Agenda Item No:15

Treasury Management Report – Quarter Three Update 2021-22

To:	Strategy & Resources Committee
Meeting Date:	29th March 2022
From:	Chief Finance Officer
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.
Recommendation:	The Strategy & Resources Committee is recommended to note the Treasury Management Quarter Three Report for 2021/22.

Officer contact:
Name: Tom Kelly
Post: Director of Resources and Chief Finance Officer
Email: treasury@cambridgeshire.gov.uk
Tel: 01223 715568

Member contacts:
Names: Cllr L Nethsingha & Cllr E Meschini
Post: Chair/Vice-Chair
Email: lucy.nethsingha@cambridgeshire.gov,uk & elisa.meschini@cambridgeshire.gov.uk
Tel: 01223 706398

1. Background

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management recommends that Members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

1.2 Updates are provided quarterly to this committee on treasury management activities, 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activity can be sometimes fast paced, therefore some of the information relevant to a quarter's report may be partially out of date by the time it is reported.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.

2. Economic Update

2.1 A current economic commentary is in Appendix 1, provided by Link Asset Services, the Council's treasury management advisers. Some of the key points to note are set out below.

2.2 The Monetary Policy Committee (MPC) voted 8-1 in December to raise the Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

2.3 The MPC had disappointed financial markets by not raising the Bank Rate at its November meeting. Until the emergence of Omicron, most forecasters viewed a Bank Rate increase as being near certain at the December 2021 meeting due to how inflationary pressures had been comprehensively building in producer and consumer prices and wage rates. At the November meeting, the MPC wanted assurance that the labour market would recover, following the end of the furlough scheme on 30th September, without unemployment increasing sharply; therefore their decision was to wait until statistics were available to show how the economy had responded.

2.4 Following the emergence of Omicron, the expectation changed that the MPC would wait for more information on the impact of the new variant before raising rates. Therefore, the Bank of England surprised many with the increase in December. This was influenced by a series of strong data releases on the labour market and inflation in the run-up to the meeting; minutes of the meeting indicated that, despite acknowledging the downward impact on GDP from Omicron, the MPC was more concerned about the upside risks to inflation.

2.5 The MPC's forward guidance on its intended monetary policy on raising the Bank Rate versus selling (quantitative easing) holdings of bonds is as follows:

- Focus on raising the Bank Rate as "the active instrument in most circumstances".

- Increase the Bank Rate to 0.50% before starting to reduce holdings.
- Once the Bank Rate is at 0.50%, stop reinvesting maturing gilts.
- Once the Bank Rate has risen to at least 1%, start selling holdings.

3. Interest Rate Forecast

3.1 The latest forecast for the Bank Rate along with Public Works Loan Board (PWLB) borrowing rates (certainty rate) from the Council's treasury advisors is set out in Tables 1a and 1b.

3.2 The latest forecast on 20th December is compared to the last forecast (29th September) in the previous quarter. A comparison of these forecasts shows that PWLB rates have fallen, more so in the longer maturities, and shows a quicker rate of increase in Bank Rate as inflation is now posing a greater risk. Some of the fall in PWLB rates during December was likely due to pension and investment funds preparing their finances for the year and quarter end position for 2021 on 31st December; it is therefore expected that part of those falls will be unwound in the new calendar year.

Table 1a: Interest Rate Forecast (%) September 2021

Link Group Interest Rate View 29.9.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

Table 2b: Interest Rate Forecast (%) December 2021

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Forecasts for Bank Rate

3.3 The above forecasts consider the following factors:

- In December 2021, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies, as recovery progresses from the Covid recession of 2020.
- The next increase in the Bank Rate was anticipated to be in February or May, dependent on how severe an impact there was from Omicron – the rate was actually increased to 0.5% in February.
- With CPI inflation expected to peak between 5 and 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- However, rising gas and electricity prices last October and next April and increases in other prices caused by supply shortages and increases in taxation next April are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflationary pressures.
- Conversely, consumers are sitting on around £160bn of excess savings left over from the pandemic, and it is unclear when this will be spent.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium-term than supporting economic growth in the short-term.
- Bank Rate increases beyond May are challenging to forecast, as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rates over three years. It has its primary monetary policy tool ready to use in time for the next downturn; all rates under 2% provide stimulus to economic growth.
- Link Asset Services have included 0.25% increases in quarter 1 of each financial year from 2023 to recognise this upward bias in the Bank Rate - but the actual timing in each year is difficult to predict.
- Covid mutations remain a significant potential downside threat in all three years.

