



Treasury Management Strategy

2026/27

Buckinghamshire & Milton Keynes Fire Authority

Contents

Treasury Management Policy Statement	Page 2
Treasury Management Strategy Statement	Page 3-4
Annual Investment Strategy	Page 5-9
Counterparty List	Page 9-11
Prospects for Interest Rates	Page 12-13
Credit Rating Definitions	Page 14

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 MHCLG 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.

The Authority will continue with Mitsubishi UFJ Financial Group Corporate Markets (MUFG), previously known as Link Asset Services, as its external treasury management advisor.

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 2025 are shown below for both borrowing and investments:

Borrowing Portfolio:

Counterparty	Total Borrowing (£m)	Average rate of interest (%)	Annual Interest Payable (£m)
Public Works Loans Board	4.550	4.86	0.214
Other Borrowing	0	0	0
Total Borrowing	4.550	4.86	0.214

At the start of 2026/27 the overall borrowing position will be **£4.550m** with maturity between 1 – 28 years. The next loan maturity is December 2027, for a value of £1m.

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 (£m)
Banks*	12.000
Money Market Funds	6.370
Local Authorities*	5.000
Building Societies*	4.000
Current Account	0.143
Total Investment	27.513

**Average Rate of interest received during period 01 April 2025 and 31 December 2025 was 4.51%.*

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 2026, the investment portfolio will be circa £23m, including investments in 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 (MTFP) in November 2015. However, within the MTFP 2026/27 to 2030/31, there is a proposal to reverse the voluntary revenue provision of £3.550m to cover capital expenditure. Following years will look to build the provision to be able to pay borrowing on maturity.

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 core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that rates can be expected to fall throughout 2026, but only if the CPI measure of inflation maintains a downwards trend towards the Bank of England's 2% target. Rates may be cut quicker than expected if the economy stagnates.

Accordingly, while most cash balances are required 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 and call accounts 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

It is recommended that Officers continue to review the Authority's debt structure with MUFG in 2026/27 and if the opportunity arises, further work be undertaken to investigate debt restructuring.

Annual Investment Strategy (AIS)

Investment Policy

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: -

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

The Authority's investment priorities will be:

- achieving security first (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, the Authority will aim to achieve the optimum return (yield) on its investment based on what yield can be obtained consistent with those priorities.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months.

In accordance with guidance from the MHCLG and CIPFA, and 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 MUFG 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, MUFG in producing its colour coding 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 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 minimise risk.

Creditworthiness Policy

This Authority applies the creditworthiness service provided by MUFG. 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 MUFG'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
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 (<i>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 £5 million per counterparty</i>)	Green - 3 Months
No colour not to be used (<i>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</i>)	No colour not to be used

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

Typically, the minimum credit ratings criteria the Authority use will be a short-term rating (Fitch or equivalents) 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 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 14.

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 MUFG 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 may be withdrawn.
- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by MUFG. Extreme market movements may result in the 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 its decision making-process.

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government in the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. MUFG monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its MUFG provided Passport portal.

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 MUFG. Although no counterparty outside UK was used during 2025/26, these will remain on the lending list for 2026/27. 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 MUFG'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 rated as 'no colour' or 'green' on the counterparty listing whereby the maximum balance that can be invested will be limited to £2 million and £5m respectively 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 365 days – up to a maximum of five years and 6 months as denoted by the yellow banding on the MUFG 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 MTFP.

Investment Liquidity

In consultation with MUFG, the Authority will review its balance sheet position, level of reserves and cash requirements 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 to maintain adequate liquidity.

Treasury Management Monitoring

The Authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Monitoring of investment performance will be carried out throughout the year and reported to the Authority's Overview and Audit Committee on a regular basis.

Counterparty List

This list is based on information provided by MUFG as at 09 January 2026. Please note that all colours indicated refer to MUFG's creditworthiness policy:

UK Based Counterparties

UK Based Counterparties	Counterparty	Suggested Duration (as rated by MUFG)
UK	Al Rayan Bank Plc	Red - 6 mths
UK	Bank of Scotland PLC (RFB)	Orange - 12 mths
UK	Barclays Bank PLC (NRFB)	Red - 6 mths
UK	Barclays Bank UK PLC (RFB)	Red - 6 mths
UK	Clydesdale Bank PLC	Red - 6 mths
UK	Collateralised LA Deposit	Yellow - 60 mths
UK	Co-operative Bank PLC (The)	Green - 100 days
UK	Debt Management Office	Yellow - 60 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	Investec Bank Plc	Red - 6 mths
UK	Lloyds Bank Corporate Markets Plc (NRFB)	Orange - 12 mths
UK	Lloyds Bank Plc (RFB)	Orange - 12 mths
UK	Multilateral Development Banks	Yellow - 60 mths
UK	National Bank Of Kuwait (International) PLC	Red - 6 mths
UK	National Westminster Bank PLC (RFB)	Orange - 12 mths
UK	NatWest Markets Plc (NRFB)	Orange - 12 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 Based Counterparties	Counterparty	Suggested Duration (as rated by MUFG)
UK	The Royal Bank of Scotland Plc (RFB)	Orange - 12 mths
UK	UK Gilts	Yellow - 60 mths

** This is the duration suggested by MUFG. As per the Creditworthiness Policy (see page 6) these will all be extended by six months.*

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

Non-UK Based Counterparties

The duration of all non-UK investments will be in line with MUFG duration limits.

