Report to:	**Audit and Governance Committee**
Date:	**1 March 2023**
Title:	**Treasury Management – Q3 2022/23**
Report of:	**Homira Javadi, Chief Finance Officer**
Ward(s):	**All**
Purpose of report:	**To report on the activities and performance of the Treasury Management service during October to December 2022/23**
Decision type:	**Budget and Policy Framework**
Officer recommendation:	**The Committee is recommended to note the report of the Chief Finance Officer and the assurances contained within and agree that Treasury Management Activities for the period 1 October to 31 December 2022, have 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:	**Name: Ross Sutton** **Post title: Head of Financial Reporting** **E-mail: ross.sutton@lewes-eastbourne.gov.uk** **Telephone number: 01323 415449**

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1. Introduction

1.1. This Council's approved Treasury Strategy Statement requires the Audit and Governance 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 Governance Committee to receive and review a quarterly formal summary report detailing the recent Treasury Management activities, in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

1.3. In addition, Treasury Management updates are included in the quarterly performance management reports, considered by both the Cabinet and Scrutiny Committee. The regulatory environment places a much greater responsibility on Members for the review and scrutiny of treasury management policy and activities.

1.4. This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Governance Committee.

1.5. Treasury Management is an integral part of the Council's overall finances and the performance of this area is very important. Whilst individual years obviously matter, performance is best viewed on a medium / long term basis. The action taken in respect of the debt portfolio in recent years has been extremely beneficial and has resulted in savings. Short term gains might, on occasions, be sacrificed for longer term certainty and stability.

Annual Treasury Management training

1.6. In line with the requirements to ensure appropriate training for Councillors, a training session on the Treasury Management activities was delivered on Monday 24th October 2022, via Teams by the Council's treasury management advisors – Link Asset Services.

2. Annual Investment Strategy

2.1. The Treasury Management Strategy Statement (TMSS) for 2022/23 which includes the Annual Investment Strategy, was approved by the Full Council on Wednesday, 9 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 31 December 2022, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 2 days (11 days Q2) during the period.

3. Treasury Position as at 31 December 2022

3.1. The Council's debt and investment position is managed by treasury staff within Financial Services in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.

3.2. **Fixed Term Deposits pending maturity**

The following table shows the fixed term deposits held between 1 October to 31 December 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) rating.

Counterparty	Date From	Date To	Days	Principal £’000	Int. Rate %	Long-term rating
DMO	07/12/2022	03/01/2023	27	2,200,000	3.03	*
DMO	20/12/2022	03/01/2023	14	2,000,000	3.13	*
DMO	30/12/2022	03/01/2023	4	4,700,000	3.28	*

** UK Government body and therefore not subject to credit rating*

3.3. Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured between 1 October to 31 December 2022, in maturity date order. It is important to note that the table includes sums re-invested.

Counterparty	Date From	Date To	Days	Principal £’000	Int. Rate %	Long-term rating
DMO	03/10/2022	18/10/2022	15	3,000,000	1.95	*
DMO	07/10/2022	18/10/2022	11	3,500,000	1.95	*
DMO	01/11/2022	22/11/2022	21	4,500,000	2.46	*
DMO	07/11/2022	21/11/2022	14	2,500,000	2.65	*
DMO	30/11/2022	20/12/2022	20	9,000,000	2.88	*
DMO	05/12/2022	19/12/2022	14	2,000,000	2.94	*
DMO	15/12/2022	19/12/2022	4	3,000,000	3.20	*

** UK Government body and therefore not subject to credit rating*

3.4. 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 £2.37m (£2.56m Q2) generating interest of approximately £13,900 (£7,200 Q2).

	Balance at 31 Dec 2022 £’000	Average balance £’000	Interest rate %
Lloyds Current Account	629	1,592	0.01
Lloyds Call Account	10	1,761	0.40
Santander Reserve Account	5,000	3,769	1.36

4. TM Borrowing – Q3 2022/23

4.1. In taking borrowing decision, the Council carefully considered achieving best value, the risk of having to borrow at higher rates at a later date, the carrying cost of the difference between interest paid on such debt and interest received from investing funds which would be surplus until used, and that the Council could ensure the security of such funds placed on temporary investment.

