

Treasury Management Activity Report Quarter 3 2022/23

1. **Introduction**

- 1.1 The Authority has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.
- 1.2 The Authority's treasury management strategy for 2022/23 was approved at the Council meeting on 24 February 2022. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.
- 1.3 CIPFA published its revised Treasury Management Code of Practice [the TM Code] and Prudential Code for Capital Finance in December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The principles within the two Codes took immediate effect although local authorities could defer introducing the revised reporting requirements within the revised Codes until the 2023/24 financial year if they wish. The Authority adopted the revised reporting requirements with effect from 2022/23.
- 1.4 Treasury risk management at the Authority is conducted within the framework of the TM Code. This Code now also includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

2. **External Context as at 11/01/2023 (provided by Arlingclose)**

- 2.1 **Economic background:** The conflict in Ukraine continued to keep global inflation elevated and the UK and global economic outlook remains weak. Political uncertainty in the UK improved in the later part of the period following a change in government to what financial markets perceived as being more fiscally prudent.
- 2.2 The economic backdrop during the April to December period continued to be characterised by high energy and commodity prices, high inflation and the associated impact on consumers' cost of living, as well as little likelihood that the Russia-Ukraine hostilities will end any time soon. China started to lift some of its zero-Covid policy restrictions at the end of the period causing a sharp increase in infections, but also leading to questions over potential under reporting of the number of cases by the Chinese government due to how it is counting the figures.
- 2.3 Central Bank rhetoric and action continued to remain robust. The Bank of England, Federal Reserve and the European Central Bank all increased interest rates over the period and committed to fighting inflation, even in the face of potential

recessions in those regions.

- 2.4 UK inflation remained high, but there were tentative signs it may have peaked. Annual headline CPI registered 10.7% in November, down modestly from 11.1% in October. RPI was 14% in November, down from 14.2% in October, but slightly above expectations for a larger fall to 13.9%.
- 2.5 The UK government under Rishi Sunak and Jeremy Hunt reversed some of the support to household energy bills announced under the previous Liz Truss leadership. The previous support package which would have seen average consumption cost £2,500 annually until 2024 was replaced by a less generous scheme which was only maintained at this level until March 2023, to be replaced by a higher cap of £3,000 per year for the typical household from April onwards.
- 2.6 The labour market remained tight but with some evidence of softening demand for new labour. The unemployment rate 3m/year for April-June was 3.8%, which declined to 3.6% in July-September and picked up again to 3.7% in October-December. The inactivity rate was 21.5% in the latest quarter, down by 0.1% compared to the previous period. Pay growth in October-December was 6.1% for both total pay (including bonuses) and for regular pay. Once adjusted for inflation, however, both measures fell by 2.7%.
- 2.7 Household disposable income remained under pressure, pushing consumer confidence down to a record low of -49 in September, but following months showed registered modest improvements to December's reading of -42. Quarterly GDP for the April-June quarter was revised upwards to 0.2% (from -0.1%), following revisions to household and government spending, but fell by -0.3% in the July-September quarter, a larger decline than the -0.2% predicted.
- 2.8 The Bank of England increased the official Bank Rate to 3.5% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with outsized hikes of 50bps in August and September, 75bps in November and then another 50bps in December. November's rise was voted by a majority of 7-2, with one MPC member preferring a 0.5% rise and another a 0.25% rise. The December vote was 6-3, with two members preferring to keep Bank Rate on hold at 3% while one member wanted a larger increase of 0.75%. Once again, the Committee noted that domestic inflationary pressures are expected to remain strong and continuing rhetoric around combating inflation means further rate rises are predicted.
- 2.9 After hitting 9.1% in June, annual US inflation slowed for a further five consecutive months, with relatively strong falls in October to 7.7% and then in November to 7.1%. The Federal Reserve continued raising interest rates over the period with four consecutive increases of 0.75% in June, July, September, and November respectively, followed by 50bp in December taking policy rates to a range of 4.25% - 4.50%.
- 2.10 Eurozone CPI inflation hit a record-high of 10.6% y/y in October following rises in each month over the period. In November inflation fell to 10.1%, the first decline since June 2021. Energy prices remained the largest upward contribution to the price increase. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in December following two consecutive

months of 0.75% rises, taking the deposit facility rate to 2% and the main refinancing rate to 2.5%.

