APPENDIX A

Mid-Year Treasury Management Report 2022/23

East Staffordshire Borough Council

1. Introduction and Background

Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

As a consequence treasury management is defined as:

> "The management of the local authority's borrowing, 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."

The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

2. This Mid-Year Treasury Report Covers

This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for 2022/23
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- A review of the Council's investment portfolio for 2022/23
- A review of the Council's borrowing strategy for 2022/23
- A review of compliance with Treasury and Prudential Limits for 2022/23

3. Economic Update

- The main headlines to date for 2022/23 saw:
  - GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy had avoided recession for the time being;
  - Signs of economic activity losing momentum as production fell due to rising energy prices;
  - CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
  - The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
  - Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
  - Gilt yields surge and sterling fall following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September.

3.2 For information in relation to the economic outlook is set out in **Annex 3**.

3.3 Interest rate forecasts

The Council's treasury advisor, Link Asset Services, have provided the interest rate forecasts and commentary, which is attached at **Annex 4**.

4. The Treasury Management Strategy and Annual Investment Strategy Update

4.1 Background

The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by the Council in March 2022. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

4.2 Creditworthiness

Following the Government's fiscal event on 23rd September, both S&P and Fitch have placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook.

It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

4.3 Overview

The Council held £69.5m of investments as at 30 September 2022 (£60.8m at 30 September 2021) and the investment portfolio yield for the first six months of the year is 1.15% (0.06% 2021). A breakdown of the Council's investment portfolio at the end of September is shown at **Annex 2** of this report.

The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2022/23.

However, considering that we are in a rising interest rates environment at the time when the UK economy is entering a recession, it is important to keep under review our investment strategy and creditworthiness policy to ensure that the Council is well positioned for the challenges ahead.

Generally, the current investment counterparty criteria selection approved in the Treasury Management Strategy Statement is meeting the requirements of the treasury function. However, there is one proposed amendment below to the treasury management limits.

Due to the high level of balances and limited availability of high quality credit it has been necessary to utilise Government T-Bills and their deposit facility for some time, it is therefore proposed to increase the limits for AAA rated Money Market Funds (MMFs) from the current £4m to £6m. The Council's treasury management advisors have indicated that this would be appropriate as it would enable the Council to utilise MMF's for liquidity management and then focus on high quality banks for term deposits providing more flexibility in a rising market and ensuring prudent management of our cash balances, without compromising security of our investments.

5. Investment Portfolio

5.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

5.2 The investment portfolio yield for the first six months of the year is 1.15%, with the average rate at 30th September standing at 1.97%.

	Average Rate Year to 30/9/22
ESBC	1.15%
7 Day SONIA**	1.07%
Base Rate	1.28%
Budget	0.50%

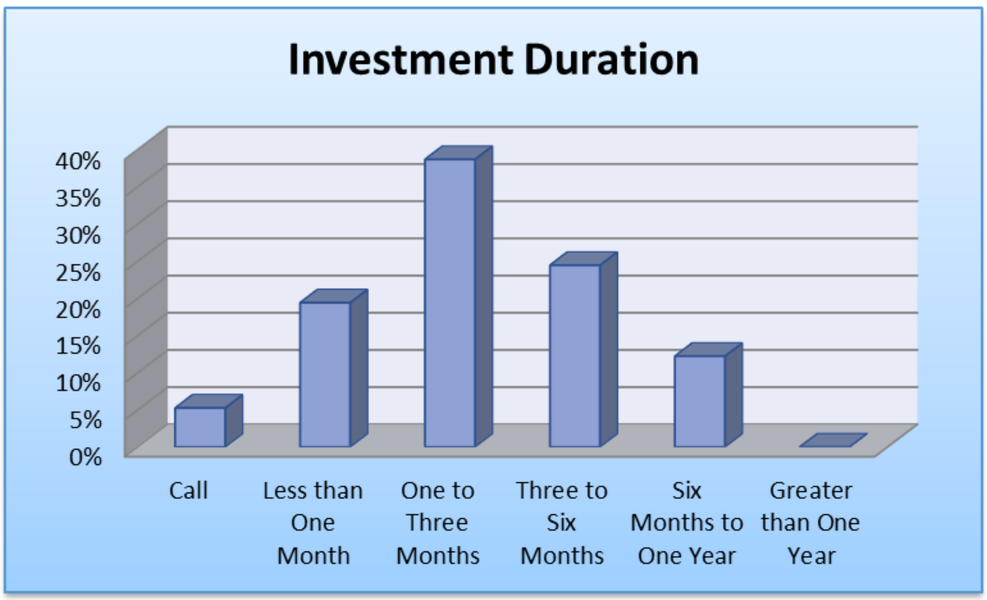
***Benchmark used by Treasury Advisors*

The above table shows that the authority's returns are slightly below the average bank rate which reflects the current conditions with rapidly rising rates, but has performed above the benchmark. Furthermore, analysis undertaken by our Treasury Advisors at the end of Quarter 1 and Quarter 2 demonstrates positive performance in comparison with other local authorities, with the position at the end of Quarter 2 is shown below:

