Report To:	**Audit and Governance Committee**
Date:	**11 March 2024**
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:	**The Committee is recommended to note that Treasury Management Activities for the period April to December 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).**
Contact Officer(s):	**Name: Ross Sutton** **Post title: Head of Financial Reporting** **e-mail: ross.sutton@lewes-eastbourne.gov.uk** **Telephone number: 07591 988346**

1. Introduction

1.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).

1.2 A requirement of the Code is the creation and maintenance of a Treasury Management Policy Statement (TMSS) which sets out the policies and objectives of the Council's treasury management activities. Regular monitoring reports are required to meet the Treasury Management governance and scrutiny aspects. The Audit and Governance Committee are to review details of treasury transactions against the criteria set out in the TMSS and make recommendations to Council as appropriate.

1.3 The timetable for reporting Treasury Management activity in 2023/24 is shown in the table below and takes into account the timescale for the publication of each Committee agenda. 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
5 October 2023	April to June 2023
28 November 2023	April to September 2023 (Mid Year Review)
11 March 2024	April to December 2023
June 2024	2023/24 Annual Report (up to 31 March 2024)

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

1.5 The criteria for lending to Banks are derived from the list of approved counter parties provided by the Council's Treasury Management advisors, Link Group (Link). The list is updated regularly to reduce the risk to the Council by removing lower rated counterparties and reducing maximum loan durations.

2. Economic Background

2.1 The Bank of England's Monetary Policy Committee have continued to hold the Bank Rate at 5.25% (since August 2023). A detailed economic commentary for the period ending 31 December 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 8 January 2024 sets out a view that the MPC are keen to further demonstrate their anti-inflation credentials by keeping Bank Rate at 5.25% until at least September 2024.

3.3 Link's forecast of bank rate and PWLB borrowing rates (at 8/1/24) are set out below.

Link Group Interest Rate View	08.01.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.80	4.30	3.80	3.30	3.20	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.60	4.10	3.70	3.20	3.20	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Note

1) 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 for 2023/24, which includes the Annual Investment Strategy (AIS), was approved by the Full Council on 23 February 2023. It sets out the Council's investment priorities as being:

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

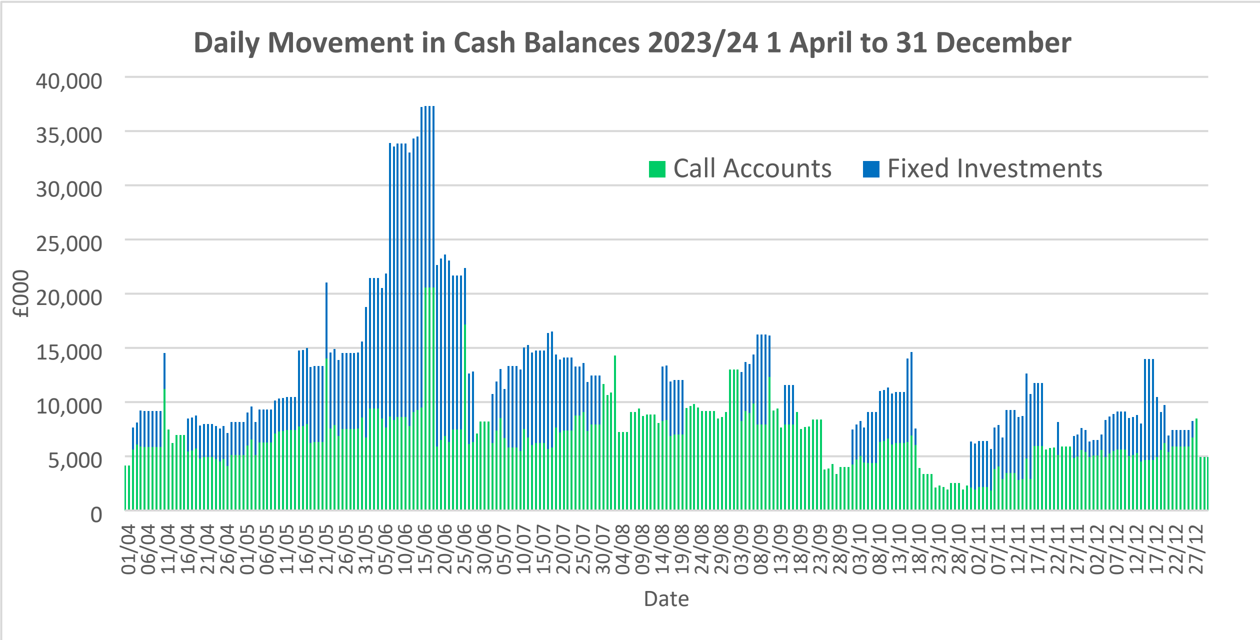
4.3 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit 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 31 December 2023. It shows the total sums invested each day split between Fixed Term investments and amounts held in Call accounts. The average is £11.3m comprising £6.7m Call and £4.6m Fixed.



