Appendix 3

Treasury Management Mid-Year Monitoring Report 2022/23

Purpose of the Report

1. Hampshire and Isle of Wight Fire and Rescue Authority has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2021. The CIPFA Code requires the Fire and Rescue Authority to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report. The purpose of this report is therefore to meet this obligation by providing an update on the performance of the treasury management function at the mid-year point.

Summary

2. This report fulfils the Fire and Rescue Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function at the mid-year point.

3. The Fire and Rescue Authority's treasury management strategy was most recently updated and approved at a meeting of Hampshire & Isle of Wight Fire & Rescue Authority in February 2022. The Fire and Rescue Authority has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Fire and Rescue Authority's treasury management strategy.

4. Treasury management in the context of this report is defined as: "the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

5. This mid-year report sets out the performance of the treasury management function from the beginning of April to the end of September 2022, to include the effects of the decisions taken and the transactions executed.

6. Overall responsibility for treasury management remains with the Fire and Rescue Authority. No treasury management activity is without risk and the effective identification and management of risk are therefore integral to the Fire and Rescue Authority's treasury management objectives.

7. All treasury activity has complied with the Fire and Rescue Authority's Treasury Management Strategy and Investment Strategy for 2022/23, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the Fire and Rescue Authority's treasury advisers, Arlingclose.

8. The Prudential Code includes the requirement to produce a Capital Strategy, a summary document approved covering capital expenditure and financing, treasury management and non-treasury investments. The latest iteration of the Fire and Rescue Authority's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by the Hampshire & Isle of Wight Fire & Rescue Authority in February 2022.

External Context

9. The following sections outline the key economic themes in the UK against which investment and borrowing decisions have been made to date in 2022/23. The macroeconomic picture is volatile at present and this is considered on a daily basis in managing the Authority's treasury management activity. For the purposes of this report, the text below reflects external factors that affected decision making in the period to the end of September and that were current at the time of writing in early October.

Economic commentary

10. The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak.

11. The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

12. UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in with its original policy to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

13. The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted

by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. the September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

14. Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

Financial markets

15. Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.

16. Due to pressure on private sector pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

Credit review

17. Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.

18. Credit default swaps are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Local Context

19. At 31 March 2022 the Fire and Rescue Authority's underlying need to borrow for capital purposes was £11.0m as measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment and amounted to £36.5m. These factors are summarised in Table 1.

Table 1: Balance sheet summary	**31/03/22 Balance £m**
CFR	11.0
Less: External borrowing	
- Public Works Loan Board	(6.7)
Internal Borrowing	**4.3**
Less: Usable Reserves	(41.4)
Less: Working Capital	4.9
Net Investments	**(32.2)**

20. The Fire and Rescue Authority's strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. This is discussed further in the budget update report with respect to borrowing decisions related to the Station Investment Programme. The treasury management position at 30 September 2022 and the movement since 31 March 2022 are shown in Table 2.

Table 2: Treasury management summary	**31/03/22 Balance £m**	**Movement £m**	**30/09/22 Balance £m**	**30/09/22 Rate %**
Long-term borrowing	(5.90)	0.35	(5.55)	4.59
Short-term borrowing	(0.75)	(0.35)	(1.10)	5.19
Total borrowing	**(6.65)**	**0.00**	**(6.65)**	**4.69**
Long-term investments	8.00	(1.00)	7.00	4.68
Short-term investments	13.00	4.01	17.02	1.65
Cash and cash equivalents	11.09	3.55	14.63	2.02
Total investments	**32.09**	**6.56**	**38.65**	**2.34**
Net investments	**25.44**	**6.56**	**32.00**	

Note: the figures in Table 2 at 31 March 2022 are from the balance sheet in the Fire and Rescue Authority's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

21. The increase in net investments of £6.56m shown in Table 2 reflects an increase in investment balances and no change in total borrowing, in line with the Fire and Rescue Authority's policy on internal borrowing. The movement in short term borrowing is not additional borrowing but instead existing loans

of £0.35m moving from being categorised as long-term to short-term as they approach maturity. Further details are provided in the Borrowing Activity and Treasury Investments Activity sections of this report.

Borrowing Update

22. Local authorities can borrow from the Public Works Loan Board (PWLB) provided they have not purchased an investment asset primarily for yield since 26 November 2020 and can confirm they are not planning to do so in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 / Section 95 Officer (for the Authority, this is the Chief Financial Officer). Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing.

23. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

24. Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.

25. The Fire and Rescue Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able to fully access the PWLB if required.

Borrowing Activity

26. At 30 September 2022 the Fire and Rescue Authority held £6.65m of loans (which represents no change since from 31 March 2021) as part of its strategy for funding previous years' capital programmes. The mid-year treasury management borrowing position and movement since 31 March 2022 are shown in Table 3.

Table 3: Borrowing position	**31/03/22 Balance £m**	**Net movement £m**	**30/09/22 Balance £m**	**30/09/22 Weighted average rate %**	**30/09/22 Weighted average maturity (years)**
Public Works Loan Board	(6.65)	-	(6.65)	4.69	9.4
Total borrowing	**(6.65)**	**-**	**(6.65)**	**4.69**	**9.4**

Note: the figures in Table 3 at 31 March 2022 are from the balance sheet in the Fire and Rescue Authority's statement of accounts but adjusted to exclude accrued interest.

27. The Fire and Rescue Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Fire and Rescue Authority's long-term plans change is a secondary objective.

28. The Fire and Rescue Authority considers it to be more cost effective in the near term to use internal resources than to use additional borrowing. In line with this strategy, no new borrowing has been taken out during the period.

29. This borrowing strategy has been monitored with the assistance of Arlingclose and has enabled the Fire and Rescue Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk given the level of reserves held by the Authority prior to planned expenditure taking place. The Chief Financial Officer has continued to call upon and made use of advice from Arlingclose during 2022/23 in maintaining this borrowing strategy during the ongoing economic uncertainty and volatility, deferring any new external borrowing until the timing of expenditure on the Station Investment Programme and amounts required becomes more certain. This avoids the costs and risks associated with borrowing too much and/or too soon, of particular relevance given the changing scope of the programme discussed in the Estates Capital Programme report that is also on the agenda for this meeting. The disadvantage is the exposure to risks associated with increasing interest rates.

Treasury Investment Activity

30. The Fire and Rescue Authority holds invested funds representing income received in advance of expenditure plus balances and reserves held. During the six-month period from 1 April to 30 September 2022, the Fire and Rescue Authority's investment balances have ranged between £25.7m and £45.0m due to timing differences between income and expenditure.

31. Table 4 shows investment activity for the Fire and Rescue Authority as at 30 September 2022 in comparison to the reported activity as at 31 March 2022. The increase in total investments since 31 March 2022 reflects the fact that the balance at 31 March is typically the lowest of the year due to the annual pension grant being received in July each year, which is then paid out to pensioners on a monthly basis.

Table 4: Treasury investment position	31/03/22 Balance £m	Net movement £m	30/09/22 Balance £m	30/09/22 Income return %	30/09/22 Weighted average maturity (years)
Short term investments					
Banks and building societies:					
- Unsecured	5.83	(0.99)	4.84	1.65	0.2
- Secured	4.00	(2.00)	2.00	0.44	0.4
Government:					
- DMADF	1.50	3.00	4.50	2.48	0.3
- Local authorities	1.00	(1.00)	0.00	0.00	0.0
- UK Gilts	1.00	0.50	1.50	0.13	0.3
- Treasury Bills	1.00	4.00	5.00	1.81	0.2
Money market funds	9.76	4.05	13.81	2.05	0.0
	24.09	**7.56**	**31.65**	**1.82**	**0.1**
Long term investments					
Banks and building societies					
- Secured	1.00	(1.00)	0.00	0.00	0.0
	1.00	**(1.00)**	**0.00**	**0.00**	**0.0**
Long term investments – higher yielding strategy					
Pooled funds:					
- Pooled property*	3.25	-	3.25	3.67	N/A
- Pooled equity*	2.00	-	2.00	5.81	N/A
- Pooled multi-asset*	1.75	-	1.75	5.27	N/A
	7.00	**-**	**7.00**	**4.68**	**N/A**
Total investments	**32.09**	**6.56**	**38.65**	**2.34**	**0.1**

* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 30 September 2022 based on the market value of investments 12 months earlier. Note: the figures in Table 4 at 31 March 2022 are from the balance sheet in the Fire and Rescue Authority's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

32. The Fire and Rescue Authority made a payment of £3.9m on 1 April 2020 to prepay its employer's Local Government Pension Scheme (LGPS) contributions for 3 years. By making this payment in advance the Fire and Rescue Authority was able to generate an estimated saving of £0.26m over 3 years on its pension contributions.

