Agenda Item No: 8

Treasury Management Report – Mid-Year Report 2023-24

To:	Strategy, Resources & Performance Committee
Meeting Date:	19 December 2023
From:	Executive Director of Finance and Resources
Electoral division(s):	All
Key decision:	No
Forward Plan ref:	Not applicable
Outcome:	Through this report the Committee supervises the Council's treasury management, and ensures that public money across the Council's cashflows, borrowing and investments is utilised and deployed effectively and in compliance with the Treasury Management Strategy, and fulfils the statutory requirement for Council to consider the treasury management position regularly.
Recommendation:	The Committee is recommended to note the Treasury Management mid-year report for 2023/24 and endorse it for consideration at Full Council.

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1. Background

1.1 Treasury management is the management of the Council's investments and cash flows, banking and deposits, and borrowings and money market transactions. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2021 requires reporting on prudential indicators linked to treasury management activity quarterly as part of the authority's integrated revenue, capital and balance sheet monitoring, and consideration in more detail several times a year.

1.2 Updates on treasury management activities are provided quarterly to this committee, either through the Integrated Finance Monitoring Report (IFMR) or through this more detailed biannual report, and are necessarily retrospective in describing the position at the end of a quarter. However, changes to the UK economy and corresponding implications for our treasury management activity can sometimes be fast paced, therefore some of the information relevant to this biannual report may be partially out of date by the time it is reported. Any significant live treasury management information is therefore presented on a regular basis to committee as part of the Integrated Finance Monitoring Reports.

1.3 As part of the Council's Treasury Management Strategy, implementing the requirements of the Prudential Code, the detailed treasury report needs to be considered by Full Council twice annually. The key prudential indicators against which our treasury management activity is assessed are reviewed quarterly by Strategy, Resources & Performance Committee though the IFMR and are set out in Appendix 1.

1.4 This report therefore forms the update on treasury management and is the first standalone report of 2023/24 for consideration by Council. The information presented is as at the end of the second quarter, so reflects a report made at a specific point in time. In the current environment where the economic context and loan rate projections move quickly, it is likely that some of the wider context has moved on by the time this report is reviewed.

1.5 This report covers the management of the Council's cash, investments and borrowing. All three affect the general Council budget. This is principally through the level of capital financing costs that we pay as a Council when we need to borrow, but also in the returns we get on managing our cash balances and in returns from investments.

1.6 Treasury Management is a complex area of local authority financial management and governance. As such, the most recent revision of the Treasury Management Code has tightened its stipulations to require ongoing member training in this area, as well as the completion of self-assessments against the required competencies. Training for members of this committee with our external treasury management advisor is being arranged.

2. Compliance with Treasury and Prudential Limits

2.1 The Council's treasury and prudential indicators are summarised in Table 1 and Figure 1 and are provided in detail in Appendix 1.

2.2 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 30th September 2023, the Council has operated in compliance with and within all of the treasury and prudential indicators set out in the Council's Treasury Management Strategy (TMS) for 2023/24, as demonstrated below:

Table 1: Treasury and prudential indicators quarter 2 (see appendix 1 for more explanation of these indicators)

Prudential and Treasury Indicators	2023/24 Limit TMS	31st Mar 2023 Actual	Q1 30th Jun 2023 Estimate	Q2 30th Sep 2023 Estimate
Annual capital expenditure	£257.6m	£140.2m	£200.1m	£192.4m
Annual capital financing	-£140.9m	-£101.9m	-£138.1m	-£134.6m
Annual MRP and other financing adjustments	-£21.6m	-£20.2m	-£22.0m	-£22.0m
In-year Capital Financing Requirement	**£95.1m**	**£18.1m**	**£40.0m**	**£35.8m**
Capital Financing Requirement (CFR) at 31st March[1]	£1,031.7m	£940.3	£980.3m	£976.1m
Authorised limit for external debt, and quarterly estimstes[1]	£1,170.0m	£737.8m	£716.8m	£719.4m
Operational boundary for external debt[1]	£1,140.0m	£737.8m	£716.8m	£719.4m
Ratio of financing costs to net revenue streams – yearly average	9.3%	8.2%	8.1%	7.0%
Ratio of net income from commercial and service investments to net revenue stream	4.8%	5.0%	5.6%	4.9%
Upper limit of fixed interest rates based on net debt[2]	150%	80%	84%	67%
Upper limit of variable interest rates based on net debt[2]	65%	20%	16%	33%
Principal sums invested over 365 days (excluding Third-Party Loans)	£50.0m	£34.2m	£33.5m	£32.7m
Maturity structure of borrowing limits:				
Under 12 months	Max. 80% Min. 0%	23.3%	24.5%	28.4%
12 months to 2 years	Max. 50% Min. 0%	10.9%	9.1%	5.6%
2 years to 5 years	Max. 50% Min. 0%	7.3%	9.0%	9.0%
5 years to 10 years	Max. 50% Min. 0%	15.1%	14.3%	15.7%
10 years and above	Max. 100% Min. 0%	43.5%	43.1%	41.4%

