Report To:	**Audit and Standards Committee**
Date:	**14 November 2022**
Report Title:	**Treasury Management Monitoring report - Q1**
Report of:	**Chief Finance Officer**
Ward(s):	**All**
Purpose of report:	**To present details of recent Q1 Treasury Management activity.**
Officer Recommendations:	**To note and recommend that Cabinet accepts that Treasury Management Activities for the period 1 April to 30 June 2022 has been in accordance with the approved Treasury Strategies.**
Reasons for recommendations:	**Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code) and this has to be reported to Full Council.**
Contact Officer(s):	**Name: Ola Owolabi** **Post title: Deputy Chief Finance Officer** **E-mail: ola.owolabi@lewes-eastbourne.gov.uk** **Telephone number: 01273 485083**

1. Introduction

1.1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.

1.2 The Treasury Strategy Statement also requires the Audit and Standards Committee to review a formal summary report detailing the recent Treasury Management activities before it is considered by Council, in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

1.3 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to treasury management reports by the Audit & Standards Committee before they were reported to the full Council.

Annual Treasury Management training

1.4 In line with the requirements to ensure an appropriate training for Councillors, a training session on the Treasury Management activities has been arranged to take place on **Monday 24th October 2022,** via TEAMS. The virtual training will be delivered by the Council's treasury management advisors – Link Asset Services.

2. Treasury Management Activity

2.1 The timetable for reporting Treasury Management activity in 2022/23 is shown within the table below. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
4 June 2022	2021/22 Annual Report (up to 31 March 2022)
12 September 2022	1 April to 30 June 2022
14 November 2022	1 July to 30 September 2022
16 January 2023	1 October to 31 December 2022
13 March 2023	1 January to 28 February 2023

2.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held between 1 April to 30 June 2022 and identifies the long-term credit rating of counterparties at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All the deposits met the necessary criteria the minimum rating required for deposits made in terms of long-term A- (Fitch).

Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term Rating
Standard Charter Sustainable	29/04/2022	29/07/2022	91	5,000,000	1.05	A+
DMO	09/05/2022	09/08/2022	92	5,000,000	0.92	*
Bayerische Landes Bank	16/05/2022	16/08/2022	92	5,000,000	1.16	A-
DMO	16/05/2022	18/07/2022	63	3,500,000	0.93	*
DMO	27/06/2022	30/08/2022	64	5,000,000	1.24	*

*UK Government body and therefore not subject to credit rating

2.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured between 1 April to 30 June 2022, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £102.4m over this period.

Counterparty	Date From	Date To	Days	Principal £	Int. Rate %	Long-term rating
DMO	05/01/2022	05/04/2022	90	1,300,000	0.100	*
DMO	02/02/2022	04/04/2022	61	5,000,000	0.250	*
Link - Standard Charter Sustainable	01/03/2022	29/04/2022	59	5,000,000	0.640	A+

Counterparty	Date From	Date To	Days	Principal £	Int. Rate %	Long-term rating
Link - Bayerische Landesbank	14/03/2022	14/04/2022	31	5,000,000	0.600	A-
DMO	25/03/2022	25/04/2022	31	4,000,000	0.550	*
DMO	30/03/2022	01/04/2022	2	7,000,000	0.550	*
DMO	01/04/2022	11/04/2022	10	12,000,000	0.550	*
DMO	05/04/2022	19/04/2022	14	5,000,000	0.550	*
DMO	11/04/2022	25/04/2022	14	3,000,000	0.550	*
Link - Bayerische Landesbank	14/04/2022	16/05/2022	32	5,000,000	0.730	A-
DMO	19/04/2022	03/05/2022	14	7,000,000	0.550	*
DMO	25/04/2022	09/05/2022	14	6,500,000	0.640	*
DMO	03/05/2022	20/05/2022	17	12,600,000	0.815	*
DMO	20/05/2022	27/05/2022	7	3,500,000	0.800	*
DMO	27/05/2022	27/06/2022	31	5,000,000	0.930	*
DMO	01/06/2022	15/06/2022	14	7,500,000	0.800	*
DMO	15/06/2022	28/06/2022	13	8,000,000	1.025	*
Total				102,400,000		

*UK Government body and therefore not subject to credit rating

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 April to 30 June 2022 was 0.91%, which was below the average bank base rate for the period of 0.99%.

2.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £3.0m generating interest of approximately £6.8k.

	Balance at 30 June 2022 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	£5,000	£5,000	0.49
Lloyds Bank Corporate Account	£2,488	£2,284	0.01
Lloyds Bank Call Account	£2,210	£975	0.05

2.5 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown below. The approved Investment Strategy allows a maximum investment of £10m in each fund, and at no time was this limit exceeded.

	Balance at 30 June 2022 £'000	Average balance £'000	Average return %
Deutsche Managed Sterling Fund	£0,001	0,001	0.00

2.6 Treasury Bills (T-Bills)

There were no Treasury Bills held as at 30 June 2022, and there was no activity in the period.

