Treasury Management Strategy Statement 2023/24

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Background

The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, including 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."

Reporting Requirements

Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following: -

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

Treasury Management Reporting

The Authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

- **Prudential and treasury indicators and treasury strategy** (this report) - the first, and most important report is forward looking and covers: -
  - the capital plans, (including prudential indicators)
  - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time)
  - the Treasury Management Strategy (how the investments and borrowings are to be organised), including treasury indicators; and
  - an Annual Investment Strategy (the parameters on how investments are to be managed)

- **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly update reports.

- **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Fire Authority. This role is undertaken by the Policy and Resources Committee.

Quarterly Reports

In addition to the three major reports detailed above, from 2023/24, quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to the Fire Authority but do require to be adequately scrutinised. This role is undertaken by the Policy and Resources Committee. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

Treasury Management Consultants

The Authority uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

The Capital Prudential Indicators 2023/24 - 2025/26

The Authority’s capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members’ overview and confirm capital expenditure plans.

Capital Expenditure and Financing

This prudential indicator is a summary of the Authority’s capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts: -

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

	2022/23 Predicted £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Capital Expenditure	6919	2,998	2,982	2,652
Capital Receipts	300	2,959	1,954	2,205
Capital Reserves [(to)/from]	4,744	(150)	28	(133)
Capital Grants	-	-	-	-
Revenue	1875	189	-	580
Net Financing need for the year	**-**	**-**	**1,000**	**-**

Affordable borrowing limit	2023/24 £'000	2024/25 £'000	2025/26 £'000
Total budget excl. capital financing	33,034	34,305	34,951
Total budget inc. capital	33,672	34,783	36,042
Difference	638	478	1,091
Band D impact	£2.11	£1.57	£3.50
Band D authority tax	£79.92	£ 82.26	£ 84.69
Band D increase	£4.95	£ 2.34	£ 2.43

The Authority's Borrowing Need (The capital financing requirement)

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The Authority is asked to approve the CFR projections below:

	2022/23 Predicted £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Capital Financing Requirement	**8331**	**8071**	**8810**	**8517**
Movement in CFR	(261)	(261)	739	(293)
Movement in CFR represented by				
Net Financing need for the year (above)	-	-	1,000	-
Less MRP/VRP and other financing movements	(261)	(261)	(261)	(293)
Movement in CFR	**(261)**	**(261)**	**739**	**(293)**

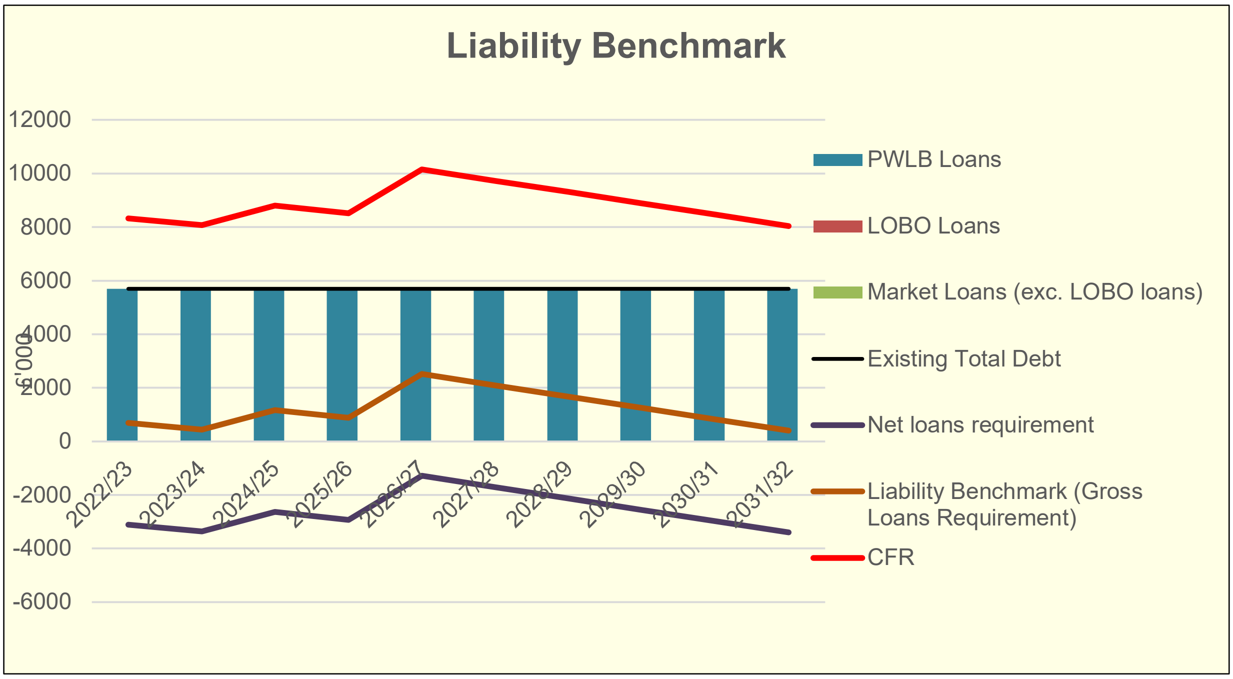
Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

