-REPORT TO:	**AUDIT COMMITTEE**		
DATE:	7 September 2022		
TITLE:	**ANNUAL TREASURY OUTTURN REPORT 2021/2022**		
TYPE OF REPORT:	Recommendation		
PORTFOLIO(S):	Cllr Angie Dickinson E-mail: cllr.angie.dickinson@west-norfolk.gov.uk		
REPORT AUTHOR:	Carl Holland E-mail: carl.holland@west-norfolk.gov.uk Direct Dial: 01553 616549		
OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	*No*

Date of meeting: 7 September 2022

ANNUAL TREASURY OUTTURN REPORT 2021/2022

Summary
The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (2009) and remains fully compliant with its requirements.

This Annual Treasury Outturn Report looks backwards at 2021/2022 and covers:

1. The 2021/2022 Treasury Outturn
2. Compliance with Treasury Limits
3. Outturn Summary

Additional supporting information:

Appendix 1 – Economic Outlook
Appendix 2 - Investments as at 31 March 2022
Appendix 3 - Borrowing as at 31 March 2022
Appendix 4 - Prudential Indicators

The Council's Treasury Policy Statement 2022/2023 and annual Treasury Strategy Statement 2022/2023 were approved by Council on the 9 February 2022.

Recommendations
The Audit Committee is asked to note the annual treasury outturn position for 2021/2022.

Reason for the Decision
The Council must make an annual review of its Treasury operation for the previous year, as part of the CIPFA code of Practice.

1. The Annual Treasury Management Review 2021/2022

1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/2022. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

1.2 During 2021/2022 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 9 February 2022)
- a mid-year, (minimum), treasury update report (Audit Committee 28 February 2022)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was last undertaken in January 2020. This training was provided by Link, the council's external treasury management advisors, in order to support members' scrutiny role.

2. Executive Summary

2.1 During 2021/2022, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	2020/2021 Actual £'000	2021/2022 Actual £'000
Capital expenditure	15,204	23,448
Capital Financing Requirement	36,929	35,081
Gross borrowing	10,000	10,000
External debt *	10,094	10,094
Investments *	27,278	34,647
Net borrowing/(investments)	(17,184)	(24,553)

* Both the External debt and Investments figures shown in the table above include interest accruals. Whereas elsewhere in the report the amounts shown are the principal amounts only.

2.2 Other prudential and treasury indicators follow below in the main body of this report. The Assistant Director of Finance confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

2.3 The financial year 2021/22 continued the challenging investment environment of previous years, namely low investment returns.

3. Introduction and Background

3.1 This report covers the following:-

- Capital activity during the year i.e. capital expenditure and financing (section 4 below);
- Impact of this activity on the Council's underlying indebtedness, i.e. the Capital Financing Requirement (section 5 below);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances (section 6 below);
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity

4. The Council's Capital Expenditure and Financing

4.1 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.

4.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund	2020/2021 Actual £'000	2021/2022 Budget £'000	2021/2022 Actual £'000
Capital expenditure	15,204	43,883	23,448
Financed in year	15,204	43,883	23,448
Unfinanced capital expenditure	-	-	-

5. The Council's Overall borrowing Need

5.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2021/2022 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

5.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

5.3 Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

5.4 The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

5.5 The Council's 2021/2022 MRP Policy, (as required by Department for Levelling Up, Housing and Communities Guidance), was approved as part of the Treasury Management Strategy Report for 2021/2022 on 9 February 2022.

5.6 The Council's CFR for the year is shown below and represents a key prudential indicator. It includes leasing schemes that are on the balance sheet, as these increase the Council's borrowing need.

CFR (£m): General Fund	**31 March 2021 Actual £'000**	**31 March 2022 Budget £'000**	**31 March 2022 Actual £'000**
Opening balance	38,377	36,929	36,929
Less MRP/VRP	(1,448)	(398)	(1,848)
Closing balance	**36,929**	**36,531**	**35,081**

5.7 Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

5.8 **Gross borrowing and the CFR** - 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 borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2021/2022) plus the estimates of any additional capital financing requirement for the current (2022/2023) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2021 Actual £'000	31 March 2022 Budget £'000	31 March 2022 Actual £'000
Gross borrowing position	10,000	10,000	10,000
CFR	36,929	36,531	35,081
(Under) / over funding of CFR	26,929	26,531	25,081

5.9 **The authorised limit** - 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. The table below demonstrates that during 2021/2022 the Council has maintained gross borrowing within its authorised limit.

