South Downs
National Park Authority

Agenda Item 16

Report PR22-23-34

Report to	**South Downs National Park Policy & Resources Committee**
Date	**23 February 2023**
By	**Chief Finance Officer and Head of Finance and Corporate Services**
Title of Report	**Treasury Management Strategy 2023/24**
Decision	

Recommendation: The Committee is recommended to:

1. **Recommend that the National Park Authority ("NPA") approves the Treasury Management Strategy 2023/24 as set out in Appendix 1 comprising the:**
   - **Treasury Management Policy Statement 2023/24;**
   - **Borrowing Strategy 2023/24;**
   - **Prudential and Treasury Indicators 2023/24 to 2025/26;**
   - **Minimum Revenue Provision Policy Statement; and**
   - **Annual Investment Strategy 2023/24 including the benchmark risk factor of 0.05%.**

1 Summary

1.1 This report sets out the proposed Treasury Management Strategy for 2023/24 including two key policy elements which are the Borrowing Strategy and an Annual Investment Strategy.

1.2 There are no proposed changes to the Borrowing Strategy for which the key points are:

- The Authority is required to have a Borrowing Strategy because it has a theoretical requirement to finance approved capital investments and must report this requirement;
- However, the Authority currently has (and for many years has had) sufficient cash balances to avoid the need for external borrowing. The Borrowing Strategy therefore continues to focus on meeting the financing need from 'internal borrowing' (i.e. cash balances) for as long as possible;
- The longer term objective of the policy is to strike an appropriate balance between determining cost certainty and securing low interest rates to service any external financing need that may arise.

1.3 There are also no proposed changes to the Annual Investment Strategy for 2023/24 for which the key points are:

- Capital security (safe return of investments) is prioritised above yield (investment risk) by limiting investments to institutions with the highest credit ratings;
- Maintaining liquidity (access to funds) is also a primary objective achieved by limiting the maximum period of investment with institutions;

- A weighted average benchmark risk indicator of 0.05% (unchanged from 2022/23) is recommended to ensure a low level of investment risk is maintained.
- The Authority's bank balance will continue to be maintained at £50,000 to limit the risk of exposure to failure of the Authority's contracted bank.

2 Treasury Management and Prudential Code Requirements

2.1 Part 1 of the Local Government Act 2003 requires the Authority to adopt and comply with requirements issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and investment guidance issued by the Secretary of State. This report is presented in order to comply with the requirements of:

- The CIPFA Code of Practice on Treasury Management in the Public Services;
- The CIPFA Prudential Code for Capital Finance in Local Authorities; and
- The Department for Levelling Up, Housing and Communities' (DLUHC) Guidance on Local Government Investments and Minimum Revenue Provision.

2.2 In accordance with Financial Procedures, Policy & Resources Committee will receive an annual strategy on treasury management policies and activities in advance of the financial year for recommendation to the Authority.

2.3 This report proposes the Treasury Management Strategy 2023/24 as set out in Appendix 1 comprising of the:

- Treasury Management Policy Statement 2023/24;
- Treasury Management Practices 2023/24;
- Borrowing Strategy for 2023/24;
- Prudential and Treasury Indicators 2023/24 to 2025/26;
- Minimum Revenue Provision Policy Statement; and
- Annual Investment Strategy 2023/24, including the benchmark risk factor of 0.05%.

3 Policy Context

3.1 The Treasury Management Strategy supports the Authority's overall financial objectives and reflects its risk appetite as a public authority, focusing on security and liquidity over yield. The Treasury Management Strategy will accommodate the Authority's financing and investment requirements in pursuit of Partnership Management Plan objectives and approved capital programme investments.

4 Issues for consideration

<u>Treasury Management Strategy 2023/24</u>

4.1 The Code of Practice on Treasury Management published by CIPFA ("the Code") has been produced to satisfy a number of key purposes for treasury management including:

- to assist in the development and maintenance of firm foundations and clear objectives;
- to emphasise the overriding importance of effective risk management as the foundation;
- to encourage the pursuit of value for money.

4.2 To help facilitate the standardisation and codification of policies and practices. The Treasury Management Policy Statement set out in Section 2 of Appendix 1 complies with the requirements of the Code. All monies will be invested by the Authority's treasury team and investment income will be reported as part of quarterly monitoring.

5 Borrowing Strategy 2023/24

5.1 A key function of treasury management is to ensure that the Authority's capital plans are appropriately funded by managing the longer-term cash flow requirements. The borrowing strategy identifies the anticipated borrowing need to meet capital plans whilst focusing on meeting this borrowing need from internal borrowing where possible i.e. avoiding external borrowing by utilising the Authority's own cash flow balances. This will reduce the net revenue cost of borrowing and reduce counterparty risk within the Authority's investment portfolio by reducing the portfolio size. The balance between internal and external borrowing will need to be continuously reviewed to consider long term interest rate forecasts and the 'cost of carry' (the difference between borrowing costs and investment rates) to reduce the risk of revenue loss between borrowing costs and investment returns.

5.2 The Authority is required to have regard to the Prudential Code and to set up Prudential Indicators to ensure that the Authority's capital investment plans are affordable, prudent and sustainable. The Prudential and Treasury Indicators have been calculated and determined by officers in compliance with the Codes of Practice.