- 2.11 Financial markets: Uncertainty remained a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates. In September and October, volatility in financial markets was significantly exacerbated by the fiscal plans of the then UK government (under Liz Truss), leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling. However, the subsequent change of government leadership to Rishi Sunak and Jeremy Hunt lead to gilts yields falling in November and December, albeit at higher levels compared to earlier in the period.
- 2.12 Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the calendar year at 3.62%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.67%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 4.03%. The Sterling Overnight Rate (SONIA) averaged 1.75% over the period.
- 2.13 Credit review: During the last few months of the period, in October Fitch revised the outlook on the UK sovereign to negative from stable following the largely unfunded fiscal package announced at the time, and a few weeks prior revised the outlook on HSBC to stable from negative.
- 2.14 Over the same timeframe Moody's also revised the UK sovereign to negative from stable, following swiftly after with a similar move for a number of local authorities and UK banks including Barclays Bank, National Westminster Bank (and related entities) and Santander.
- 2.15 Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks earlier in the year (May), Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.
- 2.16 Although local authorities remain under financial pressure, Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree caution is merited with certain authorities.
- 2.17 Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

3. Local Context

- 3.1 On 31 March 2022, the Authority had borrowing of £94.48m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while

usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.22 Estimated £m
General Fund CFR	41.4
HRA CFR	53.1
Total CFR	94.5
External borrowing	-64.8
Internal borrowing	-29.7
Total Borrowing	94.5

- 3.2 The treasury management position on 31 December 2022 and the change over the preceding nine months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.22 Balance £m	Movement £m	31.12.22 Balance £m	31.12.22 Rate %
Long-term borrowing	62.6	0.0	62.6	3.6%
Short-term borrowing	2.2	-1.6	0.6	4.5%
Total borrowing	64.8	-1.6	63.2	3.58%
Long-term investments	0.0	0.0	0.0	0
Short-term investments	31.0	19.3	50.3	3.01%
Cash and cash equivalents	18.0	-6.4	11.6	3.02%
Total investments	49.0	12.9	61.9	3.01%
Net borrowing	15.8	-14.4	1.3	

Borrowing

- 4.1 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority.
- 4.2 PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield, the Authority intends to avoid this activity in order to retain its access to PWLB loans.

- 4.3 The Authority currently holds £9.1m in commercial investments that were purchased prior to the change in the CIPFA Prudential Code. These commercial investments are primarily for local regeneration and growth with a secondary objective of financial return. Before undertaking further additional borrowing the Authority will review the options for exiting these investments.
- 4.4 As shown in table 1 the Authority has internally borrowed £29.7m. This internal borrowing foregoes a potential interest income rate of 3.01%. However, current one year external borrowing rates are 4.42%. Therefore, this demonstrates a net saving overall by internal borrowing. Internal borrowing is a treasury management practice whereby the authority delays the need to borrow externally by temporarily using cash it holds for other purposes (i.e., reserves, grants received in advance). An alternative option would be to borrow externally to fund this and use the reserves for investments.

5. Borrowing Strategy and Activity

- 5.1 As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
- 5.2 The cost of both long and short term borrowing has risen dramatically over the April – December period, with rates at the end of December around 2% - 3% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Particularly dramatic rises were seen in September after Liz Truss' 'mini-budget' included unfunded tax cuts and additional borrowing to fund consumer energy price subsidies: over a twenty-four-hour period some PWLB rates increased to 6%. Rates have now fallen from September peaks but remain well above recent historical norms. The PWLB 10 year maturity certainty rate stood at 4.59% at the end of 2022.
- 5.3 As the Authority has not undertaken any new borrowing this financial year and all of the £64.8m of existing loans are fixed rate. Therefore, the effects of these rate rises have not been felt. However, should the Authority decide to borrow in the next year the cost of borrowing will increase.
- 5.4 At 31 December 2022 the Authority held £63.2m in loans, a decrease of £1.6m since 31 March 2022. Outstanding loans on 31 December 2022 are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.22 Balance £m	Net Movement £m	31.12.22 Balance £m	31.12.22 Weighted Average Rate %	31.12.2022 Weighted Average Maturity (years)
Public Works Loan Board	56.3	-0.6	55.7	3.4%	16.0
Banks (LOBO)	3.5	0.0	3.5	4.8%	32.1
Banks (fixed-term)	3.9	0.0	3.9	4.7%	31.1
Local authorities (long-term)	0.0	0.0	0.0	0.0%	0.0
Local authorities (short-term)	1.0	-1.0	0.0	0.0%	0.0
Total borrowing	64.8	-1.6	63.2	0.0	17.8

5.5 There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

5.6 The Authority continues to hold £3.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the quarter.

5.7 In addition to the external borrowing shown above, based on estimates of the unaudited 2021/22 accounts the Authority internally borrowed £29.7m.