Non-UK Based Counterparties	Country Counterparty	Suggested Duration (as rated by MUFG)
Australia	Australia and New Zealand Banking Group Ltd.	Orange - 12 mths
Australia	Commonwealth Bank of Australia	Orange - 12 mths
Australia	Macquarie Bank Ltd.	Orange - 12 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	Orange - 12 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	Red - 6 mths
France	Credit Agricole Corporate and Investment Bank	Red - 6 mths
France	Credit Agricole S.A.	Red - 6 mths
France	Credit Industriel et Commercial	Red - 6 mths
France	Societe Generale	Red - 6 mths
Germany	Bayerische Landesbank	Orange - 12 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	Orange - 12 mths
Germany	Landesbank Hessen-Thuringen Girozentrale	Orange - 12 mths
Germany	Landwirtschaftliche Rentenbank	Purple - 24 mths
Germany	Norddeutsche Landesbank Girozentrale	Orange - 12 mths
Germany	NRW.BANK	Purple - 24 mths

Non-UK Based Counterparties	Country Counterparty	Suggested Duration (as rated by MUFG)
Netherlands	ABN AMRO Bank N.V.	Red - 6 mths
Netherlands	BNG Bank 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	Orange - 12 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	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.	Purple - 24 mths
United States	Wells Fargo Bank, NA	Orange - 12 mths

UK Building Societies

Sole reliance will not be placed on the use of MUFG 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 has ten building societies on the counterparty list using the top-ten building societies (by net assets). Building societies rated as 'no colour' or 'green' on the counterparty listing whereby the maximum balance that can be invested will be limited to £2 million and £5m respectively for a maximum duration of 365 days.

UK Based Counterparties	Country Counterparty	Suggested Duration (as rated by MUFG)
UK	Coventry Building Society	Green - 100 days
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	Red - 6 mths

Prospects for Interest Rates

Part of MUFG's service is to assist the Authority to formulate a view on interest rates. MUFG provided the following forecasts on 22 December 2025. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

MUFG Corporate Markets Interest Rate View 22.12.25													
	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
BANK RATE	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60	3.60
5 yr PWLB	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
10 yr PWLB	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.70
25 yr PWLB	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20	5.20
50 yr PWLB	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00	5.00

Despite six reductions in the Bank of England base rate since August 2024, and forecasts indicating further decreases (as per the prospect for interest rates table), the Authority, as part of the MTFP will be increasing in investment income for 2026/27. The Authority has set a benchmark interest rate of 3.5%, which would achieve a return on investment of £0.800m against an average portfolio of £23m in 2026/27, an increase of £0.200m compared to the 2025/26 budget of £0.600m.

This improvement is primarily driven by delays in capital programme expenditure and the upfront receipt of additional pension grant funding. As a result, the Authority will hold higher short-term cash balances, enabling the Authority to generate increased investment returns despite the lower interest rate environment.

As at 31 December 2025, the total projected investment return for 2025/26 is in the region of £1.205m, overachievement of £0.605m. The Authority has been able to benefit from the interest rates by achieving investment interest returns of over £3.429m in the last three years.

Since the treasury management function has been managed in-house from 1 April 2013, the Authority have overachieved 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.

Additional notes by MUFG on this forecast table:

- Our last interest rate forecast update was undertaken on 11 August. Since then, a combination of tepid growth (0.2% q/q GDP for Q2 and 0.1% q/q GDP for Q3), falling inflation (currently CPI is 3.2%), and a November Budget that will place more pressure on the majority of households' income, has provided an opportunity for the Bank of England's Monetary Policy Committee to further reduce Bank Rate from 4% to 3.75% on 18 December.
- Surprisingly, to most market commentators, the recent steep fall in CPI inflation in one month from 3.6% to 3.2% did not persuade most "dissenters"

from the November vote (Lombardelli, Greene, Mann and Pill) to switch to the rate-cutting side of the Committee. Instead, it was left to Bank Governor, Andrew Bailey, to use his deciding vote to force a rate cut through by the slimmest of margins, 5-4.

- Given the wafer-thin majority for a rate cut it was not unexpected to hear that although rates would continue on a “gradual downward path”, suggesting a further rate cut or cuts in the offing, MPC members want to assess incoming evidence on labour market activity and wage growth. Indeed, with annual wage growth still over 4.5%, the MPC reiterated that the case for further rate cuts would be “a closer call”, and Governor Bailey observed there is “limited space as Bank Rate approaches a neutral level”.
- Accordingly, the MUFG Corporate Markets forecast has been revised to price in a rate cut in Q2 2026 to 3.5%, likely to take place in the wake of a significant fall in the CPI inflation reading from 3% in March to 2% in April (as forecast by Capital Economics), followed by a short lull through the summer whilst more data is garnered, and then a further rate cut to 3.25% in Q4.
- Accordingly, our updated central forecast is made with several hefty caveats. We are confident, as we have been for some time, that our forecast for Bank Rate and the 5-year PWLB Certainty Rate is robust, and we have marginally brought forward the timing of the next rate cut(s). But for the 10-, 25- and 50-years part of the curve, the level of gilt issuance, and the timing of its placement, will be integral to achieving a benign trading environment. That is not a “given”, and additionally, the inflation outlook and political factors domestically and, crucially, in the US, are also likely to hold sway. Matters should be clearer by June in the UK, but the US mid-term elections are scheduled for November.
- Our revised PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps) and is set to prevail until at least the end of March 2026. Hopefully, there will be a further extension to this discounted rate announced in January.
- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

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