Report Title:	**Treasury Management Mid-Year Review 2022/23**
Contains Confidential or Exempt Information	No - Part I
Cabinet Member:	Councillor Hilton, Cabinet Member for Asset Management & Commercialisation, Finance, & Ascot
Meeting and Date:	Audit and Governance Committee – 20 October 2022
Responsible Officer(s):	Adele Taylor, Executive Director of Resources (s151 Officer)
Wards affected:	All

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Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1. The purpose of this report is to:

   a) Update Members on the delivery of the Treasury Management Strategy approved by Council on 22nd February 2022 and allow for any changes to be made depending on market conditions.

   b) This report forms part of the monitoring of the treasury management function as recommended in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice which requires that the Council receives a report on its treasury management activity at least twice a year.

   Specifically, this report includes:

   a) a review of the Council's borrowing strategy in 2022/23;

   b) a review of the Council's financial investment portfolio for 2022/23 as at 30th September 2022;

   c) a review of compliance with the Council's Treasury and Prudential limits for the first 6 months of 2022/23; and

   d) an economic update for the financial year is included as Appendix B.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION:

That the Audit and Governance Committee notes and approves the mid-year Treasury Management Mid-Year Review Report 2022/23.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management mid-year and annual reports.

2.2 The Council's treasury management strategy for 2022/23 was approved at the Council meeting on 22nd February 2022. When borrowing and investing money the Council is exposed to financial risks including the loss of invested funds and the revenue impact of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

3. KEY IMPLICATIONS

3.1 A successful treasury management approach will ensure the security of the Council's assets whilst meeting the liquidity requirements of the Council.

Table 1: Key Implications

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	2022/23 Actual
No. of days that counterpart limits are exceeded	>0	<=0	N/A	N/A	0
No of days that the operational boundary for long-term debt is exceeded	>0	<=0	N/A	N/A	0

4. FINANCIAL DETAILS / VALUE FOR MONEY

MID-YEAR REVIEW OF TREASURY MANAGEMENT ACTIVITY

4.1 The treasury management position on 30th September 2022 and the change during the year to this date is shown in Table 2 below. Net borrowing has gone down since the start of the year due to cashflow, and fewer loans being arranged in advance of need to protect against future interest rate rises as higher rates have now been built in to offers.

Table 2: Treasury Management Summary

	31.3.22 Balance £m	Movement £m	30.9.22 Balance £m	30.9.22 Average Interest Rate
Long-term borrowing	71.3	20.0	91.3	3.59%
Short-term borrowing	134.6	(9.2)	125.4	0.50%
Total borrowing	**205.9**	**10.8**	**216.7**	
Long-term investments	1.3	(1.3)	0.0	
Short-term investments	7.9	(0.8)	7.1	3.03%
Cash and cash equivalents	32.5	31.0	63.5	2.10%
Total investments	**41.7**	**28.9**	**70.6**	
Net borrowing	**164.2**	**(18.1)**	**146.1**	

Borrowing

4.2 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority.

4.3 PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield. The Authority intends to avoid this activity in order to retain its access to PWLB loans.

Borrowing Strategy and Activity

4.4 As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

4.5 Over the April-September period interest rates and therefore short term PWLB rates have risen dramatically in response to inflation fears and market uncertainty. PWLB rates increased to 6% but have now stabilised at 5%. This has significantly increased the costs of new borrowing available to the Authority.

4.6 Interest rates rose by over 2% during the period in both the long and short term. As an indication, the 5-year maturity certainty rate rose from 2.30% on

1st April to 5.09% on 30th September; over the same period the 30-year maturity certainty rate rose from 2.63% to 4.68%

4.7 At 30th September 2022 the Authority's total borrowing was £216.7m, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th September are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.22 Balance £m	**Net Movement £m**	**30.9.22 Balance £m**	**30.9.22 Weighted Average Rate %**
Public Works Loan Board	43	20	63	4.2
Banks (LOBO)	13	0	13	4.2
Local authorities (long-term)	15	0	15	0.6
Local authorities (short-term)	119	(10)	109	0.5
Funds held on behalf of LEP	16	1	17	2.3
Total borrowing	**206**	**11**	**217**	

4.8 The Authority has arranged a number of forward starting short-term loans during the period and has covered nearly all of its anticipated borrowing requirement for the current financial year. A balance has to be struck between taking out sufficient borrowing to cover need to secure rates whilst not overpaying in the short term if circumstances change.