Note 1 - Excluding PFI and Finance Lease Liabilities but including loans raised to on-lend to This Land ltd

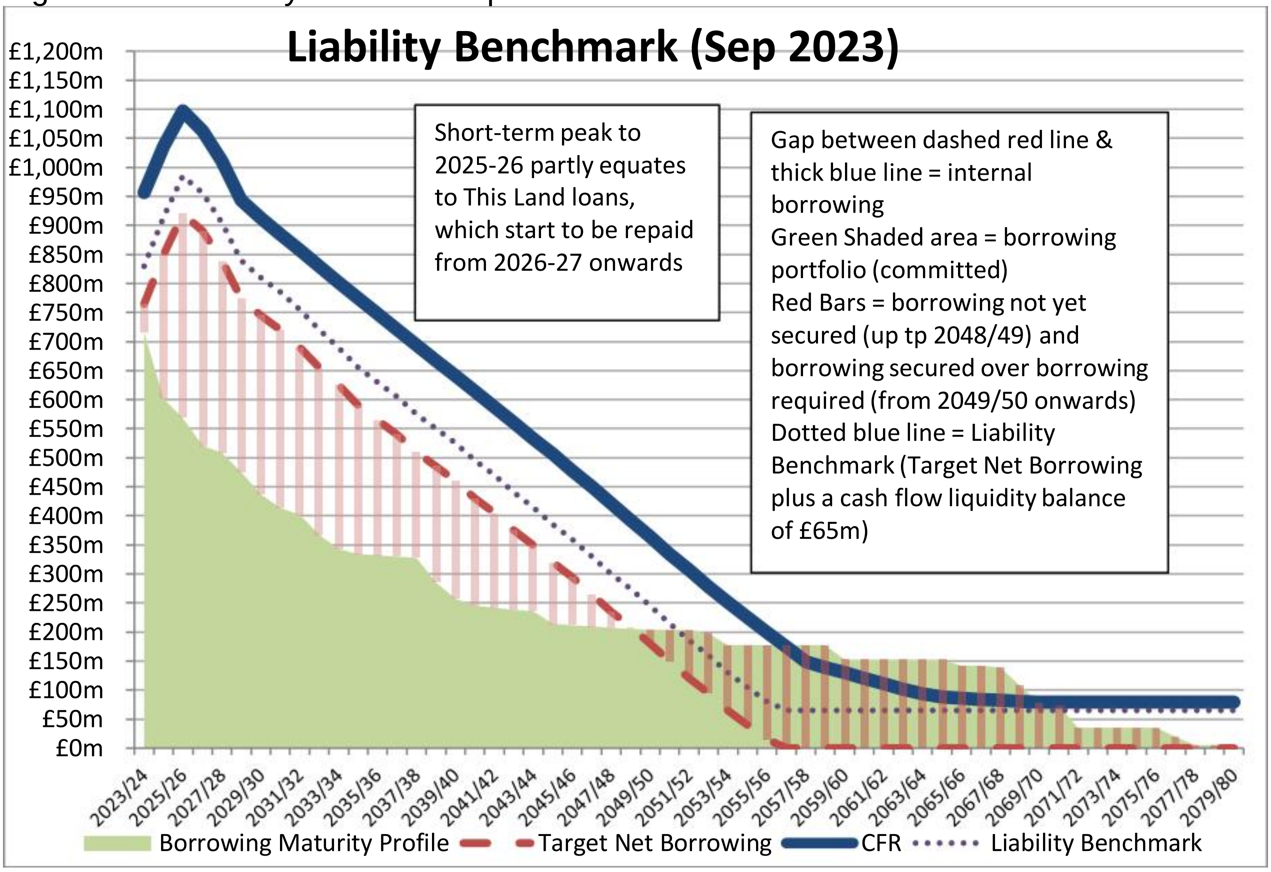
Note 2 - The interest rate exposure is calculated as a percentage of net debt. Due to the mathematical calculation exposures could be greater than 100% or below zero (i.e., negative) depending on the component parts of the formula.

2.3 From the table above it is worth noting the increase in borrowing for under 12 months in term compared to last year. While this is still well within the maximum limit for this category of debt set out in the TMS, it does mean that the Council will be seeing higher borrowing costs as these debts mature and need re-financing. The alternative to this, however, is locking borrowing in for longer terms at currently high interest rates and, while rates are expected to rise further in the short-term, national expectations are for rates to reduce to lower levels in the medium-term.

2.4 The liability benchmark is a new prudential indicator this year and is a projection of the amount of loan debt outstanding that an authority needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows.

The peak in the blue CFR line in 2025/26 is £26m higher than set out in the 2023/24 TMS due to updated capital expenditure plans, however the peak in the dotted red external borrowing line is £30m lower than the TMS, due to an expectation of cash balances and therefore lower external borrowing required.

