Report to:	Cabinet Council	**Date of Meeting:**	28 July 2022 29 September 2022
Subject:	Treasury Management Outturn 2021/22		
Report of:	Executive Director of Corporate Resources and Customer Services	**Wards Affected:**	All Wards
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	**Included in Forward Plan:**	Yes
Exempt / Confidential Report:	No		

Summary:

This outturn report provides Members with a review of the Treasury Management activities undertaken during 2021/22. Cabinet receives this outturn report to allow monitoring against the Treasury Management Policy & Strategy and Prudential Indicators approved by Cabinet and Council in March 2021. This report is also provided to Audit & Governance Committee, whose role it is to carry out scrutiny of treasury management policies and practices.

Recommendation(s):

Members are requested to note the Treasury Management position during 2021/22 and the update to 31st May 2022, to review the effects of decisions taken in pursuit of the Treasury Management Strategy and to consider the implications of changes resulting from regulatory, economic and market factors affecting the Council's treasury management activities.

Reasons for the Recommendation(s):

To ensure that Members are fully apprised of the treasury activity undertaken during 2021/22 and also to 31st May 2022 in order to meet the reporting requirements set out in Sefton's Treasury Management Practices and those recommended by the CIPFA code.

Alternative Options Considered and Rejected: (including any Risk Implications)

N/A

What will it cost and how will it be financed?

(A) Revenue Costs

None

(B) Capital Costs
None

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets):
A shortfall in investment income has been experienced for 2021/22 financial year.

Legal Implications:
The Council has a statutory duty under the Local Government Act 2003 to review its Prudential Indicators and Treasury Management Activities.

Equality Implications:
There are no equality implications.

Climate Emergency Implications:

The recommendations within this report will

Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	N

The Council has during 2021/22, invested its reserves and balances overnight with either banks or money market funds in order to maintain high security and liquidity of such balances. It has not had the opportunity to invest in longer term financial instruments or investment funds for which there may be a chance to consider the impact on the Council's Climate Emergency motion.

In the event that the Council has more surplus balances available in future that may lead to longer term investing, the Council will take account of the climate emergency when discussing the options available with the Treasury Management Advisors.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: n/a
Facilitate confident and resilient communities: n/a
Commission, broker and provide core services: n/a
Place – leadership and influencer: Good treasury management supports strategic planning and promotes innovative, affordable and sustainable capital investment projects through application of the CIPFA Prudential Code.
Drivers of change and reform: The Treasury Management function ensures that cash flow is adequately planned, and cash is available when needed by the Council for improvements to the borough through its service provision and the Capital Programme.

Facilitate sustainable economic prosperity: Pursuit of optimum performance on investments activities and minimising the cost of borrowing and the effective management of the associated risk continues to contribute to a balanced budget for the Council.
Greater income for social investment: n/a
Cleaner Greener: n/a

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD6870/22) is the author of the report.

The Chief Legal and Democratic Officer (LD5070/22) has been consulted and any comments have been incorporated into the report.

(B) External Consultations

The Council's external Treasury Management Advisors: Arlingclose have provided advice with regards to Treasury Management activities undertaken during the financial year.

Implementation Date for the Decision

Immediately following the meeting.

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Appendices:

None

Background Papers:

There are no background papers available for inspection.

BACKGROUND:

1. Introduction

1.1. The CIPFA Prudential Code for Capital Finance in Local Authorities (The Prudential Code) was introduced following the Local Government Act 2003. The Prudential Code details a number of measures / limits / parameters (Prudential Indicators) that, to comply with legislation, must be set in respect of each financial year to ensure that the Council is acting prudently and that its capital expenditure proposals are affordable.

1.2. A requirement of the Prudential Code is the reporting to Cabinet and Full Council of the outturn position of indicators following the end of the financial year. In accordance with this requirement, this report outlines the 2021/22 outturn for the following Prudential Indicators:-

i. Capital Expenditure (Section 2);
ii. Capital Financing Requirement (Section 3.1);
iii. Gross Debt and the CFR (Section 3.2);
iv. Borrowing Limits (Section 3.3);
v. Financing Costs as a proportion of Net Revenue Stream (Section 3.4);
vi. Treasury Management Indicators (Section 6).

