3.0 **TREASURY MANAGEMENT**

Overview

3.1 This section of the report presents details of the Council's Treasury Management Activity during Q2 2023/24, changes to the Approved Lending List and other current policy issues and considerations. Following local government re-organisation, Treasury activities are being reviewed and consolidated within the Treasury Management Strategy and polices of the new council.

3.2 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is the management of the Council's borrowing, cash flows, its banking and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Council has adopted the Code and complies with its requirements.

3.3 The CIPFA Code of Practice for Treasury Management recommends that Members should be informed of Treasury Management activities at least twice a year but preferably quarterly. This report ensures, therefore, that the Council is adopting Best Practice in accordance with CIPFA's Code of Practice.

Economic Update

3.4 The Council's treasury advisors, Link Group, summarised the key points associated with economic activity in Q2 2023/24 up to 30 September 2023**:**

- Interest rates rose by a further 25bps, taking Bank Rate from 5.00% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remained elevated as inflation continually surprised to the upside.
- CPI inflation fell from 8.7% in April to 6.3% in September and has since fallen further to 4.6% in October.
- Core CPI inflation declined to 6.2% in August from 7.1% in April and has since declined to 5.7% in October.
- 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).

A more detailed economic commentary on developments during Q2 2023/24 is included in **Appendix E.**

Interest Rate Forecasts

3.5 The current interest rate forecasts (25 September 2023) of Link Group are as follows

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

* PWLB Rates are shown net of certainty rate 0.2% discount

The above forecast reflects 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.

In its latest monetary policy meeting on 1 November, the Bank of England left interest rates unchanged at 5.25%.

Annual Investment Strategy

3.6 The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 22 February 2023. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

3.7 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

3.8 From 1 April cash balances have been consolidated and investments are placed in accordance with the approved lending list approved as part of the Annual Treasury Management Strategy. Work is ongoing to embed arrangements, but it is anticipated that investment returns will improve following consolidation. The approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 September 2023.

3.9 The investment activity up to Q2 2023/24 was as follows:

- Balance invested at 30 September 2023 : £606.1m
- Average Daily Balance 2023/24 up to 30 September 2023: £601.9m
- Average Interest Rate Achieved up to 30 September 2023: 4.47%

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 grant and progress on the capital programme.

3.10 The average return to Q2 2023/24 compares with the backward looking SONIA rates as follows:

- 5.19% 7 day
- 5.39% 1 month
- 5.48% 3 months
- 5.78% 6 months
- 6.25% 12 months

3.11 It is also a key requirement of the CIPFA Code of Practice that annual Treasury Management Strategies should be kept under constant review throughout the year and reported to Members as appropriate. Although there continues to be uncertainty in the financial and banking market, both globally and in the UK, **it is considered that the Strategy approved in February 2023 is still fit for purpose in the current economic climate**. No changes are therefore considered necessary to the Strategy at this stage.

Approved Lending List

3.12 The Approved Lending List as at 30 September 2023 is attached as **Appendix B** with changes made during Q2 2023/24 being reported in **Appendix C**.

Debt and borrowing

3.13 The Council's external debt outstanding at 30 September 2023 and forecast position for 2023/24 is as follows:-

Detail	PWLB		Money Market Loans		Total	
	£m	%	£m	%	£m	%
At 31 March 2023	**355.8**	**3.73**	**24.0**	**4.04**	**379.8**	**3.75**
Loan Repayments	1.3		0.0		0.6	
New Loans Taken	0.0		0.0		0.0	
= Loans Outstanding at 30 September 2023	**354.5**	**3.73**	**24.0**	**4.04**	**379.2**	**3.75**
Further Scheduled In Year Repayments	0.8		0.0		1.5	
Forecast Additional Loans to be Taken	0.0		0.0		0.0	
= Estimated Loans Outstanding at 31 March 2024	**353.7**	**3.74**	**24.0**	**4.05**	**377.7**	**3.76**

3.14 Any change to the forecast debt outstanding by the end of 2023/24 will be largely determined by whether the borrowing requirement for 2023/24 is ultimately financed by external borrowing or internal borrowing.