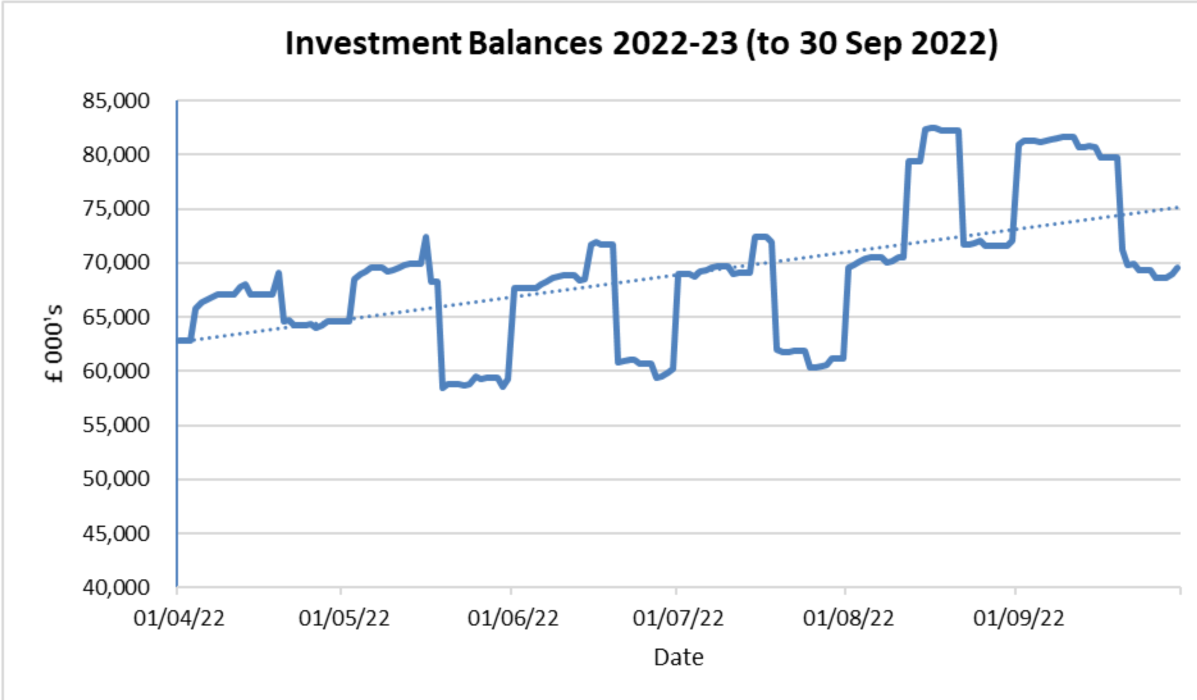
At 30th September	**ESBC**	**Average Non-Met Districts**
Average Rate of Return	1.97%	1.70%
Weighted Average Maturity	94 days	77 days
Average Risk Score (lower number = lower risk)	2.12	3.09

The Council’s budgeted investment return for 2022/23 is 0.50%, which was set before the rapidly changing economic conditions which could not have been foreseen at the time. Current performance and forecast is significantly higher than the budgeted rate of return.

5.3 A full list of investments held as at 30th September 2022, totalling £69.5m is shown in **Annex 2**. The graph below demonstrates the maturity profile of these investments. The investment listing includes fixed deposits, certificates of deposits and call accounts held with a number of UK banks and highly rated foreign banks, as well as UK Government Treasury Bills/Deposit account and AAA rated money market funds. These instruments offer significant counterparty strength as well as diversification of the portfolio.



5.4 Average cash balances in the first six months of 2022/23 were £68.9m (£57.6m Apr to Sept 2021/22). The graph below demonstrates how these balances have fluctuated so far this year which follows the “normal pattern” as Council Tax and NNDR receipts are received and then precept payments are paid out. However balances have remained higher than usual due to the ongoing administration of Covid reliefs and energy rebate grants together with monies held pending reimbursement to Government and receipt of Towns Fund monies.



