APPENDIX I

Treasury Management Update

Quarter ended 31st December 2023

Report of Chief Resources and S151 Officer

2023/24 Treasury Management Update

Quarter Ended 31st December 2023

1. Introduction

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

2. Economic update (provided by Link Asset Services)

The third quarter of 2023/24 saw:

A 0.3% month on month decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%.

A sharp fall in wage growth, with the headline 3month year on year rate declining from 8.0% in September to 7.2% in October,

CPI inflation continuing its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November.

Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022.

The Bank of England holding rates at 5.25% in November and December.

A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.

CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.

The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.

Looking ahead, Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until the second half of 2024.

3. Interest Rate Forecast

The Council has appointed Link Group as its treasury advisor 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.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Additional notes by Link on this forecast table: -

- *LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.*
- *Link forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.*

4. Investing Activities

The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 22nd February 2023. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

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

As shown by the charts below and the interest rate forecasts in section 3, investment rates have remained elevated during 2023/24 but are now expected to have peaked.

There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of credit worthiness to ensure that only appropriated counterparties are considered for investment purposes.

The current investment counterparty criteria selection approved in the Treasury Management Strategy is meeting the requirement of the treasury management function.

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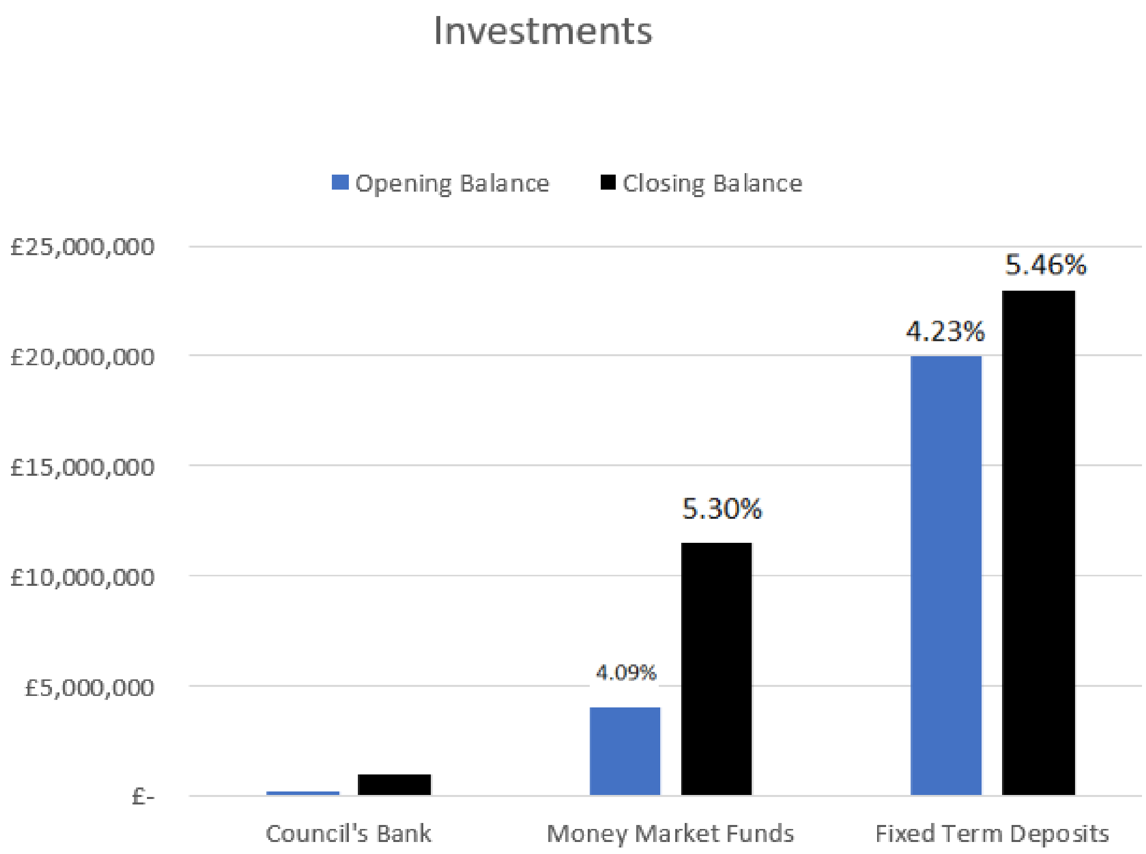
The average level of funds available for investment purposes to the end of quarter 3 was £34.03m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

