



Buckinghamshire & Milton Keynes Fire Authority

Meeting and date: Fire Authority, 14 February 2024

Report title: Treasury Management Strategy 2024/25

Lead Member: Councillor Matthew Walsh

Report sponsor: Mark Hemming, Director of Finance & Assets

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Action: Decision.

Recommendations: That the Authority approve the Treasury Management Policy Statement, Treasury Management Strategy Statement and the Annual Investment Strategy for 2024/25

Executive summary:

This report is being presented as the Fire Authority is required to approve the Treasury Management Policy Statement, Treasury Management Strategy Statement and the Annual Investment Strategy. These documents (Appendix 1) all support the Medium-Term Financial Plan.

The current strategy has been operating effectively and outperforming the benchmark targets. The Bank of England's Monetary Policy Committee has increased the interest base rate on fourteen occasions since December 2021. This has resulted in an increase in the level of returns from investments for the Authority. Therefore, the investment returns budget for 2024/25 will increase from £0.350m to £0.700m.

During 2023/24 the Authority took the opportunity to repay a PWLB borrowing early. This borrowing was for £0.627m and was due to be repaid in 2056. The Authority was able to repay this loan at a discount of £0.046m. This resulted in a repayment of £0.589m, which included interest of £0.008m.

There is no significant change from the previous strategy. The Authority will continue to invest surplus funds in short-term deposits, maturing on a frequent basis, while ensuring the Authority is able to maintain adequate liquidity and meet short-term expenditure requirements.

Financial implications:

The proposed budget for 2024/25 is £0.700m. It is anticipated that the budget will be met. Detailed information is shown within Appendix 1.

Risk management:

Making investments in the Authority's own name means that the Authority bears the risk of any counterparty failure. This risk will be managed in accordance with the strategy and with advice from external treasury management advisors.

The Director of Finance and Assets will act in accordance with the Authority's policy statement; treasury management practices and CIPFA's Standard of Professional Practice on Treasury Management.

The risk of counterparty failure is monitored on the directorate level risk register within Finance and Assets.

There are no direct staffing implications.

Legal implications:

The Authority is required by section 15(1) of the Local Government Act 2003 to have regard to the Department for Levelling Up, Housing and Communities Guidance on Local Government Investments; and by regulation 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146] to have regard to any prevailing CIPFA Treasury Management Code of Practice.

Under section 12 of the Local Government Act 2003 the Authority has the power to invest for "any purpose relevant to its functions" and "for the purposes of the prudent management of its financial affairs".

However, it must exercise its investment power in accordance with its fiduciary duty, analogous to that of a trustee, owed to those who contribute to the funds of the Authority.

Privacy and security implications:

No direct impact.

Duty to collaborate:

No direct impact.

Health and safety implications:

No direct impact.

Environmental implications:

In discussion with the treasury advisors the Authority have invested £2m in sustainable investments in 2023/24. Officers will continue to explore sustainable investments, which are sustainable deposits that allow customers to have their capital referenced against sustainable assets, whether existing now or in the future, as verified through the green and sustainable product framework on a net positive basis.

Equality, diversity, and inclusion implications:

No direct impact.

Consultation and communication:

No direct impact.

Background papers:

CIPFA Code of Practice for Treasury Management in the Public Services (CIPFA Code)

Department for Levelling Up, Housing and Communities Guidance on Local Government Investments (DLUHC Guidance)

Appendix	Title	Protective Marking
1	Treasury Management Strategy 2024-25	



Buckinghamshire
FIRE & RESCUE SERVICE
we save lives

Treasury Management Strategy

2024-2025

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Treasury Management Policy Statement

This Authority defines its treasury management activities as:

The management of the Authority'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.

This 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. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

This Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The investment policy objective for this Authority is the prudent investment of its treasury balances. The Authority's investment priorities are the security of capital and liquidity of its investments so that funds are available for expenditure when needed. Both the CIPFA Code and DLUHC guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The generation of investment income to support the provision of local authority services is an important, but secondary, objective.