1.3. The Treasury Management Policy and Strategy Statements are agreed annually by the Council as part of the budget process. A requirement of the Policy Statement is the reporting to Cabinet and Full Council of the results of the Council's treasury management activities in the previous year. Treasury management in this context is defined as:

'The management of the authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

1.4. In accordance with the above this report outlines the results of treasury management activities undertaken in 2021/22 covering the following issues:

- borrowing strategy and practice
- compliance with Treasury Limits
- compliance with Prudential Indicators
- investment strategy and practice.

1.5. The Council's Treasury Management activities have been under significant pressure throughout 2021/22 as a result of the continuing economic recovery from the coronavirus pandemic, together with the inflationary pressures created by the war in Ukraine, and higher interest rates. Pro-active management of cash balances was key to ensuring cash was available in response to exceptional need and the continued distribution of government Covid relief funding.

1.6. The results of treasury management activities in 2021/22 are reflected in the net expenditure on Capital Financing Costs included within the Council's Revenue Budget. The Capital Programme is also agreed annually as part of the budget process. It sets out the anticipated capital expenditure to be incurred within the year.

2. Capital Expenditure

2.1. The original estimate for 2021/22 expenditure together with the actual capital expenditure calculated on an accruals basis for the financial year is as follows:

	Estimate £m	Actual £m
Capital Expenditure	**52.343**	**32.536**

2.2. Capital expenditure in 2021/22 was £19.807m less than the original estimate reported in March 2021. The Council has therefore remained within the limits for expenditure set at the start of the year. The variation is due to the phasing of capital budgets and grant allocations to future years. These adjustments were approved by Cabinet and Council as part of the monthly budget monitoring for the capital programme during 2021/22.

2.3. A full report on capital expenditure and the out-turn position for 2021/22 can be found in the separate Financial and Corporate Performance report also presented at this meeting.

3. The Council's Overall Borrowing Need

3.1. Capital Financing Requirement

3.1.1. The Capital Financing Requirement (CFR) reflects the Authority's underlying need to borrow for capital purposes and is based on historic capital financing decisions and the borrowing requirement arising from the financing of actual capital expenditure incurred in 2021/22.

3.1.2. The Council is currently internally borrowed meaning it temporarily uses its own cash balances to fund some capital schemes instead of external borrowing, a strategy which saves the cost of interest payments on loans. This reflects the current national low interest rates for investment of cash balances and the need to find savings for the revenue budget.

3.1.3. The actual level of Capital Financing Requirement as at 31 March 2022 compared to the initial estimate for 2021/22 is as follows:

	Estimate £m	Actual £m
Capital Financing Requirement	**240.055**	**233.137**

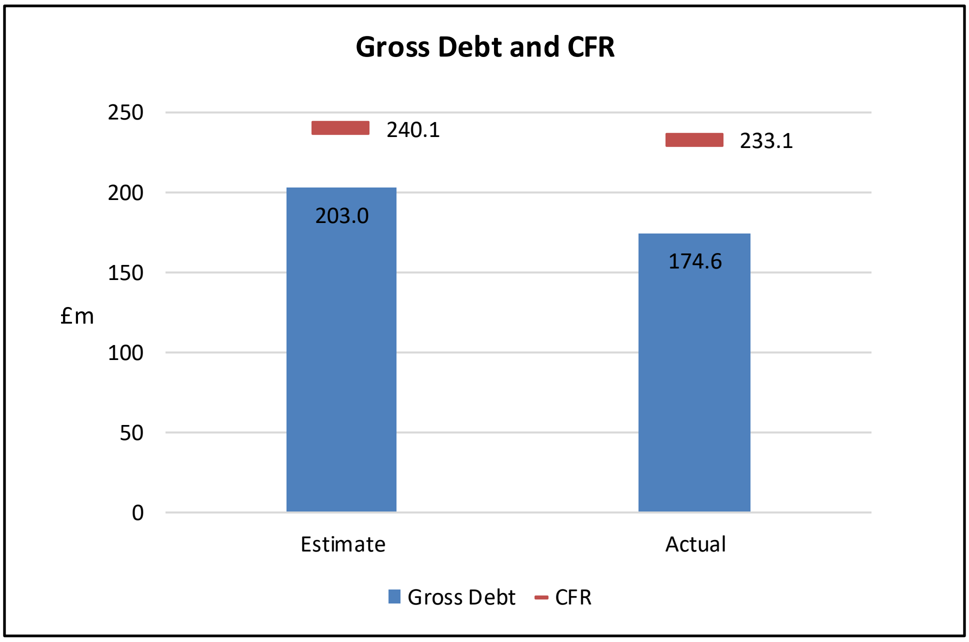
3.1.4. As mentioned in paragraph 2.2 (above), the level of capital expenditure for 2021/22 was less than anticipated and therefore the requirement for the financing of this expenditure from borrowing is also lower.