In terms of performance against external benchmarks, the return on investments compared to the 7-day SONIA and bank rates at the end of the period is shown below. This is viewed as good performance given the need to prioritise the investments and liquidity (i.e. making sure that the Council's cash flow meets its needs).

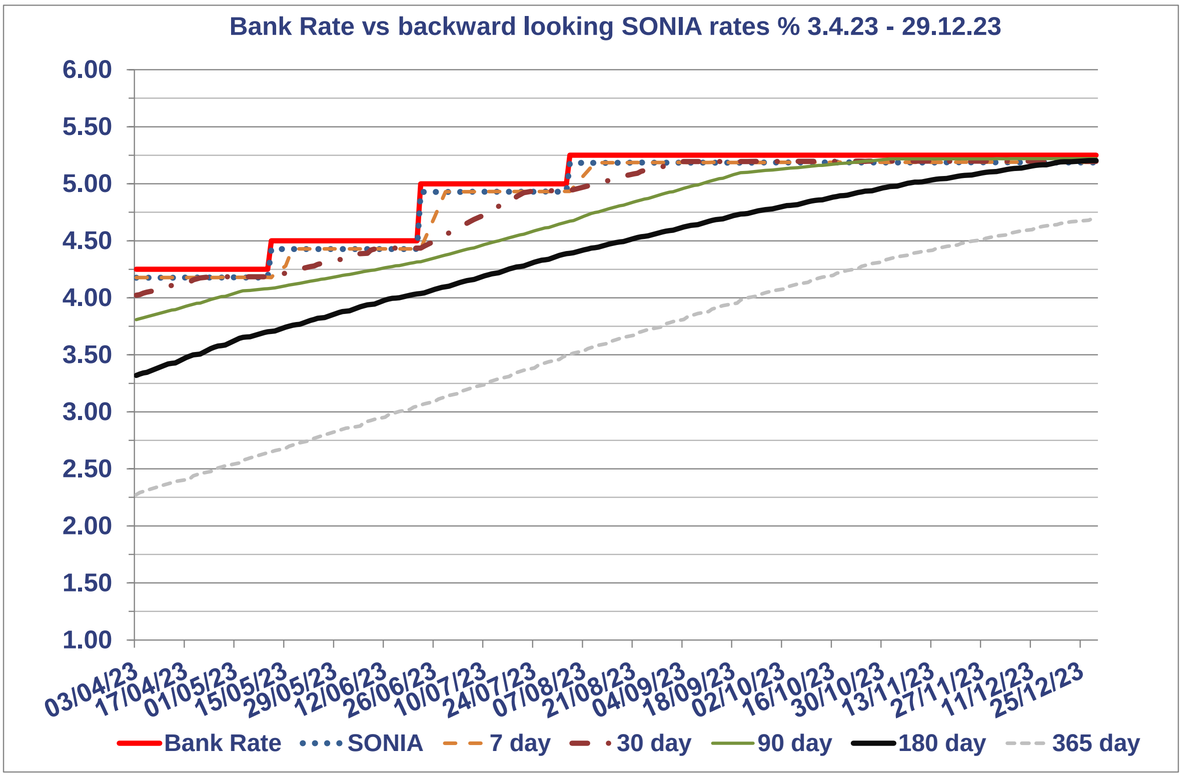
Base Rate	5.25%
7 day SONIA	5.19%
Lancaster City Council investments	5.40%

Investment Balances – quarter ended 31 December 2023

At the start of the quarter investments totalled £29.9m rising to £34.5m by 31 December. Fixed term investment with local authorities on 31 December were £23.0m whilst Money Market Fund balances were £11.5m.