The Authority's borrowing objectives are to minimise the revenue costs of debt whilst maintaining a balanced loan portfolio. The Authority will set an affordable borrowing limit each year in compliance with the Local Government Act 2003 and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit.

CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Treasury Management Strategy Statement

Current Portfolio Position

The Authority's overall treasury portfolio position as at 31 December 2023 are shown below for both borrowing and investments:

Borrowing Portfolio:

Counterparty	Total Borrowing	Average rate of interest %	Annual Interest Payable
Public Works Loans Board	£5.550m	4.79%	£0.259m
Other Borrowing	-	-	-
Total Borrowing	£5.550m	4.79%	£0.259m

The Authority during 2023/24 repaid a PWLB borrowing early. This was for a value of £0.627m and was due to mature in 2056. The next loan maturity is March 2024, for a value of £1.000m.

Therefore, at the start of 2024/25 the overall borrowing position will be **£4.550m** with maturity between 2 – 28 years.

The repayments do not directly affect the revenue budget, as they simply reflect the use of cash accumulated by setting aside the appropriate minimum revenue provision (MRP) to settle the outstanding liability.

Investment Portfolio:

Counterparty	Total Investment
Banks*	£12.000m
Building Societies*	£3.000m
Money Market Funds	£3.175m
Current Account	£1.747m
Total Investment	£19.922m

**Average Rate of interest received during period 01 April 2023 and 31 December 2023 was 4.82%.*

The investments have various terms and mature on a frequent basis to ensure the Authority can maintain sufficient liquidity and meet short term expenditure requirements. By 31 March 2024, the investments will be circa £13m, plus Money Market Funds and current account balances.

Borrowing Strategy

The Authority has sufficient reserves set aside to repay the PWLB borrowing when due. This was done as part of the realignment of reserves balances to facilitate the Medium Term Financial plan in November 2015.

The Authority's borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining a balanced loan portfolio

- To manage the Authority's debt maturity profile, leaving no one future year with a disproportionate level of repayments

No additional borrowing is forecast to take place during the duration of the medium-term financial plan.

Investment Strategy

The Authority's investments will be made with reference to the cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods.

Accordingly, while most cash balances are required in order to manage day to day ups and downs of cash flow, where surplus cash can be identified that could be invested for longer periods closer to 12 months, investments will be carefully assessed.

The Authority will continue to use Money Market Fund accounts in order to gain instant access to funds and also benefit from the compounding of interest.

Investment of the Authority's funds is in accordance with the Annual Investment Strategy.

Debt Rescheduling

The potential for debt rescheduling is monitored in light of interest rate movements.

Any rescheduling will be in accordance with the borrowing strategy. The reasons for rescheduling include:

- The generation of cash savings at minimum risk
- Fulfilment of the borrowing strategy
- Enhancement of the maturity profile of the borrowing portfolio

Historically with low levels of interest rates, the level of penalties on the early repayment of borrowing has made it difficult to restructure debt effectively. However, with the significant rise in interest rates since December 2021, this makes it more viable to look at restructuring debt. The Authority took the opportunity to repay a PWLB borrowing early. This borrowing was for £0.627m and was due to be repaid in 2056. The Authority was able to repay this loan at a discount of £0.046m. This resulted in a repayment of £0.589m, which included interest of £0.008m. It is recommended that Officers continue to review the Authority's debt structure with the treasury advisors in 2024/25 and if the opportunity arises again, further work be undertaken to investigate debt restructuring and/or early repayment.

Annual Investment Strategy (AIS)

Investment Policy

The Department for Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Financial Strategy, (a separate report).

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

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

A prudent investment policy has two objectives (as defined by the DLUHC guidance):

- achieving first of all security (protecting the capital sum from loss);
- and then liquidity (keeping the money readily available for expenditure when needed);
- only once proper levels of security and liquidity are determined, it will then be reasonable to consider what yield can be obtained consistent with those priorities.