5.2 Fixed Term Deposits pending maturity

The following table shows that no fixed term deposits held at 31 December 2023 although on average there was £3m for the third quarter. All the deposits made met the necessary criteria for a suitable counterparty, including the minimum rating required of long-term ‘A’- (Fitch).

Counterparty	**Date From**	**Date To**	**Days**	**Principal £**	**Rate %**	**Long Term Rating**
Debt Management Office (DMO)	-	-	-	-	-	-

5.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured in quarter 3 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**
Debt Management Office (DMO)	04/09/23	11/09/23	7	4,500,000	5.13%	*
DMO	08/09/23	12/09/23	4	3,800,000	5.13%	*
DMO	15/09/23	18/09/23	3	3,600,000	5.18%	*
DMO	02/10/23	18/10/23	16	3,200,000	5.17%	*
DMO	16/10/23	18/10/23	2	3,000,000	5.17%	*
DMO	06/10/23	19/10/23	13	1,500,000	5.17%	*
DMO	01/11/23	06/11/23	5	4,200,000	5.18%	*
DMO	10/11/23	17/11/23	7	2,000,000	5.17%	*
DMO	06/11/23	20/11/23	14	3,800,000	5.17%	*
DMO	15/11/23	20/11/23	5	2,000,000	5.17%	*
DMO	23/11/23	24/11/23	1	3,000,000	5.17%	*

DMO	27/11/23	01/12/23	4	2,000,000	5.17%	*
DMO	01/12/23	08/12/23	7	1,400,000	5.17%	*
DMO	15/12/23	18/12/23	3	5,800,000	5.19%	*
DMO	05/12/23	19/12/23	14	2,000,000	5.19%	*
DMO	08/12/23	21/12/23	13	1,500,000	5.19%	*
DMO	18/12/23	21/12/23	3	2,000,000	5.19%	*
DMO	21/12/23	28/12/23	7	1,500,000	5.19%	*

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 31 December 2023 was 4.70% (4.49% Q2). The average bank base rate for the period was 4.95%. DMO deposits can fluctuate below the base rate.

5.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following liquidity accounts in the period covered by this report, with the average amount held being £2.23m (£2.57m Q2), generating interest of £144k.

Counterparty	Balance at 31/12/23 £000	Average Balance £000	Interest Rate %
Lloyds Bank Current Account	£2,181	£1,696	2.10%
Lloyds Bank Call Account	£1,510	£1,638	5.14%
Santander Business Reserve Account	£1,200	£3,347	3.36%

5.5 Money Market Funds

There were no funds Money Market Funds held at 31 December 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 31 December 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 B** provides further details.

	Original Budget £000	Revised Budget £000	Forecast Outturn £000
HRA	13,591	17,141	14,109
General Fund	28,010	20,811	13,339
Total Capital Expenditure	**41,601**	**37,952**	**27,448**

6.2 The original budget has been updated for carry over underspends from the previous financial year, supplementary budgets approved during the year and schemes now deferred and reprofiled to 2024/25. The Revised Budget has decreased to £37.95m. The latest Forecast Outturn for the year is £27.45m as there has been further deferral of schemes to 2024/25 and later years.