- **Rescheduling** – no debt rescheduling was carried out during the quarter as there was no financial benefit to the Council.
- **Repayment** – none between 1 October and 31 December 2022

4.2. **Borrowing** – The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. No new loans were drawn down from PWLB (Public Works Loan Board) during the quarter to fund the net unfinanced capital expenditure and/or to replace maturing loans. Various temporary loans were taken to cover cash flow requirements. All loans drawn were for fixed rate as detailed within the table below.

Lender – Temporary Debt	£m	Start Date	End Date	Rate
Loans held:				%
West Midlands Combined Authority	10,000	21/01/2022	20/01/2023	0.25
Hyndburn BC	2,000	28/02/2022	27/02/2023	0.70
Northern Ireland Housing Executive	10,000	20/06/2022	19/06/2023	1.20
West Midlands Combined Authority	5,000	23/05/2022	09/05/2023	1.20
West Midlands Combined Authority	10,000	25/07/2022	27/06/2023	1.80
Tendring DC	5,000	01/11/2022	01/08/2023	3.90
Northern Ireland Housing Executive	10,000	29/11/2022	28/04/2023	4.00
Loans repaid:				
Solihull MBC	5,000	20/09/2022	20/12/2022	2.35

5. Interest Rate Forecast

5.1. 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 below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

5.2. The latest forecast, made on 19th December, 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 also providing a limited package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices. PWLB rates reflect a less elevated yield curve than prevailed under the Truss/Kwarteng government, and the 17th of November Autumn Statement made clear the government's priority is the establishment and maintenance of fiscal rectitude. In addition, 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.

5.3. 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	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous forecasts, Link 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.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

5.4. Our central forecast for interest rates was most recently updated on 19th December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the Government's policy of emphasising fiscal rectitude will probably mean Bank Rate will not need to increase to further than 4.5%.

5.5. Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

5.6. The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

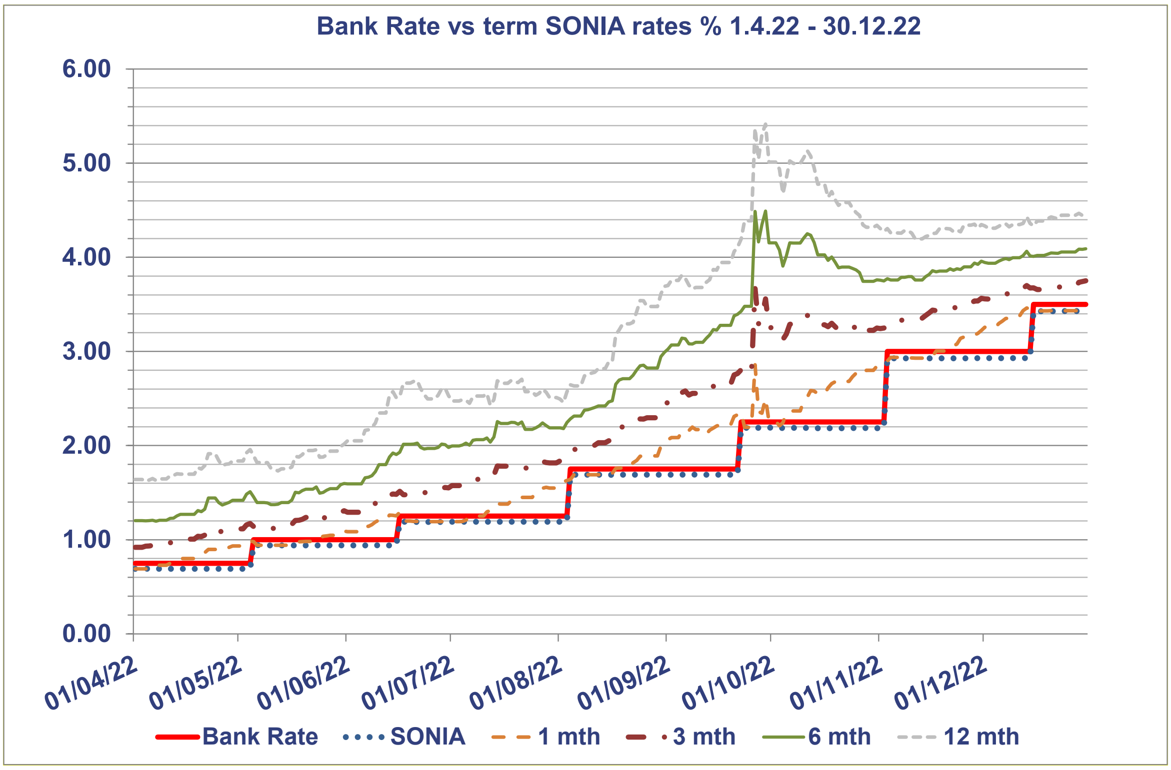
5.7. Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure.

