Agenda Item No:

Report to:	**Audit Committee**
Date of Meeting:	**18 November 2021**
Report Title:	**Treasury Management Mid-Year Report 2021-22**
Report By:	**Peter Grace** **Chief Finance Officer**

Purpose of Report

This report advises the Audit Committee of the Treasury Management activities and performance during the current year. It provides the opportunity to review the Treasury Management Strategy and make appropriate recommendations to Cabinet and Council to take account of any issues or concerns that have arisen since approving it in February 2021.

Recommendation

Audit Committee agree the Mid-Year report.

Reasons for Recommendations

The Code of Practice on Treasury Management requires, as a minimum, a mid-year review of the Treasury Management Strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved (February 2021). It is a requirement of the Code of Practice that the Mid-year review is considered by Cabinet, Audit Committee and full Council.

.

Background

1. In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following: -

    1. a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
    2. an overview of how the associated risk is managed; the implications for future financial sustainability.
    3. The implications for future financial sustainability.

2. CIPFA is again looking at revising the Prudential Code and Treasury Management Code and is at an advanced stage of agreeing the new Codes. On 21 September 2021 CIPFA began its stage 2 consultation phase for measures to strengthen both codes with the consultation ending on 16th November 2021.These follow "ongoing concerns over local authority commercial investments", CIPFA said.

3. The Prudential Code is used to ensure that capital finance decisions are sustainable, while the Treasury Management Code sits alongside to provide a framework for risk management. Measures proposed in the consultations include how to define proportionate commercial investment in the context of local authority regeneration work.

4. The proposed revisions will strengthen both codes with a greater focus on climate and environmental, social and governance risks when making financial decisions. There is also guidance on CIPFA's stance that borrowing for investment return, or debt for yield, is an imprudent activity that puts public money at undue risk.

5. The key changes being brought forward in these consultations clarify and update CIPFA's position on local authority commercial investment. The revised code will emphasise that any borrowing made solely for the purpose of financial return constitutes imprudent activity, while also taking into account the realities that accompany regeneration activities.

6. For the Treasury Management Code the key changes impact on Treasury Management Practices and Treasury Indicators:

    - TMP1 Risk Management
    - TMP2 Performance Management
    - TMP6 Reporting Requirements and Management Information Arrangements
    - TMP8 Cash and Cash Flow Management
    - TMP10 Training and Qualifications

7. Further details on the changes to the codes and their impact will be reported once the final revised Codes have been agreed. The requirements are expected to apply for the next financial year and as such the Treasury Management Strategy for 2022/23 would need to comply with the requirements.

8. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure in combination with funding from reserves. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

9. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing needs of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

10. Accordingly, treasury management is defined as:

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

11. Covid-19 has again highlighted the fundamental requirement for local authorities to have proper and effective Treasury Management Practices and Policies in place. The Council has been able to sustain its services throughout this period, has not experienced undue difficulties in managing major cash flows, and retained sufficient reserves (given government assistance) throughout the period.

Introduction

12. The CIPFA Code of Practice on Treasury Management (revised 2017) was adopted by this Council in February 2018.

13. The primary requirements of the Code are as follows:
    - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
    - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
    - Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
    - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
    - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

14. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

    - An economic update for the first part of the 2021/22 financial year;
    - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
    - The Council's capital expenditure (prudential indicators);
    - A review of the Council's investment portfolio for 2021/22;
    - A review of the Council's borrowing strategy for 2021/22;
    - A review of any debt rescheduling undertaken during 2021/22;
    - A review of compliance with Treasury and Prudential Limits for 2021/22.

15. **The Committee will need to determine whether there are any issues that require the amendment of the Council's Treasury Management Strategy or Investment Policy and that they therefore wish to draw to the attention of Council.**

16. The Council has increased its levels of income generation over the last few years and this has entailed new borrowing over long periods, with consequent risks in terms of asset valuations, credit worthiness, cash and reserve fund availability. Such risks cannot be considered in isolation of all the issues facing the Council now and potentially in the future. The Council strengthened its reserves when taking on these additional risks and the level of reserves have to date proven more than adequate to cope with the immediate effects of Covid-19, increased expenditure levels and reduced income. However, additional cost pressures are being experiences e.g. homelessness, which will reduce reserves to below minimum recommended levels unless additional government funding is received or the Council takes action to reduce its costs.

17. The Cabinet will consider a similar mid-year report at their meeting on 4 January 2022 as will full Council.

Economic Update

18. At the Monetary Policy Committee (MPC) meeting on 24 September 2021 members voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to the programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures. The MPC meeting on 2 November again agreed to make no change in the bank base rate.

19. There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential

danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, the MPC had been prepared to look through a temporary spike in inflation.

20. So, in August the country was just put on alert. However, this time the MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement; this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.

21. Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.

