

# Treasury Management and Annual Investment Strategy 2024/25

## 1 Introduction

### 1.1 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’.***

### 1.2 The strategy covers:

- Statutory and regulatory requirements
- Balanced budget requirement
- Prudential and treasury Indicators
- Borrowing requirement
- Current treasury position
- Prospects for interest rates
- Investment policy
- Creditworthiness policy
- Country, counterparty and group exposure limits
- Cash flow and core fund investment
- Medium and long term investment
- Year end investment report
- Policy on use of external service providers.

## 2 Statutory and regulatory requirements

### 2.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to ‘have regard to’ the Chartered Institute of Public Finance (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

- 2.2 The Act requires the Council to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the **security** and **liquidity** of those investments.
- 2.3 The Department for Levelling Up Housing and Communities, (DLUHC) issued revised Statutory Guidance on Local Government Investments (2018 Edition). CIPFA amended the Prudential Code for Capital Finance in Local Authorities (2017 Edition) and the Treasury Management in the Public Services: Code of Practice and Cross Sectorial Guidance Notes (2017 Edition). In December 2021 CIPFA published updates to the Treasury Management Code which has been taken into account in the 2024/25 Strategy.
- 2.4 Historically, the scope of the statutory guidance and CIPFA codes was limited to the investment of an authority's cash surpluses and the management of borrowing undertaken to support its capital expenditure plans. The updated statutory guidance and codes broaden that scope to include expenditure on loans and the acquisition of non-financial assets (property) intended to generate a profit. The Council has not engaged in any commercial investments and has no material non-treasury investments.
- 2.5 The Council formally adopted the revised CIPFA Treasury Management Code of Practice (2017 Edition) on 30 October 2018 and in December 2021 CIPFA published updates to the Treasury Management Code. The primary requirements of the Code are as follows:
- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
  - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
  - Receipt by the full Council of an Annual Treasury Management Strategy, including the Annual Investment Strategy, for the year ahead; a mid-year Review Report; and an Annual Report (stewardship report) covering activities during the previous year.
  - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Delegation by the Council of the role of scrutiny of the Treasury Management Strategy and policies to a specific named body. For this Council, the delegated body is the Audit Committee.
- 2.6 The scheme of delegation and role of the Section 151 officer that give effect to these requirements are set out at **[Appendix 1]**.

### **3 Balanced budget requirement**

- 3.1 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:
- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
  - any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

### **4 Prudential and treasury indicators**

- 4.1 It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the 'Affordable Borrowing Limit'. In England and Wales the Authorised Limit represents the legislative limit specified in the Act.
- 4.2 The Council must have regard to the Prudential Code when setting the 'Authorised Limit', which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is 'acceptable'.
- 4.3 Whilst termed an 'Affordable Borrowing Limit', the capital plans to be considered for inclusion may incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The 'Authorised Limit' is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.
- 4.4 Prudential and Treasury Indicators relevant to setting an integrated treasury management strategy are set out in **[Appendix 2]**.

## **5 Borrowing requirement**

- 5.1 Other than for cash flow purposes and then within the limits set out at **[Appendix 2]** borrowing will not be necessary (based on the current capital plan). All capital expenditure prior to 2029/30 is expected to be funded from the Revenue Reserve for Capital Schemes, grants, developer contributions and capital receipts arising from the sale of assets. This does not however, preclude a decision to borrow in order to fund in full or in part a capital investment opportunity that meets the Council's strategic priorities and objectives and achieves value for money. Each such opportunity to be considered on a case by case basis as appropriate.
- 5.2 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

