Treasury Strategy Report 2024/25
Royal Borough of Windsor and Maidenhead

Summary

RBWM is in a difficult position. Large amounts of unfunded capital spend over the last decade have left the Authority with close to £200m of debt that is being serviced but not repaid. The interest and MRP (minimum revenue provision, discussed in more detail in the Capital Strategy paper at Appendix H) cost in the 2024/25 budget is £13.5m, over 11% of our net budget, and the unexpected increase in interest rates over the last couple of years was a significant contributor to the gap we had to close in order to balance next year's budget.

With finances as constrained as they are, RBWM is not generating surplus cash to repay loans so any reduction in the level of debt and the associated borrowing costs must come from disposal of assets, a careful review of which is underway. When these capital receipts are received and the debt position improves, we should see a reduction in the cost of debt servicing which could then in turn, be used to incrementally pay down the balance further.

In the meantime, unfunded capital spend (funded by borrowing and not by external grants) has been reduced to a minimum to avoid incurring more debt, and the monies currently owed must be managed with the utmost care to ensure that every opportunity is taken to reduce the interest payable when current loans reach maturity and need to be refinanced.

Additional staff have been recruited to increase both the capacity and the skill sets around this vital element of the Authority's finances and the treasury risks and plans to mitigate them are discussed in this document.

RBWM Family Hub – direct work with young people

Introduction

Treasury Management is the management of the Authority's cash flows, borrowing and treasury investments, and the associated risks. Where the Authority has invested sums of money, it is exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. Changing interest rates also have a material impact on its cost of borrowing. The successful identification, monitoring and control of financial risks are therefore central to the Authority's prudent financial management.

Treasury risk at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services: Code of Practice 2017 Edition' (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Capital investments are considered in the Council's Capital Strategy Paper at Annex H but the approach to borrowing outlined here and the availability of cash will underpin that paper.

Treasury management is important to both the short and long term plans of the Council. On a day to day basis it ensures that there is sufficient immediately available cash to settle all payments the Council needs to make, that surplus cash is earning money where possible and that everywhere that cash is held has been assessed for current risk.

The revenue budget is set out at the start of the year and monitored monthly to ensure that we stay within plan but the management of cash is a daily function that facilitates every transaction that the Council undertakes. We regularly receive cash on behalf of third parties such as council tax, business rates, grant funding, S106 monies and CIL contributions and the Treasury function must deal appropriately with those monies and forecast when they will need to be "spent" in order to determine the best way to do that.

Treasury Investments, 2023/24 return, 1st Apr 2023 – 31st December 2023

	Average Daily Investment £m	% return
Lloyds Investment Account	**0.11**	**5.02%**
Money Market Funds	**18.459**	**4.96%**
Debt Management Office	**18.781**	**3.67%**
Other Local Authorities	**1.626**	**4.21%**

The Council took advantage of lower interest rates between November 2022 and February 2023 to convert some of its borrowing requirement into external debt, which it then invested in the short term but these monies have now been used, as was always expected, and the Authority is now in a position where it needs to continue to borrow externally to fund cashflow.

External Borrowing requirement (total)

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
External Borrowing	**232.34**	**212.13**	**210.63**	**230.88**	**216.41**	**214.00**	**212.12**

Where the Authority has access to liquidity (typically cash) that could be used to fund capital projects in the short term but is destined in the longer term to fund an alternative project (such as S106 monies, grant monies, CIL or even simply working capital) and the money that could be earned on this is less than the cost of borrowing, it is both prudent and recommended for that Authority to use that available cash before resorting to external debt. Since this is a form of borrowing, albeit from other funds within our control, this is termed "internal borrowing". This use of internal funding is monitored and the overall funding requirement (called the Capital Financing Requirement or "CFR") is the total of both our internal and external borrowing.

The forecast borrowing requirement tracks the transition from internal borrowing to external borrowing showing our CFR and how increasing capital funding requirements will affect the amount of borrowing required.

A celebration of the Communities Innovation Fund held in Maidenhead Library

In the table below, the underlying need to borrow for capital purposes is measured by the CFR, while usable reserves and working capital are the underlying resources available for investment. The Authority's strategy has been to use available cash for internal borrowing as discussed above, which defers the need to borrow externally. While external borrowing is more expensive than what could be earned on the investment of available cash, this is a prudent strategy.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The table below shows the use of borrowing expected should the current estimations of capital projects be realised.