6. Borrowing

6.1 The Council's Capital Financing Requirement (CFR) as at 31st March 2023 is estimated to be £14.3m (£15.8m as at 31st March 2022). The forecast net reduction in the year is due to the annual statutory debt repayments through the Minimum Revenue Provision and forecast voluntary repayments from capital receipts in line with the Medium Term Financial Strategy.

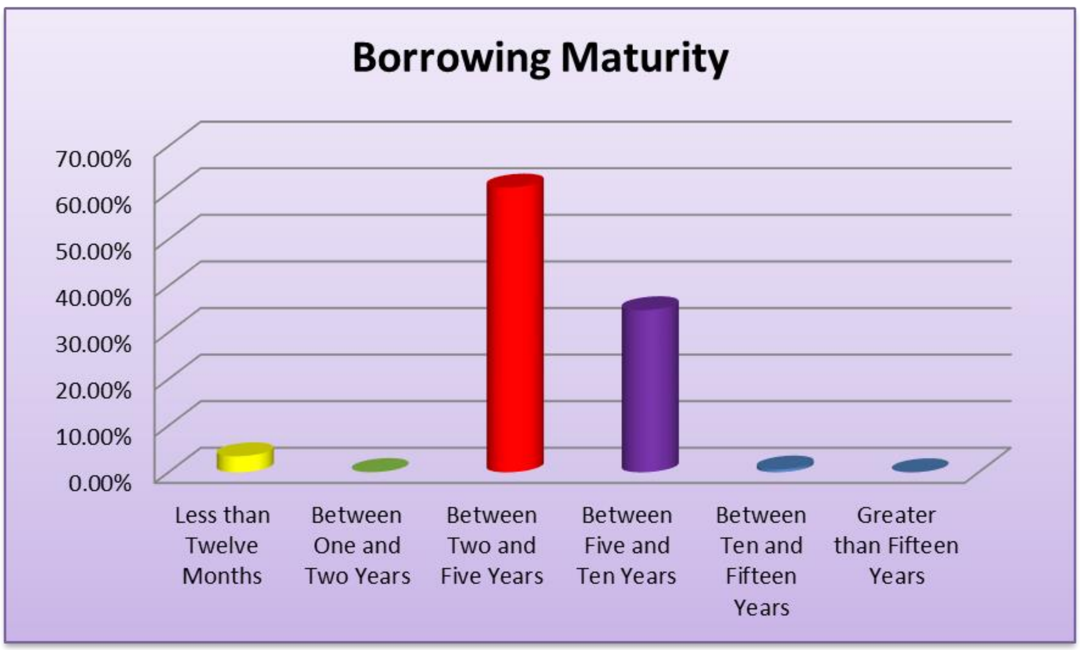
The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

6.2 The forecast CFR is now higher than when the budget and treasury management strategy was set (**see Annex 1**), this reflects the latest information in relation to the timing of capital receipts that are planned to be utilised to repay internal debt, which in turn will deliver savings to the revenue budget. There remains an ongoing risk that this could impact on the MTFS in 2023/24.

6.3 Consistent with the strategy, no new borrowing has been undertaken during the first half of 2022/23. The current borrowing levels and maturity profile are set out in the tables and graph below.

Debt Type	Principal Outstanding (£)	Average Rate
Total Fixed Debt		
PWLB Maturity	5,700,000	4.646%
PWLB Annuity	378,738	8.947%
Total Variable Debt		
Market	4,500,000	5.914%
GBSLEP Loan	375,000	
Total External Debt	**10,953,738**	5.340%

