Appendix 2

Mid-Year Treasury Management Review 2022/23

Cambridgeshire and Peterborough Fire Authority
January 2023

1. Introduction

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that Members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). This report, therefore ensures this Authority is implementing best practice in accordance with the Code.

2. Treasury Position as of 31 December 2022

At the end of December 2022, the Authority's treasury (excluding borrowing by Public Finance initiatives (PFI and finance leases) position was as follows:

DEBT PORTFOLIO	31 March 2022 Principal	Rate/ Return	Average Life years	31 December 2022 Principal	Rate/ Return	Average Life years
Total Debt	***£5.700m***	***3.56%***	***36***	***£5.700m***	***3.56%***	***35***
CFR	***£8.592m***			***£8.592m***		
Over / (under) Borrowing	***(£2. 892)m***			***(£2. 892)m***		
Total Investments	***£8.511m***	***0.48%***		***£7.603m***	***3.46%***	
Net Investments	**£2.811m**			**£1.903m**		

INVESTMENT PORTFOLIO	Actual 31.03.2022 £000	Actual 31.03.2022 %	Actual 31.12.2022 £000	Actual 31.12.2022 %
Treasury Investments				
Banks	***8,511***	***100***	***7,603***	***100***
Building Societies - rated	***£nil***		***£nil***	
TOTAL TREASURY INVESTMENTS	***8,511***	***100***	***7,603***	***100***

Investment Outturn

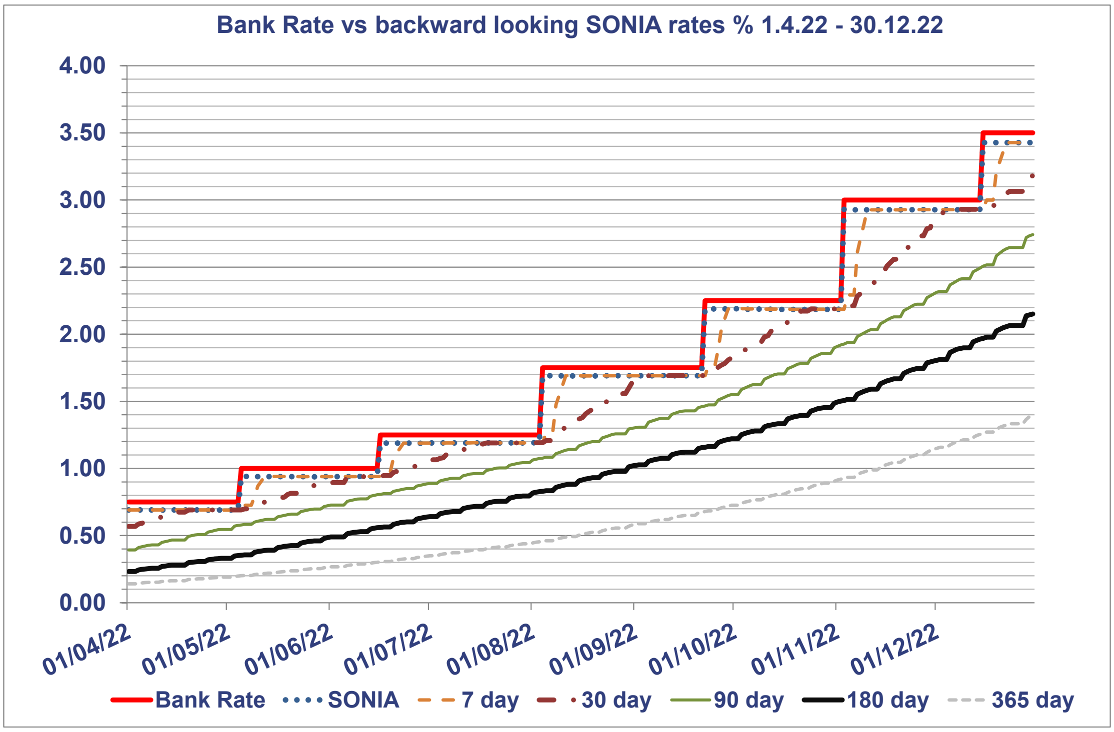
Investment Policy – the Authority's investment policy is governed by MHCLG investment guidance which has been implemented in the investment strategy approved by the Authority in February 2018. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data such as rating outlooks, credit default swaps and bank share prices etc. The investment activity during the year conformed to the approved strategy and the Authority had no liquidity difficulties.