6. Treasury Investment Activity

6.1 CIPFA revised TM Code defines treasury management investments as those which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.

6.2 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances have ranged between £44m and £64 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.22 Balance	Net Movement	31.12.22 Balance	31.12.22 Income Return	31.12.22 Weighted Average Maturity days
	£m	£m	£m	%	
Banks & building societies (unsecured)	3.0	-0.9	2.1	1.9%	90.5
Government (incl. local authorities)	29.0	19.3	48.3	3.1%	94.1
Money Market Funds	17.0	-5.5	11.5	3.0%	1.0
Total investments	49.0	12.9	61.9	3.0%	76.7

- 6.3 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 6.4 By end December, the rates on DMADF deposits ranged between 3.3% and 3.6%. The return on the Authority's sterling Low Volatility Net Asset Value (LVNAV) Money Market Funds ranged between [0.9% - 1.1% p.a.] in early April and between [2.8% and 3.0%] at the end of December.
- 6.5 Given the risk of short-term unsecured bank investments, the Authority has invested in alternative and/or higher yielding asset classes as shown in table 4 above.
- 6.6 The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house*

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2022	4.00	AA-	41%	71	0.39%
30.09.2022	3.52	AA-	26%	65	1.67%
Similar LAs	4.34	AA-	57%	42	0.89%
All LAs	4.29	AA-	55%	17	1.47%

*based on position as at 30/09/2022 as data not available yet for 31/12/2022

- 6.7 The Authority had budgeted £9,000 in interest income from investments after deductions in 2022/23. Actual income received by 31 December 2022 was £662,000. We are now forecasting the risk adjusted interest received by 31 March 2023 to be £855,500 and after deductions income to be £743,500.
- 6.8 The £743,500 in interest will be split between the general fund and HRA in line with guidance which dictates the split be based upon notional investment balances of both funds at year end. The current estimate is that this will be 53% General Fund and 47% HRA.
- 6.9 Clearly this forecast is a large departure from the forecast at the start of the year going from £9,000 to £743,500. This change is as a result of two main factors. Firstly the rapidly changing wider economic scenario detailed in section 2 has led to an increase in interest rates which in turn has increased the return on the Authority's investment. Secondly, the Authority has a larger investment balance than forecasted due to delayed repayment of grants to central government, slippage in capital programmes and higher income than forecasted from income streams such as council tax and business rates. These factors have boosted the Authority's overall Treasury Balances and the return received on investments.

7. Non-Treasury Investments

- 7.1 The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

7.2 Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

7.3 The Authority held £9.1m of investments made for commercial purposes. This consisted entirely of directly owned property and land. A full list of the Authority's non-treasury investments is available in the Investment Strategy 2022-23 document. These investments generate a forecast £387,800 of investment income for the Authority after taking account of direct costs.

7.4 The main purpose of these investments is regeneration of the local area rather than investment income. All commercial investments are located within the district.

8. Treasury Performance

8.1 The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates.

8.2 Since the beginning of the reporting period the Authority has paid £1.2m in interest. The forecasted amount to be spent on interest on loans for the financial year 22/23 in total is £2.3m. The overall interest rate on borrowing is 3.5%. For comparison purposes the current PWLB Maturity Loan rate for new 10 year borrowing is 4.7%.

8.3 During the reporting period the Authority has fully repaid a loan of £1m held with a Local Authority. Additionally the Authority has repaid £600,000 in principle on two annuity loans (loans in which a percentage of the principle is repaid annually). The remaining loans are maturity loans so no repayment will take place until the maturity date.

8.4 The Authority does not expect to undertake any new borrowing in the 2022/23 financial year and none has so far been undertaken.