Forecasts for Gilt Yields / PWLB Rates

3.4 The current PWLB rates are set as margins over gilt yields as follows:

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

3.5 Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. Link Asset Service's forecasts show a steady, but slow, rise in both Bank Rate and PWLB rates during the forecast period to March 2025 but there will doubtless be a lot of unpredictable volatility during this forecast period.

3.6 While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have. As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant upward risk exposure to forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.

3.7 One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Federal Reserve in the USA, the Bank of England and the European Central Bank, to tolerate a higher level of inflation than in the previous two decades when inflation was the key concern to keep at a target rate. There is now also a greater emphasis on other targets for monetary policy in addition to inflation, especially on ‘achieving broad and inclusive “maximum” employment in its entirety’ in the US before consideration would be given to increasing rates.

4. Summary Portfolio Position

4.1. The level of net debt borrowing set in the Treasury Management Strategy Statement (TMSS) for 31st March 2022 was £805.0m. On 1st April 2021, the net debt was £714.1m, and the actual at 31st December 2021 was £655.8m (excluding all Third-party loans and Equity). This is a decrease in borrowing over the period, due to some loans maturing and not yet being refinanced, combined with slower spend on the Council’s Capital Programme than was forecast. Cash flows at the beginning of the year are typically stronger than at the end of the year, as many grant receipts are received in advance of spend (and due to the current Covid-19 pandemic the Council is in receipt of further grants compared to before the pandemic).

4.2 The 2021/22 net borrowing position is expected rise towards the end of the financial year as capital projects are progressed and financed. However, forecast in-year underspends on the capital programme and a more favourable cash flow position mean that the Council is forecasting for the level of net borrowing to be below this, reaching £735.0m by the end of the financial year. The cash flow position has been improved in part by further payments of government grants at the end of quarter 3, where related expenditure is expected to take place later in the financial year.

4.3 Further analysis on borrowing and investment is set out in the next two sections. A snapshot of the Council’s debt and investment position is shown in Table 2.

Table 2: Net Borrowing Quarter 3 2021/22

Borrowings	Actual as at 1 April 2021 £m	Actual as at 31 Dec 2021 £m	Year -date-change £m
Borrowing repayable in >12mth	685.7	586.0	-99.7
Borrowing repayable in <12mth	127.0	181.4	54.4
Total Borrowings	812.7	767.4	-45.3
Treasury Investment	-98.1	-111.6	-13.5
Total Net Debt/Borrowings	714.6	655.8	- 58.8

5. Investments

5.1 The Treasury Management Strategy Statement (TMSS) for 2021/22, including the Annual Investment Strategy for financial assets, was approved by Council in February 2021. It sets out the Council's investment priorities as being:

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

5.2 The Council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. As shown by the interest rate forecasts in section 3, it is now extremely difficult to earn the level of interest rates commonly seen in previous decades as all short-term money market investment rates are barely above zero with the Bank Rate having only recently increased. Some entities are offering negative rates of return in some shorter time periods. Given this environment and the fact that increases in the Bank Rate are unlikely to be significant before March 2025, investment returns are expected to remain low.

5.3 At 31st December 2021 the Council's investment balances totalled £111.7m; the balance is split between Money Market Funds, Call/Notice accounts and collective investment funds (see Table 3 below). The balance excludes Third Party Loans and Share Capital.

5.4 **Property Fund:** During quarter 3, the key focus for CCLA was to protect income. The capital value of the investment at 31st December 2021 was £12.1m compared to an original investment value of £12m. Income has held up better than expected during the pandemic, reflecting the fund's active asset management strategy and tenant engagement. Sector values improved through the quarter, closing a year of strong recovery in valuations. The improvement was helped by the recovery in transaction levels which were back up to their long-term averages. The dividend rate of return on the initial investment for quarter 3 was 3.3%.