## **6 Current treasury position**

- 6.1 The Council is debt free and as such the overall treasury position at 30 November 2023 comprised only investments. On that date the Council's cash flow and core fund investments totaled £64.25m and was invested in a mix of money market funds, bank notice accounts and time deposits with banks and building societies. The average duration to maturity of the portfolio was 94 days with a weighted average rate of return 5.57%. Returns in future years are expected to decrease as Bank Rate cuts are implemented. Income from investments forms part of the Council's ten-year medium term financial strategy (MTFS). An updated MTFS will be presented to Council in February 2024.
- 6.2 The Council held £5m in externally managed property fund investments at 30 November 2023. The property funds are expected to generate a stable income of 3.7% in 2024/25 and this level should continue in future years. Over time, the rise in the value of each property funds' assets (capital appreciation) is expected to negate fund entry and exit costs.
- 6.3 The Council also held £4.25m in externally managed multi asset fund investments at 30 November 2023. The multi asset funds are expected to generate income of 4.3% in 2024/25 pulling back to 4% in future years. There are no exit costs associated with multi asset funds.
- 6.4 At present the Council has no material non-treasury investments (e.g. directly owned commercial property, shares in subsidiaries or loans to third parties). The procedures, practices and governance arrangements to enable the Council to meet the requirements of the Chartered

Institute of Public Finance & Accountancy's Treasury Management and Prudential Codes of Practice, and the Statutory Guidance on Local Government Investments relating to non-treasury investments was included in The Audit Committee report of 18 January 2021 and endorsed by Council approving appropriate Non-treasury Management Practices.

## **7 Prospects for interest rates**

7.1 The Council has appointed Link Asset Services as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. Link's current interest rate forecast is provided at **[Appendix 3]**. Link's expectation for Bank Rate, for each financial year ending March, are:

- 2024/2025 4.00%
- 2025/2026 3.00%
- 2026/2027 3.00%

7.2 The forecast may be overly optimistic (downside risks) dependent on:

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- **UK / EU trade arrangements** - if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

7.3 The forecast may be overly pessimistic (upside risk) dependent on:

- **The Bank of England** despite the recent tightening to 5.25%, proves too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- **The Pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- **Longer-term US treasury yields** rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although generally reversed in the last week or so).
- **Projected gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields compensating.

7.4 Link's more detailed view of the current economic background is included at **[Appendix 4]**.

## **8 Investment policy**

- 8.1 The Council's investment policy has regard to the DLUHC's Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. **The Council's investment priorities will be security first, liquidity second, and then yield.**
- 8.2 In accordance with the above guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- 8.3 Ratings are not the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment also takes account of information that reflects the opinion of the markets. To this end the Council engages with its advisors to maintain a monitor on market pricing such as 'credit default swaps' and overlay that information on top of the credit ratings.
- 8.4 Other information sources used includes the financial press, share price and other information relating to the banking sector in order to establish a robust scrutiny process on the suitability of potential investment counterparties.

- 8.5 Investment instruments identified for use are listed in **[Appendix 5]** under 'specified' and 'non-specified' investment categories. Counterparty limits are detailed in section 10 below.

## **9 Creditworthiness policy**

- 9.1 The creditworthiness service provided by Link has been progressively enhanced over the last few years and now employs a sophisticated modelling approach using credit ratings from each of the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings are supplemented using the following overlays:
- Credit watches and credit outlooks from credit rating agencies;
  - Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings; and
  - Sovereign ratings to select counterparties from only the most creditworthy countries.
- 9.2 This modelling approach combines credit ratings, and any assigned credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour coded bands are also used by the Council to inform the duration of an investment and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments.
- 9.3 The selection of counterparties with a high level of creditworthiness is achieved by selecting institutions down to a minimum durational band within Link's weekly credit list of potential counterparties (worldwide). Subject to an appropriate sovereign and counterparty rating the Council uses counterparties within the following durational bands:

Yellow/Pink	5 years
Purple	2 years
Blue	1 year (UK nationalised Banks)
Orange	1 year
Red	6 months
Green	100 Days

- 9.4 The Council does not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. Moody's tends to be more aggressive in giving low ratings than the other two agencies and adopting the CIPFA

approach may leave the Council with too few banks on its approved lending list. The Link creditworthiness service uses a wider array of information than just primary ratings and in combination with a risk weighted scoring system undue preponderance is not given to any one agency's ratings.