5.8. In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact).

5.9. On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB rates - year to date - 31 December 2022

5.10. The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%. The markets are viewed as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.



Financial Year to Quarter Ended 31/12/22

	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	3.50	3.43	3.46	3.75	4.49	5.41
High Date	15/12/2022	28/12/2022	15/12/2022	30/12/2022	29/09/2022	29/09/2022
Low	0.75	0.69	0.69	0.92	1.20	1.62
Low Date	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022	04/04/2022
Average	1.79	1.73	1.92	2.28	2.73	3.23
Spread	2.75	2.74	2.77	2.83	3.29	3.79

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 31 December 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	**Note**	**2022/23 Estimate Indicator**	**2022/23 Projected Outturn**	**RAG Status**
Authorised limit for external debt (Capital Strategy (CS) 4.2.4)		£223m	£223m	GREEN
Operational boundary for external debt (CS 4.2.4)		£202m	£202m	GREEN
Gross external debt (CS 4.2.2)	1	£185m	£167m	GREEN
Capital Financing Requirement (CS 2.3.4)	1	£202m	£191m	GREEN
Debt vs CFR (Capital Financing Requirement) under / (over) borrowing	1	£17m	£24m	GREEN
Investment balances (average) – call accounts		£3.0m	£5.6m	GREEN
Investment return (average) – term deposits		0.25%	2.02%	GREEN
Upper limit for principal sums invested for longer than 365 days		£2m	£2m	GREEN
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
Revised Capital expenditure (CS 2.1.3)				
General Fund	2	£9.2m	£8.7m	GREEN
HRA (Housing Revenue Account)	2	£16.5m	£14.5m	GREEN
Regeneration (Levelling Up Fund)	2	£4.1m	£4.1m	GREEN
Commercial Activities/ non- financial investments	2	£3.1m	£2.1m	GREEN
Ratio of financing costs to net revenue stream (CS 8.1.1):				
Proportion of Financing Costs to Net Revenue Stream (General Fund)		13.4%	12.9%	GREEN
Proportion of Financing Costs to Net Revenue Stream (HRA)		10.7%	10.9%	GREEN

Note 1 - the under-borrowing level has increased by £7m due to lower external debt and a reduction in the Capital Financing Requirement (CFR) as capital expenditure has been re-profiled to 2023/24. Due to higher current PWLB borrowing rates, external borrowing has been deferred in preference of maximising the use of internal resources.

Note 2 - capital expenditure has been re-profiled to 2023/24 but remains within overall budget allocations and therefore a green status applies.

7. Non-Treasury Investments

7.1. The non-treasury investment activity includes the Council provision of a financial guarantee through its subsidiary company.

Investment Company Eastbourne Limited

7.2. Investment Company Eastbourne Limited (ICE) is a wholly owned subsidiary of the Council. ICE has entered into a contractual arrangement with a private limited company, Infrastructure Investments Leicester Limited (IIL), in respect of an investment property. ICE is acting as the principal guarantor for an external loan provided to IIL and also providing a rental guarantee.

ICE (subsidiary) and IIL (joint venture) are consolidated in the Group financial statements of Eastbourne Borough Council. Joint control is exercised by virtue of a Development and Management Agreement (DAMA). In return for providing the guarantees, ICE receives a £0.3m pa (indexed) guarantee fee.

