EAST SUSSEX FIRE AUTHORITY

Meeting	Fire Authority
Date	8 February 2024
Title of Report	Treasury Management Strategy for 2024/25
By	Duncan Savage, Assistant Director Resources/Treasurer
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Background Papers

Fire Authority, 9 February 2023 - Treasury Management Strategy for 2023/24
Fire Authority, 15 June 2023 - Treasury Management Stewardship Report 2022/23
Policy & Resources Panel, 9 November 2023 - Half year review for 2023/24

CIPFA Prudential Code

CIPFA Treasury Management in the Public Services - Code of practice

Local Government Act 2003 Local Government Investments - Guidance from the Department for Levelling Up, Housing and Communities (DLUHC).

Appendices

1. Treasury Management Scheme of Delegation
2. The Prudential & Treasury Indicators
3. Minimum Revenue Provision (MRP) Policy Statement
4. Comment from Link Asset Services on the outlook for 2024/25
5. Counterparty list
6. Investment Benchmarking
7. Glossary

Implications

CORPORATE RISK		**LEGAL**	
ENVIRONMENTAL		**POLICY**	
FINANCIAL	✓	**POLITICAL**	
HEALTH & SAFETY		**OTHER (please specify)**	
HUMAN RESOURCES		**CORE BRIEF**	

PURPOSE OF REPORT	To approve the Treasury Management Strategy, policy statement and the Minimum Revenue Provision (MRP) Statement 2024/25
EXECUTIVE SUMMARY	This report contains recommendations about the borrowing limits, the prudential indicators and limits, the investment strategy and policy as required by Section 3 (1) of the Local Government Act 2003 and the Prudential Code for Capital Finance 2017. The emphasis continues to be on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed). The Strategy and limits are consistent with the proposed capital programme and revenue budget dealt with elsewhere on the agenda. It is impossible in practical terms to eliminate all credit risk. The Fire Authority seeks to be prudent. The Fire Authority is recommended to approve borrowing limits to give flexibility for any future consideration in undertaking new external long-term / replacement borrowing should the need arise or market conditions prove favourable. The Fire Authority has always adopted a prudent approach on its investment strategy. No changes to the Investment Strategy are proposed for 2024/25. The 2024/25 Strategy counterparty list for specified and non-specified investment is set out in the Appendices 4 and 6 with no updates to note. The Fire Authority is recommended to approve the 2024/25 investment strategy. The Fire Authority should note that any introduction of longer term instruments will result in an increased (but appropriate) level of risk to the investment portfolio. To the 31 December 2023, the Fire Authority earned £671,988 in investment interest at an average rate of 4.89%. This level of return is broadly consistent with recent available Investment benchmarking (Appendix 6). The background information and the calculation of the Authorised Limit for borrowing for 2024/25 of £21.6m are set out in the attached Appendix 2 (Table 8). Prudential and Treasury Management indicators that are set on an annual basis are shown in Appendix 2.

The Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP) statement are set out in Appendix 2 and 3 to comply with best practice.

The Treasury Management policy statement for 2024/25 is set out in Section 5.

RECOMMENDATION

The Fire Authority is recommended to:

i. approve the Treasury Management Strategy and policy statement for 2024/25;

ii. determine that for 2024/25 the Authorised Limit for borrowing shall be £21.6m;

iii. adopt the prudential indicators as set out in the attached Appendix 2;

iv. approve the Minimum Revenue Provision (MRP) Statement for 2024/25 as set out in the attached Appendix 3; and

v. approve the Annual Investment strategy for 2024/25 as set out in Section 5.

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1. INTRODUCTION

1.1 The CIPFA Code of Practice for Treasury Management in Public Services (the “CIPFA TM Code”) requires authorities to set the Treasury Management Strategy Statement (TMSS) for borrowing and to prepare an Investment Strategy each financial year. CIPFA has defined Treasury Management as:

“the management of the organisation’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.”

1.2 This strategy takes into account the impact of the Authority’s Revenue Budget, Medium Term Capital Programme and the Balance Sheet position. The Prudential Indicators and the outlook for interest rates are also considered within the strategy.

1.3 The Treasury Management Strategy for 2024-25 covers the following areas:

- economic overview (section 2);
- the treasury position (section 3);
- the borrowing strategy to finance the capital plans (section 4);
- the investment strategy (section 5);

- MRP strategy (section 6); and
- policy on use of external service provider (section 7).

1.4 The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. The Treasury Management Scheme of Delegation is shown in Appendix 1.

2. ECONOMIC OVERVIEW

2.1 The Authority uses Link Asset Services as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Table 1 below gives the Link Asset Services central view for short term (Bank Rate) and fixed term borrowing rates.

Table 1

Month	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2024	5.25	4.50	5.20	5.00
Jun 2024	5.25	4.40	5.10	4.90
Sep 2024	4.75	4.30	4.90	4.70
Dec 2024	4.25	4.20	4.80	4.60
Mar 2025	3.75	4.10	4.60	4.40
Jun 2025	3.25	4.00	4.40	4.20
Sep 2025	3.00	3.80	4.30	4.10
Dec 2025	3.00	3.70	4.20	4.00
Mar 2026	3.00	3.60	4.20	4.00
Jun 2026	3.00	3.60	4.10	3.90

2.2 Link expect the Monetary Policy Committee (MPC) will keep Bank Rate at 5.25% until the second half of 2024, to combat on-going inflationary and wage pressures, even if they have dampened somewhat of late. They do not anticipate that the MPC will increase Bank Rate above 5.25%.

