Report for:	**Cabinet**
Date of Meeting:	18 July 2022
Subject:	Treasury Management Annual Report and Outturn 2021/22
Key Decision:	No
Responsible Officer:	Dawn Calvert - Director of Finance and Assurance
Portfolio Holder:	Councillor David Ashton - Portfolio Holder for Finance and Human Resources
Exempt:	No
Decision subject to Call-in:	Yes
Wards affected:	All wards
Enclosures:	Appendix 1 - Link Group Economic Commentary Appendix 2 - Borrowing Rate Summary 2021/22

Section 1 – Summary and Recommendations

This report sets out the Treasury Management Outturn position for 2021/22.

Recommendations:
Cabinet is requested to:

1. Note the Treasury Management outturn position for 2021/22.

2. Refer this report to the Governance, Audit, Risk Management and Standards Committee for review.

Reason: (for recommendations)

a) To promote effective financial management and comply with regulations issued under the the Local Government Act 2003, the CIPFA Code of Practice on Treasury Management, and the CIPFA Prudential Code for Capital Finance, along with meeting the requirements of the Council's Financial Regulations.

b) To keep Members informed of Treasury Management activities and performance for 2021/22.

Section 2 – Report

1.0 **Background**

1.1 The purpose of this report is to present the Council's Annual Treasury Management outturn position for 2021/22 in accordance with the Council's Treasury Management Practices and in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice. The Council has complied with all elements of the Treasury Management Strategy Statement (TMSS) as the treasury management function.

1.2 Treasury management comprises:

- Managing the Council's borrowing to ensure funding of the Council's current and future Capital Programme is at optimal cost;
- Investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security of capital and liquidity.

1.3 The annual revenue budget includes the revenue costs that flow from capital financing decisions. Under the CIPFA Treasury Management Code of Practice and the CIPFA Prudential Code, increases in capital expenditure should be limited to levels whereby increases in interest charges and running costs are affordable within the Council's revenue account.

1.4 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation to ensure the security and liquidity of the Council's treasury investments.

1.5 The Council recognises that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of the CIPFA Treasury Management Code of Practice.

2.0 <u>Reporting Requirements</u>

2.1 The Council and/or Cabinet are required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Treasury Management Strategy Statement Report – The first, and most important report is presented to the Council in February and covers:

- The Treasury Management Strategy Statement (TMSS), which details how the investments and borrowings for capital expenditure are to be organised, including Treasury Limits and Prudential Indicators.
- The Annual Investment Strategy which forms part of the TMSS, (the parameters on how investments are to be managed).
- the MRP Policy (how capital expenditure is charged to revenue over time).

The 2021/22 TMSS was presented to Council on 13th February 2021.

Mid-Year Review Report – This is presented to Cabinet in December/January and updates Members on the Treasury Management activity of the Authority within within the context of the approved TMSS. This also includes progress of the Capital Programme and reporting on Prudential Indicators to give assurance that the treasury management function is operating within the Treasury Limits and Prudential Indicators set out in the TMSS.

The 2021/22 Mid-Year Report was presented to Cabinet on 9th December 2021

Treasury Management Outturn Report – This report, typically presented to Cabinet in June/July, provides a review of the treasury management activity over the financial year and includes details of a selection of actual Prudential and Treasury Indicators and actual treasury operations compared to the estimates originally included within the TMSS.

This report fulfills this reporting requirement which is specified in section C93 (ii) in the Financial Regulations.

2.2 **Scrutiny** – The above reports are required to be adequately scrutinised, normally before being recommended to Cabinet / Council, with the role being undertaken by the Governance, Audit, Risk Management and Standards Committee (GARMS). The Council has complied with the CIPFA Treasury Management Code of Practice to the extent that all Treasury Management reports have been scrutinised, though the efficient conduct of the Council's business may require consideration by GARMS subsequent to consideration by Cabinet/Council due to the practicalities of the committee timetable.

2.3 The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Section 151 Officer. The Section 151 Officer chairs the Treasury Management Group (TMG), which monitors the treasury management activity and market conditions monthly.