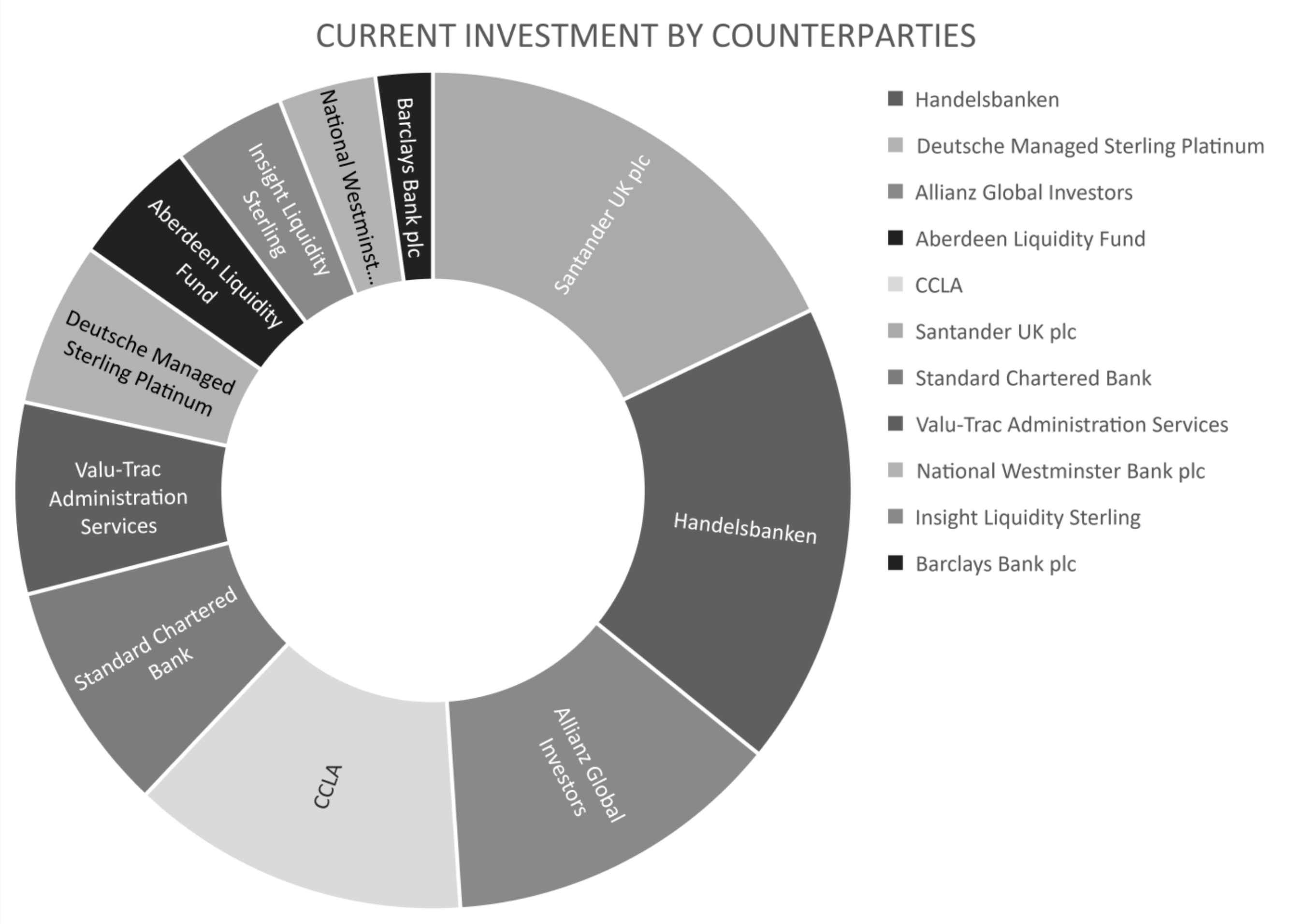
5.5 **Diversified Income Fund:** During quarter 3, the capital value of the fund was £2.53m compared to an original investment value of £2.45m. Moving into 2022, monetary policies will be less supportive but interest rates in most areas will still be negative in real terms. In this environment, CCLA expects to maintain the portfolio's emphasis on real assets such as good quality equities with a cautious allocation to the fixed income sectors. The dividend rate of return on the initial investment for quarter 3 was 2.1%.