Other Investments	Term	Maturity Date	Opening 1.4.23 £	Closing 31.12.2023 £	Indicative Rate (YTD)	Current Fixed Rate	Interest to Date £
Call Accounts							
Natwest (Cash Manager Plus)			244,000	487,000	0.01%		6,563
Money Market Funds							
Aberdeen Life Investments			0	0	5.27%		145,867
Blackrock Sterling Liquidity First Fund			4,000,000	5,500,000	5.32%		102,959
LGIM			0	6,000,000	5.34%		185,889
Insight			0	0	5.24%		43,212
Goldman Sachs			0	0	5.21%		7,045
Lancashire County Council			0	0	5.00%		2,147
Fixed Term Deposits							
London Borough of Newham	233 days	26/05/2023	5,000,000	0		3.50%	26,370
West Dunbartonshire	182 days	22/05/2024	5,000,000	5,000,000		5.55%	167,801
Halton Borough Council	186 days	20/11/2023	5,000,000	0		4.50%	135,260
Aberdeen City Council	92 days	03/08/2023	5,000,000	0		4.35%	68,849
Birmingham City Council	213 days	19/01/2024	0	5,000,000		5.05%	134,897
Bradford City Council	184 days	31/01/2024	0	5,000,000		5.50%	116,027
London Borough of Barking & Dagenham	153 days	30/01/2024	0	3,000,000		5.60%	57,074
Waltham Forest Council	189 days	30/05/2024	0	5,000,000		5.65%	30,185
Sub-total			**24,244,000**	**34,987,000**			**1,230,145**
						Budgeted income	**649,500**
							580,645

