Appendix A

Treasury Management Strategy 2022-23 to 2024-25 and Prudential Indicators

The Capital Prudential Indicators 2022-23 to 2024-25

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital Expenditure and financing

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Table 1

Capital Expenditure £	2020-21 Actual	2021-22 Forecast	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Non-HRA	6,882,718	14,692,556	15,023,850	1,939,925	1,725,637
Capital Loans	362,993	157,188	-	-	-
Total	**7,245,711**	**14,849,744**	**15,023,850**	**1,939,925**	**1,725,637**

This table is in line with draft budget report due to Full Council February 2022 (as at 30-11-2021)

Other long term liabilities: The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 2

Capital Expenditure £'000	2020-21 Actual	2021-22 Forecast	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Total	**7,246**	**14,850**	**15,024**	**1,940**	**1,726**
Financed by:					
Capital grants	2,794	11,970	7,876	1,172	1,172
Capital reserves	3,242	860	2,342	211	197
Revenue	847	1,863	276	76	76
Capital Loans	363	157	-	-	-
Net financing need for the year (borrowing req'd)	**Nil**	**Nil**	**4,530**	**481**	**281**

The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. Whilst the CFR is negative, no borrowing is required.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI schemes and finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PFI or Lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £7,511k of such schemes within the CFR. The Council is asked to approve the CFR projections below:

Table 3:

£'000	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Opening CFR	(223)	(333)	3,288	2,846
Movement in CFR	(100)	3,621	(442)	(659)
Closing CFR	**(333)**	**3,288**	**2,846**	**2,187**

Movement in CFR represented by				
Net financing need for the year	-	4,530	481	281
Less MRP and other financing movements	(100)	(909)	(923)	(940)
Movement in CFR	**(100)**	**3,621**	**(442)**	**(659)**

This table indicates that the Council has a borrowing need within this reporting period. This position will be reviewed during 2022-23 to ensure internal balances are sufficient to cover these amounts from internal borrowing. The CFR and available cash will need to be monitored closely to ensure future capital expenditure remains affordable. As per the Capital strategy, any Government funding available for specific initiatives will be sought to enable projects to be self-financing.
Any decision to borrow externally for capital projects will only be supported if the business case for the projects does not place additional cost pressure on the taxpayer through the council tax charge. The council would not undertake any un-supported borrowing whilst it still has reasonable capital receipt resources available.

Core funds and expected investment balances
The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Table 4

Year End Resources £'000	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Earmarked reserves	11,907	10,804	9,736	7,428
Provisions	1,562	781	-	-
Other	300	(879)	766	(1,895)
Total core funds	**13,769**	**10,706**	**10,502**	**5,533**
Working capital*	5,000	5,000	5,000	5,000
Expected investments	**8,769**	**5,706**	**5,502**	**533**

*Working capital balances are estimated year end; may be higher or lower during the year.

Minimum Revenue Provision (MRP) policy statement
The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP).

DLUHC regulations have been issued which require the Full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Governance and Audit Committee is requested to recommend to Full Council to approve the following MRP Statement:

Breckland has fully financed its capital expenditure incurred before 1st April 2008, therefore there is no MRP requirement anticipated, other than for the PFI schemes.

From 1st April 2008 for all unsupported borrowing (including PFI and Finance Leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provides for a reduction in the borrowing need over approximately the asset's life.

Repayments included in annual PFI or Finance Leases are applied as MRP.

Regulations require the Full Council to approve its 'Prudential Indicators' at least annually.

Affordability prudential indicators
The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Governance and Audit Committee is requested to recommend to Full Council to approve the following indicators:

Ratio of financing costs to net revenue stream
This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. Where financing costs to net revenue stream are negative, this is because the Council is earning interest on its balances as opposed to paying interest on its borrowing.

Table 5

%	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Non-HRA	**1.19**	**0.84**	**2.05**

The estimates of financing costs include current commitments and the proposals in the draft budget report.