22. COVID-19 vaccines. These have been the game changer which have enormously boosted confidence that life in the UK could largely return to normal during the summer after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

Interest rate forecasts

23. The Council's treasury advisor, Link Group, provided the following forecasts on 29th September 2021 (PWLB rates are certainty rates, gilt yields plus 80bps):

Link Group Interest Rate View 29.9.21	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	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

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

25. As shown in the forecast table above, one increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 23/24 and a third one to 0.75% in quarter 4 of 23/24. These forecasts are now being refined on a regular basis – with the lack of an increase in November 2021 taking the market by surprise.

Significant risks to the interest rate forecasts

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The pandemic causes major long-term scarring of the economy.
- The Government implements an austerity programme that supresses Gross Domestic Product (GDP) growth.
- The MPC tightens monetary policy too early – by raising Bank Rate or slowing/stopping quantitative easing.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- Major stock markets e.g. in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the “moral hazard” risks of having to buy shares and corporate bonds to reduce the impact of major financial market sell-offs on the general economy.

The Council's Treasury Position – 30 September 2021

Borrowing

26. The Council's debt and investment position at the 30 September 2021 was as follows:

Table 1 – Borrowing

Debt	1 April 2021 Principal	Start Date	Maturity Date	30 Sept 2021 Principal	Rate
PWLB	£7,500,000	25/05/2007	01/02/2033	£7,500,000	4.80%
PWLB	£909,027	04/09/2014	02/09/2044	£909,027	3.78%
PWLB (Optivo)	£1,788,235	04/09/2014	02/09/2044	£1,788,235	3.78%
PWLB (FT) (Annuity)	£156,196	21/03/2016	20/03/2026	£141,151	1.66%
PWLB	£1,000,000	11/05/2016	11/05/2056	£1,000,000	2.92%
PWLB	£1,000,000	11/05/2016	11/05/2046	£1,000,000	3.08%
PWLB	£1,000,000	11/05/2016	09/05/2036	£1,000,000	3.01%
PWLB	£1,000,000	11/05/2016	11/05/2026	£1,000,000	2.30%
PWLB	£2,000,000	24/06/2016	24/06/2054	£2,000,000	2.80%
PWLB	£1,000,000	24/06/2016	23/06/2028	£1,000,000	2.42%
PWLB	£2,000,000	21/03/2017	21/03/2057	£2,000,000	2.53%
PWLB	£2,000,000	21/03/2017	19/09/2059	£2,000,000	2.50%
PWLB	£2,000,000	23/03/2017	23/03/2060	£2,000,000	2.48%
PWLB (Annuity)	£6,889,020	01/06/2017	01/06/2057	£6,831,054	2.53%
PWLB (Annuity)	£7,987,864	22/11/2017	22/11/2057	£7,924,603	2.72%
PWLB	£2,000,000	12/12/2018	12/06/2028	£2,000,000	1.98%
PWLB (Annuity)	£3,881,544	13/12/2018	13/12/2058	£3,850,980	2.55%
PWLB (Annuity)	£2,426,128	31/01/2019	31/01/2059	£2,407,065	2.56%
PWLB (Annuity)	£4,320,356	31/01/2019	31/01/2069	£4,297,224	2.56%
PWLB (Annuity)	£9,121,014	20/03/2019	20/03/2059	£9,049,039	2.54%
PWLB (Annuity)	£4,710,543	02/09/2019	02/09/2069	£4,680,177	1.83%
Total Debt	**£64,689,926**			**£64,378,555**	2.82%

27. At the 30 September 2021 the Council had debt amounting to £64.38m (PWLB debt). The Council has not taken on any more debt in the year (as at 29 October 2021).

28. 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.

29. Part of the Council's treasury activities is to address the funding requirements for the Council's borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure 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.

30. 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.

31. 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).

32. The Council's 2021/22 MRP Policy was approved as part of the Treasury Management Strategy Report for 2021/22 by Council in February 2021.

33. The Council's CFR for the year is shown below and represents a key prudential indicator. It includes leased items on the balance sheet, which increase the Council's borrowing need (albeit no additional borrowing is actually required against such items).

Table 2 CFR: General Fund	**2020/21 Actual £000's**	**2021/22 Estimate £000's**
Opening balance	66,372	72,683
Add unfinanced capital expenditure	7,811	3,841
Less MRP	(1,500)	(1,668)
Closing balance	**72,683**	**74,856**

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

35. The Council's long term borrowing 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 2021/22 plus the expected changes to the CFR over 2022/23 and 2023/24 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2021/22.

Table 3 Internal Borrowing	2020/21 Actual £000's	2021/22 Estimate As at 31/10/21 £000's
Capital Financing Requirement	72,683	74,856
External Borrowing	64,690	67,904
Net Internal Borrowing	**7,993**	**6,952**

36. The table above highlights the Council's gross borrowing position against the CFR, which provides an indication of affordability for the Council. The Council has complied with this prudential indicator.

Investments in 2021-22

37. Table 4 below provides a snapshot of the investments and deposits held on 30 September 2021. The level of investments can fluctuate significantly on a day to day basis, given the level of funding received, precept payments, grants payable and receivable, salaries and wages, etc.