4.9 Due to our actions, the recent interest rate rises will only have a minimal impact on the Authority's borrowing costs in the current financial year. However, the capital programme will be reviewed in light of these increases, and where appropriate reduced, in order to control the Authority's required level of borrowing going forward.

4.10 In addition, the capital programme has to be reviewed in terms of the underpinning individual business cases for spend to ensure that the outcomes can still be achieved given the increase in cost of capital.

4.11 In July 2022 following consultation with our treasury management advisors Arlingclose, £20m of PWLB borrowing was arranged during the period at a rate of 2.6% to reduce the Authority's exposure to future interest rate rises.

4.12 With short-term interest rates remaining much lower than long-term rates and with surplus of liquidity continuing to feature in the LA to LA market during the period, the Authority considered it to be more cost effective in the near term to take out most of the new borrowing it required as short-term loans.

4.13 The Council continues to hold £13m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the period.

TREASURY INVESTMENT ACTIVITY

4.14 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the period, the Authority's investment balances ranged between £13.5m and £78.8m due to timing differences between income and expenditure. The investment position is shown in Table 4 below.

Table 4: Treasury Investment Position

	31.3.22 Balance £m	Net Movement £m	30.9.22 Balance £m	30.9.22 Income Return %
Banks	**0.5**	**0.0**	**0.5**	**0**
Money Market Funds	**18.0**	**0.0**	**18.0**	**2.1**
Debt Management Office	**14.0**	**31.0**	**45.0**	**1.7**
Loans to Associates	**9.2**	**(2.1)**	**7.1**	**3.0**
Total investments	**41.7**	**(28.9)**	**70.6**	

4.15 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

4.16 Due to the increases in Bank Rate over the period under review, and with the prospect of more increases to come, short-dated cash rates, which had ranged between 0.7% - 1.5% at the end of March, rose by around 1.5% for overnight/7-day maturities and by nearly 3.5% for 9-12 month maturities.

4.17 By the end of September, the rates on DMADF deposits ranged between 1.85% and 3.5%. The return on the Council's sterling low volatility net asset value (LVNAV) Money Market Funds ranged between 0.9% - 1.1% p.a. in early April and between 1.8% and 2.05% at the end of September.

4.18 The Authority maintains low levels of investments seeking to keep balances of cash and cash equivalents as low as possible while maintaining a sufficient balance to cover its working capital requirements.

NON-TREASURY INVESTMENTS

4.19 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. As at 30/09/2022 the Council held £91.2m of such investments in investment properties. These investments generated £1.097m of investment income for the Authority during the period after taking account of direct costs, representing a rate of return of 1.2%.

COMPLIANCE

4.19 The Executive Director of Resources (S151 Officer) reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

4.20 The performance against debt and counterparty limits is shown in Tables 5 and 6 below.

Table 5: Debt Limits

	2022/23 Maximum	30.9.22 Actual	2022/23 Operational Boundary	2022/23 Authorised Limit	Complied?
Borrowing	£217m	£217m	£286m	£311m	Yes

Table 6: Counterparty Limits

	2021/22 Actual	2021/22 Target	Complied?
No. of days that counterpart limits are exceeded	0	0	Yes

4.21 The Authority's interest rate exposure limit is set to control its exposure to interest rate rises by limiting the amount of short-term borrowing that it holds. The Authority complied with this limit as shown in Table 7 below:

Table 7: Interest Rate Risk Indicator

	30.9.22 Actual	2021/22 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	£0.9m	£2.25m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.9m	£2.80m	Yes

4.22 The maturity structure of borrowing indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing and compliance against these are shown in Table 8 below:

Table 8: Maturity Structure of Borrowing

	30.9.22 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	**59%**	**80%**	**0%**	**Yes**
12 months and within 24 months	**4%**	**80%**	**0%**	**Yes**
24 months and within 5 years	**7%**	**100%**	**0%**	**Yes**
5 years and within 10 years	**15%**	**100%**	**0%**	**Yes**
10 years and above	**15%**	**100%**	**0%**	**Yes**

4.23 Table 9 shows the Authority's compliance with its limits for the amount of principal invested beyond year end. The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments.

