Ashfield
DISTRICT COUNCIL

Report to:	**AUDIT COMMITTEE**
Date:	**23RD NOVEMBER 2023**
Heading:	**TREASURY MANAGEMENT MID YEAR REPORT 2023/24**
Portfolio Holder:	**EXECUTIVE LEAD MEMBER FOR FINANCE, REVENUES AND BENEFITS – CLLR RACHEL MADDEN**
Ward/s:	**ALL**
Key decision:	**NO**
Subject to call-in:	**NO**

Purpose of Report

This mid-year report has been written to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and covers the following:

- An economic update for the 2023/24 financial year as at 30 September 2023;
- The Council's capital position (including prudential indicators);
- The Council's investment portfolio for 2023/24;
- The Council's borrowing position for 2023/24.

Recommendation(s)

1) To agree changes to the 2023/24 Prudential Indicators following in year changes to the 2023/24 Capital Programme,
2) Note the counterparty breach referred to at 5.2.2, and,
3) To note contents of the report.

Reasons for Recommendation(s)

In accordance with the Council's Financial Regulations Cabinet are responsible for the implementation and regular monitoring of Treasury Management policies and practices and are to receive, as a minimum, each year reports setting out the Annual Treasury Management Strategy and Plan for the coming year; a mid-year review and an annual Treasury Management Performance

Report. Audit Committee has responsibility for ensuring effective scrutiny of the Treasury Management Strategies and Policies so receives this report.

Alternative Options Considered

None – required in accordance with the Council's Financial Regulations.

Detailed Information

1 Background

1.1 The Council aims to operate a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially, before considering optimising investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending commitments. This management of longer-term cash may involve arranging long or short-term loans, or the use of longer-term cash flow surpluses, and on occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 Accordingly, treasury management is defined as:

"The management of the local authority's borrowing, 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."

2 Economics and interest rates to date and the outlook for 2023/24

2.1 The first half of 2023/24 saw:

- Interest rates rise by a further one percent, 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 exceeded the government target.
- A 0.5% month on month 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 group.
- 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 3 month year on year growth of average earnings rose to 7.8% in August, excluding bonuses).

2.2 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.

2.3 The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000 jobs. 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.

2.4 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.

2.5 At the last two monetary policy meetings on 20 September 2023 and 2 November 2023, 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 of 20th September 2023 meeting 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.

3 The Council's Capital Position (including Prudential Indicators)

Prudential Indicators

3.1 Capital Programme

3.1.1 Table 1 below shows the revised estimates for capital expenditure considering the changes since the Capital Programme was agreed by Council on 25th September 2023.

Table 1 – Capital Programme 2023/24

Capital Expenditure by Service	2023/24 Original Estimate £m	2023/24 Revised Estimate £m
General Fund	6.671	28.266
Area Schemes	0.155	0.713
HRA - Decent Homes	15.589	7.291
HRA – Other	9.196	8.159
Total capital expenditure	**31.611**	**44.429**

3.1.2 The main reasons for the increase in the General Fund capital expenditure is due to the addition of slippage of £18.4m carried forward from the 2022/23 Capital Programme and Public Sector Decarbonisation Scheme 3 (PSDS3) part funded schemes at Hucknall Leisure Centre and Urban Road Council Offices £3.3m added to the Capital Programme, the change in the Area Schemes is mainly due to the carry forward of slippage, the HRA Decent Homes Schemes has been reduced as a result of the Council's main contractor going into administration and HRA -Other reducing due to the Northern View housing scheme being delayed until 2024/25.

3.1.3 Table 2 below draws together the main treasury management strategic elements of the capital expenditure plans (above), highlighting the original and the revised estimated financing arrangements of this capital expenditure.

Table 2 – Capital Expenditure Funding

Capital Expenditure	2023/24 Original Estimate £m	2023/24 Revised Estimate £m
Total capital expenditure	**31.611**	**44.429**
Financed by:		
Capital receipts	2.113	3.149
Capital grants	6.053	7.684
Capital reserves	21.695	13.675
Total financing	**29.861**	**24.508**
Borrowing requirement	**1.750**	**19.921**

3.1.4 The borrowing requirement for 2023/24 has increased largely because of the expenditure slippage from 2022/23, which was largely funded by borrowing.