The ICE Board of Directors met on 5th December 2022 and reviewed key financial monitoring (including the guarantee fees payment schedule) in line with the agreed governance arrangements/agreement (DAMA).

8. Economic Background

8.1. The Bank of England's Monetary Policy Committee increased the Bank Rate by 0.75% to 3.0% on 3 November 2022 and by a further 0.5% to 3.5% on 15 December 2022. A detailed economic commentary on developments during period ended 31 December 2022 is attached as **Appendix A**.

9. Financial Appraisal

9.1. Financial appraisals were considered as part of the overall Capital Programme which forms part of the Treasury Management Strategy.

10. Legal Implications

10.1. Comment from the Legal Services Team is not necessary for this routine monitoring report.

11. Risk management implications

11.1. Risks relating to the timing of borrowing and terms of borrowing are considered and advice is provided by Link. Risk management is considered for each of the schemes within the Capital Programme.

12. Equality analysis

12.1. Equality issues are considered.

13. Environmental sustainability implications

13.1. 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.

14. Appendices

14.1. Appendix A - Detailed Economic Commentary
Appendix B - Glossary: Treasury Management Terms

15. Background Papers

15.1. Treasury Management Strategy Statements 2022/23.

APPENDIX A

Link Treasury Services Limited - Detailed economic commentary on developments during quarter ended 31st December 2022

Economic Update

- The third quarter of 2022/23 saw:
  - A 0.5% m/m rise in GDP in October, mostly driven by the reversal of bank holiday effects;
  - Signs of economic activity losing momentum as households increased their savings;
  - CPI inflation fall to 10.7% in November after peaking at 11.1% in October;
  - A small loosening in the labour market which pushed the unemployment rate up to 3.7% in October;
  - Interest rates rise by 125bps over Q4 2022, taking Bank Rate to 3.50%;
  - Reduced volatility in UK financial markets but a waning in global risk appetite.
- GDP fell by 0.3% q/q in Q3 2022 (ending 30th September), which probably marked the start of the UK recession. About half of that decline was the effects of the extra bank holiday in September for the Queen's funeral. The unwinding of those bank holiday effects meant that GDP rebounded in October and explained at least 0.3 percentage points (ppts) of the 0.5% m/m rise. Accordingly, if GDP were to avoid falls of more than 0.2% m/m in November and December, then GDP over Q4 as a whole could avoid a contraction, which would prevent a recession in 2022.
- However, at 49.0 in December, the flash composite activity PMI stayed below the "boom-bust" level of 50 and pointed to a small 0.1% q/q contraction in GDP in Q4. Consumer confidence was -42 in December and stayed close to its record low of -49 in September. Strike action could be another small drag and may mean that GDP is 0.0% to 0.5% lower than otherwise in December. GDP is projected to contract marginally in Q4 by around 0.1% q/q.
- Meanwhile, the 0.4% m/m fall in retail sales volumes in November only reversed some of the 0.9% m/m rise in October. That left sales volumes 4.5% below their level at the start of the year. Indeed, the rise in the household saving rate from 6.7% in Q2 to 9.0% in Q3 implied that higher interest rates are encouraging households to save more. And a larger-than-usual £6.2bn rise in cash in household bank accounts in October may imply households have started to increase their precautionary savings.
- There were signs that the labour market was loosening gradually going into the final quarter of 2022. Although employment in the three months to October rose by 27,000, the fall in the composite PMI employment balance in December took it into contractionary territory and suggests that labour demand will cool. Meanwhile, labour supply improved as inactivity fell by 76,000 in the three months to October. That helped drive a rise in the unemployment rate from 3.6% in September to 3.7% in October. The number of job vacancies in November fell for the sixth consecutive month and were 18% below their peak in May.