3.15 Based on the Q2 Capital Plan update the total external borrowing requirement for 2023/24 is currently forecast to be:-

Detail	£m
2023/24 Borrowing Requirement	
Borrowing Requirement	35.9
Less Company Loans advanced in year to be Repaid	
Revenue Provision for Debt Repayment (MRP)	-15.0
Refinance 2022/23 PWLB Loan Repayments	2.1
= Total 2023/24 Borrowing Requirement	**23.0**

3.16 A value for money assessment would therefore indicate that value could be best obtained by avoiding/delaying new borrowing and continuing to use internal cash balances to finance new capital expenditure or to replace maturing external debt. This would maximise short term revenue savings and produce other benefits, but is not risk free.

3.17 This Internal capital financing option will therefore continue to be actively adopted on an ongoing basis in order to achieve short term revenue savings and mitigate the credit risk incurred by holding investments in the market.

3.18 New external borrowing rates (fixed interest maturity rates from the PWLB reflecting the 0.2% ‘certainty discounts’) during the first half of 2023/24 were as follows:-

	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	5.25	5.19	5.39	5.48	5.78	6.25
High Date	03/08/2023	29/09/2023	19/09/2023	30/08/2023	07/07/2023	07/07/2023
Low	4.25	4.18	4.17	4.31	4.46	4.47
Low Date	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
Average	4.81	4.74	4.83	5.03	5.26	5.45
Spread	1.00	1.01	1.22	1.17	1.33	1.77

3.19 A review of the consolidated debt position will be undertaken in the remainder of the year in order to identify potential debt repayment and restructuring opportunities. No debt repayment or rescheduling exercises have been affected to date in 2023/24.

Treasury and Prudential Indicators

3.20 It is a statutory duty for the Council to determine and keep under review its *Affordable Borrowing Limits*.

3.21 During the quarter ended 30 September 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 Corporate Direct - Resources reports that no difficulties are envisaged for the current or future years in complying with these indicators.

3.22 The prudential and treasury Indicators are shown in Appendix F.

Impact of Treasury Management Activities on the Revenue Budget

3.23 Based on the Treasury Management activity at Q2 2023/24 and a forecast for the remainder of the year, the revenue impact is as follows:

Interest rates have been higher than originally forecast due to recent increases in base rate. Returns will reviewed in advance of Q3 as uncertainties over inflation continue.

The forecast outturn for interest paid on long term borrowing is £10.9m (excluding HRA).

The forecast outturn for the Minimum Revenue Provision (MRP) is £13.2m.

Capital Strategy

3.24 The Capital Strategy was included as part of the Council's Annual Treasury Management and Investment Strategy 2023/24, approved in February 2023. The Capital Strategy sets out how capital expenditure, capital financing and treasury management contribute to the provision of Corporate and service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

3.25 Alternative non-treasury investments are considered as part of the Capital Strategy. Given the technical nature of potential alternative investments and strong linkages to the Council's Treasury Management function, appropriate governance and decision making arrangements are needed to ensure robust due diligence in order to make recommendations for implementation. As a result, all investments are subject to consideration and where necessary recommendations of the Commercial Investment Board.

3.26 The alternative investments considered by the Commercial Investment Board are as follows:

Type of Investment	Invested as at 30/09/2023 £m	Rate of Return %
Alternative Treasury Instruments		
Money Market Funds	0.0	0.00
Enhanced Cash Funds	0.0	0.00
Certificates of Deposit (CDs)	0.0	0.00
Property Funds	15.9	2.44
Total Alternative Treasury Instruments	**15.9**	**2.44**
Alternative Investments		
Loans to Council Companies		
- Yorwaste	3.7	9.25
- Brierley	11.5	11.25
- First North Law	0.1	9.25

- NY Highways	11.0	11.75
- Broadacres Housing Association	33.6	4.30
- Bracewell Housing Ltd	0.7	10.80
- Selby & District Housing Trust	2.7	4.20
Total Loans to Council Companies	**63.2**	**7.20**
Other Alternative Investments		
Spend to Save	0.0	0.00
Loans to Housing Associations	0.0	0.00
Local Economic Growth Projects	0.0	0.00
Solar Farm (or similar) Projects	0.0	0.00
Commercial Investments	13.6	2.63
Total Other Alternative Investments	**13.6**	**2.63**
Total Alternative Investments	**76.8**	**6.39**