2.3 Naturally, timing on this matter will remain 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.

2.4 The full outlook and economic overview from Link is provided within Appendix 4.

3. TREASURY MANAGEMENT POSITION

3.1 Summary of the Authority's borrowing & investment portfolios as at 31 December 2023 and forecast to the end of the financial year is shown below:

Table 2

	Actual at 31 December 2023			Forecast to 31 March 2024		
	£'000	**% of portfolio**	**Average Rate**	**£'000**	**% of portfolio**	**Average Rate**
Investments						
Banks /Local Authorities	8,000	57%	5.45%	10,000	69%	5.35%
Money Market Funds	5,986	43%	5.32%	4,500	31%	5.25%
Total Investments	**13,986**	**100%**	**5.39%**	**14,500**	**100%**	**5.32%**
Borrowing						
PWLB loans	9,417	100%	4.49%	9,417	100%	4.49%
Total external Borrowing	**9,417**	**100%**	**4.49%**	**9,417**	**100%**	**4.49%**

3.2 The Authority's projected debt portfolio position at 31 March 2024, with forward estimates is summarised in Table below. The table shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 3

	2023/24	**2024/25**	**2025/26**	**2026/27**
	Projected	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**
External Debt				
Debt at 1 April	9,817	9,417	15,723	20,248
Expected change in Debt	(400)	6,306	4,525	1,730
External Debt at 31 March	**9,417**	**15,723**	**20,248**	**21,978**
CFR* at 1 April	9,817	9,417	15,723	20,248
Borrowing Need (Table 8)	(6)	6,684	5,156	2,542
MRP	(394)	(378)	(631)	(812)
CFR* at 31 March	**9,417**	**15,723**	**20,248**	**21,978**
Under / (Over) borrowing	**0**	**0**	**0**	**0**

**The Authority's Capital Financing Requirement (CFR) is the total historical outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Authority's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR. CFR in Table 2 is the underlying need to borrow and excludes PFI and lease arrangements, which are included in the CFR figure in the Prudential Indicators in Appendix 2*

3.3 Within the set of prudential indicators there are a number of key tests to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its total borrowing, 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 current and next two financial years.

3.4 The CFR forecast at the end of 2024/25 is £15.728m. The Authority is required to repay an element of the CFR each year through a revenue charge called the minimum revenue provision (MRP).

3.5 The Authority has a number of long-term loans and could aim to reschedule these loans if interest rates increase and the premature repayment rates become favourable.

3.6 Any future loans will be arranged giving consideration to the various debt repayment options, including an Equal Instalments of Principal (EIP) arrangement, where each payment includes an equal amount in respect of loan principal. Therefore the interest due with each payment reduces as the principal is eroded, and the total amount reduces with each instalment.

4. BORROWING STRATEGY

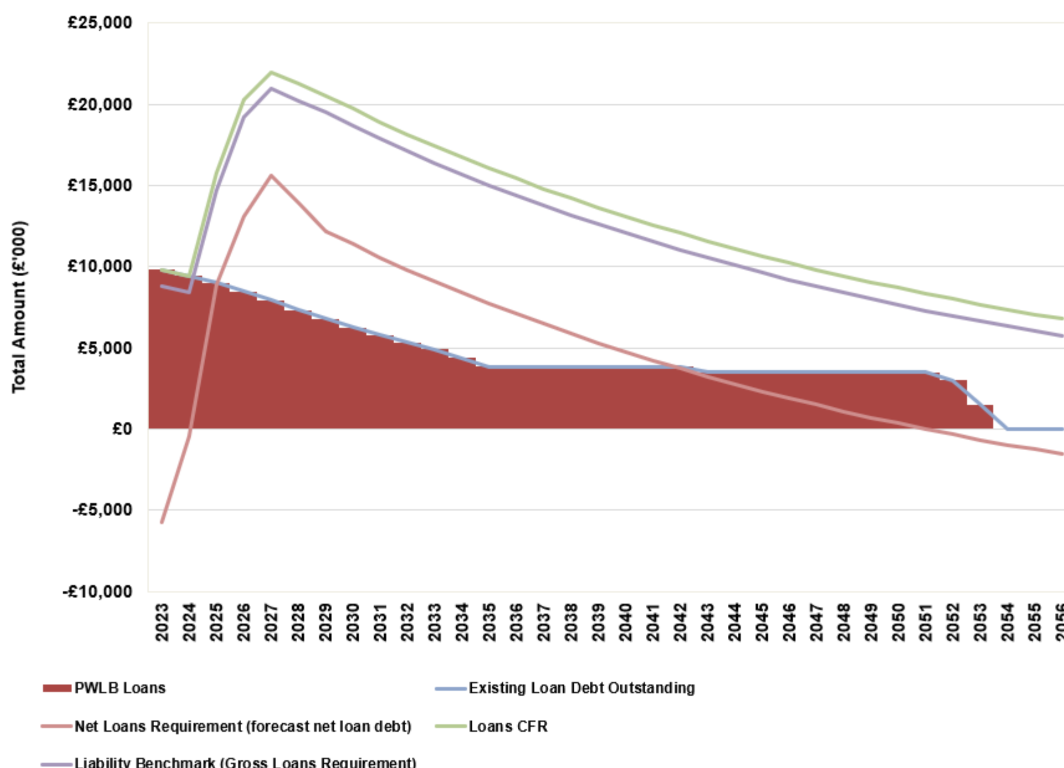
4.1 The net borrowing requirement within Table 3 above shows that, based on current estimates, the Authority will need to consider recommencing borrowing in the short to medium term in order to fund its Capital Strategy. However any future new borrowing taken out will be completed with regard to the limits, indicators, the economic environment, the cost of carrying this debt ahead of need, and interest rate forecasts set out above. Given the expected interest rate environment over the next 12 months, it may be beneficial for the Authority to take short term borrowing during 2024/25 and 2025/26 before moving to longer term borrowing once rates have dropped. The Assistant Director Resources / Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Liability Benchmark

4.2 The Liability Benchmark is a measure of the Authority's borrowing need were it to fully utilise its cash-backed reserves and balances to avoid external borrowing. It assumes a liquidity buffer is maintained to ensure the Authority's obligations are able to be met.