Figure 1: The liability benchmark quarter 2



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

3. Summary Treasury Management Position

3.1 The level of net debt borrowing (including third-party loans) expected to be required set in the Treasury Management Strategy (TMS) for 30th September 2023 was £825.0m. On 1st April 2023, net debt (excluding 3rd party loans and equity) was £631.1m; by 30th September 2023 this had reduced to £599.7m. This reflects a small decrease in borrowing during the year, due to several loans maturing and not yet being refinanced, combined with reduced budgets and slower spend on the Council's capital programme than was forecast, plus continuing high levels of cash reserves in the early part of the year which have allowed the Council to both maintain high levels of internal borrowing, and to increase investment deposits. As we progress through the year it is anticipated that our cash balances will decrease, capital spending will continue, and therefore the level of borrowing will rise towards the original estimation of £825.0m (although now unlikely to fully reach that level).

3.2 Table 2 summarises the Council's debt and investment position. For more in-depth information on investment and borrowing, please refer to sections 4 and 5.

Table 2: Net borrowing quarter 2

	Actual as at 1st April 2023 £m	Actual as at 30th Sept 2023 £m	Change £m
Borrowing repayable in >12mth	566.1	204.5	-361.6
Borrowing repayable in <12mth	171.7	514.9	343.2
Total Borrowings	**737.8**	**719.4**	**-18.4**
Less Treasury Investment	-106.7	-119.7	-13.0
Total Net Debt/Borrowings	**631.1**	**599.7**	**-31.4**
Less Third-Party Loans and Equity	-124.3	-124.2	0.1
Total Net Debt/Borrowings (including 3rd party loans and equity)	**506.8**	**475.4**	**-31.4**

3.3 The Council also reviews its treasury performance alongside near neighbours using CIPFA's financial resilience index. While the information in this is lagging (most recent is 2021-22) the Council's gross external debt (equivalent to the total borrowings line in table 2) was rated as higher risk relative to the benchmarking group. This is likely due to relatively high gross borrowing resulting from loans to This Land ltd. However, we are relatively more average risk in respect of the 'interest payable divided by net revenue expenditure' indicator, showing that despite the high level of borrowing, we are in a relatively more sustainable position to service that debt.

4. Investments

4.1 The Treasury Management Strategy for 2023/24, including the Annual Investment Strategy for financial assets, was approved by Council in February 2023. It sets out the Council's investment priorities as being:

1. Security of capital;
2. Liquidity; and then
3. Yield

4.2 The Council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. Money Market Fund (MMF) and Call Account rates have continued to increase in line with Bank Rate increases, therefore the Council has received a better return on short-term, laddered investment so far during 2023/24. However, moving forward it is anticipated that rates have started to peak, suggesting now is a good time to lengthen the period of investment to secure higher rates into next year, subject to the availability and need for cash.

4.3 At 30th September 2023, the Council’s investment balances totalled £119.7m; this is split between Money Market Funds, Call/Notice accounts, Collective Investment Funds and Deposit funds (see Table 3 below). This balance excludes Third-Party Loans and Share Capital (Equity).

Collective Investment Funds

The revised Prudential Code 2021 states that authorities with an expected need to borrow must review any existing commercial investments annually and report the results of that review; this will next be completed at the end of the financial year and a summary will be included in the annual treasury management report. During the last review, the Council concluded that there was no financial benefit at that point in time from divesting in these funds and that this outweighed any risk from continuing to hold the investments. All four funds are continuing to struggle to maintain capital value in the current economic climate; however, the fund managers anticipate the values will recover in the medium-term. The drop in value, however, is tempered by a strong dividend position overall. The dividends are forecast to deliver £1.388m in 2023/24, compared to a budget of £1.078m. The finance team and our external treasury management advisors keeps these funds under close review.

4.4 **Property Fund:** The Property Fund's investment capital value in quarter 2 was £10.4m compared to the original investment of £12m. The portfolio is actively managed to achieve high income and long-term capital appreciation. The latest dividend rate of return for this fund was 4.1%, against a target of 4.35%. This is a longstanding investment fund with many local authorities as members and we would expect capital values and dividends to return to the level expected over the medium-term.

4.5 **Diversified Income Fund:** At the end of quarter 2, the capital value of the investment was £2.2m compared to an original investment value of £2.5m. The investment objective of the fund is to provide income and the potential for capital growth from an actively managed diversified portfolio. The fund invests in a broad range of assets including fixed income securities and global equities and less traditional exposures such as student accommodation and music royalties. The latest dividend rate of return for this fund was 4.0%, which is higher than expected.

4.6 **Multi-Class Credit Fund:** At the end of quarter 2, the valuation of the Council’s share of the fund stood at £13.9m compared to an original investment value of £14.5m. The fund aims to generate positive returns throughout the interest rate and economic cycles by allocating to different credit asset classes and through bottom-up security selection. The latest dividend rate of return for this fund was 3.2%, which is higher than expected.

4.7 **Infrastructure Income Fund:** At the end of quarter 2, the valuation of the Council's share of the fund stood at £6.2m, compared to an original investment value of £8m. The fund's objective is to deliver a regular income, whilst preserving investor's capital throughout market cycles and with the potential for growth. The fund invests in a diversified portal of global listed securities and offers exposure to companies engaged in the provision, storage, supply and consumption of clean energy. The latest dividend rate of return for this fund was 4.6%, against a target of 4.5%.

