



LONDON BOROUGH OF
HARROW

**REPORT FOR: Governance, Audit, Risk
Management and Standards
Committee (GARMS)**

Date of Meeting: 5th July 2023

Subject: Treasury Management Annual Outturn Report
2022/23

Responsible Officer: Dawn Calvert, Director of Finance and
Assurance

Exempt: No

Wards affected: All wards

Enclosures: Appendix 1 Link Group Economic
Commentary
Appendix 2 Borrowing Rate Summary 2022/23

Section 1 – Summary and Recommendations

This report sets out the Treasury Management Outturn position for 2022/23.

Recommendations:

Committee is requested to:

1. Note the Treasury Management outturn position for 2022/23.
2. Refer this report to the Cabinet.

Reason: (for recommendations)

3. 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.
4. To keep Members informed of Treasury Management activities and performance for 2022/23.

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 2022/23 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 **Reporting Requirements**

- 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 2022/23 TMSS was presented to Council on 24th February 2022.

Mid-Year Review Report – This is presented to Cabinet in December/January and updates Members on the Treasury Management activity of the Authority 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 2022/23 Mid-Year Report was presented to Cabinet on 8th December 2022

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 2022/23 includes a summary of the actual positions in respect of the Authority's:

- Capital Expenditure, Financing and Limits
- Treasury Position as at 31st March 2023
- Summary of 2022/23 Strategy
- Economic update for 2022/23 (Appendix 1)
- Borrowing Rate Summary for 2022/23 (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 2022/23**

5.1. The Treasury Management Strategy Statement, (TMSS), for 2022/23 was approved by Council in February 2022 . 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 2022/23 against that budgeted and how this was financed.

Table 1: Capital Expenditure

Capital Expenditure	2021/22 Actual £'000	2022/23 Revised Budget £'000	2022/23 Actual £'000	2022/23 Variance £'000
Resources Directorate	5,598	12,129	3,641	(8,488)
People's Directorate	2,258	28,915	3,265	(25,650)
Place Directorate	36,261	62,263	18,482	(43,781)
Total General Fund	44,117	103,307	25,388	(77,919)
Housing Revenue Account (HRA)	30,529	52,855	14,988	(37,867)
Total Capital Expenditure	74,646	156,162	40,376	(115,786)

Table 2: Financing of Capital Expenditure

Finance of Capital Expenditure	2021/22 Actual £'000	2022/23 Actual £'000
General Fund (GF)		
Capital receipts	376	3,541
Capital Grants	5,449	6,593
BCiL	1,756	3,477
NCiL	161	209
Section106	398	613
Revenue		-
Total External Funding	8,140	14,433
Borrowing Requirement (GF)	35,977	10,955
Total GF Funding	44,117	25,388
Housing Revenue Account (HRA)		
Capital receipts	7,185	1,761
Capital Grants	16,156	1,400
Section106	100	419
Revenue	6,403	7,621
Total External Funding	29,844	11,201
Borrowing Requirement (HRA)	685	3,787
Total HRA Funding	30,529	14,988
Total General Fund & HRA Funding	74,646	40,376
Total External Funding	37,984	25,634
Total Borrowing Requirement	36,662	14,742

6.3. Further details of the capital expenditure position are included within the Revenue and Capital Outturn Report 2022/23 to be reported to Cabinet 27th July 2023.

7.0 The Councils Overall Borrowing Need

- 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 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 (2022/23) plus the estimates of any additional borrowing requirement for the current (2023/24) and the next two financial years. The table below highlights the Council's gross debt position for 2022/23 of £432.2m against the CFR in 2022/23 of £579.7m which shows that the Council has complied with this Prudential Indicator and stayed within its CFR.

Table 3: Gross Debt and CFR

Capital Financing Requirements (CFR)	2021/22 Actual £'000	2022/23 Draft Actual £'000
General Fund	430,661	418,900
HRA	157,439	160,808
Total CFR	588,100	579,708
Gross Debt	438,519	432,216
Under/(Over) Borrowing	149,581	147,492

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 2022/23 compared to 2021/22 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 %	2021/22 Actual	2022/23 Draft Actual
General Fund	16%	16%
HRA	20%	20%
Total CFR	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 2022/23 was originally set as part of the 2022/23 TMSS at a total of £695m for borrowing and other long term liabilities. In light of the revised capital programme, as part of the 2023/24 TMSS which went to Cabinet in

February 2023, the 2022/23 Authorised Limit was revised to £685m consisting of £660m (borrowing) and £25m (other long term liabilities).

- 7.6. With a gross borrowing figure of £432.2m, the table below demonstrates that during 2022/23 the Council has maintained gross borrowing within its Authorised Limit.

