Report To:	**Audit and Governance Committee**
Date:	**13 November 2023**
Report Title:	**Treasury Management**
Report of:	**Director of Finance and Performance (Chief Finance Officer – S151 Officer)**
Ward(s):	**All**
Purpose of report:	**To present details of recent Treasury Management activities.**
Officer Recommendations:	**To note and recommend that Council accepts that Treasury Management Activities for the period April to September 2023 have been in accordance with the approved Treasury Strategies.**
Reasons for recommendations:	**Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code) and this has to be reported to Full Council.**
Contact Officer(s):	**Name: Ross Sutton** **Post title: Head of Financial Reporting** **e-mail: ross.sutton@lewes-eastbourne.gov.uk** **Telephone number: 07591 988346**

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1. Introduction

1.1 The Council's approved Treasury Strategy Statement requires the Audit and Governance Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.

1.2 The Treasury Strategy Statement also requires the Audit and Governance Committee to review a formal summary report detailing the recent Treasury Management activity before it is considered by Council, in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.3 The timetable for reporting Treasury Management activity in 2023/24 is shown in the table below. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Governance Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
3 July 2023	2022/23 Annual Report (up to 31 March 2023)
4 September 2023	April to June 2023
13 November 2023	April to September 2023 (Mid Year Review)
January 2024	April to December 2023
March 2024	April 2023 to February 2024

1.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit & Governance Committee before they were reported to the Full Council.

1.5 Treasury Management is an integral part of the Council's overall finances and the performance of this area is very important. Whilst individual years obviously matter, performance is best viewed on a medium / long term basis. The action taken in respect of the debt portfolio in recent years has been extremely beneficial and has resulted in savings. Short term gains might, on occasions, be sacrificed for longer term certainty and stability.

1.6 The criteria for lending to Banks are derived from the list of approved counter parties provided by the Council's Treasury Management advisors, Link Asset Services. The list is amended to reduce the risk to the Council by removing the lowest rated counterparties and reducing the maximum loan duration.

2. Economic Background

2.1 As expected, the Bank of England's Monetary Policy Committee continue to increase the Bank Rate and a detailed economic commentary on developments during period ended 30 September 2023 is attached as **Appendix A**.

3. Interest Rate Forecasts

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

3.2 The latest forecast on 25 September 2023 sets out a view that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.

3.3 Link's forecast of bank rate and PWLB borrowing rates are set out below.

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

Note

1) LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

2) The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

4. Annual Investment Strategy

4.1 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes in December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

4.2 The Treasury Management Strategy Statement (TMSS) for 2023/24 which includes the Annual Investment strategy (AIS), was approved by the Full Council on 20 February 2023. It sets out the Council's investment priorities as being:

- Security (of Capital);
- Liquidity;
- Yield.

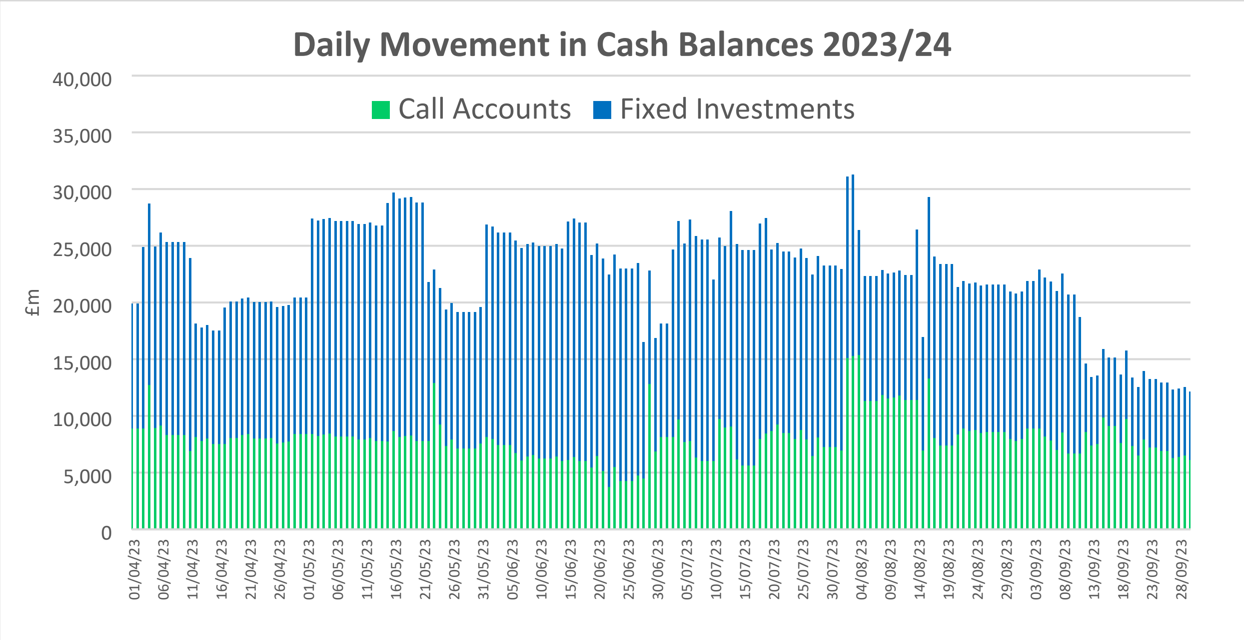
4.3 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit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