2.7 Secured Investments

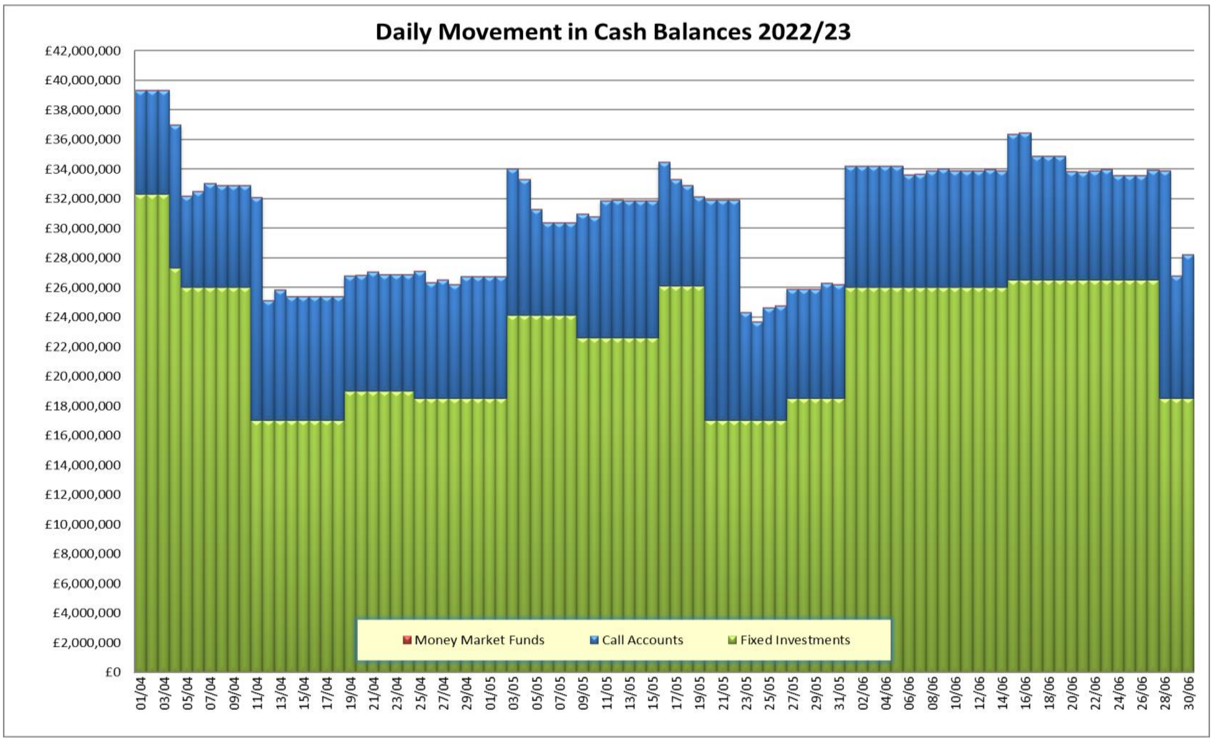
There were no Secured Investments as at 30 June 2022.

2.8 Tradeable Investments

There were no Tradeable Investments as at 30 June 2022, and there was no activity in the period.

3. Overall investment position

3.1 The chart below summarises the Council's investment position over the period 1 April to 30 June 2022. It shows the total sums invested each day as Fixed Term deposits, amounts held in Deposit accounts and Money Market Funds.



4. Annual Investment Strategy

4.1 The Treasury Management Strategy Statement (TMSS) for 2022/23 which includes the Annual Investment strategy, was approved by the Full Council on Monday, 21 February 2022. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity;
- Yield.

Approved limits within the Annual Investment Strategy were not breached during the period ending 30 June 2022, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 3 days during the period.

5. Borrowing

5.1 The current account with Lloyds Bank generally remained with credit limits throughout most of the period.

Interest Rate Forecast

5.2 The Council 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 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 21st June is compared below to the previous forecast (10th May). A comparison of these forecasts shows that PWLB rates have increased generally and show a speed up in the rate of increase in Bank Rate as inflation is now posing a greater risk. The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally as inflation concerns abound. 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 without pushing the economy into recession.

Links current and previous PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities.

Link Group Interest Rate View 21.06.22												
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
BANK RATE	1.75	2.25	2.75	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25
3 month ave earnings	2.00	2.50	2.80	2.80	2.80	2.80	2.60	2.50	2.30	2.30	2.20	2.20
6 month ave earnings	2.50	2.80	3.00	3.00	2.90	2.90	2.80	2.70	2.60	2.50	2.40	2.30
12 month ave earnings	3.10	3.20	3.20	3.20	3.00	2.90	2.80	2.60	2.50	2.40	2.40	2.40
5 yr PWLB	3.20	3.30	3.30	3.30	3.30	3.20	3.10	3.00	3.00	3.00	2.90	2.90
10 yr PWLB	3.40	3.50	3.50	3.50	3.50	3.40	3.30	3.20	3.20	3.20	3.10	3.10
25 yr PWLB	3.70	3.70	3.70	3.70	3.70	3.70	3.60	3.50	3.50	3.40	3.40	3.30
50 yr PWLB	3.40	3.40	3.50	3.50	3.40	3.40	3.30	3.20	3.20	3.10	3.10	3.00