Table 9: Principal sums invested beyond year end

	2021/22	2022/23	2023/24
Actual principal invested beyond year end	£1.3m	£0m	£0m
Limit on principal invested beyond year end	£25m	£25m	£25m
Complied?	Yes	Yes	Yes

5. LEGAL IMPLICATIONS

5.1 In producing and reviewing this report the Council is meeting its legal obligations to properly manage its funds.

6. RISK MANAGEMENT

6.1 **Table 8: Impact of risk and mitigation**

Risk	Level of uncontrolled risk	Controls	Level of controlled risk
That a counterparty defaults on repayment of a loan resulting in a loss of capital for the Council	MEDIUM	Loans are only made to counterparties on the approved lending list. The credit ratings of counterparties on the lending list are monitored regularly Counterparty limits reviewed and reduced to limit individual exposure.	LOW
That funds are invested in fixed-term deposits and are not available to meet the council's commitment to pay suppliers and payroll.	MEDIUM	A cashflow forecast is maintained and referred to when investment decisions are made to ensure that funds are available to meet the council's commitment to pay suppliers and payroll.	LOW

7. POTENTIAL IMPACTS

7.1 Equalities. An Equality Impact Assessment is available as Appendix A.

7.2 Climate change/sustainability. None identified.

7.3 Data Protection/GDPR. None identified.

8. CONSULTATION

8.1 This section is not applicable.

9. TIMETABLE FOR IMPLEMENTATION

9.1 This section is not applicable.

10. BACKGROUND DOCUMENTS

10.1 This report is supported by two Appendices:

- Appendix A – Equality Impact Assessment
- Appendix B – Economic Update

11. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
Mandatory:	*Statutory Officers (or deputies)*		
Adele Taylor	Executive Director of Resources/S151 Officer	7/10/22	11/10/22
Emma Duncan	Director of Law and Strategy / Monitoring Officer	7/10/22	12/10/22
Deputies:			
Andrew Vallance	Head of Finance (Deputy S151 Officer)	Report Author	
Elaine Browne	Head of Law (Deputy Monitoring Officer)	7/10/22	
Karen Shepherd	Head of Governance (Deputy Monitoring Officer)	7/10/22	10/10/22
Other consultees:			
Directors (where relevant)			
Tony Reeves	Interim Chief Executive	7/10/22	
Andrew Durrant	Executive Director of Place	7/10/22	
Kevin McDaniel	Executive Director of People	7/10/22	

Confirmation relevant Cabinet Member(s) consulted	Cabinet Member for Asset Management & Commercialisation, Finance and Ascot	Yes

REPORT HISTORY

Decision type:	Urgency item?	To follow item?
Audit and Governance Committee decision	No	No

Report Author: Andrew Vallance, Head of Finance

APPENDIX A - EQUALITY IMPACT ASSESSMENT

Essential information

Items to be assessed: (please mark 'x')

Strategy	x	**Policy**		**Plan**		**Project**		**Service/Procedure**	

Responsible officer	Andrew Vallance	**Service area**	Finance	**Directorate**	Resources

Stage 1: EqIA Screening (mandatory)	Date created: 07/10/2022	**Stage 2 : Full assessment (if applicable)**	N/A

Approved by Head of Service / Overseeing group/body / Project Sponsor:
"I am satisfied that an equality impact has been undertaken adequately."

Signed by (print): Andrew Vallance

Dated: 07/10/2022

Stage 1: Screening (Mandatory)

1.1 What is the overall aim of your proposed strategy/policy/project etc and what are its key objectives?
To update Members on the delivery of the Treasury Management Strategy approved by Council on 22nd February 2022 and allow for any changes to be made depending on market conditions.

1.2 What evidence is available to suggest that your proposal could have an impact on people (including staff and customers) with protected characteristics? Consider each of the protected characteristics in turn and identify whether your proposal is Relevant or Not Relevant to that characteristic. If Relevant, please assess the level of impact as either High / Medium / Low and whether the impact is Positive (i.e. contributes to promoting equality or improving relations within an equality group) or Negative (i.e. could disadvantage them). Please document your evidence for each assessment you make, including a justification of why you may have identified the proposal as "Not Relevant".