5.10 **The operational boundary** – 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.

5.11 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

	2021/2022 £'000
Authorised limit	77,000
Maximum gross borrowing position during the year	10,000
Operational boundary	72,000
Average gross borrowing position	10,000
Financing costs as a proportion of net revenue stream	3.14%

6. Treasury Position as at 31 March 2022

6.1 The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2021/2022 the Council's treasury, (excluding borrowing by finance leases), position was as follows:

DEBT PORTFOLIO	31 March 2021 Principal £'000	Rate/ Return	31 March 2022 Principal £'000	Rate/ Return
Fixed rate funding:				
- Market (Maturity Loan)	10,000	3.81%	10,000	3.81%
- Local Authorities (Maturity Loans)	-	-	-	-
Total debt	**10,000**	**3.81%**	**10,000**	**3.81%**
CFR	**36,929**		**35,081**	
Over / (under) borrowing	**(26,929)**		**(25,081)**	
Total investments	**27,240**	**0.33%**	**34,615**	**0.43%**
Net	**311**		**9,534**	

6.2 The maturity structure of the debt portfolio was as follows:

	31 March 2020 Actual £'000	2021/2022 Original Projection £'000	31 March 2022 Actual £'000
Under 12 months	-	-	-
12 months and within 24 months	-	-	-
2 years and within 50 years	-	-	-
Over 50 years	10,000	10,000	10,000

6.3 As at the 31 March 2022 the council did not have any temporary loans. There are 2 market loans with Barclays of £5m each and these mature in 2077.

6.4 The £34,615,000 investments at the year-end comprised of; £8,000,000 Call Accounts/ Instant Access Accounts, £10,615,000 Money Market Funds, £4,000,000 Local Authorities and £12,000,000 other short-term investments.

6.5 Full details for both the borrowing and the investments can be found in Appendices 1 and 2.

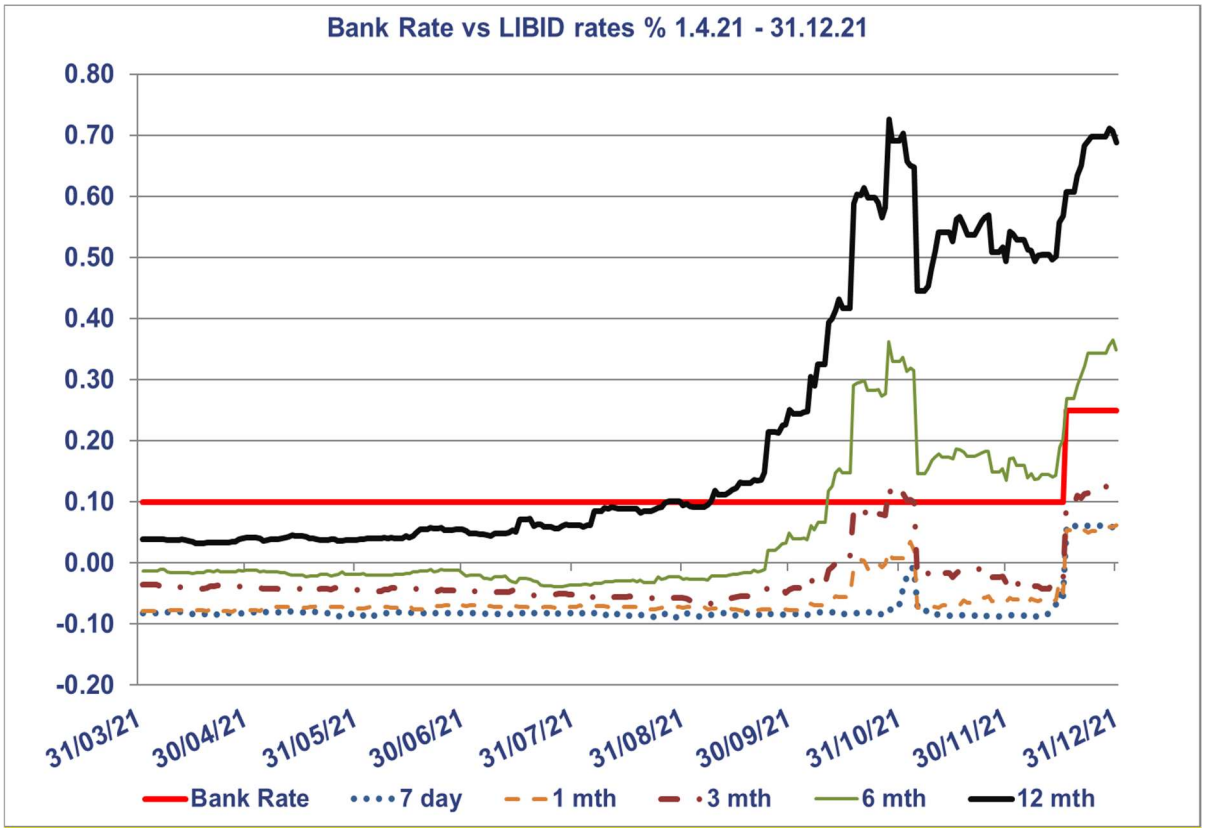
INVESTMENT PORTFOLIO	Actual 31 March 2021 £000	Actual 31 March 2021 %	Actual 31 March 2022 £000	Actual 31 March 2022 %
Treasury investments				
Call Accounts / Instant Access Accounts	8,000	29%	8,000	23%
Money Market Funds	11,240	42%	10,615	31%
Local authorities	8,000	29%	4,000	12%
Other Short Term Fixed Investments	0	0	12,000	35%
TOTAL TREASURY INVESTMENTS	**27,240**	**100%**	**34,615**	**100%**