Link Group Interest Rate View 10.5.22													
	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
BANK RATE	1.25	1.50	1.75	2.00	2.00	2.00	2.00	2.00	1.75	1.75	1.75	1.75	1.75
3 month ave earnings	1.20	1.50	1.70	2.00	2.00	2.00	2.00	2.00	1.70	1.70	1.70	1.70	1.70
6 month ave earnings	1.60	1.90	2.10	2.20	2.20	2.20	2.20	2.10	2.00	1.90	1.90	1.90	1.90
12 month ave earnings	2.00	2.20	2.30	2.40	2.40	2.30	2.30	2.20	2.20	2.10	2.10	2.10	2.10
5 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.50	2.50	2.50	2.50	2.50
10 yr PWLB	2.80	2.80	2.90	2.90	2.90	2.90	2.90	2.90	2.80	2.80	2.80	2.80	2.80
25 yr PWLB	3.00	3.10	3.10	3.20	3.20	3.20	3.10	3.10	3.00	3.00	3.00	3.00	3.00
50 yr PWLB	2.70	2.80	2.80	2.90	2.90	2.90	2.80	2.80	2.70	2.70	2.70	2.70	2.70

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of our previous forecasts, Links money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

- Links forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

Economic background

5.3 Following Russia's invasion of Ukraine in February, global inflationary pressures have intensified sharply, leading to a sizeable deterioration in the outlook for world and UK growth. The economic backdrop in the April-June quarter was characterised by higher oil, gas and commodity prices, fears of rising and persistent inflation and its damaging impact on consumers' cost of living, little indication of an imminent end to Russia-Ukraine hostilities and supply chain bottlenecks exacerbated by war in Ukraine and lockdowns in China.

5.4 Added to this was tough rhetoric and action by central bankers globally on fighting inflation through higher interest rates and quantitative tightening even as financial conditions became increasingly difficult for consumers, more so for those whose wages have not kept pace with inflation.

5.5 In the UK inflation remained elevated. Ofgem, the energy regulator, increased the energy price cap by 54% in April, equivalent to around £700 for a household with average energy consumption (the cap had already increased 12% back in October 2021). May data showed CPI edging higher to 9.1% while the core CPI rate, which removes energy, fuel and food was 5.9%. RPI rose to 11.7%.

5.6 The labour market continued to show signs of tightness as employers struggled to fill vacancies with workers with skill sets matching their requirements. The unemployment rate for April fell to 3.8% and is now below pre-pandemic levels. Pay growth was 6.8% for total pay (including bonuses) and 4.2% for regular pay; however, adjusted for inflation, growth in total pay was just 0.4%, whilst regular pay fell 2.2%.

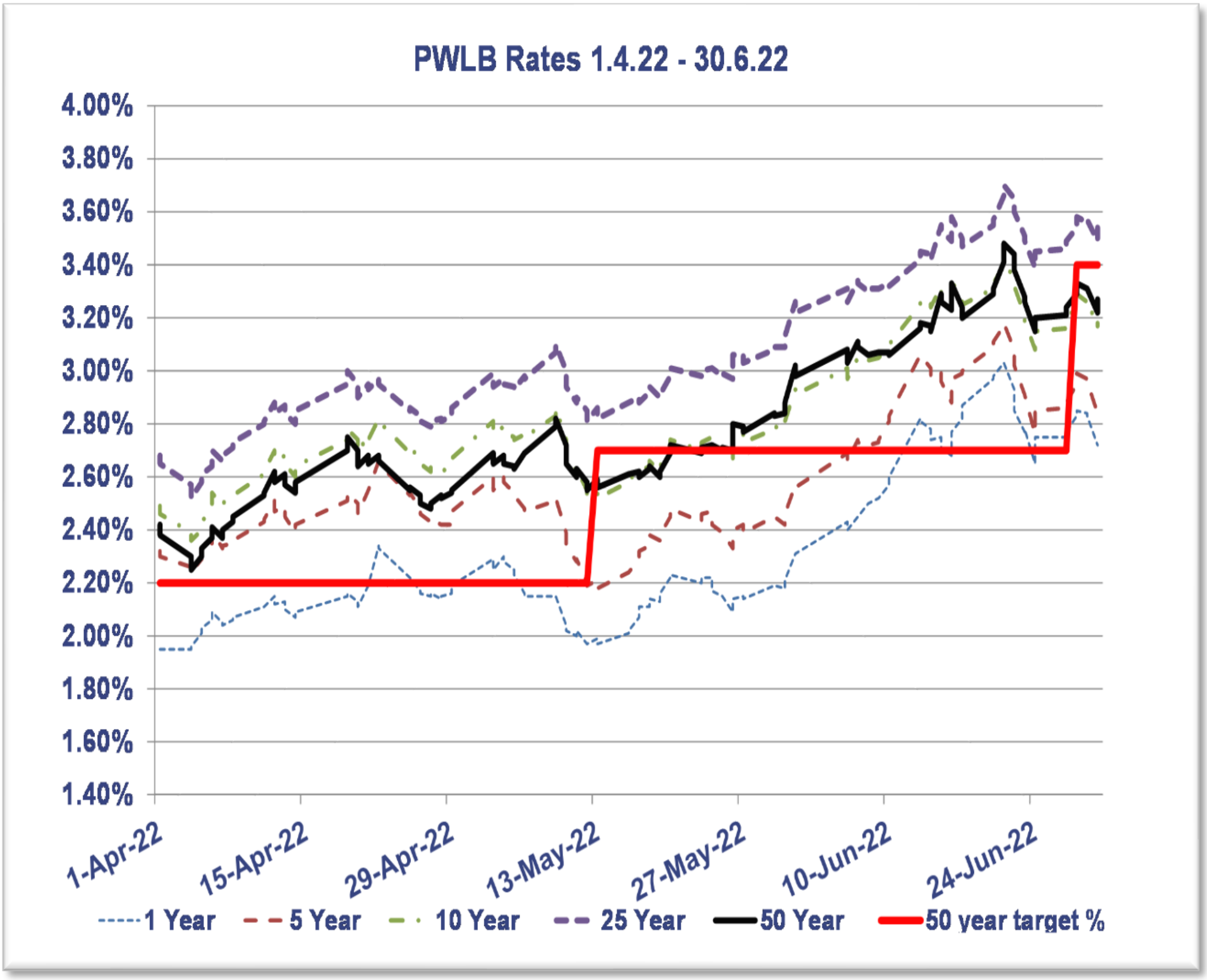
5.7 Unsurprisingly, with disposable income squeezed and another energy cap increase due in October, consumer confidence plummeted to the level last seen during the 2008/09 financial crisis. Quarterly GDP growth was 0.8% in the January-March quarter and the Bank of England now expects a decline of 0.3% in Q2 2022.