- 9.5 All credit ratings are reviewed weekly and monitored on a daily basis. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.
- If a downgrade results in the counterparty no longer meeting the Council's minimum criteria its use for new investment is withdrawn immediately.
  - In addition to the use of credit ratings the Council is advised of movements in Credit Default Swap data against the iTraxx European Financials benchmark and other market data on a daily basis. Extreme market movements may result in a scaling back of the duration assessment or removal from the Councils lending list altogether.
- 9.6 Sole reliance is not placed on the use of the Link service. In addition the Council uses market information including information on any external support for banks to assist the decision making process.

## **10 Country, counterparty and group exposure limits**

- 10.1 The UK Sovereign debt rating has been placed on Stable Outlook following a review by the three major rating agencies in April 2023. Accordingly, when setting minimum sovereign debt ratings, this Authority has agreed to reinstate the minimum rating of A- for the UK.
- 10.2 The Council has determined that it will only use approved counterparties from the UK. Counterparties from other countries will be subject to a minimum sovereign credit rating of AA-. The minimum will be the lowest rating determined by Fitch, Moody's and Standard and Poor's. The list of countries that qualify using this credit criteria as at the date of this report are shown in **[Appendix 6]**. The list will be amended in accordance with this policy should ratings change.
- 10.3 Avoidance of a concentration of investments in too few counterparties or countries is a key to effective diversification and in this regard the limits set out below are thought to achieve a prudent balance between risk and practicality.

<b>Country, Counterparty and Group exposure</b>	<b>Maximum Proportion of Portfolio</b>
UK regulated institutions subject to UK Sovereign rating of A- or higher and the institution limits detailed below.	100%
Non-UK regulated institutions as an amount per sovereign rated AA- or higher and subject to the institution limits detailed below.	20%
Group of related institutions.	20%
Each financial institution rated Fitch A-, F1 or higher (green excluding CDS using Link's credit methodology) or each local authority.	20%
Each UK nationalised bank rated Fitch BBB, F2 or higher (green excluding CDS using Link's credit methodology).	20%
Each AAA rated multilateral / supranational bank.	20%
Each AAA rated CNAV, LVNAV or VNAV money market fund.	20%
Each AA or higher rated enhanced cash fund / government liquidity fund / gilt fund / ultra-short dated bond fund subject to a maximum 20% exposure to all such funds.	10%
Each housing association rated Fitch A- or higher and 20% for all housing association investment.	10%
Non-specified investments over 1 year duration.	60%
Each non-rated property fund used for long term investment subject to a maximum £3m (20% of expected long term balances) per fund and across all such funds. No cash limit applies to new resources made available from, or in anticipation of, the sale of existing property assets or other windfalls.	N/A
Each non-rated diversified income (multi-asset) fund and or short dated bond fund used for medium term investment subject to a maximum £3m (20% of expected long term balances) per fund and across all such funds. No cash limit applies to new resources made available from, or in anticipation of, the sale of existing property assets or other windfalls.	N/A

- 10.4 Cash flow balances vary depending on the timing of receipts and payments during the month and from month to month. The investment limits identified in paragraph 10.2 will be based on an estimate of the expected average daily cash flow balance at the start of the financial year augmented by core cash and other balances. Counterparty investments will be managed to ensure compliance with the limits at the start and end of each financial year when balances available for investment will be at a low point.

## **11 Cash flow and core fund investment**

- 11.1 Funds available for investment are split between cash flow and core cash. Cash flow funds are generated from the collection of council tax, business rates and other income streams. They are consumed during the financial year to meet payments to precept authorities and government (NNDR contributions) and to meet service delivery costs (benefit payments, staff salaries and suppliers in general). The consumption of cash flow funds during the course of a financial year places a natural limit on the maximum duration of investments (up to one year). Core funds comprise monies set aside in the Council's revenue and capital reserves and are generally available to invest for durations in excess of one year.
- 11.2 **Cash flow investments.** The average daily cash flow balance throughout 2024/25 is expected to be £13.1m with a proportion available for longer than three months. Cash flow investments will be made with reference to cash flow requirements (liquidity) and the outlook for short-term interest rates i.e. rates for investments up to 12 months. Liquidity will be maintained by using bank deposit accounts and money markets funds. Where duration can be tolerated, additional yield will be generated by utilising term deposits with banks and building societies and enhanced cash and government liquidity funds. Investment in ultra-short dated bond funds will also be considered. Cash balances available for more than 3 months may be transferred to the core fund portfolio if a better overall return for the Council can be achieved by doing so.
- 11.3 In compiling the Council's estimates for 2024/25 a return on cash flow investments of 5.20% has been assumed.
- 11.4 **Core fund investments.** Historically the Council's core funds have been managed by an external fund manager. All core funds were returned to the Council for in-house management during 2014/15. The core fund balance is diminishing as a proportion is consumed each year (approximately £2m per annum) to support the Council's revenue