Table 5: Authorised Limit

Authorised Limit £'000 Set as part of:	2022/23 2022/23 TMSS	2022/23 2023/24 TMSS
Borrowing	668,857	659,884
Other Long Term Liabilities	26,303	24,955
Total	695,160	684,839

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 2022/23 was originally set as part of the 2022/23 TMSS at a total of £655m. This was revised to reflect the revised capital programme as part of the 2023/24 TMSS to £645m, consisting of £630m (borrowing) and £15m (other long term liabilities).
- 7.9. With a gross borrowing figure of £432.2m, the table below demonstrates that during 2022/23 the Council has maintained gross borrowing within its Operational Boundary Limit.

Table 6: Operational Boundary

Operational Boundary £'000 Set as part of:	2022/23 2022/23 TMSS	2022/23 2023/24 TMSS
Borrowing	638,857	629,884
Other Long Term Liabilities	16,303	14,955
Total	655,160	644,839

8.0 Treasury Position as at 31 March 2023

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 2023 was £147m (£149m as at 31st March 2022).
- 8.2. No additional external borrowing was undertaken during 2022/23, and the Council's underlying need to borrow, measured by the increase in the Capital Financing Requirement, showed a small reduction of £8m over the period.

- 8.3. The borrowing portfolio of some £422m reduced slightly in 2022/23 to £417m, comprising £343m of PWLB loans and £74m of Market loans, and at the 31st March 2023 the portfolio was running at an average interest rate of 3.45% and an average life of 35 years.

Table 7: Borrowing Portfolio

Borrowing Portfolio £'000	31-Mar-22			31-Mar-23		
	Principal	Average Rate (%)	Average Life (yrs)	Principal	Average Rate (%)	Average Life (yrs)
PWLB	348,461	3.45	35.06	343,461	3.43	34.41
Market	73,800	3.53	40.72	73,800	3.53	39.56
Total	422,261	3.46	36.05	417,261	3.45	35.32

- 8.4. The maturity structure of the debt portfolio remained within the Prudential Indicator limits set as part of the 2022/23 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 31.03.22	Actual 31.03.23
Under 12 months	0%	40%	6%	6%
12 months to 2 years	0%	30%	0%	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%	89%	89%

- 8.5. Appendix 2 provides a summary of PWLB maturity loan certainty rates across 2022/23 over various durations from 1-50 years.

Investment Outturn

- 8.6. The Council made investments throughout 2022/23 in accordance with the Treasury Management Strategy approved by Full Council in February 2022.
- 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 2022/23.
- 8.8. Investment returns which had been low during 2021/22 saw significant improvement in 2022/23 with the Council investment portfolio earning of an average return of 0.81% as set out in Table 9.
- 8.9. Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%. Bank Rate has continued to increase after 31 March 2023, and now stands at 5.0%. This will increase investment returns in 2023/24.

8.10. The investment portfolio remained highly liquid throughout 2022/23. Investments decreased from £98m to £79m over the year while the average rate of interest saw a considerable increase from 0.02% as at 31st March 2022 to 0.81% as at 31st March 2023.

Table 9: Investment Portfolio

Investment Portfolio	31-Mar-22			31-Mar-23		
	Principal £'000	Average Rate (%)	Average Life (days)	Principal £'000	Average Rate (%)	Average Life (days)
MMF	1,617	0.05	1	1,651	0.20	1
Banks	96,386	0.02	3	48,743	0.67	3
UK Government	0	0	0	29,000	1.20	7
Total	98,003	0.02	3	79,394	0.810	5

9.0. Treasury Management Strategy for 2022/23

Investment strategy for 2022/23

- 9.1. Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.
- 9.2. The sea-change in investment rates meant we were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and “laddering” deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.
- 9.3. The expectation for interest rates within the treasury management strategy for 2022/23 (table 10) was that Bank Rate would rise to 1.25%.

Table 10: Link Asset Services Interest Rate Forecast 2021-2025 (TMSS 2022/23)

Link Group Interest Rate View	20.12.21													
	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	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	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	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

- 9.4. 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.
- 9.5. 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.

Borrowing strategy for 2022/23

- 9.6. As the interest forecast in table 10 above illustrates, there was expected to be an upward movement in PWLB rates over the period from March 2022 to March 2025 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
- 9.7. During 2022/23 the Council maintained an internal borrowing position and no new external borrowing was taken during the year. The CFR reduced slightly by £8m during 2022/23, which resulted in the internal borrowing position of the Council reducing from £149m to £147m.
- 9.8. 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.
- 9.9. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this has been 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.
- 9.10. Link Group's economic review of 2022/23 and their associated interest rate forecasts at the start and close of the year are contained in Appendix 1.

10.0. Legal Implications

- 10.1 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.