5.3 Where borrowing is undertaken, the Authority is required to pay off an element of its accumulated capital spend each year through a revenue charge known as the Minimum Revenue Provision (MRP). DLUHC regulations require the Authority to approve an MRP Statement in advance of each year, which is included in Section 6 of Appendix 1.

Annual Investment Strategy 2023/24

5.4 The Annual Investment Strategy as set out in Section 7 of Appendix 1 sets out the parameters within which the Authority's cash balances and reserves will be invested. The strategy concentrates on two key areas:

a) capital security through investment in institutions with the highest credit ratings, and;

b) liquidity by limiting the maximum period of investment.

5.5 There are no proposed changes to the Annual Investment Strategy for 2023/24.

5.6 The Annual Investment Strategy complies with the investment guide issued by the Secretary of State.

5.7 The investment strategy details the criteria used for selecting suitable counterparties for investing funds. The strategy recommends a weighted average benchmark risk indicator of 0.05% (unchanged from 2022/23). This risk indicator represents the probability of capital loss within the authority's investment portfolio. A risk factor of 0.00% cannot be achieved and the benchmark is a simple target that measures investment risk based on the financial standing of counterparties and the length of each investment based on historic default rates. The risk factor is a way of setting a parameter and monitoring the on-going security of the authority's portfolio but does not equate to an expected loss in the portfolio.

5.8 The Authority's bank balance continues to be maintained at £50,000. This process simply limits the risk of exposure to the Authority's operational bank but does not reflect an expectation of loss.

Changes to the Prudential Framework

5.9 Following consultation with Local Authorities, CIPFA published the revised Treasury and Prudential codes in December 2021. An overview of the changes is included within Section 8 of **Appendix 1**.

Economic Background

5.10 **Appendix 2** to this report provides an economic overview provided by Brighton & Hove City Council's Treasury Advisors, Link Asset Services.

Treasury Management Function

5.11 The Authority's treasury management and Section 151 function is provided through a service contract with Brighton & Hove City Council. The treasury function complies with all statutory powers and regulatory requirements and is carried out by staff with relevant training and qualifications to undertake the duties and responsibilities allocated to them.

5.12 The authority's day to day cash requirement is currently invested in Brighton & Hove City Council. This is considered the most cost effective way to run the service for the Authority, and has the following added benefits:

a) The Authority is able to have access to daily liquidity to manage day-to-day cash flow requirements;

b) By investing in Brighton & Hove City Council, the Authority benefits from enhanced rates as the average rate earned on the whole of the Brighton & Hove City Council's investment portfolio is payable to the Authority on its balances, including investments held on a longer term basis. The Authority, investing alone, would have barriers in investing in instruments that are readily open to larger authorities such as Brighton & Hove City Council.

5.13 This report is presented by both the Section 151 Chief Finance Officer and the Head of Finance & Corporate Services who is able, if necessary, to seek independent advice from other treasury specialists other than from Brighton & Hove City Council.

6 Options & cost implications

6.1 The Treasury Management Strategy recommended in this report seeks to minimise the cost of external borrowing and optimise return on the Authority's investments, subject to ensuring the security of the Authority's resources.

7 Next steps

7.1 This report makes recommendations for Authority approval of the Treasury Management Strategy 2023/24. The Authority will be asked to approve these documents at its meeting of 30 March 2023.

7.2 Quarterly update reports and an annual report after the close of the financial year, in the form prescribed in the treasury management policies will be submitted to the Policy & Resources Committee.

8 Other implications

Implication	Yes/No
Will further decisions be required by another committee/full authority?	Yes - This report makes recommendations for full Authority approval.
Does the proposal raise any Resource implications?	Yes – Policy & Resources Committee will be advised at least four times a year on the financial implications arising from the Treasury Management activity.
How does the proposal represent Value for Money?	The Treasury Management Strategy recommended in this report seeks to minimise the cost of external borrowing and optimise return on the Authority's investments, subject to ensuring the security of the Authority's resources.
Which Partnership Management Plan Outcomes/Corporate plan objectives does this deliver against	This strategy document enables/provides the framework for the effective and efficient financial management of the Authority.
Links to other projects or partner organisations	Brighton & Hove City Council (contracted Treasury Management service provider).
How does this decision contribute to the Authority's climate change objectives	N/A (no direct contribution but indirectly supports the activities of the Authority which deliver climate change objectives).
Are there any Social Value implications arising from the proposal?	No

Implication	Yes/No
Have you taken regard of the South Downs National Park Authority's equality duty as contained within the Equality Act 2010?	Yes – there are no implications arising directly from the report.
Are there any Human Rights implications arising from the proposal?	No
Are there any Crime & Disorder implications arising from the proposal?	No
Are there any Health & Safety implications arising from the proposal?	No
Are there any Data Protection implications?	No
Are there any Sustainability implications based on the 5 principles set out in the SDNPA Sustainability Strategy? 1. Living within environmental limits 2. Ensuring a strong healthy and just society 3. Achieving a sustainable economy 4. Promoting good governance 5. Using sound science responsibly	The Authority's investments are undertaken in accordance with its ethical investment policy, which is unchanged from last year, as set out in **Appendix 1**. There are no other sustainability implications arising from this report.