budget and capital expenditure plans. The average core fund balance during 2024/25 is expected to be £22.8m.

- 11.5 The Council will avoid locking into longer term deals while investment rates continue their current low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and are within the risk parameters set by the Council.
- 11.6 In compiling the Council's estimates for 2024/25 a return on core fund investments of 5.50% has been assumed. Subject to the credit quality and exposure limits outlined in paragraph 10.2, liquidity and yield will be achieved by a mix of investments using predominantly fixed term deposits and certificates of deposit. Notice accounts, enhanced cash and government liquidity funds and ultra-short dated bond funds will also be used if these offer favourable returns relative to term deposits. Investment with housing associations and other local authorities will also be considered.

## **12 Medium and long term investment**

- 12.1 The strategy includes provision (paragraph 10.2 and detailed in Appendix 5) to undertake medium term investment in either short dated bond funds and or diversified income funds (a mix of cash, bonds, equity and property) through externally managed collective investment schemes. Investment in such schemes typically implies a three to five year commitment to recoup entry and exit fees and mitigate the potential for a fall in the value of assets under management.
- 12.2 A detailed evaluation of a fund's asset quality, market risk, redemption constraints, management and governance arrangements will be undertaken in advance of any investment taking place. Support to identify and select the most appropriate fund(s) will be sought from the Council's treasury advisor. Any sums invested will be reported at regular intervals with income received and changes in capital value separately identified. The strategy places an upper limit on exposure to such funds of 20% of expected long term cash balances, circa £3m.
- 12.3 The strategy includes provision (paragraph 10.2 and detailed in Appendix 5) to undertake long term investment in property through an externally managed collective investment scheme (fund). Investment in such schemes typically implies a 10 year commitment to recoup entry and exit fees. To mitigate the risk that capital values may fall due to changes in economic activity, investment duration cannot be determined with certainty at the time the investment commences. As a consequence any cash balances applied to such an investment must

be available for the long term and there must be flexibility over the timing of redemption(s) in the future. Sums invested will be reported at regular intervals with income received and changes in capital value separately identified. The strategy places an upper limit on exposure to such funds from existing resources of 20% of expected long term cash balances, circa £3m. No limit applies to new resources made available from the sale of existing assets or other windfalls.

### **13 Year end investment report**

- 13.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

### **14 Policy on the use of external service providers**

- 14.1 The Council uses Link Asset Services as its external treasury management advisors.
- 14.2 The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers.
- 14.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

**Financial Services**  
**January 2024**

## **Appendices**

1. Treasury management scheme of delegation
2. Prudential and treasury indicators
3. Interest rate forecasts
4. Economic background provided by Link Asset Services
5. Credit and counterparty risk management (TMP1)
6. Approved countries for investments

## **Appendix 1 Treasury management scheme of delegation**

### **Full Council**

- Budget approval.
- Approval of treasury management policy.
- Approval of the annual treasury management and investment strategy.
- Approval of amendments to the Council's adopted clauses, treasury management policy and annual treasury management and investment strategy.
- Approval of the treasury management outturn and mid-year reports.

### **Cabinet**

- Budget consideration.
- Approval of the division of responsibilities.
- Approval of the selection of external service providers and agreeing terms of appointment.
- Acting on recommendations in connection with monitoring reports.

### **Audit Committee**

- Reviewing the annual treasury management and investment strategy and making recommendations to Cabinet and Council.
- Receive reports on treasury activity at regular intervals during the year and making recommendations to Cabinet.
- Reviewing treasury management policy, practices and procedures and making recommendations to Cabinet and Council.