4.8 The average investment balance during quarter 2 (excluding Third-Party Loans and Equity) was £95.6m, which carried a weighted average rate of 4.98%. The level of investment funds varies dependent on the timing of precept receipts, grants, the progress of the capital programme and decisions made about timing of borrowing. Table 3 below shows the investment by counterparty at 30th September 2023.

Table 3: Investments allocation by counterparty quarter 2

Counterparty as at 30th Sep 2023	Liquidity	Principal £m	Principal %
Goldman Sachs International Bank	Fixed (3-6 months)	20.0	16.7
Allianz Global Investors	Notice Period 14 days	13.9	11.6
CCLA Local Authorities Property Fund	Notice Period 6m	10.4	8.7
Handelsbanken	Instant Access	10.0	8.4
Standard Chartered Bank	Fixed (3-6 months)	10.0	8.4
National Bank of Canada	Fixed (3-6 months)	10.0	8.4
Lloyds Bank plc	Fixed (3-6 months)	10.0	8.4
Valu-Trac Administration Services	Same-Day	6.2	5.2
Aberdeen Liquidity Fund	Instant Access	5.5	4.6
Insight Liquidity	Same-Day	5.4	4.5
Deutsche Managed Sterling Platinum	Same-Day	5.1	4.3
NatWest Markets Plc	Fixed (3-6 months)	5.0	4.2
CCLA Diversified Income Fund	Same-Day	2.2	1.8
Barclays Bank plc	Notice Period 30-60 days	2.0	1.7
National Westminster Bank plc	Instant Access	1.6	1.3
Barclays Bank plc	Instant Access	1.5	1.3
Santander UK plc	Instant Access	1.0	0.8

119.7	100.0

4.9 The table below summarises the maturity profile of the Council's investment portfolio at the end of quarter 2 (excluding Third-Party Loans and Equity):

Table 4: Investment maturity profile at end of quarter 2

		Daily	0-3m	3-6m	30 to 60 day's notice	~5yrs	Total	
Product	Access Type	£m	£m	£m	£m	£m	£m	%
Money Market Funds	Same-Day	16.0					**16.0**	*13.3*
Bank Call Account	Instant Access	14.1					**14.1**	*11.8*
Fixed Deposit Account	3-6 Months			55.0			**55.0**	*45.9*
Notice Account	Notice to be given 30 or 60 days				2.0		**2.0**	*1.7*
Pooled Property Fund	Redemption Period Applies					10.4	**10.4**	*8.7*
Pooled Diversified Income Fund	Same-Day					2.2	**2.2**	*1.8*
Pooled Multi-class credit Fund	Redemption Period Applies					13.9	**13.9**	*11.6*
Income Fund (Energy)	Same-Day					6.2	**6.2**	*5.2*
	Total	**30.0**	**0.0**	**55.0**	**2.0**	**32.7**	**119.7**	***100.0***
	%	*25.1*	*0.0*	*45.9*	*1.7*	*27.3*	***100.0***	

4.10 The tables below set out details of the amounts outstanding on loans and share capital investments classed as capital expenditure advanced to third-party organisations at the end of quarter 2. Where appropriate, the Council holds security over these loans in the form of property charges (fixed and/or floating).

Table 5: Loans/equity holdings in This Land companies end of quarter 2

Loan Summary	Amount Outstanding (£m)	Repayment Year
Land, Construction & Development loans	113.851	2026/27, 2027/28 and 2028/29
Equity holding	5.851	N/A

Total Loans/Equity in This Land Ltd	119.702

Table 6: Loans/equity holdings in Pathfinder Legal Services end of quarter 2

Loan Summary	Original Amount (£m)	Amount Outstanding (£m)	Repayment Year
Cashflow loan	0.325	0.325	2029/30
Equity holding	0.475	0.475	-
Total Loans/Equity in Pathfinder Legal Services	0.800	0.800	

Table 7: Third-Party Loans principal outstanding end of quarter 2

Loan Counterparty	Original Amount (£m)	Amount Outstanding (£m)	Repayment Year
Arthur Rank Hospice Charity	4.000	3.040	2042/43
Estover Playing Field 2015 Community Interest Company (Guaranteed by March Town Council)	0.350	0.073	2024/25
Wisbech Town Council	0.150	0.150	2043/44
VIVA Arts & Community Group	0.300	0.030	2031/32
Total Third-Party Loans	4.800	3.293	

4.11 Investment returns compared to benchmark returns are shown in Table 8 below. The preferred benchmark is SONIA (Sterling Overnight Index Average), which is the risk-free rate for sterling markets administered by the Bank of England. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. The Council uses the 30-day backward looking rate on a SONIA basis, as this most accurately reflects the type and length of investments (excluding Collective Investment Funds) that the Council holds. The decision to use backward looking is because this reflects the rates at the time of decision-making, rather than forward looking rates at the time of reporting.