9 Risks Associated with the Proposed Decision

9.1 A risk assessment is contained within the treasury management practices set out in **Appendix 1** of this report.

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Appendices	1. Treasury Management Strategy 2023/23
	2. Economic Overview
SDNPA Consultees	Chief Executive; Director of Countryside Policy and Management; Director of Planning; Chief Finance Officer; Monitoring Officer; Legal Services, Business Service Manager
External Consultees	None
Background Documents	This report is presented in accordance with the Authority's Financial Regulations and Financial Procedures

South Downs National Park Authority

Treasury Management Strategy 2023/24

Contents

1 Introduction

1.1 The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Authority's risk appetite, prioritising adequate liquidity before considering investment return.

1.2 The second main function of the Treasury Management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that the Authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn down may be restructured to meet risk or cost objectives.

2 Treasury Management Policy Statement 2023/24

2.1 The following paragraphs set out the Authority's Treasury Management Policy Statement for the year commencing 1 April 2023:

The Authority defines its treasury management activities as:

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

The Authority regards the successful identification, monitoring and management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority.

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

3 Reporting Requirements

Capital Strategy

3.1 The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, to provide the following:

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

3.2 The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

3.3 This Capital Strategy details non-treasury capital investments and is reported together with the annual Budget to the NPA. The Capital Strategy links closely to the Treasury Management Strategy Statement and informs the associated Borrowing Strategy. Separating the Treasury and Capital strategies ensures that the objectives of the core treasury function relating to security, liquidity and yield principles are not blurred with the policy-led Capital Strategy which is usually driven by expenditure on capital assets.

Treasury Management Reporting

3.4 The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators, and treasury strategy** (this report) - The first, and most important report, is forward looking and covers:

   i. the capital investment plans, (including prudential indicators);

   ii. a Minimum Revenue Provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);

   iii. the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and

   iv. an Annual Investment Strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. This requirement is incorporated into the Month 6 Budget Monitoring report.

c. **An annual treasury management repor**t – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. This requirement is incorporated into the Outturn report.

3.5 *The Authority delegates responsibility for implementation and monitoring of Treasury Management to Policy & Resources committee (P&R) and responsibility for the execution and administration of treasury management decisions to the Section 151 Officer.*

3.6 In addition to the above, quarterly reporting will be provided on the Treasury position and Prudential Indicators to be included in the Month 4 and Month 9 Budget Monitoring reports to fulfil the reporting requirements per the update of the 2021 Treasury Code.

4 Borrowing Strategy

4.1 The capital expenditure plans of the Authority are set out in the approved Capital Strategy and shown in Table 1 below. The treasury management function of the Authority ensures that the Authority's cash is managed in accordance with the relevant professional codes so that sufficient cash is available to meet the capital expenditure plans.

4.2 Any capital investment that is not funded from new and/or existing resources (e.g. capital grants, receipts from asset sales, revenue contributions or earmarked reserves) increases the Authority's need to borrow, represented by the Authority's Capital Financing Requirement (CFR). However, external borrowing does not have to take place immediately to finance related capital expenditure: the Authority can utilise cash being held for other purposes (such as earmarked reserves and working capital balances) to temporarily defer the need for external borrowing. This is known as 'internal borrowing' or 'under-borrowing'.

4.3 The Authority's primary objective is to strike an appropriate balance between securing cost certainty and securing low interest rates.

Capital Prudential Indicators

4.4 The Authority's capital expenditure plans are a key driver for Treasury Management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

4.5 Tables 1 and 2 show the capital expenditure plans of the Authority, and the implications of these on the Capital Financing Requirement over the 3 year period to 2025/26. These indicators have been included in the Treasury Management Strategy for a number of years to demonstrate the affordability and sustainability of the Authority's capital activity.

4.6 A further prudential indicator required by the 2021 code for 2023/24 is the Liability Benchmark. This benchmark measures the authority's external debt levels net of the external investments, with the inclusion of a liquidity buffer against the Authority's CFR projection. This measure assumes that the authority will internally borrow almost all its available cash balances held in reserves and balances, with an allowance ensure it is able to meet is cash obligations.

4.7 The liability benchmark has been produced as Graph 1 below with notes included to explain each element of the graph and the Authority's assumptions and forward view.

Borrowing Strategy for 2023/24

4.8 The Authority's capital programme 2023/24 to 2025/26 forecasts a total capital investment of £0.650m, £0.090m of which will be met from existing or new resources. The increase in the borrowing need over this period is therefore £0.560m as shown in **Table 1** below.

2022/23 Estimate £'000	Table 1: Borrowing Need	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	Total
906	Capital Expenditure	590	30	30	**650**
(82)	Financed by New / Existing Resources	(30)	(30)	(30)	**(90)**
824	**Borrowing Need**	**560**	**0**	**0**	**560**

4.9 The strategy will initially focus on meeting the borrowing need from internal borrowing i.e. avoiding external borrowing by utilising the Authority's own surplus cash flows. This will reduce the net revenue cost of borrowing and reduce counterparty risk within the Authority's investment portfolio by reducing the portfolio size. The internal borrowing position needs to be closely monitored and continually reviewed to avoid incurring higher borrowing costs in the future at a time when the authority may not be able to avoid new borrowing to finance capital expenditure.

