Report To:	**AUDIT COMMITTEE**
Date:	**28TH NOVEMBER 2022**
Heading:	**TREASURY MANAGEMENT MID YEAR REPORT 2022-23**
Executive Lead Member:	**EXECUTIVE LEAD MEMBER FOR FINANCE, REVENUES AND BENEFITS – CLLR DAVID MARTIN**
Ward/s:	**ALL**
Key Decision:	**NO**
Subject to Call-In:	**NO**

Purpose of Report

This mid-year report has been written to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and covers the following:

- An economic update for the 2022/23 financial year as at 30 September 2022;
- The Council's capital position (including prudential indicators);
- The Council's investment portfolio for 2022/23;
- The Council's borrowing position for 2022/23.

Recommendation(s)

1) To note and recommend to Cabinet changes to the 2022/23 Prudential Indicators following in year changes to the 2022/23 Capital Programme; and,
2) To note the contents of the report.

Reasons for Recommendation(s)

In accordance with Financial Regulation C.31. The Audit Committee is responsible for providing effective scrutiny of the Treasury Management Strategy and policies.

In accordance with Financial Regulation C.30 Cabinet are responsible for the implementation and regular monitoring of Treasury Management policies and practices and are to receive, as a minimum, each year reports setting out the Annual Treasury Management Strategy and Plan for the coming year; a mid-year review and an annual Treasury Management Performance Report.

Alternative Options Considered

No other options have been considered as it is a requirement of Council's Financial Regulations that Treasury Management Performance is reported.

Detailed Information

1 Background

1.1 The Council aims to operate 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.

1.2 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 commitments. This management of longer-term cash may involve arranging long or short-term loans, or the use of longer-term cash flow surpluses, and on occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 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 Economics and interest rates to date and the outlook for 2022/23

2.1 The second quarter of 2022/23 saw:

- Gross Domestic Product (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. Q2 2022/23 GDP growth has recently been released which indicates a fall of 0.2%.
- Signs of economic activity losing momentum as production fell due to rising energy prices;
- CPI inflation eased to 9.9% y/y in August from 10.1% in July, 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 the Bank Rate to 2.25%. On November 3rd the Bank of England raised base rates by 0.75% to 3.00% with further rises still expected;
- Gilt yields which is the interest paid on Government debt has surged and sterling has fallen following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September. The Council's main source of borrowing is the Public Works Loan Board (PWLB); PWLB interest rates are set at a rate of 0.80% above gilt yield. Therefore, any increase in gilt yields represents an increase in future borrowing costs to the Authority, should there be a need to borrow.

2.2 There are signs of higher energy prices creating more persistent downward effects in economic activity.

2.3 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.

3 The Council's Capital Position (including Prudential Indicators)

Prudential Indicators

3.1 Capital Programme

3.1.1 Table 1 below shows the revised estimates for capital expenditure considering the changes since the Capital Programme was agreed by Council on 29th September 2022.

Table 1 – Capital Programme 2022/23

Capital Expenditure by Service	2022/23 Original Estimate £m	2022/23 Revised Estimate £m
General Fund	20.313	29.038
Area Schemes	0.054	0.501
HRA - Decent Homes	12.580	13.189
HRA – Other	11.814	12.013
Total capital expenditure	**44.761**	**54.741**

3.1.2 The main reasons for the increase in the General Fund capital expenditure is due to the addition of slippage of £11.85m on the 2021/22 Capital Programme, slippage of £2m of Future High Street Schemes from 2022/23 to 2023/24 and a £0.7m reduction in Green Homes Grants. The change in the HRA - Decent Homes Schemes and HRA - Other is mainly due to 2022/23 slippage. The increase in Area Schemes is due to slippage from 2021/22.

3.1.3 Table 2 below draws together the main treasury management strategic elements of the capital expenditure plans (above), highlighting the original and the revised estimated financing arrangements of this capital expenditure.

Table 2 – Capital Expenditure Funding

Capital Expenditure	2022/23 Original Estimate £m	2022/23 Revised Estimate £m
Total capital expenditure	**44.761**	**54.741**
Financed by:		
Capital receipts	3.616	4.263
Capital grants	8.468	9.248
Capital reserves	19.645	18.870
Total financing	**31.729**	**32.381**
Borrowing requirement	**13.032**	**22.360**

3.1.4 The borrowing requirement for 2022/23 has increased largely because of the expenditure slippage from 2021/22, which was largely funded by borrowing.