### **The S151 (responsible) officer**

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Prepare and maintain effective treasury management practices (TMPs).
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers.
- Preparation of a Capital Strategy and for ensuring the strategy is sustainable, affordable and prudent in the long term and that due diligence has been carried out to support each investment decision and those decisions are in accordance with the risk appetite of the authority.

## Appendix 2 Prudential and treasury indicators

The prudential indicators relating to capital expenditure cannot be set until the capital programme is finally determined and will as a consequence be reported as part of the Setting the Budget for 2024/25 report that is to be submitted to Cabinet on 13 February 2024.

The treasury management indicators are as set out in the table below:

TREASURY MANAGEMENT INDICATORS	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt :					
borrowing	nil	7,000	7,000	7,000	7,000
other long term liabilities	nil	nil	nil	nil	nil
TOTAL	nil	7,000	7,000	7,000	7,000
Operational Boundary for external debt:-					
borrowing	nil	4,000	4,000	4,000	4,000
other long term liabilities	nil	nil	nil	nil	nil
TOTAL	nil	4,000	4,000	4,000	4,000
Actual external debt	nil	nil	nil	nil	nil
Upper limit for fixed interest rate exposure > 1 year at year end	nil	It is anticipated that exposure will range between 0% to 60%			
Upper limit for variable rate exposure < 1 year at year end	19,620 (35.5%)	It is anticipated that exposure will range between 40% to 100%			
Upper limit for total principal sums invested for over 365 days at year end	9,250 (16.7%)	60% of funds			

Maturity structure of fixed rate borrowing during 2023/24 – 2026/27	upper limit	lower limit
under 12 months	100 %	0 %
Over 12 months	0 %	0 %

A new Liability Benchmark indicator was introduced in 2023/24. Whilst consideration has been given to the Liability Benchmark, this Council is debt free and therefore there is no debt maturity profile to report. The forecast net investment requirement for the next three years (excluding the liquidity allowance) is: 2024/25 £32.1m, 2025/26 £25.9m and 2026/27 £19.9m.

## Appendix 3

## Interest rate forecasts – December 2023

Link Group Interest Rate View 07.11.23	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	3.25	3.00	3.00	3.00	3.00	3.00
3 mth ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 mth ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 mth ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.60
25yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80
Bank Rate													
Link	5.00	4.9	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
Capital Economics	5.25	5.25	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	--	--	--
5yr PWLB Rate													
Link	4.20	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
Capital Economics	4.20	4.50	4.40	4.30	4.20	4.10	3.90	3.80	3.70	--	--	--	--
10yr PWLB Rate													
Link	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.60
Capital Economics	4.32	4.60	4.50	4.40	4.30	4.30	4.20	4.10	4.10	--	--	--	--
25yr PWLB Rate													
Link	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
Capital Economics	4.82	4.90	4.80	4.60	4.40	4.40	4.50	4.50	4.60	--	--	--	--
50yr PWLB Rate													
Link	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80
Capital Economics	4.54	4.60	4.50	4.50	4.40	4.40	4.40	4.40	4.40	--	--	--	--

## **Appendix 4      Economic background based on text provided by Link Asset Services**

- 1     **UK** – 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.
  - CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
  - Core CPI inflation declining to 6.1% in September 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 by 7.8% for the period June to August, excluding bonuses).
- 2     The registering of 0% GDP for Q3 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.
- 3     The fall in the composite Purchasing Managers Index from 48.6 in August to 46.7 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% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.
- 4     As the growing drag from higher interest rates intensifies over the next six months, the economy is expected to 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. With CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession. 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. The Bank of England is expected 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.
- 5     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.

- 6 The cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3m rate rose 7.8% for the period June to August, 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 annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.
- 7 CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.
- 8 In the latest monetary policy meeting published on 14 December, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.
- 9 Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time". Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.
- 10 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 in the future.
- 11 **Central Bank Concerns.** Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.

- 12 Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

Link Asset Services  
18 December 2023

## Appendix 5 Credit and counterparty risk management (TMP1)

All specified and non-specified Investments will be:

Subject to the sovereign, counterparty and group exposure limits identified in the Annual Investment Strategy (Section 10).