The Authority's liability benchmark is shown below:

Table 4



- **External Debt –** The maturity profile of the current portfolio of external debt is shown by the red bars. The debt has a very gradual maturity profile which means that there are no requirements to pay back large amounts of debt in any one year.
- **Loans CFR –** This is the projection of the Authority's underlying borrowing requirement (or CFR) based on the Authority's capital plans, and is shown by the top, green line. The 2023/24 opening Loans CFR was £9.8m, and it is expected to peak at £22.0m in 2026/27. This only shows the Loans CFR projection based on the current capital programme of the Authority, therefore if ongoing borrowing is required beyond 2026/27 then the CFR would rise further and for longer.
- **Net Loans Requirement –** The expected net treasury position is shown by the bottom pink line. This shows a projection of the loans requirements measured by opening external debt for 2023/24 (£9.8m), less the opening external investments for 2023/24 (£15.6m). The projections are then based on the expected borrowing within the capital programme and the expected movement in reserves and balances, and shows the borrowing requirement if the Authority were to utilise all of its reserves and balances for internal borrowing. This shows that the Authority had more external investments than external debt as at 31/03/23, which is expected to change from 2024/25 as reserves reduce and borrowing is required in the capital programme. The Net Loans Requirement also peaks in 2026/27. This is due to a low level of borrowing expected to be needed to fund the 2027/28 capital programme.
- **Liability Benchmark –** The liability benchmark shows the Net Loan Requirement, but with a buffer of £5m incorporated to ensure the Authority has sufficient cash to meet its cash obligations. This measure shows the level to which the council can internally borrow based on the projection of the capital programme, movement of reserves and allowing for a liquidity buffer. Where the liability benchmark rises above the current debt portfolio, this shows a need for external borrowing, and where the benchmark reduces back below the current portfolio, it shows that the Authority will be over-borrowed based on current plans.

This graph demonstrates that on current capital expenditure & reserve usage projections, the Authority will need to borrow externally during 2024/25. The external borrowing requirement will peak at £20.9m in 2026/27, before falling.

4.3 Whilst the Liability Benchmark is a good indicator of the Authority's direction of travel in terms of borrowing need, it assumes that capital borrowing stops after the current capital planning period, and ignores future borrowing beyond the planning period. Therefore it should not be used in isolation when making long term decisions, but as part of a range of factors.

Policy on Borrowing in Advance of Need

4.4 The Authority will not borrow 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.

4.5 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the reporting mechanism.

4.6 A full set of Prudential Indicators and borrowing limits is shown in Appendix 2.

Debt Rescheduling

4.7 Rescheduling of current borrowing in the current debt portfolio is unlikely to be an option during 2024/25. This is due to a difference between the rate used to calculate the premature redemption, and the rates used to take on new borrowing. This difference would create a premium that the authority would have to pay that would make it more expensive to repay or restructure than retain the debt.

4.8 Table 5 below identifies PWLB borrowing that is due to mature up to 2026/27. No borrowing is subject to early repayment options (LOBO Loan).

Table 5

	2024/25	2025/26	2026/27
	£'000	**£'000**	**£'000**
Maturing Debt	402	520	550
Debt subject to early repayment options	0	0	0
Total debt at risk of maturity	**402**	**520**	**550**

4.9 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

4.10 Consideration will also be given to identifying if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

4.11 All debt rescheduling will be agreed by the Assistant Director Resources / Treasurer.

Sensitivity of the Forecast and Risk Analysis

4.12 Treasury management risks are identified in the Authority's approved Treasury Management Practices, the main risks to the Authority's treasury activities are:

- liquidity risk (inadequate cash resources);
- market or interest rate risk (fluctuations in interest rate levels and thereby in the value of investments);
- inflation risks (exposure to inflation);
- credit and counterparty risk (security of investments);

- refinancing risks (impact of debt maturing in future years); and
- legal and regulatory risk (non-compliance with statutory and regulatory requirements, risk of fraud).

4.13 Officers, in conjunction with the treasury advisers, will monitor these risks closely. Particular focus will be applied to:

- the global economy – indicators and their impact on interest rates will be monitored closely. Investment and borrowing portfolios will be positioned according to changes in the global economic climate; counterparty risk – the Authority follows a robust credit worthiness methodology and continues to monitor counterparties and sovereign ratings closely.

5. INVESTMENT STRATEGY

5.1 The Authority's investment policy has regard to the DLUHC's Guidance on Local Government Investments (the Guidance), the 2021 CIPFA Treasury Management in Public Services Code of Practice ("the Code") and CIPFA Treasury Management Guidance Notes 2021. The Authority's investment priorities will be security first, liquidity second, and then return.

Changes to Investment Strategy

5.2 No changes are proposed to the Investment Strategy for 2024/25.

5.3 The Authority where possible is actively seeking to support Environmental, Social and Governance (ESG) investment products and institutions that satisfy all the underlying key principals of Security, Liquidity and Yield in that order.

5.4 The market for green and broader ESG investments continues to evolve. Research and the consideration of the suitability of ESG investment products will continue into 2024/25. Fixed term investments of up to £3m have been placed in a Standard Chartered ESG product during 2023/24.

Sovereign Credit Ratings

5.5 The Authority has determined that it will only use approved counterparties based in the UK. The UK currently holds an AA- sovereign rating.

Credit Worthiness Policy

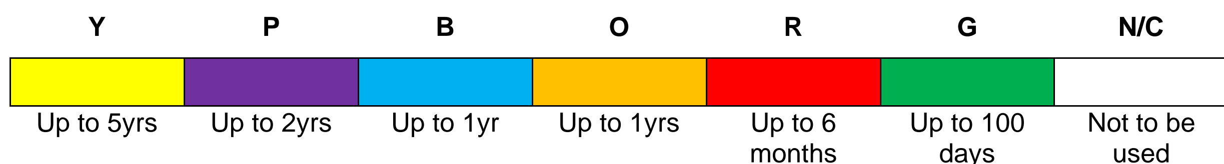
5.6 Officers regularly review the investment portfolio, counterparty risk and construction, market data, information on government support for banks and the credit ratings of that government support. Latest market information is arrived at by reading the financial press and through city contacts as well as access to the key brokers involved in the London money markets

5.7 Additionally, the Authority will make use of the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- credit default swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

5.8 The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative credit worthiness of counterparties. These colour codes are used by the Authority to determine the duration for investments. The strategy provides scope to invest in AAA rated foreign banks. However the Authority proposes to only use counterparties within the following durational bands that are domiciled in the UK.

