South Cambridgeshire District Council

Report to:	Audit & Corporate Governance 12 October 2023
Lead Cabinet Member:	Councillor John Williams Lead Cabinet Member for Resources
Lead Officer:	Peter Maddock, Head of Finance

TREASURY MANAGEMENT PERFORMANCE REPORT: QUARTER ENDING 30 SEPTEMBER 2023

Executive Summary

1. This report outlines the performance against the Council's approved Treasury Management Strategy for first three months of 2023/2024, including performance against the approved Prudential Indicators for Treasury Management.

Key Decision

2. This is not a key decision as there are no resource implications directly arising from the report at this stage.

Recommendation

3. **That Committee is invited to review the Treasury Management activity and performance for the quarterly period to 30 September 2023.**

Reason for Recommendation

4. The Committee has within its terms of reference a responsibility to review Treasury Management activity, and this report includes details of investment performance and treasury management activity for the quarter period 1 July 2023 to 30 September 2023.

Details

Treasury Management Strategy

5. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code), which requires the Council to approve a Treasury Management Strategy before the start of each financial year, review performance during the year, and to approve an annual report after the end of each financial year.

6. The Council's Treasury Management Strategy and prudential indicators for 2023/2024 were approved by Full Council at its meeting on 21 February 2023.

7. Changes in the regulatory environment have placed a much greater onus on Members to undertake the review and scrutiny of treasury management policy and activities. This report is important in that respect as it provides details of the actual position for treasury activities and highlights compliance with the Council's policies previously approved by the Council.

8. Any borrowing/investment exposes an organisation to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is, therefore, central to the Council's treasury management strategy This report covers the treasury management activity for the period 1 April 2023 to 30 September 2023 and the associated monitoring and risk management.

9. The Council has monies available for Treasury Management investment as a result of the following:

   - Positive cash flow.
   - Receipts (mainly from Government) received in advance of payments being made.
   - Capital receipts not yet utilised to fund capital expenditure.
   - Provisions made in the accounts for liabilities (e.g. provision for outstanding insurance claims or legal cases which have not yet materialised).
   - General and earmarked reserves retained by the Council.

10. Some of the source of funds identified above are short-term and investment of these needs to be highly 'liquid', particularly if it relates to a positive cash flow position which can change in the future. Future monies available for investment will depend on the budget position of the Council and whether the Council will need to substantially run-down capital receipts and reserves. Against a backdrop of unprecedented reductions in Government funding, the Medium-Term Financial Strategy and financial forecasts previously considered by the Council identify that on-going revenue savings will be required to balance the budget in future years; there is a likelihood, therefore, that such actions may be required in the medium term which could reduce the monies available for investment.

11. In line with established practice, it is intended that a mid-year review of the Treasury Management Policy Statement and Treasury Management Strategy will be undertaken with regard to their compliance to the CIPFA Prudential Code and the CIPFA Treasury Management Code, and to ensure their appropriateness in light of the Council's current investment and borrowing portfolios, and the ongoing delivery of the Council service objectives. This will be reported to the Committee at its meeting on 28 November 2023. A full review of the Treasury Management Policy and Treasury Management Strategy Statement will also be presented to Cabinet and Council as part of the 2024/2025 budget determination process.

12. The economic landscape has continued with a degree of uncertainty and volatility during the quarter period to 30 September 2023, with the ongoing financial challenges associated with high inflation levels, increasing interest rates and the consequences of war in Europe, the fear of recession and necessary financial tightening by the Bank of England to control the economy. It is expected that this trend will continue for the immediate future as the economy remains shaky. It will, therefore, remain a priority to include the consequences of these volatile trends in the Council's cash flow planning.

13. In response to the prevailing economic conditions the Bank of England increased the Base Rate several times during 2022/2023, and continues to do so in 2023/24 culminating in the increase to its current level of 5.25% effective from 3 August 2023. The outlook is that rates are at or near the peak. Our advisers believe rates have peaked at 5.25% and will remain there until September 2024. Market expectations are similar with pricing in of rates of up to 5.4% in the spring of 2024. Consumer Price Index (CPI) inflation, as a measure of price rises, has also been more stable that in the preceding quarterly periods, with CPI at 6.7% in the period to August 2023 (based upon the Office for National Statistics (ONS) information).

14. Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the former Ministry for Housing, Communities & Local Government (MHCLG) published its revised investment Guidance which came into effect from April 2018. The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

15. The updated Prudential Code included a new requirement for local authorities to provide a Capital Strategy, which is to be an overarching document approved by Full Council. The Council's Capital Strategy was considered and approved by Full Council on 21 February 2023 and will be reviewed as part of the 2024/2025 budget process.