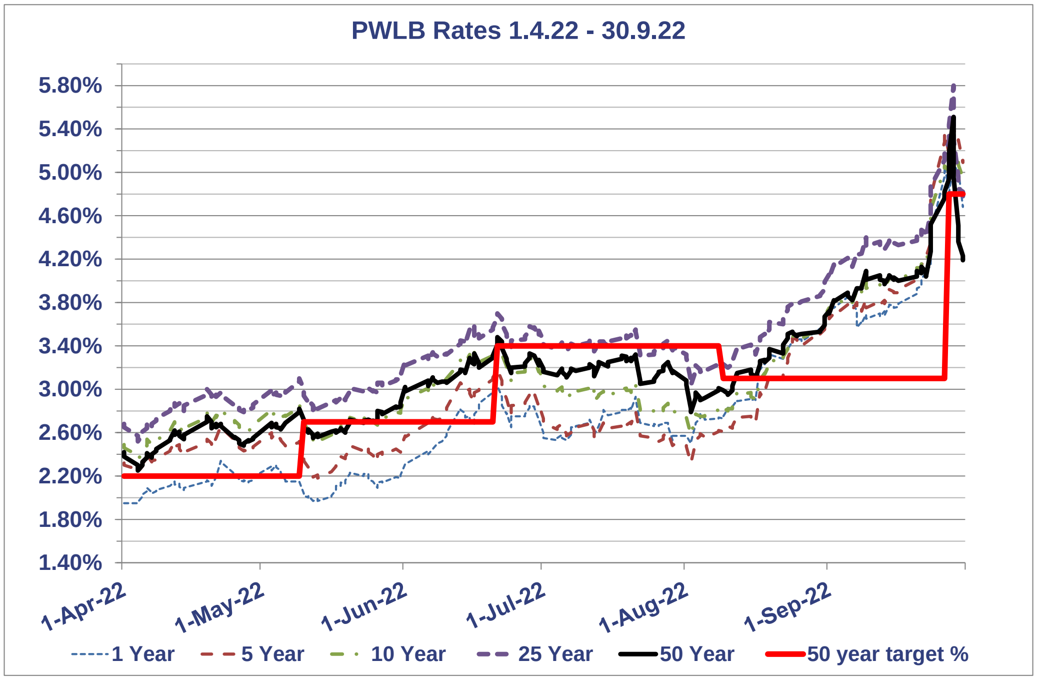
Maturity Structure - Fixed Rate Borrowing	%	Balance
Less than Twelve Months	3.43%	376,158
Between One and Two Years	0.06%	6,162
Between Two and Five Years	61.11%	6,694,373
Between Five and Ten Years	34.79%	3,810,971
Between Ten and Fifteen Years	0.60%	66,074
Greater than Fifteen Years	0%	-
	100.00%	**10,953,738**



6.4 **PWLB maturity certainty rates year to date to 30th September 2022**

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date. Gilt yields and PWLB rates were on a rising trend between 1st April and 30th September.

The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% before increasing to 4.80% in September. However, the Treasury Advisors see PWLB rates trending downwards through 2023 and 2024.



6.5 As set out in the Treasury Management Strategy Statement for 2022/23, it is not currently planned for any external borrowing to be undertaken in the financial year. Nevertheless, the Financial Management Unit will continue to monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances, including the possibility of early repayment and any decisions will be reported to the appropriate decision making body at the next available opportunity.

7. Debt Re-Scheduling

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year. However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

8. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the “Affordable Borrowing Limits”. Council’s approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved TMSS.

During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council’s Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in **Annex 1**.

Annex 1: Prudential and Treasury Indicators

PRUDENTIAL INDICATOR	2021/22	2022/23	2022/23
	Outturn	Original Estimate	Probable
	£'000	£'000	£'000
Capital Expenditure (Note 1)	5,026	6,005	**9,456**
Ratio of financing costs to net revenue stream (Note 2)	8.68%	9.25%	**1.16%**
Capital Financing Requirement (Note 3)	15,791	13,002	**14,340**
External Debt (including finance leases) (Note 4)	11,115	10,676	**11,051**

Note 1 – The forecast capital expenditure figure includes in-year approvals, estimated slippage into 2023/24 (e.g. Washlands, DFGs etc) plus forecast expenditure in relation to the Towns Fund of £6.8m approved in March 2023 after the MTFS was approved.

Note 2 – The ratio of financing costs to net revenue stream is much lower than the original estimate or the prior year due to the actual and forecast increase in investment rates since the budget was set in March 2022.

Note 3 – The CFR is forecast to be higher due to timing of capital receipts to repay debt.

Note 4 – External debt is forecast to be higher than original budget due to timing of receipt in relation to the Pennycroft lane sale and associated loan repayment.

Annex 1: Prudential and Treasury Indicators

	2021/22	2022/23	2022/23
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**Outturn**	**Estimate**	**Probable**
Authorised Limit for external debt			
borrowing	16,500	18,000	18,000
other long term liabilities	3,000	1,500	1,500
TOTAL	**19,500**	**19,500**	**19,500**
Operational Boundary for external debt -			
borrowing	15,500	17,000	17,000
other long term liabilities	2,000	500	500
TOTAL	**17,500**	**17,500**	**17,500**
Upper limit for total principal sums invested for over 1 year	5,000	5,000	**5,000**

