ISLINGTON
For a more equal future

Resources Department
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Report of: Executive Member for Finance and Performance

Meeting of: Executive

Date: 28th November 2024

Ward(s): All

Treasury Management Mid-Year Review

1. Synopsis

1.1. This report reviews the activities of the Council's Treasury Management function over the half year period ended 30 September 2024. The first half of the financial year has seen a reduction in interest rates; however, the gilt rates continue to be volatile.

1.2. Over the reporting period, all treasury management (TM) activities have been carried out in accordance with the approved limits and the prudential indicators (PI) set out in the Council's Treasury Management Strategy. This is detailed in paragraphs 4.34 – 4.44.

1.3. Treasury Management comprises:

- managing the Council's borrowing to ensure funding of its future capital programme is at optimal cost;
- investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security of capital and liquidity

2. Recommendation

2.1. To note the Treasury Mid-Year Review to September 2024

3. Background

3.1. In February 2002, Islington Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the Code) which requires us to approve treasury management semi-annual and annual reports.

3.2. 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 2021 Edition which requires the Council to approve a treasury management strategy (TMS) before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the Code.

3.3. The 2021 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's TMS complying with CIPFA's requirement, was approved by full Council on 29 February 2024.

4. Detailed Report

4.1. On 31st March 2024, the Authority had net borrowing £239.3m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.24 Actual £m	**31.3.25 Forecast £m**
General Fund CFR	209.717	230.996
HRA CFR	532.635	562.650
PFI CFR	**77.418**	**72.546**
Total CFR	**819.77**	**866.192**
Less: *Other debt liabilities	(77.418)	(72.546)
Borrowing CFR	**742.352**	**793.646**
External borrowing**	(342.544)	(348.876)
Internal / borrowing	**399.916**	**444.770**
Less: Balance sheet resources	503.116	534.770
Treasury Investment	**103.2**	**90.0**
Net (borrowing) / investments	**(239.344)**	**(258.876)**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt
** shows only loans to which the Authority is committed and excludes optional refinancing

4.2. On 30th September 2024, the Council had net borrowing of £258.876m arising from its expenditure. The treasury management position at 30th September and the change over the six months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.24 Balance £m	**Movement £m**	**30.9.24 Balance £m**	**30.9.24 Rate %**
Long-term borrowing				
- PWLB	321.544	16.332	337.876	4.31
- Other	21.000	(10.000)	11.000	1.96
Short-term borrowing	0.000	0.000	0.000	0.000
Total borrowing	**342.544**	**6.332**	**348.876**	**4.23**
Long-term investments	10.000	(10.000)	0.000	0.000
Short-term investments	63.200	4.800	68.000	4.51
Cash and cash equivalents	30.000	(8.000)	22.000	5.00
Total investments	**103.200**	**(13.2)**	**90.000**	**4.63**
Net [borrowing / investments]	**239.344**	**19.532**	**258.876**	

Economic Update

4.3. On the 1st August 2024, Andrew Bailey, the Bank of England Governor reported that, “over the past couple of years we have raised interest rates to slow down price rises (inflation). It’s working. Inflation has fallen a lot over the past 18 months. Inflation in the UK fell back to the 2% target in May and June. In part due to the fading impacts of global shocks like the war in Ukraine and Covid. In part due to higher interest rates. Inflationary pressures have now eased enough that we’ve been able to cut interest rates today. But this decision was finely balanced. The risks of higher inflation remain. We need to make sure inflation stays low. So, we have to be careful not to cut interest rates too much or too quickly.

4.4. We expect inflation to rise again this year, to around 2¾%. But we expect this increase to be temporary with inflation coming back down next year. Over the coming years we need to make sure that inflation will continue to stay low. High inflation has affected everyone, but it particularly hurts those who can least afford it.

4.5. After substantial rises in interest rates since 2021 many central banks have now begun to reduce rates, albeit slowly. Gilt yields were volatile over the 6-month period and have reduced slightly between April and September 2024. Much of the downward pressure from lower inflation figures was counteracted by upward pressure from positive economic data. Data from the US continues to impact global bond markets including UK gilt yields.

Arlingclose View

4.6. The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the half year and 4.79% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.18%. Rates for 20-year maturity loans ranged from 5.01% to 5.57% during the half year, and 50-year maturity loans from 4.88% to 5.40%.

4.7. Whilst the cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024, primarily due a dearth of LA-LA lending/borrowing activity during the month, as expected shorter-term rates reverted to a more normal range and were generally around 5.00% - 5.25%.