5.8 Having increased interest rates by 0.25% in April, the Bank of England's Monetary Policy Committee on the 15th of June 2022 voted 6-3 to increase the official Bank Rate by 0.25% to 1.25%. Those members in the minority preferred to increase Bank Rate by 0.5%. Rises in the input and output producer price measures suggest further inflationary pressure is in the pipeline. The Bank of England is therefore unlikely to become complacent, so further rate rises look likely in the near term.

5.9 Annual inflation in the US rose to 8.6% in May, the highest in nearly 40 years. The Federal Reserve also stepped up its fight against inflation with a 0.5% hike in rates in May followed by a further increase of 0.75% in June, the latter its most aggressive hike since 1994 and higher than markets expected, taking policy rates to a range of 1.5% - 1.75%.

PWLB maturity certainty rates year to date to 30th June 2022

5.10 Gilt yields and PWLB rates were on a rising trend between 1st April and 30th June. The 50 year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% before increasing to 2.70% in May before moving even higher to 3.40% in June.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	3.03%	3.18%	3.41%	3.70%	3.48%
Date	21/06/2022	21/06/2022	21/06/2022	21/06/2022	21/06/2022
Average	2.32%	2.58%	2.84%	3.08%	2.81%
Spread	1.08%	1.00%	1.05%	1.18%	1.23%

6 Compliance with Treasury and Prudential Limits

6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS. As at 30 June 2022, the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

Treasury Prudential Indicators	2022/23 Estimate Indicator	2022/23 Projected Outturn	RAG Status
Authorised limit for external debt (CS 4.2.4)	£143.0m	£143.0m	GREEN
Operational boundary for external debt (CS 4.2.4)	£130.0m	£130.0m	GREEN
Gross external debt (CS 4.2.2)	£78.0m	£51.67m	GREEN
Capital Financing Requirement (CS 2.3.4)	£109.7m	£96.0m	GREEN
Debt vs CFR under/(over) borrowing	£31.7m	£44.3m	GREEN
Investments (Average)	£3.0m	£3.0m	GREEN
Investment returns expectations	1.0%	0.96%	AMBER
Upper limit for principal sums invested for longer than 365 days			
Maturity structure of fixed rate borrowing - upper limits:			
Under 12 months	25%	25%	GREEN
12 months to 2 years	40%	40%	GREEN
2 years to 5 years	50%	50%	GREEN
5 years to 10 years	75%	75%	GREEN
10 years and above	100%	100%	GREEN
*Capital expenditure (CS 2.1.3)			
General Fund	£35.7m	2.1m	AMBER
HRA	£18.3m	1.1m	AMBER
Commercial Activities/ non- financial investments	£3.1m	0.3m	AMBER
Ratio of financing costs to net revenue stream (CS 8.1.1):			
Proportion of Financing Costs to Net Revenue Stream (General Fund)	4.2%	4.2%	GREEN
Proportion of Financing Costs to Net Revenue Stream (HRA)	11.0%	11.0%	GREEN

*Key: CS – 2022/23 Capital Strategy; *Revised Capital Programme including 2021/22 slippages*

7. Non-treasury investments

The non-treasury investment activity includes loans to Council-owned companies or the purchase of property assets for the purpose of income generation.

7.1 **Lewes Housing Investment Company** -

Lewes Housing Investment Company (LHIC) is a wholly owned subsidiary of the Council. Incorporated in July 2017, LHIC was established to acquire, improve, and let residential property at market rents. A capital allocation of £2.5m was approved as potential commercial loan funding to facilitate property purchases. At 31 March 2022, a total of £2,065 working capital has been drawn down. The balance has been rolled forward into 2022/23. There have been no transactions during the period 1 April 2022 to 30 June 2022.