3.2. Gross Debt and the CFR

3.2.1. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following statement as a key factor of prudence:

"In order to ensure that over the medium-term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

3.2.2. In the report to Cabinet and Council in March 2021, it was stated that the Authority would comply with this requirement in 2021/22. During the financial year, gross external borrowing did not exceed the total of the Capital Financing Requirement. The chart below shows the out-turn position compared to the original estimate:



3.3. Borrowing Limits

	2021/22 £m
Authorised limit	**245.000**
Operational boundary	**230.000**
Maximum Gross Borrowing Position	**193.791**

3.3.1. The Operational Boundary sets a boundary on the total amount of long term borrowing that the Council is estimated to enter into. It reflects an estimate of the Authority's current commitments, existing capital expenditure plans, and is consistent with its approved Treasury Management Policy Statement and practices.

3.3.2. The Authorised Limit sets a limit on the amount of external borrowing (both short and long term) that the Council can enter into. It uses the Operational Boundary as its base but also includes additional headroom to allow for exceptional cash movements.

3.3.3. The Maximum Gross Borrowing Position shows the highest level of actual borrowing undertaken during 2021/22 financial year. This level remained within the Operational Boundary and did not exceed the Authorised limit.

3.4. Financing Costs as a Proportion of Net Revenue Stream

3.4.1. This indicator measures the financing costs of capital expenditure as a proportion of the net resource expenditure of the General Fund.

	Estimate 2021/22	Actual 2021/22
Financing Costs / Net Revenue	**3.8%**	**4.2%**

3.4.2. The overall ratio is slightly higher than the original estimate by 0.4%. As noted earlier (paragraph 3.1.4.), the requirement for financing capital expenditure from borrowing in 2021/22 was lower than anticipated. This borrowing was anticipated to be financed internally and therefore no additional interest charges were included in the estimate of financing costs. Income recharges for the cost of borrowing were forecast however to represent a cost of borrowing to Council services, but these have now been delayed to future years when the capital spend will be incurred. This has had the effect of increasing the financing costs in the current year and thus increasing the ratio. Revenue streams have also decreased when compared to the original estimate which has marginally impacted on the ratio.

3.4.3. The above variance is considered minor and financing costs for 2021/22 remain at affordable levels with the total borrowing requirement remaining below the operational boundary set at the beginning of the year.

4. Borrowing Strategy and Practice

4.1. The Council's debt portfolio at the 31st March 2022 and a comparison to the position at the end of last financial year is summarised as follows:

Actual Debt Outstanding	31st March 2021 £m	31st March 2022 £m
Public Works Loans Board	185.434	167.205
Other Long-Term Liabilities	8.355	7.415
TOTAL	**193.789**	**174.620**

4.2. The category of other long-term liabilities represents transferred debt from the Merseyside Residuary Body (£1.750m) and finance lease liabilities (£5.665m).

4.3. The Council's PWLB debt activity during 2021/22 is summarised in the following table:

Movement in Year	**Actual £m**
PWLB opening debt 1st April 2021	185.434
Less principal repayments	(18.229)
Add new borrowing	-
Closing PWLB debt 31st March 2022	**167.205**

4.4. The policy of internally borrowing, running down the Authority's cash balances rather than taking out new borrowing, continued with regards to the Capital Programme in 2021/22 as no new expenditure was financed from external borrowing.

4.5. The average rate of interest on Council loans with the Public Works Loans Board (PWLB) in 2021/22 and a comparison to the previous year is shown below:

	2020/21	**2021/22**
Average PWLB Interest Rate in Year	**3.54%**	**3.74%**

4.6. The average rate of interest is based upon the total interest amount paid as a proportion of loan principal held. The increase in the average rate of interest from 2020/21 to 2021/22 has resulted from maturing loans during the year reducing the balance of principal held, but interest payments remaining proportionally higher due to historic loans within the portfolio that were taken out when rates were much higher.