- **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
- **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

- **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



<u>Minimum Revenue Provision (MRP) Policy Statement</u>

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires Authority approval (or closest equivalent level) in advance of each financial year.

For expenditure incurred before 1 April 2008 which forms part of supported capital expenditure, the MRP policy will be:

- **4% reducing balance (CFR method)** – MRP will be calculated as 4% of the opening general fund (GF) CFR balance

From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- **Asset life method (straight line)** – MRP will be based on the estimated life of the assets

Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24, or in the year after the asset becomes operational.

The Authority will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

MRP Overpayments - Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

No VRP payments have been made to date.

Flexible use of Capital Receipts Strategy

Purpose
This strategy sets out Cambridgeshire and Peterborough Fire and Rescue Service's (CFRS) approach to the use of the Government's Direction for the Flexible use of Capital Receipts.

Background
In accordance with Section 15(1) of the Local Government Finance Act 2003, the Secretary of State is empowered to issue Directions allowing revenue expenditure incurred by local authorities to be treated as capital expenditure. Where such a direction is made, the specified expenditure can then be funded from capital receipts under the Regulations.
Guidance on flexible use of capital receipts - GOV.UK (www.gov.uk)

The two codes of practice issued by CIPFA:-
1) The Prudential Code for Capital Finance in Local Authorities
2) The Code of Practice on Local Authority Accounting

Qualifying Expenditure
The guidance sets out that there are a wide range of projects that could generate qualifying expenditure, but the list is not prescriptive. Local authorities cannot borrow to finance the revenue costs of service reform. They can only use capital receipts from a qualifying disposal of property, plant and equipment assets received in the years in which the flexibility is offered.

The key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to an authorities' net service expenditure. Set up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.

Discretionary redundancy payments cannot be qualifying expenditure.

Accountability and transparency

There is a requirement to disclose the individual projects that will be funded or part funded through capital receipts flexibility. This can be satisfied as part of the annual budget setting process but can be updated during the year.

As a minimum, the Strategy should list each project that plans to make use of the capital receipts flexibility and that on a project-by-project basis details of the expected savings/service transformation are provided. The Strategy should report the impact on the local authority's Prudential Indicators for the forthcoming year and subsequent years.

The Strategy should contain details on projects approved in previous years, including a commentary on whether the planned savings or service transformation have been/are being realised in line with the initial analysis.

Details provided to the Secretary of State must include as a minimum:

1) the amount of planned capitalisation using the flexibility for the relevant financial year;
2) the purpose of the expenditure to be capitalised with a description of the associated projects;
3) the amount of expenditure that was capitalised using the flexibility for the prior financial year; and,
4) the efficiency savings that are directly attributable to the use of the flexibility that were achieved for the prior financial year.