7.2 **Aspiration Homes LLP** –
Aspiration Homes LLP (AH) is a limited liability Partnership owned equally by Lewes District Council and Eastbourne Borough Council. Incorporated in June 2017, AH was established for the purpose of developing housing to be let at affordable rent. A capital allocation of £17.5m was approved as potential commercial loan funding to AH to facilitate property purchases. At 31 March 2022, a total of £3,043,855 has been drawn down for the purchase of Gray's School, Newhaven, and Caburn Field, Ringmer. The balance has been rolled forward into 2022/23.

A working Capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 31 March 2022, £20,000 of the working Capital facility loan had been drawn down. There have been no transactions during the period 1 April 2022 to 30 June 2022.

8. Environmental, Social and Governance Investment - update

8.1 The Cabinet at its meeting on 3 February 2022 approved the 2022/23 Treasury Management and Investment Strategy, which include Non-Specified investments in Green Energy Bonds and/or other ESG products that met the Council's internal and external due diligence criteria.

8.2 While a wide range of ESG investment are currently limited, there are expectation to see more banks and funds providing specific products over the coming years. As this area continues to develop and become more prominent, the Council in conjunction with the treasury management advisor (Link Asset Services) will continue to monitor ESG investment opportunities within the parameters of the Council's counterparty criteria and in compliance with the DLUHC Investment Guidance (i.e., prioritising security, liquidity before yield).

8.3 The Council holds a £5m deposit balance within the Standard Chartered Bank Sustainable Time Deposit, which function just like a normal Time Deposit. The difference is in the sustainable impact where the deposits are referenced against qualifying sustainable loans and projects of Standard Chartered that meet their Green and Sustainable Product Framework. These loan and project assets include green financing, sustainable infrastructure projects, microfinance, and access to finance for SME business banking. It addresses the long-term environmental challenges such as climate change, health, and financial inclusion plus being dedicated towards financing sustainable loans and projects aligned to the United Nation's Sustainable Development Goals.

9. Economic Background

9.1 As expected, the Bank of England's Monetary Policy Committee continue to increase the Bank Rate and a detailed economic commentary on developments during period ended 30 June 2022 is attached as **Appendix A**.

10. Financial Appraisal

10.1 All relevant implications are referred to in the above paragraphs.

11. Risk Management Implications

11.1 The risk management implication associated with this activity is explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

12. Equality Analysis

12.1 This is a routine report for which detailed Equality Analysis is not required to be undertaken.

13. Legal Implications

13.1 There are no legal implications from this report.

14. Environmental sustainability implications

14.1 This report notes the treasury management performance of the Council. There are no anticipated environmental implications from this report that would affect the Council's sustainability policy. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the treasury activities and highlights compliance with the Council's policies previously approved by members.

15. Appendices

15.1 Appendix A - Detailed economic commentary

15.2 Appendix B - 2022/23 Q1 Capital Programme

15.3 Appendix C - GLOSSARY - Local Authority Treasury Management Terms

16. Background Papers

16.1 Treasury Strategy Statements 2022/23.

Appendix A

Link Treasury Services Limited - Detailed economic commentary on developments during quarter ended 30th June 2022

1 Economics update

- The second quarter of 2022 saw:
  - GDP fall by 0.1% m/m in March and by 0.3% m/m in April;
  - An easing rather than a collapse in the composite Purchasing Managers Index (PMI);
  - A further rise in Consumer Price Index (CPI) inflation to a new 40-year high of 9.1% in May;
  - The first signs that the weakening in economic activity is filtering into a slightly looser labour market;
  - Bank Rate rise to 1.25%, taking it to its highest level since the Global Financial Crisis;
  - Gilt yields caught up in the global surge in bond yields triggered by May's strong rise in US inflation;
  - Rising global bond yields and concerns over growth drive a global sell-off in equity markets.
- Following the 0.1% m/m fall in GDP in March and the 0.3% m/m contraction in April, the economy is now moving towards a recession (two quarters of falling output in a row). Indeed, GDP would need to rise by 0.4-0.5% m/m in both May and June to prevent the economy from contracting in Q2 as a whole. That said, without the joint wind down of the COVID-19 Test and Trace and vaccination programme, GDP would have risen by 0.2% m/m and 0.1% m/m in March and April respectively. That's hardly strong, but it suggests the underlying momentum is not quite as weak as the headline figures imply.

- There is not much evidence that higher inflation and higher interest rates have yet become a big drag on activity. Services output did fall by 0.3% m/m in April. But output in consumer-facing services, conversely, rose by a solid 2.3% m/m in April. And although the Office for National Statistics (ONS) said that some of the 1.0% m/m fall in manufacturing output was linked to the drag on activity from higher prices, it also said that some of the 0.4% m/m drop in construction output in April was a drop back after the boost in the wake of February's Storm Eunice.

- The fact that the composite PMI didn't fall in June also suggests that in Q2 (Apr – June) real GDP has softened rather than collapsed. The S&P Global/CIPS all-sector PMI for June was unchanged from its level of 53.1 in May, signalling tepid but positive growth. According to the Lloyd's barometer, business confidence in May also remained remarkably resilient.