4.10 There will remain a cost of carry (the difference between borrowing costs and investment returns) to any new long-term borrowing that causes a temporary increase in cash balances which will, most likely, lead to an additional short-term revenue cost.

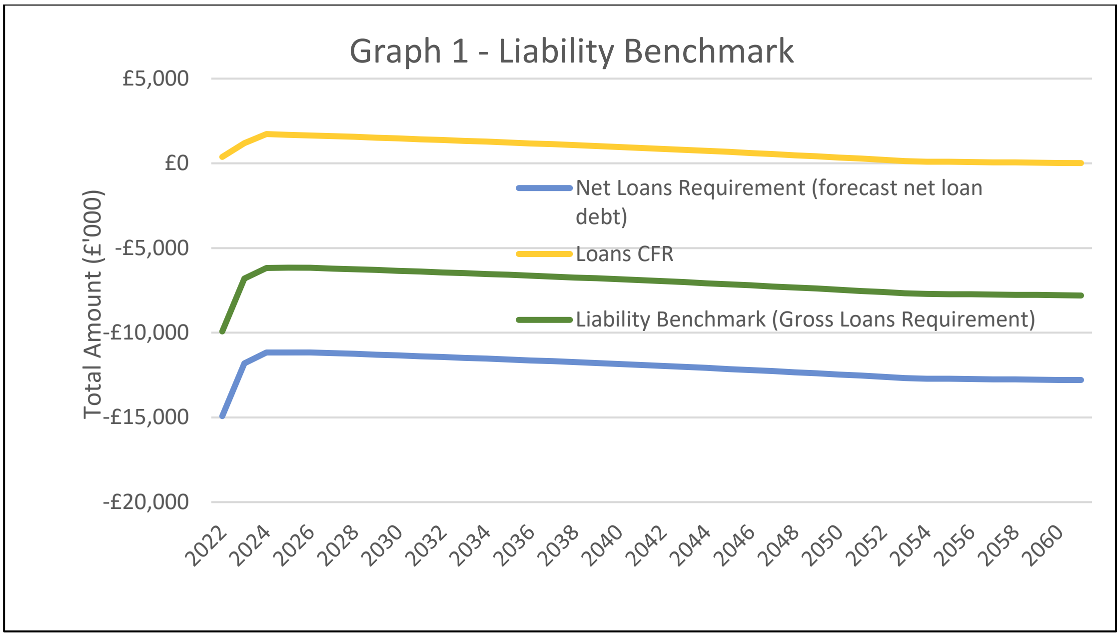
4.11 **Table 2** below shows the movement in the Authority's Capital Financing Requirement (CFR) and compares this to the expected external debt level. This demonstrates that the CFR is expected to be entirely internally borrowed over the period.

2022/23 Estimate £'000	Table 2: Change in the CFR compared to External Debt	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
0	External Debt at 1 April	0	0	0
0	Expected change in Debt	0	0	0
0	**External Debt at 31 March**	**0**	**0**	**0**
377	CFR* at 1 April	1,195	1,728	1,687
824	Borrowing need (Table 1)	560	0	0
(6)	MRP	-27	-41	-42
1,195	**CFR* at 31 March**	**1,728**	**1,687**	**1,645**
1,195	**Under / (Over) borrowing**	**1,728**	**1,687**	**1,645**

**The CFR in Table 2 above shows the underlying need to borrow and excludes lease arrangements (which is included in the CFR figure in the Prudential Indicators in Section 4)*

Liability benchmark

4.12 The Liability Benchmark is a new requirement of the 2021 Treasury Management Code. It's a measure of the Authority's borrowing need were it to fully utilise its cash-backed reserves and balances to avoid external borrowing. It assumes a liquidity buffer is maintained to ensure the Council's obligations are able to be met.



1) **External Debt** – The maturity profile of the Authority's debt portfolio would be shown as bars within this chart, but as the Authority are currently debt free, this is not present in the graph.

2) **Loans CFR** - This is the projection of the Authority's underlying borrowing requirement (or CFR) based on the capital plans, and is shown by the top, yellow line. The 2022/23 opening Loans CFR was £0.377m, and it is expected to peak at £1.728m in 2023/24. This only shows the Loans CFR projection based on the current capital programme therefore if ongoing borrowing is required beyond 2025/26 then the CFR would rise further and for longer.

3) **Net Loans Requirement** – The expected net treasury position is shown by the bottom blue line. This shows a projection of the loans requirements measured by opening external debt for 2022/23 (£0.000m) less the opening external investments for 2022/23 (£14.924m). The projections are then based on the expected borrowing within the capital programme and the expected movement in reserves and balances. This shows that the Council had more external investments than external debt as at 31/03/22, which is expected to continue as the borrowing requirement is low in comparison to the estimated level of long-term reserves.