- Crucially, though, wage growth remained resilient. Average earnings growth, excluding bonuses, grew by 0.7% m/m in October, above the 2022 monthly average of 0.5% m/m. That drove the 3myy rate up to 6.2%, well above the rates of 3-3.5% consistent with inflation at its 2% target. Wage growth is likely to slow gradually in the coming months as the labour market loosens further but if extensive strike action is successful in achieving large pay increases, then wage growth could be a bit stronger for longer.
- CPI inflation peaked in October at a 41-year high of 11.1% and fell to 10.7% in November. Goods price inflation, which is driven largely by global factors, has peaked. The sharp rises in energy prices in 2022 mean that energy price inflation will fall sharply in 2023. Meanwhile, the large fall in agricultural prices since May means that food price inflation should start to decline soon. What's more, upward pressure on goods price inflation from global supply shortages is fading quickly.
- Domestic inflation pressures also eased in Q4. The 0.2% m/m rise in core CPI inflation in November was the smallest monthly gain since August 2020 and drove a fall in core CPI inflation from 6.5% in October to 6.3% in November. Services CPI inflation was stable at 6.3% in November despite the resilience of wage growth. And the easing of price expectations in the Bank of England's Decision Maker Panel survey in November suggests that inflation may become less persistent.
- The Chancellor's Autumn Statement on 17th November succeeded in restoring the government's fiscal credibility in the eyes of the financial markets without deepening the recession. The total fiscal consolidation package of £54.9bn (1.8% of GDP) in 2027/28 made the outlook for fiscal policy much tighter than at the beginning of Q4. The package was heavily backloaded, with net handouts of £3.8bn (0.15% of GDP) in 2023/24 and £0.3bn (0.01% of GDP) in 2024/25, and most of the tightening kicking in after 2024/25. The largest fiscal support was the extension of the Energy Price Guarantee for another 12 months, until April 2024, although at a higher price cap of £3,000 from April 2023 rather than £2,500. At the same time, Chancellor Hunt loosened the fiscal rules by requiring debt as a percentage of GDP to be falling in five years' time, rather than three. The Office of Budget Responsibility (OBR) estimated that the Chancellor will meet this new rule with a slim £9.2bn (0.3% of GDP) to spare.
- With fiscal policy now doing much less to fan domestic inflation pressures, we think Bank Rate will peak at 4.50%, or at least close to that figure. Despite stepping up the pace of policy tightening to a 75-basis point (bps) rate hike in November, taking Bank Rate from 2.25% to 3.00%, the MPC's communication was dovish. The MPC pushed back heavily against market rate expectations, which at the time were for Bank Rate to peak at 5.25%. The Bank's new forecasts predicted a deeper and longer recession than the analyst consensus, of eight quarters and with a peak-to-trough fall in real GDP of 2.9%.
- The Bank sounded dovish again in December when it slowed the pace of tightening with a 50bps rate rise, from 3.00% to 3.50%. Two members, Dhingra and Tenreyro, voted to leave rates unchanged, judging that the current level of Bank Rate was sufficient to bring inflation back to target. That said, the rest of the MPC appeared to suggest that further rate hikes would be necessary. We expect that the majority of the MPC will need to see stronger signs that activity is slowing, the labour market is loosening, and wage growth is slowing before stopping rate rises.

As such, we expect that the MPC will deliver three further rate hikes in February, March and May, taking Bank Rate to a peak of 4.50% but with the pace of increase reducing to 25bps in March and May.

