

EAST SUSSEX FIRE AUTHORITY

Date: 6 February 2025

Title of Report: Treasury Management Strategy for 2025/26

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Lead Officer: Richard Carcas – Principal Finance Officer (Treasury Management) ESCC

Background Papers

Fire Authority:
8 February 2024; Treasury Management Strategy for 2024/25
13 June 2024; Treasury Management Stewardship Report 2023/24
Policy & Resources Panel:
14 November 2024; Half year review for 2024/25

CIPFA Prudential Code

CIPFA Treasury Management in the Public Services - Code of practice

Local Government Act 2003 Local Government Investments - Guidance from the Ministry of Housing, Communities and Local Government (MHCLG).

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 2025/26
 5. Counterparty list
 6. Investment Benchmarking
 7. Glossary
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Implications (please tick ✓ and attach to report)

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 2025/26.

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 2025/26.

The 2025/26 Strategy counterparty list for specified and non-specified investment is set out in the Appendix 5 with no updates to note.

To the 31 December 2024, the Fire Authority earned £623,601 in investment interest at an average rate of 5.16%. This level of return is broadly consistent with recent available Investment benchmarking (Appendix 6).

The Fire Authority is recommended to approve the 2025/26 investment strategy.

The background information and the calculation of the Authorised Limit for borrowing for 2025/26 of £24.2m are set out in the attached Appendix 2 (Table 11).

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 2025/26 is set out in Section 5.

RECOMMENDATION

The Fire Authority is recommended to:

- i. approve the Treasury Management Strategy and policy statement for 2025/26;
- ii. determine that for 2025/26 the Authorised Limit for borrowing shall be £24.2m;
- iii. adopt the prudential indicators as set out in the attached Appendix 2;
- iv. approve the Minimum Revenue Provision (MRP) Statement for 2025/26 as set out in the attached Appendix 3; and
- v. approve the Annual Investment strategy for 2025/26 as set out in Section 5.

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 2025/26 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 2025	4.50	4.90	5.50	5.30
Jun 2025	4.25	4.80	5.40	5.20
Sep 2025	4.00	4.60	5.30	5.10
Dec 2025	4.00	4.50	5.20	5.00
Mar 2026	3.75	4.50	5.10	4.90
Jun 2026	3.75	4.40	5.00	4.80
Sep 2026	3.75	4.30	4.90	4.70
Dec 2026	3.50	4.20	4.80	4.60
Mar 2027	3.50	4.30	4.70	4.50
Jun 2027	3.50	4.40	4.60	4.40

- 2.2 The Base Rate peaked at 5.25% during 2024/25, with markets and economists' current expectation that rates will start to fall further into 2025/26 and beyond as the Bank of England (BoE) is expected to tighten monetary policy in order to contain the impact of inflation. At the time of writing, Link Asset Services are forecasting that the Monetary Policy Committee will cut Base Rate to 3.50% by December 2026.

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

TREASURY MANAGEMENT POSITION

- 3.1 Summary of the Authority's borrowing & investment portfolios as at 31 December 2024 and forecast to the end of the financial year is shown below:

Table 2

	Actual at 31 December 2024			Forecast to 31 March 2025		
	£'000	% of portfolio	Average Rate	£'000	% of portfolio	Average Rate
Investments						
Banks /Local Authorities	6,000	49%	5.00%	6,000	86%	5.00%
Money Market Funds	6,287	51%	4.75%	1,000	14%	4.50%
Total Investments	12,287	100%	4.87%	7,000	100%	4.75%
Borrowing						
PWLB loans	9,015	100%	4.48%	11,371	100%	4.60%
Total external Borrowing	9,015	100%	4.48%	11,371	100%	4.60%

- 3.2 The Authority's projected debt portfolio position at 31 March 2025, with

forward estimates is summarised in Table 3 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

	2024/25	2025/26	2026/27	2027/28
	Projected	Estimate	Estimate	Estimate
	£000	£000	£000	£000
External Debt				
Debt at 1 April	9,417	11,371	17,967	21,706
Expected change in Debt	1,954	6,596	3,739	(94)
External Debt at 31 March	11,371	17,967	21,706	21,612
CFR* at 1 April	9,417	11,371	17,967	21,706
Borrowing Need (Table 8)	2,334	7,053	4,459	776
MRP	(380)	(457)	(720)	(870)
CFR* at 31 March	11,371	17,967	21,706	21,612
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 2025/26 is £17.967m. 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 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

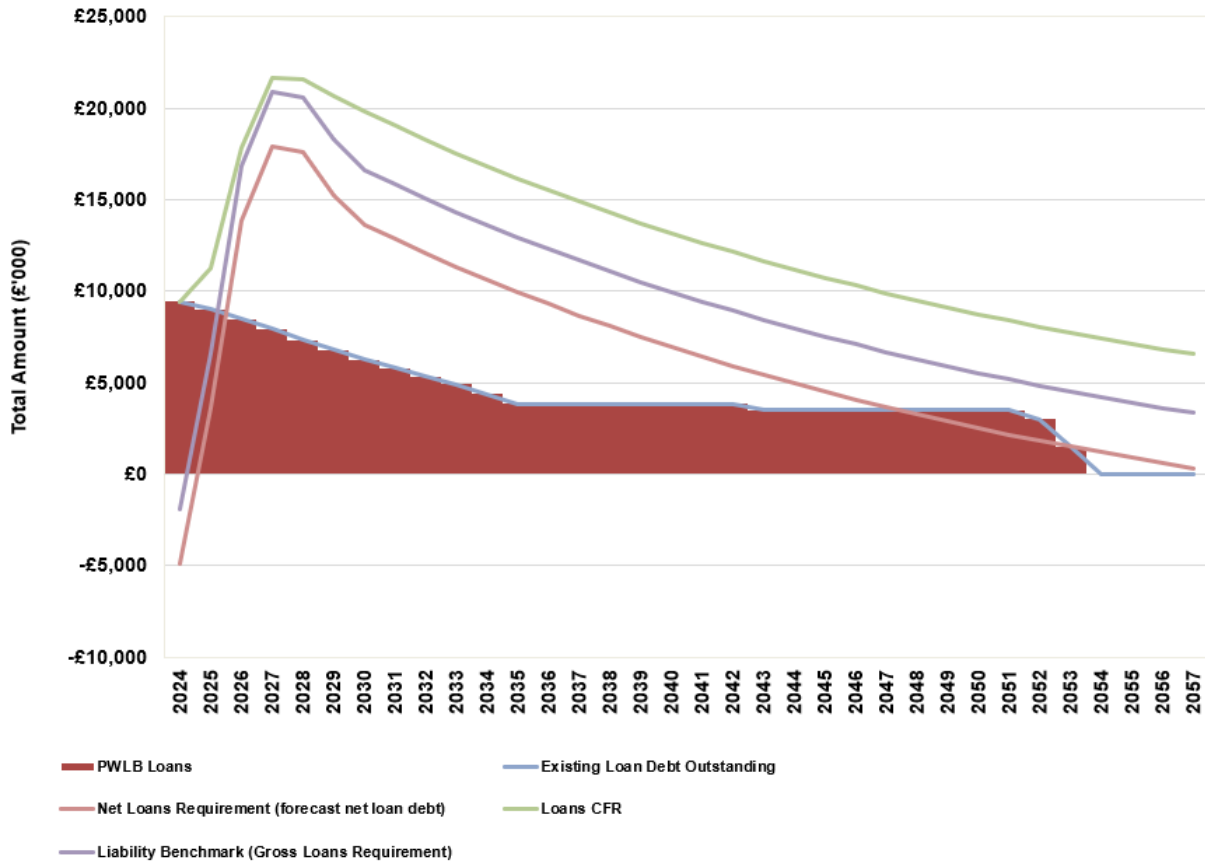
- 4.1 The net borrowing requirement within Table 3 above shows that, based on current estimates, the Authority will need to recommence borrowing in the short to medium term in order to fund its Capital Strategy. However, any future new borrowing taken out will be completed with regard to the limits, 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 2025/26 and 2026/27 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 can 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 2024/25 opening Loans CFR was £9.4m, and it is expected to peak at £21.6m in 2027/28. This only shows the Loans CFR projection based on the current capital programme of the Authority, therefore if ongoing borrowing is required beyond 2027/28 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 loan requirements measured by opening external debt for 2024/25 (£9.4m),

less the opening external investments for 2024/25 (£14.3m). 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 31/03/24, which is expected to change from 2025/26 as reserves reduce and borrowing is required in the capital programme. The Net Loans Requirement also peaks in 2027/28. 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 £3m 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. The buffer has been reduced from £5m to £3m to avoid a forced borrowing position on a temporary basis, when short term borrowing rates are relatively high. 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 2025/26. The external borrowing requirement will peak in 2027/28, 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 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 2025/26. 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 2027/28. No borrowing is subject to early repayment options (LOBO Loan).

Table 5

	2025/26	2026/27	2027/28
	£'000	£'000	£'000
Maturing Debt	520	550	600
Debt subject to early repayment options	0	0	0
Total debt at risk of maturity	520	550	600

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. A 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 MHCLG'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 2025/26.

Economic Social Governance (ESG) Investments

- 5.3 The Authority where possible is actively seeking to support Environmental, Social and Governance (ESG) products and institutions within the confines of the TMSS which is based upon the key principles of Security, Liquidity and Yield in that order of priority.
- 5.4 The Authority does not have long-term surplus balances with which to consider specific 'sustainable' longer term ESG pooled fund investments, but rather invests primarily in the short-term money markets, Money Market Funds, UK Banks and other Local Authorities.
- 5.5 TM Advisors, who provide an agency treasury service used by the Authority for day-to-day investing is in regular dialogue with each bank panel member to explain the attraction of sustainable-related deposit products for its client base in order that more provide them going forwards. This has already seen four providers launch such products via the service in recent years.
- 5.6 The current range of ESG investment products with panel banks available via the agency treasury service have higher investment thresholds (SMBC Bank / NatWest, £8-10m deposit level). Yields on offer can be less favourable than non ESG products (Lloyds notice account) or offer sub investment performance returns than other Banks and Local Authorities (Standard Chartered) for a similar duration of investment. In the context of the Authority's current treasury position these options may not be appropriate at certain times during 2025/26.
- 5.7 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 2025/26 with consultation from Treasury Advisors.

Sovereign Credit Ratings

- 5.8 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

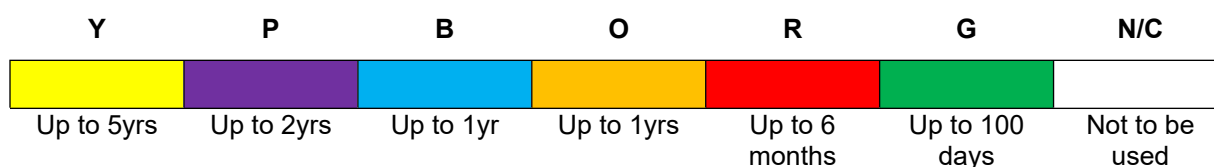
5.9 Officers regularly review the investment portfolio, counterparty risk and construction, market data, information on government support for banks and the credit ratings of that government support. Latest market information is arrived at by reading the financial press and through city contacts as well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

5.10 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.

5.11 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



5.12 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.

5.13 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.

5.14 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.

5.15 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.

5.16 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.

5.17 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.

5.18 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

5.19 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.

5.20 **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.

5.21 Criteria for Specified Investments:

Table 6

Counterparty	Country/ Domicile	Instrument	Min. Credit Criteria LAS/ Colour band	Max. Amount *	Max. maturity period
Debt Management and Deposit 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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

5.22 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 2025/26. 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

5.23 Investment returns are anticipated to reduce marginally in 2025/26 as markets are pricing in a series of Bank Rate cuts, actual economic circumstances may see the MPC fall short of these expectations. Bank rates at March in the next 3 years are forecast to be.

- March 2025 4.50%
- March 2026 3.75%
- March 2027 3.50%

5.24 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:

- 2025/26 4.10%
- 2026/27 3.70%
- 2027/28 3.50%
- 2028/29 3.50%

5.25 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.).

5.26 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 Ministry of Housing Communities & Local Government (MHCLG) 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 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 been extended to 31.3.25 and 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 ending of the statutory override is currently subject to consultation, and any changes to current policy will be considered in accordance with this Strategy.

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 LAASAC Local Authority Accounting Code Board has deferred implementation of IFRS16 until 1.4.24, the 2024/25 financial year. Once implemented, 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. Where a lease (or part of a lease) is brought onto the balance sheet, having previously been accounted for off-balance sheet, the MRP requirement is regarded as having been met by the inclusion in the charge for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.
- The Authority's Capital Financing Requirement authorised limit and operational boundary expectations for 2025/26 onwards has been increased to reflect the estimated effect of this change.

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 policies, 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, quarterly reporting is incorporated into the budget 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) is responsible for:

- 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.

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	2024/25 Projected	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	£'000	£'000	£'000	£'000
Capital Expenditure	7,929	9,553	8,478	3,776
Financed by:				
New & existing resources	(5,595)	(2,500)	(4,019)	(3,000)
Borrowing Need*	2,334	7,053	4,459	776

*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 2025/26, 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 schemes 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 2024/25 and 2025/26 to identify where the Authority holds finance leases. Tables 10 and 11 include an estimate for finance leases that will be bought onto the balance sheet during the year.

Table 9

	2024/25 Projected	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital Financing Requirement				
	£'000	£'000	£'000	£'000
Opening CFR	9,417	11,371	17,967	21,706
Borrowing Need (table 8 as above)	2,334	7,053	4,459	776
MRP	(380)	(457)	(720)	(870)
Closing CFR	11,371	17,967	21,706	21,612

- 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	2024/25 Projected	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	£'000	£'000	£'000	£'000
Borrowing	12,400	20,000	24,200	24,100
PFI/Leases	-	2,000	2,000	2,000
Total	12,400	22,000	26,200	26,100

- 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	2024/25 Projected	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	£'000	£'000	£'000	£'000
Borrowing	11,500	22,200	26,900	26,800
PFI/Leases	-	2,000	2,000	2,000
Total	13,700	24,200	28,900	28,800

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 2025/26			
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%	12%
5 years to 10 years	0%	80%	31%
10 years to 20 years	0%	80%	10%
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			
	2025/26	2026/27	2027/28
	£m	£m	£m
Limit	0.50	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	2024/25 Projected	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	%	%	%	%
Ratio	1.92	2.17	3.23	3.59

3. Treasury Management Budget

Table 15

Description	2024/25	2025/26	2026/27	2027/28
	£'000	£'000	£'000	£'000
Interest Payable	581	703	977	1,064
Interest Receipts	(300)	(50)	(10)	(10)
Minimum Revenue Provision	379	451	715	868
TOTAL	660	1,104	1,682	1,922

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 MHCLG 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 2025/26 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 Government MRP guidance updates introduced more prescription into statute but were not substantive policy changes. Amendments made were a ‘strengthening’ of the duty of MRP. Those local authorities that were already making prudent provision are unaffected. The provision with respect to exempting certain capital loans from the duty to make MRP reflected practices identified at that time and gave local authorities statutory provision to continue those practices, with specified risk mitigations to ensure the objective of the MRP duty is still met. These changes do not impact on the Fire Authority.

Economic Overview

Provided by Link Asset Services (Treasury Advisors) December 2024

- The third quarter of 2024 saw:
 - GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q).
 - A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
 - CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
 - Core CPI inflation increasing from 3.3% in July to 3.6% in August;
 - The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
 - 10-year gilt yields falling to 4.0% in September.
- Over the aforementioned period, the economy's stagnation in June and July pointed more to a mild slowdown in UK GDP growth than a sudden drop back into a recession. However, in the interim period, to 12 December, arguably the biggest impact on the economy's performance has been the negative market sentiment in respect of the fallout from the Chancellor's Budget on 30 October.
- If we reflect on the 30 October Budget, our central case is that those policy announcements will prove to be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be elevated at 2.7% y/y (Q4 2025) before dropping back to sub-2% in 2027. Nonetheless, since the Budget, the October inflation print has shown the CPI measure of inflation bouncing up to 2.3% y/y with the prospect that it will be close to 3% by the end of the year before falling back slowly through 2025. The RPI measure has also increased significantly to 3.4% y/y.
- How high inflation goes will primarily be determined by several key factors. First amongst those is that the major investment in the public sector, according to the Bank of England, will lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.
- There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises in the June 2025 Spending Review (pushed back from the end of March), and a tepid GDP performance.
- Regarding having a sufficiently large pool of flexible and healthy workers, the initial outlook does not look bright. Research from Capital Economics has alluded to an increase of some 500,000 construction workers being needed to provide any chance of the Government hitting its target of 300,000 new homes being built in each of the next five years (234,000 net additional dwellings in England in 2022/23). But the last time such an increase was needed, and construction employment is currently at a nine-year low, it took 12 years to get there (1996 to 2008). Also note, as of October 2024, job

vacancies in the construction sector were still higher than at any time in the 20 years preceding the pandemic.

- Currently, it also seems likely that net inward migration is set to fall, so there is likely to be a smaller pool of migrant workers available who, in the past, have filled the requirement for construction worker demand. The Government plans to heavily promote training schemes, particularly to the one million 16- to 24-year-olds who are neither in education nor work. But it is arguable as to whether the employee shortfall can be made up from this source in the requisite time, even if more do enter the workforce.
- Against, this backdrop, there may be a near-term boost to inflation caused by a wave of public sector cash chasing the same construction providers over the course of the next year or so, whilst wages remain higher than the Bank currently forecasts because of general labour shortages, including in social care where Government accepts there is a 150,000 shortfall at present.
- Unemployment stands at a low 4.3% (September), whilst wages are rising at 4.3% y/y (including bonuses) and 4.8% (excluding bonuses). The Bank would ideally like to see further wage moderation to underpin any further gradual relaxing of monetary policy. Indeed, over the next six months, the market is currently only pricing in Bank Rate reductions in February and May – which would see Bank Rate fall to 4.25% - but further cuts, thereafter, are highly likely to be even more data-dependent.
- If we focus on borrowing, a term we are likely to hear throughout 2025 is “bond vigilante”. Essentially, this represents a generic term for when the market is ill at ease with the level of government borrowing and demands a higher return for holding debt issuance. In the UK, we do not need to go back too far to recall the negative market reaction to the Truss/Kwarteng budget of 2022. But long-term borrowing rates have already gradually moved back to those levels since their recent low point in the middle of September 2024. Of course, the UK is not alone in this respect. Concerns prevail as to what the size of the budget deficit will be in the US, following the election of Donald Trump as President, and in France there are on-going struggles to form a government to address a large budget deficit problem too. Throw into the mix the uncertain outcome to German elections, and there is plenty of bond investor concern to be seen.
- Staying with the US, Donald Trump’s victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks continue to abound in Europe, the Middle East and Asia.
- In the past month, the US Core CPI measure of inflation has indicated that inflation is still a concern (3.3% y/y, 0.3% m/m), as has the November Producer Prices Data (up 3.0 y/y v a market estimate of 2.6% y/y, 0.4% m/m v an estimate of 0.2% m/m) albeit probably insufficient to deter the FOMC from cutting US rates a further 0.25% at its December meeting. However, with Trump’s inauguration as President being held on 20 January, further rate reductions and their timing will very much be determined by his policy announcements and their implications for both inflation and Treasury issuance.
- Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank’s August rate cut signalled the start of its loosening cycle. More recently, however, 10 year gilt yields have spiked back up to 4.35%.

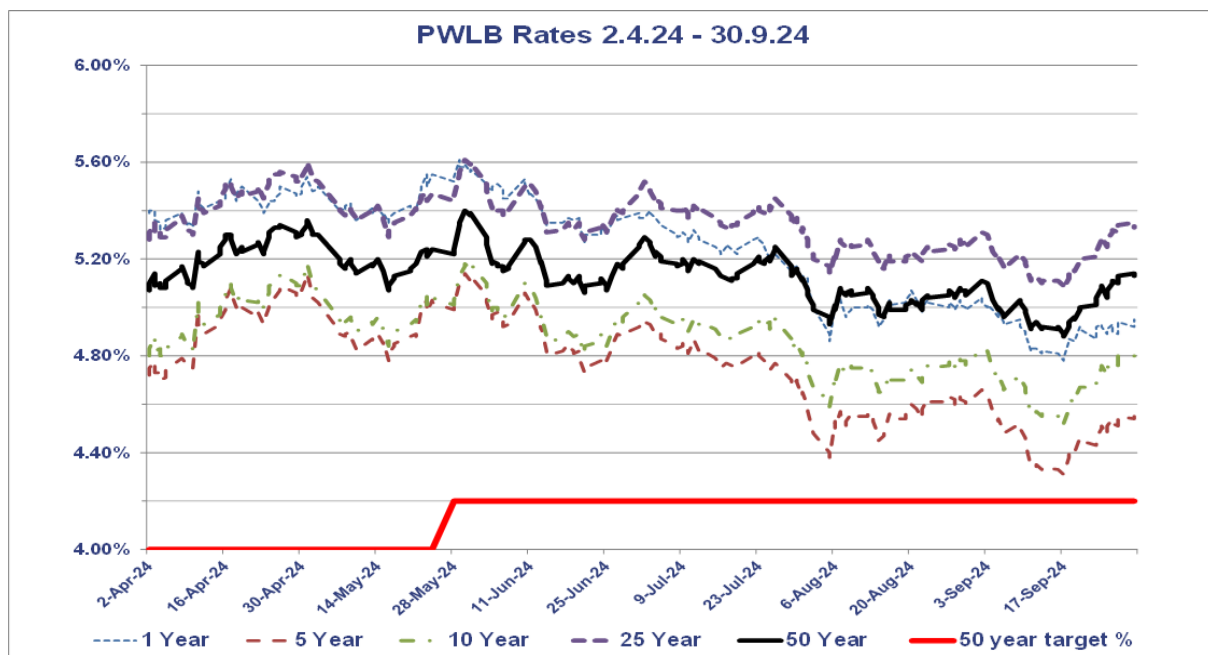
- The FTSE 100 reached a peak of 8,380 in the third quarter of 2024 (currently 8.304), but its performance is firmly in the shade of the US S&P500, which has breached the 6,000 threshold on several occasions recently, delivering returns upwards of 25% y/y. The catalyst for any further rally (or not) is likely to be the breadth of AI's impact on business growth and performance.

MPC meetings: 9 May, 20 June, 1 August, 19 September, 7 November 2024

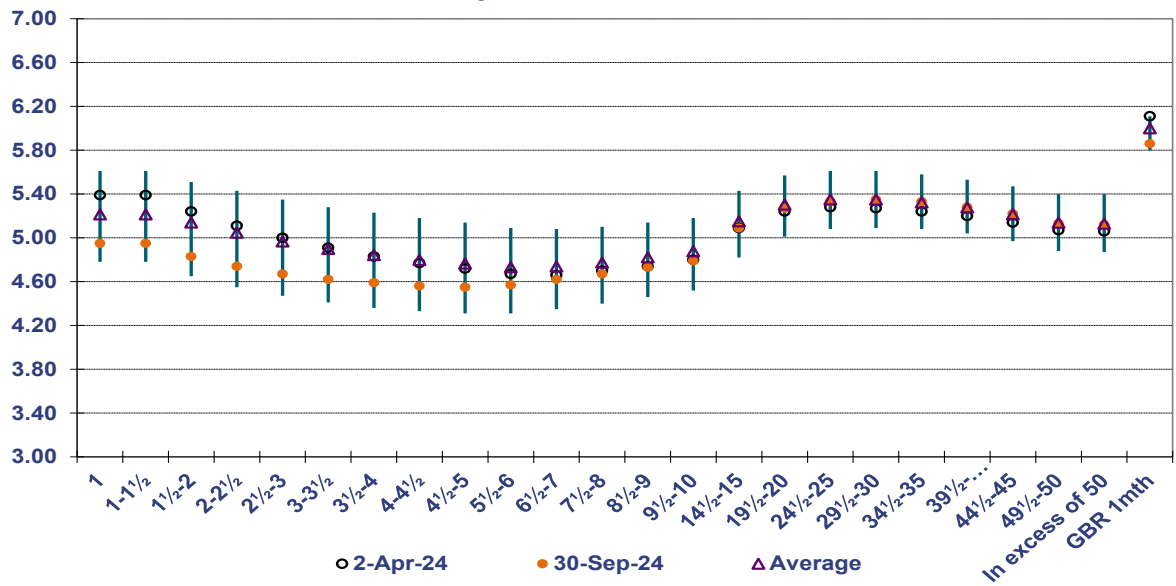
- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

In the chart below, despite a considerable gilt market rally in mid-September, rates started and finished the six-month period under review in broadly the same position.

PWLB RATES 02.04.24 - 30.09.24



PWLB Certainty Rate Variations 2.4.24 to 30.9.24



HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
30/09/2024	4.95%	4.55%	4.79%	5.33%	5.13%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
High date	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

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

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

- Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, we have significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.
- If we reflect on the 30 October Budget, our central case is that those policy announcements will be inflationary, at least in the near-term. The Office for

Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

- The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.
- There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.
- Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).
- Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.
- Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.
- So far, we have made little mention of the US President election. Nonetheless, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.
- Our revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps).

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, but the risks to our forecasts are to the upsides. 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 11.11.24 p.m.	Target borrowing rate now (end of Q3 2026)	Target borrowing rate previous (end of Q3 2026)
5 years	5.02%	4.30%	3.90%
10 years	5.23%	4.50%	4.10%
25 years	5.66%	4.90%	4.40%
50 years	5.42%	4.70%	4.20%

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3%). 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 also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below.

Average earnings in each year	Now	Previously
2024/25 (residual)	4.60%	4.25%
2025/26	4.10%	3.35%
2026/27	3.70%	3.10%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Years 6 to 10	3.50%	3.25%
Years 10+	3.50%	3.50%

We will continue to monitor economic and market developments as they unfold. Typically, we formally review our forecasts following the quarterly release of the Bank of England's Monetary Policy Report but will consider our position on an ad hoc basis as required.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

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	AA-	F1+	a	WD	A1	P-1	A+	A-1	36.64	12	12	6
Bank of Scotland	UK	AA-	F1+	a+	WD	A1	P-1	A+	A-1	36.64	12	12	
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	36.60	12	12	6
Barclays Bank	UK	A+	F1	a	WD	A1	P-1	A+	A-1	57.13	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	53.73	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
SMBC Bank International PLC	UK	A-	F1	-	WD	A-	P-1	A	A-1	38.14	6	6	6

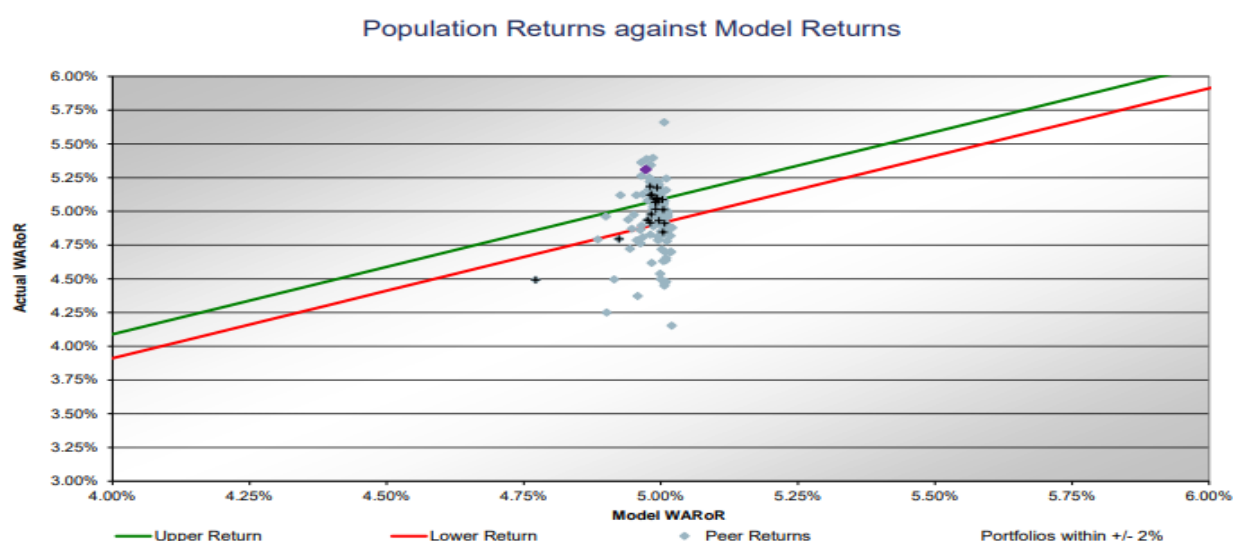
Yellow	Purple	Blue	Orange	Red	Green	No Colour
Up to 5yrs	Up to 2yrs	Up to 1yr (semi nationalised UK banks)	Up to 1yr	Up to 6 months	Up to 100 days	Not to be used

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

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 4.88 – 5.06% which is broadly consistent with returns achieved by this Authority (5.16% as at September).



- 1.3 Table below shows interest earned on balances April to December 2024. As at 31 December £624k was earned in investment interest at an average rate of 5.16% for the year to date.

2024/25	Average Balance (£m)	Interest Earned (£k)	Return (%)	Base Rate* (%)	+/- (%)
April	15.3	67.2	5.33	5.25	+0.08
May	12.5	57.2	5.39	5.25	+0.14
June	12.8	56.5	5.38	5.25	+0.13
July	14.2	64.6	5.35	5.25	+0.10
August	21.0	92.0	5.16	5.00	+0.16
September	19.7	84.0	5.12	5.00	+0.12
October	17.5	75.2	5.06	5.00	+0.06
November	16.2	65.4	4.92	4.80	+0.12
December	14.9	61.5	4.86	4.75	+0.11

*Average Base Rate in Month

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.