Table 8: Average benchmark versus Council performance for 2023/24 (excluding Collective Investment Funds)

	Benchmark	Benchmark Return	Council Performance
Quarter 1	**30-day backward SONIA**	4.4%	4.2%
Quarters 1-2	**30-day backward SONIA**	4.7%	5.0%

4.12 Market conditions aside, the Council’s return on investments is influenced by several factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument:

- Credit risk is the consideration of the likelihood of default and is controlled through the creditworthiness policy approved by Council.
- The duration of an investment introduces liquidity risk; the risk that funds cannot be accessed when required.
- Interest rate risk, arising from fluctuating market interest rates.

These factors and associated risks are actively managed by the Council's finance team. Given the recent volatility of the financial markets, the finance team is keeping a close eye on the credit ratings of institutions we have deposits with, as well as looking to spread deposits across a range of institutions and is also considering the mix of type and duration of deposits.

5. Borrowing

5.1 The Council can borrow money to fund its capital programme to deliver on its strategic ambitions. The amount of borrowing required each year is based on plans for capital expenditures, projections of the Capital Financing Requirement, underlying borrowing requirements, forecasted cash reserves, and current and future economic conditions.

5.2 The Council will continue to utilise short to medium-term borrowing from other local authorities and authorised brokers, particularly in the current environment of higher interest rates that we expect to reduce over the medium-term. However, we are starting to see that these market loans are not as readily available as they previously have been, and as such, they are now less competitive compared to Public Works Loan Board (PWLB). As such, we will also look to use PWLB, particularly if longer-term borrowing is required or if market loans are less attractive or less available. The Council intends to continue with the strategy of keeping a reasonable proportion of the borrowing portfolio short-dated to avoid fixing in the current higher interest rates, and is able to do so having taken advantage of the low-interest rate environment of the last few years to extend the average duration of loans in the portfolio by fixing loans for extended maturities at historically low levels. This does present a risk that we will see higher costs over the medium-term if interest rates do not fall as quickly as currently predicted. We take advice on our borrowing strategy from our external treasury management advisors. The Council's average interest rate for borrowing was low at 2.6% at the end of Quarter 2, despite facing higher rates on new loans due to Base Rate increases, as well as higher rates on a number of historic debts. This average will continue to rise, as we start to refinance loans at higher rates.

5.3 During the second quarter, the Council repaid a total of £17.4m upon maturity. Out of this amount, £10.0m was short-term loans from other local authorities, and £7.4m was longer-term PWLB. The Council raised £20.0m in loans from other local authorities during this period, all of which were short-term borrowing. The following table shows the movement in borrowing over quarter 2:

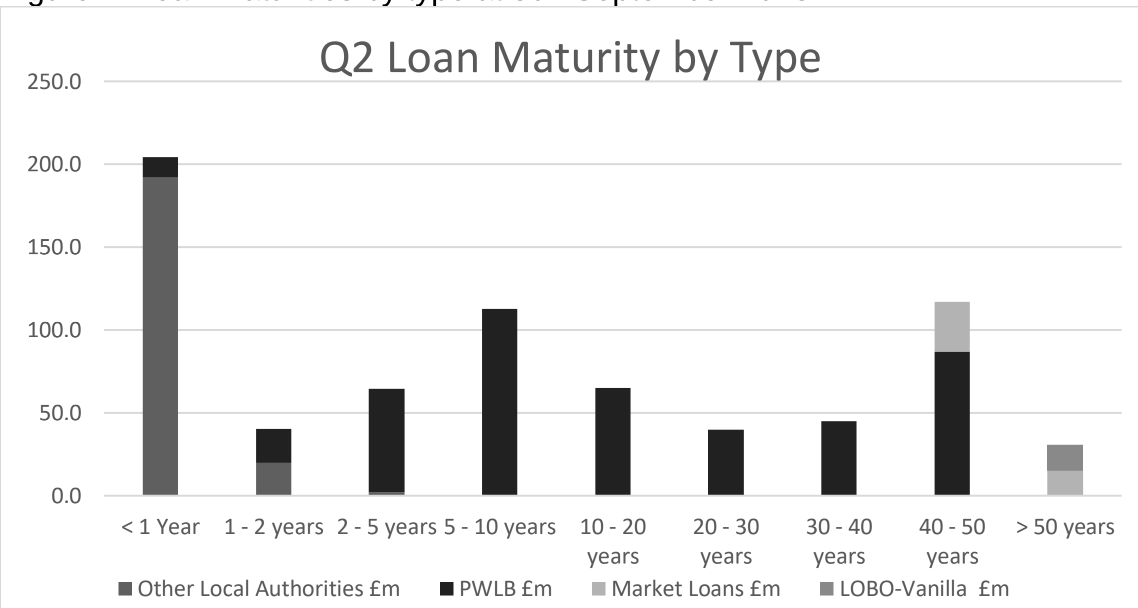
Table 10: Movement in borrowing during quarter 2

Actual as at 1st Jul 2023 £m	Repaid During Q2 2023/24 £m	Raised During Q2 2023/24 £m	Actual as at 30th September 2023 £m
716.8	-17.4	20.0	719.4

5.4 At the end of quarter 2, the Council held £719.4m in borrowing, with £204.5m maturing within a year. The Council continues to be able to re-finance loans as required, albeit now at higher rates than the maturity loan in the case of some loans that were taken out during the period of historically low interest rates. Refinancing of maturing PWLB loans is also no longer possible at a lower rate in most cases, as current rates are now comparable to some of the older loans that were also fixed at a time of higher interest rates. Therefore, an increase in our revenue capital financing budget is built into the business plan.