The Treasury Management Strategy 2022-23 to 2024-25

Borrowing
The capital expenditure plans set out in the prudential indicators (above) provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current portfolio position
The Council's treasury portfolio position at 31 March 2021, with forward projections, is summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 6

External Debt £'000	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Actual gross debt at 31 March	**-**	**-**	**-**	**-**
The Capital Financing Requirement	**(333)**	**3,288**	**2,846**	**2,187**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022-23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

The Assistant Director Finance (S151) reports that the Council complied with this prudential indicator in the current year. However, as detailed under table 3, the CFR will need to be monitored closely to ensure that future capital expenditure remains affordable. This view takes into account current commitments, existing plans, and the proposals in the draft budget report.

Non-Financial Investments

The value of the non-financial investments held by the Council and the yield are as follows:

Table 7

	31/3/2019	31/3/2020	31/3/2021
Value of Investment Property *	**£31,149,250**	**£32,013,200**	**£31,701,400**
Finance Leases	**£9,802,973**	**£9,786,226**	**£10,103,502**
Yield	**7.10%**	**6.1%**	**6.1%**
Average return on cash investments	**0.891%**	**0.892%**	**0.473%**

* NB yield figures are taken from indicator BSCPIND010 on the performance system, Including finance leases. Some properties that for financial reporting purposes are categorised as Property Plant & Equipment/Surplus are part of the yield calculation.

The S151 officer confirms that the fair value of the non-financial investments is sufficient to provide security against loss. The investment properties are fully financed and no debt liability applies to these assets.

Borrowing in respect of non-financial investments

The Prudential Code states that borrowing should not take place in advance of need purely to profit from the investment of the extra sum borrowed.

This authority has not undertaken borrowing in advance of need and the following table sets out any borrowing that has taken place in respect of non-financial investments and measures the impact of such activity:

Table 8

£'000	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Value of borrowing	-	-	-	-
Debt to net service ratio	-	-	-	-
Commercial income to net service ratio	-	-	-	-
Investment cover ratio	-	-	-	-
Loan to value ratio	-	-	-	-

As no borrowing has occurred, there are no opportunities and risks to report on over the repayment period.

Should the Council undertake any borrowing, the maximum exposure to borrowing costs (i.e. interest repayments and MRP) will not exceed £500,000 per year in aggregate at any one time over all areas.

Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Table 9

Operational boundary £'000	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Debt	-	-	-	-
Other long term liabilities	7,511	7,227	6,929	6,614
Total	**7,511**	**7,227**	**6,929**	**6,614**

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Governance and Audit Committee is requested to recommend to Full Council to approve the following authorised limit:

Table 10

Authorised limit £'000	2020-21 Forecast	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
Debt (Bank overdraft)*	2,000	2,000	2,000	2,000
Other long term liabilities	7,511	7,227	6,929	6,614
Total	**9,511**	**9,227**	**8,929**	**8,614**

An authorised overdraft of up to £2m is recommended in order to accommodate any short term cashflow issues arising from internal borrowing. However, the Council will operate an overdraft of £250k and will only action the upper limit should the need arise.

Borrowing strategy

Forecasts show there is an underlying need to borrow from 2021-22. Borrowing will only take place after full consideration of the need for and the implications of borrowing. Short term use of cash balances will be required to fund the capital programme (internal borrowing). The Council's borrowing strategy will need to be monitored closely. Should a more detailed borrowing strategy be required, this will be prepared and put forward for approval prior to any external borrowing taking place.

Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Table 11

£'000	2021/22	2022/23	2023/24	2024/25
Interest rate exposures				
	Upper	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	0	0	0	0
Limits on variable interest rates based on net debt	0	0	0	0

Policy on borrowing in advance of need

It is not anticipated that the Council will undertake external or long term borrowing during the next three years. However, this will need to be monitored closely. Should a more detailed borrowing strategy be required, this will be prepared and put forward for approval prior to any borrowing taking place. Should the Council make a decision to borrow, it will consider loans offered from all available lenders.