3.27 The position on Property Funds at 30 September is as follows:-

In Year Performance

			In Year Performance Q2 2023/24			
Fund	Bwd Investment Valuation	Valuation as at 30/09/23	Capital Gain / (Loss)		Revenue Return	
	£000	£000	£000	%	£000	%
Blackrock	5,095.6	4,959.8	(135.8)	-2.7	76.6	2.2
Threadneedle	4,791.2	4,731.3	(59.9)	-1.3	105.8	3.2
Hermes	1,921.2	1,881.0	(40.2)	-2.1	32.2	1.6
Fidelity	2,864.1	2,776.4	(87.7)	-3.1	62.8	2.1
Total	14,672.1	14,348.5	(323.6)	-2.2	277.4	2.4

Total Fund Performance

			Total Performance			
Fund	Investment £k	Valuation as at 30/09/2023	Capital Gain / (Loss)		Forecasted Revenue Return	
	£000	£000	£000	%	£000	%
Blackrock	5,505.5	4,959.8	(545.7)	-9.9	484.7	8.8
Threadneedle	5,366.3	4,731.3	(635.0)	-11.8	658.4	12.3
Hermes	2,000.0	1,881.0	(119.0)	-6.0	265.8	13.3
Fidelity	3,000.0	2,776.4	(223.6)	-7.5	462.8	16.1
Total	15,871.8	14,348.5	(1,523.3)	-9.6	1,891.7	11.9

3.28 While Property Funds continue to provide a revenue return as noted in the table above, the funds have experienced some capital losses.

3.29 Property funds are long term investments and valuations can, therefore, rise as well as fall, over the period they are held. In order to mitigate any potential future loss, funds will be set aside to ensure there is no impact on the General Fund until units in the funds are sold.

3.30 Given the volatility and risk within the market, all property funds will be reviewed in terms of their strategies to mitigate risk within their portfolios, in the context of the longer term nature of these investments. Should any changes to these investments be considered necessary, these will be reported to the Executive and to Council if required.

3.31 The position on Commercial Property investments at 30 September 2023 is as follows:-

			Performance		
Property	Investment £k	Valuation as at 31/03/23	Total Capital Gain / (Loss)		Forecasted Return
	£000	£000	£000	%	%
Harrogate Royal Baths	9,504.0	7,000.0	(2,504.0)	(26.3)	1.64
Bank Unit in Stafford Town Centre	876.0	790.0	(86.0)	(9.8)	5.75
Co-op Store in Somercotes	1,497.3	1290.0	(207.3)	(13.8)	5.08
Shopping centre – Harrogate	925.0	925.0	0.0	0.0	4.00
Secondary industrial land - Harrogate	792.0	792.0	0.0	0.0	4.80
Total	13,594.3	10,797.0	(2,797.3)	(23.6)	2.63

3.32 The value of Commercial Property investments will continue to be assessed as markets recover from the impact of Covid-19. Commercial Property is a long term investment and valuations can, therefore, rise as well as fall, over the period they are held. In order to mitigate any potential future loss funds will be set aside to ensure that there is no impact on the General Fund at the point of any future sale.

3.33 The Council continues to review potential commercial investments, but will now consider any potential investment opportunities alongside the implications for PWLB borrowing going forward, however, the 2023/24 Capital Plan does not include any plans to purchase commercial assets primarily for yield.

Other Loans

3.34 The County Council has also provided the following loan facilities:-

Lender	Date Advanced	Original Loan	Interest Rate	Loan Outstanding as at 30/09/23	Revenue Return (as at 30/09/23)	
		£000	%	%	£000	%
Ryedale Learning Trust	Feb-21	1,455.0	8.35	1,212.5	39.7	3.27

3.35 Ryedale Learning Trust

The Ryedale Federation of four schools (Ryedale School, Helmsley CPS, Sinnington CPS and Kirkbymoorside CPS) converted to a new Multi Academy Trust, The Ryedale Learning Trust, in February 2021. As part of the conversion process, a novation was agreed to transfer the school loans currently in place with the federated schools to the Multi Academy Trust on commercial terms.

Local authorities are prohibited from using resources to financially support academy schools by regulation and, consequently, the loan was funded from General Reserves (not Schools Block Reserves) at a commercial rate of 3.1% + Base Rate. The loan is to be repaid in line with an agreed schedule and fully repaid by 2032/33.