4) **Liability Benchmark** – The liability benchmark is calculated as the Net Loan Requirement, with a liquidity buffer of £5m incorporated to ensure the Authority has sufficient cash to meet its obligations. This measure shows the level to which the Authority can internally borrow based on the projection of the capital programme and movement of reserves, allowing for a liquidity buffer. Due to the level of reserves expected over the long-term, the liability benchmark remains a negative figure for the whole forecast period.

4.13 This graph demonstrates that the Authority does not need to externally borrow and instead can afford to meet its borrowing requirement by internally borrowing the cash held within its own reserves and balances.

4.14 Whilst the Liability Benchmark is a good indicator of the Authority's direction of travel in terms of borrowing need, it assumes that capital borrowing stops after the current capital planning period, and ignores future borrowing beyond the planning period. Therefore it should not be used in isolation when making long term decisions, but as part of a range of factors.

Policy on Borrowing in Advance of Need

4.15 The Authority will not borrow purely in order to profit from investment of extra sums borrowed. Any decision to borrow in advance will be within approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds. Risks associated with any borrowing-in-advance activity will be subject to prior appraisal and subsequent reporting.

Debt Rescheduling

4.16 Should the Authority carry debt in future, opportunities for debt rescheduling will be considered as a matter of course where there is a clear difference between new borrowing and repayment rates which could result in savings.

4.17 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Interest Rate Risk & Continual Review

4.18 The Authority's maximum underlying borrowing need of £1.728 million as identified in Table 2 is the extent to which the Authority is subject to interest rate risk over the next three years. Officers will review the need to borrow taking into consideration the potential increases in borrowing costs, the need to finance new capital expenditure, the need to refinance maturing debt (if any), availability of internal borrowing, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns. The Chief Finance Officer will therefore continue to monitor interest rates in financial markets and adopt a proactive approach to changing circumstances.

5 Prudential and Treasury Indicators 2023/24 to 2025/26

5.1 The Authority's capital expenditure plans are a key driver to treasury management activities. The output of the capital expenditure plans are reflected in prudential indicators. The Authority is required to 'have regard to' the Prudential Code and to set up Prudential Indicators to ensure that the Authority's capital investment plans are affordable, prudent and sustainable. The Code sets out the indicators that must be used but does not suggest limits, as these are for the authority to set itself.

The Prudential Indicators to 2023/24 to 2025/26 are set out in Table 3 below:

Table 3: Prudential Indicators	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Capital Expenditure Capital expenditure plans	590	30	30
Capital Financing Requirement*	2,533	2,607	2,530

Measures the underlying need to borrow for capital purposes			
Ratio of financing costs to net revenue stream** Identifies the trend in the cost of capital (borrowing and other long-term obligation costs) against revenue stream	0.25%	0.39%	0.40%

* From 2024/25, the CFR includes an estimate for leases that will be bought onto the balance sheet under a change in leasing accounting regulations.

** The ratio of financing costs to net revenue stream illustrates the percentage of the net revenue budget being used to finance the authority's borrowing. Previously this indicator has included investment income from the Authority's investment portfolio which has resulted in a negative ratio. The 2021 Code requirement is to exclude investment income. The indicator now only includes MRP and interest payable compared to the net revenue budget.

5.2 The Treasury Management Code requires that a number of indicators are set for treasury performance in addition to the Prudential Indicators which fall under the Prudential Code. The Treasury Indicators for 2023/24 to 2025/26 are set out in Tables 4 & 5 below. The Treasury Indicators have been calculated and determined by officers in compliance with the Treasury Management Code of Practice.

Table 4: Treasury Performance Indicators	**2023/24** **Estimate £'000**	**2024/25** **Estimate £'000**	**2025/26** **Estimate £'000**
Authorised Limit for External Debt* The Authority is expected to set a maximum authorised limit for external debt. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Authority.	2,600	3,200	3,300
Operational boundary for external debt* The Authority is required to set an operational boundary for external debt. This is the limit that external debt is not normally expected to exceed. This indicator can be breached temporarily for operational reasons.	2,300	2,900	3,000
Principal Sums invested for longer than 365 days	2,000	2,000	2,000

* From 2024/25 The Authorised Limit and Operational Boundary includes an estimate for leases that will be bought onto the balance sheet under a change in leasing accounting regulations.

Table 5: Maturity Structure of fixed interest rate borrowing **The Authority needs to set upper and lower limits with respect of the maturity structure of its borrowing.**		
	Lower Limit	**Upper Limit**
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	50%
5 years to 10 years	0%	75%
Over 10 years	40%	100%

6 Minimum Revenue Provision Policy Statement

6.1 The authority is required to pay off an element of the accumulated capital spend each year (the Capital Financing Requirement - CFR) through a revenue charge (the Minimum Revenue Provision - MRP). Department of Levelling up, Housing & Community (DULHC) regulations require the Authority to approve an MRP Statement in advance of each year if borrowing has been undertaken. A variety of options are available, so long as the principle of any option selected ensures a prudent provision to redeem its debt liability over a period commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

6.2 The Authority is recommended to approve the following MRP Statement for 2023/24:

For all debt where the government has provided revenue support (supported capital expenditure), the MRP policy will be:

- Provision on a straight line basis over 50 years.