CFRS's strategy for use of funds

Approval of projects and allocation of funds arising from the use of flexible capital receipts will be at the discretion of the Section 151 Officer.

Capital receipts from the sales of assets during 2023/24 will be used to help fund current and future capital expenditure, and as such, CFRS will not be utilising the flexible use of capital receipts.

Borrowing

The capital expenditure plans provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

Current Portfolio Position

The overall treasury management portfolio as at 31.12.22 is shown below for both borrowing and investments.

	Date	Source	Principal £m	Rate	Term (years)
Fixed rate funding	08/03/2007	PWLB	1.700	4.25%	46
Fixed rate funding	01/08/2007	PWLB	1.500	4.55%	46
Fixed rate funding	15/06/2021	PWLB	2.500	1.89%	50
Gross Debt			**5.700**		
Total Investments			7.603		
Net Investment			**1.903**		

The Authority's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2022/23	2023/24	2024/25	2025/26
External Debt	**£'000**	**£'000**	**£'000**	**£'000**
Opening Debt at 1 April	5,700	5,700	5,700	6,700
New Borrowing	-	-	1,000	-
Capital Financing Requirement	8,331	8,071	8,810	8,517
Under / (over) borrowing	**2,631**	**2,371**	**2,110**	**1,817**

Within the range of prudential indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Deputy Chief Executive reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

Treasury Indicators: Limits to Borrowing Activity

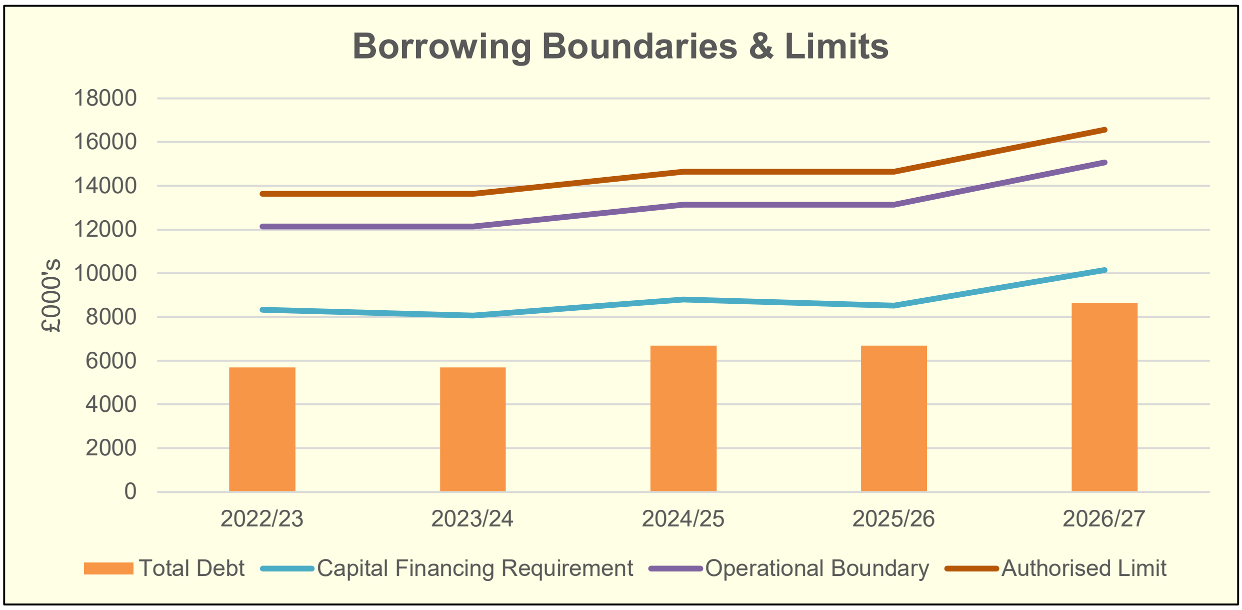
The Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

The Authorised Limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Authority. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority, although this power has not yet been exercised.