Borrowing Strategy

4.8. As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriately risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. At the present time short term interest rates are higher than long term interest rates.

4.9. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Council.

4.10. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Council has no new plans to borrow to invest primarily for financial return.

4.11. The PWLB HRA rate which is 0.4% below the certainty rate is available up to June 2025. This discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans, providing a window of opportunity for HRA-related borrowing.

4.12. In keeping with these objectives, the strategy is to replace the HRA maturing debt, borrow additional sums to fund the existing capital programme and the purchase of ex-right to buy properties in line with the authorised borrowing limits. This strategy enabled the Council to reduce net borrowing costs and reduce overall treasury risk.

Borrowing Update

4.13. At 30th September the Authority held £348m of loans, an increase of £6.332m from 31st March 2024, as part of its strategy for current year capital programmes. Outstanding loans on 30th September are summarised in Table 3A below.

4.14. In August 2024 £18m of short-term funding was borrowed and repaid at an average rate of 5.20%. This was due to HMRC VAT refund late payment of £25m over a 4-month period.

Table 3A: Borrowing Position

	31.3.24 Balance £m	Net Movement £m	30.9.24 Balance £m	30.9.24 Weighted Average Rate %	30.9.24 Weighted Average Maturity (years)
Public Works Loan Board	321.544	16.332	337.876	4.31	24.04
Banks (LOBO)	0.000	0.000	0.000	0.00	0.00
Local authorities (long-term)	20.000	(10.000)	10.000	2.00	0.62
Local authorities (short-term)	0.000	0.000	0.000	0.00	0.00
Other (Green Bond)	1.000	0.000	1.000	1.55	2.34
Total borrowing	**341.544**	**6.332**	**348.876**	**4.23**	**23.30**

4.15. Short-term borrowing cost has remained high with the currently high Base Rate and short-dated market rates. The Council had no short-term loans as at 30th September 2024, this compares with 5.3% on £20m loans 12 months ago.

Table 3B: Long-dated Loans borrowed

	Amount £m	Rate %	Period (Years)
PWLB Maturity Loan 1	10.000	4.53	50
PWLB Maturity Loan 2	10.000	4.52	50
PWLB Maturity Loan 3	10.000	4.16	10
Total borrowing	**30.000**		

4.16. The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of borrowing is maintained.

Treasury Investment Activity

4.17. The CIPFA Treasury Management Code defines treasury management investments as those investments which arise from the Council's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

4.18. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the half year, the Council's investment balances ranged between £98 and £150 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

4.19. The Council has budgeted £1.75m income from these investments in 2024/25. Income received up to 30th September was £2.64m, whist a further £0.4m has been declared and is due to be paid by October.

Table 4: Treasury Investment Position

	31.3.24	**Net**	**30.9.24**	**30.9.24**
	Balance	**Movement**	**Balance**	**Income Return**
	£m	**£m**	**£m**	**%**
Local authorities and other govt entities	73.200	(5.200)	68.000	4.51
Money Market Funds	30.000	(8.000)	22.000	5.00
Total investments	**103.200**	**(13.200)**	**90.000**	**4.63**

4.20. 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 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 unsuitably low investment income.

4.21. As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.

4.22. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2024	4.67	A+	29%	47	4.85
30.09.2024	**4.82**	**A+**	**24%**	**72**	**4.75**
Similar LAs	**4.71**	**A+**	**75%**	**12**	**4.96**
All LAs	**4.60**	**A+**	**61%**	**11**	**4.91**

4.23. The Council's budget for average rate of return is 4%, as at 30th September 2024 the average return on investment rate is 4.75%. The projected reduction in cash available for investment has led to the reduced average rate of return.

Arlingclose's review:

4.24. "I've just reviewed your benchmarking, and I'm not particularly concerned. Your credit score is basically the same as other authorities – interestingly, it is the fact that you have a greater proportion of LA investments relative to money market funds that is the reason for the higher weighted average score. As a result, you have a lower exposure to bail-in and a longer WAM. The latter will provide some protection against reductions in Bank Rate.

4.25. In terms of the average rate, this is purely down to one historical investment that matures a day after the benchmarking date of 30th September. When this is removed, the average portfolio rate increases to 5.14%".

Non-Treasury Investments

4.26. The definition of investments in the Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

4.27. Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

4.28. The Council lends money to its subsidiaries, local businesses, local charities, local residents and its employees to support local public services and stimulate local economic growth.