38. In addition to the investments there was £4,101,037 in the Lloyds current account which was being held for Business Grant payments (and repayments back to the government) and other funding potentially required at short notice in relation to COVID-19.

39. The Council also had longer term investments with CCLA in a property fund and Diversified Income Fund.

Table 4 – Investments and deposits (Other than Lloyds)

Counterparty	Interest Rate	Start Date	End Date	Principal	Term
Barclays Corporate	0.40%	-	-	£5,000,000	Call
NatWest	0.01%	-	-	£6,147	Call
Australia & NZ BCG Ltd	0.09%	14/07/2021	14/10/2021	£5,000,000	Fixed
Goldman Sachs	0.17%	14/07/2021	31/12/2021	£5,000,000	Fixed
DBS Bank Ltd, London	0.09%	20/08/2021	22/11/2021	£5,000,000	Fixed
Helaba Landesbank Hessen	0.09%	16/09/2021	16/12/2021	£5,000,000	Fixed
TOTAL				**£25,006,147**	

40. As at 30 September 2021 three longer term loans are outstanding – loans made to other organisations.

Table 5 – Loans to Other Organisations

Counterparty	Interest Rate	Start Date	End Date	Principal O/S	Term
Amicus (Optivo)	3.78%	04/09/2014	02/09/2044	£1,788,235	Fixed
The Source	2.43%	17/12/2015	17/12/2025	£13,254	Fixed
Foreshore Trust	1.66%	21/03/2016	20/03/2026	£141,150	Annuity

41. Borrowing from the PWLB was taken to fund the Amicus Horizon (now Optivo) loan (£1,788,235- Maturity loan) and the loan to the Foreshore Trust (£300,000 originally borrowed – Annuity loan); these correspond to PWLB loans in Table 1 above.

42. The overall investment performance for the first 6 months of 2021/22 provided an average return of 0.16% (0.55% including CCLA) (2020/21 0.66%).

43. The total interest receivable for the first 6 months is £24,975.65 (£100,769 including CCLA) (2020/21 £43,628). These figures exclude the interest receivable in respect of the three loans to other organisations and the housing company detailed below.

Loans to Hastings Housing Company Ltd

44. Hastings Housing Company repaid the revenue loan and interest due to the Council in September 2020. It still has a capital loan of £5,489,398 outstanding. The capital loan interest rate is based on the rate prevailing at the time of the advance and is fixed for the period of the loan. The borrowing costs incurred by the Council in making advances to the housing company are covered by the interest repayments.

The Council's Capital Position (Prudential Indicators)

45. This part of the report is structured to provide updates on:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

46. This table shows the revised estimates for capital expenditure for 2021/22.

Table 6 Capital Expenditure (Net) by Service	2021/22 Original Estimate (net) £'000	2021/22 Revised Estimate (net) £'000
Corporate Resources	11,693	2,402
Operational Services	1,088	1,439
Total Capital Expenditure (Net)	**12,781**	**3,841**

Capital Expenditure – Financing

47. The new Capital schemes, approved since the budget, will generally be financed by borrowing, unless Capital receipts from the sale of assets are available.

48. The larger schemes in the capital programme which are expected to require financing in 2021/22 from borrowing include:-

    (1) Buckshole Reservoir Works

    (2) Priory Street Works

    (3) Electric vehicles and infrastructure

    (4) 12/13 York Buildings

    (5) Priory Meadow

    (6) Cornwallis Street Development

    (7) Churchfield Business Centre

    (8) Lacuna Place Development / Refurbishment

    (9) Harold Place Development

    (10) Castleham Car Park Resurfacing

    (11) Playground upgrades

    (12) Next Steps Accommodation Pathway

    (13) Country Park Visitors Centre

    (14) Energy – Solar Panels

Impact on the prudential indicators

49. The Capital Financing Requirement has continued to increase. It is expected to reach some £74.9m by April 2022. The position at 31 October 2021 is shown in Table 3 above, and highlights that there would be an underlying financing requirement of some £6.9m by the year end if limited further borrowing is undertaken. The option of using capital receipts, once received, in lieu of external borrowing is expected to be beneficial to the Council.

Compliance with the limits in place for borrowing activity.