Annex 2: Investments as at 30th September 2022

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date
Call Accounts and Money Market Funds				
RBS SIBA	105,447	0.10%		
Barclays	13	0.20%		
MMF Federated	3,550,000	2.09%		Call
Fixed Deposits / Certificates of Deposit				
Lloyds Bank CD	1,500,000	1.50%	01/06/2022	01/11/2022
Lloyds Bank CD	1,000,000	1.99%	03/08/2022	05/12/2022
Lloyds Bank CD	1,000,000	2.18%	16/08/2022	16/12/2022
National Westminster Bank CD	1,000,000	0.65%	24/11/2021	23/11/2022
National Westminster Bank CD	1,000,000	0.82%	14/01/2022	13/01/2023
National Westminster Bank CD	1,000,000	1.71%	17/03/2022	17/03/2023
National Westminster Bank CD	1,000,000	2.85%	18/08/2022	18/08/2023
Santander CD	1,500,000	1.41%	09/05/2022	09/11/2022
Santander CD	1,000,000	2.22%	19/08/2022	18/11/2022
Santander CD	1,000,000	1.63%	01/06/2022	01/12/2022
DZ Bank CD	1,500,000	1.40%	13/04/2022	13/10/2022
DZ Bank CD	1,500,000	2.06%	25/07/2022	25/11/2022
Toronto Dominion Bank CD	1,000,000	1.69%	09/06/2022	09/12/2022
Toronto Dominion Bank CD	1,500,000	1.02%	31/01/2022	31/01/2023
Toronto Dominion Bank CD	1,000,000	1.92%	27/04/2022	27/02/2023
Bank of Montreal CD	1,500,000	2.50%	10/06/2022	09/06/2023
Bank of Montreal CD	1,000,000	2.85%	06/07/2022	05/07/2023
Rabobank CD	1,000,000	3.53%	31/08/2022	31/05/2023
Rabobank CD	1,000,000	2.98%	22/07/2022	21/07/2023
National Australia Bank CD	1,500,000	3.63%	24/08/2022	24/08/2023
Royal Bank of Canada CD	1,500,000	4.40%	23/09/2022	22/09/2023
UK Treasury Bill	1,500,000	0.94%	19/04/2022	17/10/2022
UK Treasury Bill	1,500,000	0.96%	19/04/2022	17/10/2022
UK Treasury Bill	1,500,000	2.30%	30/08/2022	28/11/2022
UK Treasury Bill	1,500,000	2.44%	05/09/2022	05/12/2022
UK Treasury Bill	2,000,000	2.50%	12/09/2022	12/12/2022
UK Treasury Bill	1,000,000	1.79%	04/07/2022	03/01/2023
UK Treasury Bill	1,000,000	1.81%	04/07/2022	03/01/2023
UK Treasury Bill	1,000,000	1.86%	04/07/2022	03/01/2023
UK Treasury Bill	1,500,000	1.90%	11/07/2022	09/01/2023
UK Treasury Bill	2,500,000	2.00%	18/07/2022	16/01/2023
UK Treasury Bill	1,500,000	2.54%	30/08/2022	27/02/2023
UK Treasury Bill	2,000,000	2.81%	12/09/2022	13/03/2023
UK Treasury Bill	2,000,000	2.93%	20/09/2022	20/03/2023
DMO (UK Debt Management)	1,500,000	0.82%	07/04/2022	07/10/2022
DMO (UK Debt Management)	2,000,000	1.75%	15/08/2022	19/10/2022
DMO (UK Debt Management)	5,500,000	1.94%	14/09/2022	19/10/2022
DMO (UK Debt Management)	2,600,000	1.44%	10/06/2022	21/11/2022
DMO (UK Debt Management)	3,300,000	1.53%	15/06/2022	21/11/2022
DMO (UK Debt Management)	3,000,000	1.62%	21/06/2022	21/11/2022
DMO (UK Debt Management)	2,500,000	1.69%	30/06/2022	19/12/2022

Investments rate of interest as at 30 Sep 2	Principal (£)	Interest Rate
Total Investments	**69,555,460**	**1.97%**

Average rate of interest (Year to date)	Principal (£)	Interest Rate
Total Investments	**68,951,530**	**1.15%**

Annex 3: Economic Update

- The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.

- There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

- The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.

- The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

- CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, we would expect to see fuel prices fall further in the coming months.

- However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.

- Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

- During H1 2022, there has been a change of both Prime Minister and Chancellor. The then new team (Liz Truss and Kwasi Kwarteng) made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.

- Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's "fiscal event", it has since recovered to around $1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23rd November but was subsequently been moved forward. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

- The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

- Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at end of September.

- Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

- Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.

- There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.

- After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

Annex 4: Interest Rate Forecasts

Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The forecast on 27th September sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but its job is that much harder now.

PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10