- Yellow 5 years
- Purple 2 years
- Blue 1 year (semi nationalised UK Bank – NatWest/RBS)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour Not to be used



5.9 The Link Asset Services credit worthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue influence to just one agency's ratings.

5.10 Typically the minimum credit ratings criteria the Authority use, will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A- and a viability 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.

5.11 All credit ratings will be monitored daily. The Authority is alerted to changes to ratings of all three agencies through its use of the Link Asset Services credit worthiness service.

- if a downgrade results in the counterparty or 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 against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

5.12 The primary principle governing the Authority's investment criteria is the security of its investments, although the return on the investment is also a key consideration. After this main principle, the Authority will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security;
- It has sufficient liquidity in its investments.
- It receives a yield that is aligned with the level of security and liquidity of its investments
- Where possible, support ESG investment products and institutions that meet all of the above requirements.
- The preservation of capital is the Authority's principal and overriding priority.

5.13 The Link Asset Services methodology determines the maximum investment duration under the credit rating criteria. Key features of policy are:

- a mathematical based scoring system is used taking ratings from all three credit rating agencies;
- negative and positive watches and outlooks used by the credit rating agencies form part of the input to determine a counterparty's time band (i.e. 3, 6, 9, 12 months etc.);
- CDS spreads are used in Link Asset Services creditworthiness service as it is accepted that credit rating agencies lag market events and thus do not provide investors with the most instantaneous and "up to date" picture of the credit quality of a particular institution. CDS spreads provide perceived market sentiment regarding the credit quality of an institution.
- After a score is generated from the inputs a maximum time limit (duration) is assigned and this is known as the Link Asset Services colour which is associated with a maximum suggested time boundary.

5.14 The Link Asset Services colours and the maximum time periods are shown para 5.8 above. In the Link Asset Services methodology if counterparty has no colour then they are not recommended for investment and this would remove these counterparties from the Authority's counterparty list.

5.15 Whilst the Link Asset Services methodology categorises counterparty time limits up to two years, the Authority's policy remains only to make investments up to a maximum of one year.

Specified Investments

5.16 An investment is a specified investment if all of the following apply:

- the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
- the investment is not a long term investment (i.e. up to 1 year);
- the making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended];
- the investment is made with a body or in an investment scheme of high credit quality (see below) or with one of the following public-sector

bodies:

- The United Kingdom Government;
- A local authority in England or Wales (as defined under section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland; and
- High credit quality is defined as a minimum credit rating as outlined in section 5.11 of this strategy.

5.17 The use of Specified Investments - Investment instruments identified for use in the financial year are as follows:

- Table 4 below sets out the types of investments that fall into each category, counterparties available to the Authority, and the limits placed on each of these. A detailed list of each investment type is available in the Treasury Management Practices guidance notes;

5.18 Criteria for Specified Investments:

Table 6

Counterparty	Country/ Domicile	Instrument	Min. Credit Criteria LAS/Colour band	Max. Amount*	Max. maturity period
Debt Management and Depost Facilities (DMADF)	UK	Term Deposits	UK Sovereign Rating	unlimited	12 months
Government Treasury bills	UK	Term Deposits	UK Sovereign Rating	unlimited	12 months
UK Local Authorities	UK	Term Deposits	UK Sovereign Rating	unlimited	12 months
Banks – part nationalised	UK	• TDs • Deposits on Notice • Certificates of Deposit (CDs)	Blue	£6m	12 Months
			Orange	£6m	12 Months
			Red	£6m	6 Months
			Green	£6m	100 Days
Banks	UK	• TDs • Deposits on Notice • CDs	Blue	£6m	12 Months
			Orange	£6m	12 Months
			Red	£6m	6 Months
			Green	£6m	100 Days
Individual Money Market Funds (MMF) CNAV and LVNAV	UK/ Ireland/ EU domiciled	AAA Rated Money Market Fund Rating	N/A	£6m	Liquidity/ instant access
VNAV MMF's and Ultra Short Dated Bond Funds	UK/ Ireland/ EU domiciled	AAA Rated Bond Fund Fund Rating	N/A	£6m	Liquidity

**No more than 25% of the investment portfolio held with one single counterparty where practically possible.*

Non Specified Investments

5.19 Non Specified Investments are any other types of investment that are not defined as specified. The identification and rationale supporting the selection of these other investments are set out in **Table 7** below:

Table 7

	Minimum credit criteria	Period
Local Authorities	Government Backed	2 years
Mixed Asset Fund(s)	N/A	2 - 5 years
Short Dated Bond Fund(s)	N/A	2 - 5 years
Pooled Property Fund(s)	N/A	5+ years

The maximum amount that can be invested will be monitored in relation to the Authority's surplus monies and the level of reserves, the limit will be £2.5m across all non specified investments for 2024/25. The approved counterparty list will be maintained by referring to an up-to-date credit rating agency reports, and the Authority will liaise regularly with brokers for updates. Counterparties may be added to or removed from the list only with the approval of the Assistant Director Resources/Treasurer. A detailed list of specified and non-specified investments that form the counterparty list is shown in section 10.

Investment Position and Use of Authority's Resources

5.20 Investment returns are anticipated to reduce mariginally in 2024/25 as markets are pricing in a series of Bank Rate cuts, actual economic circumstances may see the MPC fall short of these expectations. Bank rate cuts at March in the next 3 years are forecast to be:

- March 2024 5.25%
- March 2025 3.75%
- March 2026 3.00%

5.21 The Link Asset Services suggested budgeted investment earnings rates for returns on investments placed for each financial year for the next four years are as follows:

- 2024/25 4.70%
- 2025/26 3.20%
- 2026/27 3.00%
- 2027/28 3.25%

5.22 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an on-going impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

5.23 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).

6. MINIMUM REVENUE PROVISION

6.1 The Authority is required to repay an element of the CFR through a revenue charge (MRP), although it is also allowed to undertake additional voluntary

payments if required.

6.2 The Department for Levelling Up Housing & Communities (DLUHC) regulations have been issued which require the Authority to approve an MRP Statement in advance of each year. A variety of options is provided to authorities, so long as there is a prudent provision. The Authority is recommended to approve the MRP Policy in Appendix 3.