- Despite the fall in the GfK composite measure of consumer confidence to a new record low of -41 in June, April's £1.4bn rise in consumer credit suggests households appear to have turned to credit to support their spending as the cost-of-living squeeze has intensified. Meanwhile, the household saving rate held steady at 6.8% in Q1 in line with its long-term average and we expect households to lower their saving rate further when the bigger falls in real incomes come in Q2 and Q3 to cushion the blow to spending.

- The Chancellor's latest fiscal support of £10.3bn (0.5% of GDP), which comprised £15.3bn of handouts to households, partly funded by a £5bn tax on the profits of oil and gas producers, will help support GDP in the second half of the year. And with the Prime Minister and the Chancellor desperately needing to boost their popularity, some tax cuts may be announced in the Autumn Budget.
- There have been early signs that the recent weakening in economic activity is filtering through into a slightly looser labour market. The unemployment rate edged up from 3.7% in the three months to March to 3.8%. The single-month data showed that employment fell by 254,000 in April and the unemployment rate rose from 3.5% to 4.2%. And the upward march in the number of job vacancies slowed, with the three-month average only rising from 1.296m in April to 1.300m in May. A seasonal adjustment of the single-month data implies that vacancies fell in May for the first time since COVID-19 was rife in December.
- At the same time, a 1.8% m/m fall back in average earnings in April meant that the 3myy rate of earnings eased from 7.0% in March to 6.8% in April. And a lot of the 0.5% m/m rise in earnings excluding bonuses was probably due to the 6.6% rise in the National Living Wage on 1st April. The 3myy rate of earnings excluding bonuses stayed at 4.2%.
- That said, conditions in the labour market remain exceptionally tight. The unemployment rate is still close to its recent 47-year low, and there is the same number of unemployed people as job vacancies and at 6.8% in April, the 3myy rate of average earnings is at a 10-year high (although it is still falling in real terms) and is well above the 3.0-3.5% that is broadly consistent with the 2.0% inflation target (assuming that productivity growth is 1.0-1.5%).
- CPI inflation rose from 9.0% in April to a new 40-year high of 9.1% in May and it is not yet close to its peak. The increase in CPI inflation in May was mainly due to a further leap in food price inflation from 6.7% to a 13-year high of 8.5%. With the influence of increases in agricultural commodity prices yet to fully feed into prices on the supermarket shelves, we think that food price inflation will rise above 10% in September. And with two-thirds of the observation period for the Ofgem price cap having now passed, something like a 40% rise in utility prices is pretty much baked in the cake for October. The further rise in core producer price inflation, from 13.9% to 14.8%, suggests that core goods CPI inflation will probably rise to 14% before long. We think that will take CPI inflation to a peak of around 10.5% in October.
- The rise in services CPI inflation from 4.7% in April to 4.9% in May suggests that domestic price pressures are still strengthening.
- There now seems to be an even greater likelihood that second-round effects, whereby high inflation feeds back into higher price and wage expectations, keep inflation higher for longer. For some time, the Monetary Policy Committee (MPC) has placed a lot of weight on the results of the Bank of England's monthly Decision Maker Panel which asks businesses how they expect to change their prices and wages over the next year. May's survey revealed that businesses still expect to raise their selling prices by 6.0% and their wages by 4.8% over the next year. Meanwhile, XpertHR said that pay settlements across the economy stayed at a 30-year high of 4.0% in May. The government appears to be contemplating raising public sector pay by up to 5%. And the 7.1% pay rise granted to some railway workers sets a high bar for the negotiations that led to train strikes across large parts of the country in mid-June.

- The MPC has now increased interest rates five times in as many meetings and raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed raised rates by 75 basis points (bps) in June and a handful of other central banks have recently raised rates by 50bps, the Bank of England's action is relatively dovish. The MPC's decision not to follow the Fed and raise rates by more makes some sense. The UK's status as a larger 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.
- But the MPC's new guidance is that if there are signs of "more persistent inflationary pressures" it will, "if necessary, act forcefully in response". We expect the MPC to continue to raise rates in steps of 25bps rather than 50bps. We think the MPC will raise rates from 1.25% now to a peak of 2.75% next year. That's higher than the peak of 2.00% forecast by economists, but lower than the peak priced into the financial markets.
- Gilt yields have been 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. And in response to signs that central banks (particularly the US Fed) are going to raise interest rates faster to get on top of inflation, we now think that 10-year gilt yields will reach a peak of 2.70% (up from 2.39% currently) this year and into 2023.
- While the S&P 500 is 8.4% below its level a month ago, the FTSE 100 is 5.7% below it. Part of the sell-off has been driven by the rapid rise in global bond yields and the resulting downward pressure on equity valuations as well as concerns over economic growth.
- Finally, the pound has already weakened from $1.37 and €1.21 earlier this year to $1.21 and €1.16. A lot of these moves have been driven by concerns over the outlook for the global economy and the resulting poor performance of risky assets, which has increased the demand for the dollar relative to sterling. If interest rates rise faster and further in the US than in the UK, rate differentials and a worsening in risk appetite will push the pound even lower, from $1.21 now to $1.18 by the end of 2022. We don't expect the pound to fall by as much against the euro (from €1.16 to €1.14 next year). But once global inflation and global interest rates peak, the pound will probably benefit from the return of risk appetite. It may rise to $1.25 by the end of 2023 and to $1.30 by the end of 2024.
- After the Bank of England became the first major western central bank to put interest rates up in this upswing in December, it has quickly followed up its first 0.15% rise by a further four 0.25% rises to 1.25%, in what is very likely to be a series of increases repeated throughout the rest of 2022 and into 2023.