3.0 Matters covered in the Report

3.1 The Treasury Management Outturn Report for 2021/22 includes a summary of the actual positions in respect of the Authority's:

- Capital Expenditure, Financing and Limits
- Treasury Position as at 31st March 2022
- Summary of 2021/22 Strategy
- Economic update for 2021/22 (Appendix 1)
- Borrowing Rate Summary for 2021/22 (Appendix 2)

4.0 Options considered

4.1 The report is in accordance with the reporting requirements of the CIPFA Treasury Management Code of Practice.

5.0 Treasury Management Outturn Report 2021/22

5.1. The Treasury Management Strategy Statement, (TMSS), for 2021/22 was approved by Council in February 2021 . It stated that for the next three years the Capital Programme would continue to be funded from grants and revenue resources but that substantial borrowing would also be required.

6.0 The Council's Capital Expenditure and Financing

6.1. The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

6.2. The actual capital expenditure forms one of the required prudential indicators. The tables below show the actual capital expenditure for 2021/22 against that budgeted and how this was financed.

Table 1: Capital Expenditure

Capital Expenditure	2020/21 Actual £'000	2021/22 Budget £'000	2021/22 Actual £'000	2021/22 Variance £'000
Resources and Commercial Directorate	10,044	15,183	5,598	9,585
People's	1,645	28,886	2,258	26,628
Community	30,371	69,806	36,261	33,545
General Fund	**42,060**	**113,875**	**44,117**	**69,758**
HRA	12,537	102,645	30,529	72,116
Total	**54,597**	**216,520**	**74,646**	**141,874**

Table 2: Financing of General Fund Capital Expenditure

Finance of Capital Expenditure	2020/21 Actual £'000	2021/22 Actual £'000
General Fund		
Capital receipts/Right to Buy receipts	1,602	376
Capital Grants	6,562	5,449
BCiL	2,824	1,756
NCiL	272	161
Section106	880	398
Revenue	60	-
External Funding	**12,200**	**8,140**
Net Financing need for Year	**29,860**	**35,977**
Total General Fund	**42,060**	**44,117**

6.3. Further details of the capital expenditure position are included within the Revenue and Capital Outturn Report 2021/22 which is included elsewhere on this July cabinet meeting agenda.

7.0 <u>The Councils Overall Borrowing Need</u>

7.1. The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The CFR increases within any net financing need for the year and reduces through the application of resources, including an annual charge to the revenue budget, the Minimum Revenue Provision (MRP).

Gross Debt and the CFR

7.2. In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external debt (borrowing plus other long term liabilities such as PFI and Finance Leases) does not, except in the short term, exceed the total CFR in the preceding year (2021/22) plus the estimates of any additional borrowing requirement for the current (2022/23) and next two financial years. The table below highlights the Council's gross debt position for 2021/22 of £439.8m against the CFR in 2021/22 of £590.4m which shows that the Council has complied with this Prudential Indicator and stayed within it's CFR.

Table 3: Gross Debt and CFR

CFR	**2020/21**	**2021/22**
	Actual £000	**Actual £000**
General Fund	422,193	439,039
HRA	150,674	151,339
Total CFR	572,867	590,378
Gross Debt	439,832	439,832
Under/(Over) Borrowing	133,035	150,546

Financing Costs to Net Revenue Stream

7.3. This Prudential 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. The actual financing costs as a proportion of net revenue stream for 2021/22 compared to 2020/21 is included within table 4 below.

Table 4: Financing costs as a proportion of net revenue stream

Ratio of financing costs to net revenue stream %	**2020/21 Actual**	**2021/22 Actual**
General Fund	16%	15%
HRA	20%	20%
Total	16%	16%

The Authorised Limit

7.4. The Authorised Limit is the "Affordable Borrowing Limit" required by S3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level.

7.5. The Authorised Limit for 2021/22 was originally set as part of the 2021/22 TMSS at a total of £724m for borrowing and other long term liabilities. In light of the revised capital programme, as part of the 2022/23 TMSS which went to Cabinet in February 2022, the 2021/22 Authorised Limit was revised to £688m consisting of £660m (borrowing) and £28m (other long term liabilities).

7.6. With a gross borrowing figure of £439.8m, the table below demonstrates that during 2021/22 the Council has maintained gross borrowing within its Authorised Limit.