For all debt where the government does not provide revenue support:

- Where the debt relates to an asset, the Authority will set aside a sum equivalent to repaying the debt over the life of the asset either in equal instalments or on an annuity basis over a maximum life of 50 years. The method to be adopted will be determined according to which is the most financially beneficial to the Authority over the life of the asset.
- Where the debt relates to expenditure which is subject to a capitalisation direction issued by the government, the Authority will set aside a sum equivalent to repaying the debt over a period consistent with the nature of the expenditure on an annuity basis.
- In the case of assets under construction, MRP will be delayed until the relevant asset becomes operational.

Where the debt relates to capital loans to a third party:

- The repayments of principal will be set aside as capital receipts to finance the initial capital advance in lieu of making an MRP.

For on-balance sheet PFI schemes and leases:

- Asset Life Method - the MRP will be calculated according to the flow of benefits from the asset. Any related MRP will be equivalent to the "capital repayment element" of the annual charge payable.

There is the option to charge more than the prudent provision of MRP each year through a Voluntary Revenue Provision (VRP).

7 Annual Investment Strategy 2023/24

7.1 The DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals with financial investments. Non-treasury investments are covered in the Capital Strategy.

7.2 The council's investment policy has regard to the following:

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

7.3 Investments will be made with reference to the core balance, cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

7.4 Greater returns are usually achievable by investing for longer periods. While most cash balances are required in order to manage the peaks and troughs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

7.5 The annual investment strategy sets out the parameters within which the Authority's cash balances and reserves will be invested. The strategy concentrates on two key areas:

a) capital security through investment in institutions with the highest credit ratings, and;

b) liquidity by limiting the maximum period of investment.

Investment classification (regulatory)

7.6 The investment guidance issued by the Secretary of State requires the Authority to identify investments as either 'specified' or 'non-specified'.

7.7 This authority has defined the list of types of investment instruments that the treasury management team are authorised to use.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year. The limits and permitted instruments for specified investments are listed within Table 6.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. The limits and permitted instruments for non-specified investments are listed within Table 7.

Criteria to be used for creating / managing approved counterparty lists / limits

7.8 Each counterparty included on the Authority's approved lending list must meet the criteria set out below. Without the prior approval of the Section 151 Officer, no investment will be made in a counterparty that falls outside the list below.

7.9 Any change in investment parameters and allowable investment instruments must be presented for approval by the NPA.

Credit ratings will be based on those issued periodically by the Fitch Ratings Group, Moody's and Standard & Poors.

7.10 **Table 6** below summarises the types of specified investment counterparties available to the Authority, and the maximum amount and maturity periods that can be placed with each of these. A full list of the Authority's counterparties and the current limits for 2023/24 are provided at **Table 8.**

7.11 When assessing credit ratings to ascertain limits for each counterparty, the lowest short and long term ratings from each of the three ratings agencies is applied. For simplicity, the ratings for Standard & Poor's are used in the tables below.

Table 6: Criteria for Specified Investments	Country/ Domicile	Minimum Capital Requirements	Min. Credit Criteria (L/term / S/term)	Max. Amount	Max. maturity period
UK Banks & Building Societies	UK	Must meet minimum credit criteria	AA- / A-1+	£10m	12 months
			A / A-1	£5m	12 months
			BBB / A-2	£5m	6 months
Debt Management and Deposit Facilities (DMADF)	UK	N/A	N/A	£5m	12 months
UK Local Authorities (excluding Brighton & Hove City Council)	UK	N/A	UK Sovereign Rating	£5m	12 months
Brighton & Hove City Council*	UK	N/A	N/A	N/A	Liquid
Non-rated Building Societies	UK	Must have an asset base of at least £5bn at the time of investment	N/A	£5m	6 months
Money Market Funds (CNAV and LVNAV)	UK/Ireland/ EU domiciled	Must meet minimum credit criteria	AAA	£5m	Liquid

* The amount invested in Brighton & Hove City Council will be the amount available for investment less investment made in any other approved counterparty.

Table 7: Criteria for Non-Specified Investments	Country/ Domicile	Min. Credit Criteria	Max. Amount	Max. maturity period
Short Date Bond Funds	UK/Ireland/ EU domiciled	Short Dated bond funds are not rated. A selection process will evaluate relative risks & returns. Security of the Authority's money and fund volatility will be key measures of suitability.	£2m	Liquid

Maximum permitted investment by counterparty / sector

7.12 The maximum amount invested in any one counterparty will be established in accordance with the criteria set out **Tables 6 and 7** above, based on each counterparty's credit rating.

7.13 The maximum amount invested in any one sector will be 100%, with the exception of the building society sector where the maximum limit will be 75%.

7.14 Where practicable, no one counterparty may have more than 75% of the relevant sector total at the time the investment is made.

Approved methodology for changing limits and adding / removing counterparties

7.15 A counterparty shall be removed from the Authority's list where a change in their credit rating results in a failure to meet the minimum credit rating set out in "Criteria to be used for creating / managing approved counterparty lists / limits" above.

7.16 A new counterparty may only be added to the list with the written prior approval of the Chief Finance Officer and only where the counterparty meets the minimum criteria set out above.