Appendix B

THE CAPITAL PROGRAMME 2022/23	Original Programme 2022/23	2021/22 Underspend B/F	Cabinet Approved variations	Revised 2022/23 Programme	Q1 Actual Spend 2022-23	Q1 Variance 2022/23
	£	£	£	£	£	£
HRA HOUSING INVESTMENT CAPITAL PROGRAMME						
Construction of New Dwellings						
- New Acquisitions & New Build	9,336,000	3,938,040	-	13,274,040	-	13,274,040
- Newhaven Police Station Redevelopment		-	-	-	612,951	- 612,951
- Newhaven Fire Station Redevelopment		-	-	-	750	- 750
-The Lynchetts, Lewes		-	-	-	5,155	- 5,155
- Oakfield House, Plumpton Green		-	-	-	4,754	- 4,754
Improvements to Stock	3,565,000	1,470,144	-	5,035,144	-	5,035,144
- Heating Improvement Programme	-	-	-	-	119,699	- 119,699
- Roofing & Chimney Works	-	-	-	-	240	- 240
- Structural Works	-	-	-	-	52,072	- 52,072
- Electrical T & R	-	-	-	-	74,176	- 74,176
Improvements to Stock - OTHER - not included in survey						
- Adaptations for Disabled Tenants	-	-	-	-	157,483	- 157,483
Total HRA Housing	**12,901,000**	**5,408,184**	**-**	**18,309,184**	**1,027,279**	**17,281,905**
GF HOUSING INVESTMENT CAPITAL PROGRAMME						
Mandatory Disabled Facilities Grants	1,487,000	172,238	-	1,659,238	24,200	1,635,038
Private Sector Housing Grants	-	-	-	-	-	-
- Emergency Repair Grants	-	-	-	-	515	- 515
Total General Fund Housing	**1,487,000**	**172,238**	**-**	**1,659,238**	**24,715**	**1,634,523**
Loans to Housing Companies						
- Aspiration Homes LLP (Loan for Delivery of Mixed Tenure Homes)	1,000,000	419,055	-	1,419,055	-	1,419,055
Total Loans to Housing Companies	**1,000,000**	**419,055**	**-**	**1,419,055**	**-**	**1,419,055**
TOTAL HOUSING	**15,388,000**	**5,999,477**	**-**	**21,387,477**	**1,051,994**	**20,335,483**
GENERAL FUND NON HOUSING CAPITAL PROGRAMME						
JTP	-	-	-	-		-
Recovery and Reset Programme	430,000	621,736	-	1,051,736	-	1,051,736
Total JTP	**430,000**	**621,736**	**-**	**1,051,736**	**-**	**1,051,736**
Regeneration						
Commercial Property Acquisition & Development	2,000,000		-	2,000,000	-	2,000,000
North Street Quarter, Lewes						
NSQ - North Street Quarter	300,000	- 71,614	-	228,386	-	228,386
NSQ - Springman House	100,000		-	100,000	-	100,000
Asset Development Newhaven (November 2017) (September 2018)	-	652,932	-	652,932	-	652,932
Newhaven High Street- Newhaven Re-imagining	4,165,870	3,163,706	-	7,329,576	325,723	7,003,853
Construction of Avis Way Depot, Newhaven (July 2018)	1,300,000	32,680	-	1,332,680	-	1,332,680
The Sidings, Railway Quay, Newhaven	-	154,417	-	154,417	21,784	132,633
- UTC (Newhaven)	1,534,090	724,350	-	2,258,440	503,023	1,755,417
Caburn House, Lewes Refurbishment	170,000	90,376	-	260,376	176,548	83,828
The Friars Redevelopment, Lewes	1,000,000	-	-	1,000,000	-	1,000,000
Re-connecting our Town: Pedestrian Gateway	3,906,510	307,951	-	4,214,461	94,517	4,119,944
Re-connecting our Town: Wayfinding & Visitor Trails	-	-	-	-	5,800	- 5,800
An Active Community: Fort Road Recreation Ground	-	-	-	-	8,974	- 8,974
An Active Community: Newhaven Football Club	-	-	-	-	215,999	- 215,999
Destination Newhaven: Newhaven Port	-	-	-	-	41,500	- 41,500
Newhaven Fishing Landing Stages:	2,183,480	810,380	-	2,993,860	-	2,993,860
Unit 7 Oak Estate – Newhaven Processing Facility	-	-	-	-	672,100	- 672,100
Newhaven West Beach Restaurant	-	-	-	-	-	-
Total Regeneration	**16,659,950**	**5,865,178**	**-**	**22,525,128**	**2,065,968**	**20,459,160**
Asset Management						
Asset Management Block Allocation	1,920,000	452,928	-	2,372,928	-	2,372,928
Lewes (Stanley Turner Recreation Ground Improvements) (Feb 2018)	-	-	-	-	3,549	- 3,549
Car Parks - (Capital Maintenance Programme)	-	-	-	-	4,810	- 4,810
Flint Walls Repairs (November 2015)	-	-	-	-	16,200	- 16,200
Newhaven Fort Refurbishment	-	-	-	-	1,155	- 1,155
Public Conveniences	-	-	-	-	22,918	- 22,918
Changing Places Toilets	-	-	-	-	-	-