Prospects for interest rates (as at November 2021) – Commentary from Link Asset Services

(Start of Link Asset Services Commentary)

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. Link provided the following forecasts on 8th November 2021. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 8.11.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50

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

As shown in the forecast table above, the forecast for Bank Rate now includes five increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

Significant risks to the forecasts

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.
- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, resulting in further national lockdowns or severe regional restrictions.
- **The Monetary Policy Committee** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.
- **The Government** acts too quickly to cut expenditure to balance the national budget.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **German general election** in September 2021. Germany faces months of uncertainty while a new coalition government is cobbled together after the indecisive result of the election. Once that coalition is formed, Angela Merkel's tenure as Chancellor will end and will leave a hole in overall EU leadership.
- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.

- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.

- **Geopolitical risks,** for example in Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

The balance of risks to the UK economy: -

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

Forecasts for Bank Rate

It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes five increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer and now into the autumn. This could lead into stagflation which would create a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.
- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- It is estimated that there were around 1 million people who came off furlough at the end of September; how many of those would not have had jobs on 1st October and would therefore be available to fill labour shortages which are creating a major headache in many sectors of the economy? So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate one of the MPC's key current concerns.
- We also recognise there could be further nasty surprises on the Covid front, on top of the flu season this winter, and even the possibility of another lockdown, which could all depress economic activity.
- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no deal Brexit.

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

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

Forecasts for PWLB rates and gilt and treasury yields

As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US.

There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising earlier and higher in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures actually turn out to be in both the US and the UK and so put upward pressure on treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

Gilt and treasury yields

Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. During the first part of the year, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020. This was then followed by additional Democratic ambition to spend $1trn on infrastructure, which has just been passed by both houses, and an even larger sum on an American families plan over the next decade; this is still caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme has enabled a rapid opening up of the economy.
2. The economy has been growing strongly during 2021.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.

4. And the Fed was still providing stimulus through monthly QE purchases.

These factors could cause an excess of demand in the economy which could then unleash strong inflationary pressures. This could then force the Fed to take much earlier action to start increasing the Fed rate from near zero, despite their stated policy being to target average inflation.

At its 3rd November Fed meeting, the Fed decided to make a start on tapering QE purchases with the current $80bn per month of Treasury securities to be trimmed by $10bn in November and a further $10bn in December. The $40bn of MBS purchases per month will be trimmed by $5bn in each month. If the run-down continued at that pace, the purchases would cease entirely next June but the Fed has reserved the ability to adjust purchases up or down. This met market expectations. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields would rise as a consequence over the taper period, all other things being equal.
However, on the inflation front it was still insisting that the surge in inflation was "largely" transitory. In his post-meeting press conference, Chair Jerome Powell claimed that “the drivers of higher inflation have been predominantly connected to the dislocations caused by the pandemic” and argued that the Fed’s tools cannot address supply constraints. However, with the Fed now placing major emphasis on its mandate for ensuring full employment, (besides containing inflation), at a time when employment has fallen by 5 million and 3 million have left the work force, resignations have surged due to the ease of getting better paid jobs and so wage pressures have built rapidly. With wage growth at its strongest since the early 1980s, inflation expectations rising and signs of a breakout in cyclical price inflation, particularly rents, the FOMC's insistence that this is still just a temporary shock "related to the pandemic and the reopening of the economy", does raise doubts which could undermine market confidence in the Fed and lead to higher treasury yields.

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

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

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

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

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

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be ‘sustainably over 2%’ before starting on raising Bank Rate and the ECB now has a similar policy.
- ***<u>For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the</u>***

economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.

- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

Investment and borrowing rates

- **Investment returns** are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.

- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows:

  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
  - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

- **Borrowing for capital expenditure.** Our long-term (beyond 10 years), forecast for Bank Rate is 2.00%. As some PWLB certainty rates are currently below 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio.

1.1 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

(End of Link Asset Services commentary)

The Council will be mindful of the above comments when formulating its borrowing strategy.