6.3 The Authority, in conjunction with its Treasury Management advisors, has considered the MRP policy to be prudent.

7. POLICY ON THE USE OF EXTERNAL SERVICE PROVIDERS

7.1 The Authority uses Link Asset Services as its external treasury management advisors.

7.2 The Authority recognises that responsibility for treasury management decisions remains with the Authority at all times and will ensure that undue reliance is not placed upon our external service providers.

7.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

8. UPDATE TO ACCOUNTING REQUIREMENTS

8.1 IFRS 9 – Financial Instruments

- **IFRS9 – local authority override – English local authorities**

  The MHCLG (DLUHC) initially enacted a statutory over-ride from 1.4.18 for a five-year period until 31.3.23 following the introduction of IFRS 9 in respect of the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year. This has now been extended to 31.3.25 and has the effect of allowing any unrealised capital gains or losses arising from qualifying investments to be held on the balance sheet until 31.3.25: this is intended to allow authorities to initiate an orderly withdrawal of funds if required. In addition, IFRS9 impacts the write-down in the valuation of impaired loans.

  The Authority does not hold any investments that are categorised as in-scope of the statutory over-ride and therefore there is no impact on the Authority of these changes.

- **IFRS 16 – Leasing**

  The CIPFA Code of Practice will incorporate the requirement to account for all leases onto the council's balance sheet from 2024/25 onwards.

  This has the following impact to the Treasury Management Strategy:

- The MRP Policy sets out how MRP will be applied for leases bought onto the balance sheet;
- The Authority's Capital Financing Requirement authorised limit and operational boundary for 2024/25 onwards has been increased to reflect the estimated effect of this change. These limits can be amended during 2024/25 if required.

APPENDIX 1

Treasury Management Scheme of Delegation

1. Fire Authority

1.1 In line with best practice, The Fire Authority is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are:

a) Prudential and Treasury Indicators and Treasury Strategy (This report)
The first and most important report covers:

- the capital plans (including prudential indicators);
- the Capital Strategy
- a Minimum Revenue Provision 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 investment strategy (the parameters on how investments are to be managed).

b) A Mid-Year Treasury Management Report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and indicating whether the treasury strategy is meeting the strategy or whether any policies require revision.

c) An Annual Treasury Management Stewardship Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

d) In addition to the three major reports detailed above, from 2023/24 quarterly reporting is incorporated into the quarterly monitoring process.

2. The Treasury Management Role of the Section 112 Officer

2.1 The Section 112 (responsible) Officer (the fire service equivalent to the S151 Officer in local government):

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit; and

- recommending the appointment of external service providers.

3. Training - Treasury Management training for Authority members will be delivered as required to facilitate more informed decision making and challenge processes. The next training session is expected to be delivered to members in 2024.

APPENDIX 2

1. The Prudential and Treasury Indicators

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

1.2 **Capital Expenditure**. This prudential Indicator shows the Authority's capital expenditure plans; both those agreed previously, and those forming part of this budget cycle. Capital expenditure excludes spend on PFI and leasing arrangements, which are now shown on the balance sheet.

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

Table 8

Description	2023/24 Projected	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£'000	£'000	£'000	£'000
Capital Expenditure	4,756	8,949	7,156	6,242
Financed by:				
New & existing resources	(4,762)	(2,265)	(2,000)	(3,700)
Borrowing Need*	**(6)**	**6,684**	**5,156**	**2,542**

*prior to MRP deducted

1.4 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 underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

1.5 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

1.6 Following accounting changes for 2024/25, the CFR will include any other long term liabilities (e.g. PFI schemes, finance leases) brought on the balance sheet. Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility and so the Authority is not required to separately borrow for these schemes. The Authority has no PFI Schemes, and work is being undertaken during 2023/24 and 2024/25 to identify where the Authority holds finance leases. Tables 8, 9 and 10 include an estimate for finance leases that will be bought onto the balance sheet during the year.

Table 9

	2023/24 Projecte d	2024/25 Estimate	2025/26 Estimat e	2026/27 Estimate
Capital Financing Requirement				
	£'000	**£'000**	**£'000**	**£'000**
Opening CFR	9,817	9,417	15,707	20,232
Borrowing Need (table 8 as above)	(6)	6,684	5,156	2,542
MRP	(394)	(379)	(631)	(812)
Closing CFR	**9,417**	**15,707**	**20,232**	**21,962**

1.7 **The Operational Boundary.** This is the limit beyond which external borrowing 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 borrowing.

Table 10

Description	2023/24 Projected	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£'000	**£'000**	**£'000**	**£'000**
Borrowing	10,400	17,600	22,500	24,400
PFI/Leases	-	2,000	2,000	2,000
Total	**10,400**	**19,600**	**24,500**	**26,400**

1.8 **The Authorised Limit for external borrowing**. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Authority. It reflects the level of external borrowing 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 authority's plans, or those of a specific authority, although this power has not yet been exercised; and
- The Authority is asked to approve the following Authorised Limit:

Table 11

Authorised Limit	2023/24 Projected	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£'000	**£'000**	**£'000**	**£'000**
Borrowing	11,500	19,600	25,000	27,100
PFI/Leases	-	2,000	2,000	2,000
Total	**11,500**	**21,600**	**27,000**	**29,100**

2. Treasury Management Limits on Activity

2.1 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs or improve performance. The indicators are:

- upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Table 12

Maturity structure of fixed interest rate borrowing 2024/25 All Fire Authority borrowing is at a Fixed Rate			
	Lower	**Upper**	**Actual**
Under 12 months	0%	25%	4%
12 months to 2 years	0%	40%	6%
2 years to 5 years	0%	60%	18%
5 years to 10 years	0%	80%	20%
10 years to 20 years	0%	80%	15%
20 years to 30 years	0%	80%	37%
30 years to 40 years	0%	80%	0%
40 years to 50 years	0%	80%	0%

Table 13

Principle sums invested for periods longer than 365 days			
	2024/25 £m	**2025/26 £m**	**2026/27 £m**
Limit	1.00	0.50	0.50

The above limits are deemed prudent and will be reviewed in future years.

