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| | **Corporate Policy and Resources Committee** |
| | **Wednesday, 7th June 2023** |

**Subject: Annual Treasury Management Report 2022/23**

| | |
|---|---|
| Report by: | Director of Corporate Services (S151 Officer) |
| Contact Officer: | Peter Davy<br>Financial Services Manager<br><br>peter.davy@west-lindsey.gov.uk |
| Purpose / Summary: | To report on Annual Treasury Management activities and prudential indicators for 2022/23 in accordance with the Local Government Act 2003 |

**RECOMMENDATION(S):**

1. Members recommend the Annual Treasury Management Report and actual Prudential Indicators 2022/23 to Full Council for approval.

## IMPLICATIONS

**Legal:** None from this report

**Financial : FIN/19/23/PD**

Treasury Investment activities have generated £0.544m of investment interest at an average rate of 2.6%.

Non-Treasury investments (Investment Property Portfolio) have generated a gross yield of 6.57%

Financing activities has resulted in a total of £21.5m of external borrowing at a cost in year of £0.444m.

**Staffing :** None from this report

**Equality and Diversity including Human Rights :** None from this report

**Data Protection Implications :** None from this report

**Climate Related Risks and Opportunities**: None from this report

**Section 17 Crime and Disorder Considerations**: None from this report

**Health Implications:** None from this report

**Title and Location of any Background Papers used in the preparation of this report :**

The Treasury Management Strategy 2022/23

| **Risk Assessment :** |
| --- |
| The Treasury Management Strategy sets out an assessment of treasury risks. |

**Call in and Urgency:**

**Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?**

| | | | | |
| --- | --- | --- | --- | --- |
| i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman) | **Yes** | | **No** | X |

**Key Decision:**

| | | | | |
| --- | --- | --- | --- | --- |
| A matter which affects two or more wards, or has significant financial implications | **Yes** | | **No** | X |

## 1. Introduction to the report and Explanatory Foreword

1.1 The funding that the Council receives is often received in advance of when it is required to be spent; the Council will therefore invest these funds temporarily so that a return can be made to spend on delivering services. Interest income is an essential part of funding our budgets.

1.2 The Council has also borrowed in recent years to fund key infrastructure projects such as the crematorium and to build the waste depot at Caenby Corner.

1.3 Councils are investing public money and so it is essential that councils consider the security of such investments ahead of the return that might potentially be made. The Treasury Management Strategy, agreed annually by full council, considers the overall approach taken by the council when managing its cash, investment and borrowing activities.

1.4 The Council's finance function includes specialist officers and advisors who look after the council's treasury management activities.

There are three elements of such activity:

- monitoring the council's cash flow and bank accounts – like every organisation, making sure that the bank statement is regularly reconciled to the council's accounts system is a basis requirement of financial control
- making detailed investment decisions on behalf of the council, in accordance with the principles agreed by the council in its annual Treasury Management Strategy
- making detailed borrowing decisions, again in accordance with the Treasury Management Strategy.

1.5 As well as the annual strategy, treasury management activities will be reported to council at least in a mid-year update and an annual report after the year end. This report is the annual report after the year end.

1.6 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is important as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved.

1.7 This report is a summary of fact during the year 2022/23 and Members of this Committee are asked to recommend the report to Council for approval. Previous reports have only provided forecast figures and this report provides the actual figures to be put forward to Council.

1.8 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all required treasury management reports by either the Governance and Audit Committee who provide scrutiny of the Treasury Management Strategy and the Corporate Policy and Resources Committee who monitor in year performance and mid-year updates. Member training on Treasury Management issues was undertaken during the year in order to support members' scrutiny role.

1.9 Key Definitions

**Capital Expenditure**

If the council spends money on improving the council's assets, then this is capital expenditure. This would include purchasing new assets, such as land and buildings, but also refurbishing and improving existing ones. Capital expenditure is funded through capital income sources such as capital receipts and borrowing.

**Revenue Expenditure**

This is the council's day-to-day expenditure and includes salaries and wages, running costs such as fuel, utility bills and service contract payments. As a rule of thumb, if the expenditure is consumed in less than a year, then it is revenue. The council funds revenue expenditure through revenue income sources such as the council tax and charging users for the services they use.