- The Authority is asked to approve the following Authorised Limits:

	2023/24	2024/25	2025/26
	£m	£m	£m
Capital financing requirement	8.070	8.809	8.516
Operational boundary	12.134	13.134	13.134
Authorised limit	13.634	14.634	14.634
Upper limit for fixed rate interest exposure	100%	100%	100%
Upper limit for variable rate interest exposure	100%	100%	100%



Borrowing Strategy

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the remainder of 2022 and the first half of 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Deputy Chief Executive will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

Policy on Borrowing in Advance of Need

The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

If rescheduling is to be undertaken, it will be reported to the Authority at the earliest meeting following its action.

Approved Sources of Borrowing

Finance will only be raised in accordance with the Local Government and Housing Act 1989, and within this limit the Authority has a number of approved methods and sources of raising capital finance.

Approved Sources of Borrowing:

On Balance Sheet	Fixed	Variable
PWLB	■	■
EIB	■	■
Market (long-term)	■	■
Market (temporary)	■	■
Market (LOBOs)	■	■
(Council, PCC, Fire Authorities)	■	■
Local temporary (Banks/Overdraft)	■	■
Leasing (not operating leases)	■	■
Other Methods of Financing		
Government and EC Capital Grants Internal PFI/PPP Operating leases		

Annual Investment Strategy

Investment Policy - Management of Risk

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments.

The Authority's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Authority's investment priorities will be security first, portfolio liquidity second and then yield (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Authority's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

- **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps (CDS)"** and overlay that information on top of the credit ratings.

- **Transaction and Lending limits**, (amounts and maturity), for each investment and counterparty will be set through applying the Investment Limit table in Appendix 2.

- Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating AA-**, The countries within the specified range are shown in Appendix 2.

- This Authority has engaged **external consultants** to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.

- All investments will be denominated in **sterling**.

However, this Authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Creditworthiness Policy

This Authority applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

- "watches" and "outlooks" from credit rating agencies;
- CDS spreads that may give early warning of changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority will, therefore, use counterparties within the following durational bands

- Purple	2 years
- Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange	1 Year
- Red	6 months
- Green	100 days
- No Colour	not to be used

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Authority uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored on a monthly basis through investment reports provided by Link Treasury Services

- if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.

- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Authority will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

<u>Creditworthiness</u>
Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

<u>Limits</u>
Due care will be taken to consider the exposure of the Authority's total investment portfolio to non-specified investments, countries, groups and sectors.

The Authority has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-** from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 2. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Credit and counterparty limits are detailed further in the Authority's Treasury Management Policy.

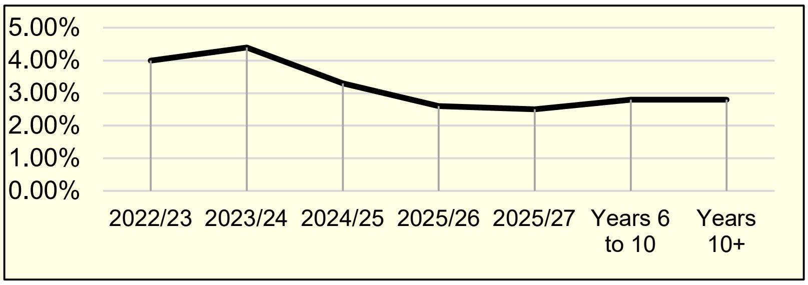
Investment Strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates i.e. rates for investments up to 12 months. Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

2022/23	4.00%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2025/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%



As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Environmental, Social & Governance (ESG) Considerations

The Authority will consider making investments that factor in ESG considerations however, investments will only be made if the investment is within the Authority's risk appetite and meets its investment criteria. ESG investments will not have any priority over any other investments with other institutions.