<u>Investment Activity</u>

16. As at 30 September 2023, the Council held £135.9 million of invested funds (nominal basis), representing income received in advance of expenditure plus balances and reserves held. The Council's investment balances during 2023/2024, for the period to 30 September 2023, have averaged £136.3 million.

17. The Statutory Guidance on Local Government Investments in England, issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003, gives priority to security and liquidity and the Council's aim is to achieve a yield consistent with these key principles.

18. The table below shows the opening balances of investments held at the beginning of the financial year and the movements on each fund up to 30 September 2023:

Investment Counterparty	01 April 2023	New	Matured	30 Sept 2023
Short Term:	**£000**	**£000**	**£000**	**£000**
Banks – Call/Liquidity Accounts	2,595	35,300	37,800	95
AAA Rated Money Market Fund	2,365	154,415	154,910	1,870
Clearing Banks	7,000		7,000	Nil
Other Banks	5,000	17,000	2,000	20,000
UK Local Authorities	19,000	40,000	48,000	11,000
Building Societies	Nil			Nil
Housing Associations	Nil			Nil
Total Short-Term Investments	**35,960**			**32,965**

Investment Counterparty	01 April 2023	New	Matured	30 Sept 2023
Long Term:	**£000**	**£000**	**£000**	**£000**
South Cambs Ltd	100,000			100,000
Cambridge Leisure and Ice	2,400			2,400
Cambourne Town Council	500			500
Total Long-Term Investments	**102,900**			**102,900**
Total Investments	**138,860**			**135,865**

19. The downward movement in value of £3 million is due to the early payment in full of the A14 contribution that saved the Council £2.35m over a period of 25 years although reduced the current balance available for investments.

20. The most significant movements in the portfolio are an increase of £15 million placed on Other Banks (£20m) and a decrease of £8 million on Local Authorities (£11m). A more detailed analysis of the investment portfolio as at 30 September 2023 is shown at **Appendix A.**

21. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving low investment income.

22. In order to achieve these objectives, the Council's portfolio is diversified. The majority of the portfolio is invested in fixed term deposits with Financial Institutions which return 4.72% and Ermine Street Housing which returns 4.25%. Liquidity assets typically returned 5% over the quarter. This has to 30 September 2023 generated the Council a blended return of 4.38%.

23. This has been achieved whilst maintaining a low level of credit risk. Counterparty credit quality is assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating is [A-] across all major agencies); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. This is shown below.

	Weighted Average Risk Number	Investment Portfolio	Bail-In Exposure		Average Balance	Rate of Return
		£000	£000	%		
30 September 2023	2.68	135,865	20,095	14.8	136,346	4.38%
31 March 2023	2.70	138,860	12,000	8.6	147,898	4.21%

24. The table also shows how the Council's exposure to Bail in Risk has increased in year as the portfolio has more funds proportionally with Banks. This will increase as balances with Banks and Building Societies increase during subsequent quarters.

Borrowing Strategy

25. As at 30 September 2023, the Council held £205.123 million of long term debt (principal borrowed, excluding lease liabilities), no change on the position at 31 March 2023. The Council held £30 million of short-term debt at 30 September 2023.

26. Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained low and are likely to remain at these levels over the forthcoming two years, the Authority has determined it is more cost effective in the short-term to use internal resources instead of external borrowing.

27. The benefits of internal borrowing are monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Link Asset Services (Treasury Management Advisers) assist the Council with this 'cost of carry' and breakeven analysis.

Borrowing Activity

28. As at 31 March 2023 the Council had short-term local authority borrowing of £40 million in addition to £205.123 million of PWLB loans for HRA self-financing.

29. The table below sets out the movement in the Council's borrowing over the year to date. The Capital Financing Requirement (CFR) is unchanged in the six-month period to 30 September 2023.

	01/04/2023	**Maturing Debt**	**Interest Paid**	**Lease Payments**	**CFR Movement**	**30/09/2023**
	£000	**£000**	**%**	**£000**		**£000**
CFR	329,356				Nil	329,356
Short Term Borrowing (a)	40,000	(10,000)	3.77%			30,000
Long Term Borrowing (b)	205,123		3.51%			205,123
Total Borrowing (a+b)	245,123					235,123
Other Long-Term Liabilities (c)	0					0
Total External Debt (a+b+c)	245,123					235,123

PWLB Certainty Rate and Project Rate Update

30. Councils are required to notify the Department for Levelling Up, Housing and Communities (DLUHC), formerly MHCLG, of any potential future borrowing in order to obtain the 'Certainty Rate' (0.20% below the PWLB standard rate) the Council has submitted an application to borrow at this rate until 31 March 2024. There is no penalty if the facility is not used.