**Capital Financing Requirement (CFR)**

The CFR measures a vital component of an authority's capital strategy, it is the amount of capital spending that is not financed by capital grants or contributions from revenue income. It measures the underlying need to borrow for a capital purpose. It shows the maximum amount of external borrowing required to finance the approved capital programme. In practice because the Council holds cash for other means and timing means all existing cash is not needed at once and the net borrowing position is likely to be much lower.

**Prudential Borrowing**

The prudential borrowing framework enables councils to source capital funding based on what is affordable and prudent, but otherwise free from external restrictions. A major part of that prudential assessment is having sufficient ongoing revenue funds to service the cost of borrowing undertaken. The main source of borrowing for councils is the Public Works Loans Board (PWLB).

**Minimum Revenue Provision**

This is the money that the Council sets aside every year to repay the principle of any prudential borrowing. MRP, which is largely defined by regulation, is aimed at ensuring that the council does not have time expired/fully depreciated assets, but still has associated outstanding debt. Voluntary Revenue Provision (VRP) is additional repayment funding that the Council sets aside to ensure that it is not left with an asset where the value is lower than the level of debt to repaid.

1.10 During 2022/23, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

| **Prudential and treasury indicators** | **2021/22 Actual £000** | **2022/23 Original £000** | **2022/23 Actual £000** |
|---|---|---|---|
| Capital expenditure | 7,813 | 12,972 | 4,851 |
| Capital Financing Requirement: | 40,293 | 38,241 | 39,438 |
| Of which – Investment Properties | *20,585* | *20,211* | *20,211* |
| **Gross borrowing (External)** | **21,500** | **26,500** | **21,500** |
| Finance Lease | 0 | 0 | 0 |
| Investments | | | |
| • Longer than 1 year | 3,000 | 3,000 | 3,000 |
| • Under 1 year | 17,020 | 10,000 | 15,515 |
| • **Total** | **20,020** | **13,000** | **18,515** |
| **Net borrowing** | **1,480** | **13,500** | **2,985** |

1.11 This report summarises the following:-

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness, (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances

Appendix One contains :-

- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

## 2. Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was

| Capital and Financing | 2021/22 Actual £000's | 2022/23 Original Budget £000's | 2022/23 Actual £000's |
|---|---|---|---|
| **Capital expenditure** | **7,813** | **12,972** | **4,851** |
| Financed in year by: | | | |
| Capital Receipts | 441 | 527 | 523 |
| Capital grants/contributions | 1,087 | 7,830 | 2,989 |
| Revenue | 3,478 | 3,236 | 955 |
| Leases | 0 | 0 | 0 |
| S106 | 33 | 1,236 | 328 |
| Prudential Borrowing | 2,774 | 143 | 56 |

## 3. The Council's overall borrowing need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2022/23 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

**Reducing the CFR** – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2022/23 MRP Policy, (as required by DLUHC Guidance), was approved as part of the Treasury Management Strategy Report for 2022/23 on 7 March 2022. Due to a change in statutory guidance MRP has now also been charged on Commercial Investment Property for 2022/23 and will be in future financial years.

The Council has retained a Valuation Volatility Reserve with a minimum balance of 5% of purchase price of the portfolio. This Reserve will be utilised to mitigate any loss on the investment upon sale of the assets if the capital receipt does not meet the debt outstanding. With the introduction of the MRP for 2022/23, this reserve and minimum balance will be reviewed on an annual basis. This is considered a prudent approach for these specific assets.

The Council's CFR for the year is shown below, and represents a key prudential indicator.

| **Capital Financing Requirement (CFR)** | **31 March 2022 Actual £000's** | **31 March 2023 Actual £000's** |
|---|---|---|
| Opening balance | 38,523 | 40,293 |
| Add adjustment for Prudential Borrowing | 2,774 | 56 |
| Less MRP/Finance Lease Repayments | (630) | (911) |
| Less VRP | (374) | 0 |
| **Closing balance** | **40,293** | **39,438** |
| *Movement on CFR* | *1,770* | *(855)* |

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

**Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council ensures that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2022/23. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

| | 31 March 2022 Actual £000's | 2022/23 Budget £000's | 31 March 2023 Budget £000's |
|---|---|---|---|
| Gross Borrowing Position | 21,500 | 26,500 | 21,500 |
| CFR | 40,293 | 38,241 | 39,438 |
| (Under)/Over Funding of CFR | (18,793) | (11,741) | (17,938) |

**The Authorised Limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2022/23 the Council has maintained gross borrowing within its authorised limit.