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

Balance Sheet Resources (£m)	31 March 2022	31 December 2022
Balances	***2,133***	***2,133***
Earmarked Reserves	***8,460***	***6,781***
Usable Capital Receipts	***1,319***	***1,336***
Useable Capital Grants	**-**	**-**
TOTAL	***11,912***	***11,912***

3. **Annual Investment Strategy**

3.1 Investment Strategy and Control of Interest Rate Risk



**Investment performance year to date as of end-December 2022. The graph now uses the Sterling Overnight Index Averages. The graph is based on a backward-looking benchmark which reflects where the market was positioned when investments were placed.*

Financial Year to Quarter ended 31 December 2022

	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	3.50	3.43	3.43	3.18	2.74	2.15	1.40
High Date	15/12/2022	28/12/2022	30/12/2022	30/12/2022	30/12/2022	30/12/2022	30/12/2022
Low	0.75	0.69	0.69	0.57	0.39	0.23	0.14
Low Date	01/04/2022	28/04/2022	29/04/2022	01/04/2022	01/04/2022	01/04/2022	01/04/2022
Average	1.79	1.73	1.68	1.57	1.31	0.99	0.59
Spread	2.75	2.74	2.74	2.61	2.35	1.92	1.26

As shown by the charts above, investment rates have improved dramatically during the first three quarters of 2022/23 and are expected to improve further as Bank Rate continues to increase over the next few months.

Interest Rate Forecast

The latest interest rate forecast, provided by the Link Group – The Authority's treasury advisors on the 19 December 2022, sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is also providing a limited package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices. PWLB rates reflect a less elevated yield curve than prevailed under the Truss/Kwarteng government, and the 17th of November Autumn Statement made clear the government's priority is the establishment and maintenance of fiscal rectitude. In addition, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

**The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.*

The Future Path of the Bank Rate

Since the most recent interest rate forecast was most recently updated (above), it reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the Government's policy of emphasising fiscal rectitude will probably mean Bank Rate will not need to increase to further than 4.5%.

Further down the road, it is anticipated that the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

In the upcoming months, Interest rate forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

3.2 Borrowing Strategy and Control of Interest Rate Risk

No borrowing has been undertaken up to and including the quarter ending 31 December 2022. The Authority continues to maintain an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) is not fully funded with loan debt, as cash supporting the Authority's reserves, balances and cash flows was used as an interim measure. This strategy was prudent as investment returns have previously been very low and minimising counterparty risk on placing investments also needed to be considered.

The Authority has not taken out any borrowing as there continues to be a cost to revenue on any new long-term borrowing that is not immediately used to finance capital expenditure, although this would have caused a temporary increase in cash balances, it would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

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.

PWLB Rates

The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.

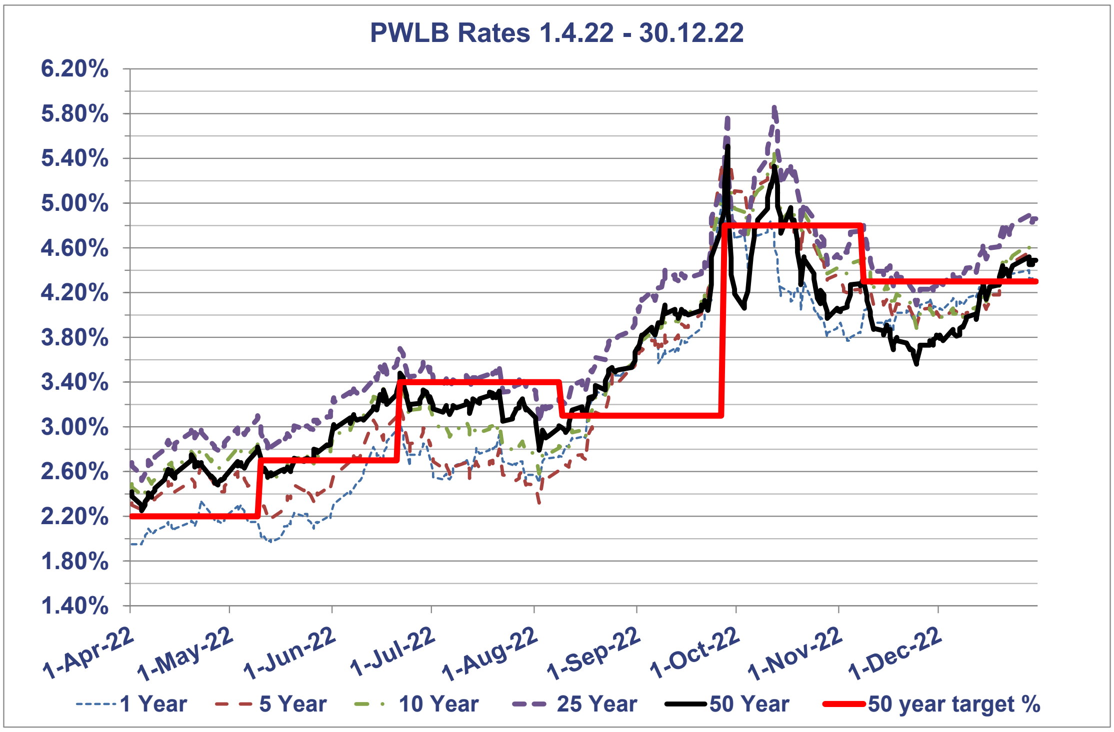
Link view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