4.29. The Authority also held £41.246m of such investments in directly owned property (value of investment properties from Statement of Accounts, as at 31.03.2024). These investments generated £2.152m of investment income for the Authority after taking account of direct costs in 2023/24, representing a rate of return of 5%.

Treasury Performance

4.30. The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

	Actual £m	**Budget £m**	**Over/ under**	**Actual %**	**Benchmark %**
HRA	30.000	128.638	(98.638)	4.40	5.50
GF	0.000	49.436	(49.436)	0.00	5.72
Total borrowing	**30.000**	**178.074**	**(148.074)**		
Total debt	**30.000**	**178.074**	**(148.074)**		
Total treasury investments	**90.000**	**305.242**	**(215.242)**	**4.63**	**4.00**

The Table above shows the Council has significantly under borrowed compared to the increase in capital financing requirement and has used its large cash flows to finance capital spend in the short term. As a consequence, its treasury investment are significantly lower than they otherwise would be.

MRP Regulations

4.31. On 10th April 2024 amended legislation and revised statutory guidance were published on Minimum Revenue Provision (MRP). The majority of the changes take effect from the 2025/26 financial year, although there is a requirement that for capital loans given on or after 7th May 2024 sufficient MRP must be charged so that the outstanding CFR in respect of the loan is no higher than the principal outstanding less the Expected Credit Loss (ECL) charge for that loan.

4.32. The regulations also require that local authorities cannot exclude any amount of their CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP (there are specific exceptions for capital loans and leased assets).

Compliance

4.33. The Corporate Director of Resources reports that all treasury management activities undertaken during the period complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Debt and the Authorised Limit and Operational Boundary

	H1 2024/25 Forecast	30.9.24 Actual	2024/25 Operational Boundary	2024/25 Authorised Limit	Complied? Yes/No
Borrowing	433.876	348.876	493.029	924.294	Yes
PFI and Finance Leases	**72.546**	**72.546**	71.226	76.226	Yes
Total debt			**564.255**	**1000.52**	

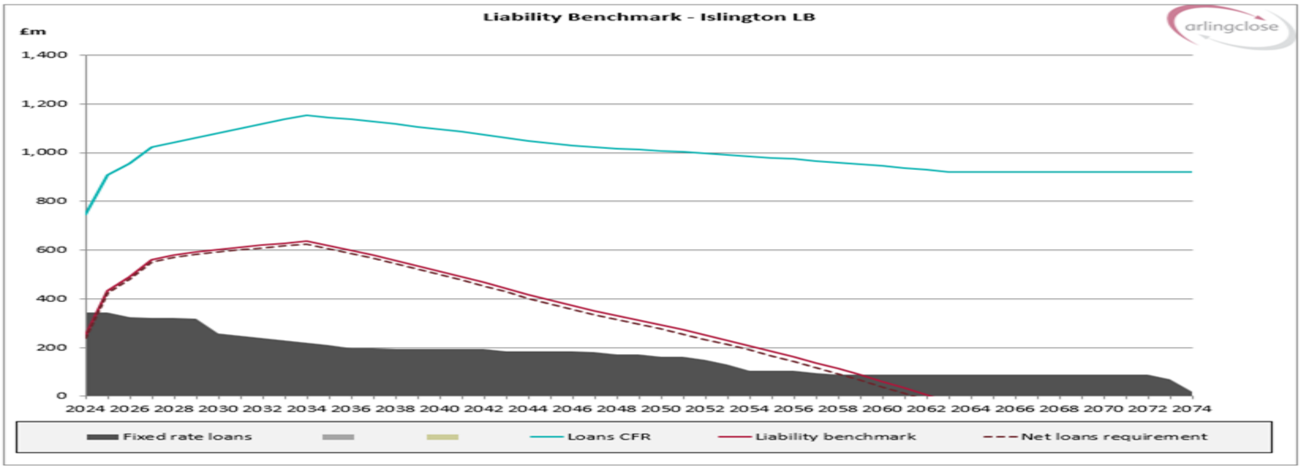
Treasury Management Prudential Indicators

4.34. As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

4.35. **Liability Benchmark:** This indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £10m required to manage day-to-day cash flow.

	31.3.24 Actual	31.3.25 Forecast	31.3.26 Forecast	31.3.27 Forecast
Loans CFR	742.4	906.1	955.8	1021.9
Less: Balance sheet resources	(503.1)	(483.9)	(475.2)	(470.7)
Net loans requirement	**239.3**	**422.2**	**480.6**	**551.2**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	**249.3**	**432.2**	**490.5**	**561.2**
Existing borrowing	**342.544**	**343.876**	**325.208**	**319.873**

4.36. Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing, minimum revenue provision on new capital expenditure based on a 25-year asset life and income, expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



4.37. Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.