Forecast Borrowing Requirement £m

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
CFR	**234.42**	**236.07**	**233.79**	**252.63**	**248.04**	**251.35**	**250.66**
External Borrowing	**232.34**	**212.13**	**210.63**	**230.88**	**216.41**	**214.00**	**212.12**

The authorised limit for external debt uses the calculated CFR to set limits for agreement on the amount of external debt that it would be prudent for the authority to stay within. Above the CFR there is an operational boundary which should provide an early warning system that we are close to our limits, followed by the Council approved authorised limit which should never be exceeded.

The Council is asked to approve the following authorised limit:

Authorised limit and operational boundary for external debt £m

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
CFR	**234.42**	**236.07**	**233.79**	**252.63**	**248.04**	**251.35**	**250.66**
Operational Boundary	**277.00**	**246.07**	**243.79**	**262.63**	**258.04**	**261.35**	**260.66**
Authorised Limit	**303.00**	**256.07**	**253.79**	**272.63**	**268.04**	**271.35**	**270.66**

The limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be entered into in the short term but should not be sustained in the longer term. Interest projections in the MTFS are based on the estimated borrowing requirement, which is within the CFR, not the operational boundary or the authorised limit.

The authorised limit is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Liability Benchmark £m

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
CFR	234.4	236.1	233.8	252.6	248.0	251.3	250.6
External borrowing	232.3	212.1	210.6	230.9	216.4	214.0	212.1
plus liquidity allowance	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Gross loans requirement	**242.3**	**222.1**	**220.6**	**240.9**	**226.4**	**224.0**	**222.1**
Investments at year end	(59.2)	(19.8)	(20.3)	(20.3)	(20.3)	(20.3)	(20.3)
Net loans requirement	**183.1**	**202.4**	**200.3**	**220.6**	**206.1**	**203.7**	**201.8**
Existing loan debt	232.3	153.1	95.6	81.0	77.5	74.0	70.5
Liability benchmark (new loans)	**(49.2)**	**49.2**	**104.7**	**139.6**	**128.6**	**129.7**	**131.4**

The final prudential indicator in this set is the liability benchmark. It tracks the projected situation, as CFR changes, of the amount of borrowing required to maintain liquidity, allowing for projected working capital.

This indicator is designed to be updated regularly and is less accurate the further into the future it extends.

Braywick Park

Borrowing Strategy

A significant portion of the Authority's debt, circa £115m, is being refinanced in 24/25. RBWM has up till now borrowed much of its debt from short term sources of Finance such as other Local Authorities. There is typically a healthy availability of short term borrowing from other authorities and since the term of these loans can be as little as a month, this is a good source of funding when the intention is merely to bridge a gap till cash rises again or to borrow short term pending an expected decrease in interest rates.

The downside of short term borrowing is that it does not provide any long term certainty over debt servicing costs and, while interest rates may reduce, they may also unexpectedly rise, as has been seen over the last couple of years.

Longer term loans can be, and have been, sought from a variety of sources, including the Public Works Lending Board (PWLB). PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield but RBWM has no plans to invest in any assets that would not be compliant with their requirements.

Sources of Borrowing

The approved sources of long-term and short-term borrowing are:

• HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)

• any institution approved for investments (see below)

• any other bank or building society authorised to operate in the UK

• any other UK public sector body

• UK public and private sector pension funds

• capital market bond investors

• UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

• leasing

• hire purchase

• Private Finance Initiative

• sale and leaseback

The UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

Cashflow forecasting is being strengthened to give greater visibility to not only the requirement for borrowing but also our ability to meet repayments. Our current borrowing means that debt is being serviced and subsequently refinanced but not reduced.

Over the coming year, we will aim to spread the term of the replacement debt between long and short term loans, taking advantage of any dips in interest rates to secure funding at lower than expectation, balanced with some short term borrowing allowing us to refinance at a reduced rate if the trend in lowering interest rates continues. This allows us to take advantage of the market's current expectations without leaving us entirely exposed to the risk of rates rising again unexpectedly.

Cllr Catherine del Campo (2nd left) and Cllr Amy Tisi (far right) support a domestic abuse charity fundraiser

With better cashflow forecasting, we also aim to replace some of our current debt portfolio with loans that repay principal on a regular basis, meaning that at the end of their term that particular tranche of borrowing is repaid and does not need to be refinanced. The authority does not currently have sufficient surplus cash to repay its loans.