3.2 Capital Financing Requirement, Operational Boundary and Authorised Limit

3.2.1 Any changes to borrowing in the Capital Programme affect the Capital Financing Requirement (CFR). The CFR represents the Council's underlying need to borrow for capital expenditure. The CFR increases by the amount of capital expenditure funded by borrowing and reduces by making revenue charges for the repayment of debt (the Minimum Revenue Provision).

Table 3 – Capital Financing Requirement (CFR)

	2022/23 Original Estimate £m	2022/23 Revised Estimate (Adjusted for Slippage) £m
Prudential Indicator – Capital Financing Requirement		
CFR Non-Housing	105.303	106.657
CFR – Housing	80.061	80.061
Total CFR	**185.364**	**186.718**
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	188.000	188.000
Other Long Term Liabilities	0.000	0.000
Total debt 31st March	**188.000**	**188.000**
Prudential Indicator – the Authorised Limit for external debt		
Borrowing	217.000	217.000
Other Long Term Liabilities	0.000	0.000
Total debt 31st March	**217.000**	**217.000**

3.2.2 The 2022/23 Capital Financing Requirement has increased due to the inclusion of in District regeneration schemes on to the CFR.

3.3 Estimate of ratio of financial cost to net revenue stream for the current year split between the Housing Revenue Account and General Fund

3.3.1 For the HRA this is calculated by dividing the HRA capital financing costs by the total estimated Council Dwelling Income. For the General Fund this is calculated by dividing the General Fund capital financing costs by the estimated Council Tax Receipt plus Central Government Grants.

Table 4 - Estimate of ratio of financial cost to net revenue stream

	Original 2022/23 Estimate %	Revised 2022/23 Estimate %
Housing Revenue Account	13.92	11.58
Non HRA (General Fund)	21.49	22.48

3.3.2 The Housing Revenue Account's revised estimates is lower due to interest receivable being higher than originally forecast. The Non HRA (General Fund) has increased slightly due to interest payments on fund balances being higher than previously anticipated.

3.4 Estimate of the Incremental impact of capital investment decisions on the Council Tax and Rent Levels

3.4.1 These indicators have been prepared using the revised Capital Programme, approved by Council on the 29th of September 2022. For the General Fund this is calculated by dividing the estimated capital financing costs by the estimated Council Tax Band D equivalents. There is no borrowing planned for the Housing Revenue Account (HRA) therefore these ratios are nil. If in future years, there was to be HRA borrowing, the ratio would be calculated by dividing the estimated capital financing costs by the estimated number of council dwellings.

Table 5 - Incremental impact of capital investment decisions on the Council Tax and Rent Levels

	Original 2022-23 Estimate £	Revised 2022-23 Estimate £
General Fund (Band D)	19.88	24.51
HRA (52 Weeks)	0	0

3.4.2 The incremental impact of capital investment on the General Fund is higher due to slippage on the 2021/22 Capital Programme into 2022/23.

4. **Prudential Indicators for Treasury Management**

4.1 Interest rate exposure

4.1.1 Local authorities are required to set limits for the upper limits on exposure to the effects of changes in interest rates. The indicators relate to both fixed and variable rate interest and are net of any investments.

4.1.2 Depending on the level of interest rates and their expected movement in the year, the Council may take up all of its new borrowings in the form of either fixed or variable rate debt. The figures in Table 6 compares the Actual level of debt to the operational boundary which is the prudent limit for debt, this is split between exposure to fixed and variable interest rates.

Table 6 - Interest Rate Exposure

Principal Outstanding	2022/2023 30th September 2022 Actual	2022/2023 Original
	£m	£m
Fixed Rates	97.0	188.0
Variable Rates (No more than 40% of the operational boundary).	15.0	75.2

4.2 Maturity Structure of borrowing

4.2.1 The authority is required to set both lower and upper limits for the maturity structure of its borrowing. This indicator relates only to fixed rate debt and is therefore a measure of the longer-term exposure to interest rate risk.