5.5 Figure 2 below sets out the maturity profile of the Council's borrowing portfolio at the end of quarter 2; £444.9m is held with PWLB, £214.0m from other local authorities, £45.0m in market loans, and a single market Lender Option Borrower Option (LOBO) loan of £15.5m.

Figure 2: Loan maturities by type at 30th September 2023



5.6 Figure 2 includes the £15.5m LOBO loan at its final maturity instead of its next possible call date, which is December 2023. We have been notified by the lender that they are intending to raise the loan's interest rate at the next call date, triggering the Council's option to repay the loan at par. The Council has given notice to repay on the basis of the borrowing strategy set out above, which is to take the option of short-term borrowing in the expectation that rates will reduce over the medium-term.

5.7 The Council is in an internally borrowed cash position. This means that we are utilising cash balances held (for example from grants received in advance of linked expenditure) to defer the need to borrow. Balances will need to be replenished at some point in the future (subject to expenditure demands), which is in accordance with our Treasury Management Strategy. This strategy is prudent while investment returns are lower than the cost of servicing debt and serves to mitigate counterparty risk. The Council therefore plans to maintain this internal borrowing position but will closely monitor those reserves, balances and cashflows supporting this approach.

5.8 No rescheduling of borrowing as taken place during 2023/24 so far. The Council's loan portfolio limits opportunities for rescheduling. In the case of PWLB loans, early redemption rates exceed the carrying rate of existing borrowing, resulting in substantial exit costs.

Similarly, market borrowing lenders hedge against forecast interest rate movements using the loans cashflow profile, passing on the cost of unwinding these instruments as an exit premium to the Council. Officers are closely monitoring the situation.

6. Capital Financing Budget

6.1 The capital financing budget is held as a central budget and complies with the reporting requirement in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Treasury Management Practice. The forecast outturn position is an underspend of £1.2m.

Table 11: Debt financing budget quarter 2

	Budget (£m)	Forecast Outturn (£m)	Forecast Variance (£m)
Interest payable	24.9	21.4	-3.5
Interest charged to other funds	-9.2	-8.0	1.2
Interest receivable	-11.5	-14.0	-2.5
Interest receivable charged from other funds	10.8	15.4	4.6
Technical & other	0.3	0.2	-0.1
Minimum Revenue Provision	22.9	22.0	-0.9
Total	38.1	36.9	-1.2

6.2 The underspend is comprised of the following elements:

- The Council has continued to focus on maximising savings and efficiency in money management by using cash balances to undertake internal instead of external borrowing where possible, or to at least delay the taking out of those loans. This, combined with forecast lower capital expenditure than budgeted, has resulted in an anticipated fall in expected borrowing required.

- Interest receivable is also anticipating achieving additional income, through both higher cash balances, and more sustained higher rates than originally anticipated. This is then offset by a higher recharge out to other funds as a result of the higher rates.

- The Council is required to repay an element of the capital spend funded by borrowing each year through a revenue charge (the Minimum Revenue Provision (MRP)), so that over the course of the usable life of the asset we have provided for enough funding to repay the associated borrowing. Following analysis of capital schemes completed in 2022/23 and how they were funded, the MRP payment for 2023/24 is being recalculated and it is anticipated that the year-end position will be £0.9k lower than budgeted.

7. Economic Position for 2023/24 and Interest Rate Forecasts

7.1 The economic position for 2023/24 provides context for the monetary policy strategy of central banks, which in turn impacts on historic interest rate movements and forward-looking forecasts. The following summarises the key economic impacts of 2023/24 so far:

- The first half of 2023/24 saw interest rates rise by a further 100 basis points, taking the Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle. Short, medium and long-dated gilts remain elevated due to inflation.
- The 0.5% month on month 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 than in June. But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- CPI inflation has continued to fall from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7. The biggest positive surprise was the drop in core CPI inflation which declined to 6.2% in August from a high of 7.1% in April and May.
- Retail sales volumes experienced a 0.4% month on month rebound in August, which may seem optimistic initially. However, this rebound is partly due to the previous month's unusually wet weather, which caused a decline in sales. In reality, sales volumes in August were 0.2% lower than in May, indicating that the retail sector's resilience in the year's first half has declined.
- Over the next six months, it is expected that the economy will lose momentum and slip into a mild recession due to the increasing burden of higher interest rates. However, strong labour demand, rapid wage growth, and government financial aid have helped maintain household incomes over the past year. Despite the cost-of-living crisis, the economy has survived without a recession since CPI inflation has peaked and is expected to decline. However, higher interest rates will begin to hit harder soon as mortgage rates are expected to remain above 5.0% for approximately a year.
- The tightness of the labour market has continued to ease. The further decline in the number of job vacancies suggests that the labour market has loosened a bit further since July. The job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