3.2 Capital Financing Requirement, Operational Boundary and Authorised Limit

3.2.1 Any changes to borrowing in the Capital Programme affect the Capital Financing Requirement (CFR). The CFR represents the Council's underlying need to borrow for capital expenditure. The CFR increases by the amount of capital expenditure funded by borrowing and reduces by making revenue charges for the repayment of debt (the Minimum Revenue Provision).

Table 3 – Capital Financing Requirement (CFR)

	2023/24 Original Estimate £m	**2023/24 Revised Estimate (Adjusted for Slippage) £m**
Prudential Indicator – Capital Financing Requirement		
CFR Non-Housing	104.706	103.770
CFR – Housing	80.061	80.061
Total CFR	**184.767**	**183.831**
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	187.000	187.000
Other Long Term Liabilities	0.000	0.000
Total debt 31st March	**187.000**	**187.000**
Prudential Indicator – the Authorised Limit for external debt		
Borrowing	215.000	215.000
Other Long Term Liabilities	0.000	0.000
Total debt 31st March	**215.000**	**215.000**

3.2.2 There have been numerous small changes to the Financing of the Capital Programme since the Capital Financing Requirement Indicator was set for 2023/24.

3.3 Estimate of ratio of financial cost to net revenue stream for the current year split between the Housing Revenue Account and General Fund

3.3.1 For the HRA this is calculated by dividing the HRA capital financing costs by the total estimated Council Dwelling Income. For the General Fund this is calculated by dividing the General Fund capital financing costs by the estimated Council Tax Receipt plus Central Government Grants.

Table 4 - Estimate of ratio of financial cost to net revenue stream

	Original 2023/24 Estimate %	**Revised 2023/24 Estimate %**
Housing Revenue Account	10.57	7.34
Non HRA (General Fund)	30.08	22.94

3.3.2 The Housing Revenue Account revised estimate is lower due to interest receivable being higher than originally forecast. The Non HRA (General Fund) has reduced due to slippage on the Capital Programme delaying the Minimum Revenue Provision charge.

3.4 Estimate of the Incremental impact of capital investment decisions on the Council Tax and Rent Levels

3.4.1 These indicators have been prepared using the revised Capital Programme, approved by Council on 25th September 2023. For the General Fund this is calculated by dividing the estimated capital financing costs by the estimated Council Tax Band D equivalents. There is no borrowing planned for the Housing Revenue Account (HRA) therefore these ratios are nil. If in future years, there was to be HRA borrowing, the ratio would be calculated by dividing the estimated capital financing costs by the estimated number of council dwellings.

Table 5 - Incremental impact of capital investment decisions on the Council Tax and Rent Levels

	Original 2023-24 Estimate £	Revised 2023-24 Estimate £
General Fund (Band D)	34.79	23.00
HRA (52 Weeks)	0	0

3.4.2 The incremental impact of capital investment on the General Fund is lower due to slippage on the 2022/23 Capital Programme reducing the MRP charge in 2023/24.

4. **Prudential Indicators for Treasury Management**

4.1 Interest rate exposure

4.1.1 Local authorities are required to set limits for the upper limits on exposure to the effects of changes in interest rates. The indicators relate to both fixed and variable rate interest and are net of any investments.

4.1.2 Depending on the level of interest rates and their expected movement in the year, the Council may take up all of its new borrowings in the form of either fixed or variable rate debt. The figures in Table 6 compare the Actual level of debt to the operational boundary which is the prudent limit for debt. This is split between exposure to fixed and variable interest rates,

Table 6 - Interest Rate Exposure

Principal Outstanding	2023/2024 Original	2023/2024 30th September 2023 Actual
	£m	£m
Fixed Rates	187.0	72.5
Variable Rates (No more than 40% of the operational boundary).	74.8	17.0

4.2 Maturity Structure of borrowing

4.2.1 The Council is required to set both lower and upper limits for the maturity structure of its borrowing. This indicator relates only to fixed rate debt and is therefore a measure of the longer-term exposure to interest rate risk.