Other Treasury Management Development and Issues

3.36 The DLUHC has issued the Consultation on Local Government capital risk mitigation measures in the Levelling Up and Regeneration Bill (LUR Bill) in July 2023. The LUR Bill was introduced in May 2022 and sets out four risk metrics for local authorities in England, which, if breached would mean the authority comes into scope of the new powers which provide the government with the flexibility to intercede where it is appropriate to do so. The detailed methods of calculation are to be included in regulations, reflecting the fact that specific risks evolve and emerge, and the consultation is now seeking views on appropriate calculations which give a reasonable reflection of an authority's level of risk for that metric. The consultation will last for 10 weeks.

RECOMMENDATIONS

3.37 That Executive

i. notes the position on the Council's Treasury Management activities during the second quarter of 2023/24

ii. refers this report to the Audit Committee for their consideration as part of the overall monitoring arrangements for Treasury Management.

TREASURY MANAGEMENT APPENDICES

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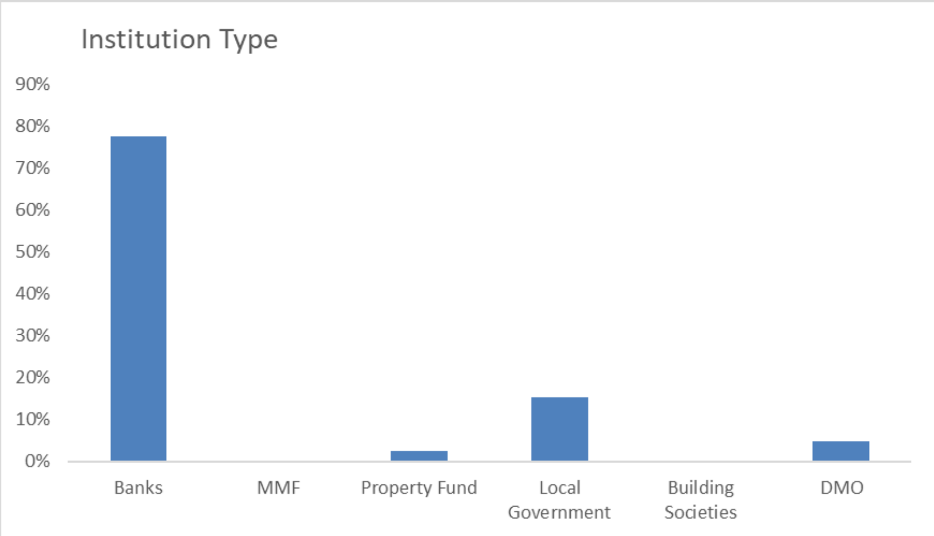
Analysis of loans outstanding as at 30 September 2023

Actual Loans Outstanding – Summarised by Organisation	
	£m
Local Authority	94.5
Santander	52.0
Standard Chartered	80.0
Goldman Sachs	75.0
National Westminster	30.0
Helaba	25.0
DBS	25.0
Sumitomo Mitsui BCE	80.0
Handelsbanken	20.0
Barclays	44.6
Bank of Scotland	10.0
National Bank of Canada	40.0
DMO	30.0
	606.1

Other Bodies	30-Sep-23		31-Mar-23	
	£m	%	£m	%
NY Pension Fund	3.1		1.8	0.3
NY Fire and Rescue Authority	7.7		7.2	1.3
Richmondshire DC	0.0		7.8	1.4
Yorkshire Dales National Park	4.3		4.0	0.7
North York Moors National Park	7.2		6.4	1.1
Peak District National Park	8.1		7.5	1.3
Selby District Council	0.0		77.9	13.9
National Parks England	0.3		0.2	0.0
Align Property Partners	2.5		1.9	0.3
NYnet Limited	16.7		11.7	2.1
Total Other Bodies	49.9	8.2	126.4	22.6
Cash Balances held by NYC	556.2	91.8		
Cash Balances held by NYCC			315.9	56.4
Cash Balances held by Legacy Councils			118.3	21.1
Total Investment	**606.1**	**100.0**	**560.1**	**100.0**