7.2 Due to the Monetary Policy Committee increasing the base rate at all of its meetings in 2023/24 up to September 2023, this has led to a significant rise in borrowing rates over the year. While it is anticipated that the peak will soon be reached and that rates will gradually decrease thereafter, there are numerous factors that influence this position and therefore caution should be exercised. Link’s current forecast for rates is as follows;

Table 12: Forecast interest rates at 25/09/2023

Link Group Interest Rate View	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
3m average 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
6m average 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
12m average 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
5yr 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	3.60
10yr 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
25yr 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
50yr 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

8. Alignment with ambitions

8.1 There are no significant implications for these ambitions.

- Net zero carbon emissions for Cambridgeshire by 2045, and our communities and natural environment are supported to adapt and thrive as the climate changes

- Travel across the county is safer and more environmentally sustainable

- Health inequalities are reduced

- People enjoy healthy, safe, and independent lives through timely support that is most suited to their needs

- Helping people out of poverty and income inequality

- Places and communities prosper because they have a resilient and inclusive economy, access to good quality public services and social justice is prioritised

- Children and young people have opportunities to thrive

9. Significant Implications

9.1 Resource Implications

This report provides information on performance against the Treasury Management Strategy. Decisions on treasury management, which are driven by the capital programme and the Council’s overall financial position, will impact the capital financing budget and are also reported through the financial monitoring process.

9.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no significant implications for this category.

9.3 Statutory, Legal and Risk Implications

The Council continues to operate within the statutory requirements for borrowing and investments.

9.4 Equality and Diversity Implications

There are no significant implications for this category.

9.5 Engagement and Communications Implications

There are no significant implications for this category.

9.6 Localism and Local Member Involvement

There are no significant implications for this category.

Have the resource implications been cleared by Finance? Yes
Name of Officer: Stephen Howarth

10. Source documents

10.1 The council's 2023-24 Treasury Management Strategy

Appendix 1 – Prudential and Treasury Indicators at 30th September 2023

In this section, we will monitor Prudential and Treasury Indicators to ensure they align with the indicators approved by the Council in February 2023, as outlined in the Treasury Management Strategy.

Did the Council adopt the CIPFA code of practice for Treasury Management in Public Services?

Yes, the Council has adopted the CIPFA's Treasury Management in the Public Services: Code of Practices and Cross-sectoral Guidance Notes.

1. The capital prudential indicators

Capital expenditure

	2023/24 TMS £m	Q1 23-24 £m	Q2 23-24 £m
Total Capital Expenditure	257.6	200.1	192.4
Capital Financing	-140.9	-138.1	-134.6
Net Capital Financing Need	**116.8**	**62.0**	**57.8**
MRP and other financing movements	-21.6	-22.0	-22.0
Capital Financing Requirement	**95.1**	**40.0**	**35.8**

For the detail of capital expenditure and funding please refer to the capital forecast outturn in the Integrated Finance Monitoring Report.

The Council's borrowing need (The Capital Financing Requirement (CFR))

Capital Financing Requirement in 2023/24 TMS £m	Actual Borrowings (1st April 23) £m	Actual Gross Borrowings (30th Sep 23) £m	Decrease in borrowing during 2023/24 £m	Difference between CFR & Borrowings (30th Sep 23) £m
1,031.7	737.8	719.4	-18.4	312.3