In accordance with guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Authority has clearly stipulated below the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Link ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support has had an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied have effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Authority will engage with its advisors to maintain a monitor on market pricing such as credit default swaps (CDS) and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Link in producing its colour coding which show the varying degrees of suggested creditworthiness.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Creditworthiness Policy

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

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

This 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. The end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes have been used by the Authority to determine the suggested duration for investments.

It is recommended that the Authority continues to use Link's colour codes plus an additional six months for UK counterparties only. It would be beneficial if the Authority could lend to existing counterparties for a longer duration. This will increase the risk slightly but will potentially offer increased returns.

The Authority will therefore use counterparties within the following durational bands:

Colour Rating (UK Counterparties)	Colour Rating (Non-UK Counterparties)
Yellow - 5 Years and 6 Months	Yellow - 5 Years
Purple – 2 Years and 6 Months	Purple – 2 Years
Colour Rating (UK Counterparties)	Colour Rating (Non-UK Counterparties)
Blue – 1 Year and 6 Months (only applies to nationalised or semi nationalised UK Banks)	Blue – 1 Year
Orange – 1 Year and 6 Months	Orange – 1 Year
Red – 1 Year	Red – 6 Months
Green – 9 Months	Green – 3 Months
No colour not to be used (except for building societies on the counterparty list which the Authority can invest with for a maximum duration of 365 days limited to a maximum investment of £2 million per counterparty)	No colour not to be used

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

Typically, the minimum credit ratings criteria the Authority use will be a short-term rating (Fitch or equivalent) of short-term rating F1, long term rating 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. Credit rating definitions can be seen on page 15.

All credit ratings will be monitored on a regular basis. The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx benchmark and other market data on a regular basis, provided by Link. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

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

Country Limits

The Authority determined that it would not only use approved counterparties based within the United Kingdom but allowed any counterparty (UK or non-UK based) rated at least 'Green' by Link. Although no counterparty outside UK was used during 2023/24, these will remain on the lending list for 2024/25. The primary purpose of this is not to increase yield, but to provide additional diversity to the portfolio to effectively manage risk. Several non-UK banks are ranked higher than some of the UK banks on the Authority's current counterparty list. Therefore, the Authority proposes to limit the duration of all non-UK investment in line with Link's recommended limits. A list of the proposed non-UK based Counterparties is shown in on page 11.

Counterparty Limits

As per the AIS, the Authority has determined that the maximum balance that can be invested with a single counterparty at any point in time will be no more than 30% of the portfolio, up to a limit of £5 million.

The two exceptions to this limit in the AIS will continue to be Lloyds, where the maximum balance that can be invested will be a limit of £7.5 million. Of this £7.5 million, no more than £5 million will be invested in non-instant access (call) accounts.

The rationale for this is that Lloyds are the Authority's main banking provider. This means that:

- The officer time taken to move money between the Authority's main bank account and other instant access account is reduced
- The banking charges associated with the movement of the money between accounts is reduced
- The additional risk exposure to the Authority is minimal as all amounts over the current £5 million limit would be available for withdrawal immediately should circumstances require

The other exception relates to building societies on the counterparty listing whereby the maximum balance that can be invested will be limited to £2 million for a maximum duration of 365 days.

Investment Security

Due care will be taken to consider the exposure of the Authority's total investment portfolio. Investments are defined as being in one of two categories:

- Specified investments – these are investments with high security and high liquidity. All specified investments are in sterling and have a maturity of no more than one year. They will be with the UK government, a local authority, a parish council or with an investment scheme or body of "high credit quality" (as judged against the Creditworthiness Policy detailed earlier in this paper)
- Non-specified investments – any type of investment that does not meet the specified investment criteria. A maximum of £5 million will be held in aggregate in non-specified investments for longer than 364 days – up to a maximum of five years and 6 months as denoted by the yellow banding on the Link creditworthiness policy detailed earlier in this paper. In addition, property funds are also classified as non-specified investments and a maximum of £3 million will be held in aggregate.