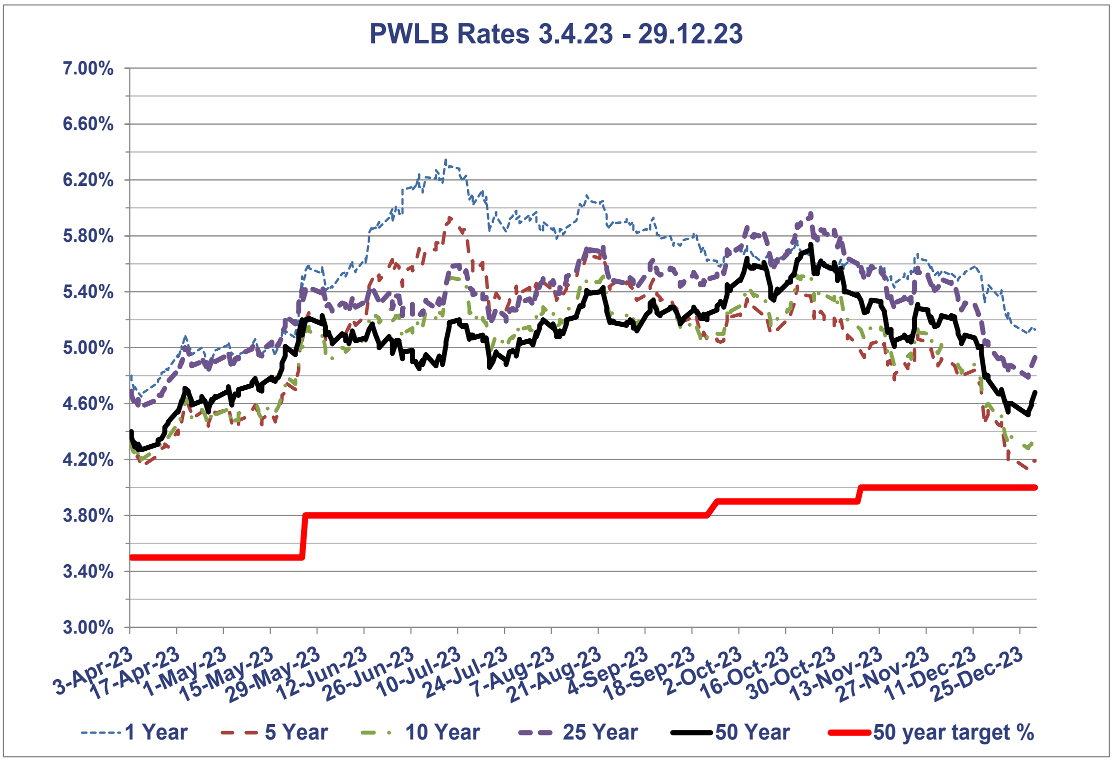
6.3 The financing of the capital programme has been updated in line with the changes in the table above (see Appendix B). The borrowing element will increase the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue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

7. Borrowing

7.1 The Council's capital financing requirement (CFR) for 2023/24 is forecast as £197.6m (GF £144.1m and HRA £53.5m). 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 (i.e. internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

PWLB Rates

7.2 Gilt yields have endured a volatile nine months with yields rising significantly on the back of inflation concerns before retracing much of those increases in November and December. With the market now anticipating rate cuts by mid 2024, the short and medium parts of the curve are now close to where they started 2023/24, but the longer part of the curve is still a little higher. Currently there is 50 basis points difference between the 5 and 50 year parts of the curve.



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 31 December was £112.6m (£112.6m Q2) from the Public Works Loan Board (PWLB). Debt at the start of the year was £113.7m and £1.1m of loans have been repaid. A further £1.1m will mature in March 2024. The long term borrowing is at fixed rates of interest ranging from 1.6% to 5.0%. No new long term borrowing has been undertaken this year to-date. This is a prudent and cost-effective approach in the current economic climate but the position is continually monitored.

7.5 The table below details short term (less than one year) borrowing from other local authorities. As at 31 December 2023, £65m of loans were held (£67m at Q2). During the third quarter, £12m of loans matured and were repaid on time.