5. Debt Maturity Profile

5.1. This is a profile measuring the amount of borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate:

Fixed Rate Debt Maturity	**Upper Limit**	**Lower Limit**	**Actual 31st March 2022**
Under 12 months	35%	0%	**9%**
12 months and within 24 months	40%	0%	**18%**
24 months and within 5 years	50%	0%	**9%**
5 years and within 10 years	50%	0%	**15%**
10 years and within 15 years	75%	0%	**11%**
15 years and above	90%	25%	**38%**

5.2. The spread of debt across the various maturity periods shows how the authority has acted prudently and controlled its exposure to refinancing risk by not having overly large amounts of debt concentrated in one period, especially those in the shorter term.

6. Compliance with Treasury Limits

6.1. The following Treasury Limits were approved by Council during the 2021/22 Budget Setting process:

6.1.1 Borrowing Limits

	Limit £m	Maximum Borrowing 2021/22 £m
Authorised Borrowing Limit	245.000	**193.791**
Short Term Borrowing Limit	30.0	**0.0**

6.1.2 Investment Limits

	Upper Limit	Maximum Invested 2021/22
Principle sums invested for longer than 365 days	40%	**5%**

6.2. The amounts above show the maximum amounts borrowed or invested during the year compared to the limits set. The Council therefore remained within the limits for borrowing and investments set for the year and no short term borrowing was undertaken.

7. Investment Strategy and Practice

7.1. The Council invests all available cash balances, which includes school balances and the insurance fund, following a policy of obtaining maximum returns whilst minimising risks.

i. **Externally Managed Investments**
No externally managed funds are held.

ii. **Internally Managed Investments**
The Council's available funds during the year averaged £104.984m and were managed internally with advice from our treasury consultants.

7.2. The level of the Council's investments during 2021/22 and comparable figures from the previous year are summarised in the following table:

	2020/21	2021/22
Total Investment of Cash Balances at year end	£70.26m	£98.69m
Average Investment Balance during the year	£88.01m	£104.98m
Average Return on Investments	0.36%	0.27%

7.3. In 2021/22 a weighted average return of 0.27% was achieved. The majority of the funds are invested with major banks and Money Market Funds (MMF's), with the remaining balance of £5m invested with the CCLA Property Fund. The return of 0.27% can be disaggregated into a return of 0.07% on bank and MMF investments, whilst 3.82% was returned by the CCLA investment.

7.4. The Bank Rate remained at 0.10% at the beginning of financial year. The Council therefore expected to receive significantly lower income from its cash and short-dated money market investments, including money market funds in 2021/22, as rates on cash investments remained close to zero percent. The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period. Improved returns on cash instruments followed the increases in Bank Rate in December, February and March but the full effect of these increases on the Council's investments will not be felt until 2022/23.

7.5. These external economic factors have therefore impacted the actual performance of investments that have under-achieved against the total budget for 2021/22 as follows:

Budget Profile	**Budget £m**	**Actual £m**	**Variance £m**
Outturn 2021/22	0.415	0.275	0.140

8. Treasury Position for 2022/23 – Update to 31st May 2022

8.1. Investments held at the 31/05/2022 comprise the following:

Institution	Deposit £m	Rate %	Maturity	Rating
Money Market Funds:				
Aberdeen	9.73	0.89	01.06.22	AAA
Aviva	9.73	0.87	01.06.22	AAA
Blackrock	9.73	0.85	01.06.22	AAA
BNP Paribas	9.73	0.91	01.06.22	AAA
Goldman-Sachs	9.73	0.89	01.06.22	AAA
HSBC	9.69	0.84	01.06.22	AAA
Invesco	6.30	0.89	01.06.22	AAA
Morgan Stanley	9.23	0.86	01.06.22	AAA
Insight	9.44	0.89	01.06.22	AAA
Total	83.31			
Deposit Accounts:				
Santander	0.40	0.41	01.06.22	A+
Total	0.40			
Notice Accounts:				
Lloyds	3.00	0.05	11.07.22	A+
Natwest	3.00	0.40	20.07.22	A+
Santander	3.00	0.40	27.09.22	A+
Total	9.00			
Property Fund:				
CCLA	5.00	3.13	n/a	n/a
Total	5.00			
TOTAL INVESTMENTS	**97.71**			

8.2. The Authority holds significant invested funds, representing grant income received in advance of expenditure plus balances and reserves held. The cash is initially held in a number of highly liquid Money Market Funds to ensure security of the funds until they are required to be paid out. This approach is consistent with the Council's approved Treasury Management Policy and Strategy for 2022/23. The balance of investments is therefore expected to fall over the coming months as the income is fully expended.