End of year Investment Report

At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

Scheme of Delegation and Role of Section 151 Officer

This Authority delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Policy and Resources Committee. The execution and administration of treasury management decisions is delegated to its Treasurer, who will act in accordance with the organisation's policy statement and TMPs and if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

APPENDICES

APPENDIX 1: PROSPECTS FOR INTEREST RATES

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 19.12.22. These are forecasts for certainty rates, gilt yields plus 80 bps.

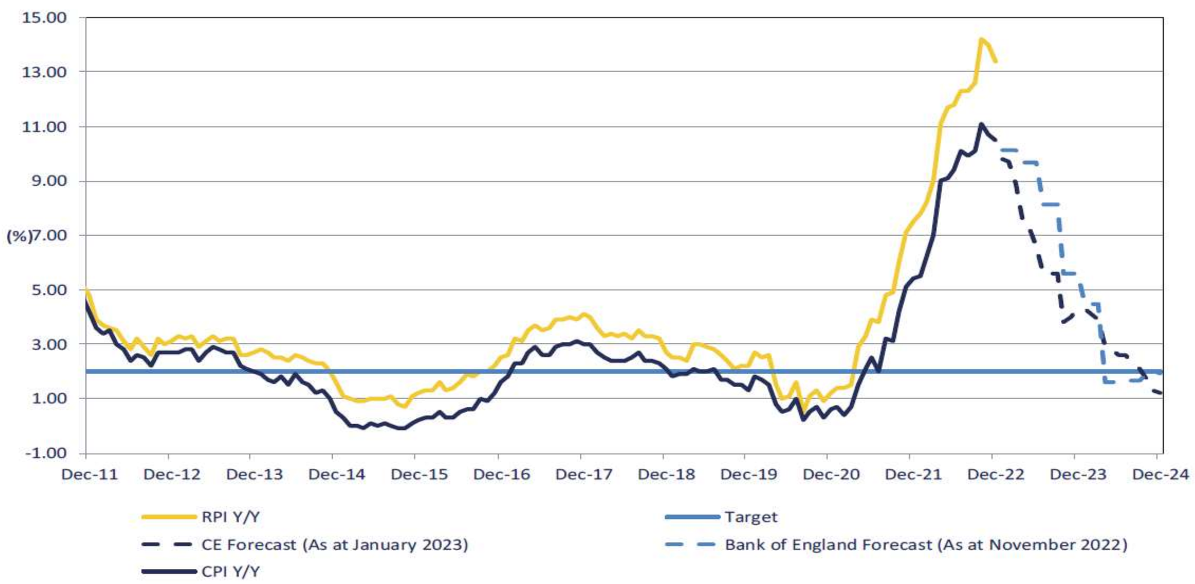
Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
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

Additional notes by Link on this forecast table: -

Our central forecast for interest rates was updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in H1 2023.

Further down the road, we anticipate 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 the final quarter of 2022. 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, our 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.)

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%.

- We 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.

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

APPENDIX 2: APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA	Australia Denmark Germany	Netherlands Norway Singapore	Sweden Switzerland
AA+	Canada	Finland	U.S.A.
AA	Abu Dhabi (UAE)	France	
AA-	Belgium	Qatar	U.K.

Our Investment Limits (see Treasury management policy):

ORGANISATION	CRITERIA	MAX AMOUNT	MAX PERIOD
UK Clearing Bank and UK Building Society	A1 or P1 short term backed up by AAA or AA long term credit rating. Assets over £15,000m if not rated.	25% of available funds up to £10m per institution.	1 year
UK Clearing Bank and UK Building Society	A1 or P1 short term backed up by an A long term Credit Rating. Assets over £5,000m if not rated.	25% of available funds up to £10m per institution.	1 year
UK Clearing Bank and UK Building Society	Non-rated clearers. Assets over £1,000m	£2m	6 months
Government backed Institutions	Government Supported	25% of available funds up to £10m per institution.	1 year
Local Authorities	N/A	£2m	1 year
Non-UK bank and Institution	A1 or P1 short term backed up by AAA or AA long term credit rating.	£2m	1 year