4.4 There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

4.5 There have been some changes to individual counterparty credit ratings over the period. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

5. Treasury Management Activity

5.1 The chart below summarises the Council's investment position over the period 1 April to 30 September 2023. It shows the total sums invested each day split between Fixed Term investments and amounts held in Call accounts. The average balance over the period is £22.5m (£14.5m Fixed and £8.0m Call).



5.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 30 September 2023 and identifies the long-term credit rating of counterparties at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All the deposits met the necessary criteria, the minimum rating required for deposits made in terms of long-term A- (Fitch).

Counterparty	Date From	Date To	Days	Principal £	Rate %	Long Term Rating
Link - Standard Charter sustainable	17/07/23	17/10/23	92	5,000,000	5.45%	A+
Link- Bayerische Landesbank	-	-	-	-	-	-

5.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured between 1 April to 30 September 2023 in maturity date order. It is important to note that the table includes sums reinvested.

Counterparty	Date From	Date To	Days	Principal £	Rate %	Long Term Rating
Link - Standard Charter sustainable	03/03/23	03/04/23	31	5,000,000	3.80%	A+
Link- Bayerische Landesbank	30/03/23	13/04/23	14	5,000,000	4.07%	A-
DMO	30/03/23	06/04/23	7	1,000,000	4.05%	*
Link - Standard Charter sustainable	03/04/23	17/04/23	14	5,000,000	4.05%	A+
DMO	03/04/23	12/04/23	9	5,000,000	4.05%	*
DMO	06/04/23	12/04/23	6	2,000,000	4.05%	*
Link- Bayerische Landesbank	13/04/23	15/05/23	32	5,000,000	4.09%	A-
DMO	17/04/23	23/05/23	36	2,000,000	4.14%	*
Link - Standard Charter sustainable	17/04/23	17/07/23	91	5,000,000	4.39%	A+
DMO	02/05/23	22/05/23	20	7,000,000	4.20%	*
DMO	15/05/23	23/05/23	8	2,000,000	4.38%	*
Link- Bayerische Landesbank	15/05/23	15/06/23	31	5,000,000	4.29%	A-
DMO	24/05/23	29/06/23	36	2,000,000	4.43%	*
DMO	01/06/23	28/06/23	27	6,700,000	4.44%	*
Link- Bayerische Landesbank	15/06/23	15/08/23	61	5,000,000	4.77%	A-
DMO	15/06/23	19/06/23	4	2,300,000	4.38%	*
DMO	03/07/23	10/07/23	7	6,500,000	4.88%	*
DMO	04/07/23	04/09/23	62	1,000,000	5.06%	*
DMO	06/07/23	10/07/23	4	2,000,000	4.88%	*
DMO	10/07/23	04/08/23	25	5,000,000	4.88%	*
DMO	13/07/23	20/07/23	7	3,000,000	4.88%	*
Link - Standard Charter sustainable	17/07/23	17/10/23	92	5,000,000	5.45%	A+
DMO	14/08/23	21/08/23	7	4,000,000	5.13%	*
DMO	16/08/23	12/09/23	27	6,000,000	5.13%	*

Note: * indicates UK Government body and therefore not subject to a credit rating.

The weighted average rate of interest earned on deposits held in the period 1 April to 30 September 2023 was 4.72% (4.35% Q1). The average bank base rate for the period was 4.80%.