Investment Training

Relevant training and updates will be provided to relevant officers by the external treasury management advisors. This will be supplemented by additional training from CIPFA where necessary.

Investment of Money Borrowed in Advance of Need

The Authority does not currently have any money that has been borrowed in advance of need. No further borrowing is planned over the medium term financial plan.

Investment Liquidity

In consultation with external treasury advisors, the Authority will review its balance sheet position, level of reserves and cash requirements in order to determine the length of time for which investments can be prudently committed. Investments will be placed at a range of maturities, including having money on-call in order to maintain adequate liquidity.

Treasury Management Monitoring

The Authority reports on its treasury management activities to the Authority's Overview and Audit Committee on a regular basis.

Provisional Counterparty List

This list is based on information provided by Link as at 29 December 2023. Please note that all colours indicated refer to Link's creditworthiness policy (see Appendix 1):

UK Based Counterparties

UK Based Counterparties	Counterparty	(as rated by Link)
UK	Bank of Scotland PLC (RFB)	Red - 6 mths
UK	Barclays Bank PLC (NRFB)	Red - 6 mths
UK	Barclays Bank UK PLC (RFB)	Red - 6 mths
UK	Close Brothers Ltd	Red - 6 mths
UK	Clydesdale Bank PLC	Green - 100 days
UK	Co-operative Bank PLC (The)	No colour - 0 mths
UK	Goldman Sachs International Bank	Red - 6 mths
UK	Handelsbanken Plc	Orange - 12 mths
UK	HSBC Bank PLC (NRFB)	Orange - 12 mths
UK	HSBC UK Bank Plc (RFB)	Orange - 12 mths
UK	Lloyds Bank Corporate Markets Plc (NRFB)	Red - 6 mths
UK	Lloyds Bank Plc (RFB)	Red - 6 mths
UK	National Bank Of Kuwait (International) PLC	Red - 6 mths
UK	NatWest Markets Plc (NRFB)	Red - 6 mths
UK	Santander Financial Services plc (NRFB)	Red - 6 mths
UK	Santander UK PLC	Red - 6 mths
UK	SMBC Bank International Plc	Red - 6 mths
UK	Standard Chartered Bank	Red - 6 mths
UK	Debt Management Office	Yellow - 60 mths
UK	Other Local Authorities	Yellow - 60 mths
UK	Royal Bank of Scotland Group	Blue - 12 mths
UK	National Westminster Bank	Blue - 12 mths

** This is the duration suggested by Link. As per the updated Creditworthiness Policy (see page 6) these will all be extended by six months, except for building societies rated 'Green', which will have a maximum duration of 12 months for up to £2m.*

The Authority will also have the ability to invest in AAA rated money market funds (MMFs) and enhanced money market funds.

Non-UK Based Counterparties

As noted in Appendix 1, the duration of all non-UK investments will be in line with Links' duration limits.