4.2.2 Table 7 shows the proposed lower and upper limits, given the current structure of the Council's debt portfolio:

Table 7 - Maturity Structure of Debt

Maturity Structure of Fixed Rate Borrowing	Actual Position for 30/09/2023	Lower Limit %	Upper Limit %
Under 12 Months	3.60%	0%	5%
Under 24 Months	4.97%	0%	10%
Under 5 years	8.42%	0%	20%
Under 10 Years	21.48%	0%	25%
Under 20 Years	32.65%	0%	40%
Under 30 Years	38.24%	0%	50%
Under 40 Years	75.09%	0%	80%
Under 50 Years	100.00%	0%	100%
50 Years and Above	0.00%	0%	0%

4.2.3 None of the above limits have been exceeded.

4.3 Principal sums invested for more than 364 days

4.3.1 Where a local authority invests or plans to invest for periods of more than 364 days it must set an upper limit for each year for the maturity of such investments. The purpose of setting this limit is to contain any exposure to losses, which might arise in the event of having to seek early repayment of the investment and / or adverse movements in shorter-term interest rates.

4.3.2 The strategy for 2023/24 set a limit of a maximum of £5m in each of the next three years to be placed in longer-term investments. The Authority currently does not have any long-term investments.

5. Investment Portfolio 2023/24

5.1 In accordance with the Code, it is the Council's priority to ensure security of capital, liquidity and to obtain an appropriate level of return, which is consistent with the Council's risk appetite. Table 8 provides a summary of the Council's total investments as at 30th September 2023.

Table 8 – Summary of Investments

Borrower	**Balance at 30/09/23 £000**
Call Accounts	195
Money Market Funds	16,300
Fixed Term Deposits	33,600
Total	**50,095**

5.2 Call Accounts

5.2.1 In total, the Council held £0.195m of call account investments (see table 9 below) as of 30 September 2023 (£0.439m on 31 March 2023) and the average investment portfolio yield for all investments in the first six months of the year is 3.68%.

Table 9 – Call Accounts

Borrower	**Balance at 30/09/23 £000's**
Barclays Bank	93
Handelsbanken	102
Total	195

5.2.2 On 25th September 2023 there was a breach of the £5m counterparty limit with Barclays Bank. On that day the closing balance with Barclays Bank was £5.391m. This breach was due to the late arrival of funds repaid to the Council from another counterparty.

5.3 Notice Accounts

5.3.1 Notice accounts are deposits with financial institutions which are invested for a fixed period of time e.g. 90 days or 180 days. During this time period the Council is not able to withdraw any deposits until the end of the notice period. The Council currently has nil balance in notice accounts.

5.4 Money Market Funds

5.4.1 The Council currently has four Low Volatility Net Asset Value (LVNAV) Money Market Funds. This means that the value of the shares that the Council holds in these funds may go down as well as up. However, it is unlikely that there will be a change in the price of the Money Market Fund shares between the prices paid and monies received when the shares are sold.

Table 10 – Money Market Funds

Borrower	Balance at 30/09/23 £000's
Aberdeen Standard Liquidity	5,000
Insight Investments	1,300
Federated Hermes	5,000
Aviva	5,000
Total	16,300

The average interest rate for Money Market Funds (MMFs) is 4.77% which has generated MMF interest of £360k for the first half of the financial year.

5.5 Fixed Term Deposits

5.5.1 At the end of September 2023, the Council had £33.6m in fixed term deposits with Nationwide Building Society, Clydesdale Bank, Landesbank, Stockport Metropolitan Borough Council, Cheltenham Borough Council, Wakefield Metropolitan Borough Council and UK Government Debt Management Office (DMO). This compares to £20.0m as at the 31st March 2023. There have been multiple term deposits with the DMO, for various periods between 1st April and 30th September 2023, represented by the level of new investments and repayments in the table below.

Table 11 – Fixed Term Deposits

Opening Balance £000's	New Investments £000's	Repayments £000's	Closing Balance £000's
20,000	283,200	269,600	33,600

5.5.2 The comparison below shows the performance of these fixed term deposit investments against the current Sterling Overnight Index Average (SONIA) rate.

Table 12 – Fixed Term Deposits Comparison to Bank of England Base Rate

SONIA Rate as of 30th September	Average SONIA rate 1st April 2023 to 30th September 2023	Council Performance	Investment Interest Earned £000's
5.19%	4.77%	4.76%	£903

5.6 Interest Receivable Budget

5.6.1 The Council's budgeted investment return for 2023/24 is £786k and performance for the half year to 30 September 2023 is £903k, which comprises £535k from term deposits, £360k from Money Market Funds and £8k from call deposits. The estimated full year outturn is expected to be approximately £1,500k. The main reasons for the increase are the budget was estimated for 2023/24 when the Bank of England Base Rate was only 3.5% it has now

increased to 5.25% and investment balances are higher partly due to capital programme slippage and greater working capital.