Maturity Structure of Borrowing

4.38. This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Upper Limit	Lower Limit	30.9.24 Actual	Complied?
Under 12 months	30%	0%	4%	Yes
12 months and within 24 months	35%	0%	3%	Yes
24 months and within 5 years	40%	0%	2%	Yes
5 years and within 10 years	40%	0%	31%	Yes
10 years and within 20 years	50%	0%	7%	Yes
20 years and above	100%	40%	53%	Yes

4.39. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Long-term Treasury Management Investments

	2024/25	2025/26	2026/27	No fixed date
Limit on principal invested beyond year end	£30m	£20m	£20m	£50m
Actual principal invested beyond year end	£10m	£0m	£0m	£30m
Complied?	Yes	Yes	Yes	Yes

4.40. The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

4.41. Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Additional indicators

4.42. **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	2024/25 Target	**30.9.24 Actual**	**Complied?**
Portfolio average credit rating	A+	A+	yes

4.43. **Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling one-month period, without additional borrowing.

	30.9.24 Actual	**2024/25 Target**	**Complied?**
Total cash available within 1 months	£47m	£25m	Yes

4.44. Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk.

Interest rate risk indicator	**2024/25 Target**	**30.9.24 Actual**	**Complied?**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£8.85m	£0m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£6.20m	£1.02m	Yes

4.45. For context, the changes in interest rates during the half year were:

	31/3/24	30/9/24
Bank Rate	5.25%	5.00%
1-year PWLB certainty rate, maturity loans	5.36%	4.95%
5-year PWLB certainty rate, maturity loans	4.68%	4.55%
10-year PWLB certainty rate, maturity loans	4.74%	4.79%
20-year PWLB certainty rate, maturity loans	5.18%	5.27%
50-year PWLB certainty rate, maturity loans	5.01%	5.13%

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.

5. Implications

5.1. **Financial Implications**

- The report is wholly financial in nature.

5.2. **Legal Implications**

- Treasury risk management at the Council is conducted within the framework of the CIPFA Code, which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- In addition, Section 151 of the Local Government Act 1972 states that: "without prejudice to section 111, every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". Good Treasury Management supports the discharge of this responsibility.

5.3. **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030**

- There are no environmental considerations.

5.4. **Equalities Impact Assessment**

- The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

- An Equalities Impact Assessment is not required in relation to this report, as it does not impact individuals.

Appendices:

Appendix 1: External context

Appendix 2: Interest Rate Forecast

Final report clearance:

Authorised by: Executive Member for Finance and Performance

Date: 20 November 2024

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Appendix 1

External Context from Arlingclose

Economic background

UK headline consumer price inflation remained around the Bank of England (BoE) target later in the period, falling from an annual rate of 3.2% in March to 2.0% in May and then rebounding marginally to June to 2.2% in July and August, as was expected, due to base effects from energy prices. Core and services price inflation remained higher at 3.6% and 5.6% respectively in August.

The UK economy continued to expand over the period, albeit slowing from the 0.7% gain in the first calendar quarter to 0.5% (downwardly revised from 0.6%) in the second. Of the monthly figures, the economy was estimated to have registered no growth in July.

Labour market data was slightly better from a policymaker perspective, showing an easing in the tightness of the job market, with inactivity rates and vacancies declining. However, a degree of uncertainty remains given ongoing issues around the data collected for the labour force survey by the Office for National Statistics. Figures for the three months to July showed the unemployment rate fell to 4.1% (3mth/year) from 4.4% in the previous three-month period while the employment rate rose to 74.8% from 74.3%.

Over the same period average regular earnings (excluding bonuses) was 5.1%, down from 5.4% in the earlier period, and total earnings (including bonuses) was 4.0% (this figure was impacted by one-off payments made to NHS staff and civil servants in June and July 2023). Adjusting for inflation, real regular pay rose by 2.2% in May to July and total pay by 1.1%.

With headline inflation lower, the BoE cut Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. The decision was finely balanced, voted by a 5-4 majority with four members preferring to hold at 5.25%. At the September MPC meeting, committee members voted 8-1 for no change at 5.00%, with the lone dissenter preferring Bank Rate to be cut again to 4.75%. The meeting minutes and vote suggested a reasonably hawkish tilt to rates, with sticky inflation remaining a concern among policymakers.