Table 5: Authorised Limit

Authorised Limit £'000	2021/22	2021/22
Set as part of :	**2021/22 TMSS**	**2022/23 TMSS**
Borrowing	696,115	660,621
Other long term liabilities	28,520	27,570
Total	724,635	688,191

The Operational Boundary

7.7. The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the Authorised Limit not being breached.

7.8. The Operational Boundary for 2021/22 was originally set as part of the 2021/22 TMSS at a total of £683m. This was revised to reflect the revised capital programme as part of the 2022/23 TMSS to £648m, consisting of £630m (borrowing) and £18m (other long term liabilities).

7.9 With a gross borrowing figure of £439.8m, the table below demonstrates that during 2021/22 the Council has maintained gross borrowing within its Operational Boundary Limit.

Table 6: Operational Boundary

Operational boundary £'000	2021/22	2021/22
Set as part of:	**2021/22 TMSS**	**2022/23 TMSS**
Borrowing	666,115	630,621
Other long term liabilities	17,370	17,570
Total	683,485	648,191

8.0 Treasury Position as at 31 March 2022

Borrowing Outturn (excluding borrowing by PFI and finance leases)

8.1. The Council has maintained an internal borrowing strategy for a number of years, forgoing lost investment income on investments to use its cash balances to temporarily fund capital expenditure and avoid external borrowing costs. This has proved efficient given the differential between short term investment returns and borrowing costs. Table 3 shows that internal (or under) borrowing as at 31st March 2022 was £150m (£133m as at 31st March 2021).

8.2. No additional external borrowing was undertaken during 2021/22, and the Authority's underlying need to borrow, measured by the increase in the Capital Financing Requirement, only showed a relatively small increase of £17.5m.

8.3. The borrowing portfolio remained unchanged in 2021/22, at £422m split between £348m of PWLB loans and £74m of Market loans, and at the 31st March 2022 the portfolio was running at an average interest rate of 3.46% and an average life of 36 years.

Table 7: Borrowing Portfolio

Borrowing Portfolio £'000	31-Mar-21			31-Mar-22		
	Principal	Average Rate (%)	Average Life (yrs)	Principal	Average Rate (%)	Average Life (yrs)
- PWLB	348,461	3.45%	36.04	348,461	3.45%	35.06
- Market	73,800	3.53%	41.69	73,800	3.53%	40.72
Total borrowing	**422,261**	**3.46%**	**37.02**	**422,261**	**3.46%**	**36.05**

8.4. The maturity structure of the debt portfolio remained within the Prudential Indictor limits set as part of the 2021/22 Treasury Management Strategy. The maturity structure table below includes one Lenders Option Borrowers Option (LOBO) market loan at its next call date, which is the earliest date the lender can require repayment. Table 8 reflects this position in respect of the maturity profile of the debt portfolio.

Table 8: Maturity Structure of Borrowing

Maturity structure of borrowing	Lower	Upper	Actual 31.03.21	Actual 31.03.22
Under 12 months	0%	40%	10%	6%
12 months to 2 years	0%	30%	1%	0%
2 years to 5 years	0%	30%	0%	0%
5 years to 10 years	0%	40%	5%	5%
10 years and above	30%	100%	84%	89%

8.5. Appendix 2 provides a summary of PWLB maturity loan certainty rates across 2021/22 over various durations from 1-50 years.

Investment Outturn

8.6. The Council made investments throughout 2021/22 in accordance with the Treasury Management Strategy approved by Full Council in February 2021.

8.7. Due to the internal borrowing strategy being undertaken by the Council, cash balances continued to be held on a short term basis for liquidity purposes, in Money Market Funds and banks throughout 2021/22.

8.8. Investment returns which had been low during 2020/21 saw little improvement in 2021/22 with an average return of 0.02% as set out in Table 9. While the Authority avoided making any investments at negative interest rates, returns from short term investments with MMFs and banks have been at or near zero and at the 31st March 2022 the biggest return within the portfolio was the 32 day notice account with Lloyds which was returning 0.03%.

8.9. While the Bank of England Base Rate increased from 0.10% to 0.25% in December 2021, after remaining unchanged since March 2020, the impact of this and the subsequent 0.25% increases in February 2022 and March 2022 to 0.75% didn't have an immediate impact on on short term highly liquid investment returns due to the large levels of liquidity that have been held across the market throughout the pandemic. Bank Rate has continued to increase at each of Monetary Policy Committee meetings after 31 March 2022, and now stands at 1.25% with the expectation of further increases to come. This will increase investment returns in 2022/23.