6 Borrowing

6.1 The have been no borrowing activities undertaken during the year to 30 September 2023 as summarised below:

Table 13 – Council's borrowing activities to 30th September 2023

Type of Loan	As at 31 March 2023 £'000	Borrowed £'000	Repaid £'000	As at 30 Sept 2023 £'000
Fixed PWLB	57,536	0	0	57,536
Private Placement Loans – LOBO	18,000	0	1,000	17,000
Private Placement Loans – Fixed	15,000	0	0	15,000
Total External Debt	**90,536**	**0**	**1,000**	**89,536**

7 Investment Properties

7.1 As of the 1st of April 2023 the Council had spent £61.810m on investment properties. These investment properties are expected to generate £4.663m gross rental income per annum which is a gross yield of 7.5%. The CFR and therefore MRP charges have increased as result of activity in investment properties.

Glossary of Terms

bps
Basis points - 1 basis point equals 1/100 of 1% or 0.01%.

Call Accounts
Is a bank account for investment funds it has no fixed deposit period, provides instant access to funds, and allows unlimited withdrawals and deposits.

Consumer Price Index (CPI)
The official measure of inflation of consumer prices of the United Kingdom.

Federal Reserve (Fed)
The central banking system of the United States of America.

Gross Domestic Product (GDP)
This is the monetary value of all the finished goods and services produced by a country within its borders in a specific time period, usually a year.

Gilts
Gilts are UK Government Bonds which offer a very low risk of default and a corresponding low rate of return.

LIBID
The London Interbank Bid Rate, that is, the interest rate at which banks bid to take short-term deposits from other banks.

Monetary Policy Committee (MPC)
This is a committee of the Bank of England which decides the official interest rate in the UK (the Bank of England Base Rate) and also directs other monetary policy such as quantitative easing and forward guidance.

Public Works Loan Board (PWLB)
The PWLB is a statutory body operating within the UK Debt Management Office to lend money from the National Loan Fund to local authorities and to collect the repayments.

q/q
The change from previous the previous quarter.

Quantitative Easing (QE)
An unconventional form of monetary policy where a Central Bank creates new money electronically to buy financial assets, like government bonds. This process aims to directly increase private sector spending in the economy and return inflation to target.

SONIA
SONIA (Sterling Overnight Index Average) is the effective overnight interest rate for unsecured transactions in the British sterling market.

y/y
The change from previous year.

Implications

Corporate Plan:

Effective treasury management and investment in properties is providing an income stream to support delivery of the key services within the Corporate Plan.

Legal:

Requirement to adhere to the CIPFA Prudential Code. Ensures compliance with Financial Regulations. [RLD 10/11/2023]

Finance: None arising from this report. [PH 07/11/2023].

Budget Area	Implication
General Fund – Revenue Budget	No significant implications
General Fund – Capital Programme	No significant implications
Housing Revenue Account – Revenue Budget	No significant implications
Housing Revenue Account – Capital Programme	No significant implications

Risk:

Risk	Mitigation
Risk that the investment properties become void or fall in value	Spread of assets within the portfolio and a reserve to cushion any void periods.

Human Resources:

No implications. [KB 13/11/2023]

Environmental/Sustainability

No implications.

Equalities:

No implications.

Other Implications:

No implications.

Reason(s) for Urgency

Not Applicable

Reason(s) for Exemption

Not Applicable.

Background Papers

Link Asset Services – Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review Report 2023/24
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Report Author and Contact Officer

Colin Heap
Principal Accountant – Capital and Treasury
Tel: 01623 457215
Email: colin.heap@ashfield.gov.uk

Sponsoring Director
Craig Bonar-Director Resources and Business Transformation
Tel: 01623 457203
Email: craig.bonar@ashfield.gov.uk

Appendix 1

Economics and interest rates

1.1 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.

2.1 Interest Rate Forecasts

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.

The latest forecast on 25th September 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.

Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

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