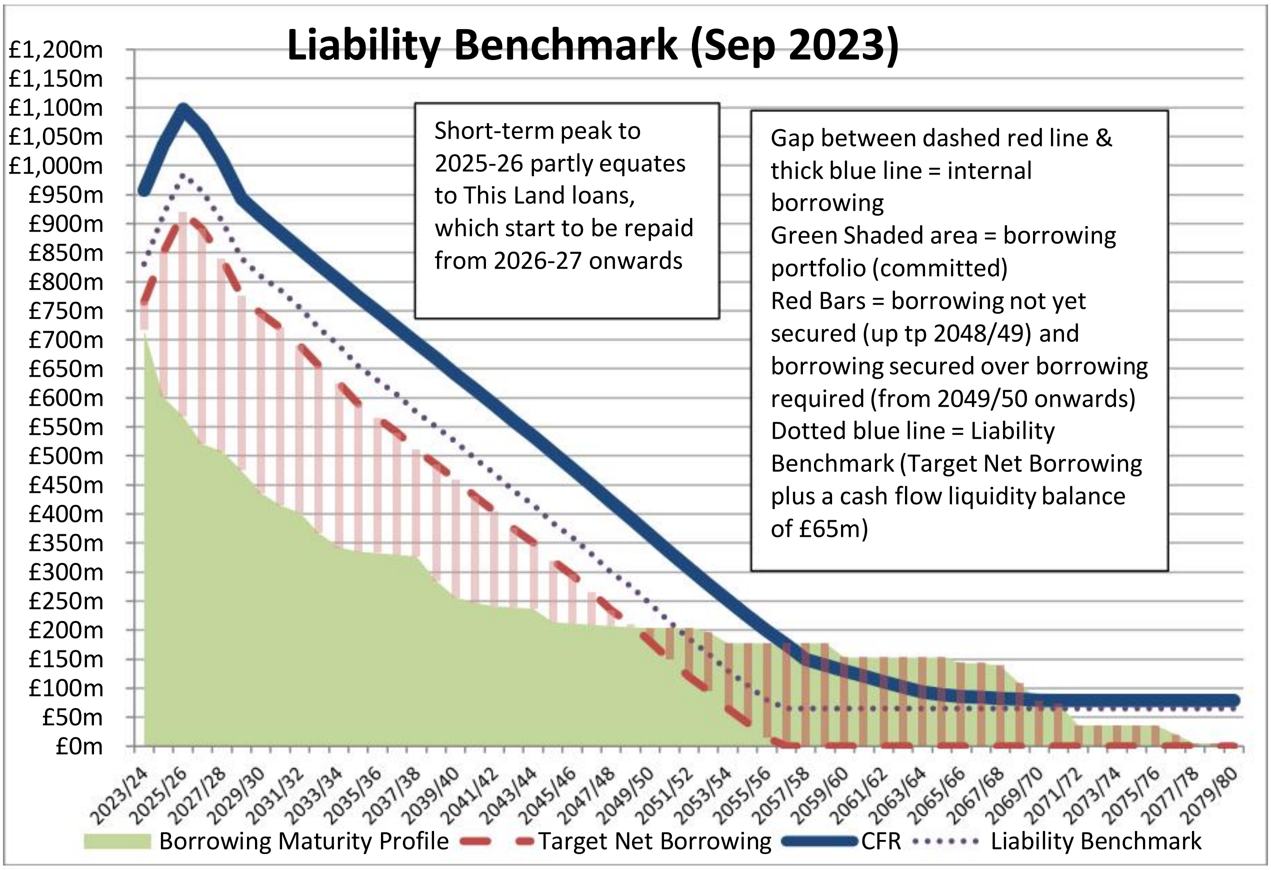
Liability benchmark

There are four components to the liability benchmark:

1. **Existing loan debt outstanding**: existing loans that are still outstanding in future years.
2. **Loans CFR**: calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. Only approved borrowing should be included.

3. **Net loans requirement**: the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. **Liability benchmark (or gross loans requirement)**: this equals net loans requirement plus short-term liquidity allowance.



The authorised limit for external borrowing

2023/24 TMS Limit £m	Actual Borrowings Sep 23 £m	Headroom compared to Authorised Limit £m
1,170.0	719.4	450.6

The Authorised Limit is the legal cap on the amount of debt the Council can have, and it must not be exceeded. This means that the Council cannot have more debt than this limit in any given year.

The operational boundary

2023/24 TMS Limit £m	Actual Borrowings Sep 23 £m	Headroom compared to Operational Boundary £m
1,140.0	719.4	420.6

The operational boundary serves as a warning that the debt is approaching the authorised. limit and requires close monitoring.

2. Treasury management limits on activity

Interest rate exposure

	2023/24 TMS Limit	Q1 23-24	Q2 23-24
Fixed rate	150%	84%	67%
Variable rate	65%	16%	33%

The interest rate exposure is calculated as a percentage of net debt. Due to the mathematical calculation, exposures could be greater than 100% or below zero (i.e., negative) depending on the component parts of the formula. Where the indicator is negative, it is due to investment income of that category exceeding debt of that category. The formulas are shown below:

Fixed rate calculation:

$$\frac{\text{Fixed rate borrowing* – fixed rate investments}}{\text{Total borrowing – total investments}}$$

Variable rate calculation:

$$\frac{\text{Variable rate borrowing** – variable rate investments}}{\text{Total borrowing – total investments}}$$

* Defined as greater than 1 year to run
** Defined as less than 1 year to remaining to maturity or, in the case of LOBO borrowing, the next call date falling within 12 months – to reflect the risk of fluctuation of short-term borrowing costs

Maturity structure of borrowing

	2023/24 TMS Upper Limit	Q1 23-24	Q2 23-24
< 1 Year	80%	24.5%	28.4%
1 - 2 years	50%	9.1%	5.6%
2 - 5 years	50%	9.0%	9.0%
7.5 - 10 years	50%	14.3%	15.7%
>10 years	100%	43.1%	41.4%

Note: The guidance for calculation of this indicator requires that LOBO loans are shown as maturing at the next possible call date rather than at final maturity.

Total principal funds invested for the periods longer than 365 days

	2023/24 TMS Limit	**Q1 23-24**	**Q2 22-23**
Investment longer than 354 days to run*	£50.0m	£33.5m	£32.7m

**Treasury Management Investment only*

3. Affordability Indicators

Ratio of financing costs to net revenue stream

2023/24 TMS	**Q1 23-24**	**Q2 23-24**
9.3%	8.1%	7.0%

Ratio of net income from commercial and service investments to net revenue stream

2023/24 TMS	**Q1 23-24**	**Q2 23-24**
4.8%	5.6%	4.9%