



**Council**

**Monday 26<sup>th</sup> June 2023**

**Subject: Recommendation from the Corporate Policy and Resources Committee - Annual Treasury Management Report 2022/23**

Report by:

Director of Corporate Services (S151 Officer)

Contact Officer:

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Financial Services Manager

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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. That Council approve the Annual Treasury Management Report and actual Prudential Indicators 2022/23 as recommended by the Corporate Policy and Resources Committee.

## 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****Key Decision:**

*A matter which affects two or more wards, or has significant financial implications*

**Yes****No****1. Executive Summary**

The Council are required to receive as a minimum the following reports;

- an annual treasury strategy in advance of the year (March 2022)
- a mid-year, (minimum), treasury update report (January 2023)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

In addition, this Corporate Policy and Resources Committee has received quarterly treasury management update reports.

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

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above 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.

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

<b>Prudential and treasury indicators</b>	<b>2021/22 Actual £000</b>	<b>2022/23 Original £000</b>	<b>2022/23 Actual £000</b>
Capital Financing Requirement:	40,293	38,241	39,438
Of which – Investment Properties	20,585	20,211	20,211
<b>Gross borrowing (External)</b>	<b>21,500</b>	<b>26,500</b>	<b>21,500</b>
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
• <b>Total</b>	<b>20,020</b>	<b>13,000</b>	<b>18,515</b>
<b>Net borrowing</b>	<b>1,480</b>	<b>13,500</b>	<b>2,985</b>

Other prudential and treasury indicators are to be found in the main body of this report. The Director of Corporate Services (S151 Officer) also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

The financial year 2022/23 was a challenging investment environment due to consistent interest rate rises by the Bank of England meaning that locking in longer term investments was hard to do because of concern of the return over time. With this in mind shorter term investments were made so as not to lose potential returns if rates went up. Conversely debt then became more expensive and so it was a fine balancing act.

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;
- 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
<b>Capital expenditure</b>	<b>7,813</b>	<b>12,972</b>	<b>4,851</b>
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.

<b>Capital Financing Requirement (CFR)</b>	<b>31 March 2022 Actual £000's</b>	<b>31 March 2023 Actual £000's</b>
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
<b>Closing balance</b>	<b>40,293</b>	<b>39,438</b>
<i>Movement on CFR</i>	<i>1,770</i>	<i>(855)</i>

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:

<b>TABLE 1</b>	<b>31 March 2022 Principal £000's</b>	<b>Rate/ Return</b>	<b>Average Life yrs.</b>	<b>31 March 2023 Principal £000's</b>	<b>Average Rate/ Return</b>	<b>Average Life yrs.</b>
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
<b>Total debt</b>	<b>21,500</b>		<b>21</b>	<b>21,500</b>		
<b>CFR</b>	<b>40,293</b>		<b>-</b>	<b>39,438</b>		
<b>Over / (under) borrowing</b>	<b>(18,793)</b>	<b>-</b>	<b>-</b>	<b>(17,938)</b>		
Investments:						
	20,020	0.762%	-	18,515		
<b>Total investments</b>	<b>20,020</b>	<b>0.762%</b>	<b>-</b>	<b>18,515</b>		
<b>Net debt</b>	<b>1,227</b>	<b>-</b>	<b>-</b>	<b>577</b>		

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

The maturity structure of the debt portfolio was as follows:

	<b>31 March 2022 Actual £000's</b>	<b>31 March 2023 Actual £000's</b>	<b>%</b>
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
<b>Total</b>	<b>29,410</b>	<b>28,849</b>

\*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
<b>TOTAL TREASURY INVESTMENTS</b>	<b>20,020</b>	<b>18,515</b>