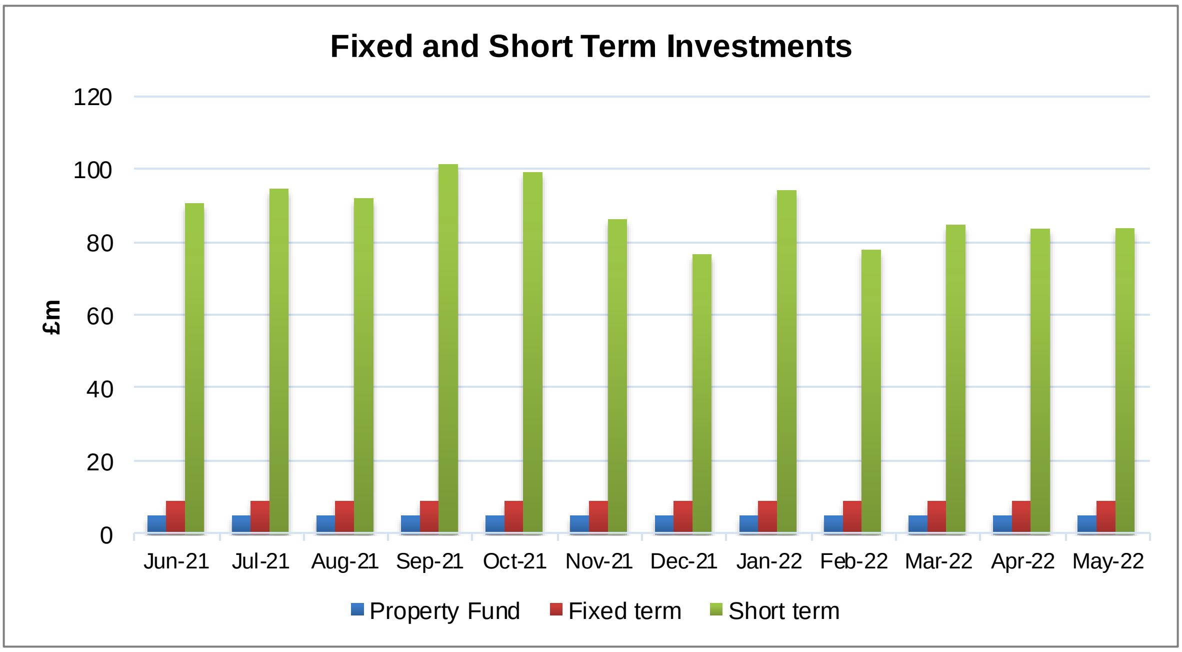
8.3. All of the investments made since April 2022 have been with organisations on the current counterparty list. The maximum level of investment permitted in the Treasury Management Strategy in any one institution, or banking group, is currently £15m. Whilst the maximum should be retained, in light of current economic conditions, a day to day operational maximum of 10% of the total portfolio is currently being imposed for investments. This will spread the risk for the Council but will have a small detrimental impact on the returns the Council will receive in the future. The Council has remained within that boundary during the year. At present, it is not expected that there will be any need to review this limit.

8.4. The Council will only invest in institutions that hold a minimum Fitch rating of A- for banking institutions, or AAA for money market funds. The ratings applied to investment grade institutions, and the much riskier speculative grade institutions, as defined by Fitch, have been placed into a risk matrix (paragraph 8.8).