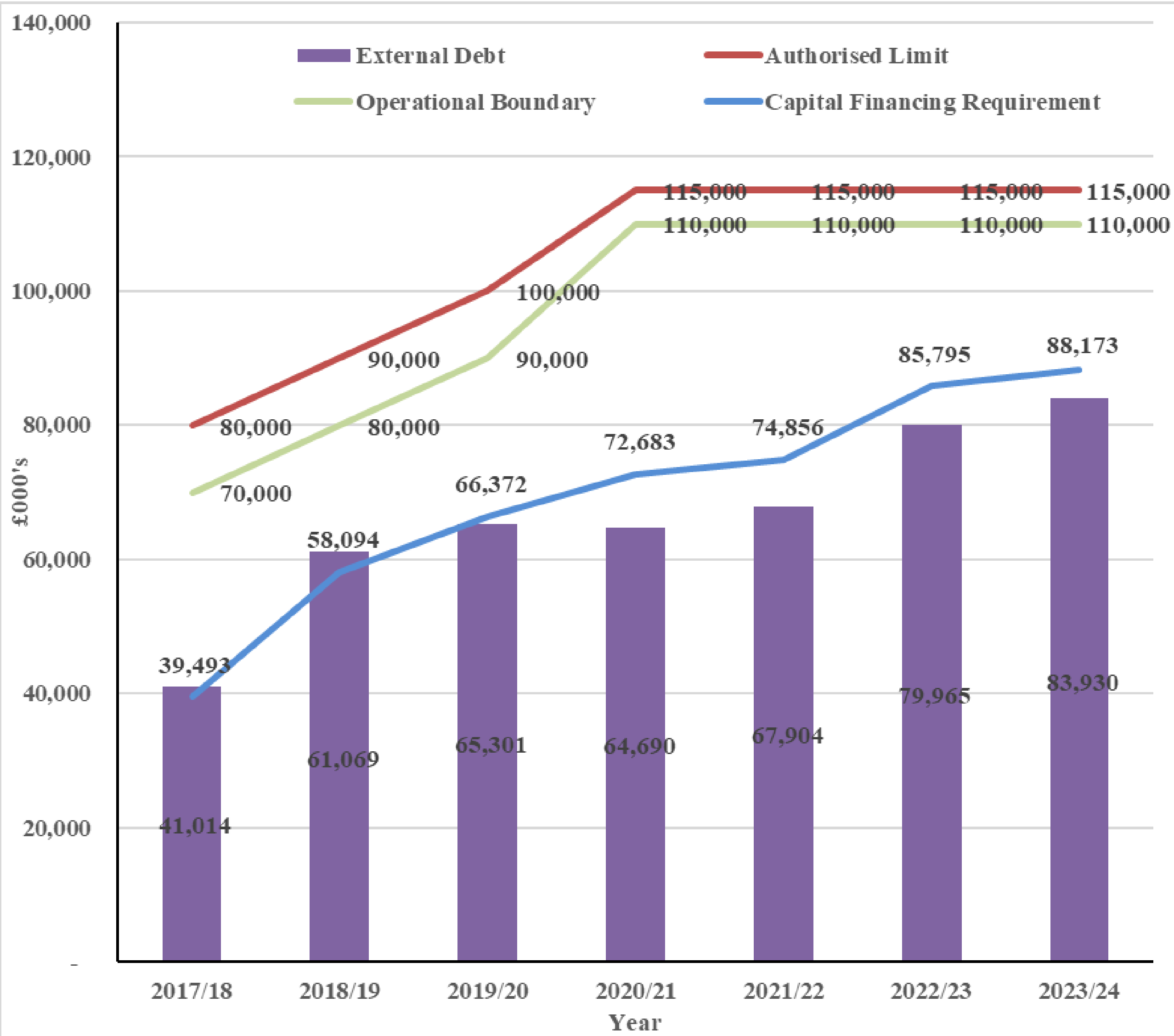
50. The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a

capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and next two financial years.

51. A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited; this is set by full Council and can only be revised by full Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

52. The graph below shows that the Council is operating within its approved borrowing limits.

Graph: Estimated CFR/ Debt and Debt boundaries at year end



Borrowing Strategy

53. The Council now has some £64.4m of PWLB debt and could potentially borrow up to a level of £74.9m (estimated CFR at 31 March 2022). This figure does not take account of any new capital spending in future years which could potentially be funded by new borrowing.

54. The interest rate forecasts from the Council's treasury advisers identify that there is potential for interest rate increases at a gradual rate from June 2022. Whilst the borrowing rates are attractive on a historical basis the difference between the return on investment and the cost of borrowing remains – the additional revenue cost falling on the Council taxpayer.

55. The Council's corporate plans require substantial new borrowing by the Council in the future and play a part in the consideration as to when to borrow and the level of internal borrowing. Given the historically low interest rates and the ability of the Council to look at other investment opportunities which are providing higher returns than the cost of borrowing e.g. property funds, there has been a much stronger case for reducing the level of internal funding in order to ensure a lower level of borrowing risk in the future.

56. Commercial investments (including commercial property) are not part of cashflow management or prudent treasury risk management, and they do not directly help deliver service outcomes. Leveraged investment is a form of speculation, which chooses to take on additional risk in order to earn a profit, much as an investment bank or property company might do. A local authority has powers to borrow and invest 'for the prudent management of its financial affairs' (Local Government Act 2003 sections 1 and 12). It is CIPFA's view that throughout the public services the priority for treasury management is to protect capital rather than to maximise return. The magnified risks of leveraged investments, and the fact that they put public money at unnecessary risk, mean that borrowing in order to invest for the primary purpose of earning a return is not in CIPFA's view a prudent use of public funds. Regeneration, and investing for economic development purposes, particularly within the boundary of the local authority is still permitted.