33. Investment balances have subsequently increased and were £6.56m higher at 30 September 2022 in comparison to the position at 31 March 2022. This is in part explained by the Fire and Rescue Authority not having to make

monthly employer's pension contributions in 2022/23 (having already paid in advance for 3 years in April 2020) and the balance of grants received but not yet applied.

34. The CIPFA Code and government guidance both require the Fire and Rescue Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Fire and Rescue Authority's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults alongside managing the risk of receiving unsuitably low investment income. The Fire and Rescue Authority's Treasury Management Strategy Statement (TMSS) sets out how it will manage and mitigate these risks.

35. The security of investments has been maintained by following the counterparty policy and investment limits within the TMSS, taking advice from Arlingclose on changes in counterparty credit worthiness, and making use of secured investment products that provide collateral. The Fire and Rescue Authority invests in liquid investments to ensure money is available when required to meet its financial obligations, spreading these investments across a number of counterparties to mitigate operational risk.

36. In delivering investment returns, the Fire and Rescue Authority has operated against a backdrop in which the UK Bank Rate has risen from 0.75% in April 2022 to 2.25% in September 2022. This has led to improved returns for liquid investment options such as Money Market Funds (MMFs), bank call accounts and the UK Government's Debt Management Account Deposit Facility (DMADF). This is having a positive impact on investment returns, as reflected in the end of Q2 revenue budget financial forecasts for 22/23 included in the budget update report to this meeting. However, investment income has still largely come from the Fire and Rescue Authority's investments in pooled funds.

37. The Fire and Rescue Authority benchmarks the performance of its internally managed investments against that of other Arlingclose clients on a quarterly basis. Internally managed investments include all investments except externally managed pooled funds but do include MMFs. The performance of these investments against relevant measures of security, liquidity and yield are shown in Table 5, providing the latest available data as at 30 June 2022 and at 31 March 2022 for comparison.

Table 5: Investment benchmarking (excluding pooled funds)	Credit rating	Bail-in exposure %	Weighted average maturity (days)	Rate of return %
31.03.2022	AA-	62%	52	0.43%
30.06.2022	AA+	77%	36	0.98%
Police & Fire Authorities	AA-	82%	13	0.78%
All LAs	AA-	64%	16	0.92%

38. Table 5 shows the average credit rating of the portfolio has improved over the first quarter of the financial year, and bail-in exposure rose reflecting a greater investment balance in liquid investments which are subject to bail-in risk. Although exposed to bail-in risk, they are considered good investments due to their diversification and AAA credit rating The average rate of return (0.98%) was higher than at 31 March 2022, reflecting improve rates across the market. The Fire and Rescue Authority compared favourably with the other police and fire authorities in the benchmarking exercise across all metrics.

Externally managed pooled funds

39. In order to minimise the risk of receiving unsuitably low investment income, the Fire and Rescue Authority has continued to invest a proportion of steady core balances in externally managed pooled funds as part of its higher yielding strategy.

40. The CIPFA Code requires the Fire and Rescue Authority to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest yield. As a result, the Fire and Rescue Authority's investments targeting higher yields have been made from its most stable balances and with the intention that they will be held for at least the medium term. This means that the initial costs of any investment and any periods of falling capital values can be overcome and mitigates the risk of having to sell an asset for liquidity purposes, helping to ensure the long-term security of the Fire and Rescue Authority's investments.

41. The Fire and Rescue Authority's investments in pooled funds fell considerably in value when the coronavirus pandemic hit world markets but have since recovered well. This recovery means these investments are now worth more in aggregate than the initial sums invested, as shown in Table 6, demonstrating the importance of taking a longer-term approach and being able to ride out periods of market volatility, ensuring the Fire and Rescue Authority is not a forced seller at the bottom of the market.