8.10. The investment portfolio remained highly liquid throughout 2021/22. Investments increased from £82.4m to £98m over the year while the average rate of interest saw a minimal increase from 0.01% as at 31st March 2021 to 0.02% as at 31st March 2022.

Table 9: Investment Portfolio

Investment Portfolio	31-Mar-21			31-Mar-22		
	Principal (£'000)	Average Rate (%)	Average Life (days)	Principal (£'000)	Average Rate (%)	Average Life (days)
- MMFs	1,616	0.00%	1	1,617	0.05%	1
- Banks	80,838	0.01%	3	96,386	0.02%	3
Total Investments	**82,454**	**0.01%**	**3**	**98,003**	**0.02%**	**3**

9.0. Treasury Management Strategy for 2021/22

Investment strategy for 2021/22

9.1. Investment returns which had been low during 2020/21, remained close to zero for much of 2021/22 with most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expection for interest rates within the treasury management strategy for 2021/22 (table 10) was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.

`Table 10: Link Asset Services Interest Rate Forecast 2021-2024 (TMSS 2021/22)

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

9.2 The Government also supplied funding to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

9.3 The Authority's continuing internal borrowing strategy means that investments are kept liquid, with balances expected to be minimised through the use of reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional revenue cost, due to the differential between borrowing and investment rates.

<u>Borrowing strategy for 2021/22</u>

9.4 As the interest forecast in table 10 above illustrates, there was expected to be little upward movement in PWLB rates over the period from March 2021 to March 2024 based on the expectation that it would take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period

9.5 During 2021/22 the Council maintained an internal borrowing position and no new external borrowing was taken during the year. The CFR increased by a relatively small £17.5m during 2021/22, which resulted in the internal borrowing position of the Authority increasing from £133m to £150m. This additional borrowing requirement was met through increasing the internal borrowing position through the temporary use of resources available on the balance sheet rather than through additional external borrowing.

9.6 This means that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has continued to be used as an interim measure.

9.7 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this will be has kept under review to avoid incurring higher borrowing costs in the future when the Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

9.8 Link Group's economic review of 2021/22 and their associated interest rate forecasts at the start and close of the year are contained in Appendix 1.

10.0. Risk Management Implications

10.1 This report is for noting and Cabinet are not being asked to make any decisions hence there are no direct risk management implications to this report.

11.0. Procurement Implications

There are no procurement implication arising from this report

12.0. Legal Implications

12.1 The Local Government Act 2003 requires the Council to ‘have regard to’ the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable. These are contained within this report. The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments. This report assists the Council in fulfilling its statutory obligation under the Local Government Act 2003 to monitor its borrowing and investment activities.

13.0. Financial Implications

13.1 In addition to supporting the Council’s revenue and capital programmes the Treasury Management interest budget is an important part of the revenue budget. Any savings achieved, or overspends incurred, have a direct impact on the financial performance of the budget

14.0. Equalities implications / Public Sector Equality Duty

14.1 There are no direct equalities impact. Compliance with s.149 of the Equality Act is integral to all aspects decision-making.

15.0. Council Priorities

15.1 This report deals with the Treasury Management Strategy which plays a significant part in supporting the delivery of all the Council’s corporate priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert

Signed by the Chief Financial Officer

Date: 5/07/2022

Statutory Officer: Caroline Eccles

Signed on behalf of the Monitoring Officer
Date: 5/07/2022

Chief Officer: Dawn Calvert
Signed by the Corporate Director
Date: 5/07/2022

Head of Procurement: Nimesh Mehta
Signed by the Head of Procurement
Date: 5/07/2022

Mandatory Checks

Ward Councillors notified: NO as it impacts on all Wards

EqIA carried out: NO

Section 4 - Contact Details and Background Papers

Contact: Sharon Daniels, Head of Strategic and Technical Finance (Deputy S151), Telephone 020 8424 1332, Sharon.Daniels@harrow.gov.uk

Background Papers: None

Call-in waived by the Chair of Overview and Scrutiny Committee - NO

Appendix 1: Link Group Economic Commentary

UK. Economy. Over the last two years, 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 until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022. In June 2022 the rate increased to 1.25%

The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

Average inflation targeting. This was the major change in 2020/21 adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August 2020 was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and *achieving the 2% target sustainably*". That mantra now seems very dated. Inflation is the "genie" that has escaped the bottle, and a perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of Russia's invasion of Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.

