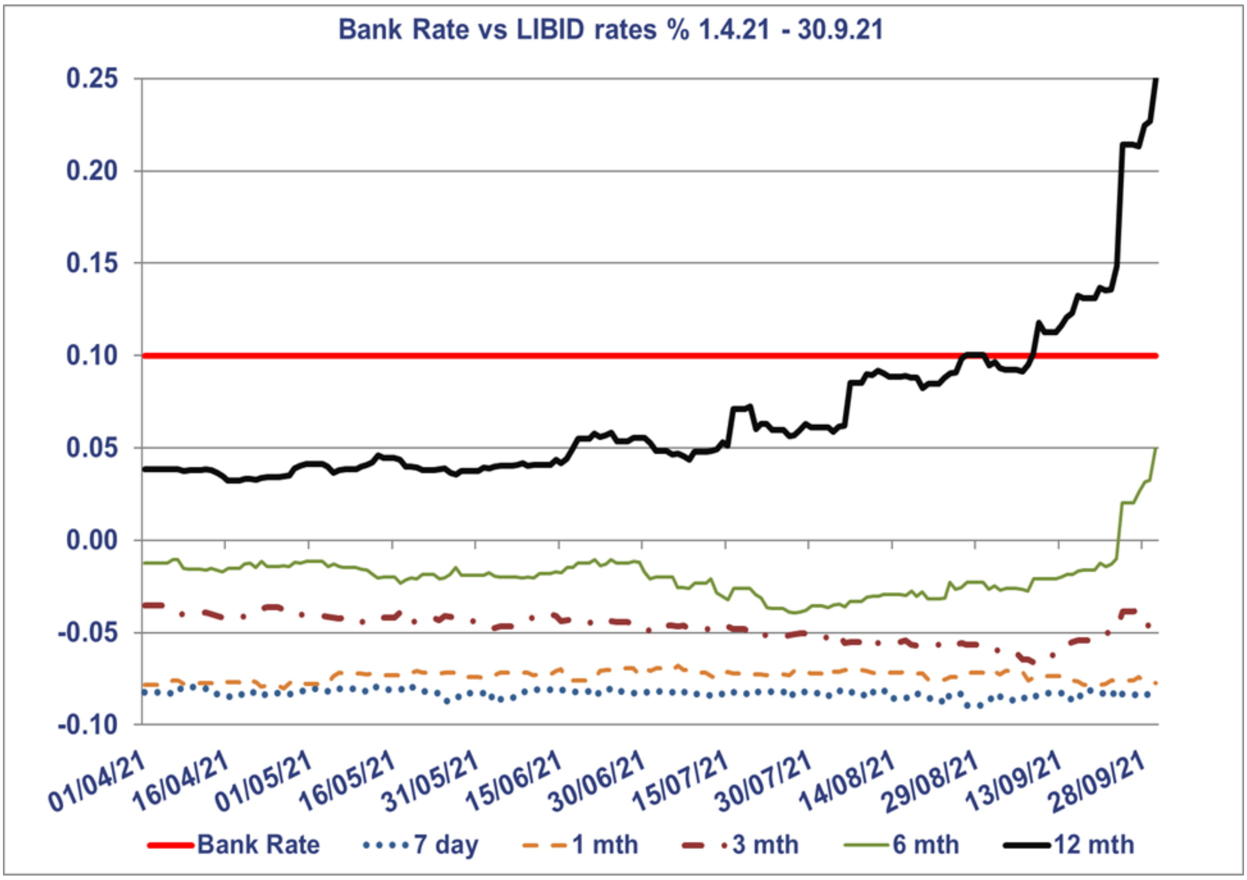
REPORT 4

Appendix 3

List of investments held at 30th September 2021

Institution		Amount £	Investment Period Invest date	Repay date	Terms	Interest Rate %
Money Market / Direct Dealing						
22	Santander UK plc	4,000,000	16/07/2021	18/10/2021	Fixed	0.06%
23	Nationwide Building Society	2,000,000	26/07/2021	19/10/2021	Fixed	0.05%
24	Principality Building Society	2,000,000	02/08/2021	18/10/2021	Fixed	0.07%
25	Santander UK plc	2,000,000	02/09/2021	16/11/2021	Fixed	0.06%
6	Newcastle Building Society	1,000,000	06/08/2021	19/10/2021	Fixed	0.05%
26	Nationwide Building Society	4,000,000	01/09/2021	22/11/2021	Fixed	0.04%
27	Coventry Building Society	1,000,000	08/09/2021	18/10/2021	Fixed	0.02%
3	National Counties Building Society	2,000,000	13/09/2021	20/12/2021	Fixed	0.15%
8	Principality Building Society	1,000,000	13/09/2021	16/11/2021	Fixed	0.07%
13	Principality Building Society	2,000,000	20/09/2021	16/11/2021	Fixed	0.07%
20	Leeds Building Society	1,000,000	20/09/2021	16/11/2021	Fixed	0.02%
Bank of Scotland 95 day notice account		5,000,000			Fixed	0.05%
HSBC Money Market		1,640,000			Fixed	0.01%
Money Market Funds - CCLA Public Sector Deposit Fund		4,500,000				Dividend
CCLA Local Authority Property Fund		1,500,000				Dividend
		£34,640,000				