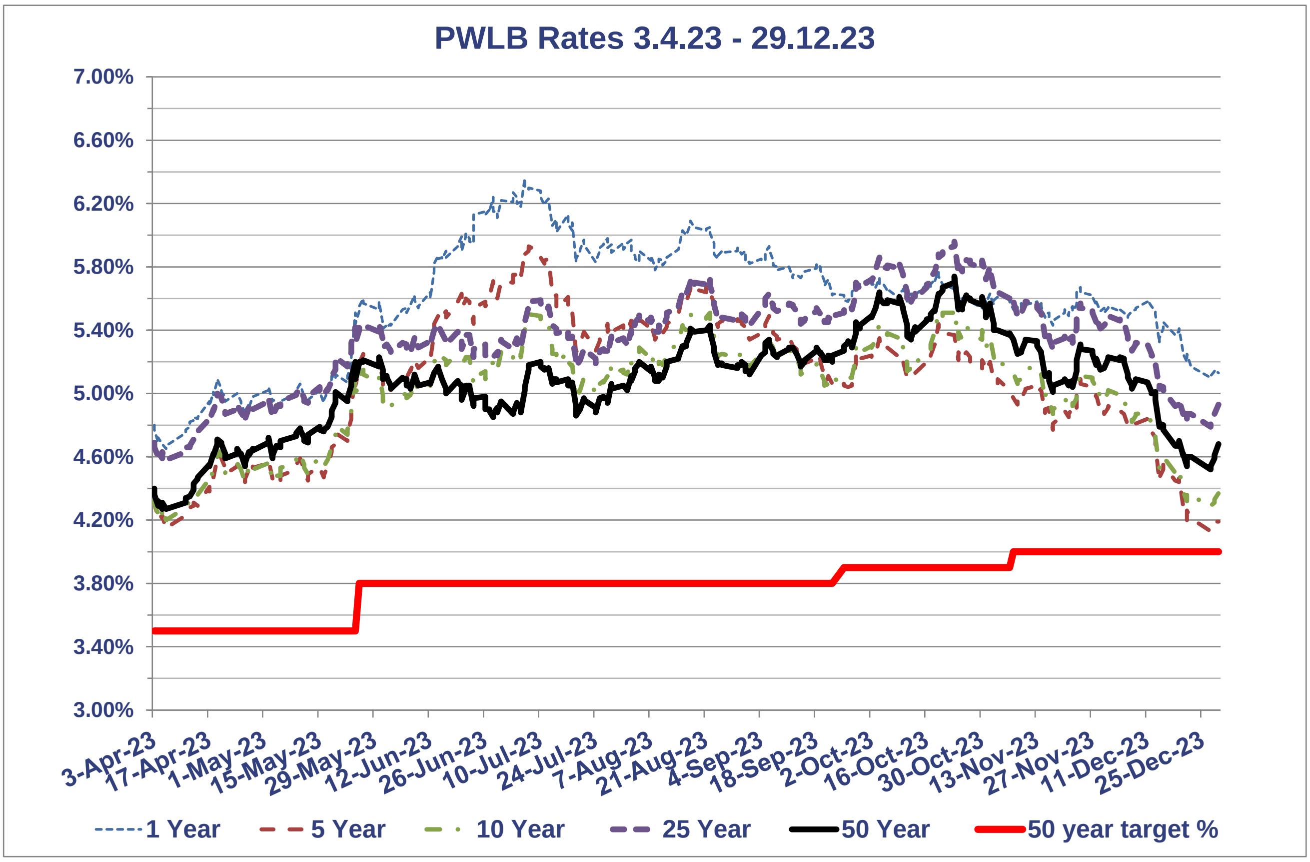


5. New Borrowing

No borrowing was undertaken during the quarter ended 31st December 2023. It is anticipated that further borrowing will be undertaken during this financial year. Balance sheet projections indicate that around £6M borrowing may be required before the end of the financial year. This is anticipated to be temporary borrowing. The ultimate timing will depend on exact working capital cashflows in the run up to year end which are kept under close review. These will continue to be monitored in the forthcoming financial year.

PWLB rates were on a rising trend from April through to October but dropped back significantly in November and December.

The 50-year PWLB target certainty rate for new long-term borrowing started 2023/24 at 3.50% before increasing to a peak of 4.00% in November. With rates elevated across the whole of the curve, it is advised to not borrow long-term unless the Authority wants certainty of rate and judges the cost to be affordable.



6. Debt Rescheduling

Debt rescheduling opportunities have increased significantly in the current quarter where gilt yields, which underpin PWLB rates and market loans, have risen materially. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio.

7. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 31st December 2023, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2023/24. The Chief Resources & S151 Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

The Prudential and Treasury Indicators for 2023-24 as of 31st December 2023 are set out below:

Treasury Indicators	31.03.23 Actual £M	2023/24 Approved Estimate £M	2023/24 Quarter 3 Estimate
Authorised limit for external debt	115.00	124.00	117.00
Operational boundary for external debt	99.00	109.14	102.04
Gross external debt	59.01	73.47	63.97
Investments	(20.30)	(13.74)	(7.71)

Prudential Indicators – Non HRA	31.03.23 Actual £M	2023/24 Approved Estimate £M	2023/24 Quarter 3 Estimate £M
Capital expenditure *	10.44	23.97	10.62
Capital Financing Requirement (CFR) *	63.56	74.05	66.95
Annual change in CFR *	4.50	10.48	3.38
Ratio of financing costs to net revenue stream *	5.90%	22.96%	19.94%

Prudential Indicators – HRA	31.03.23 Actual £M	2023/24 Approved Estimate £M	2023/24 Quarter 3 Estimate £M
Capital expenditure *	5.31	7.22	8.33
Capital Financing Requirement (CFR) *	35.13	34.09	34.09
Annual change in CFR *	(1.04)	(1.04)	(1.04)
Ratio of financing costs to net revenue stream *	18.79%	17.00%	17.00%

8. Other Issues

Changes in risk appetite

The 2021 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g., for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.