Protected characteristics	Relevance	Level	Positive/negative	Evidence
Age	Not Relevant			
Disability	Not Relevant			
Gender re-assignment	Not Relevant			
Marriage/civil partnership	Not Relevant			
Pregnancy and maternity	Not Relevant			
Race	Not Relevant			
Religion and belief	Not Relevant			
Sex	Not Relevant			
Sexual orientation	Not Relevant			

Outcome, action and public reporting

Screening Assessment Outcome	Yes / No / Not at this stage	Further Action Required / Action to be taken	Responsible Officer and / or Lead Strategic Group	Timescale for Resolution of negative impact / Delivery of positive impact
Was a significant level of negative impact identified?	No			
Does the strategy, policy, plan etc require amendment to have a positive impact?	No			

If you answered **yes** to either / both of the questions above a Full Assessment is advisable and so please proceed to Stage 2. If you answered “No” or “Not at this Stage” to either / both of the questions above please consider any next steps that may be taken (e.g. monitor future impacts as part of implementation, re-screen the project at its next delivery milestone etc).

Arlingclose Economic Update

Economic background: The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.

UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and –2.8% for regular pay.

With disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of –44 in August, down –41 in the previous month. Quarterly GDP fell -0.1% in the April-June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England.

The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. the September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.

Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July and September, taking policy rates to a range of 3% - 3.25%.

Eurozone CPI inflation reached 9.1% y/y in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from –0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.

Financial markets: Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.

Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.

Credit review:

In July Fitch revised the outlook on Standard Chartered from negative to stable as it expected profitability to improve thanks to the higher interest rate environment. Fitch also revised the outlook for Bank of Nova Scotia from negative to stable due to its robust business profile.

Also in July, Moody's revised the outlook on Bayerische Landesbank to positive and then in September S&P revised the GLA outlook to stable from negative as it expects the authority to remain resilient despite pressures from a weaker macroeconomic outlook coupled with higher inflation and interest rates.

Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.

Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority’s counterparty list recommended by Arlingclose remains under constant review.

Arlingclose’s Economic Outlook for the remainder of 2022/23 (based on 26th September 2022 interest rate forecast)

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**2.25**	**4.25**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**4.75**	**4.25**	**3.75**	**3.25**
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

Arlingclose expects Bank Rate to rise further during 2022/23 to reach 5% by the end of the year.

The MPC is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages.

The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps of increases this calendar year.

This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024.

Gilt yields will face further upward pressure in the short term due to lower confidence in UK fiscal policy, higher inflation expectations and asset sales by the BoE. Given the recent sharp rises in gilt yields, the risks are now broadly balanced to either side. Over the longer term, gilt yields are forecast to fall slightly over the forecast period.

Background:

Monetary policymakers are behind the curve having only raising rates by 50bps in September. This was before the “Mini-Budget”, poorly received by the markets, triggered a rout in gilts with a huge spike in yields and a further fall in sterling. In a shift from recent trends, the focus now is perceived to be on supporting sterling whilst also focusing on subduing high inflation.

There is now an increased possibility of a special Bank of England MPC meeting to raise rates to support the currency. Followed by a more forceful stance over concerns on the looser fiscal outlook. The MPC is therefore likely to raise Bank Rate higher than would otherwise have been necessary given already declining demand. A prolonged economic downturn could ensue.

Uncertainty on the path of interest rates has increased dramatically due to the possible risk from unknowns which could include for instance another Conservative leadership contest, a general election, or further tax changes including implementing windfall taxes.

The government's blank cheque approach to energy price caps, combined with international energy markets priced in dollars, presents a fiscal mismatch that has contributed to significant decline in sterling and sharp rises in gilt yields which will feed through to consumers' loans and mortgages and business funding costs.

UK government policy has mitigated some of the expected rise in energy inflation for households and businesses flattening the peak for CPI, whilst extending the duration of elevated CPI. Continued currency weakness could add inflationary pressure.

The UK economy already appears to be in recession, with business activity and household spending falling. The short- to medium-term outlook for the UK economy is relatively bleak.

Global bond yields have jumped as investors focus on higher and stickier US policy rates. The rise in UK government bond yields has been sharper, due to both an apparent decline in investor confidence and a rise in interest rate expectations, following the UK government's shift to borrow to loosen fiscal policy. Gilt yields will remain higher unless the government's plans are perceived to be fiscally responsible.

The housing market impact of increases in the Base Rate could act as a "circuit breaker" which stops rates rising much beyond 5.0%, but this remains an uncertainty.