2.2 **Affordability Prudential Indicators -** The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital

investment plans on the Authority's overall finances. The Authority is asked to approve the following indicators:

2.3 **Actual and estimates of the ratio of financing costs to net revenue stream**. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in this budget report.

Table 14

Description	**2023/24 Projected**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
	%	**%**	**%**	**%**
Ratio	2.02	1.92	2.93	3.48

3. Treasury Management Budget

Table 15

Description	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£'000	**£'000**	**£'000**	**£'000**
Interest Payable	505	581	838	976
Interest Receipts	(150)	(300)	(50)	(10)
Minimum Revenue Provision	395	379	631	812
TOTAL	**750**	**660**	**1,419**	**1,778**

APPENDIX 3

Minimum Revenue Provision Policy Statement

1. Policy Statement

1.1 The statutory requirement for local authorities to charge the Revenue Account each year with a specific sum for debt repayment has been replaced with a more flexible statutory guidance. A variety of options is provided to authorities to replace the existing Regulations, so long as there is a prudent provision.

1.2 The statutory duty is that a local authority shall determine for the financial year an amount of minimum revenue provision (MRP) that it considers to be prudent. This replaces the previous prescriptive requirement that the minimum sum should be 4% of the Authority's Capital Financing Requirement (CFR).

1.3 To support the statutory duty the Government also issued guidance, which requires that a Statement on the Authority's policy for its annual MRP should be submitted to The Fire Authority for approval before the start the financial year to which the provision will relate. The Authority is therefore legally obliged to have regard to this MRP guidance in the same way as applies to other statutory guidance such as the CIPFA Prudential Code, the CIPFA Treasury Management Code and the DLUHC guidance on Investments.

1.4 The MRP guidance offers four options under which MRP might be made, with an overriding recommendation that The Fire Authority should make prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

1.5 The guidance also requires an annual review of MRP policy being undertaken and it is appropriate that this is done as part of this Annual Treasury Management Strategy.

1.6 The move to International Financial Reporting Standards (IFRS) involves Private Finance Initiative (PFI) contracts and potentially some leases (being reclassified as finance leases instead of operating leases) coming onto the Balance Sheet as long term liabilities. The accounting treatment would impact on the Capital Financing Requirement with the result that an annual MRP provision would be required.

1.7 To ensure that this change has no overall financial impact on Local Authorities, the Government has updated their "Statutory MRP Guidance" which allows MRP to be equivalent to the existing lease rental payments and "capital repayment element" of annual payments to PFI Operators. There are no implications for the Authority's MRP policy.

The policy for 2024/25 is therefore as follows:-

1.8 For capital expenditure incurred before 1 April 2008 or which in the future will be Government Supported Capital Expenditure, the MRP policy will be:

- Based on based on the non-housing CFR, i.e., The Authority currently set aside a Minimum Repayment Provision based on basic MRP of 4% each year to pay for past capital expenditure and to reduce its CFR.

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

- Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option will be applied for any expenditure capitalised under a Capitalisation Direction).

- For all leases coming onto the balance sheet, Asset Life Method (annuity method) – will be used. The MRP will be calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. Any related MRP will be equivalent to the "capital repayment element" of the annual charge payable.

Under both methods, the Authority has the option to charge more than the statutory MRP each year through a Voluntary Revenue Provision (VRP).

1.10 This approach also allows the Authority to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending. This approach is beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy. Half-yearly review of the Authority's MRP Policy will be undertaken and reported to Members as part of the Half-yearly Treasury Management Strategy review.

1.11 The government is currently consulting Local Authorities on proposed changes to the MRP guidance. The proposed changes are not expected to impact on the Fire Authority.

APPENDIX 4

Economic Overview

Provided by Link Asset Services (Treasury Advisors) January 2024

The third quarter of 2023/24 saw:

- A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
- A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS "experimental" rate of unemployment has remained low at 4.2%;
- CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
- Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022;
- The Bank of England holding Bank Rate at 5.25% in November and December;
- A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.

The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.

However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.

The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.

Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with the Halifax house price index recently pointing to a 1.7% year on year increase whilst Nationwide's December data pointed to a -1.8% year on year decrease. However, the full weakness in real

consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.

Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.

The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.

The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.

CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.

The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.

Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.

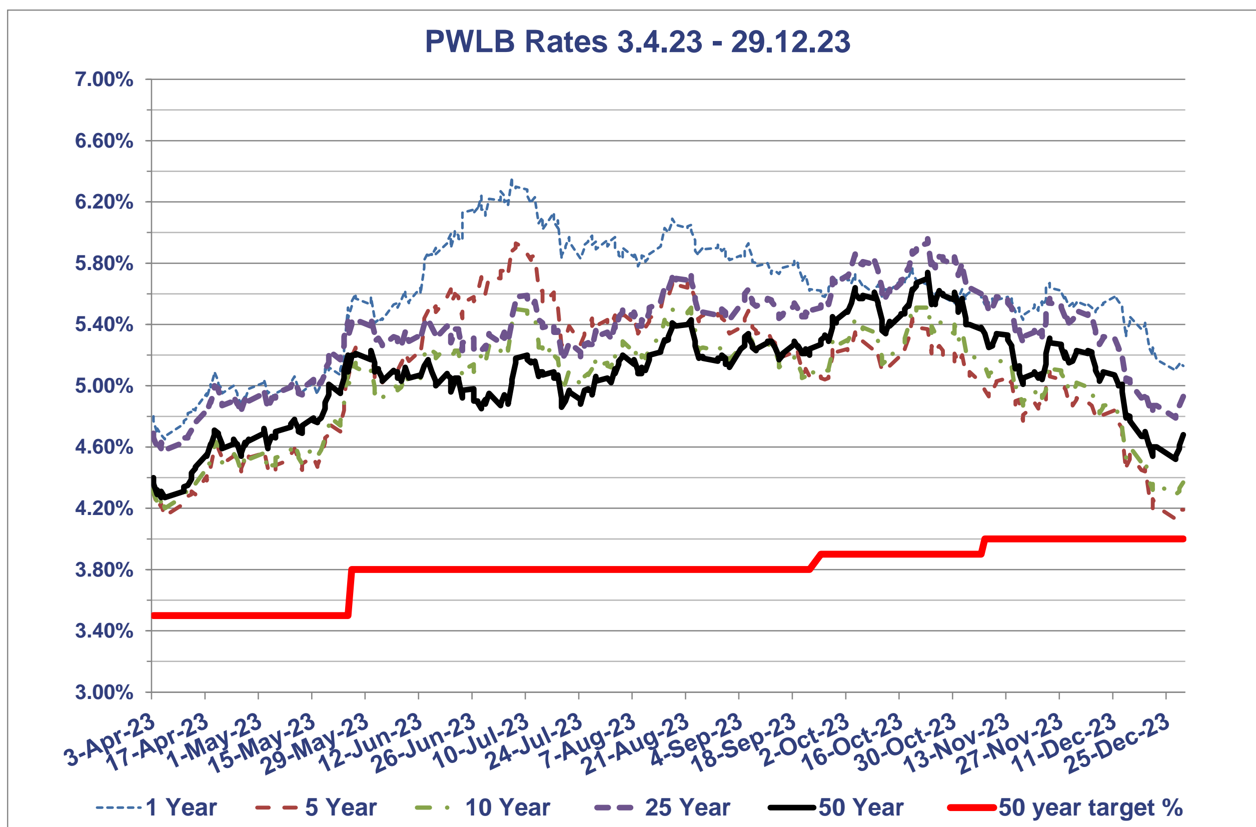
The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% in early January, with further declines likely if the falling inflation story is maintained.