### 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
	<b>TOTAL PORTFOLIO</b>		<b>21.666</b>

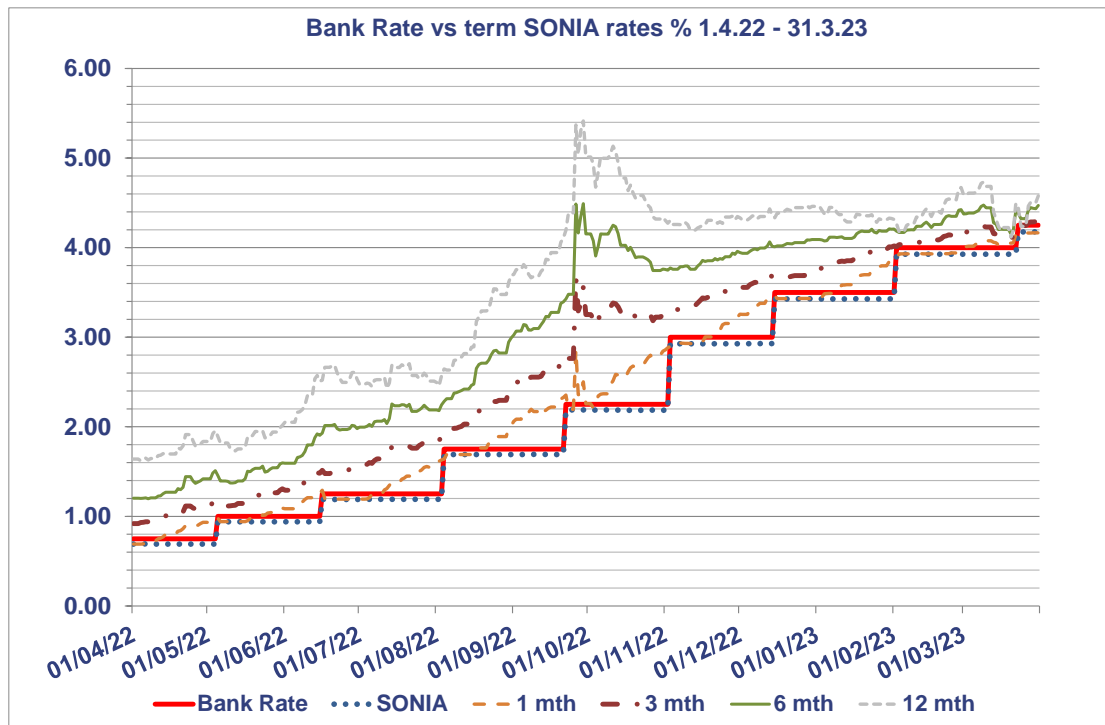
The investments are held on the balance sheet at their Fair Value (*the price expected to be received in current market conditions*). The Fair Value as at 31 March 2023 for the Commercial Property Portfolio is £22.405m, effectively reflecting an increase on the costs of purchase.

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.

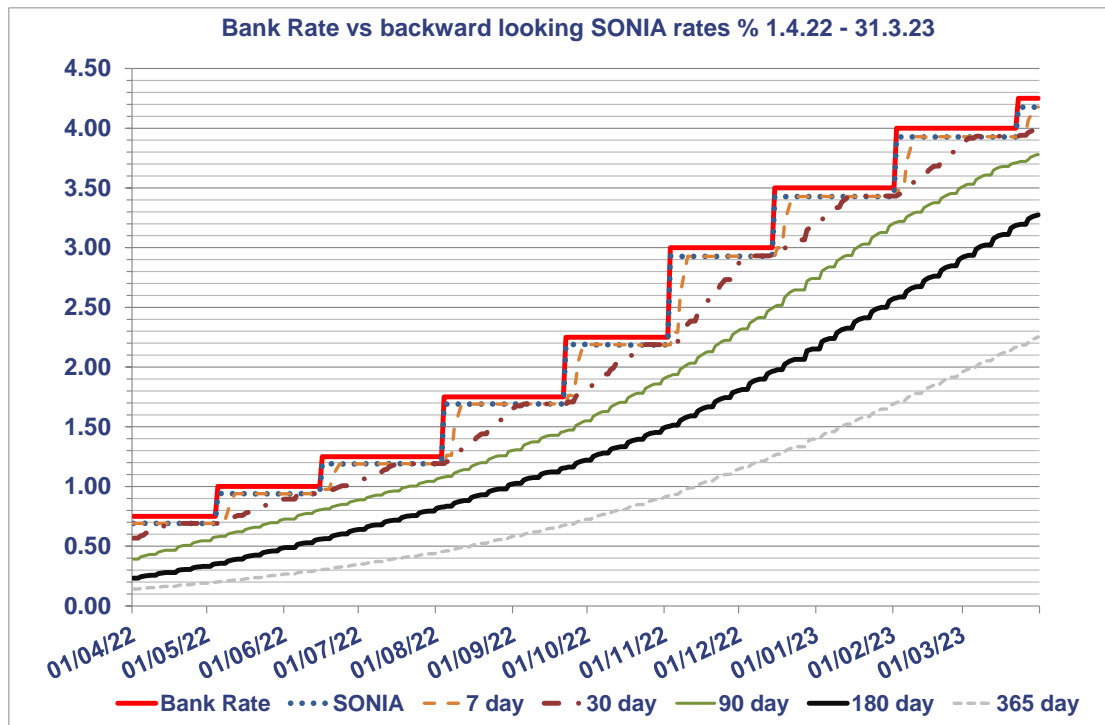
## 5. The Strategy for 2022/23

### 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
<b>High</b>	4.25	4.18	4.17	4.30	4.49	5.41
<b>High Date</b>	23/03/2023	31/03/2023	31/03/2023	31/03/2023	29/09/2022	29/09/2022
<b>Low</b>	0.75	0.69	0.69	0.92	1.20	1.62
<b>Low Date</b>	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022	04/04/2022
<b>Average</b>	2.30	2.24	2.41	2.72	3.11	3.53
<b>Spread</b>	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
<b>High</b>	4.25	4.18	4.18	4.00	3.78	3.27	2.25
<b>High Date</b>	23/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023
<b>Low</b>	0.75	0.69	0.69	0.57	0.39	0.23	0.14
<b>Low Date</b>	01/04/2022	28/04/2022	29/04/2022	01/04/2022	01/04/2022	01/04/2022	01/04/2022
<b>Average</b>	2.30	2.24	2.20	2.09	1.81	1.42	0.90
<b>Spread</b>	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.