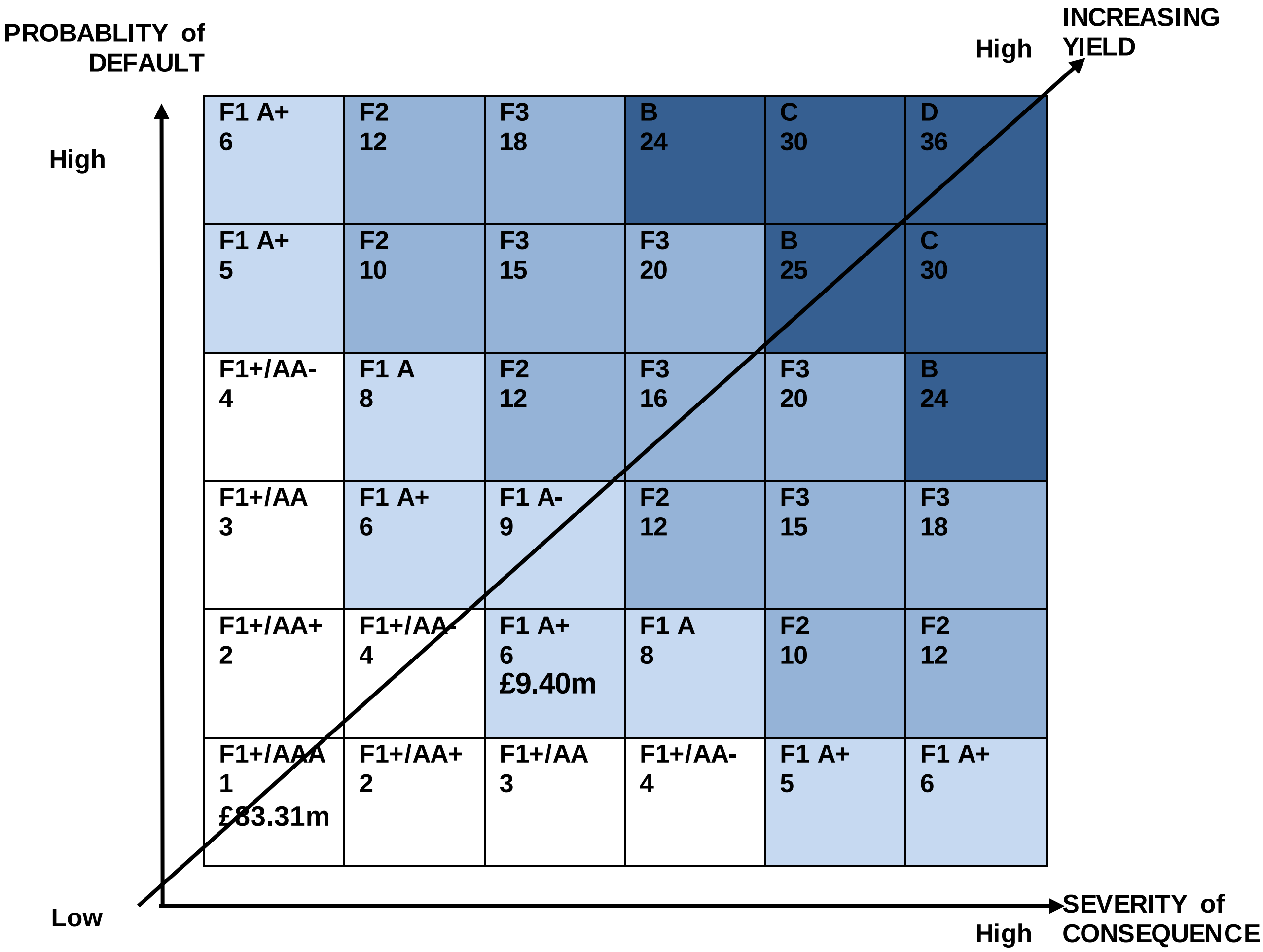
8.5. An investment has been made with the Church, Charities and Local Authority Investment Fund (CCLA) in June 2014. CCLA invest in commercial property which is rented out to enterprises such as retail units, warehousing, and offices. The majority of properties owned are in the south of the country where the market is often more buoyant than the north. The Council has in effect bought a share of the property portfolio and returns paid are in the region of 4%. This is seen as a long-term investment with the potential for the capital value of the investment to vary as property prices fluctuate.

8.6. The Net Asset Value (NAV) of the Property Fund has increased over a 12-month period to May 2022 from 303.69p per unit to 358.52p per unit, an increase of 18%. The income yield on the Property fund at the end of May 2022 was 3.13% which, although lower than returns received in the past, still represents a reasonable return on the Council's investment.