7.17 A counterparty's exposure limit and investment period will be reviewed and (changed where necessary) in accordance with the criteria set out in **Tables 6 and 7** following notification of a change in that counterparty's credit rating or a view expressed by the credit rating agency warrants a change.

7.18 A counterparty's exposure limit will also be reviewed where information contained in the financial press or other similar publications indicates a possible worsening in credit worthiness of a counterparty. The review may lead to the suspension of a counterparty where it is considered appropriate to do so by the Section 151 Officer.

Full individual listings of UK Bank and Building Society counterparties and counterparty limits

7.19 A full list of UK Bank and Building Society counterparties, together with counterparty limits, is set out in **Table 8.**

Table 8 – Schedule of Counterparties and counterparty limits		
Institution	Lending Limit	Duration limit (months)
UK Banks		
Lloyds Banking Group:		
Bank of Scotland PLC (RFB)	£5m	12
Lloyds Bank PLC (RFB)	£5m	12
Lloyds Bank Corporate Markets PLC (NRFB)	£5m	12
**Total max. exposure to Lloyds Banking Group	£5m	12
Barclays Banking Group:		
Barclays Bank PLC (NRFB)	£5m	12
Barclays Bank UK PLC (RFB)	£5m	12
**Total max. exposure to Barclays Banking Group:	£5m	12
RBS/Natwest Group:		
Natwest Markets PLC (NRFB)	£5m	6
National Westminster Bank PLC (RFB)	£5m	12
The Royal Bank of Scotland PLC	£5m	12
**Total max. exposure to RBS/Natwest Group:	£5m	12
HSBC Group:		
HSBC Bank PLC (NRFB)	£5m	12
HSBC UK Bank PLC (RFB)	£5m	12
**Total max. exposure to HSBC Group:	£5m	12
Goldman Sachs International Bank	£5m	12
Santander UK PLC	£5m	12

Standard Chartered Bank	£5m	12
UK Building Societies		
Nationwide	£5m	12

** Where there are multiple counterparties within a banking group, exposure to the overall group will be the largest limit, but exposure to individual counterparties within the group will be based on the individual counterparty limit.

Permitted types of investment instrument

7.20 All investments will be denominated in Sterling and in fixed term and/or variable term cash deposits, money market funds, short-dated bond funds and open-ended investment companies.

Investment risk

7.21 In addition to credit ratings, the Authority will apply additional operational market information before making any specific investment decision. This additional market information will be applied to compare the relative security of different investment counterparties.

7.22 The Authority is recommended to agree a benchmark risk factor for 2023/24 of 0.05%. The purpose of the benchmark is to monitor current and trend positions and amend the operational strategy depending on any changes.

7.23 Liquidity is achieved by limiting the maximum period for investment and by investing to dates where cash flow demands are known or forecast.

Ethical investment statement

7.24 South Downs National Park Authority, in making investments through its treasury management function, fully supports the ethos of socially responsible investments. The Authority will actively seek to communicate this support to those institutions invested in as well as those it is considering investing in by:

- encouraging those institutions to adopt and publicise policies on socially responsible investments;
- requesting those institutions to apply the Authority's deposits in a socially responsible manner.

8 Other Treasury Matters

Banking Services

8.1 Lloyds Bank plc currently provides banking services for the Authority.

Training

8.2 The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

8.3 The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

8.4 As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis."

8.5 In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

8.6 Training was last provided for members before the pandemic, and therefore updated training will be required during 2023/24.

8.7 The training needs of treasury management officers are periodically reviewed.

8.8 A formal record of the training received by officers central to the Treasury function and members who are responsible for decision making and scrutiny of the Treasury function will be maintained by the Principal Accountant (Treasury & Taxation).

8.9 Policy on the use of External Service Providers:

Brighton & Hove City Council uses Link Asset Services as its external treasury management advisors on behalf of the Authority.

The Authority recognises that responsibility for treasury management decisions remains with the council (as Treasury Management provider) at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Treasury Management service will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

Lending to Third Parties

8.10 The Authority has the power to lend monies to third parties subject to a number of criteria. These are not treasury type investments, rather they are policy investments. Any activity will only take place after relevant due diligence has been undertaken, as described in the Capital Strategy.

Update to Treasury and Prudential CIFPA Codes 2023/24

8.11 CIPFA published the revised Treasury and Prudential codes in 2021. Full adoption of the new Codes is incorporated within this strategy. The main changes to the codes are as follows:

- Adoption of a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement. This is included in Section 4 of this Appendix.
- Amendment to the knowledge and skills register for officers and members involved in the Treasury management function. This will be maintained as part of the Treasury Management Team's records.

- Quarterly reporting to members of performance against forward looking indicators. As outlined in section 3 of this Appendix, this will be built into the Budget Monitoring process.
- ESG issues to be addressed within the Authority's treasury management policies and practices (TMP1). This isn't a change in the Authority's investment strategy, but how ESG is incorporated into the monitoring of counterparties' credit standing. The Council's Treasury Management Practices (TMPs) are in the process of being updated for the new financial year to include this requirement. These will be reviewed and implemented by the Chief Finance Officer.
- An update to ensure that authorities are more transparent in their service and commercial investments. This includes a requirement that the Authority acknowledges that it will not borrow to invest in the primary purpose for commercial return. These changes are reflected in the Capital Strategy.