Rates as at 30 September 2023	
	%
Bank Rate	5.25
Investment Rates	
- NYCC overnight (on call)	4.80
- 1 month	5.40
- 6 months	5.50
- 1 year	5.70
- Government Debt Management Office Account	5.17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80%
70%
60%
50%
40%
30%
20%
10%
0%
Banks
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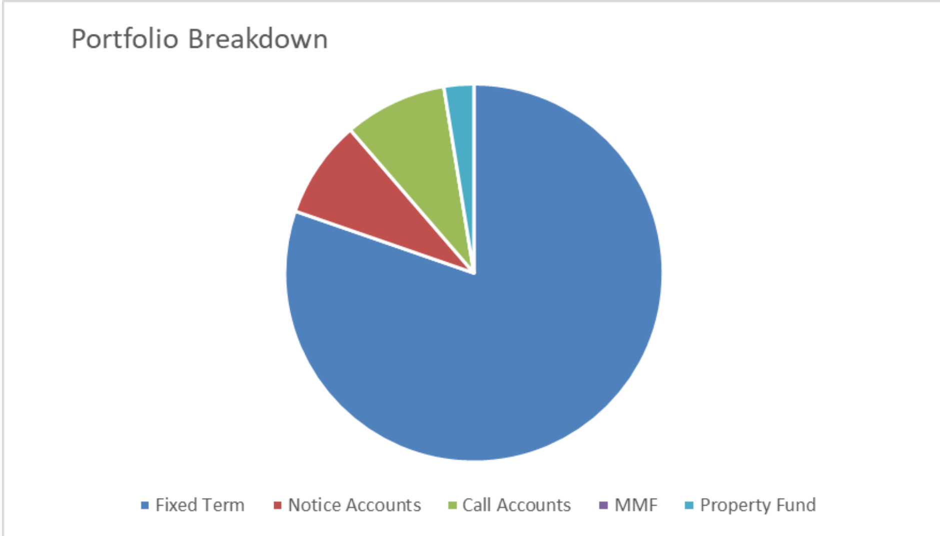
Property Fund
Local Government
Building Societies
DMO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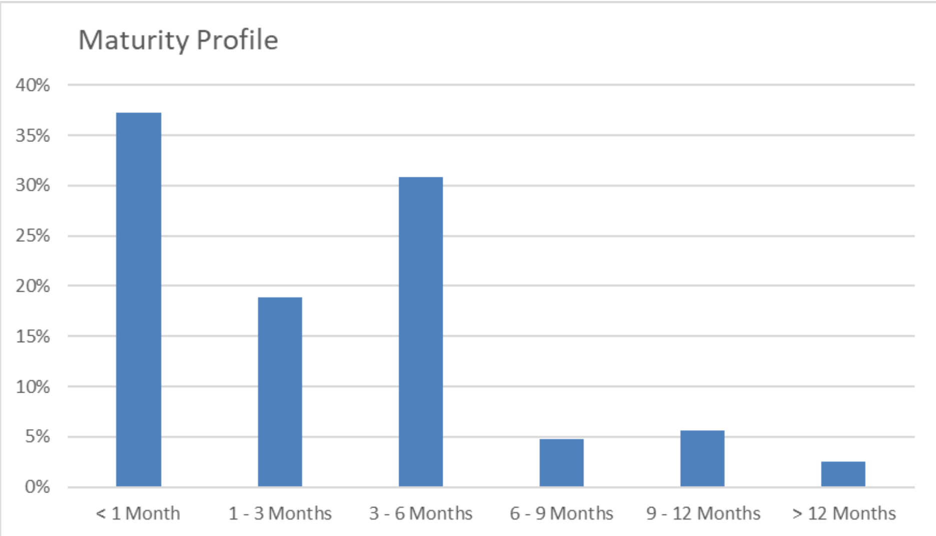
Fixed Term
Notice Accounts
Call Accounts
MMF
Property Fund