Non-UK Based Counterparties	Country Counterparty	(as rated by Link)
Australia	Australia and New Zealand Banking Group Ltd.	Orange - 12 mths
Australia	Commonwealth Bank of Australia	Orange - 12 mths
Australia	Macquarie Bank Ltd.	Red - 6 mths
Australia	National Australia Bank Ltd.	Orange - 12 mths
Australia	Westpac Banking Corp.	Orange - 12 mths
Belgium	BNP Paribas Fortis	Red - 6 mths
Belgium	KBC Bank N.V.	Orange - 12 mths
Canada	Bank of Montreal	Orange - 12 mths
Canada	Bank of Nova Scotia	Orange - 12 mths
Canada	Canadian Imperial Bank of Commerce	Orange - 12 mths
Canada	National Bank of Canada	Red - 6 mths
Canada	Royal Bank of Canada	Orange - 12 mths
Canada	Toronto-Dominion Bank	Orange - 12 mths
Denmark	Danske A/S	Red - 6 mths
Finland	Nordea Bank Abp	Orange - 12 mths
Finland	OP Corporate Bank plc	Orange - 12 mths
France	BNP Paribas	Orange - 12 mths
France	Credit Agricole Corporate and Investment Bank	Orange - 12 mths
France	Credit Agricole S.A.	Orange - 12 mths
France	Credit Industriel et Commercial	Orange - 12 mths
France	Societe Generale	Red - 6 mths
Germany	Bayerische Landesbank	Red - 6 mths
Germany	Commerzbank AG	Red - 6 mths
Germany	Deutsche Bank AG	Red - 6 mths
Germany	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	Orange - 12 mths
Germany	Landesbank Baden-Wuerttemberg	Red - 6 mths
Germany	Landesbank Berlin AG	Orange - 12 mths
Germany	Landesbank Hessen-Thueringen Girozentrale	Orange - 12 mths
Germany	Landwirtschaftliche Rentenbank	Purple - 24 mths
Germany	Norddeutsche Landesbank Girozentrale	Green - 100 days
Germany	NRW.BANK	Purple - 24 mths
Netherlands	ABN AMRO Bank N.V.	Red - 6 mths
Netherlands	Bank Nederlandse Gemeenten N.V.	Purple - 24 mths
Netherlands	Cooperatieve Rabobank U.A.	Orange - 12 mths
Netherlands	ING Bank N.V.	Orange - 12 mths
Netherlands	Nederlandse Waterschapsbank N.V.	Purple - 24 mths
Norway	DNB Bank ASA	Orange - 12 mths
Qatar	Qatar National Bank	Red - 6 mths
Singapore	DBS Bank Ltd.	Orange - 12 mths
Singapore	Oversea-Chinese Banking Corp. Ltd.	Orange - 12 mths
Singapore	United Overseas Bank Ltd.	Orange - 12 mths
Sweden	Skandinaviska Enskilda Banken AB	Orange - 12 mths
Sweden	Svenska Handelsbanken AB	Orange - 12 mths
Sweden	Swedbank AB	Orange - 12 mths
Switzerland	Credit Suisse AG	Green - 100 days
Switzerland	UBS AG	Orange - 12 mths

United Arab Emirates	First Abu Dhabi Bank PJSC	Orange - 12 mths
United States	Bank of America N.A.	Orange - 12 mths
United States	Bank of New York Mellon, The	Purple - 24 mths
United States	Citibank N.A.	Orange - 12 mths
United States	JPMorgan Chase Bank N.A.	Orange - 12 mths
United States	Wells Fargo Bank, NA	Orange - 12 mths

[Counterparties Rated 'No Colour' by Link](#)

As noted in Appendix 1, sole reliance will not be placed on the use of Link ratings. The Authority will also use market data and market information, information on government support for banks and the credit ratings of that supporting government. The Authority added four building societies to its counterparty list in 2014/15, at which time they were all rated 'No Colour'. These are all now rated by Link and appear on the Provisional Counterparty Listing above. In 2018/19 the Authority increased the number of building societies in the counterparty list to ten. The top-ten building societies (by net assets) were added to the counterparty list. The duration of investment will continue to be limited to 365 days and the maximum amount invested with any building society at any point in time will not exceed £2 million.

UK Based Counterparties	Country Counterparty	(as rated by Link)
UK	Coventry Building Society	Red - 6 mths
UK	Cumberland Building Society	No colour - 0 mths
UK	Leeds Building Society	Green - 100 days
UK	Nationwide Building Society	Red - 6 mths
UK	Newcastle Building Society	No colour - 0 mths
UK	Nottingham Building Society	No colour - 0 mths
UK	Principality Building Society	No colour - 0 mths
UK	Skipton Building Society	Red - 6 mths
UK	West Bromwich Building Society	No colour - 0 mths
UK	Yorkshire Building Society	Green - 100 days