Updates to Accounting Requirements

IFRS 9 – local authority override – English local authorities

8.12 The DLUHC enacted a statutory over-ride from 1 April 2018 for a five year period until 31 March 2023 following the introduction of IFRS 9 and the requirement for any capital gains or losses on marketable funds to be chargeable in year. This has recently been extended for a further two years. This has the effect of allowing any capital losses on funds to be held on the balance sheet until 31 March 2025, allowing authorities to initiate an orderly withdrawal of funds if required.

8.13 The Authority doesn't currently invest in any funds that will be impacted by this change.

IFRS 16 – Leasing

8.14 The CIPFA LAASAC Local Authority Accounting Code Board has deferred implementation of IFRS16 until 1.4.24, the 2024/25 financial year. Once implemented, this has the following impact to the Treasury Management Strategy:

- The Authority's Capital Financing Requirement, authorised limit and operational boundary expectations for 2024/25 onwards has been increased to reflect the estimated effect of this change.
- The MRP policy statement sets out how MRP will be applied for leases bought onto the balance sheet.

ECONOMIC OVERVIEW & INTEREST RATE VIEW

Provided by Link Asset Services – 20 December 2022

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200 basis points (bps) since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	3.0%	1.5%	3.75%-4.00%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	11.1%y/y (Oct)	10.0%y/y (Nov)	7.7%y/y (Oct)
Unemployment Rate	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

(q/q = quarter on quarter, y/y = year on year)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c£500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity quickly, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

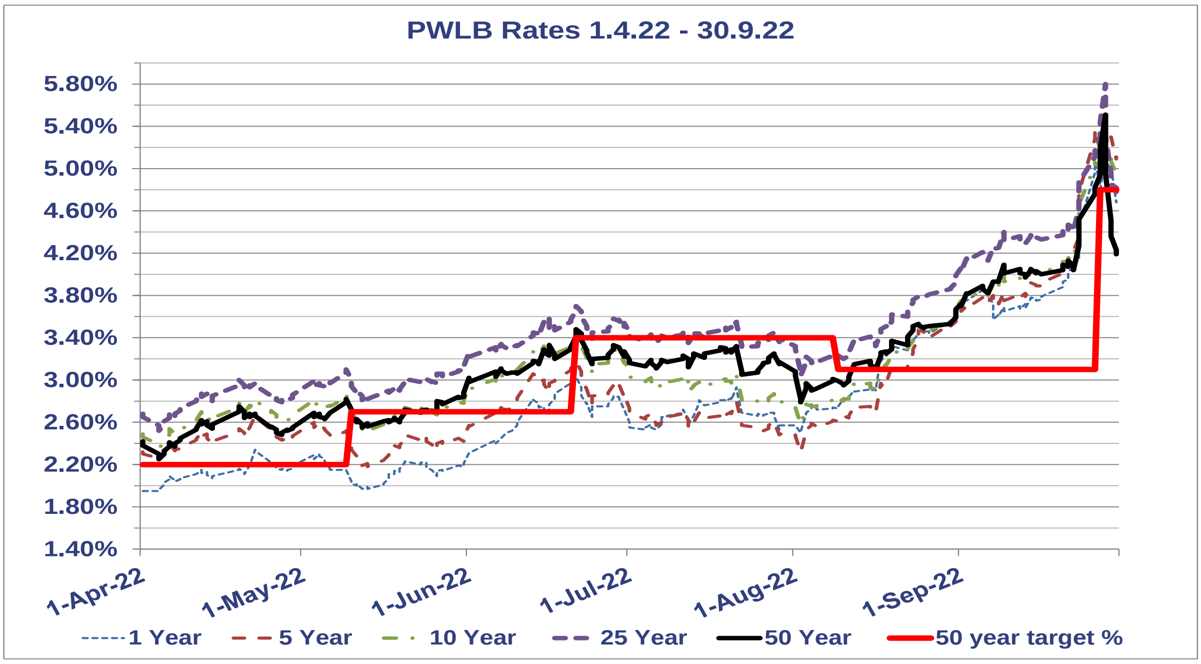
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and December. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The pound has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	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%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

Prospect for Interest Rates

Brighton & Hove City Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 19 December 22. These are forecasts for certainty rates, gilt yields plus 80 bps

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Our central forecast reflects a view that the MPC will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures have lessened – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation will peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. Wage increases, excluding bonuses, are currently running at 5.7%.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present. This approach will prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that could cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

Yield curve movements have become less volatile under the Sunak/Hunt government. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.50%. The medium to longer part of the yield curve is currently inverted (yields are lower at the longer end of the yield curve compared to the short to medium end).

We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside. Indeed, the Bank of England projected two years of negative growth in their November Quarterly Monetary Policy Report.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- The Bank of England acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.
- The Government acts too slowly to increase taxes and/or cut expenditure to balance the public finances, in the light of the cost-of-living squeeze.
- The pound weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term US treasury yields rise strongly, if inflation numbers disappoint on the upside, and pull gilt yields up higher than currently forecast.

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are now above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are as follows: -

Average earnings in each year	
2022/23 (remainder)	3.95%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.