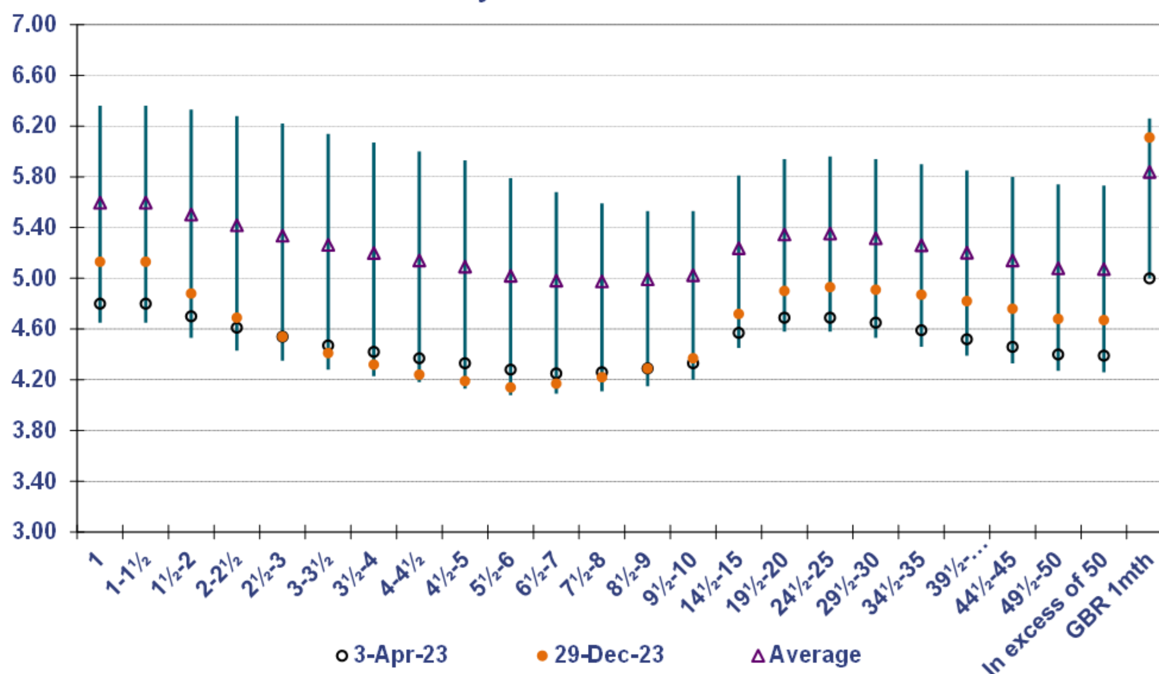
Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from $1.21 in November to $1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.

- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February 2023. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.

PWLB RATES 3.4.23 - 29.12.23





HIGH/LOW/AVERAGE PWLB RATES FOR 3.4.23 – 29.12.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.60%	5.09%	5.03%	5.35%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

Prospect 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 8 January 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Our central forecast for interest rates was previously updated on 7 November and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).

Naturally, timing on this matter will remain 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.

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 also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

PWLB RATES

The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone. At the time of writing there is c70 basis points difference between the 5 and 50 year parts of the curve.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is even.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

- The Bank of England has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- Geopolitical risks, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- Despite the tightening in Bank Rate to 5.25%, the Bank of England allows inflationary pressures to remain elevated for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, which may prove inflationary, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating.

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation continues to fall through 2024.

Our target borrowing rates are set two years forward (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 08.01.24 p.m.	Target borrowing rate now (end of Q4 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	4.53%	3.70%	3.80%
10 years	4.67%	3.90%	3.80%
25 years	5.19%	4.20%	4.20%
50 years	4.97%	4.00%	4.00%

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate remains at 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to factor in Bank Rate reductions for 2024 and later.

APPENDIX 5

Bank with duration colour	Country	Fitch Ratings				Moody's Ratings		S & P Ratings		CDS Price	ESFA Duration	Link Duration Limit	Money Limit
Specified Investments:		L Term	S Term	Viab.	Supp.	L Term	S Term	L Term	S Term		(Months)	(Months)	(£m)
Lloyds Banking Group:													
Lloyds Bank	UK	A+	F1	a	WD	A1	P-1	A+	A-1	53.22	6	6	6
Bank of Scotland	UK	A+	F1	-	WD	A1	P-1	A	A-1	-	6	6	
RBS/NatWest Group:													
NatWest Bank	UK	A+	F1	a	WD	A1	P-1	A+	A-1	-	12	12	6
Royal Bank of Scotland	UK	A+	F1	a	WD	A1	P-1	A+	A-1	-	12	12	
HSBC Bank	UK	AA-	F1+	a	WD	A1	P-1	A+	A-1	52.88	12	12	6
Barclays Bank	UK	A+	F1	a	WD	A1	P-1	A+	A-1	100.00	6	6	6
Santander (UK)	UK	A+	F1	a	WD	A1	P-1	A	A-1	-	6	6	6
Goldman Sachs IB	UK	A+	F1	-	WD	A1	P-1	A+	A-1	79.25	6	6	6
Standard Chartered Bank	UK	A+	F1	a	WD	A1	P-1	A+	A-1	52.68	6	6	6
Handelsbanken (UK) PLC	UK	AA	F1+	-	WD	-	-	AA-	A-1+	-	12	12	6

Yellow	*Purple*	*Blue*	*Orange*	*Red*	*Green*	*No Colour*
Up to 5yrs	*Up to 2yrs*	*Up to 1yr (semi nationalised UK banks)*	*Up to 1yr*	*Up to 6 months*	*Up to 100 days*	*Not to be used*

Non Specified Investments:	Minimum credit criteria	Period
Local Authorities	Government Backed	2 years
Mixed Asset Fund(s)	N/A	2 - 5 years
Short Dated Bond Fund(s)	N/A	2 - 5 years
Pooled Property Fund(s)	N/A	5+ years

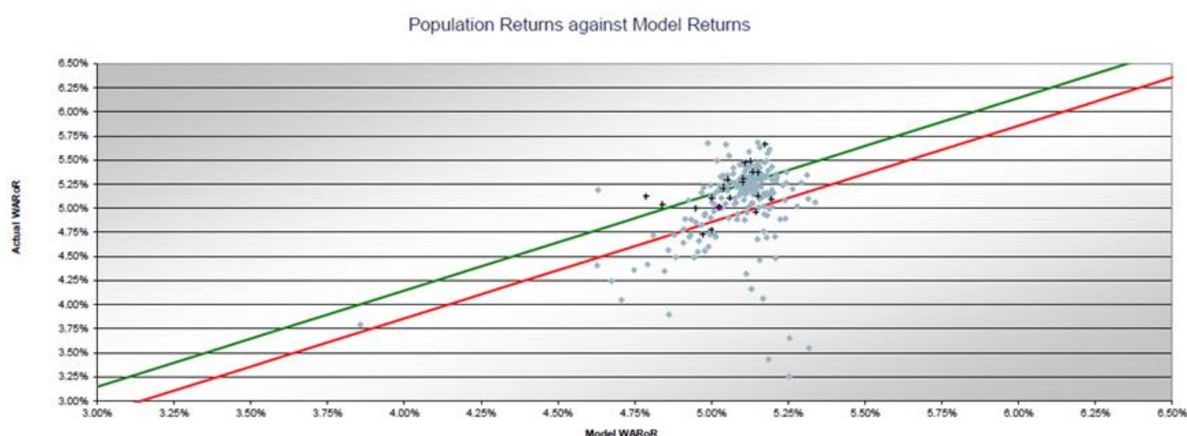
APPENDIX 6

Investment Benchmarking

1 Investment Benchmarking

1.1 The Authority has access to Investment benchmarking results from its Treasury Advisors Link Asset Services (LAS). Officers attend two annual meetings to review performance and compare to peers within the South East Region (group 8).

1.2 The cluster graph below shows that the rate of return grouping for Local Authorities is within a range of 4.91 – 5.20% which is broadly consistent with returns achieved by this Authority (5.32% as at September).



1.3 The table below shows interest earned on balances in April to December 2023. As at 31 December £672k was earned in investment interest at an average rate of 4.89% for the year to date.

2023/24	Average Balance (£m)	Interest Earned (£k)	Return (%)	Base Rate* (%)	+/- (%)
April	17.6	55.9	3.88	4.25	-0.37
May	17.2	60.8	4.16	4.42	-0.26
June	16.8	60.2	4.37	4.66	-0.29
July	17.1	68.0	4.70	5.00	-0.37
August	22.1	98.3	5.23	5.23	+0.00
September	20.7	90.4	5.32	5.25	+0.07
October	19.3	88.0	5.36	5.25	+0.11
November	17.3	76.1	5.37	5.25	+0.12
December	16.3	74.3	5.38	5.25	+0.13

**Average Base Rate in Month*

1.4 Returns are typically below base rate where interest rates are rising as a result of the time lag between changes in base rate and investments maturing and being able to re-invest at more favourable rates.

Investment Product Glossary

Bank / Building Society: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Bank / Building Society Secured (Covered Bonds): These investments are secured on the bank's assets, which limit the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in.

Corporate Bonds: Bonds issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

Enhanced Cash / Ultra Short Dated Bond Funds: Funds designed to produce an enhanced return over and above a Money Market Fund. The manager may use a wider range of alternative options to try and generate excess performance. These could include different counterparties, instruments as well as longer dated investments.

Equity Fund: Equity funds are pooled investment vehicles that will focus investments primarily in UK equities.

Government: Loans, bonds and bills issued or guaranteed by UK government, local authorities and supranational banks. These investments are not subject to bail-in, and there is a minimal risk of insolvency.

Money Market Funds: An open ended fund that invests in short term debt securities, offers same-day liquidity and very low volatility.

Mixed Asset Funds: Rather than focus on a particular asset class, these funds will look to invest across a broader range of classes in an effort to provide investors with a smoother performance on a year-to-year basis. Primarily, the asset classes will be equities and fixed income, but the latter will include both corporate and government-level investments.

Pooled Property Funds: Shares in diversified property investment vehicles. Property funds offer enhanced returns over the longer term, but are more volatile in the short term. The funds have no defined maturity date, but are available for withdrawal after a notice period

Short Dated Bond Funds: Funds designed to produce an enhanced return over and above an Ultra Short Dated Fund. The manager may use a wider range of alternative options to try and generate excess performance. These could include different counterparties, instruments as well as longer dated and a proportion of lower rated investments. The return on the funds are typically much higher, but can be more volatile than Ultra-Short Dated bond funds, so a longer investment time horizon is recommended.