Lender	Principal £000	Date From	Date To	Days	Rate %
Loans held					
Tameside MBC	5,000	13 Feb 23	15 Jan 24	336	4.20%
West Midlands Combined Authority	5,000	27 Jul 23	29 Jan 24	186	4.10%
Warwickshire County Council	5,000	8 Feb 23	7 Feb 24	364	4.00%
Salford City Council	5,000	8 Feb 23	7 Feb 24	364	4.00%
West Yorkshire Combined Authority	5,000	9 May 23	9 Feb 24	276	4.25%
Wokingham BC	10,000	7 Jun 23	28 Mar 24	295	4.50%
West of England Combined Authority	10,000	28 Apr 23	26 Apr 24	364	4.85%
Bolton MBC	10,000	22 May 23	20 May 24	364	4.35%
West Yorkshire Combined Authority	10,000	23 Nov 23	8 Nov 24	351	5.60%
Loans repaid					
Barrow Borough Council	3,000	20 Jan 23	20 Nov 23	304	3.85%
Kent Police and Crime Commissioner	5,000	3 Aug 23	1 Dec 23	120	5.30%
Gwent Police	4,000	11 Apr 23	29 Dec 23	262	4.40%

8. Debt Rescheduling

8.1 Debt rescheduling opportunities have increased in the year 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**	**Actual Q3 £000**
Interest Payable - Borrowing	2,750	4,446	1,813
MRP	649	589	-
Interest Receivable – Treasury Investments	(99)	(385)	(293)
Interest Receivable – Loans	(1,299)	(1,328)	(88)
Net Interest Cost	**2,001**	**3,322**	**1,432**

9.2 The forecast outturn has increased by £1.3m to £3.3m. Interest payable includes a £1.4m increase on short term borrowing and £0.2m increase on interest payable by the general fund on HRA reserves and balances. The increase is due to a number of factors including base rates have risen to 5.25% (3.25% at the beginning of 2023), debt is now higher than the original estimated level due to the revenue budget overspend position, PWLB borrowing is prohibitive due to a 1% premium on rates arising from the capitalisation direction and also the shortage of cash available in the local authority lending market is continually driving up rates. Regarding the Q3 actual position, interest on PWLB loans is repayable in September 2023 and March 2024 and interest on short borrowing is due on maturity. MRP is calculated at the end of the financial year.

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**	**Actual Q3 £000**
Interest Payable	1,781	1,596	798
Interest Receivable	(57)	(290)	-
Net Interest Cost	**1,724**	**1,306**	**798**

9.4 Interest receivable has increased due a change in which of the HRA reserves and balances interest is now paid on and also the base rate rises to 5.25%. The actual amounts are calculated at the end of the financial year.

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 and Treasury Management Practices (TMPs).

10.2 The tables below show the Prudential and Treasury Indicators position comparing the Budget to the Forecast for the year.

Prudential Indicators	2023/24 Budget	2023/24 Forecast
Authorised Limit for external debt	£241m	£243m
Operational Boundary for external debt	£219m	£232m
Capital Financing Requirement (CFR) - GF	£146m	£144m
Capital Financing Requirement (CFR) - HRA	£54m	£54m
Gross External debt – GF (including loans to Housing Companies £30m)	£118m	£129m
Gross External debt - HRA	£47m	£54m
Total Debt compared to CFR under / (over) borrowing	£35m	£15m
Proportion of GF Financing Costs to Net Revenue Stream	25.4%	30.1%
Proportion of HRA Financing Costs to Rental Income (including depreciation)	47.0%	45.1%
Proportion of net income from commercial and service investments to Net Revenue Stream	16.1%	12.1%

Note - Section 6 and Appendix B provide the requirements for a Capital Expenditure indicator.

Treasury Indicators	2023/24 Budget	2023/24 Forecast
Upper limit for principal sums invested for longer than 365 days	£2m	£2m
Maturity structure of fixed rate borrowing - upper limits		
Under 12 months	75%	75%
12 months to 2 years	75%	75%
2 years to 5 years	75%	75%
5 years to 10 years	75%	75%
1 0 years and above	75%	75%

Note – Paragraphs 10.7 to 10.9 and Appendix C provide the requirements for a Liability Benchmark indicator.

10.3 As at 31 December 2023, indicators are on target or remain within acceptable parameters with the exception of Gross External Debt and the Proportion of GF Financing Costs to Net Revenue Stream.

10.4 Gross External Debt (GF and HRA) is forecast at £183m, an increase of £18m on the estimated (February 2023) position of £165m but remains within the Council's Operational Debt Boundary. Linked to debt, is the Proportion of GF Financing Costs (gross of interest receivable) to Net Revenue Stream which has increased to 30.1%. Paragraph 9.2 above provides an explanation of why interest payable has increased and the table in paragraph 7.5 shows how variable interest rates on short term borrowing have increased. Higher rates are payable on replacement debt as existing debt matures.