The latest BoE Monetary Policy Report, published in August, showed policymakers expected GDP growth to continue expanding during 2024 before falling back and moderating from 2025 to 2027. Unemployment was forecast to stay around 4.5% while inflation was shown picking up in the latter part of 2024 as the previous years' energy price declines fell out of the figures before slipping below the 2% target in 2025 and remaining there until early 2027.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would steadily fall from the 5.25% peak, with the first cut in August being followed by a series of further cuts, with November 2024 the likely next one, taking Bank Rate down to around 3% by the end of 2025.

The US Federal Reserve (the Fed) also cut interest rates during the period, reducing the Federal Funds Rate by 0.50% to a range of 4.75%-5.00% at its policy meeting in September. The forecasts released at the same time by the central bank suggested a further 1.00% of easing is expected by the end of the calendar year, followed by the same amount in 2025 and then a final 0.50% of cuts during 2026.

Having first reduced interest rates in June, the European Central Bank (ECB) held steady in July before cutting again in September, reducing its main refinancing rate to 3.65% and its deposit rate to 3.50%. Unlike the Fed, the ECB has not outlined a likely future path of rates, but inflation projections remain in line with the central bank's previous forecasts where it will remain above its 2% target until 2026 on an annual basis.

Financial markets:

Sentiment in financial markets continued to mostly improve over the period, but the ongoing trend of bond yield volatility remained. The general upward trend in yields in the early part of the period was reversed in the later part, and yields ended the half-year not too far from where they started. However, the volatility in response to economic, financial and geopolitical issues meant it was a bumpy ride for bond investors during that time.

Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at 4.00% but hit a high of 4.41% in May and a low of 3.76% in mid-September. While the 20-year gilt started at 4.40% and ended at 4.51% but hit a high of 4.82% in May and a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.12% over the period to 30th September.

Credit review:

Arlingclose maintained its advised recommended maximum unsecured duration limit on all banks on its counterparty list at 100 days.

Having had its outlook increased by Fitch and ratings by S&P earlier in the period, Moody's upgraded Transport for London's rating to A2 from A3 in July.

Moody's also placed National Bank of Canada on Rating Watch for a possible upgrade, revising the outlook on Standard Chartered to Positive, the outlook to Negative on Toronto Dominion Bank, and downgrading the rating on Close Brothers to A1 from Aa3.

S&P upgraded the rating on National Bank of Canada to A+ from A, and together with Fitch, the two rating agencies assigned Lancashire County Council with a rating of AA- and A+ respectively.

Credit default swap prices were generally lower at the end of the period compared to the beginning for the vast majority of the names on UK and non-UK lists. Price volatility over the period was also generally more muted compared to previous periods.

Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

Appendix 2

Arlingclose's Economic and Interest Rate Forecast as at 23rd September 2024

	Current	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	5.00	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Downside risk	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.95	4.80	4.30	3.80	3.30	3.05	3.10	3.10	3.15	3.15	3.15	3.15	3.15
Downside risk	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.00	0.75	0.85	0.95	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.75	3.60	3.50	3.45	3.40	3.40	3.40	3.40	3.45	3.50	3.55	3.55	3.55
Downside risk	0.00	-0.45	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65
10yr gilt yield													
Upside risk	0.00	0.75	0.85	0.95	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.91	3.90	3.80	3.75	3.70	3.70	3.70	3.70	3.75	3.80	3.80	3.80	3.80
Downside risk	0.00	-0.45	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65
20yr gilt yield													
Upside risk	0.00	0.75	0.85	0.95	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.40	4.35	4.20	4.20	4.20	4.20	4.20	4.20	4.25	4.30	4.35	4.35	4.35
Downside risk	0.00	-0.45	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65
50yr gilt yield													
Upside risk	0.00	0.75	0.85	0.95	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.01	4.00	3.80	3.80	3.80	3.80	3.80	3.80	3.85	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.45	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; UKIB Rate (Maturity Loans) = Gilt yield + 0.40%

In line with our forecast, the MPC held Bank Rate at 5.0% in September.

The MPC will continue to cut rates to stimulate the UK economy but will initially be cautious given lingering domestic inflationary pressure. We see another rate cut in 2024(Q4), but more significant monetary easing in 2025, with Bank Rate falling to a low of around 3%.

Upside risks to inflation remain which could limit the extent of monetary easing.

Long-term gilt yields have fallen alongside US monetary policy expectations. Arlingclose's central case is for yields to be volatile around a relatively narrow range, reflecting the likelihood for monetary policy loosening in the Eurozone, UK and US.