6.6 The maturity structure of the treasury investment portfolio was as follows:

	31 March 2021 Actual £000	31 March 2022 Actual £000
Treasury Investments:		
Longer than 1 year	0	0
Up to 1 year	27,240	34,615
Total	**27,240**	**34,615**

7. The Strategy for 2021/2022

7.1 Investment strategy and control of interest rate risk



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.25	0.06	0.06	0.14	0.36	0.73
High Date	17/12/2021	29/12/2021	31/12/2021	31/12/2021	30/12/2021	28/10/2021
Low	0.10	-0.09	-0.08	-0.07	-0.04	0.04
Low Date	01/07/2021	27/08/2021	17/09/2021	08/09/2021	27/07/2021	08/07/2021
Average	0.11	-0.07	-0.05	-0.01	0.09	0.31
Spread	0.15	0.15	0.14	0.20	0.40	0.68

7.2 Investment returns remained close to zero for much of 2021/22. 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 expectation for interest rates within the treasury management strategy for 2021/22 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.

An update reporting a number of factors that could be influencing the economy is included at Appendix 1. The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance 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 remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

7.3 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

7.4 **Borrowing strategy and control of interest rate risk**

7.5 During 2021/2022, the Council maintained an under-borrowed position. This meant 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 was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

7.6 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

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

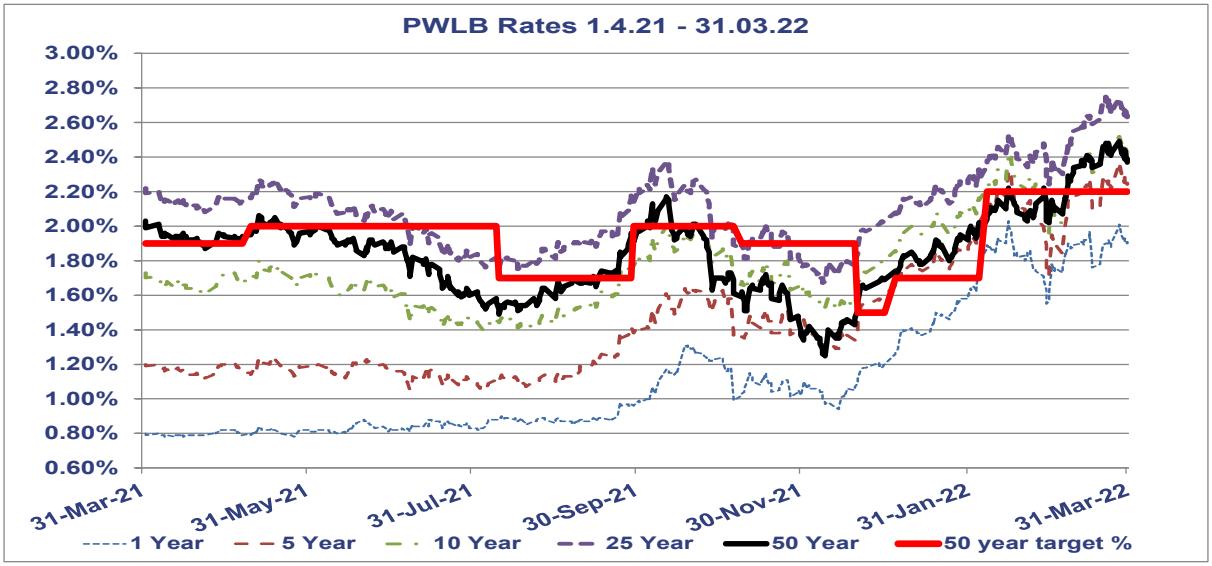
7.8 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Assistant Director of Resources therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks :-