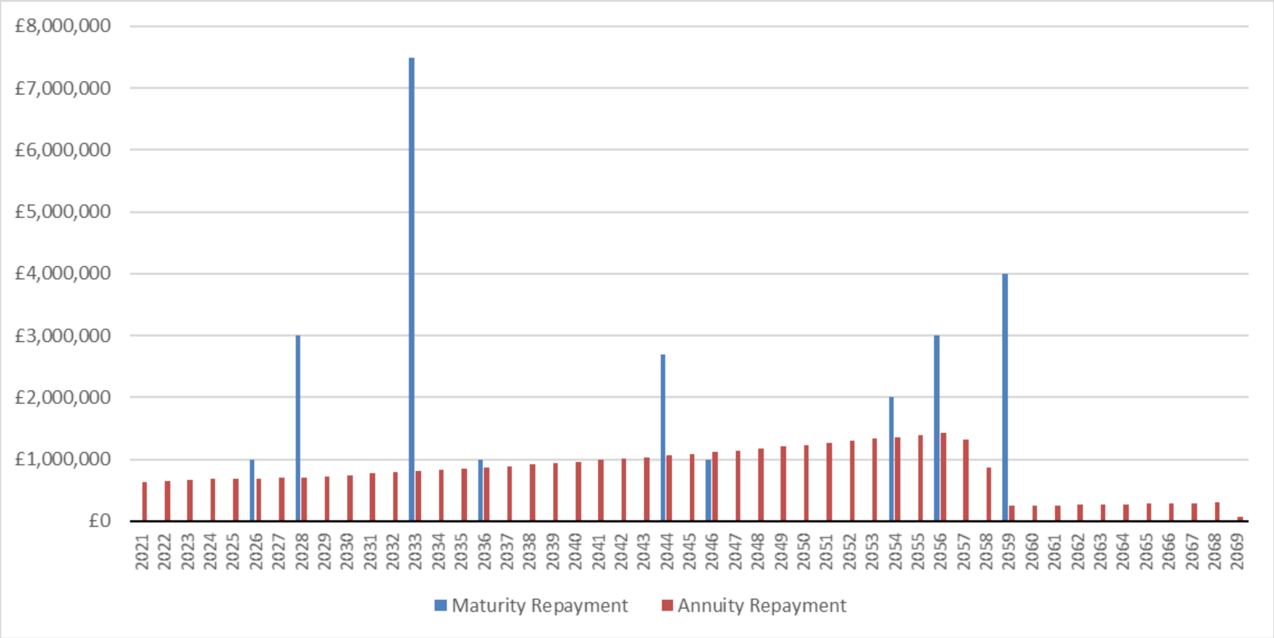
57. CIPFA has updated the prudential Code guidance and released a statement on borrowing to invest. The Code says that authorities must not borrow to invest for the primary purpose of financial return, but it is not always straightforward to identify if the authority is borrowing for this purpose or not. Any authority which is a net borrower and which is holding or considering investments of a long term nature must consider whether it is in effect borrowing to invest.

58. The Code's statement that authorities 'must not borrow to invest for the primary purpose of financial return' is not intended to require the forced sale of existing commercial investments, whether commercial properties or financial investments. Selling these investments and using the proceeds to net down debt does, however, reduce treasury risks on both sides of the balance sheet and is therefore an option which should be kept under review, especially if new long term borrowing is being considered. Code paragraph 53 also makes it clear that where an authority has existing commercial properties, the Code's requirement that an authority must not borrow to invest for the primary purpose of financial return, is not intended to prevent

authorities from appropriate capital repair, renewal or updating of existing properties. The Council has, and continues to hold, a large number of industrial units and other properties within the borough which provide substantial income for the Council – without which the Council would be unsustainable in its current form.

Debt Maturity

59. The Graph below shows the profile of when debt (loans from the PWLB) become repayable. Blue lines indicate maturity loans and red lines indicate annuity loans.



60. The Council will need to carefully consider the structure and timing of any new borrowing to ensure debt does not exceed the CFR in the years ahead.

Debt Rescheduling

61. The Council keeps under review the potential for making premature debt repayments in order to reduce borrowing costs as well as reducing counterparty risk by reducing investment balances. However, the cost of the early repayment premiums that would be incurred and the increase in risk exposure to significantly higher interest rates for new borrowing, continue to make this option unattractive. When reviewed on the 27 September 2017 the early repayment cost of the £7.5m (4.8%) PWLB loan, maturing in 2033, would amount to £3,177,343. No debt rescheduling is being contemplated at present as the interest rate differences are even greater than when last considered. It is understood that the Treasury may review their policy in this area.

Investment Strategy

62. Priority is given to security and liquidity of investments in order to reduce counterparty risk to the maximum possible extent.

63. The Council has a limit of £5m with any one institution (rated A or above, supported by Government, and given a blue (12 month) rating by Link Group). This generally represents a level of up to 20% of the investment portfolio with any one institution or

group at any one time. It is also necessary, at times, to invest sums of this size in order to attract the larger institutions which have the higher credit ratings.