8.7. The ratio of overnight deposits (short term) to fixed term investments and the property fund is shown below:



8.8. The matrix below shows how the Council has set its risk appetite by being risk averse and putting security and liquidity before yield when investing:



SEFTON RISK TOLERANCE:

Risk Level	Score	Grade	Amount Invested
LOW	1 - 4	Investment Grade	£83.31m
LOW - MEDIUM	5 - 9	Investment Grade	£9.40m
MEDIUM	10 - 20	Investment Grade	-
HIGH	21 - 36	Speculative Grade	-

8.9. The Council will continue to maximise any investment opportunities as they arise although it is not envisaged that any substantial increase in returns can be achieved for the remainder of the current financial year as balances available for investment will be held in short term deposits to allow the council to respond to any exceptional demands for cash as they arise. The security and availability of cash will be prioritised over improved yields as per the agreed Treasury Management Strategy and advice received from Sefton's treasury management advisors.

9. Interest Earned

9.1. The actual performance of investments against the profiled budget to the end of May 2022 and the forecast performance of investments against total budget at year end is shown below:

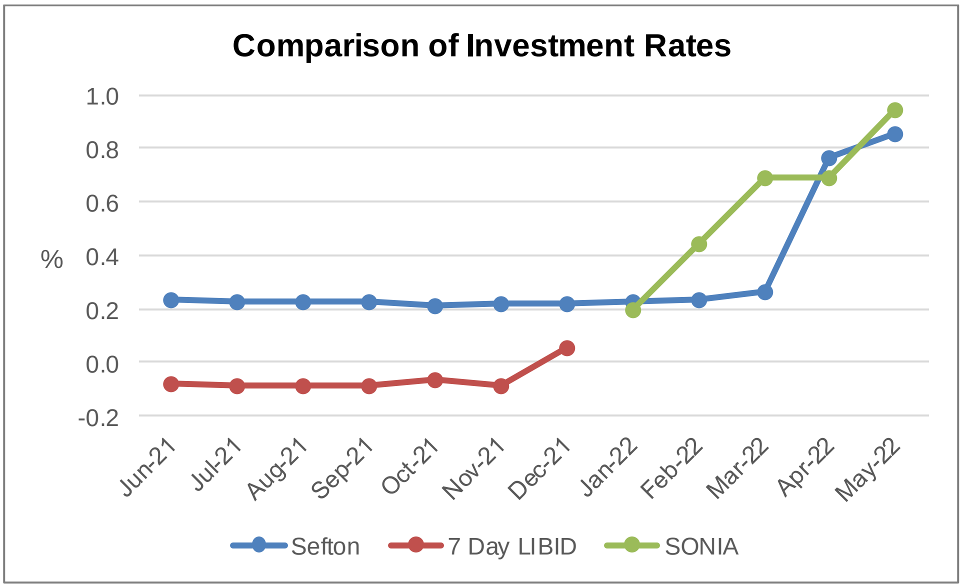
	Budget £m	Actual £m	Variance £m
May-22	0.098	0.109	0.011

	Budget £m	Forecast £m	Variance £m
Outturn 2022/23	0.789	0.789	-

9.2. The forecast outturn for investment income shows the level of income to be on target against the budget for 2022/23. Investment rates have increased significantly in the first quarter of 2022 (see 9.4. below) largely in response to rises in interest rates. The budgeted income for 2022/23 has therefore been set at a higher level when compared to previous financial years.

9.3. It is not envisaged that improved rates will lead to a significant increase over and above the current forecast income from investments during 2022/23 as cash balances are diminishing and held in short term deposits.

9.4. The Council has achieved an average rate of return on its investments of 0.85%. The chart below shows the average rate of return plotted against the 7-day LIBID and SONIA benchmarks.



9.5. On 5th March 2021 the Financial Conduct Authority announced the cessation of the LIBOR benchmark from the start of 2022. This deadline has now passed and as a result some LIBOR benchmarks such as the 7-day LIBID have been discontinued. LIBOR has primarily been replaced by the Sterling Overnight Index Average (SONIA) benchmark as the new widespread reference rate.