There is an expectation of capital receipts generated by the disposal of assets and these form part of the Authority's strategy to repay some of its current debt. These are expected to be generated from the sale of the Nicholson's Quarter, Maidenhead Golf Course and other assets the authority may choose to dispose of (subject to Cabinet approval). These capital receipts are a crucial element in reducing the amount of debt owed by RBWM and while they will not come close to repaying our borrowing, they will meaningfully reduce it and therefore the amount of interest that the Authority has to pay from its revenue budget each year.

Since we are not generating a surplus in our budget that would be able to be used to pay down our current debt, the only projected means we have of doing this and reducing the long term burden and risk of interest payments is the disposal of assets. Since much of the previous capital spend has been on projects like car parks, highways and leisure centres, which either need to be retained by the Council for use or cannot be sold, there is relatively little that can be disposed of. This makes the sales of the Nicholson's Quarter and Maidenhead Gold Course, both of which are currently in progress, crucial to the long term financial stability of the Council and as much money as possible needs to be generated from these sales to pay down debt.

Other assets are being reviewed to establish whether they could or should be sold in order to reduce borrowing but the intention is not to sell assets that currently generate significant income for our budget, not only because these deliver essential support for other services

but also since the PWLB would not allow us to purchase any replacement assets that were purely for yield making it difficult to invest in new sources of income.

Short term and variable rate loans

As discussed above, these leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

If we were to borrow the £115m we expect to in 2024/25 in addition to our current loans at variable rates, the impact of a 1% rise or fall in variable interest rates would be as follows:

Estimated Interest rate exposure

Impact of a 1% change in interest rate on borrowing costs **£1.028m**

	2024/25	2025/26	2026/27
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable rate interest exposure	80%	80%	80%

RBWM registrars

As part of our developing debt management strategy, we plan to reduce the risk of interest rate volatility by mixing longer term fixed rate debt with short term debt. In an economic environment where interest rates are expected to fall, there is a risk that we could lock in debt at a higher rate than we would be able to subsequently if we borrowed short term and refinanced.

This is offset though by the risk outlined above that interest rates could rise unexpectedly and at the scale of our debt, that's a significant risk. Part of the budget gap we have had to address in our 2024/25 budget is the sharp increase in the amount of interest payable on our debt. RBWM has significantly reduced its non funded capital spend to avoid, as much as possible, incurring more debt, but you can see from the Liability Benchmark that our existing borrowing is of varying length and as it comes due for renewal, it has to be replaced with more expensive loans because interest rates now are much higher than when the debt was originally agreed.

While the approach has been agreed in principle, the work to develop the detail of the strategy has not been able to be undertaken in the last few months due to a lack of capacity in the Finance team. We have identified and engaged more resource in the last few weeks to support the work on cash forecasting and debt management and in preparation for year end. With incoming skill sets, we are building both capacity and capability to ensure we can manage and mitigate these high risk areas. At a lower level of resource we can manage day to day the transactional side of these areas, but the work to more accurately forecast our cash movements and provide robust decision making information is more complicated and time consuming. The cost of resourcing this is relatively small compared to the scale and potential impact of the interest rate risk so steps have been taken to expand this resource.

RBWM customer service team

This strategic approach relates to the table below where we are required to set upper and lower limits for the maturity structure of any borrowing. The reality is that the period of the loan will be determined by the optimum affordability based on cashflows. If the borrowing relates directly to a project, it ideally should not exceed the life of the underlying asset it is funding. For example, in the case of the additional borrowing for the flexible use of capital receipts in Appendix G, the authority is recommended to use the additional beneficial

cashflows generated by the transformation programme to repay the debt promptly so it doesn't become a long term burden far beyond the realisation of the programme benefits.

We must also factor capital receipts into our forecasts as borrowing agreements often carry penalties for early redemption so we need to ensure that when planning debt management, we will not find ourselves in a position where we have a sizeable capital receipt but are unable to use it to reduce our overall borrowing in a timely manner.

Maturity structure of borrowing

Refinancing rate risk indicator	Upper limit	Lower limit	31st Mar 24 (estimate)
Under 12 months	80%	0%	58%
12 months and within 24 months	80%	0%	3%
24 months and within 5 years	100%	0%	5%
5 years and within 10 years	100%	0%	21%
10 years and above	100%	0%	13%

Treasury Investment Strategy

The Council may find itself in a position where it has surplus funds to invest. This is unlikely to be a regular occurrence given the underlying need to borrow in the CFR but it can come about due to timing issues and is made up of income received in advance of expenditure plus balances and reserves held.

Both the CIPFA Code and the CLG Guidance require the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. While this is a logical objective, it is obviously more difficult in times of unprecedentedly high inflation.