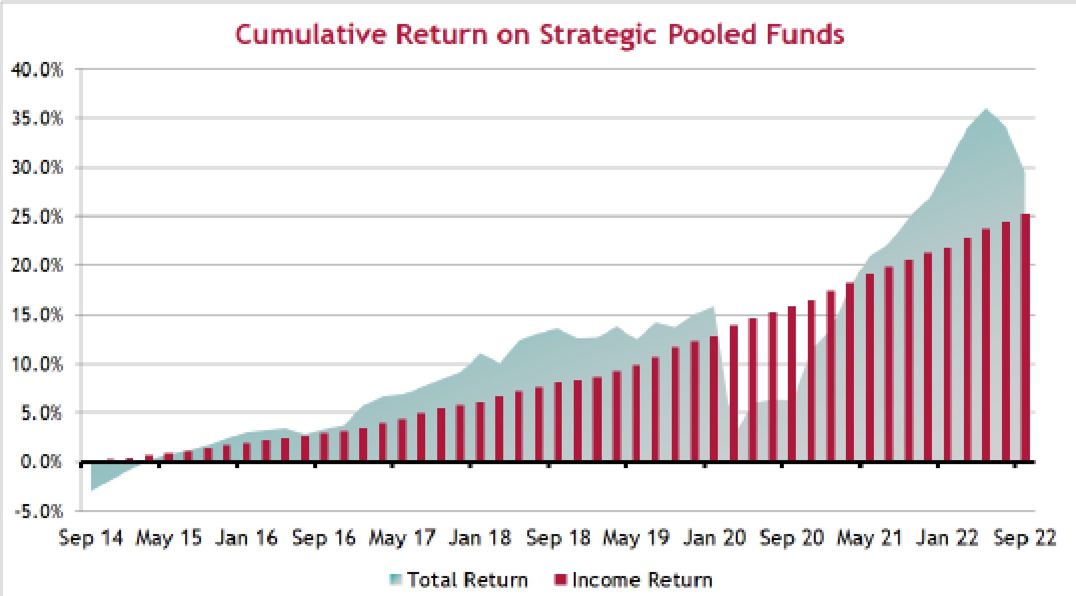
Table 6 – Higher yielding investments – market value performance	Amount invested*	Market value at 30/09/22	Gain/(fall) in capital value	
			Since purchase	One year
	£m	£m	£m	£m
Pooled property funds	3.25	3.85	0.60	0.47
Pooled equity funds	2.00	2.02	0.02	(0.14)
Pooled multi-asset funds	1.75	1.44	(0.31)	(0.28)
Total pooled funds	**7.00**	**7.31**	**0.31**	**0.05**

42. The Fire and Rescue Authority's investments in pooled funds target long-term price stability and regular revenue income and bring significant benefits to the revenue budget. As shown in Table 7 the income returns have been 25.26% since purchase, contributing to a total return of 29.58% over their life.

Table 7 – Higher yielding investments – income and total returns since purchase	Income return	Total return
	%	%
Pooled property funds	27.68	46.01
Pooled equity funds	28.15	37.26
Pooled multi-asset funds	15.85	(1.86)
Total pooled funds	**25.26**	**29.58**

43. The Fire and Rescue Authority's pooled fund investments continue to deliver income returns far in excess of what could be generated from cash investments. The cumulative total return from the Fire and Rescue Authority's investments in pooled equity, property and multi-asset funds since purchase is shown in the following graph. This highlights that the Fire and Rescue Authority has benefited from strong and steady income returns over time and

the way that capital values have recovered since March 2020.



44. The IFRS 9 accounting standard that was introduced in 2018/19 means that annual movements in the capital values of investments need to be reflected in the revenue account on an annual basis, although a five-year statutory override was put in place for local authorities that exempts them from complying with this requirement.

45. Pooled fund investments have no defined maturity date but are available for withdrawal after a notice period and their performance and continued suitability in meeting the Fire and Rescue Authority's investment objectives is monitored regularly and discussed with Arlingclose.

Non-Treasury Investments

46. Although not classed as treasury management activities the Fire & Rescue Authority may also make loans and investments for service purposes, for example the direct purchase of land or property. Such loans and investments will be subject to the Fire & Rescue Authority's normal approval processes for revenue and capital expenditure and need not comply with the treasury management strategy. The Fire & Rescue Authority does not have any existing non-treasury investments.

Compliance Report

47. The Fire and Rescue Authority confirms compliance of all treasury management activities undertaken during the period with the CIPFA Code of Practice and the Fire and Rescue Authority's approved Treasury Management Strategy.

48. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 8.