8.5 As discussed in section 6.7 investment interest income during the reporting period was £662,000 before deductions. The Authority's Investment interest return percentage on 30 September 2022 was 1.49%. For comparison purposes the Daily Sterling Overnight Index Average (SONIA) which is used for benchmarking purposes was 3.43% and investment yield for similar local authorities was 0.89%. This is laid out in Appendix 2. Please note also that data is not yet available for 31 December 2022 so this data is from 30 September 2022 (the last available information on benchmarking)

8.6 As demonstrated in the benchmarking data our return percentage was very similar to other local authorities when looking at internal investment return. However, when looking at overall interest return our yields are above other local authorities. This is due to the fact that strategic investments have produced negative returns. NWLDC does not have any investments in strategic funds so therefore have a better return.

9. Compliance

- 9.1 The S151 Officer reports that all treasury management activities undertaken during the quarter complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 6 below.
- 9.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 5 below.

Table 5: Debt Limits

	Q3 Maximum During Period	31.12.22 Actual	2022/23 Operational Boundary	2022/23 Authorised Limit	Complied?
Borrowing	£64.8m	£63.8m	£72.9m	£82.9m	Yes

- 9.3 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. However, there were no days in the reporting period in which the operational boundary was breached
- 9.4 Table 6 below sets out the agreed investment limits for the various counterparties as per the Treasury Management Strategy Statement 22/23 and compares these limits against actuals for the period.

Table 6: Investment Limits

	Q3 Maximum	31.12.2022 Actual	2022/23 Limit	Complied?
The UK Government	£55m	£47.5m	Unlimited	Yes
Local authorities & other government entities	£10m	£0.7m	Unlimited	Yes
Secured investments	£0m	£0	Unlimited	Yes
Banks (unsecured)	£3m	£2.1m	Unlimited	Yes
Building societies (unsecured)	£0m	£0	£5m	Yes
Registered providers (unsecured)	£0m	£0	£12.5m	Yes
Money market funds	£23m	£11.5m	£5m	Yes
Strategic pooled funds	£0m	£0	£25m	Yes
Real estate investment trusts	£0m	£0	£5m	Yes
Other investments	£0m	£0	£2.5m	Yes

10. Treasury Management Indicators

10.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.

10.2 **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.12.22 Actual	2022/23 Target	Complied?
Portfolio average credit rating	AA-	A-	Yes

10.3 **Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	31.12.22 Actual	2021/22 Target	Complied?
Total cash available within 3 months	£32.9m	£2.5m	Yes

10.4 **Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Interest rate risk indicator	31.12.22 Actual	2022/23 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	-460,460	-200,000	No
Upper limit on one-year revenue impact of a 1% fall in interest rates	460,460	200,000	No

10.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates. Although the indicator has not been complied with this is not a compliance failure as it reflects the increase in investment balances over the year and the fact that all of the Authority's investments are due to mature this year. Longer investments would reduce the interest rate risk but would expose the Authority to higher liquidity risk.

- 10.6 **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. [This indicator covers the risk of replacement loans being unavailable, not interest rate risk.] The upper and lower limits on the maturity structure of all borrowing were:

	31.12.22 Actual £m	31.12.22 Actual %	Upper Limit	Lower Limit	Complied?
Under 12 months	5.71	9%	30%	0%	Yes
12 months and within 24 months	2.74	4%	30%	0%	Yes
24 months and within 5 years	3.89	6%	30%	0%	Yes
5 years and within 10 years	3.03	5%	30%	0%	Yes
10 years and above	49.48	76%	90%	0%	Yes

- 10.7 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

- 10.8 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. For the purposes of this indicator investments beyond year end are considered to be any existing investments longer than 1 year of which we have none. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2022/23	2023/24	2024/25
Actual principal invested beyond year end	£0	£0	£0
Limit on principal invested beyond year end	£10m	£10m	£10m
Complied?	Yes	Yes	Yes

Appendix 1

Arlingclose's Outlook for the remainder of 2022/23 and beyond

	Current	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00

Arlingclose expects Bank Rate to rise further during the remainder of 2022/23 and to reach 4.25% by around the first quarter of the financial year 2023/24.