5.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest-bearing accounts in the period covered by this report, with the average amount held being £2.66m (£2.53m Q1), generating interest of £83k.

Counterparty	Balance at 30/9/23 £000	Average Balance £000	Interest Rate %
Santander Business Reserve Account	£5,000	£4,943	3.23%
Lloyds Bank Current Account	£304	£1,587	1.90%
Lloyds Bank Call Account	£810	£1,462	5.14%

5.5 Money Market Funds

There were no funds Money Market Funds held at 30 September 2023, and there was no activity in the period.

5.6 Bond Funds, Multi-Asset Income Funds and Property Funds

There were no Short Dated Bond Funds, Multi-Asset Income Funds or Property Funds held at 30 September 2023, and there was no activity in the period.

6. Capital Position

6.1 This table shows the revised estimates for capital expenditure and the changes since the 2023/24 capital programme was agreed at the Budget. Appendix 2 provides further details.

	Original Budget £000	**Revised Budget £000**	**Forecast Outturn £000**
HRA	16,549	22,009	16,752
General Fund	52,607	69,726	21,055
Total Capital Expenditure	**69,156**	**91,735**	**37,807**

6.2 The original budget has been updated for carry over underspends from the previous financial year and any supplementary budgets approved during the year. The Revised Budget has increased to £91.735m. The Forecast for the year is £37.807m as there has been significant deferral of schemes to 2024/25 and future years.

6.3 The financing of the capital programme has been updated in line with the changes in the table above (see Appendix 2). The borrowing element will increase the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision).

7. Borrowing

7.1 The Council's capital financing requirement (CFR) for 2023/24 is forecast as £114.7m (GF £26.8m and HRA £87.9m). The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

PWLB Rates

7.2 Gilt yield curve movements have shifted upwards, especially at the shorter end of the yield curve since the previous forecast but remain relatively volatile. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.90% to 5.60%. The view is that markets have built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

7.3 Link's core debt management advice remains unaltered, to continue to reappraise any capital expenditure plans/profiles, and internally/temporarily borrow for any financing and re-financing. Only seek longer-dated debt if there is absolute certainty on the long-term rates and can conclude it is affordable, sustainable and prudent if funded at prevailing levels.

External Debt

7.4 The Council's long term borrowing at 30 September was £47.7m (£51.7m Q1) including £42.7m Public Works Loan Board (PWLB) and £5m Barclays loan. Debt at the start of the year was £51.7m and a £4m loan has matured during the year. A further £4m will mature in March 2024.

7.5 The long term borrowing is at fixed rates of interest ranging from 2.63% to 4.50%. There was no short term borrowing at 30 September 2023. The General Fund makes internal loans to the Housing Revenue Account and the balance at the start of the financial year was £24.2m.

7.6 No new borrowing has been undertaken this year to-date and it is anticipated this will remain the position for the remainder of the year. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring if further upside risk to gilt yields prevails.

8. Debt Rescheduling

8.1 Debt rescheduling opportunities have increased significantly in the current quarter where gilt yields, which underpin PWLB rates and market loans, have risen materially. The Council will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio. This is dependent on levels of investment balances. No debt rescheduling has currently been undertaken in the financial year.

9. Capital Financing Costs Summary

9.1 The table below summaries the General Fund (GF) interest payable, minimum revenue provision (MRP) and interest receivable forecast for the year.

General Fund	Original Budget £000	Forecast Outturn £000	Q2 Actual £000
Interest Payable - Borrowing	-	-	-
MRP	703	467	-
Interest Receivable – Treasury Investments	(495)	(888)	(345)
Net Interest Cost	**208**	**(421)**	**(345)**

9.2 There are no GF loans and interest payable. MRP is calculated at the end of the financial year. Interest receivable has increased due to base rate rises from 3.5% in January to 5.25% currently.

9.3 The table below summaries the Housing Revenue Account (HRA interest payable and interest receivable forecast for the year.

HRA	Original Budget £000	Forecast Outturn £000	Q2 Actual £000
Interest Payable	2,376	2,837	461
Interest Receivable	(143)	(900)	(757)
Net Interest Cost	**2,233**	**1,937**	**(296)**

9.4 Interest receivable has increased due a change in which HRA balances interest is now paid and also to base rate rises from 3.5% in January to 5.25% currently. Interest payable has increased due to a higher rate on the borrowing from the general fund.