Maturity Profile
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1 - 3 Months
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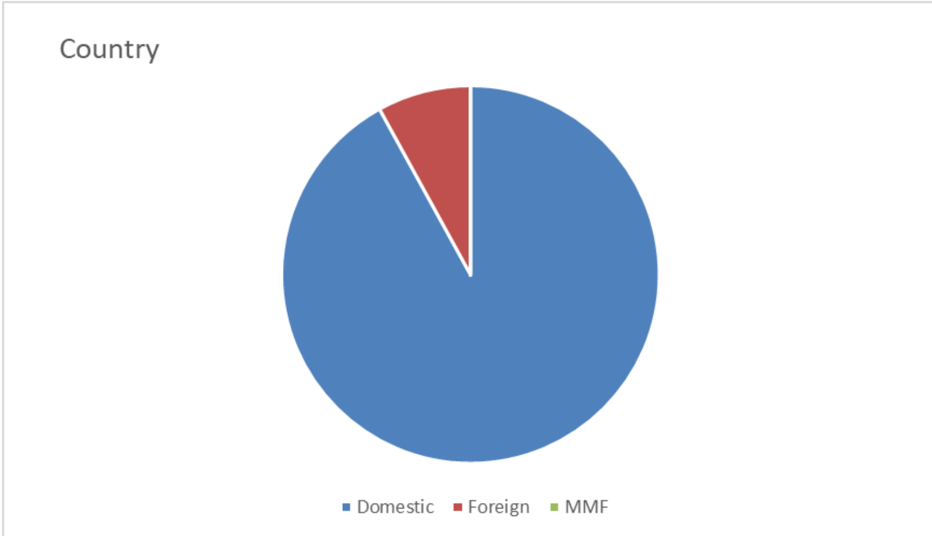
6 - 9 Months
9 - 12 Months
> 12 Months


Country
Domestic
Foreign
MMF

Appendix B

APPROVED LENDING LIST Q2

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (> 1 year £40m limit)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland PLC (RFB)	GBR	90.0	365 days	-	-
National Westminster Bank PLC (RFB)	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK PLC (includes Cater Allen)	GBR	80.0	6 months	-	-
Barclays Bank PLC (NRFB)	GBR	90.0	100 days	-	-
Barclays Bank UK PLC (RFB)	GBR		6 months		
Bank of Scotland PLC (RFB)	GBR	80.0	6 months	-	-
Lloyds Bank PLC (RFB)	GBR				
Lloyds Bank Corporate Markets PLC (NRFB)	GBR				
Goldman Sachs International Bank	GBR	80.0	6 months	-	-
Sumitomo Mitsui	GBR	80.0	6 months	-	-
Standard Chartered Bank	GBR	80.0	6 months	-	-
Handlesbanken	GBR	80.0	365 days	-	-
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	40.0	3 months	-	-
Coventry Building Society	GBR	40.0	6 months	-	-
High Quality Foreign Banks					
National Australia Bank	AUS	40.0	365 days	-	-
Credit Industriel et Commercial	FRA	40.0	365 days	-	-
Landesbank Hessen-Thueringen Girozentrale (Helaba)	GER	40.0	365 days	-	-
DBS (Singapore)	SING	40.0	365 days	-	-
Bayerische Landesbank	GER	40.0	6 months	-	-
National Bank of Canada	CAN	40.0	6 months	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		30.0	365 days	5.0	5 years
Police / Fire Authorities		30.0	365 days	5.0	5 years
National Park Authorities		30.0	365 days	5.0	5 years
Other Deposit Takers					
Money Market Funds		40.0	n/a liquid	-	-
Property Funds		5.0	365 days	5.0	10 years
UK Debt Management Account		150.0	365 days	-	-

* Based on data 30 September 2023

Appendix C

CHANGES TO THE APPROVED LENDING LIST DURING Q2

There have been no changes to the Lending List from the 1 July 2023.

Organisation	Original Investment Limit / Term	Date Amended	Revised Investment Limit / Term	Reason

It should be noted, however, that changes can be made on a daily basis in reaction to market sentiment, with maximum investment durations being adjusted accordingly.

Maximum investment durations for other organisations may have, therefore, been changed during this quarter, but have since returned to the level at 1 July 2023.

Appendix D

Treasury Management and Reporting Arrangements

The current monitoring and reporting arrangements in relation to Treasury Management activities are as follows:

(a) an annual report to Executive and Full Council as part of the Budget/MTFS process that sets out the Council's **Treasury Management and Investment Strategy and Policy** for the forthcoming financial year. For 2023/24 this report was submitted to Executive on 24 January 2023 followed by Full Council on 22 February 2023;

(b) an annual report to Executive and Full Council as part of the Budget/MTFS process that sets the various **Prudential Indicators** (submitted to Executive on 24 January 2023 and Full Council on 22 February 2023)

(c) **annual outturn reports** to the Executive for both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year. The outturn reports for 2022/23 were submitted to Executive on 30 June 2023;

(d) a quarterly report on Treasury Management to the Executive (this report) as part of the **Quarterly Performance Monitoring** report;

(e) **periodic meetings** between the Corporate Director – Resources, the Corporate Affairs Portfolio Holder and the Chairman of the Audit Committee to discuss issues arising from the day to day management of Treasury Management activities;

(f) reports on proposed changes to the Council's Treasury Management activities are submitted to the **Audit Committee** for consideration and comment. A copy of this report is also provided to Audit Committee Members.