**The Operational Boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

**Actual financing costs as a proportion of net revenue stream -** this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

| | 2022/23 £000's |
|---|---|
| Authorised limit | 43,000 |
| Operational boundary | 39,438 |
| Financing costs as a proportion of net revenue stream | 5.37% |

## 4. Treasury Position as at 31 March 2023

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2022/23 the Council's treasury, (excluding borrowing and finance leases), position was as follows:

| TABLE 1 | 31 March 2022 Principal £000's | Rate/ Return | Average Life yrs. | 31 March 2023 Principal £000's | Average Rate/ Return | Average Life yrs. |
|---|---|---|---|---|---|---|
| Fixed rate funding: | | | | | | |
| -PWLB | 16,500 | 2.14% | 27 | 16,500 | 2.14% | 26 |
| -Other LA | 5,000 | 0.15% | 1 | 5,000 | 3.50 | 1 |
| **Total debt** | **21,500** | | **21** | **21,500** | | |
| | | | | | | |
| **CFR** | **40,293** | | **-** | **39,438** | | |
| **Over / (under) borrowing** | **(18,793)** | **-** | **-** | **(17,938)** | | |
| Investments: | | | | | | |
| | 20,020 | 0.762% | - | 18,515 | | |
| **Total investments** | **20,020** | **0.762%** | **-** | **18,515** | | |
| **Net debt** | **1,227** | **-** | **-** | **577** | | |

Under borrowing reflects Internal Borrowing from the Council's cash balances.

The maturity structure of the debt portfolio was as follows:

| | 31 March 2022 Actual £000's | 31 March 2023 Actual £000's | % |
|---|---|---|---|
| Less than 5 years | 7,500 | 10,500 | 48.9 |
| 5 years and within 10 years | 3,000 | 0 | 0.0 |
| 10 years and within 20 years | 0 | 0 | 0.0 |
| 20 years and within 30 years | 2,500 | 2,500 | 11.6 |
| 30 years and within 40 years | 0 | 0 | 0.0 |

| | | | |
|---|---|---|---|
| 40 years and within 50 years | 8,500 | 8,500 | 39.5 |

£16.5m of loans have been undertaken with the Public Works Loans Board at fixed rates on a maturity basis as detailed above.

One loan for £5m has been undertaken with a combined authority at a fixed rate on a maturity basis for a period of 339 days.

**Borrowing in advance of need**

The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

The Council's capital investments and their subsequent financing costs as a % of the Net Revenue Stream is detailed below along with the impact on Council Tax (all other things being equal). The indicators reflect the Borrowing Strategy, that the Council will only borrow where schemes are able to provide sustained support for the costs of borrowing and reflect new income generated is in excess of the cost of borrowing.

| | 31 March 2022 Actual | 31 March 2023 Actual |
|---|---|---|
| Ratio of Financing Costs to Net Revenue Stream | 9.60% | 5.37% |
| Increase/(Reduction) in Council Tax | £1.88 | £0.05 |

**Investments**

**Investment Policy** – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 07 March 2022. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

**Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

| Balance Sheet Resources* | 31 March 2022 £000's | 31 March 2023 £000's |
|---|---|---|

| | | |
|---|---|---|
| General Fund Balance | 5,406 | 4,884 |
| Earmarked reserves | 19,214 | 19,140 |
| Provisions | 802 | 691 |
| Usable capital receipts | 1,472 | 1,116 |
| Capital Grants Unapplied | 2,516 | 3,018 |
| Total | **29,410** | **28,849** |

*Subject to external audit of the 2022/23 accounts

**Investments held by the Council**

- The Council maintained an average balance of £20.944m of internally managed funds.
- The internally managed funds earned an average rate of return of 2.6%.
- The comparable performance indicator is the Sterling Overnight Index Average (SONIA) which was a rate of 2.24% as at 31 March 2023.
- Total investment income was £0.544m compared to a budget of £0.149m.

| Types of investments | 31 March 2022 Actual £000 | 31 March 2023 Actual £000 |
|---|---|---|
| Deposits with banks and building societies | 2,070 | 1,995 |
| Money Market Funds | 14,950 | 13,520 |
| Other Local Authorities | 0 | |
| Property funds | 3,000 | 3,000 |
| **TOTAL TREASURY INVESTMENTS** | **20,020** | **18,515** |