4.2.2 Table 7 shows the proposed lower and upper limits, given the current structure of the Council's debt portfolio:

Table 7 - Maturity Structure of Debt

Maturity Structure of Fixed Rate Borrowing	Actual Position for 30/09/2022	Lower Limit %	Upper Limit %
Under 12 Months	7.73%	0%	5%
Under 24 Months	11.05%	0%	10%
Under 5 years	15.14%	0%	20%
Under 10 Years	24.46%	0%	25%
Under 20 Years	37.86%	0%	40%
Under 30 Years	43.01%	0%	50%
Under 40 Years	77.02%	0%	80%
Under 50 Years	100.00%	0%	100%
50 Years and Above	0.00%	0%	0%

4.2.3 Whilst the mid-year position is showing the upper limits have been exceeded for under 12 months and under 24 months, this will be addressed by the end of the year. There are currently two loans totalling £6.5m maturing at the end of the financial year; there will not be a requirement to re-finance these loans during the 2022/23 financial year, therefore the ratio for loans under 12 months on 31st March 2023 will reduce to 1.10% and the ratio for loans under 24 months will reduce to 4.67%.

4.3 Principal sums invested for more than 364 days

4.3.1 Where a local authority invests or plans to invest for periods of more than 364 days it must set an upper limit for each year for the maturity of such investments. The purpose of setting this limit is to contain any exposure to losses, which might arise in the event of having to seek early repayment of the investment and / or adverse movements in shorter-term interest rates.

4.3.2 The strategy for 2022/23 set a limit of a maximum of £5m in each of the next three years to be placed in longer-term investments. The Authority currently does not have any long-term investments.

5. Investment Portfolio 2022/23

5.1 In accordance with the Code, it is the Council's priority to ensure security of capital, liquidity and to obtain an appropriate level of return, which is consistent with the Council's risk appetite. Table 8 provides a summary of the Council's total investments as of 30th September 2022.

Table 8 – Summary of Investments

Borrower	Balance at 30/09/22 £000's
Call Accounts	1,664
Money Market Funds	20,000
Notice Account	0
Fixed Term Deposits	19,000
Total	**40,664**

5.2 Call Accounts

5.2.1 In total, the Council held £1.664m of call account investments (see table 9 below) as of 30 September 2022 (£5.1m on 31 March 2022) and the average investment portfolio yield for all investments in the first six months of the year is 0.42%.

Table 9 – Call Accounts

Borrower	Balance at 30/09/22 £000's
Barclays Bank	1,564
Handelsbanken	100
Total	**1,664**

5.3 Notice Accounts

5.3.1 The Council currently has nil balances in notice accounts (£5m on 31st March 2022). The balance in the Santander 35 Day Notice Account was withdrawn 30th August 2022. The average interest rate received from this account during 2022/23 whilst it was open was 0.71%.

Table 10 – Notice Accounts

Borrower	Balance at 30/09/22 £000's
Santander 35 Day Notice Account	0

5.4 Money Market Funds

5.4.1 The Council currently has four Low Volatility Net Asset Value (LVNAV) Money Market Funds. This means that the value of the shares that the Council holds in these funds may go down as well as up. However, it is unlikely that there will be a change in the price of the Money Market Fund shares between the prices paid and monies received when the shares are sold. In accordance with the Council's approved Strategy no more than £5m is placed with any one institution.

Table 11 – Money Market Funds

Borrower	Balance at 30/09/22 £000's
Aberdeen Standard Liquidity	5,000
Insight Investments	5,000
Federated Hermes	5,000
Aviva	5,000
Total	**20,000**

The average interest rate for Money Market Funds (MMFs) is 1.15% which has generated MMF interest of £103k for the first half of the financial year.

5.5 Fixed Term Deposits

5.5.1 At the end of September 2022, the Council had £19m in fixed term deposits with Nationwide Building Society, Clydesdale Bank, Landesbank, Skipton Building Society and UK Government Debt Management Office (DMO). This compares to £16.0m as at the 31st March 2022. There have been multiple term deposits with Nationwide Building Society and the DMO, for various periods between 1st April and 30th September 2022, represented by the level of new investments and repayments in the table below.

Table 12 – Fixed Term Deposits

Opening Balance £000's	New Investments £000's	Repayments £000's	Closing Balance £000's
16,000	45,000	42,000	19,000

5.5.2 The comparison below shows the performance of these fixed term deposit investments against the current Sterling Overnight Index Average (SONIA) rate.