10. Compliance with Treasury and Prudential Limits

10.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy Statement (TMSS) and Treasury Management Practices (TMPs).

10.2 The tables below shows the RAG status of the Prudential and Treasury Indicators comparing the Budget position to the Forecast for the year.

Prudential Indicators	2023/24 Budget	2023/24 Forecast	RAG Status
Authorised Limit for external debt	£166m	£166m	GREEN
Operational Boundary for external debt	£151m	£151m	GREEN
Capital Financing Requirement (CFR)	£131m	£115m	GREEN
Gross External debt	£55m	£48m	GREEN
Debt compared to CFR (under) / over borrowing	(£76m)	(£67m)	GREEN
Proportion of GF Financing Costs to Net Revenue Stream	6.7%	9.8%	AMBER
Proportion of HRA Financing Costs to Rental Income (excluding depreciation)	11.4%	16.7%	AMBER
Proportion of net income from commercial and service investments to Net Revenue Stream	11.6%	12.9%	GREEN
Total Investments (average)	£22m	£22m	GREEN
Investment returns %	2.3%	4.0%	GREEN

Section 6 and Appendix B includes details of the requirement for a Capital Expenditure indicator.

Treasury Indicators	2023/24 Budget	2023/24 Forecast	RAG Status
Upper limit for principal sums invested for longer than 365 days	100%	100%	GREEN
Maturity structure of fixed rate borrowing - upper limits:			
Under 12 months	25%	25%	GREEN
12 months to 2 years	40%	40%	GREEN
2 years to 5 years	50%	50%	GREEN
5 years to 10 years	75%	75%	GREEN
10 years and above	100%	100%	GREEN

Paragraphs 10.6 to 10.8 and Appendix C include details of the requirement for a Liability Benchmark indicator.

10.3 As at 30 September 2023, all indicators have a green status with the exception of financing costs. The % of GF financing costs has increased as the GF pays interest on HRA balances. Average investment rates received will increase as base rates rise. The % of HRA financing costs has increased as the HRA pays interest on loans provided by the GF. The interest rate payable will increase as base rate and PWLB rates rise.

10.4 The Capital Financing Requirement (CFR) has reduced by £15m from an estimated £131m (Feb 2023) to a forecast £115m. The reduction is due to lower capital expenditure in 2022/23 (financed through borrowing) reducing the opening balance at 1/4/23 and lower forecast capital expenditure in 2023/24 (financed through borrowing).

10.5 Approved limits within the Annual Investment Strategy were not breached during the period ending 30 September 2023, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 13 days during the period (3 days Q1). Breaches normally occur where (i) other investments have been recalled back to Lloyds a day early in readiness for larger than usual outgoings the following day or (ii) other investments are received back too late in the day to reinvest so remain with Lloyds overnight. During August there was a period of 10 days where the Lloyds limit was breached due to annual leave and limited staff resources. The balances were therefore kept higher than normal.

Liability Benchmark

10.6 There is a requirement to provide a comparison of the existing loan portfolio against committed borrowing needs in order to understand future debt requirements. The chart covers the following four areas

i. Existing Loan Debt = current borrowing portfolio;
ii. Capital Financing Requirement (loans only);
iii. Net Loans Requirement = loan debt (less treasury management investments) forecast based on approved prudential borrowing and planned MRP;
iv. Liability Benchmark = Net Loans Requirement plus short term liquidity allowance.

10.7 Appendix C includes liability benchmark charts for both the General Fund and HRA. Only approved expenditure and financing budgets for the period to 2026/27 are to be included although the charts cover the full debt maturity profile and MRP to 2066/67.

10.8 The GF chart shows the CFR reducing over time due to MRP payments. The liability benchmark line moves negative in 2044 when MRP exceeds loan debt. The HRA chart shows the CFR increasing and then levelling out as there are no MRP payments or capital receipts set aside. PWLB debt reduces over time as debt matures. Any gaps between actual loan debt outstanding and the liability benchmark will need to be managed in the future.

11. Non-treasury investments

11.1 Lewes Housing Investment Company

Lewes Housing Investment Company is a wholly owned subsidiary of the Council incorporated in July 2017. It was established to acquire, improve, and let residential property at market rents. Capital allocations would need to be approved as potential commercial loan funding to facilitate property purchases. No loans have been made to-date.