Debt Rescheduling

31. The premium charge for early repayment of PWLB debt has become very expensive for the loans in the Council's portfolio and, therefore, unattractive for debt rescheduling activity. As a consequence, no rescheduling activity has been undertaken.

2023/2024 Budget Monitoring

32. The Finance Team monitor and report on the Capital Financing budget on a regular basis. The latest position as at 30 September 2023 is shown in the table below:

	Current Budget	Forecast Outturn	Forecast Variance
	£000	**£000**	**£000**
Interest Payments	2,002	1,500	(502)
Minimum Revenue Provision	1,329	1,329	Nil
Total Expenditure	3,331	2,829	(502)
Investment Income	(5,703)	(5,919)	(216)
Commercial Property Rental Income (Net)	(1,300)	(1,300)	Nil
Total Income	(7,003)	(7,219)	(216)
Net Budget	(3,672)	(4,390)	(718)

33. Interest Payments are forecast to be lower than originally budgeted as the amount of short term borrowing will be minimised. This is mainly due to expected slippage within the capital programme. The expectation is long-term borrowing during the year will not be required, due to higher investment balances and use of short-term borrowing in the near term.

34. Minimum Revenue Provision forecast outturn is in line with estimate.

35. Investment Income is forecast to come in above estimate. Rates with Banks and Money Market funds have increased from record lows since the succession of Bank of England Base rate increases. Ermine Street Housing continues to make a significant contribution, with an expected outturn of £4.25 million as Ermine Street Housing has completed its acquisition programme. The income from the Commercial Property portfolio in the financial year is expected in line with estimate. Vacant areas in one property are being marketed so new lettings would see outturn ahead of estimate.

External Economic Impact on Portfolio

36. The external economic context and market rate data is referenced in the Treasury Advisers report reproduced at **Appendix B.**

37. The Bank of England Base Rate of 4.25%, that has applied effective from 22 March 2023, increased during the quarter period to 5.25% by 30 September 2023. The increase, compared to 2022/2023 levels, has increased the return on the Council's Money Market Fund holdings and on maturing deposits when reinvested.

Compliance with Performance Indicators

38. The Council has been compliant with the 2023/2024 Prudential Indicators approved by Full Council on 21 February 2023.

39. The Council measures and manages its exposures to treasury management risks using the following indicators:

40. Performance against prudential indicators in 2023/2024 is as follows:

(1) Interest Rate Exposure: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable interest rate exposures are set out in the table below:

Maturity structure of borrowing	**Under 12 months**	**More than 12 months**	**Under 12 months - Actual**	**More than 12 months - Actual**
Upper limit for fixed interest rate exposure	100%	100%	0%	100%
Upper limit for variable rate exposure	100%	0%	0%	0%

(2) Maturity Structure of Borrowing: The structure of the Council's borrowing is set out below.

Fixed Rate Borrowing		
Lender	Repayable within	Amount £,000
Local Authorities	<12 Months	25,000
Local Authorities	>12 Months <2 years	10,000
PWLB	10 – 15 years	25,000
PWLB	15 – 20 years	50,000
PWLB	20 – 25 years	50,000
PWLB	25 – 30 years	50,000
PWLB	30 – 35 years	30,123

(3) Principal Sums Invested for Periods Longer than 364 Days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The Council takes in consideration the advice of its Treasury Advisers when determining the duration of investments with financial institutions (excluding Ermine Street Housing and Cambridge Leisure and Ice Centre). The suggested durations for counterparties are:

Counterparty	Suggested maximum duration	Actual duration	Total investments £000
Close Brothers	6 months	730 days	5,000

(4) Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by maintaining a minimum £7 million working cash balance (total investment balance less loans to Ermine Street Housing and Cambridge Leisure & Ice). This liquidity is available to meet unexpected payments without additional borrowing.