64. The world economic climate, along with Brexit, has led to a number of downgrades to banks' credit ratings, making it increasingly difficult to spread investments across a number of institutions. The Chief Finance Officer has the authority to amend the limits if necessary, to ensure that monies can be placed with appropriate institutions.

65. The net cost to the Council of borrowing, investment interest and fees will be reviewed as part of the budget setting process.

Property Fund

66. It was agreed in February 2017 that the option for diversification of some of the investments into a property fund be undertaken with CCLA in the sum of £2m. The investment being in respect of the Council's reserves that are not required for a period of at least 5 years in order that any fall in values and entry costs into such funds can be covered. The £2m was invested in April 2017 and the performance from June 2020 is detailed below:

CCLA – LA's Property Prices and Dividend yields

End of	Sep-21	Aug-21	Jul-21	Jun-21	May-21	Apr-21	Mar-21	Dec-20	Sep-20	Jun-20
Offer Price p	335.31	331.68	328.54	324.18	319.93	314.43	313.45	306.91	302.56	303.14
Net Asset Value p	314.11	310.71	307.77	303.69	299.70	294.55	293.63	287.50	283.43	283.97
Bid Price p	309.24	305.89	303.00	298.98	295.06	289.98	289.08	283.05	279.04	279.57
Dividend* on XD Date p	2.69	-	-	2.87	-	-	2.98	3.74	3.10	2.80
Dividend* - Last 12 Months p	12.28	12.69	12.69	12.69	12.63	12.63	12.63	12.26	12.37	12.72
Dividend Yield on NAV %	4.04	4.08	4.12	4.18	4.21	4.29	4.30	4.49	4.37	4.48
Fund Size £m	1282.50	1282.50	1270.40	1253.50	1232.90	1211.60	1202.90	1172.60	1155.80	1158.00

67. The dividend yield is around 4.1% on the net asset value, which results in quarterly cash dividends of around £17,525. Full year dividends are estimated at around £71,200.

Property Fund Capital Value

Units (651,063)	Sep-21	Aug-21	Jul-21	Jun-21	May-21	Apr-21	Mar-21	Dec-20	Sep-20	Jun-20
Mid Market Price(£)	2,022,918	2,022,918	2,003,777	1,977,213	1,951,236	1,917,706	1,911,716	1,871,806	1,845,308	1,848,824
Bid Price (£)	1,991,537	1,991,537	1,972,721	1,946,548	1,921,026	1,887,952	1,882,093	1,842,834	1,816,726	1,820,177

68. The Capital value has increased by 7.97% between April 2017 and September 2021 and is now above that of the original investment. At the end of September 2021 the mid-market value is £2,022,918. It is important that this is continued to be viewed as a longer term investment (5 years plus).

Diversified Income Fund

69. It was agreed in February 2019 that a sum of £3m would be made available for further diversification of the Council's investments. £1m was invested on 26 July 2019 and a further £2m investment was made on 24 September 2019 into the CCLA Diversified Income Fund. Anticipated returns were around 3% with the added advantage of much

higher liquidity than the property fund.

70. The capital value has decreased by 0.7% from the initial investment and was valued at £2,979,093 at the end of September 2021. The quarterly dividend yield was 2.6% for September (£15,571). This compares to a dividend yield of 2.9% in June 2021 (£24,043). The annualised dividend for the last 12 months is 4.04%. It should be remembered that this is a long term investment and prices can go up and down – as the impact of the pandemic has highlighted.

Compliance with Treasury Limits

71. As a result of Covid-9, the potential unknown impacts on foreign countries, their economies and banks along with the high levels of funding for business rate grants being provided by the government, the limits for balances held with Lloyds bank were raised substantially – approved by the Chief Finance officer in compliance with the Council's Treasury Management Practices. The council was thus able to manage, for example the £27,782,000 received in respect of business support grants for the first lockdown period. The Council has continued to hold some grant monies in 2021/22. The money has been held in either a call account or the general bank account. Exceeding the normal approved limits is a decision that is not taken lightly, and whilst the investment return achieved will have been lower than otherwise may have been the case, the need for security has been considered to be more important – as was the ability to use the funds as and when necessary i.e. to pay out the grants.

72. The Prudential Indicators have been complied with - reproduced in Appendix 1 for reference.

Financial Implications

73. The Council's 2021/22 budget included an estimated return on investments of 0.2% (excluding CCLA funds). The Bank Base Rate was 0.75% from 2 August 2018 and remained at that level until it fell to 0.25% on 11 March 2020 and then to 0.1% on 19 March 2020.

74. The Council's actual average rate of return for the year to 30 September 2021 was 0.16% (0.55% including the CCLA investments).

Future Changes

75. The Treasury Management Code of Practice (CIPFA) and the Prudential Code for Capital Finance were revised in late 2017/18, and the requirement for a new strategic planning document introduced – the "Capital Strategy" which seeks to bridge the perceived gaps in understanding between the Capital programme, funding thereof and Treasury Management. This was agreed by full Council in February 2021 and will be reviewed and updated annually.