Prospects for Interest Rates

The Authority will continue with Link Asset Services (Link) as its external treasury management advisor. Part of Link's service is to assist the Authority to formulate a view on interest rates. Link's view of the prospects for bank and PWLB interest rates can be seen below:

Interest Rate Forecasts								
Bank Rate	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Link	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.25%
Cap Econ	5.25%	5.25%	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%
5Y PWLB RATE								
Link	5.00%	4.90%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%
Cap Econ	4.60%	4.50%	4.40%	4.30%	4.20%	4.10%	3.90%	3.80%
10Y PWLB RATE								
Link	5.10%	5.00%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%
Cap Econ	4.60%	4.60%	4.50%	4.40%	4.30%	4.30%	4.20%	4.10%
25Y PWLB RATE								
Link	5.50%	5.30%	5.10%	4.90%	4.70%	4.50%	4.30%	4.20%
Cap Econ	5.10%	4.90%	4.80%	4.60%	4.40%	4.40%	4.50%	4.50%
50Y PWLB RATE								
Link	5.30%	5.10%	4.90%	4.70%	4.50%	4.30%	4.10%	4.00%
Cap Econ	4.70%	4.60%	4.50%	4.50%	4.40%	4.40%	4.40%	4.40%

Since the two unprecedented emergency interest rate cuts in March 2020 to a base rate record low of 0.10%. The Bank of England's Monetary Policy Committee (MPC) has voted to increase the interest base rate at 14 of the last 18 meetings, with no increase at the four most recent meetings. The interest base rate as of 03 January 2024 was 5.25% and current inflation rate of 3.9%. The Authority has been able to benefit from the interest base rate increases in both short-term investment deals and Money Market Funds. This has resulted in the Authority overachieving against the interest investment target set for 2023/24.

For 2024/25, the Authority has set to set a benchmark rate of return of 4.50%. Based on this interest rate the Authority would achieve an annual return of circa £0.700m on an average portfolio of £15.500m. As at 31 December 2023, the total projected investment return for 2023/24 is in the region of £0.900m.

Since the treasury management function has been managed in-house from 1 April 2013, the Authority have over-achieved regularly against the investment returns budget. 2020/21 was the only year the Authority did not achieve its annual investment target, due to the Covid-19 Pandemic outbreak and the impact it had on the interest rates.

For any type of investment there is a downside risk to the level of return the Authority would obtain due to the uncertainty in the markets and the negative impact they have on the interest rates and therefore historical rates of return may not always provide a realistic indication of returns for the future. This will be closely monitored and reported to Members if the position changes from what Officers are currently projecting.

Link's notes on the 'Interest Rate Forecasts' table:

- Link now expect the MPC will keep Bank Rate at 5.25% for the first half of 2024 to combat on-going inflationary and wage pressures. Link do not think that the MPC will increase Bank Rate above 5.25%, but it is possible.
- Link expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a

likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, Link's forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.
- On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

Credit Rating Definitions

Below are the rating definitions for each rating agency:

Fitch:

Short Term	Long Term	Rating Definition
F1	AAA, AA, A	Highest Credit Quality
F2	A, BBB	Good Credit Quality
F3	BBB	Fair Credit Quality
B	BB, B	Speculative Credit Quality
C	CCC, CC, C	High Default Risk
RD	RD	Restricted Default
D	D	Default

Moody's:

Short Term	Long Term	Rating Definition
P-1	Aaa, Aa, A	Superior ability to repay debt obligation
P-2	A, Baa	Strong ability to repay debt obligation
P-3	Baa	Acceptable ability to repay debt obligation
NP	Ba, B, Caa, Ca, C	do not fall within any prime rating

Standard & Poor's:

Short Term	Long Term	Rating Definition
A1	AAA, AA, A	Extremely Strong
A2	A, BBB	Satisfactory
A3	BBB	Adequate
B	BB, B	Vulnerable and has significant speculative characteristics.
C	CCC, CC, C	Vulnerable to non-payment
D	RD	Restricted Default
D	D	Default