Counterparty Type	Amount £000	% of Portfolio at 30 September 2023
Long term (>1yr)		
Ermine St Housing	100,000	71%
CLIC + Cambourne Town Council	2,900	2%
Other Banks	5,000	4%
Total Long term	107,900	
Short term (<365 days)		
Banks (Clearing)	95	0%
Other Banks	15,000	11%
Building Societies	0	
Housing Assoc.	0	
Local Authorities	16,000	12%
Money Market Funds	1,870	1%
Short Term (Working Cash Balance)	32,965	

Outlook for Quarter 3: 2023/2024

41. The Council will continue to use fixed term deposits and money market funds to manage cashflow. The Council investment balances will increase in Qtr 3 and deposits will be timed to mature in Qtr 4 to cover the period of lower receipts. The expected outturn on short term borrowing is £40 million (2022/23 £40 million).

42. Whilst there is now a degree of stability, the view remains that is that the UK economy still faces a challenging outlook as the Government continues to respond to the ongoing financial pressures associated high inflation levels.

Implications

43. In the writing of this report, taking into account the financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

Legal

44. It is a statutory duty, under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to approve a range of prudential indicators as part of its approval of the General Fund Revenue Budget and Capital Programme.

45. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).

Policy

46. There are no specific policy implications associated with the recommendations contained in this report. The Chartered Institute of Public Finance & Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the CIPFA Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities 2017 (as amended) have been used in the preparation of this report.

Finance

47. There are no new resource implications associated with the recommendations contained in this report.

Risk/Opportunities

48. There are clearly inherent risks in placing investments both in terms of the security of the capital invested and the level of return from the investment. The approved Treasury Management Strategy 2023/2024 identified the Councils investment priorities as (i) the security of the capital and (ii) the liquidity of its investments.

49. Compliance with the Treasury Management Strategy and associated Treasury Management Practices seeks to mitigate the risks inherent with the treasury management function. The consideration of Security, Liquidity and Yield, in that order, is critical when assessing potential treasury investments. The Strategy specifically states that the Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving low investment income.

50. The Council engages an external Treasury Management Adviser to provide appropriate and timely advice on the Council's treasury portfolio (and, in particular, to provide advice on counter-party creditworthiness and investment limits). This appointment is regarded as critical given the investment risks.

Climate Change

51. There are no direct environmental implications arising from the report.

Consultation Responses

52. Consultations have been undertaken with the Lead Cabinet Member for Resources and the Council's treasury management adviser.

Alignment with Council Priority Areas

53. Timely and robust consideration of the Council's treasury management activities is vital to ensure that financial performance is in line with expectations.

Background Papers

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection:

(a) at all reasonable hours at the offices of South Cambridgeshire District Council;

(b) on the Council's website; and

(c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

The following documents are relevant to this report:

- Medium Term Financial Strategy – Report to Cabinet: 12 December 2022
- Medium Term Financial Strategy – Report to Council: 21 February 2023
- General Fund Budget – Report to Cabinet: 6 February 2023
- General Fund Budget – Report to Council: 21 February 2023
- Treasury Management Strategy – Report to Cabinet: 6 February 2023
- Treasury Management Strategy – Report to Council: 21 February 2023

Appendices

A Schedule of Investments as at 30 September 2023

B Treasury Management Adviser – External Economic Context and Market Rate Data (To follow when released by Advisor)

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Appendix A

Counterparty	Amount £000	Interest £000	Total £000	Term Days	Rate %	Maturity Date
Lloyds Bank Commercial Markets	2,000	49	2,049	185	4.88	5 Oct 2023
Ashford BC	3,000	70	3,070	185	4.60	5 Oct 2023
Eastleigh BC	3,000	72	3,072	191	4.60	5 Oct 2023
Leeds City Council	3,000	6	3,006	13	5.33	5 Oct 2023
Goldman Sachs International Bank	2,000	28	2,028	91	5.57	31 Oct 2023
Goldman Sachs International Bank	1,000	24	1,024	181	4.85	9 Nov 2023
Standard Chartered Sustainable Fund	1,000	25	2,025	189	4.80	9 Nov 2023
Lloyds Bank Commercial Markets	3,000	80	3,080	191	5.07	9 Nov 2023
Folkestone and Hythe DC	2,000	71	2,071	290	4.45	14 Dec 2023
SMBC International	1,000	20	1,020	129	5.67	22 Jan 2023
SMBC International	3,000	64	3,064	138	5.66	22 Jan 2023
Goldman Sachs International Bank	2,000	60	2,060	189	5.80	19 Feb 2023
Close Brothers Ltd	5,000	320	5,320	731	3.20	12 Jul 2024
Total	31,000	889	31,889			

Appendix B

Treasury Management Adviser – Economics Update

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.

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