- Gilt yields have fallen sharply since their highs following the "mini-budget" on 23rd September as government fiscal credibility has been largely restored with the resignation of Truss-Kwarteng and the fiscal consolidation package announced at the Autumn Statement on 17th November. Indeed, the 10-year yield fell from a peak of 4.55% to about 3.60% now, while the 30-year yield fell from 5.10% to 3.90%. Admittedly, yields rose by around 50bps in December, partially on the back of a global rise in yields. But if we are right in thinking Bank Rate will fall back in 2024 and 2025 then gilt yields will probably fall over the next two years, with the 10-year yield slipping from around 3.60% now to 3.30% by the end of 2023 and to 2.80% by the end of 2024.
- Lower volatility in gilt markets in Q4 meant that the Bank of England was able to stop its purchases of long-term gilts for financial stability reasons as planned on 14th October. It was also able to begin active gilt sales in November, albeit with a focus on shorter dated gilts. So far quantitative tightening has had little influence on short-term money markets. But as it is still an experiment, the risk of a widespread tightening in financial conditions remains.
- The restoration of fiscal credibility boosted the pound and the FTSE 100 early in Q4. While much of the benefit passed in the first half of Q4, sterling continued to rally against a softer dollar. Our colleagues at Capital Economics do not think that the global recession is fully priced into markets, and so expect a further fall in risk appetite to boost safe haven demand for the dollar and weigh on the pound. They are expecting the pound to fall from $1.19 now to $1.10 in mid-2023, before climbing to $1.15 by the end of 2023 as the prospect of lower interest rates and a recovery in global economic growth buoys equity prices.
- Through December, the rally in the FTSE 100 petered out as investors have become increasingly concerned by the prospect of a global recession. However, the relatively dovish tone of the Bank of England, compared to the Federal Reserve and the ECB meant that UK equities held up better than other developed market indices. Indeed, at 7,452 at the December month end, the FTSE 100 is only marginally below its peak of 7,568 on 5th December, while the S&P 500 is around 4% lower over the same period. Nevertheless, there is a great deal of uncertainty as to which direction markets will move in 2023 and at what pace. Continued volatility is anticipated.

MPC meetings 3rd November and 15th December 2022

- On 3rd November, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 75 basis points to 3.00%, and on 15th December moved rates up a further 50 basis points to 3.50%. The later increase reflected a split vote – six members voting for a 50 basis points increase, one for 75 basis points and two for none.

- Nonetheless, the UK government appears more settled now, with Rishi Sunak as Prime Minister, and Jeremy Hunt as Chancellor. Having said that, a multitude of strikes across several public services and the continued cost-of-living squeeze is going to make for a difficult backdrop to maintain fiscal rectitude without pushing the economy into anything worse than a mild recession.
- Of course, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has led with increases of 425 basis points in 2022 and is expected to increase rates further in 2023. Similarly, the ECB has also started to tighten monetary policy, albeit from an ultra-low starting point, as have all the major central banks apart from Japan (although the BoJ has "tightened" its policy by widening the accepted yield levels for 10yr JGBs, from 0.25% to 0.5% on 20th December). Arguably, though, it is US monetary policies that are having the greatest impact on global bond markets.
- What happens in Ukraine will also impact the global economy, but particularly in Europe. The search for alternative providers of energy, other than Russia, will take both time and effort. The weather will also play a large part in how high energy prices stay and for how long.

APPENDIX B

GLOSSARY

Treasury Management Terms

Terms	Descriptions
A (Fitch) Rating	Fitch Ratings publishes credit ratings that are forward-looking opinions on the relative ability of an entity or obligation to meet financial commitments. *A: High credit quality*. ‘A’ rating denotes expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
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.
CIPFA	The Chartered Institute of Public Finance and Accountancy (CIPFA) is a UK-based international accountancy membership and standard-setting body. The only such body globally dedicated to public financial management.
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.

Terms	Descriptions
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.
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 and 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.

Terms	Descriptions
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. Phased out in 2022.
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
MPC	The Monetary Policy Committee (MPC) decides what monetary policy action the Bank of England will take to keep inflation low and stable.
OBR	The Office for Budget Responsibility was created to provide independent and authoritative analysis of the UK's public finances. It is one of a growing number of official independent fiscal watchdogs around the world.
PMI	Purchasing Managers' Index (PMI) - A composite PMI is the weighted average of manufacturing and service sector PMIs for a given geography or economy, produced by IHS Markit. Weights are derived from official data relating to each sector's contribution to GDP (value added).
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.

Terms	Descriptions
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.
S & P 500	The S&P 500 (also known as the Standard & Poor's 500) is a registered trademark of the joint venture S&P Dow Jones Indices. It is a stock index that consists of the 500 largest companies in the U.S. and is generally considered the best indicator of how U.S. stocks are performing overall.
SME	SME finance is the funding of small and medium-sized enterprises and represents a major function of the general business finance market – in which capital for different types of firms are supplied, acquired, and costed or priced.
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.