76. The 2022/23 Treasury Management Strategy suite of reports will be considered by the Audit Committee on the 13 January 2022 and thereafter considered by Cabinet on 7 February 2022 and Budget Council on 16 February 2022 in conjunction with the budget papers and Corporate plan.

Risk Management

77. The Council continues to face serious risks in terms of volatility in its income streams, expenditure and future funding. Business rates and property income are susceptible during economic recessions and business rate appeals for example can have sudden and significant impacts. The Council has seen a massive increase in its homelessness expenditure this year, along with a significant reduction in collection rates for business rates. Income from sales fees and charges e.g. car park income, remains at risk. Where there is more risk and volatility in income streams the Council will need to ensure that it maintains sufficient reserves to ensure the Council's ability to deliver key services is not jeopardised.

78. The Council spreads its risk on investments by limiting the amount of monies with any one institution or group and limiting the timeframe of the exposure. In determining the level of the investment and period the Council considers formal credit ratings (Fitch) along with its own advisers (Link Group) ratings advice.

79. The security of the principal sum remains of paramount importance to the Council.

80. To date the strategy of externalising debt has been successful. The fact that the Council's reserves were cash backed meant that there was no need to borrow at high interest rates when funds were required during Covid. Currently the Council has not borrowed externally as it may wish to finance Capital expenditure from capital receipts and avoid borrowing costs. It is thus borrowing internally i.e. temporarily using its cash balances/reserves to fund the expenditure.

81. The investments made in the Property Fund (CCLA) and the Diversified Investment Fund (CCLA), totalling £5m are currently showing good returns. The risks currently faced in achieving a sustainable Council budget mean that no further long term investments can be made. However, there are no reasons to sell the current investments at this time.

Timetable of Next Steps

1. Please include a list of key actions and the scheduled dates for these:

Action	**Key milestone**	**Due date (provisional)**	**Responsible**
Review and revise Annual Treasury Management Strategy & Capital Strategy	Setting of 2022/23 Budget	February 2022	Chief Finance Officer
Treasury Management Outturn Report to Cabinet	Close of 2021/22 accounts	July 2022	Chief Finance Officer

Wards Affected

None

Area(s) Affected

None

Implications

Relevant project tools Applied? N/A

Climate change implications considered? N/A

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Additional Information

Appendix 1: Prudential Indicators

Appendix 2: Economic Update from Link Group

Officer to Contact

Peter Grace
Chief Finance Officer
pgrace@hastings.gov.uk

Simon Jones
Senior Finance Projects Officer
Simon.jones@hastings.gov.uk

APPENDIX 1 - Prudential Indicators

The Council's Capital expenditure plans are the key driver of treasury management activity. The output of the Capital expenditure plans (detailed in the budget) is reflected in the prudential indicators below.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
borrowing	95,000	110,000	110,000	110,000	110,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	100,000	115,000	115,000	115,000	115,000
Operational Boundary for external debt					
borrowing	85,000	105,000	105,000	105,000	105,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	90,000	110,000	110,000	110,000	110,000

The Council's external borrowing at 30 September 2021 amounted to £64,378,555 which is well within approved borrowing limits.

Interest Rate Exposures		**2020/21** **Upper**	**2021/22** **Upper**	**2022/23** **Upper**
Limits on fixed interest rates based on **net** debt		100%	100%	100%
Limits on variable interest rates based on **net** debt		100%	100%	100%
Limits on fixed interest rates: · Debt only · Investments only		 100% 100%	 100% 100%	 100% 100%
Limits on variable interest rates · Debt only · Investments only		 30% 100%	 30% 100%	 30% 100%
Maturity Structure of fixed interest rate borrowing 2021/22				
			Lower	**Upper**
Under 12 Months			0%	100%
12 months to 2 years			0%	100%
2 years to 5 years			0%	100%
5 years to 10 years			0%	100%
10 years to 20 years			0%	100%
20 years to 30 years			0%	100%
30 years to 40 years			0%	100%
40 years to 50 years			0%	100%
Maturity Structure of variable interest rate borrowing 2021/22				
			Lower	**Upper**
Under 12 Months			0%	30%
12 months to 2 years			0%	30%
2 years to 5 years			0%	30%
5 years to 10 years			0%	30%
10 years to 20 years			0%	10%
20 years to 30 years			0%	10%
30 years to 40 years			0%	10%
40 years to 50 years			0%	10%

Affordability prudential indicator - Ratio of financing costs to net revenue stream

This indicator assesses the affordability of the capital investment plans. It provides an indication of the impact of the capital investment plans on the Council's overall finances 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.