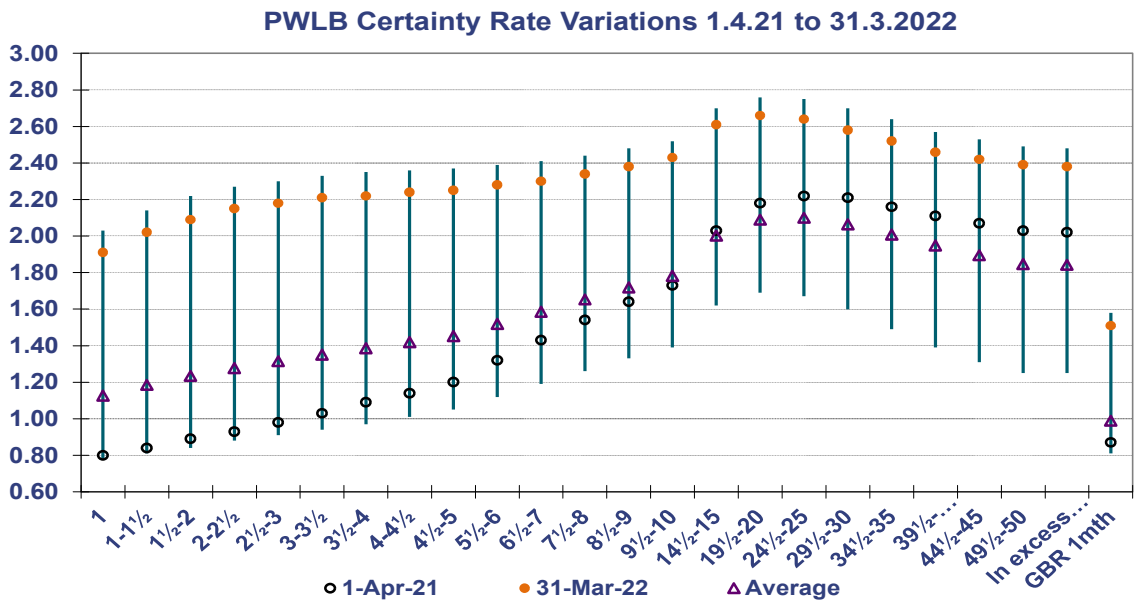
- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

7.9 Interest rate forecasts expected only gradual rises in medium and longer-term fixed borrowing rates during 2021/2022 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Internal, variable, or short-term rates, were expected to be the cheaper form of borrowing until well in to the second half of 2021/2022.

Link Group Interest Rate View 7.2.22													
	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	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40





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%

7.10 PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. Recently, yields have risen since the turn of the year on the back of global inflation concerns.

7.11 Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies

post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

7.12 At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% – 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)

7.13 There is likely to be a further rise in short dated gilt yields and PWLB rates over the next three years as Bank Rate is forecast to rise from 0.75% in March 2022 to 1.25% later this year, with upside risk likely if the economy proves resilient in the light of the cost-of-living squeeze. Medium to long dated yields are driven primarily by inflation concerns but the Bank of England is also embarking on a process of Quantitative Tightening when Bank Rate hits 1%, whereby the Bank's £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

8. Borrowing Outturn

8.1 No borrowing was undertaken during the year.

8.2 **Borrowing in advance of need**
The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

8.3 **Rescheduling**
There was no rescheduling during the year.

9. Investment Outturn

9.1 **Investment Policy** – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 9 February 2022. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

9.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

9.3 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2021 £'000	31 March 2022 £'000
Balances	8,998	4,032
Earmarked reserves	24,116	30,641
Provisions	944	829
Usable capital receipts	6,754	4,967
Total	**40,812**	**40,469**

9.4 **Investments held by the Council**

- The average balance of investments for the year was £38.345m (2020/2021 £23.553m).
- The average rate of return for the year on investments was 0.18% (2020/2021 0.37%).
- Total investment income was £226,320 (2020/2021 £248,670) compared to a budget of £278,370 (2020/2021 £329,590). It should be noted that the shortfall in investment income is due to the continued effects on the Bank of England base rate and subsequent interest rates since Covid-19 which were predominately low for three quarters of the 2021/2022 financial year.