10.5 The total Capital Financing Requirement (CFR) is forecast at £198m, £2m less than the original estimate of £200m.

10.6 Approved limits within the Annual Investment Strategy were not breached during the period ending 31 December 2023, except for the balance held with Lloyds Bank (the Council's own bank), which exceeded the £5m limit for 6 days during the third quarter (average 7.5 days Q1 and Q2). Exceptions 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.

Liability Benchmark

10.7 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.

10.8 **Appendix C** includes liability benchmark charts for both the General Fund and HRA. Only approved expenditure and financing budgets for the period to 2025/26 are to be included although the charts cover the full debt maturity profile and MRP to 2068/69.

10.9 The GF chart shows the CFR, Loan Debt Outstanding and Liability Benchmark reducing in line over time. The HRA chart shows the CFR and Liability Benchmark increasing and then levelling out as there are no MRP payments or capital receipts. The HRA PWLB Loan 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 The non-treasury investment activity includes the Council provision of a financial guarantee through its subsidiary company, Investment Company Eastbourne Limited (ICE) Limited. The principal activity of the company is to guarantee an external financial liability with Canada Life and the future rental income of Infrastructure Investments Leicester Limited by virtue of contractual arrangement. In return for providing the above Guarantee (including rental guarantee) in 2018, ICE receives a £0.34m annual guarantee fee (indexed pa).

The ICE Board of Directors meet regularly and review key financial monitoring (including the guarantee fees payment schedule) in line with the agreed governance arrangements/agreement.

11.2 The Council provide loans to its two subsidiary companies Eastbourne Housing Investment Company Limited and South East Environmental Services Limited and Aspiration Homes LLP which is a joint venture with Lewes District Council. As at 31 March 2023, £28.8m of loans had been provided and a further £0.8m is forecast for 2023/24. Interest received on those loans is forecast at £1.3m in 2023/24.

12. Environmental, Social and Governance (ESG) Investment

12.1 The Cabinet at its meeting on 8 February 2023 approved the 2023/24 Treasury Management and Investment Strategy, which included Non-Specified investments such as ESG products that meet 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 Link will continue to monitor ESG investment opportunities within the parameters of the Council's counterparty criteria and in compliance with the DLUHC Investment Guidance (i.e. prioritising security, liquidity before yield).

12.3 There were no green deposits held at 31 December 2023, and there was no activity in the period.

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 – EBC Capital Programme 2023/24
Appendix C - Liability Benchmark
Appendix D – Glossary of Terms

19. Background Papers

Treasury Management and Prudential Indicators 2023/24, Capital Strategy & Investment Strategy (Cabinet 8/2/23)