USA. The flurry of comments from Fed officials following the mid-March FOMC meeting – including from Chair Jerome Powell himself – hammering home the hawkish message from the mid-March meeting, has had markets pricing in a further 225bps of interest rate increases in 2022 on top of the initial move to an interest rate range of 0.25% - 0.5%.

In addition, the Fed is expected to start to run down its balance sheet. Powell noted that the rundown could come as soon as the next meeting in May.

The upward pressure on inflation from higher oil prices and potential knock-on impacts on supply chains all argue for tighter policy (CPI is estimated at 7.8% across Q1), but the hit to real disposable incomes and the additional uncertainty points in the opposite direction.

More recently, the inversion of the 10y-2y Treasury yield spread at the end of March led to predictable speculation that the Fed's interest rate hikes would quickly push the US economy into recession. Q1 GDP growth is likely to be only between 1.0% and 1.5% annualised (down from 7% in Q4 2021). But, on a positive note, the economy created more than 550,000 jobs per month in Q1, a number unchanged from the post-pandemic 2021 average. Unemployment is only 3.8%.

EU. With euro-zone inflation having jumped to 7.5% in March it seems increasingly likely that the ECB will accelerate its plans to tighten monetary policy. It is likely to end net asset purchases in June – i.e., earlier than the Q3 date which the ECB targeted in March. And the market is now anticipating possibly three 25bp rate hikes later this year followed by more in 2023. Policymakers have also hinted strongly that they would re-start asset purchases if required. In a recent speech, Christine Lagarde said "we can design and deploy new instruments to secure monetary policy transmission as we move along the path of policy normalisation."

While inflation has hit the headlines recently, the risk of recession has also been rising. Among the bigger countries, Germany is most likely to experience a "technical" recession because its GDP contracted in Q4 2021, and its performance has been subdued in Q1 2022. However, overall, Q1 2022 growth for the Eurozone is expected to be 0.3% q/q with the y/y figure posting a healthy 5.2% gain. Finishing on a bright note, unemployment fell to only 6.8% in February.

China. After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; however, 2021 has seen the economy negatively impacted by political policies that have focussed on constraining digital services, restricting individual freedoms, and re-establishing the power of the One-Party state. With the recent outbreak of Covid-19 in large cities, such as Shanghai, near-term economic performance is likely to be subdued. Official GDP numbers suggest growth of c4% y/y, but other data measures suggest this may be an overstatement.

Japan. The Japanese economic performance through 2021/22 is best described as tepid. With a succession of local lockdowns throughout the course of the year, GDP is expected to have risen only 0.5% y/y with Q4 seeing a minor contraction. The policy rate has remained at -0.1%, unemployment is currently only 2.7% and inflation is sub 1%, although cost pressures are mounting.

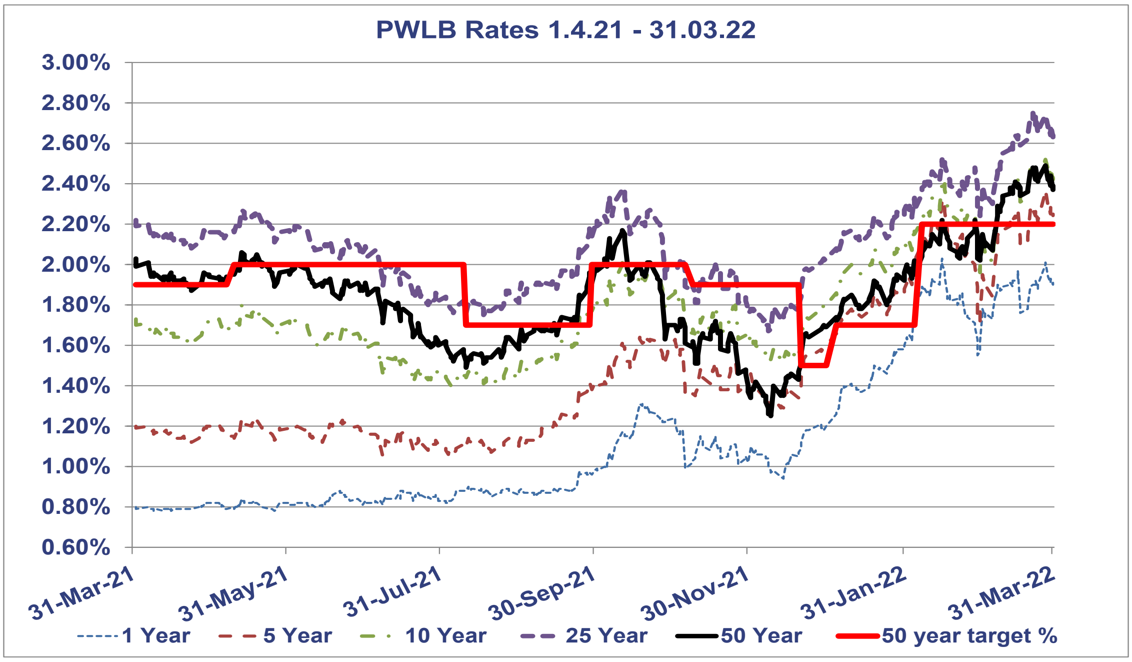
World growth. World growth is estimated to have expanded 8.9% in 2021/22 following a contraction of 6.6% in 2020/21.