Table 8 – Debt limits	**2022/23 Maximum £m**	**30/09/22 Actual £m**	**2022/23 Operational Boundary £m**	**2022/23 Authorised Limit £m**	**Complied?**
Borrowing	(6.7)	(6.7)	(34.2)	(37.9)	✓
Other long-term liabilities	0.0	0.0	(5.0)	(5.0)	✓
Total debt	**(6.7)**	**(6.7)**	**(39.2)**	**(42.9)**	✓

49. The total actual debt as measured by the debt limits was £6.7m on 30 September 2022 which is entirely PWLB debt, none of which is subject to variable interest rates.

50. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Treasury Management Indicators

51. The Fire and Rescue Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures

52. The following indicator shows the sensitivity of the Fire and Rescue Authority's current investments and borrowing to a change in interest rates:

Table 9 – Interest rate risk indicator	**30/09/22 Actual**	**Impact of +/-1% interest rate change**
Sums subject to variable interest rates		
Investment	£31.7m	£0.3m
Borrowing	£0.0m	£0.0m

53. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity structure of borrowing

54. This indicator is set to control the Fire and Rescue Authority's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the Treasury Management Strategy Statement:

Table 10 – Refinancing rate risk indicator	30/09/22 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	17%	50%	0%	✓
12 months and within 24 months	0%	50%	0%	✓
24 months and within 5 years	7%	50%	0%	✓
5 years and within 10 years	8%	75%	0%	✓
10 years and within 20 years	68%	75%	0%	✓
20 years and above	0%	100%	0%	✓

Principal sums invested for periods longer than a year

55. The purpose of this indicator is to control the Fire and Rescue Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 11 – Price risk indicator	2022/23	2023/24	2024/25
Actual principal invested beyond year end	£8m	£7m	£7m
Limit on principal invested beyond year end	£12m	£10m	£10m
Complied?	✓	✓	✓

56. The table includes investments in strategic pooled funds of £7m as although these can usually be redeemed at short notice, the Fire and Rescue Authority intends to hold these investments for at least the medium-term.

Other

CIPFA Consultation – IFRS 16

57. The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022, however following a consultation CIFPA/LASAAC announced an optional two-year delay to the implementation of this standard - a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now

choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The Fire and Rescue Authority intends to adopt the new standard on 1st April 2024.

Treasury Management Code

58. The new Treasury Management Code will be adopted by the Fire and Rescue Authority for 2023/24 as recommended. The change will include increasing the frequency of Treasury Management reporting to a quarterly basis. The liability benchmark will be included as a mandatory treasury indicator in order to strengthen decision making. Changes to the knowledge and skills framework will be adopted as part of the training plans to improve knowledge in a specialist area. In addition, CIPFA has incorporate Environmental, Social and Governance (ESG) issues as a consideration within TMP (Treasury Management Practice).

Arlingclose's outlook for the remainder of 2022/23

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.25	4.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.25	3.75	3.25
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

59. Arlingclose expects Bank Rate to rise further during 2022/23 to reach 5% by the end of the year. This forecast was prepared at the end of September and it should be noted that given the present uncertainty these figures are liable to change as the economic situation develops.

60. The MPC is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages. The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps of increases this calendar year. This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024.

61. Gilt yields will face further upward pressure in the short term due to lower confidence in UK fiscal policy, higher inflation expectations and asset sales by the BoE. Given the recent sharp rises in gilt yields, the risks are now broadly balanced to either side. Over the longer term, gilt yields are forecast to fall slightly over the forecast period.

62. Monetary policymakers are behind the curve having only raising rates by 50bps in September. This was before the "Mini-Budget", poorly received by the markets, triggered a rout in gilts with a huge spike in yields and a further

fall in sterling. In a shift from recent trends, the focus now is perceived to be on supporting sterling whilst also focusing on subduing high inflation.

63. The government's blank cheque approach to energy price caps, combined with international energy markets priced in dollars, presents a fiscal mismatch that has contributed to significant decline in sterling and sharp rises in gilt yields which will feed through to consumers' loans and mortgages and business funding costs.

64. UK government policy has mitigated some of the expected rise in energy inflation for households and businesses flattening the peak for CPI, whilst extending the duration of elevated CPI. Continued currency weakness could add inflationary pressure.

65. The UK economy already appears to be in recession, with business activity and household spending falling. The short- to medium-term outlook for the UK economy is relatively bleak.