While in the past, lending to other Local Authorities was considered very secure, many Councils are experiencing financial difficulties, and this not only impacts our risk appetite to lend to other local authorities but may well impact their willingness to lend to us.

All transactions should be considered with a suitable level of due diligence. We take advice from our Treasury advisors Arlingclose, but the information available to them when they review the credit worthiness of other local authorities is retrospective and not based on future expectations.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit £m	Sector limit £m
The UK Government	3 years	Unlimited	n/a
Local authorities & other govt entities	1 year	3	20
Secured investments *	3 years	5	Unlimited
Lloyds Bank - (the Authority's bankers)	13 months	7.5	7.5
Other Banks (unsecured) *	13 months	5	20
Building societies (unsecured) *	13 months	5	20
Money market funds *	n/a	5	Unlimited
Achieving for Children	n/a	11.7	11.7
Aegon	n/a	1	1
Legal and General Trust	n/a	1.5	1.5
RBWM Property Company	n/a	1.5	1.5

* Minimum credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-

Policy Investments

RBWM provides cash-flow cover for Achieving for Children, our partner in the delivery of Childrens care services and has agreed to lend up to £11.7m to them, of which the balance at 31st of December 2023 was £8.9m.

Catherine, Princess of Wales visits RBWM’s family hub

Investment Limits

With the undeniably low level of reserves that the council has, it must be especially careful when investing funds to minimise the risk of a reduction in capital value or even a complete loss of the investment, as such an event would be catastrophic to an organisation with insufficient reserves to absorb it. This means that, there should be minimal amounts invested with any one organisation, outside of the UK Government and registered providers. A group of banks under the same ownership should be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investors in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

In reality, the authority is in a borrowing position and unlikely to be investing significant amounts in the foreseeable future but because of our lack of financial resilience, risk in any investments made must be given appropriate due diligence and considered against what we can afford to lose. For example, the limit of funding available, and therefore carrying some element of risk, to our external Children's Services provider is roughly twice the size of our general reserves. This doesn't mean that we shouldn't lend sensibly. We would of course expect our relationship with them and our access to their financial data to reduce and mitigate the risk as much as possible, but we should always approach the monitoring of any and all of our lending with the appropriate care and ensure we have adequate resource to carry it out.

While the impact of a 1% rise in interest rates on our debt is significant, by comparison, the same 1% change would only increase our income from investments by £184k.

An exhibition last summer in Maidenhead Library showcasing the achievements of people with learning disabilities in the Royal Borough.

The following indicator is about liquidity. It limits the amount of cash that can be tied up for longer than a year to avoid a situation where we have need of funds but would have to pay

penalties to have them returned. Since RBWM is turning internal borrowing to external borrowing based on cashflow, we do not as a matter of course tie up cash with long term inaccessibility. If an amount of cash was to stay in an investment for longer than a year, but could be withdrawn without penalty at relatively short notice, this would not be considered a long term investment for the purpose of this indicator.

Price Risk Indicator

	2024/25 £m	2025/26 £m	2026/27 £m
Limit on principal invested for greater than 1 year	15	15	15

Other items

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Policy on the use of financial derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit. In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

External Funds: The Authority currently holds funds on behalf of the Local Enterprise Partnership – although this arrangement may be coming to an end as its tenure as the accountable body transfers in 2024/25 - and a number of small trusts. It pays these organisations interest at the Bank of England base rate on the balance of their funds that it holds.

Markets in Financial Instruments Directive (MiFID): is a legislative framework that regulates the financial markets and improves protections for investors. The Authority has opted up to professional client status with some of its providers of financial services, including its Money Market Funds and brokers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small

companies. Given the size and range of the Authority's treasury management activities with these organisations the Chief Financial Officer believes this to be the most appropriate status. There is a requirement to hold a minimum level of investments in order to retain this and the opinion of our treasury advisers is being sought on that matter.

Treasury Advisors: The Authority is advised in all treasury matters by Arlingclose, our retained treasury advisers, and meets regularly with them.

Arlingclose Economic & Interest Rate Forecast – 19 December 2023

UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.

The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.

Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed: the more timely PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.

Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.

Inflation will fall over the next 12 months. The path to the target will not be smooth with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further "second-round" effects has diminished.

Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.

Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium-term level for Bank Rate.

There is a heightened risk of fiscal policy and / or geo-political events causing substantial volatility in yields.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

The MPC held bank rate at 5.25% in December. We believe this is the peak for Bank Rate

The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.

Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.