Table 13 – Fixed Term Deposits Comparison to Bank of England base rate

SONIA Rate as of 30th September	Average SONIA rate 1st April 2022 to 30th September 2022	Council Performance	Investment Interest Earned £000's

2.19%	1.24%	1.04%	£88k

5.6 Interest Receivable Budget

5.6.1 The Council's budgeted investment return for 2022/23 is £5k and performance for the half year to 30 September 2022 is £215k, which comprises £88k from term deposits, £103k from Money Market Funds, £15k from Notice Accounts and £9k from call deposits. The estimated full year outturn is expected to be approximately £600k. The main reasons for the increase are the budget was estimated for 2022/23 when the Bank of England Base Rate was only 0.25% it has now increased to 2.25% and investment balances are higher partly due to capital programme slippage and greater working capital.

6 Borrowing

6.1 There have been no borrowing activities undertaken during the year to 30 September 2022 as summarised below:

Table 14 – Council's borrowing activities to 30th September 2022

Type of Loan	As at 31 March 2022 £'000	Borrowed £'000	Repaid £'000	As at 30 Sept 2022 £'000
Fixed PWLB	62.536	0	0	62.536
Private Placement Loans – LOBO	19,500	0	0	19,500
Private Placement Loans – Fixed	15,000	0	0	15,000
Total External Debt	**97,036**	**0**	**0**	**97,036**

7 Investment Properties

7.1 As of the 1st of April 2022 the Council had spent £61.810m on investment properties funded by prudential borrowing. These investment properties are expected to generate £4.548m gross rental income per annum which is a gross yield of 7.4%. The impact of investing in investment properties funded by prudential borrowing is that CFR increases by the cost of the investment properties, this cost is then charged to the revenue account over the asset life through MRP charges. Further information on investment property performance is included in the investment property performance report.

Glossary of Terms

bps
Basis points - 1 basis point equals 1/100 of 1% or 0.01%.

Call Accounts
Is a bank account for investment funds it has no fixed deposit period, provides instant access to funds, and allows unlimited withdrawals and deposits.

Consumer Price Index (CPI)

The official measure of inflation of consumer prices of the United Kingdom.

Federal Reserve (Fed)
The central banking system of the United States of America.

Gross Domestic Product (GDP)
This is the monetary value of all the finished goods and services produced by a country within its borders in a specific time period, usually a year.

Gilts
Gilts are UK Government Bonds which offer a very low risk of default and a corresponding low rate of return.

LIBID
The London Interbank Bid Rate, that is, the interest rate at which banks bid to take short-term deposits from other banks.

Monetary Policy Committee (MPC)
This is a committee of the Bank of England which decides the official interest rate in the UK (the Bank of England Base Rate) and also directs other monetary policy such as quantitative easing and forward guidance.

Public Works Loan Board (PWLB)
The PWLB is a statutory body operating within the UK Debt Management Office to lend money from the National Loan Fund to local authorities and to collect the repayments.

q/q
The change from previous the previous quarter.

Quantitative Easing (QE)
An unconventional form of monetary policy where a Central Bank creates new money electronically to buy financial assets, like government bonds. This process aims to directly increase private sector spending in the economy and return inflation to target.

SONIA
SONIA (Sterling Overnight Index Average) is the effective overnight interest rate for unsecured transactions in the British sterling market.

y/y
The change from previous year.

Implications

Corporate Plan:

Effective treasury management and investment in properties is providing an income stream to support delivery of the key services within the Corporate Plan.

Legal:

Requirement to adhere to the CIPFA Prudential Code. Ensures compliance with Financial Regulations. [RLD 15/11/2022]

Finance: [PH 16/11/2022].

Budget Area	Implication
General Fund – Revenue Budget	No significant implications
General Fund – Capital Programme	No significant implications
Housing Revenue Account – Revenue Budget	No significant implications
Housing Revenue Account – Capital Programme	No significant implications

Risk:

Risk	Mitigation
Risk that the investment properties become void or fall in value	Spread of assets within the portfolio and a reserve to cushion any void periods.

Human Resources:
No implications.

Environmental/Sustainability

No implications.

Equalities:

No implications.

Other Implications:

No implications.

Reason(s) for Urgency

Not Applicable

Reason(s) for Exemption

Not Applicable.

Background Papers

Link Asset Services – Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review Report 2022/23

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Appendix 1

Economics and interest rates

1.1 Economics update

- 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 fall 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 23rd 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 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.
- 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 3rd 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 23rd 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 23rd 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 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

- Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.
- There is a possibility that the Bank continues with QE at the long end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.
- After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

1.2 Interest rate 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 1st November 2012.

The latest forecast on 27th 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 1st November 2012.

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10