Appendix A

Link Group – Economic commentary

Economics Update

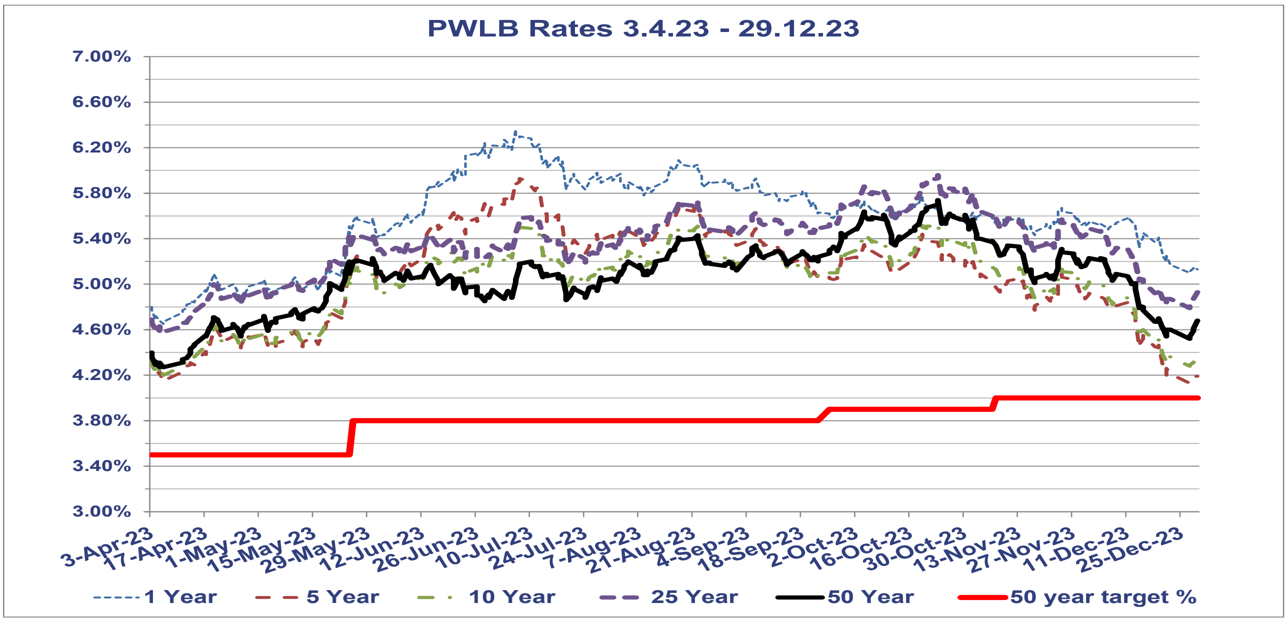
- The third quarter of 2023/24 saw:
  - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
  - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS "experimental" rate of unemployment has remained low at 4.2%;
  - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
  - Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022;
  - The Bank of England holding rates at 5.25% in November and December;
  - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.
- The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.
- However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.
- The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.
- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with only marginal falls showing year on year on the Halifax (-1%) and Nationwide (-1.8%) indices. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.

- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.
- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.
- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.
- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.
- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% at the time of writing, with further declines likely if the falling inflation story is maintained.

- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from $1.21 in November to $1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.

PWLB RATES 3.4.23 - 29.12.23



MPC meetings 2nd November and 14th December 2023

- On 2nd November, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14th December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.
- Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.
- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

Appendix B

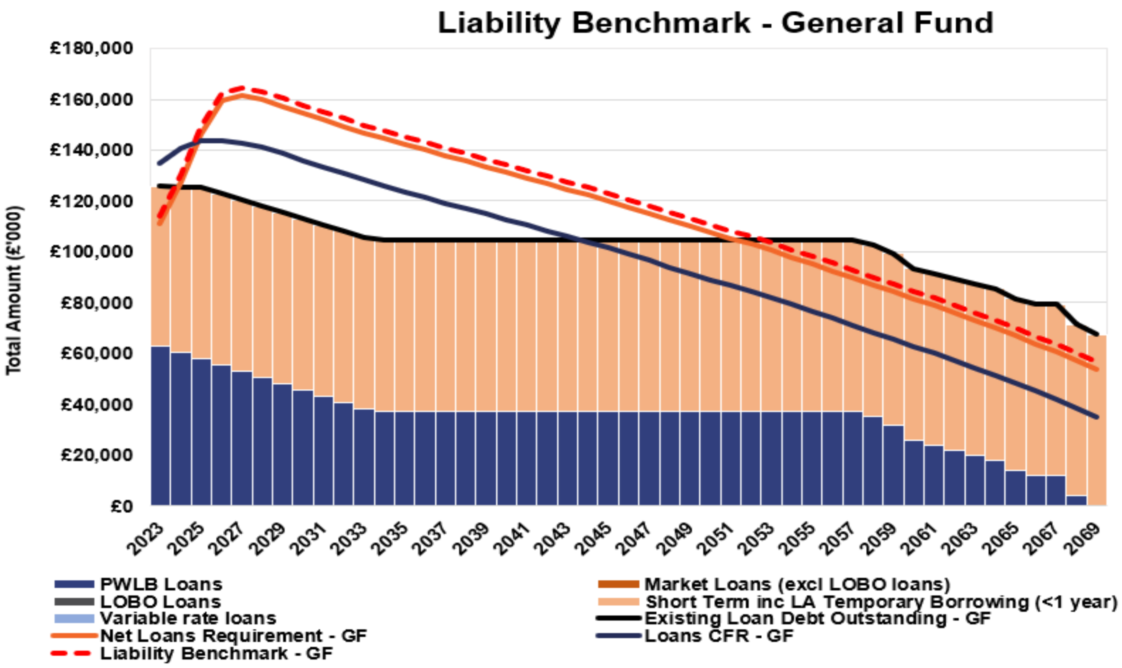
Capital Programme 2023/24	Original Budget £000	Revised Budget £000	Forecast Outturn (at Q3) £000
HOUSING REVENUE ACCOUNT (HRA)			
Construction of New Dwellings	8,141	10,811	8,709
Improvement to Stock	5,000	5,880	4,950
Adaptations for Disabled Tenants	450	450	450
Total HRA	**13,591**	**17,141**	**14,109**
GENERAL FUND (GF)			
Housing Grants	1,200	2,247	2,247
Loans to Housing Companies	751	890	864
Regeneration	19,237	10,798	4,776
Asset Management	3,660	2,133	1,602
Service Delivery	2,592	3,266	2,683
Information Technology	170	263	228
Digital Transformation	-	1,214	939
Corporate	400	-	-
Total General Fund	**28,010**	**20,811**	**13,339**
Total Capital Expenditure	**41,601**	**37,952**	**27,448**