11.2 Aspiration Homes LLP

Aspiration Homes LLP is a limited liability partnership owned jointly by Lewes District Council and Eastbourne Borough Council incorporated in June 2017. It was established for the purpose of developing housing to be let at affordable rent. As at 31 March 2023, loans outstanding were £3.04m relating to two schemes (Grays School, Newhaven and Caburn Field, Ringmer). In addition, £20k of working capital loans have been made. No loans have been made to-date in 2023/24.

12. Environmental, Social and Governance (ESG) Investment

12.1 The Cabinet at its meeting on 2 February 2023 approved the 2023/24 Treasury Management and Investment Strategy, which include Non-Specified investments in Green Energy Bonds and/or other ESG products that met the Council’s internal and external due diligence criteria.

12.2 While a wide range of ESG investments are currently limited, there are expectations to see more banks and funds providing specific products over the coming years. As this area continues to develop and become more prominent, the Council in conjunction with the treasury management advisor (Link Asset Services) will continue to monitor ESG investment opportunities within the parameters of the Council's counterparty criteria and in compliance with the DLUHC Investment Guidance.

12.3 The Council holds a £5m deposit balance within the Standard Chartered Bank Sustainable Time Deposit, which functions just like a normal Time Deposit. The difference is in the sustainable impact where the deposits are referenced against qualifying sustainable loans and projects of Standard Chartered that meet their Green and Sustainable Product Framework.

12.4 These loan and project assets include green financing, sustainable infrastructure projects, micro-finance, and access to finance for SME business banking. It addresses the long-term environmental challenges such as climate change, health, and financial inclusion plus being dedicated towards financing sustainable loans and projects aligned to the United Nation's Sustainable Development Goals.

Sustainable Development Goals

13. Financial Appraisal

13.1 All relevant implications are referred to in the above paragraphs.

14. Risk Management Implications

14.1 The risk management implication associated with this activity is explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

15. Equality Analysis

15.1 This is a routine report for which a detailed Equality Analysis is not required to be undertaken.

16. Legal Implications

16.1 There are no legal implications from this report.

17. Environmental sustainability implications

17.1 This report notes the treasury management performance of the Council. There are no anticipated environmental implications from this report that would affect the Council's sustainability policy. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the treasury activities and highlights compliance with the Council's policies previously approved by members.

18. Appendices

Appendix A - Link Treasury Services Economic commentary

Appendix B – LDC Capital Programme 2023/24

Appendix C - Liability Benchmarks

Appendix D – Glossary of Terms

19. Background Papers

Treasury Management and Prudential Indicators 2023/24, Capital Strategy & Investment Strategy (Cabinet 2/2/23)

Appendix A

Link Treasury Services Limited - Detailed economic commentary on treasury management activities and developments.

Economics Update

- The first half of 2023/24 saw:
  - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
  - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
  - A 0.5% m/m decline in real GDP in July, mainly due to more strikes.
  - CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
  - Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).
- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.
- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.
- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.
- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.
- The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).

- The pound weakened from its cycle high of $1.30 in the middle of July to $1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.
- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

Appendix B

Capital Programme 2023/24	**Original Budget £000**	**Revised Budget £000**	**Forecast Outturn (at Q2) £000**
HOUSING REVENUE ACCOUNT (HRA)			
Construction of New Dwellings	11,501	15,747	10,927
Total Improvement to Stock	4,583	5,907	5,824
Adaptations for Disabled Tenants	415	206	-
Housing Estates Recreation and Play Areas	50	149	1
Total HRA	**16,549**	**22,009**	**16,752**
GENERAL FUND (GF)			
Housing Grants	1,135	1,486	1,226
Loans to Housing Companies	2,000	2,419	-
Stabilisation and Growth	20	878	313
Regeneration (see Note)	35,223	44,488	10,036
Asset Management	2,930	4,219	1,757
Indoor Leisure Facilities	2,159	3,215	619
Energy Schemes	500	524	-
Community Infrastructure Levy	900	1,486	195
Service Delivery (see Note)	6,331	6,597	5,625
Flood Alleviation	136	605	100
Coastal Defence Works	100	160	99
Parks & Pavilions	200	1,081	68
Open Spaces - Biodiversity	610	647	844
ICT Block Allocation	213	397	174
Finance Transformation	150	454	-
Total General Fund	**52,607**	**69,726**	**21,055**
Total Capital Expenditure	**69,156**	**91,735**	**37,807**