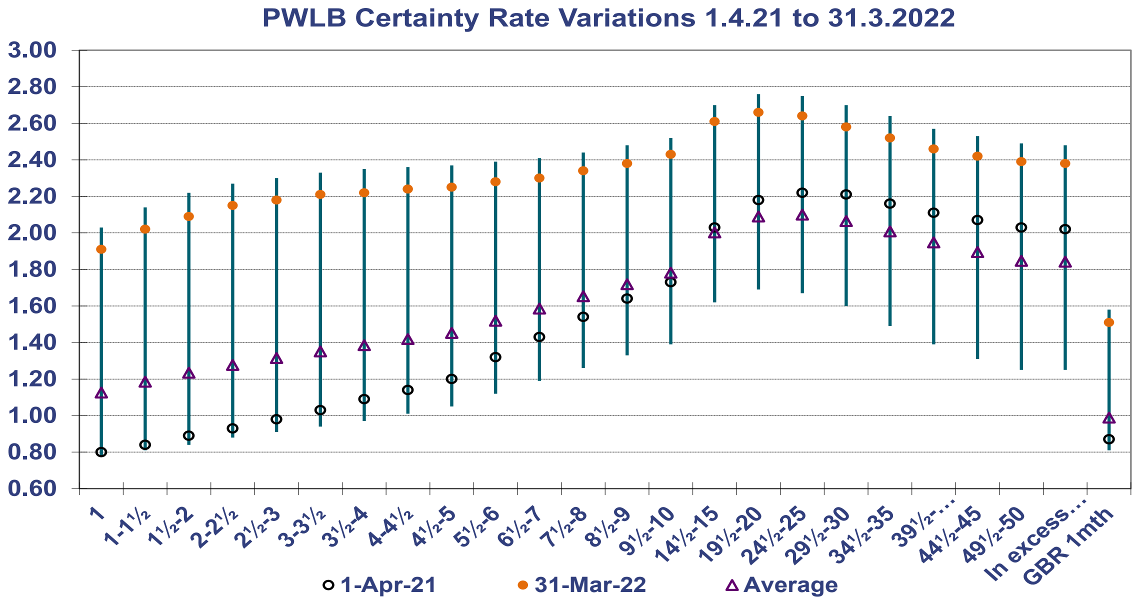
Deglobalisation. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for 18% of total world GDP (the USA accounts for 24%), and Russia's recent invasion of Ukraine, has unbalanced the world economy. In addition, after the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China (and to a much lesser extent Russia) to supply products and vice versa. This is likely to reduce world growth rates.

Central banks' monetary policy. During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

Appendix 2: Borrowing Rate Summary 2021/22

PWLB RATES 2021/22





HIGH/LOW/AVERAGE PWLB RATES FOR 2021/22

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2021	0.80%	1.20%	1.73%	2.22%	2.03%
31/03/2022	1.91%	2.25%	2.43%	2.64%	2.39%
Low	0.78%	1.05%	1.39%	1.67%	1.25%
Low date	08/04/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
High	2.03%	2.37%	2.52%	2.75%	2.49%
High date	15/02/2022	28/03/2022	28/03/2022	23/03/2022	28/03/2022
Average	1.13%	1.45%	1.78%	2.10%	1.85%
Spread	1.25%	1.32%	1.13%	1.08%	1.24%