11.0. Financial Implications

11.1 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

12.0. Procurement Implications

12.1 There are no procurement implication arising from this report

13.0. Risk Management Implications

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

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: 21/06/2023

Statutory Officer: Caroline Eccles

Signed on behalf of the Monitoring Officer

Date: 21/06/2023

Chief Officer: Dawn Calvert

Signed on behalf of the Corporate Director

Mandatory Checks

Ward Councillors notified: NO as it impacts on all Wards

Section 4 - Contact Details and Background Papers

Contact: Bola Tobun, Treasury & Pensions Manager, Telephone 020 8424 9264, Bola.Tobun@harrow.gov.uk

Background Papers: N/A

Appendix 1: Link Group Economic Commentary

UK. Economy - Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	4.25%	3%	4.75%-5%
GDP	0.1%q/q Q4 (4.1%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.6% Q4 Annualised
Inflation	10.4%/y/y (Feb)	6.9%/y/y (Mar)	6.0%/y/y (Feb)
Unemployment Rate	3.7% (Jan)	6.6% (Feb)	3.6% (Feb)

Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17th of November gave rise to a net £55bn fiscal tightening, although much of the “heavy lifting” has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.

As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the ILO unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.

Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.

The £ has remained resilient of late, recovering from a record low of \$1.035, on the Monday following the Truss government’s “fiscal event”, to \$1.23. Notwithstanding the £’s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20th February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20th February, while the S&P 500 is only 1.9% lower over the same period. That’s despite UK banks having been less exposed and equity prices in the UK’s financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

USA. The flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in a further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%.

In addition, the Fed is expected to continue to run down its balance sheet once the ongoing concerns about some elements of niche banking provision are in the rear-view mirror.

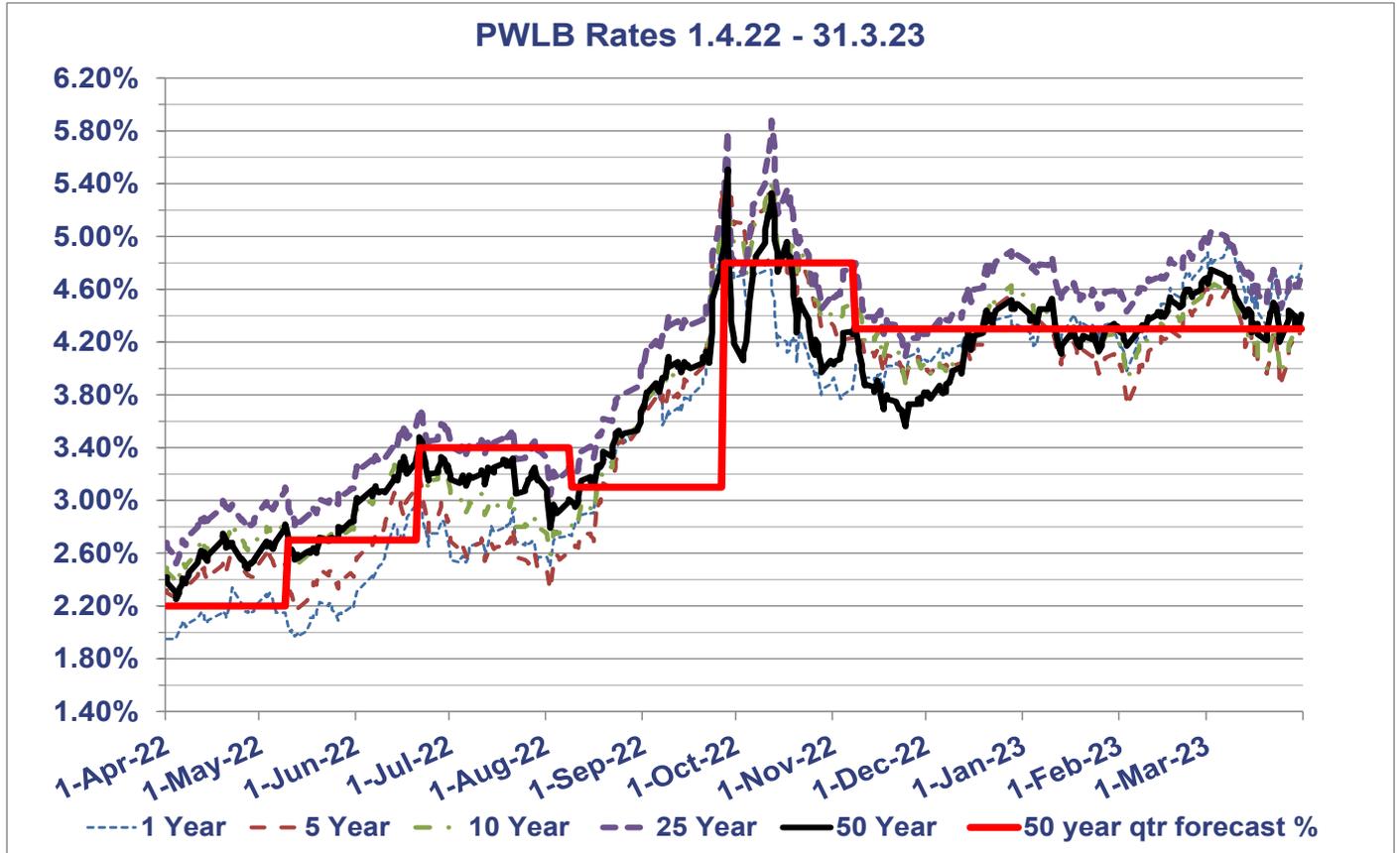
As for inflation, it is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy

slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.

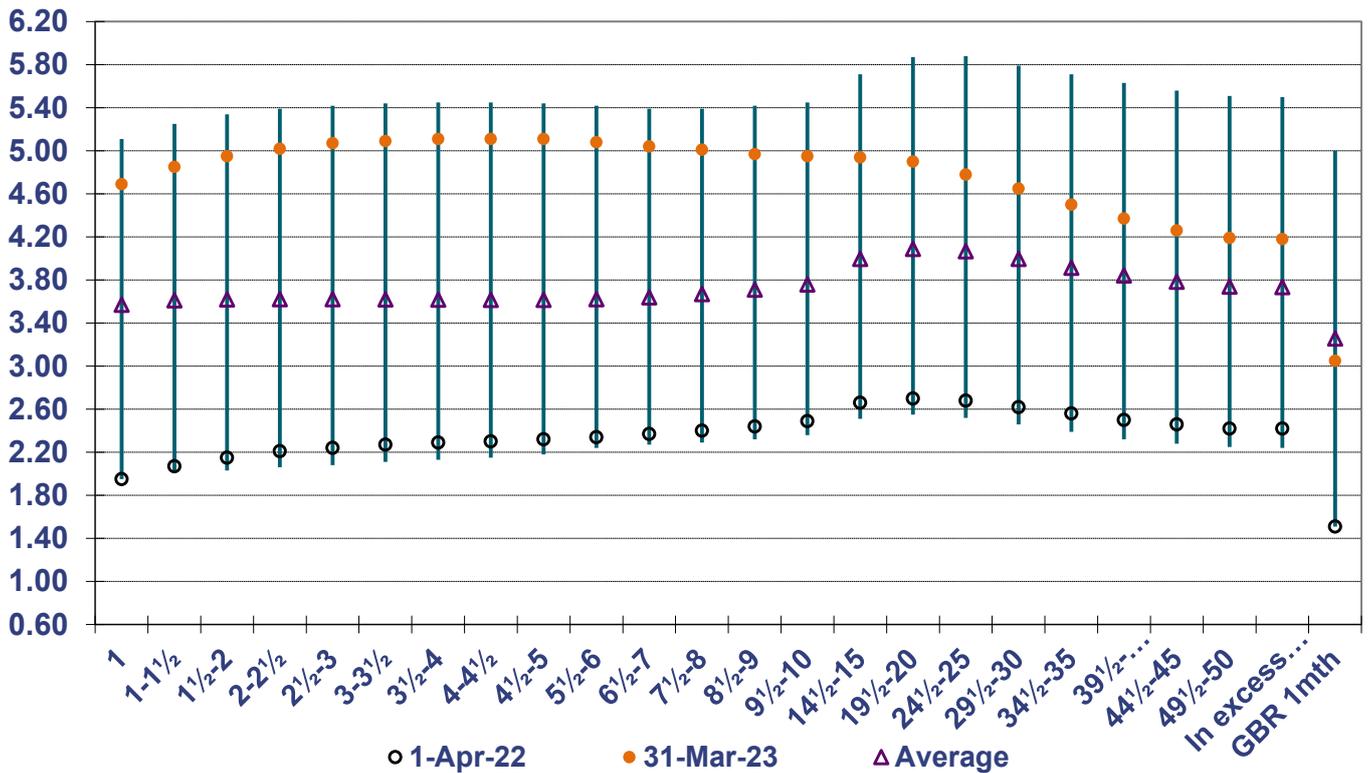
EU. Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

Appendix 2: Borrowing Rate Summary 2022/23

PWLB RATES 2022/23



PWLB Certainty Rate Variations 1.4.22 to 31.3.23



HIGH/LOW/AVERAGE PWLB RATES FOR 2022/23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.57%	3.62%	3.76%	4.07%	3.74%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

	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%