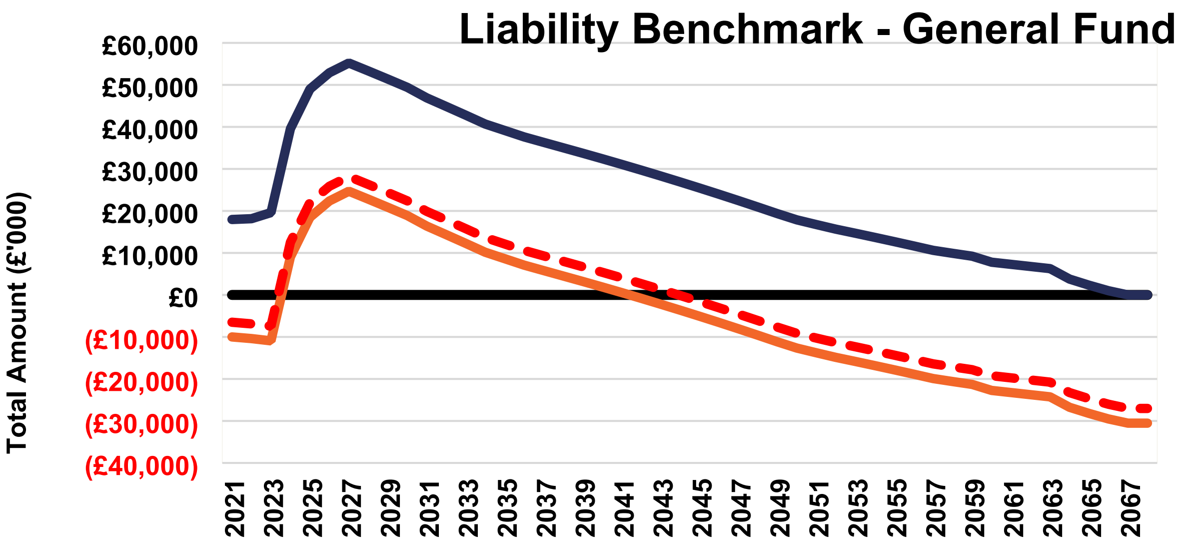
Note: Regeneration includes Newhaven Levelling Up Fund, Future High Streets Fund and Town Deal projects.
Service Delivery includes Vehicle and Wheel Bin replacement.

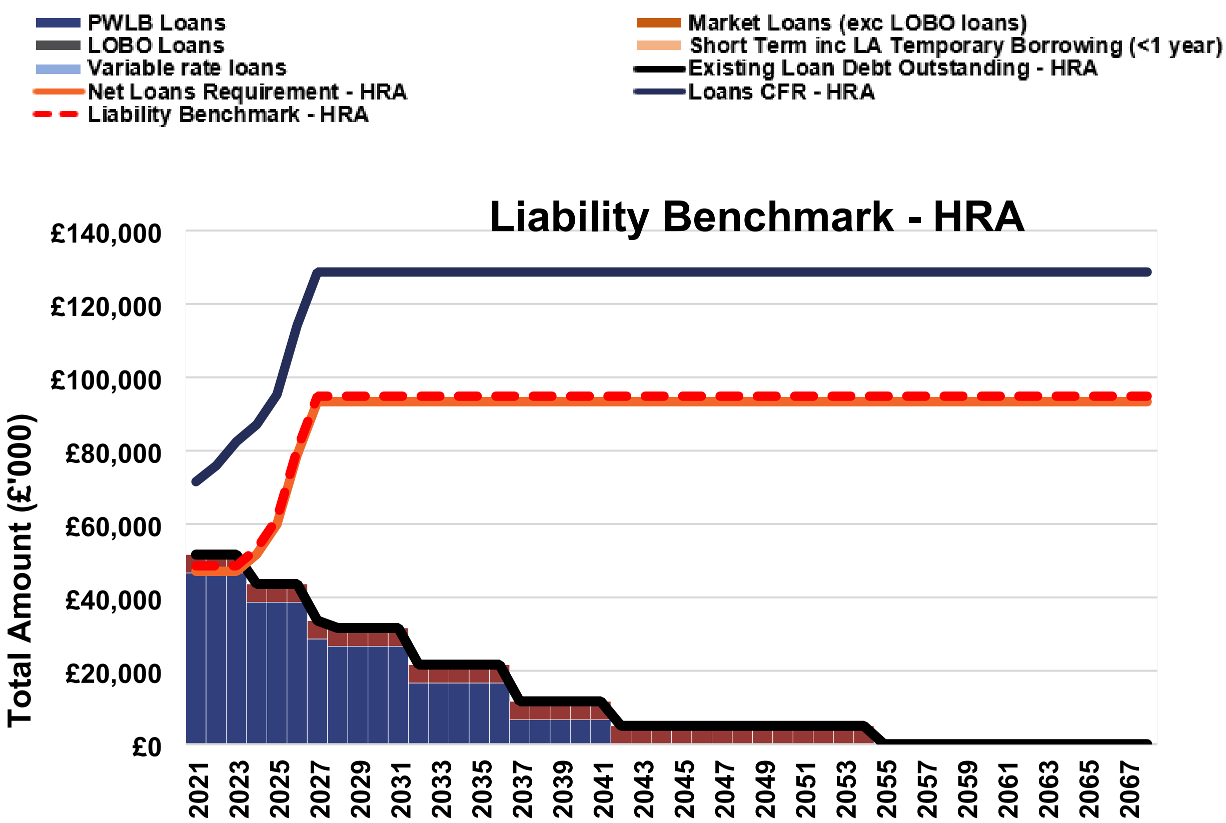
HRA Financing			
Capital Receipts	4,901	5,237	5,464
Grants & Contributions	1,935	2,185	-
Major Repairs Reserve	4,965	6,179	5,825
Revenue	100	100	-
Borrowing Need	4,468	8,308	5,464
Total HRA	**16,549**	**22,009**	**16,752**