**Non-Treasury Investments**

| YEAR OF ACQUISITION | Commercial Property Portfolio | Sector | Total Acquisition Cost £'m |
|---|---|---|---|
| 2017/18 | Bradford Road, Keighley | Hotel | 2.490 |
| 2018/19 | 43 Penistone Road, Sheffield | Leisure | 2.700 |
| 2018/19 | Unit 7 Drake House, Sheffield | Manufacturing | 3.175 |
| 2018/19 | 5 Sandars Road, Gainsborough | Manufacturing | 6.470 |
| 2018/19 | Heaton Street, Gainsborough | Retail | 1.150 |
| 2019/20 | Wheatley Road, Doncaster | Commercial Unit | 5.681 |
| | **TOTAL PORTFOLIO** | | **21.666** |

The investments are held on the balance sheet at their Fair Value *(the price expected to be received in current market conditions).* The Fair Value as at 31 March 2023 for the Commercial Property Portfolio is £22.405m, effectively reflecting an increase on the costs of purchase.

This investment portfolio is generating a gross yield of 6.57% and £1.47m in income relevant to the financial year.

The Council mitigates any loss on investment by holding a Valuation Volatility Reserve at a minimum of 5% of the purchase price of properties. The balance on this reserve as at 31 March 2023 is £1.084m.

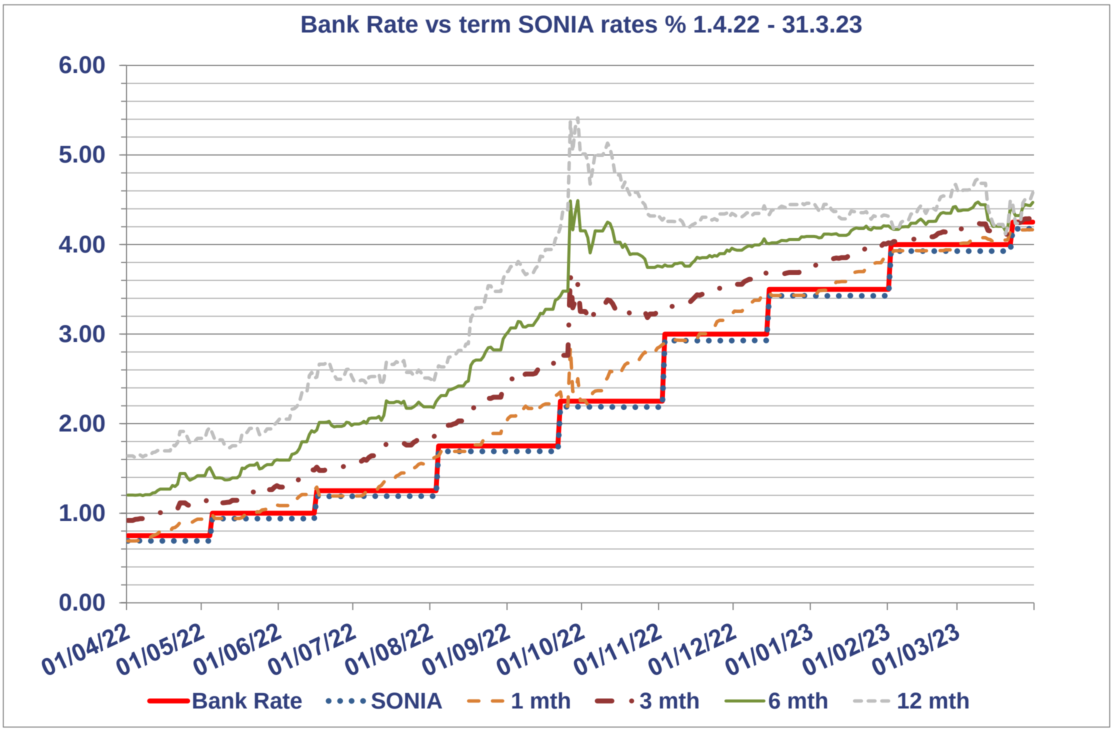
## Other Issues

There have been no breaches of Prudential Indicators or Counterparty Limits during the year ended 31 March 2023.