The Bank of England's (BoE) Monetary Policy Committee raised Bank Rate by 50bps to 3.5% in December 2022 as expected. There were signs that some Committee members believe that 3% is restrictive enough, however, a majority think further increases in Bank Rate might be required. Arlingclose expects Bank Rate to peak at 4.25%, with further 25bps rises February, March and May 2023.

The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until wage growth eases. Arlingclose expects rate cuts will start in the first half of 2024.

Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.

Gilt yields face pressures from hawkish US/euro zone central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales and high government borrowing will provide further underlying support for yields.

Background:

The influence of the mini-budget on interest rates and gilt yields continues to wane following the more fiscally prudent approach shown by the latest incumbents of Downing Street.

Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten monetary policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.

The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power – recent data suggests the UK has passed peak inflation.

The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini-budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.

Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of

borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.

Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight, and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed's resolve.

While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy, the European Central Banks seems to harbour (worryingly) few doubts about the short term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

Appendix 2*

arlingclose

Investment Benchmarking
30 September 2022

NW Leicestershire
44 English Non-Met Districts Average
120 LAs Average

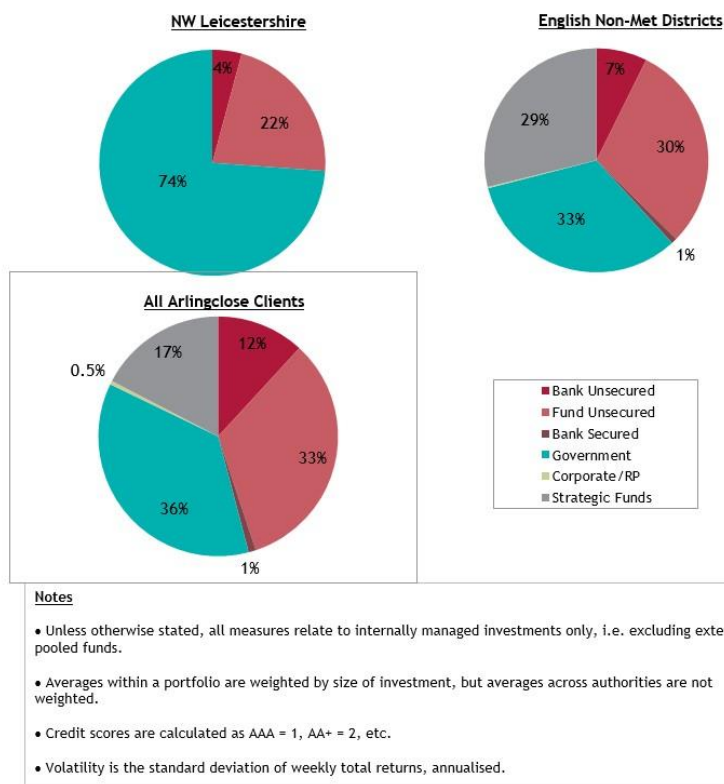
Internal Investments	£50.1m	£38.3m	£82.0m
Cash Plus & Short Bond Funds	£0.0m	£0.0m	£0.0m
Strategic Pooled Funds	£0.0m	£14.3m	£14.7m
TOTAL INVESTMENTS	£50.1m	£52.5m	£96.7m

Security			
Average Credit Score	3.52	4.34	4.29
Average Credit Rating	AA-	AA-	AA-
Average Credit Score (time-weighted)	3.03	4.23	4.07
Average Credit Rating (time-weighted)	AA	AA-	AA-
Number of Counterparties / Funds	9	13	13
Proportion Exposed to Bail-in	26%	57%	55%

Liquidity			
Proportion Available within 7 days	22%	42%	45%
Proportion Available within 100 days	72%	62%	71%
Average Days to Maturity	65	42	17

Market Risks			
Average Days to Next Rate Reset	73	53	46
Strategic Fund Volatility	-	4.5%	6.2%

Yield			
Internal Investment Return	1.67%	1.70%	1.72%
Cash Plus Funds - Income Return	-	-	-
Strategic Funds - Income Return	-	3.84%	3.93%
Total Investments - Income Return	1.67%	2.22%	2.05%
Cash Plus Funds - Capital Gain/Loss	-	-	-
Strategic Funds - Capital Gain/Loss	-	-1.73%	-1.15%
Total Investments - Total Return	1.67%	0.89%	1.47%



*data from 30 September 2022 (last available benchmarking data)