GF Financing			
Capital Receipts	1,859	1,859	379
Grants & Contributions	29,888	37,875	12,032
Revenue	436	2,511	273
Borrowing Need	20,434	27,481	8,371
Total GF	**52,607**	**69,726**	**21,055**

Appendix C

Liability Benchmark Charts





Appendix D

GLOSSARY

Local Authority Treasury Management Terms

Term	Description
Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets.
Borrowing	Usually refers to the stock of outstanding loans owed, and bonds issued.
Capital Financing Requirement (CFR)	A council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with capital expenditure and decreases with capital finance and Minimum Revenue Provision (MRP).
CIPFA	The Chartered Institute of Public Finance and Accountancy (CIPFA) is a UK-based international accountancy membership and standard-setting body.
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
CPI	Consumer Price Index - the main measure of inflation for macroeconomic purposes.
Deposit	A regulated placing of cash with a financial institution.
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DLUHC	Department for Levelling Up, Housing and Communities supports communities across the UK to thrive.
DMO	Debt Management Office is an executive agency of HM Treasury responsible for debt and cash management for the UK Government lending to local authorities and managing certain public funds.
Equity	An investment which usually confers ownership and voting rights.
FTSE	Financial Times Stock Exchange – an important indicator of the health of the UK stock market and economy. The FTSE100 is an index made up of shares from the biggest 100 companies by market capitalisation.
GDP	Gross Domestic Product is the total monetary or market value of all the finished goods and services produced within a country in a specific time period.
Income Return	Return on investment from dividends, interest and rent but excluding capital gains and losses.
Gilts	A gilt is a UK government liability denominated in sterling, issued by HM Treasury and listed on the stock exchange.

Term	Description
LIBID and LIBOR	London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR. London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms. No longer in use, see SONIA below.
LOBO	Lender's Option Borrower's option.
MMF	A Money Market Fund is a type of mutual fund that invests in cash, cash equivalents and short term debt securities.
MPC	The Bank of England's Monetary Policy Committee (MPC) are responsible for making decisions about the bank rate.
Minimum Revenue Provision (MRP)	Minimum Revenue Provision (MRP) is the charge to revenue made in respect of paying off the principal sum of the borrowing undertaken to finance the capital programme.
OBR	The Office for Budget Responsibility gives independent and authoritative analysis of the UK's public finances. OBR is an executive non-departmental public body, sponsored by HM Treasury.
PMI	Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors. Market conditions can be expanding, staying the same or contracting.
PWLB	Public Works Loan Board is a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to councils and other prescribed bodies and collects the repayments.
Quantitative easing (QE)	Process by which central banks directly increase the quantity of money in the economy to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money.
SONIA	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
TMSS	Treasury Management Strategy Statement.