Total Asset Management	**1,920,000**	**452,928**	**-**	**2,372,928**	**48,631**	**2,324,297**
Indoor Leisure Facilities - Major Repairs and Improvements (Block	80,000	461,322	-	541,322	-	541,322
Lewes, Peacehaven & Downs (Leisure Centres),Seahaven Swim and	641,200	-	-	641,200	-	641,200
Seahaven Swim and Fitness, Newhaven Priority Works	-	-	-	-	7,864	- 7,864
Total Indoor Leisure Facilities	**721,200**	**461,322**	**-**	**1,182,522**	**7,864**	**1,174,658**
Local Energy Schemes	2,000,000	-	-	2,000,000	-	2,000,000
OVESCO- Ouse Valley Solar Farm	-	62,000	-	62,000	38,000	24,000
Total Energy Schemes	**2,000,000**	**62,000**	**-**	**2,062,000**	**38,000**	**2,024,000**
Community Infrastructure	900,000	-	-	900,000	7,389	892,611
Total Community Infrastructure Levy (CIL)	**900,000**	**-**	**-**	**900,000**	**7,389**	**892,611**
Service Delivery						
Vehicle & Plant Replacement Programme	227,000	89,660	720,000	1,036,660	-	1,036,660
- Other Equipment	-	-	-	-	15,058	- 15,058
- MOT Test Equipment (Roller Brake Tester and Headlamp Aligner)	-	-	-	-	7,485	- 7,485
Total Service Delivery	**227,000**	**89,660**	**720,000**	**1,036,660**	**22,543**	**1,014,117**
Specialist	136,000	57,225		193,225	-	193,225
Total Specialist Projects	**136,000**	**57,225**	**-**	**193,225**	**-**	**193,225**
Coastal Defence Works	100,000	394,280	-	494,280	-	494,280
Total Coastal Defence Works	**100,000**	**394,280**	**-**	**494,280**	**-**	**494,280**
Parks, Pavilions etc - Remedial works	962,300	44,077	-	1,006,377	-	1,006,377
Open Space	180,000	40,010	-	220,010	-	220,010
New Crematorium & Green Burial Facility (Biodiversity)	2,000,000	20,000	-	2,020,000	-	2,020,000
Total Parks, Pavilions, Open Space- Biodiversity	**3,142,300**	**104,087**	**-**	**3,246,387**	**-**	**3,246,387**
IT Block Allocation	150,000	253,615	-	403,615	-	403,615
				-		
Finance				-		
Finance Transformation (Feb 2019)	150,000	179,310	-	329,310	-	329,310
Total General Fund Non Housing Capital Programme	**26,536,450**	**8,541,341**	**720,000**	**35,797,791**	**2,190,395**	**33,607,396**
				-		-
TOTAL OVERALL CAPITAL PROGRAMME	**41,924,450**	**14,540,818**	**720,000**	**57,185,268**	**3,242,389**	**53,942,879**

Appendix C

GLOSSARY

Local Authority Treasury Management Terms

Terms	Descriptions
Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets
Borrowing	Usually refers to the stock of outstanding loans owed, and bonds issued.
CFR	Capital Financing Requirement. A council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with capital expenditure and decreases with capital finance and MRP.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
Collective investment scheme	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
Covered bond	Bond issued by a financial institution that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds.
CPI	Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee.
Deposit	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.

Terms	Descriptions
Diversified income fund	A collective investment scheme that invests in a range of bonds, equity and property in order to minimise price risk, and also focuses on investments that pay income.
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DMADF	Debt Management Account Deposit Facility – a facility offered by the DMO enabling councils to deposit cash at very low credit risk. Not available in Northern Ireland.
DLUHC	Department for Levelling Up, Housing and Communities (*formerly known as Ministry of Housing, Communities & Local Government - MHCLG*).
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
Equity	An investment which usually confers ownership and voting rights
Floating rate note (FRN)	Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA
FTSE	Financial Times stock exchange – a series of indices on the London Stock Exchange. The FTSE 100 is the index of the largest 100 companies on the exchange, the FTSE 250 is the next largest 250 and the FTSE 350 combines the two
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
Income Return	Return on investment from dividends, interest and rent but excluding capital gains and losses.
GILT	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
LIBID	London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR.
LIBOR	London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms. Due to be phased out by 2022.

Terms	Descriptions
LOBO	Lender's Option Borrower's option
MMF	Money Market Funds. A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to Constant Net Asset Value (CNAV) and Low Volatility Net Asset Value (LVNAV) funds with a Weighted Average Maturity (WAM) under 60 days which offer instant access, but the European Union definition extends to include cash plus funds
Pooled Fund	Scheme in which multiple investors hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
PWLB	Public Works Loan Board – a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to councils and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
Quantitative easing (QE)	Process by which central banks directly increase the quantity of money in the economy to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money.
SONIA	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
Short-dated	Usually means less than one year
TMSS	Approved Council's Treasury Management Strategy Statement
Total return	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses.