EAST SUSSEX FIRE AUTHORITY

Meeting	Fire Authority
Date	9 February 2023
Title of Report	Treasury Management Strategy for 2023/24
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Background Papers

Fire Authority:
10 February 2022 Treasury Management Strategy for 2022/23
9 June 2022 Treasury Management Stewardship Report 2021/22
Policy & Resources Panel:
10 November 2022; Half year review for 2022/23
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 2023/24
5. Counterparty list
6. Investment Benchmarking
7. Glossary

Implications (please tick ✓ and attach to report)

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

PURPOSE OF REPORT To approve the Treasury Management Strategy, policy statement and the Minimum Revenue Provision (MRP) Statement 2023/24

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 2023/24.

The 2023/24 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 2023/24 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.

The Fire Authority to the 31 December 2022 earned £276,000 in investment interest at an average rate of 1.79%. 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 2023/24 of £15.0m 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.

CIPFA published the revised Treasury and Prudential codes in December 2021. Full adoption of the new Codes is incorporated within this Strategy. The main changes to the codes are as follows:

- Adoption of a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement. This is included in Table 4.
- Amendment to the knowledge and skills register for officers and members involved in the Treasury management function. This will be maintained as part of the Treasury Management Team's records and arrangements for member training will be put in place in consultation with the Assistant Director Resources and Democratic Services.
- Quarterly reporting to members of performance against forward looking indicators. As outlined in the revised guidance, this will be built into the Authority's quarterly monitoring process.
- Environmental, Social & Governance (ESG) issues to be addressed within the Authority's Treasury Management Practices (TMP1). This is not a change in the Authority's investment strategy, but how ESG is incorporated into the monitoring of counterparties' credit standing. The Authority's Treasury Management Practices (TMPs) are in the process of being updated for the new financial year to include this requirement. These will be reviewed and implemented by the Treasurer.
- An update to ensure that authorities are more transparent in their service and commercial investments. This includes a requirement that the Authority acknowledges that it will not borrow to invest where the primary purpose is for commercial return. These changes are reflected in the Capital Asset Strategy.

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 2023/24 is set out in Section 5.

RECOMMENDATION	The Fire Authority is recommended to:

(i) approve the Treasury Management Strategy and policy statement for 2023/24 (and adopt for the remainder of 2022/23);

(ii) determine that for 2023/24 the Authorised Limit for borrowing shall be £15.0m;

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

(iv) approve the Minimum Revenue Provision (MRP) Statement for 2023/24 as set out in the attached Appendix 3; and

(v) approve the Annual Investment strategy for 2023/24 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 2023-24 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 2023	4.25	4.20	4.60	4.30
Jun 2023	4.50	4.20	4.60	4.30
Sep 2023	4.50	4.10	4.50	4.20
Dec 2023	4.50	4.00	4.40	4.10
Mar 2024	4.00	3.90	4.20	3.90
Jun 2024	3.75	3.80	4.10	3.80
Sep 2024	3.50	3.60	4.00	3.70
Dec 2024	3.25	3.50	3.90	3.60
Mar 2025	3.00	3.40	3.70	3.50
Jun 2025	2.75	3.30	3.60	3.30

2.2 The central forecast for interest rates was updated on 19 December and reflected a view that the Monetary Policy Committee (MPC) would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the Government's policy of emphasising fiscal rectitude will probably mean Bank Rate will not need to increase to further than 4.50%.

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

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

3. <u>TREASURY MANAGEMENT POSITION</u>

3.1 Summary of the Authority's borrowing & investment portfolios as at 31 December 2022 and forecast to the end of the financial year is shown below:

Table 2

	Actual at 31 December 2022			Forecast to 31 March 2023		
	£'000	% of portfolio	Average Rate	£'000	% of portfolio	Average Rate
Investments						
Banks	14,000	81%	3.09%	12,000	75%	4.30%
Money Market Funds	3,300	19%	3.28%	4,000	25%	4.20%
Total Investments	**17,300**	**100%**	**3.13%**	**16,000**	**100%**	**4.28%**
Borrowing						
PWLB loans	10,298	100%	4.60%	9,817	100%	4.59%
Total external Borrowing	**10,298**	**100%**	**4.60%**	**9,817**	**100%**	**4.59%**

3.2 The Authority's projected debt portfolio position at 31 March 2023, 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

	2022/23 Projected £000	**2023/24 Estimate £000**	**2024/25 Estimate £000**	**2025/26 Estimate £000**
External Debt				
Debt at 1 April	10,298	9,817	12,362	15,592
Expected change in Debt	(481)	2,545	3,230	3,302
External Debt at 31 March	**9,817**	**12,362**	**15,592**	**18,894**
CFR* at 1 April	10,298	9,887	12,362	15,592
Borrowing Need (Table 6)	0	2,989	3,878	4,088
MRP	(411)	(514)	(648)	(776)
CFR* at 31 March	**9,887**	**12,362**	**15,592**	**18,894**
Under / (Over) borrowing	**70**	**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 2023/24 is £12.362m. 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. <u>BORROWING STRATEGY</u>

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 peak in interest rates over the next 12 months, it may be beneficial for the Authority to take short term borrowing during 2023/24 and 2024/25 before moving to longer term borrowing once rates have dropped. The Assistant

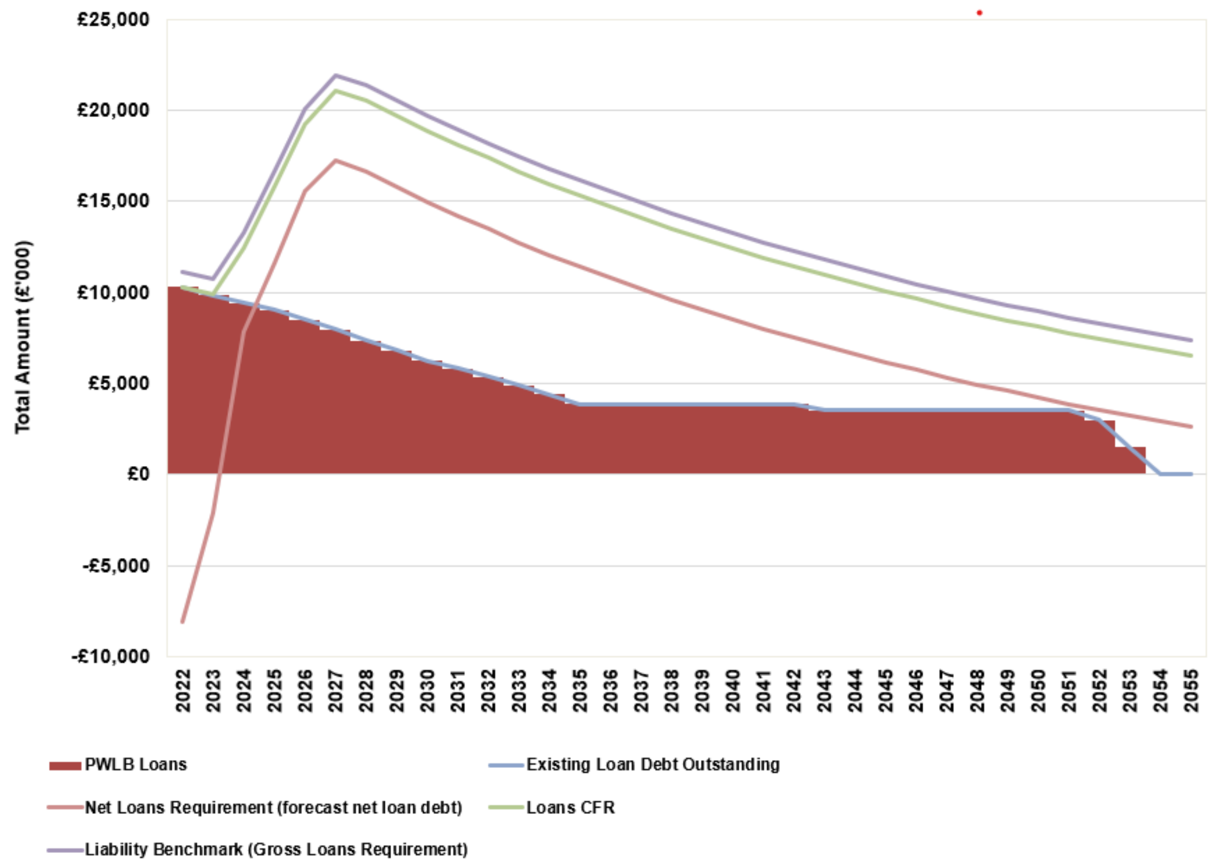
Director Resources/Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Liability Benchmark

4.2 The Liability Benchmark is a new requirement of the 2021 Treasury Management Code. It 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 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 projections of the Authority's underlying borrowing requirement (or CFR) based on the Authority's capital plans, and is shown by the top, grey line. The 2022/23 opening Loans CFR was £10.3m, and it is expected to peak at £20.9m 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 2022/23 (£10.3m), less the opening external investments for 2022/23

(£18.4m). 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 31/03/22, 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 2023/24. The external borrowing requirement will peak at £20.4m 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.

Revised Prudential & Treasury Codes

4.6 CIPFA published revised prudential and treasury codes on 20th December 2021 and has stated that formal adoption is required from 2023/24 financial year. The Fire Authority has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to the Fire Authority for approval.

4.7 The revised codes will have the following implications:

- a requirement for the Authority to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement (Table 4);
- clarifies what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address ESG issues within the Capital Strategy;

- require implementation of a policy to review commercial property on an annual basis, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to Treasury Management Practice 1 (TMP1) to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority;
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

4.8 In addition, all investments and investment income must be attributed to one of the following three purposes: -

Treasury management - Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments

Service delivery - Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return- Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

This requirement is not relevant to the Authority as the Authority does not hold any non-treasury investments.

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

Debt Rescheduling

4.10 Rescheduling of current borrowing in the current debt portfolio is unlikely to be an option during 2023/24. 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.

4.11 Table 5 below identifies PWLB borrowing that is due to mature up to 2025/26. No borrowing is subject to early repayment options (LOBO Loan).

Table 5	2023/24	2024/25	2025/26
	£'000	**£'000**	**£'000**
Maturing Debt	400	402	520
Debt subject to early repayment options	0	0	0
Total debt at risk of maturity	**400**	**402**	**520**

4.12 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).

4.13 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.

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

Sensitivity of the Forecast and Risk Analysis

4.15 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).

4.16 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. <u>INVESTMENT STRATEGY</u>

5.1 The Authority's investment policy has regard to the DLUHC's Guidance on Local Government Investments (the Guidance), the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Link Asset Services Guidance Notes (including CIPFA TM Code). 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 2023/24.

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 is still relatively immature. However, research and the consideration of the suitability of ESG investment products will continue into 2023/24. Fixed term investments of up to £4m have been placed in a Standard Chartered ESG product during 2022/23.

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. However the credit rating agencies will be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years.

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

Y	P	B	O	R	G	N/C
Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yrs	Up to 6 months	Up to 100 days	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-, viability rating of A-, and a support rating of 1. 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 4** 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 2023/24. 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 expected to improve in 2023/24 However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations. Bank rate rises at March in the next 3 years are forecast to be.

- March 2023 4.25%

- March 2024 4.00%
- March 2025 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:

- 2023/24 4.40%
- 2024/25 3.30%
- 2025/26 2.60%
- 2026/27 2.50%

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 DLUHC launched an 8-week consultation on the future of the IFRS 9 statutory override during 2022. The aim of this consultation was to collect the views of authorities and other stakeholders, and to collect additional information needed to understand the financial risks associated with both continuing the statutory override or allowing reversion to the Code of practice on local authority accounting.

The responses to the consultation have now been considered, and Ministers have decided to extend the existing IFRS 9 statutory accounting override for a further 2 years until 31 March 2025. The full government response is due in early 2023.

The Authority does not hold any investments that are catergorised 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.

  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;
  - 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 2023/24 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.

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 April 2023.

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	**2022/23 Projected**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Capital Expenditure	4,146	8,421	5,378	6,088
Financed by:				
New & existing resources	(4,146)	(5,432)	(1,500)	(2,000)
Borrowing Need*	**-**	**2,989**	**3,878**	**4,088**

*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 to identify where the Authority holds finance leases. Tables 7, 8 and 9 include an estimate for finance leases that will be bought onto the balance sheet during the year.

Table 9

	2022/23 Projected	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Financing Requirement				
	£'000	**£'000**	**£'000**	**£'000**
Opening CFR	10,298	9,887	12,362	15,592
Borrowing Need (table 8 as above)	-	2,989	3,878	4,088
MRP	(411)	(514)	(648)	(786)
Closing CFR	**9,887**	**12,362**	**15,592**	**18,894**

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	2022/23 Projected	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	£'000	**£'000**	**£'000**	**£'000**
Borrowing	10,900	13,600	17,400	21,000
PFI/Leases	-	-	2,000	2,000
Total	**10,900**	**13,600**	**19,400**	**23,000**

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 Estimate	2024/25 Estimate	2025/26 Estimate
		£'000	**£'000**	**£'000**
Borrowing		15,000	19,400	23,300
PFI/Leases		-	2,000	2,000
Total		**15,000**	**21,400**	**25,300**

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 2023/24 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%	4%
2 years to 5 years	0%	60%	11%
5 years to 10 years	0%	80%	26%
10 years to 20 years	0%	80%	15%
20 years to 30 years	0%	80%	9%
30 years to 40 years	0%	80%	31%
40 years to 50 years	0%	80%	0%

Table 13

Principle sums invested for periods longer than 365 days			
	2023/24 **£m**	**2024/25** **£m**	**2025/26** **£m**
Limit	1.00	1.00	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	2022/23 Projected	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	%	%	%	%
Ratio	2.00	2.02	2.42	2.89%

3. Treasury Management Budget

Table 15

Description	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000
Interest Payable	474	505	627	753
Interest Receipts	(20)	(150)	(100)	(50)
Minimum Revenue Provision	412	395	499	634
TOTAL	**866**	**750**	**1,076**	**1,377**

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 a 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 2023/24 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 are currently consulting Local Authorities on proposed changes to the MRP guidance. Whilst the changes are not expected to impact on the Fire Authority, officers will be reviewing the Authority’s MRP policy during 2023/24 in light of these changes and the increase in the Authority’s borrowing need to ensure the MRP policy remains appropriate.

APPENDIX 4

Economic Overview

Provided Link Assets Services (Treasury Advisors) December 2022

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

	UK	Eurozone	US
Bank Rate	3.0%	1.5%	3.75%-4.00%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	11.1%y/y (Oct)	10.0%y/y (Nov)	7.7%y/y (Oct)
Unemployment Rate	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

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The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c£500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

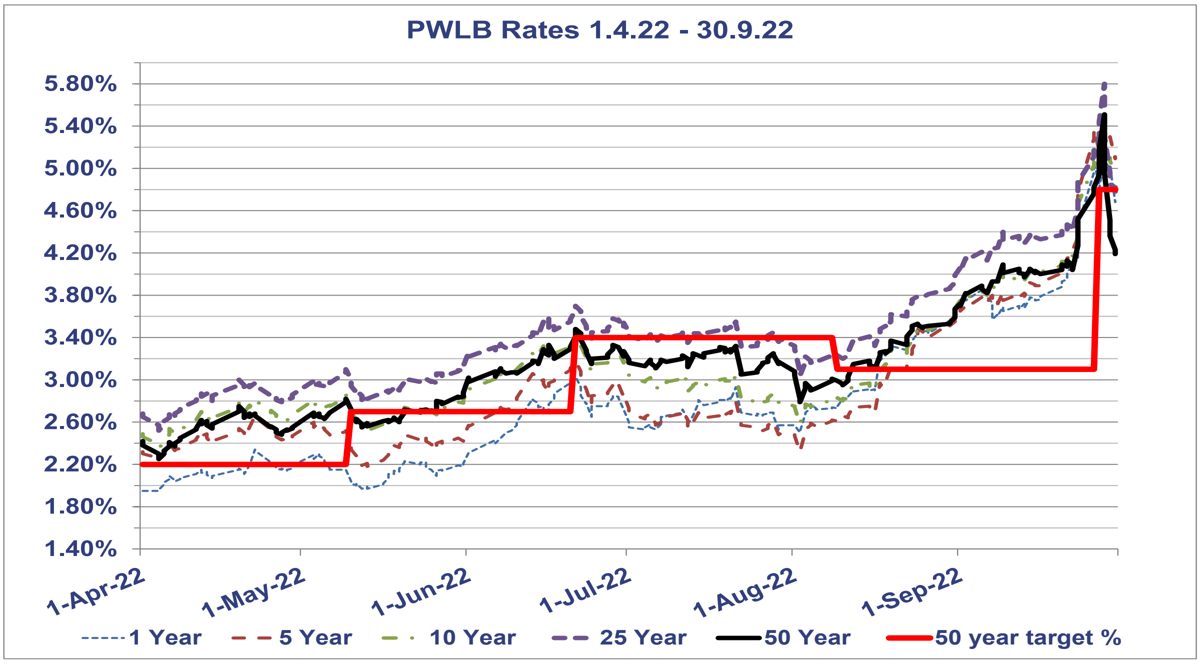
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and December. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

Prospect for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 8 November 22. These are forecasts for certainty rates, gilt yields plus 80 bps

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

Our central forecast reflects a view that the MPC will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

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

The CPI measure of inflation will peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. Wage increases, excluding bonuses, are currently running at 5.7%.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present. This approach will prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.

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

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

PWLB RATES

Yield curve movements have become less volatile under the Sunak/Hunt government. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.50%. The medium to longer part of the yield curve is currently inverted (yields are lower at the longer end of the yield curve compared to the short to medium end).

We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside. Indeed, the Bank of England projected two years of negative growth in their November Quarterly Monetary Policy Report.

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, rising gilt yields).
- **The Bank of England** acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea, and Middle Eastern countries, which could lead to increasing safe-haven flows.

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

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.
- **The Government** acts too slowly to increase taxes and/or cut expenditure to balance the public finances, in the light of the cost-of-living squeeze.
- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term **US treasury yields** rise strongly, if inflation numbers disappoint on the upside, and pull gilt yields up higher than currently forecast.

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

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are as follows: -

Average earnings in each year	
2022/23 (remainder)	3.95%

2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

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

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	A+	F1	a	WD	A1	P-1	A+	A-1	74.27	6	6	6
Bank of Scotland	UK	A+	F1	a	WD	A1	P-1	A+	A-1	54.13	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	61.20	12	12	6
Barclays Bank	UK	A+	F1	a	WD	A1	P-1	A	A-1	105.96	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	98.68	6	6	6
Standard Chartered Bank	UK	A+	F1	a	WD	A1	P-1	A+	A-1	59.98	6	6	6
Handelsbanken (UK) PLC	UK	AA	F1+	-	1	-	-	A+	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

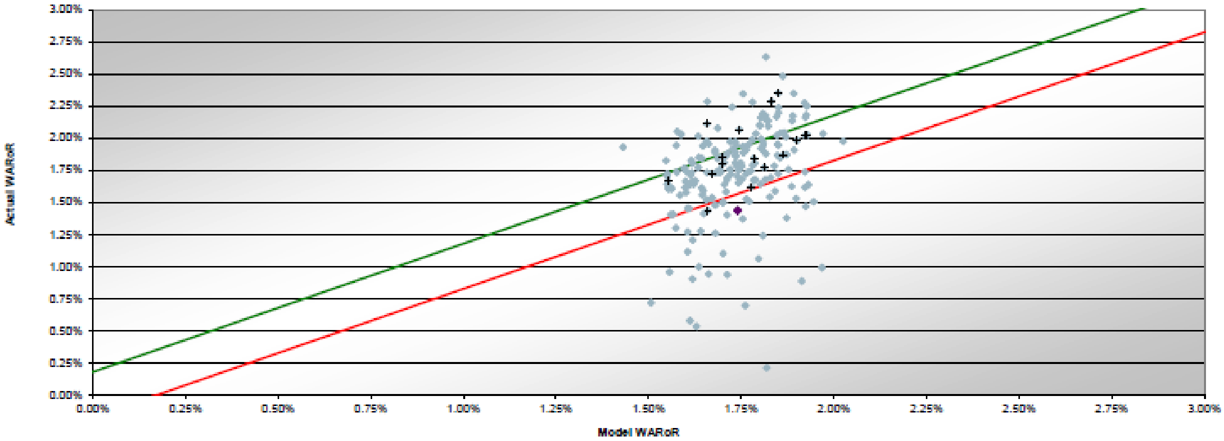
APPENDIX 6

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 Local Authority Investment benchmarking returns to September 2022.



1.3 The cluster graph above shows that the rate of return grouping for Local Authorities is within a range of 1.59 - 1.95% which is broadly consistent with returns achieved by this Authority (1.88% as at September). As at December 2022, £276k was earned in investment interest at an average rate of 1.79% for the year to date.

1.4 Fire Authority Investment returns 2022/23 to date:

2022/23	Average Balance (£m)	Interest Earned (£k)	Return (%)	Base Rate* (%)	+/- (%)
April	19.7	12.2	0.75	0.75	+0.00
May	17.9	13.8	0.91	0.98	-0.08
June	17.0	15.2	1.09	1.13	-0.04
July	18.6	18.6	1.18	1.25	-0.07
August	25.0	36.2	1.70	1.70	+0.00
September	23.7	36.7	1.88	1.90	-0.02
October	22.7	45.7	2.37	2.25	+0.12
November	20.5	48.7	2.88	3.00	-0.12
December	18.7	48.5	3.06	3.27	-0.21

*Average Base Rate in Month

1.5 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.

APPENDIX 7

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.