## Appendix One :

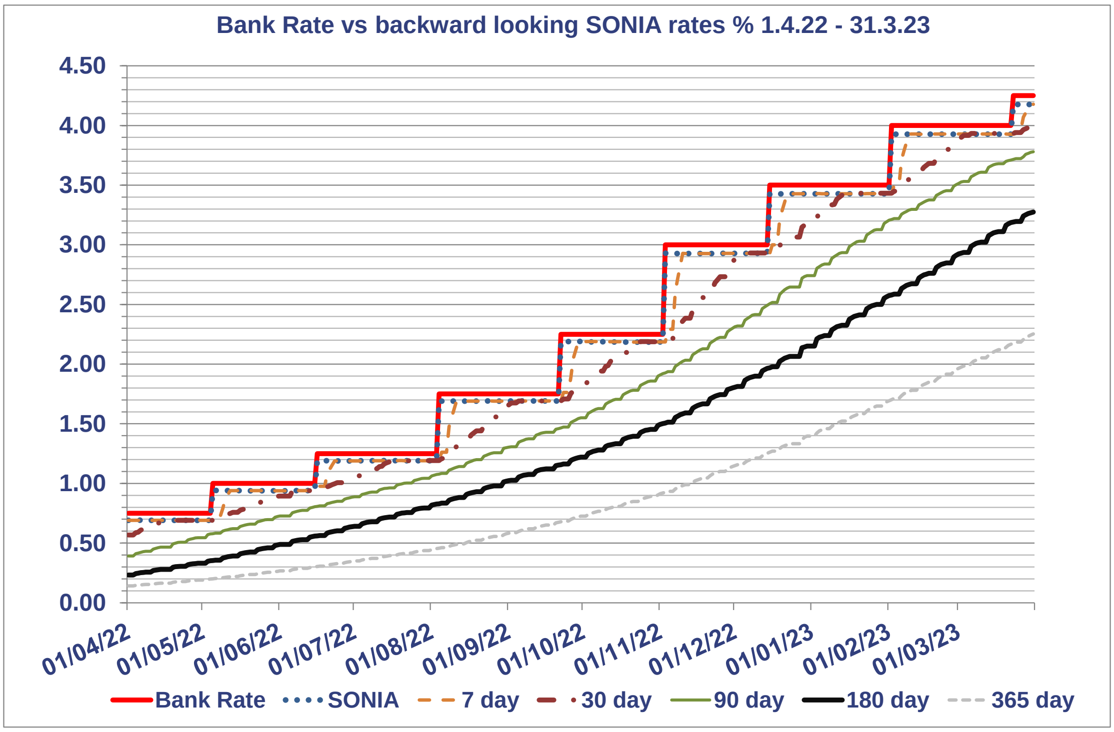
## The Strategy for 2022/23

### Investment strategy and control of interest rate risk




| FINANCIAL YEAR TO QUARTER ENDED 31/3/2023 | | | | | | |
|---|---|---|---|---|---|---|
| | Bank Rate | SONIA | 1 mth | 3 mth | 6 mth | 12 mth |
| High | 4.25 | 4.18 | 4.17 | 4.30 | 4.49 | 5.41 |
| High Date | 23/03/2023 | 31/03/2023 | 31/03/2023 | 31/03/2023 | 29/09/2022 | 29/09/2022 |
| Low | 0.75 | 0.69 | 0.69 | 0.92 | 1.20 | 1.62 |
| Low Date | 01/04/2022 | 28/04/2022 | 01/04/2022 | 01/04/2022 | 07/04/2022 | 04/04/2022 |
| Average | 2.30 | 2.24 | 2.41 | 2.72 | 3.11 | 3.53 |
| Spread | 3.50 | 3.49 | 3.48 | 3.38 | 3.29 | 3.79 |

## Investment Benchmarking Data – Sterling Overnight Index Averages (Backward-looking) 2022/23




| FINANCIAL YEAR TO QUARTER ENDED 31/03/2023 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Bank Rate | SONIA | 7 day | 30 day | 90 day | 180 day | 365 day |
| **High** | 4.25 | 4.18 | 4.18 | 4.00 | 3.78 | 3.27 | 2.25 |
| **High Date** | 23/03/2023 | 31/03/2023 | 31/03/2023 | 31/03/2023 | 31/03/2023 | 31/03/2023 | 31/03/2023 |
| **Low** | 0.75 | 0.69 | 0.69 | 0.57 | 0.39 | 0.23 | 0.14 |
| **Low Date** | 01/04/2022 | 28/04/2022 | 29/04/2022 | 01/04/2022 | 01/04/2022 | 01/04/2022 | 01/04/2022 |
| **Average** | 2.30 | 2.24 | 2.20 | 2.09 | 1.81 | 1.42 | 0.90 |
| **Spread** | 3.50 | 3.49 | 3.49 | 3.43 | 3.39 | 3.04 | 2.11 |

Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24.