10. Background Information

- Monthly budget monitoring reports
- Treasury Policy Statement 2022/2022 and Annual Treasury Strategy (Council 8 February 2022)

Appendix 1 – Economic Outlook

The Following is provided by the Council's Treasury Advisers, The Link Group, May 2022.

The Economy and Interest Rates

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.

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.

United States of America

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%.

European Union
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 - Investments as at 31 March 2022:

Treasury Investments	Principal	Start Date	End Date	Rate %
BNP (Banque Nationale de Paris) – Money Market Fund	£4,000,000	N/A	N/A	0.637
HSBC Sterling – Money Market Fund	£2,615,000	N/A	N/A	0.510
LGIM Sterling – Money Market Fund	£4,000,000	N/A	N/A	0.544
Handelsbanken	£4,000,000	N/A	N/A	0.250
Santander	£4,000,000	N/A	N/A	0.450
Total Call Accounts	**£18,615,000**			
Blackpool Borough Council	£4,000,000	06/10/2021	06/04/2022	0.040
National Bank of Kuwait	£4,000,000	14/10/2021	14/04/2022	0.240
Standard Chartered Bank	£4,000,000	17/01/2022	15/07/2022	0.580
SMBC Bank International	£4,000,000	28/01/2022	28/07/2022	0.630
Total Fixed Term Investments	**£16,000,000**			
Total Treasury Investments	**£34,615,000**			

APPENDIX 3 - Borrowing as at 31 March 2022:

Start Date	End Date	Loan No	Value £	Institution	Rate %	Term
Total Short Term			**£0**			
22.03.07	21.03.77	5888	£5,000,000	Barclays – fixed rate loan	3.81	Long Term - fixed.
12.04.07	11.04.77	5887	£5,000,000	Barclays – fixed rate loan	3.81	Long Term - fixed.
Total Long Term			**£10,000,000**			
Total Borrowing			**£10,000,000**			

APPENDIX 4: Prudential Indicators

PRUDENTIAL INDICATOR	2020/2021 Actual £000's	2021/2022 Actual £000's
Capital Expenditure	15,204	23,448
Ratio of financing costs to net revenue stream	4.12%	3.13%
Net borrowing		
brought forward 1 April	16,000	10,000
carried forward 31 March	10,000	10,000
Change in year - increase/(decrease)	(6,000)	-
Net Investment		
brought forward 1 April	(18,755)	(27,240)
carried forward 31 March	(27,240)	(34,615)
Change in year - increase/(decrease)	8,485	7,375

Capital Financing Requirement

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2021/2022 unfinanced capital expenditure, and prior years' net unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

CFR (£m): General Fund	31 March 2021 Actual £'000	31 March 2022 Actual £'000
Opening balance	38,377	36,929
Add unfinanced capital expenditure (as above)	-	-
Voluntary application of capital receipts	-	-
Less Minimum Revenue Provision (MRP)	(373)	(398)
Less voluntary / additional MRP	(1,075)	(1,450)
Closing balance	**36,929**	**35,081**

Net borrowing and the CFR

In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2021/2022. This essentially means that the Council is not

borrowing to support revenue expenditure. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

CFR	31 March 2021 Actual £'000	31 March 2022 Actual £'000
Borrowing	10,000	10,000
Investments	(27,240)	(34,615)
Net Position	**(17,240)**	**(24,615)**
Closing CFR	**36,929**	**35,081**

Actual financing costs as a proportion of net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream (Council Tax and Government Grant).

	2021/2022
Authorised limit	77,000
Maximum gross borrowing position	10,000
Operational boundary	72,000
Average gross borrowing position	10,000
Financing costs as a proportion of net revenue stream	3.14%

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2020/2021 £'000	2021/2022 £'000
Authorised limit for external debt -		
Borrowing	53,000	77,000
Operational boundary for external debt -		
Borrowing	58,000	72,000
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing /investments	53,000	77,000
Upper limit for variable rate exposure		
Net principal re variable rate borrowing / investments	21,200	30,800

Maturity structure of fixed rate borrowing during 2021/2022	upper limit	lower limit	Actual
under 12 months	100%	0%	0%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	0%
5 years and within 10 years	100%	0%	0%
10 years and above	100%	0%	100%