Prudential Indicator: Financing Cost to Net Revenue Stream	2020/21 Actual	2021/22 Revised Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Financing Costs	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,836	2,115	2,326	2,414	2,535
2. Interest Payable under Finance Leases and any other long term liabilities	-	-	-	-	-
3. Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount met from government grants and local taxpayers	-	-	-	-	-
4. Interest and Investment Income	-522	-609	-671	-661	-674
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-
6. Minimum Revenue Provision (MRP) / Voluntary Revenue Provision (VRP)	1,500	1,668	1,764	2,268	2,268
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-
Total	2,814	3,174	3,418	4,021	4,129
Net Revenue Stream Amount to be met from government grants and local taxpayers	16,332	14,845	14,018	13,318	13,184
Ratio **Financing Cost to Net Revenue Stream**	**17%**	**21%**	**24%**	**30%**	**31%**

Note: Outturn figures are unaudited

This prudential indicator shows that the ratio of financing costs to the net revenue stream is increasing. This is not unexpected given that the Council agreed a programme for over £54m of Capital expenditure over the period 2020/21 to 2023/24 - thus increasing borrowing costs.

APPENDIX 2 - Economic Update from Link Group

Further details from our treasury management advisors, Link Group, to accompany the economic update in the body of the report are shown below:

1. US. See comments below on US treasury yields.

2. EU. The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then. After a contraction in GDP of -0.3% in Q1, Q2 came in with strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.

3. German general election. With the CDU/CSU and SDP both having won around 24-26% of the vote in the September general election, the composition of Germany's next coalition government may not be agreed by the end of 2021. An SDP-led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a CDU/CSU led coalition government is likely to be small. However, with Angela Merkel standing down as Chancellor as soon as a coalition is formed, there will be a hole in overall EU leadership which will be difficult to fill.

4. China. After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth. There are also questions as to how effective Chinese vaccines are proving. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

5. Japan. 2021 has been a patchy year in combating Covid. However, after a slow start, nearly 50% of the population are now vaccinated and Covid case numbers are falling. After a weak Q3 there is likely to be a strong recovery in Q4. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was negative in July. New Prime Minister Kishida has promised a large fiscal stimulus package after the November general election – which his party is likely to win.

6. World growth. World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is 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 to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

7. Supply shortages. The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains. At the current time there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to mis-distribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.

8. The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -

    1. Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
    2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
    3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
    4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

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

Forecasts for Bank Rate

10. Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts may well need changing within a relatively short time frame for the following reasons: -

    - There are increasing grounds for viewing the economic recovery as running out of steam during the summer and now into the autumn. This could lead into stagflation which would create a dilemma for the MPC as to which way to face.
    - Will some current key supply shortages e.g., petrol and diesel, spill over into causing economic activity in some sectors to take a significant hit?
    - Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation. Then we have the Government's

upcoming budget in October, which could also end up in reducing consumer spending power.

- On the other hand, consumers are sitting on around £200bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- There are 1.6 million people coming off furlough at the end of September; how many of those will not have jobs on 1st October and will, therefore, be available to fill labour shortages in many sectors of the economy? So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate the MPC's current concerns.
- There is a risk that there could be further nasty surprises on the Covid front, on top of the flu season this winter, which could depress economic activity.

11. In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with what the new news is.

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

Forecasts for PWLB rates and gilt and treasury yields

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

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

- How strongly will changes in gilt yields be correlated to changes in US treasury yields?
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures turn out to be in both the US and the UK and so impact treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

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

Gilt and treasury yields

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

- A fast vaccination programme has enabled a rapid opening up of the economy.
- The economy had already been growing strongly during 2021.
- It started from a position of little spare capacity due to less severe lockdown measures than in many other countries. A combination of shortage of labour and supply bottle necks is likely to stoke inflationary pressures more in the US than in other countries.
- And the Fed was still providing monetary stimulus through monthly QE purchases.

17. These factors could cause an excess of demand in the economy which could then unleash stronger and more sustained inflationary pressures in the US than in other western countries. This could then force the Fed to take much earlier action to start tapering monthly QE purchases and/or increasing the Fed rate from near zero, despite their stated policy being to target average inflation. It is notable that some Fed members have moved forward their expectation of when the first increases in the Fed rate will occur in recent Fed meetings. In addition, more recently, shortages of workers appear to be stoking underlying wage inflationary pressures which are likely to feed through into CPI inflation. A run of strong monthly jobs growth figures could be enough to meet the threshold set by the Fed of "substantial further progress towards the goal of reaching full employment". However, the weak growth in August, (announced 3.9.21), has spiked anticipation that tapering of monthly QE purchases could start by the end of 2021. These purchases are currently acting as downward pressure on treasury yields. As the US financial markets are, by far, the biggest financial markets in the world, any trend upwards in the US will invariably impact and influence financial markets in other countries. However, during June and July, longer term yields fell sharply; even the large non-farm payroll increase in the first week of August seemed to cause the markets little concern, which is somewhat puzzling, particularly in the context of the concerns of many commentators that inflation may not be as transitory as the Fed is expecting it to be. Indeed, inflation pressures and erosion of surplus economic capacity look much

stronger in the US than in the UK. As an average since 2011, there has been a 75% correlation between movements in 10 year treasury yields and 10 year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.

18. There are also possible DOWNSIDE RISKS from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to keep an eye on.

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

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

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

    - The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
    - The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' and the ECB now has a similar policy.
    - For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.
    - Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
    - Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.