The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and “laddering” deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

With bond markets selling off, equity valuations struggling to make progress and, latterly, property funds enduring a weak Q4 2022, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration) became more actively used.

Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

Nonetheless, while the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis of 2008/09. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

**Borrowing strategy and control of interest rate risk**

During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered.

A cost of carry generally remained in place during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns. As the cost of carry dissipated, the Council sought to avoid taking on long-term borrowing at elevated levels (>4%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<3 years) as appropriate.

The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this has been kept under review to avoid incurring higher borrowing costs in the future when this Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Corporate Services therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:-

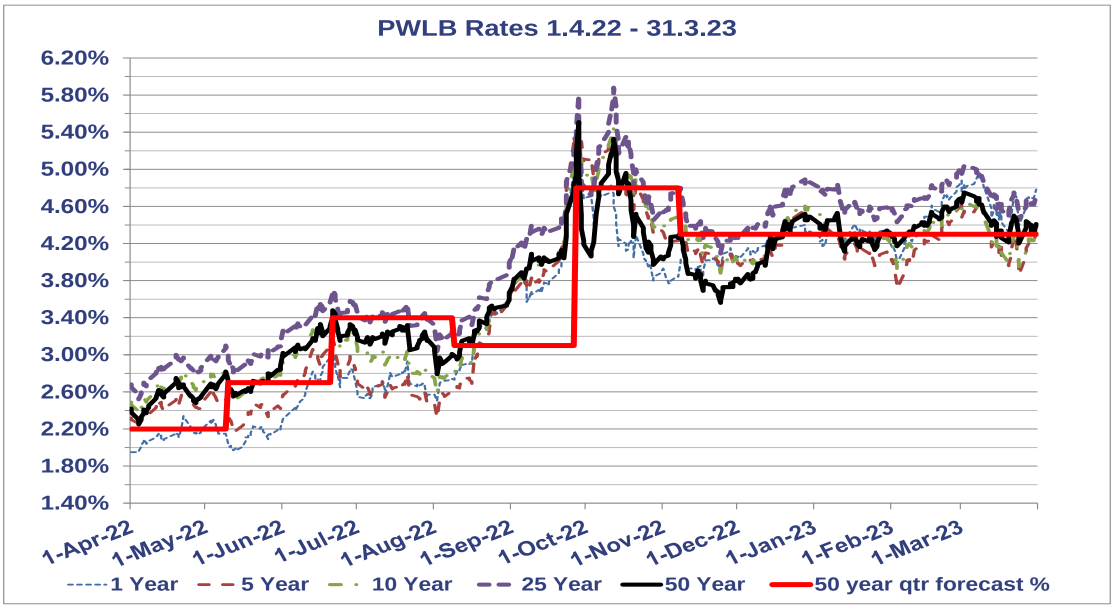
- if it had been felt that there was a significant risk of a sharp FALL in long and short-term rates, (e.g., due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short-term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. Currently the CPI measure of inflation is still above 10% in the UK but is expected to fall back towards 4% by year end. Nonetheless, there remain significant risks to that central forecast.