Subject to the duration limit **where applicable** suggested by Link (+6 months for UK institutions) at the time each investment is placed.

Subject to a maximum of 60% of funds being held in non-specified investments at any one time.

Sterling denominated.

**Specified Investments** (maturities up to 1 year):

Investment	Minimum Credit Criteria
UK Debt Management Agency Deposit Facility	UK Sovereign A-
Term deposits - UK local authorities	UK Sovereign A-
Term deposits - UK nationalised banks	UK Sovereign A- Counterparty BBB, F2 or Green excluding CDS
Term deposits – all other banks and building societies	UK Sovereign A- / Non-UK Sovereign AA- Counterparty A-, F1 or Green excluding CDS
Certificates of deposit - UK nationalised banks	UK Sovereign A- Counterparty BBB, F2 or Green excluding CDS
Certificates of deposit – all other banks and building societies	UK Sovereign A- / Non-UK Sovereign AA- Counterparty A-, F1, or Green excluding CDS
UK Treasury Bills	UK Sovereign A-
UK Government Gilts	UK Sovereign A-
Bonds issued by multi-lateral development banks	AAA
Sovereign bond issues (other than the UK Gov't)	AAA
Money market funds (CNAV, LVNAV or VNAV)	AAA
Enhanced cash / Government liquidity / <b>Ultra-short dated bond funds</b>	<b>AA</b>

**Non-specified Investments** (maturities in excess of 1 year and any maturity if not included above):

Investment	Minimum Credit Criteria	Max duration to maturity
Fixed term deposits with variable rate and variable maturities (structured deposits) - UK nationalised banks	UK Sovereign A- Counterparty BBB,F2 (Green)	2 years
Fixed term deposits with variable rate and variable maturities (structured deposits) - banks and building societies	UK sovereign A- / Non-UK Sovereign AA- Counterparty A-, F1 (Green)	2 years
Term deposits - local authorities	UK Sovereign A-	3 years
Term deposits - UK nationalised banks	UK Sovereign A- Counterparty BBB,F2 (Green)	2 years
Term deposits - banks, building societies	UK Sovereign A- / Non-UK Sovereign AA- Counterparty A-, F1 (Green)	2 years
Term deposits – housing associations	UK Sovereign A- Counterparty A-	2 years
Certificates of deposit - UK nationalised banks	UK Sovereign A- Counterparty BBB,F2 (Green)	2 years
Certificates of deposit - banks and building societies	UK Sovereign A- / Non-UK Sovereign AA- Counterparty A-, F1 (Green)	2 years
Commercial paper - UK nationalised banks	UK Sovereign A- Counterparty BBB,F2 (Green)	2 years
Commercial paper - banks and building societies	UK Sovereign A- / Non-UK Sovereign AA- Counterparty A-, F1 (Green)	2 years
Floating rate notes issued by multilateral development banks	AAA	2 years
Bonds issued by multilateral development banks	AAA	2 years
Sovereign bonds (other than the UK Government)	AAA	2 years
UK Government Gilts	UK Sovereign A-	5 years
Property funds	N/A	N/A
Diversified income <i><b>and or short dated bond</b></i> funds	N/A	N/A

**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

## Appendix 6      Approved countries for investments

Each financial institution must meet the minimum credit criteria specified in the Annual Investment Strategy (Section 10). For non-UK regulated institutions the institutions sovereign must be rated AA- or higher by each of the three rating agencies - Fitch, Moody's and Standard and Poor's.

This list will be reviewed and amended if appropriate on a weekly basis by the Director of Finance and Transformation.

As of 15 December 2023 sovereigns meeting the above requirement which also have banks operating in sterling markets with credit ratings of green or above on the Link Asset Services' Credit Worthiness List were:

AAA	Australia Denmark Germany Netherlands Norway Singapore Sweden Switzerland
AA+	Canada Finland USA
AA	Abu Dhabi (UAE)
AA-	Belgium Qatar France <b>UK</b>

At 15 December 2023 the UK received a credit rating of AA-