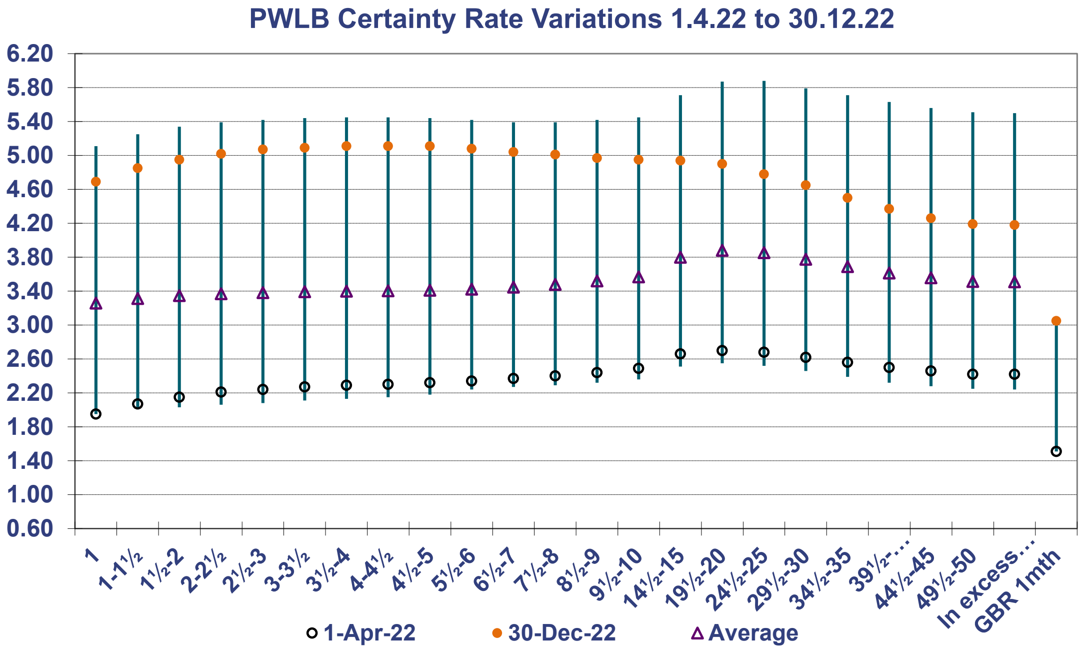
PWLB Maturity Certainty Rates Year to Date to 31 December 2022

Gilt yields and PWLB rates were on a rising trend between 1 April and 30 September but have fallen back from their September peaks in Q3.

The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% before increasing to a peak of 4.80% in September and then latterly reducing to 4.30% in November.

PWLB Rates 1 April to 30 December 2022





HIGH/LOW/AVERAGE PWLB Rates 1 April to 30 December 2022

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.26%	3.41%	3.57%	3.85%	3.51%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

Appendix 1: Prudential and Treasury Indicators

-	Forecast 2022/23 £m
	£m
Capital Financing Requirement	8.300
Operational Boundary	12.134
Actual External Debt as of 31 March 2022	
Authorised Limit	13.634
Upper limit for fixed interest rate exposure	
Net principal fixed rate borrowing / investments	100%
Upper limit for variable interest rate exposure	100%
Net principal variable rate borrowing / investments	
Upper limit for total principal sums invested for over 364 days	0%
Maturity structure of new fixed rate borrowing during 2021/22:	
	Upper Limit
under 12 months	100%
12 months and with 24 months	100%
24 months and within 5 years	100%
5 years and within 10 years	100%
10 years and above	100%

Appendix 2: Debt and Investment Portfolio by Institution

DEBT PORTFOLIO	Maturity Date	Interest Rate %	Principal £000
Institution			
PWLB Loan 1 (46 Years)	**08/03/2053**	**4.25**	**1,700**
PWLB Loan 2 (46 years)	**01/08/2053**	**4.55**	**1,500**
PWLB Loan 3 (50 Years)	**14/06/2071**	**1.89**	**2,500**
TOTAL DEBT		***3.56***	***5,700***

INVESTMENT PORTFOLIO	Maturity Date	Interest Rate %	Principal £000
Institution			
Lloyds Bank Corporate Bank (6 Months)	**10/02/2023**	**2.64**	**1,000**
Qatar National bank (6 Months)	**24/02/2023**	**3.07**	**1,000**
Qatar National bank (3 Months)	**13/03/2023**	**4.01**	**1,000**
Qatar National bank (6 Months)	**20/03/2023**	**3.60**	**1,000**
SMBC International Bank plc (6 Months)	**09/06/2023**	**4.00**	**1,000**
Barclays Bank Plc – Deposit Account			**2,603**
TOTAL TREASURY INVESTMENTS		***3.46***	***7,603***