Bank Rate

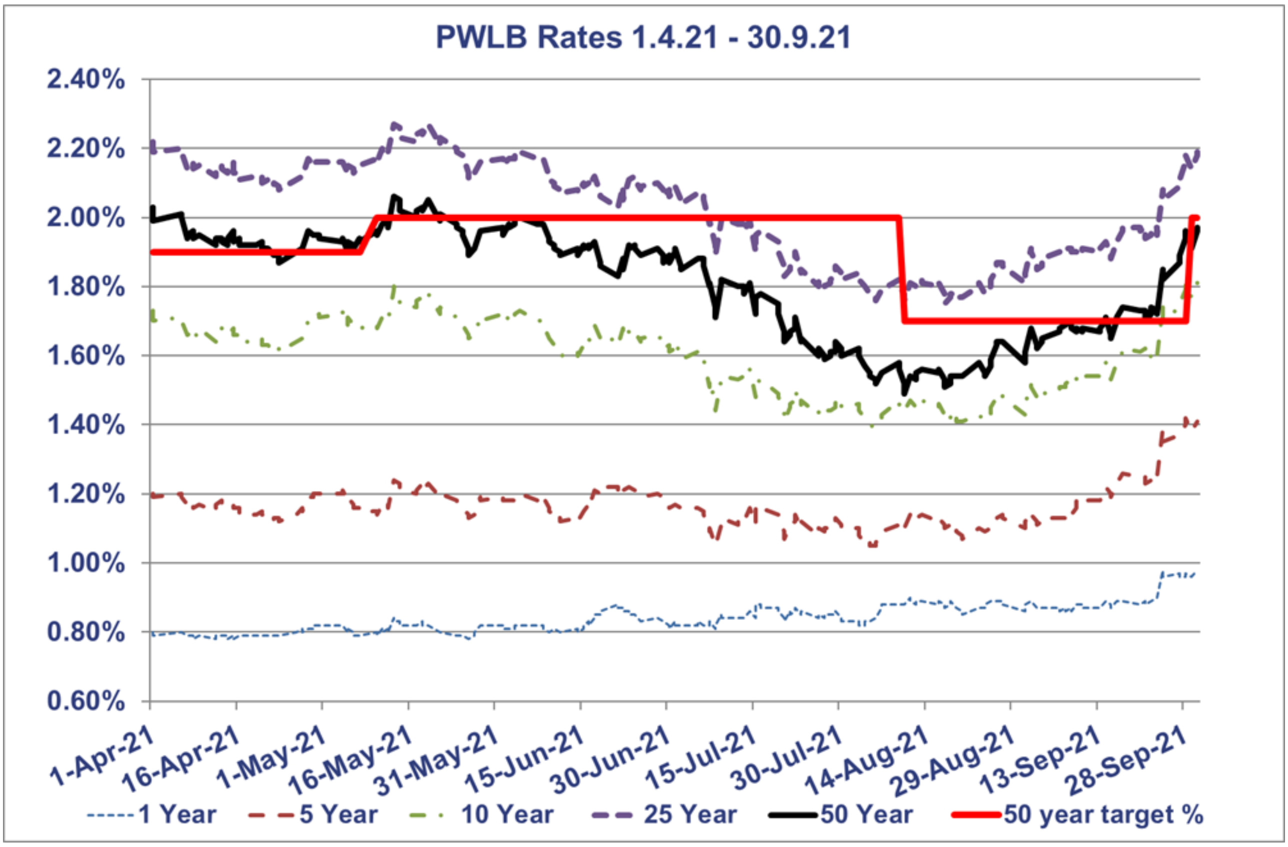


REPORT 4

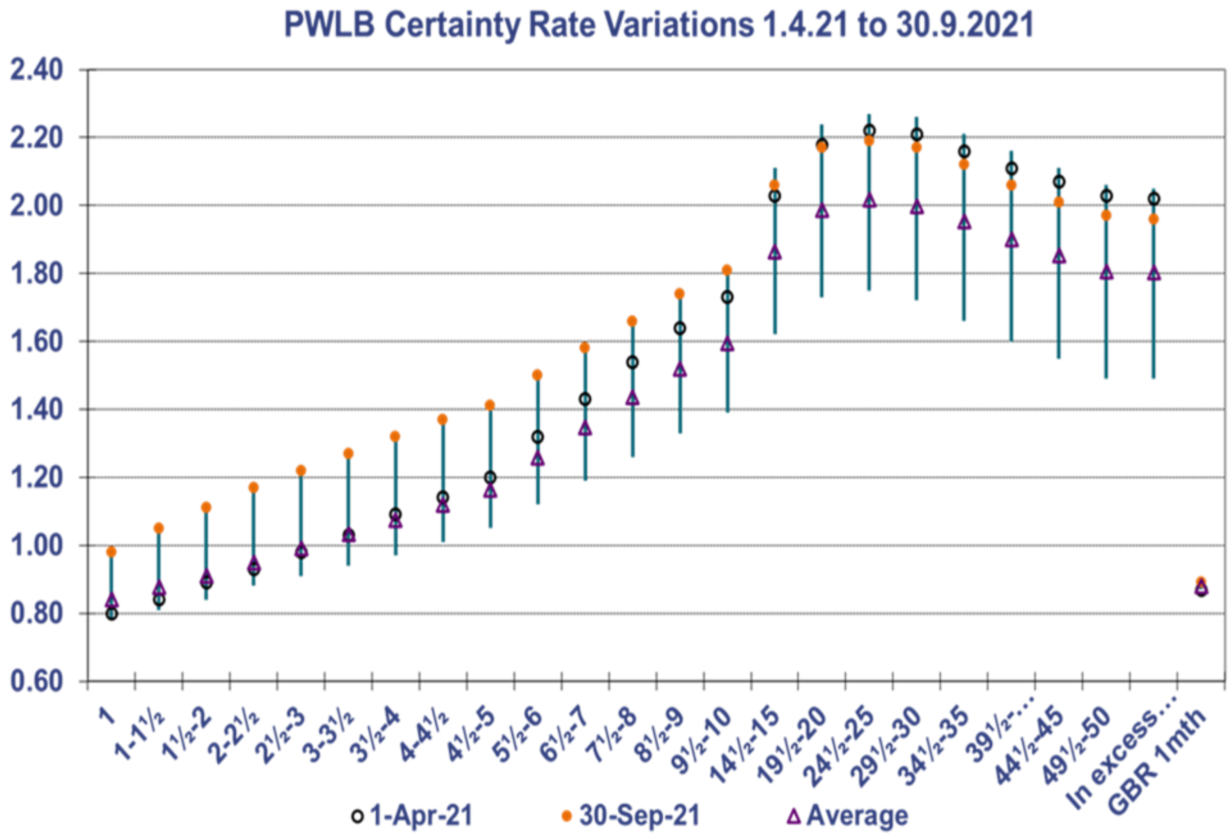
	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	-0.08	-0.07	-0.04	0.05	0.25
High Date	01/04/2021	09/04/2021	06/07/2021	01/04/2021	30/09/2021	30/09/2021
Low	0.10	-0.09	-0.08	-0.07	-0.04	0.03
Low Date	01/04/2021	27/08/2021	26/04/2021	08/09/2021	27/07/2021	16/04/2021
Average	0.10	-0.08	-0.07	-0.05	-0.02	0.07
Spread	0.00	0.01	0.01	0.03	0.09	0.22

Appendix 4

Borrowing – PWLB rates



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.78%	1.05%	1.39%	1.75%	1.49%
Date	08/04/2021	08/07/2021	05/08/2021	17/08/2021	10/08/2021
High	0.98%	1.42%	1.81%	2.27%	2.06%
Date	24/09/2021	28/09/2021	28/09/2021	13/05/2021	13/05/2021
Average	0.84%	1.16%	1.60%	2.02%	1.81%
Spread	0.20%	0.37%	0.42%	0.52%	0.57%


PWLB Certainty Rate Variations 1.4.21 to 30.9.2021
2.40
2.20
2.00
1.80
1.60
1.40
1.20
1.00
0.80
0.60
1
1-1½
1½-2
2-2½
2½-3
3-3½
3½-4
4-4½
4½-5
5½-6
6½-7
7½-8
8½-9
9½-10
14½-15
19½-20
24½-25
29½-30
34½-35
39½-…
44½-45
49½-50
In excess…
GBR 1mth
1-Apr-21
30-Sep-21
Average

Appendix 5

Treasury and Prudential Indicators

Treasury Indicators	2021/22 Budget £'000	30.09.21 Actual £'000
Authorised limit for external debt	24,000	24,000
Operational boundary for external debt	13,500	13,500
Gross external debt	3,573	1,490
Investments	29,100	28,140
Net borrowing	(25,527)	(26,650)
Maturity structure of fixed rate borrowing - upper limits		
Under 12 months	10%	0%
12 months to 2 years	10%	0%
2 years to 5 years	20%	1.5%
5 years to 10 years	30%	0%
Over 10 years	100%	98.5%
Upper limit for principal sums invested for over 365 days	10,000	1,500

Prudential Indicators	2021/22 Budget £'000	30.09.21 Actual £'000
Capital expenditure	3,421	1,734
Capital Financing Requirement (CFR)	10,934	10,955
Annual change in CFR	(134)	(826)
In year borrowing requirement	723	780
Ratio of financing costs to net revenue stream	7.45%	7.51%