| Link Group Interest Rate View | 27.03.23 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 |
| BANK RATE | 4.50 | 4.50 | 4.25 | 4.00 | 3.50 | 3.25 | 3.00 | 2.75 | 2.75 | 2.50 | 2.50 | 2.50 |
| 3 month ave earnings | 4.50 | 4.50 | 4.30 | 4.00 | 3.50 | 3.30 | 3.00 | 2.80 | 2.80 | 2.50 | 2.50 | 2.50 |
| 6 month ave earnings | 4.50 | 4.40 | 4.20 | 3.90 | 3.40 | 3.20 | 2.90 | 2.80 | 2.80 | 2.60 | 2.60 | 2.60 |
| 12 month ave earnings | 4.50 | 4.40 | 4.20 | 3.80 | 3.30 | 3.10 | 2.70 | 2.70 | 2.70 | 2.70 | 2.70 | 2.70 |
| 5 yr PWLB | 4.10 | 4.10 | 3.90 | 3.80 | 3.70 | 3.60 | 3.50 | 3.40 | 3.30 | 3.20 | 3.20 | 3.10 |
| 10 yr PWLB | 4.20 | 4.20 | 4.00 | 3.90 | 3.80 | 3.70 | 3.50 | 3.50 | 3.40 | 3.30 | 3.30 | 3.20 |
| 25 yr PWLB | 4.60 | 4.50 | 4.40 | 4.20 | 4.10 | 4.00 | 3.80 | 3.70 | 3.60 | 3.50 | 3.50 | 3.40 |
| 50 yr PWLB | 4.30 | 4.20 | 4.10 | 3.90 | 3.80 | 3.70 | 3.50 | 3.50 | 3.30 | 3.20 | 3.20 | 3.10 |

## PWLB Rates 2022/23



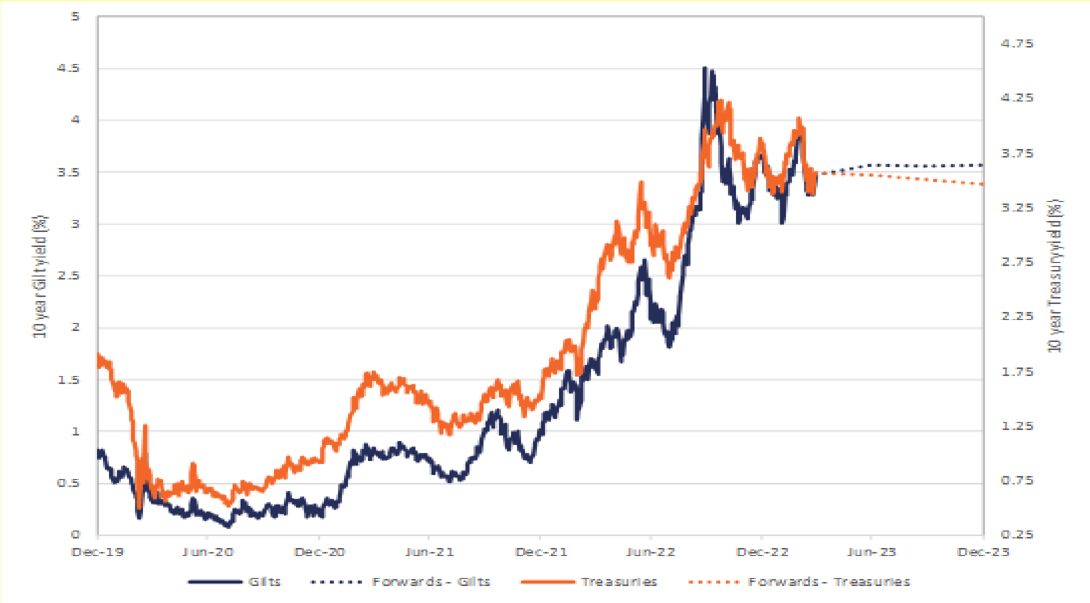
**High/Low/Average PWLB Rates for 2022/23**

| | 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% | 5.45% | 5.88% | 5.51% |
| **Date** | 28/09/2022 | 28/09/2022 | 12/10/2022 | 12/10/2022 | 28/09/2022 |
| **Average** | 3.57% | 3.62% | 3.76% | 4.07% | 3.74% |
| **Spread** | 3.16% | 3.26% | 3.09% | 3.36% | 3.26% |

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present central banks are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

**Graph of UK gilt yields v. US treasury yields**




Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently, yields are broadly range bound between 3% and 4.25%.

At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the Consumer Price Index measure) moves closer to the Bank of England's 2% target.

As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

The Bank of England is also embarking on a process of Quantitative Tightening, but the scale and pace of this has already been affected by the Truss administration in the autumn of 2022 and more recently by the financial market unease with some US (e.g., Silicon Valley Bank) and European banks (e.g., Credit Suisse). The gradual reduction of the Bank's original £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.