9.6. On the advice of its treasury management advisors, Sefton has adopted the SONIA rate as a replacement for the 7-day LIBID when benchmarking its investment performance from January 2022 onwards. As can be seen from the chart above, Sefton's investments have slightly underperformed (by 0.09%) compared to SONIA to the end of May 2022, although the investment income received is on target as per the 2022/23 budget as shown in paragraph 9.1 (above).

10. Interest Rate Forecast

10.1. Arlingclose, the Council's treasury advisors, have provide the following interest rate view:

	Current	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	*Average*
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	***0.40***
Arlingclose Central Case	**1.00**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	*1.23*
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	***-0.38***
3-month money market rate														
Upside risk	0.00	0.00	0.30	0.30	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	***0.39***
Arlingclose Central Case	**1.20**	**1.40**	**1.45**	**1.35**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	*1.32*
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	***-0.38***
5yr gilt yield														
Upside risk	0.00	0.30	0.35	0.50	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65	0.65	***0.53***
Arlingclose Central Case	**1.50**	**1.55**	**1.60**	**1.60**	**1.55**	**1.50**	**1.45**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	*1.47*
Downside risk	0.00	-0.20	-0.30	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.60	-0.60	-0.60	-0.60	***-0.44***
10yr gilt yield														
Upside risk	0.00	0.40	0.50	0.60	0.65	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	***0.59***
Arlingclose Central Case	**1.88**	**1.90**	**1.95**	**2.00**	**2.00**	**1.90**	**1.80**	**1.75**	**1.75**	**1.75**	**1.75**	**1.75**	**1.75**	*1.84*
Downside risk	0.00	-0.20	-0.30	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.60	-0.60	-0.60	-0.60	***-0.44***
20yr gilt yield														
Upside risk	0.00	0.30	0.35	0.40	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	***0.47***
Arlingclose Central Case	**2.14**	**2.10**	**2.10**	**2.10**	**2.10**	**2.05**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	*2.05*
Downside risk	0.00	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.55	-0.55	-0.55	-0.55	-0.55	***-0.42***
50yr gilt yield														
Upside risk	0.00	0.30	0.35	0.40	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	***0.47***
Arlingclose Central Case	**1.85**	**1.85**	**1.85**	**1.85**	**1.85**	**1.80**	**1.80**	**1.80**	**1.80**	**1.80**	**1.80**	**1.80**	**1.80**	*1.82*
Downside risk	0.00	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.55	-0.55	-0.55	-0.55	-0.55	***-0.42***

- *High inflation is challenging the global economic outlook, leaving policymakers a choice between gradual tightening now, with the chance of a recession, or more significant monetary tightening later to combat embedded inflation expectations. Global policymakers have chosen the former, leading to interest rate rises around the world.*

- *The invasion of Ukraine has exacerbated global inflation trends, particularly around food and energy. In the UK, the Ofgem price cap rose by 54% in April and a further 40-50% increase is possible in October. The rise in energy and fuel prices has been a significant factor behind the CPI rate moving up to 7% and will drive it up to near 10% over the course of 2022.*

- *High sustained inflation has created a more challenging growth outlook for the UK economy. Higher prices, particularly for necessities such as food and energy, will reduce household disposable income, and data is already suggesting that households are curtailing spending in response. Built up savings and more robust wage growth will only partly offset the impact.*

- *The labour market appears tight and nominal wage growth is running above pre-COVID levels. This will be a contributory factor to sustained above target inflation this year, although real wage growth is unlikely for most workers. Ultimately, weaker economic activity should lead to lower demand for labour and reduce wage pressure.*

- *The Bank of England will raise Bank Rate again in June to 1.25% to ensure that aggregate demand slows to reduce business pricing power and labour wage bargaining power. A further rise to 1.50% is a distinct possibility. Markets have priced in a much stepper path for Bank Rate, but we believe the MPC will be more cautious given the soft medium term economic outlook (a view communicated in the May Monetary Policy Report).*

- *Bond yields have risen sharply to accommodate tighter global monetary policy, particularly in the US, including the run-off of central bank bond portfolios in the reversal of QE. The interplay between slowing growth and high inflation/tightening policy will create significant volatility due to high levels of uncertainty.*

11. Compliance with Treasury and Prudential Limits

11.1. As at the end of May 2022, the Council has operated within the treasury and prudential indicators set out in the Council’s Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.