Appendix E

Detailed Economic Commentary on Developments during Q2 2023/24

Economic Background - UK

- 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, it is anticipated that the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government support packages 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. 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 and then again to 4.6% in October. 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. Inflation declined again to 4.6% in October with core inflation falling to 5.7%.
- 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. 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.

Prudential and Treasury Indicators for 2023-24 as of 30 September 2023

Capital Expenditure

	2023/24 Forecast £m	2023/24 Actual £m
New Capital Expenditure	113.7	326.4
New Finance Leases and PFI	0.0	0.0
Total Capital Expenditure	**113.7**	**326.4**
Financed by		
- Capital grants and contributions	71.4	196.5
- Direct Revenue Funding	32.5	74.7
- Capital receipts	7.2	19.3
Capital Borrowing Requirement	**2.6**	**35.9**

Capital Financing Requirement (CFR)

	2023/24 Forecast £m	2023/24 Actual £m
Total CFR	**753.9**	**725.4**
Net Financing need for year	2.6	35.9
MRP	-22.8	-18.6
Movement in CFR	**-20.2**	**17.2**

Authorised Limit, Operational Boundary and Actual Debt

	2023/24 Forecast £m	2023/24 Actual £m
Authorised Limit	652.1	780.3
Operational Boundary	632.1	760.3
External Debt	519.5	517.7

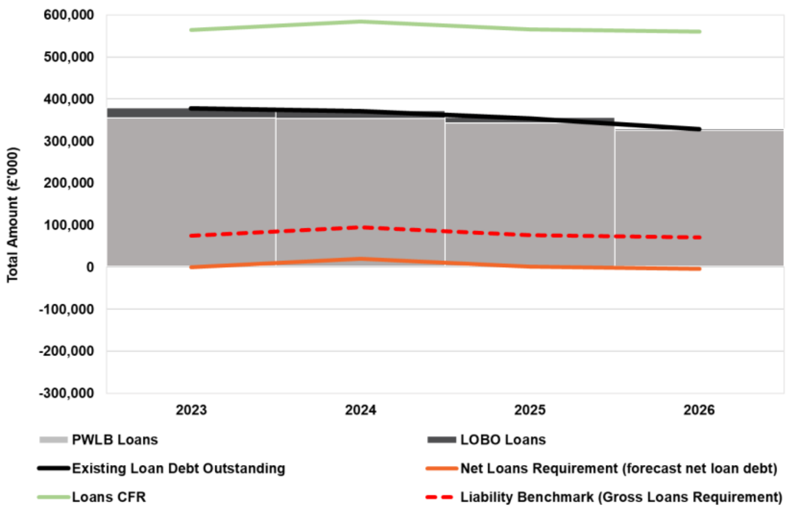
Gross Debt and the CFR

	2023/24 Forecast £m	2023/24 Actual £m
CFR	753.9	725.4
Gross Borrowing	519.5	517.7
Under / (over) borrowing	234.4	207.8

Ratios

	2023/24 Forecast %	2023/24 Forecast %
Financing costs to net revenue stream (Non-HRA)	5.0	4.9
Financing costs to net revenue stream (HRA)	20.5	20.5
Net income from commercial and service investments to net revenue stream	1.0	1.0

Liability Benchmark



Maturity Structure of Borrowing

	2023/24 Forecast Lower Limit %	Upper Limit %	Forecast %
Under 12 months	0	15	2
12 months to 2 years	0	15	4
2 years to 5 years	0	15	8
5 years to 10 years	0	25	15
10 years to 20 years	0	25	11
20 years to 30 years	0	45	40
30 years to 40 years	0	45	16
40 years to 50 years	0	45	4

Limits for Long Term Treasury Management Investments

	2023/24 Forecast Limit £m	Forecast £m
Limit on investments > 1 year	60.0	0.0