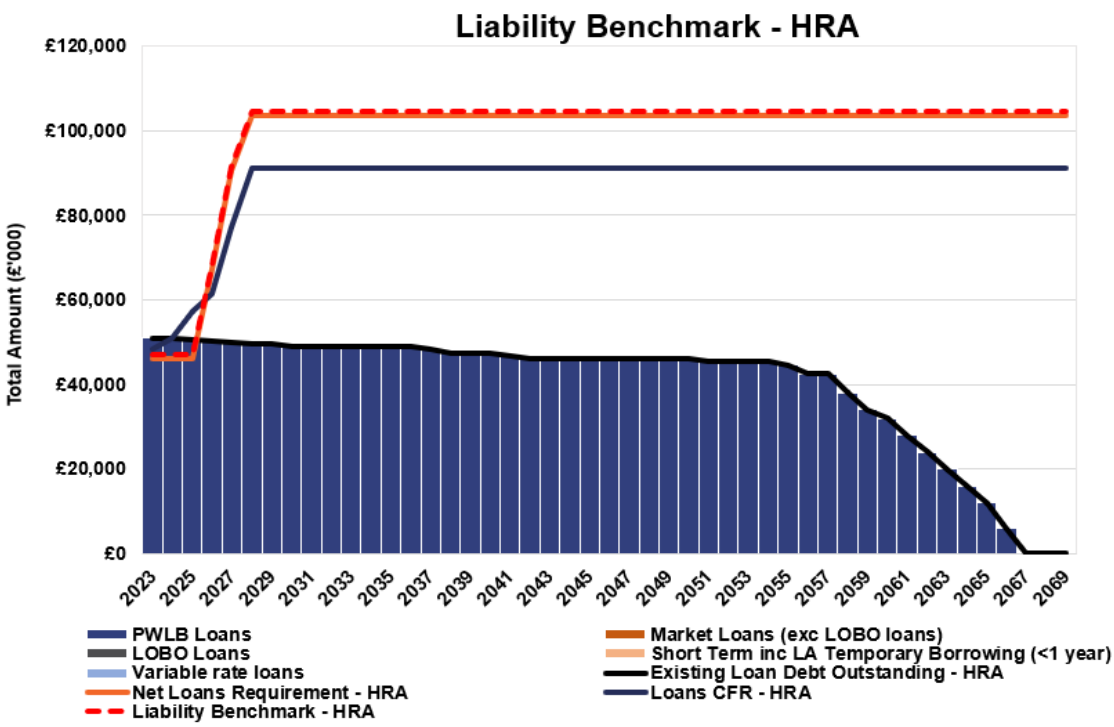
HRA Financing			
Capital Receipts	3,318	1,666	1,666
Grants & Contributions	1,200	2,986	2,986
Major Repairs Reserve	5,450	6,330	5,400
Revenue	-	4,079	4,057
Borrowing Need	3,623	2,580	-
Total HRA	**13,591**	**17,141**	**14,109**

GF Financing			
Capital Receipts	250	92	50
Grants & Contributions	20,036	12,970	6,285
Revenue	50	-	-
Borrowing Need	7,674	7,749	7,004
Total GF	**28,010**	**20,811**	**13,339**

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.