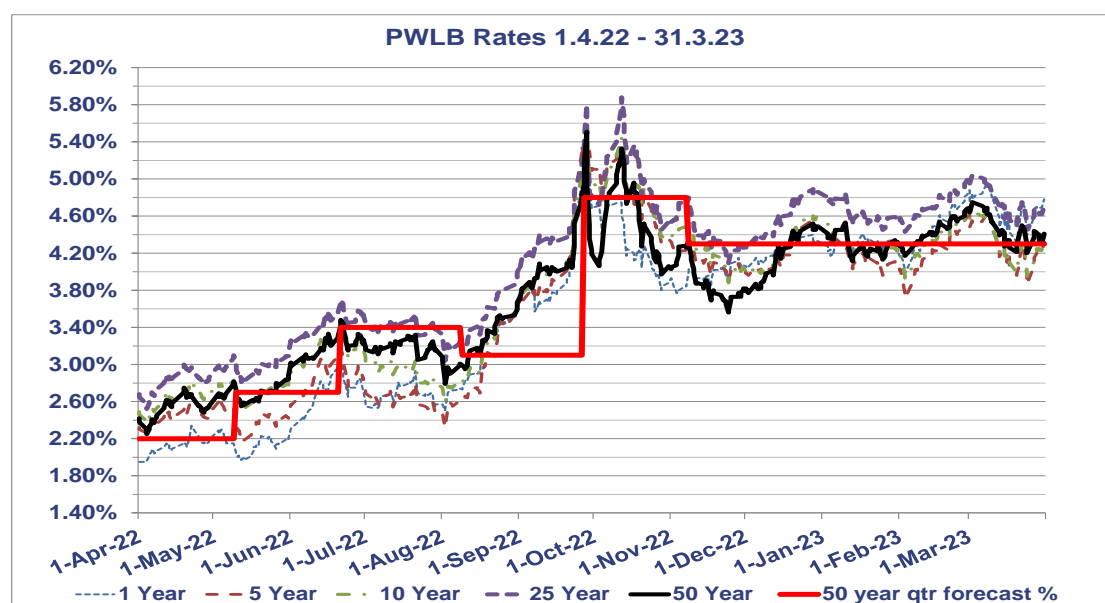
Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Corporate Services therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate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

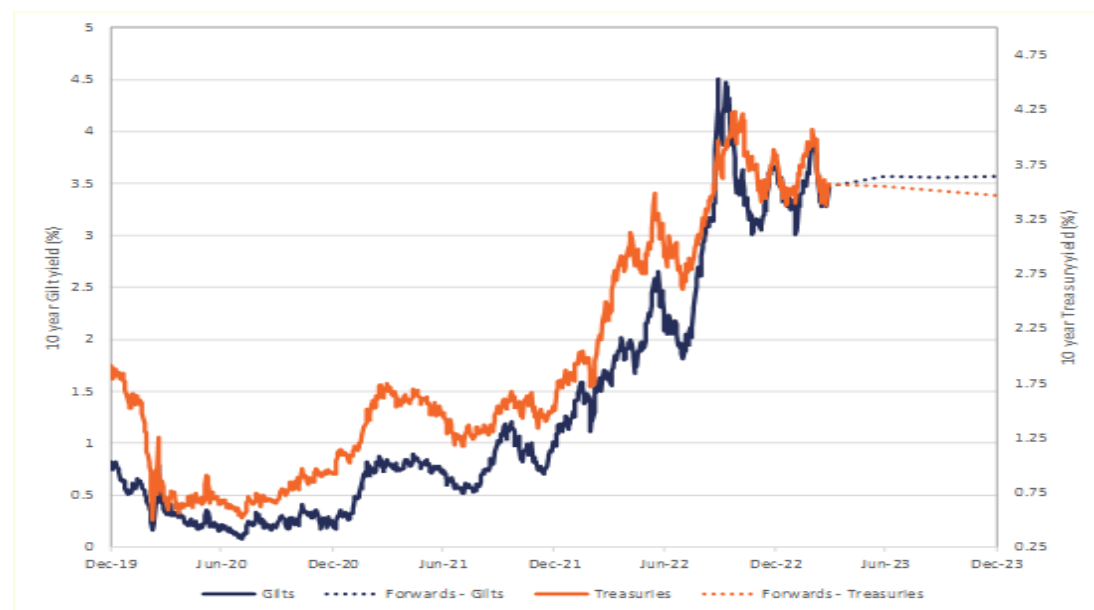
	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	1.95%	2.18%	2.36%	2.52%	2.25%
<b>Date</b>	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
<b>High</b>	5.11%	5.44%	5.45%	5.88%	5.51%
<b>Date</b>	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
<b>Average</b>	3.57%	3.62%	3.76%	4.07%	3.74%
<b>Spread</b>	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.

## **6. Other Issues**

### **Counterparty Limits**

There have been no breaches of Prudential Indicators.