5.6 **Multi-Class Credit Fund:** At the end of quarter 3, the valuation of the CCC share of the fund stood at £14.7m compared to an original investment value of £14.5m. Following a positive second quarter of 2021/22 despite a more unsettled market environment, quarter 3 brought fresh volatility as central banks and markets tilted towards a more aggressive outlook for policy rates. Performance is likely to remain volatile in 2022 as markets and economies adjust to a tightening policy environment, however this reflects improved economic circumstances which will have positive influence on corporate balance sheets. The Council received the annual dividend payment of £304k in December 2021; the dividend rate of return on the initial investment was 2.1%.

5.7 **Infrastructure Income Fund:** At the end of quarter 3, the valuation of the CCC share of the fund stood at £8.2m, compared to an original investment value of £8m. December saw a strong performance of the Fund's UK-listed renewables exposure, which offset some of the weakness witnessed by the Fund's North American holdings. Whilst disappointing to end the calendar year with this weaker performance in some areas, the strategy delivered a modest positive return over the course of the year. The dividend rate of return on the initial investment for quarter 3 was 3.9%.

5.8 The average level of investment in quarter 3 (excluding third party loans and equity) was £132.9m, which carried a weighted average rate of 2.70%. The level of investment funds varies dependent on the timing of precept receipts, grants, and the progress of the capital programme; at the end of quarter 3 investments (excluding third party loans and equity) totalled £111.7m. Figure 1 overleaf shows the investment by counterparty as at 31st December 2021.

Figure 1: CCC Investments allocation by Counterparty



5.9 Table 3 below summarises the maturity profile of the Council's investment portfolio at the end of quarter 3 2021/22 (excluding third party loans):

Table 3: Investment maturity profile at end of quarter 3 2021/22

		Maturity Period					
		0d	0-3m	3-6m	~5yrs	Total	
Product	Access Type	£m	£m	£m	£m	£m	%
Money Market Funds	Same-Day	17.5				17.5	*15.6*
Bank Call Account	Instant Access	35.7				35.7	*31.9*
Notice Account	35 Day Notice			21.0		21.0	*18.8*
Pooled Property Fund	Redemption Period Applies				12.1	12.1	*10.8*
Pooled Diversified Income Fund	Redemption – two days				2.5	**2.5**	*2.3*
Pooled Multi-class credit Fund	Redemption Period Applies				14.6	**14.7**	*13.1*
Income Fund (Energy)	Redemption Period Applies				8.2	**8.2**	*7.4*
	Total	53.2	0.0	21.0	37.5	111.7	*100.0*
	%	*47.6*	*0.0*	*18.8*	*33.6*	*100.0*	

5.10 Set out below are 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 3:

Table 4: Loans/Equity holdings in This Land companies end of quarter 3 2021/22

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 5: Loans/Equity holdings in Pathfinder Legal Services end of quarter 3 2021/22

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 6: Third Party Loans Principal Outstanding end of quarter 3 2021/22

Loan Counterparty	Original Amount (£m)	Amount Outstanding (£m)	Repayment Year
Arthur Rank Hospice Charity	4.000	3.280	2042/43
Estover Playing Field 2015 CIC (Guaranteed by March Town Council)	0.350	0.192	2024/25
Wisbech Town Council	0.150	0.150	2043/44
VIVA Arts & Community Group	0.300	0.286	2043/44
Total Third-Party Loans	4.800	3.908	

5.11 Investment returns compared to benchmark are shown in Table 7 below.

Table 7: Average Benchmark Performance – quarter 3 2021/22

	Benchmark	Benchmark Return	Council Performance
Quarter 1	3m LIBID	-0.04%	0.08%
Quarter 2	3m LIBID	-0.05%	0.07%
Quarter 3	3m LIBID	-0.02%	0.15%
Year To Date	3m LIBID	-0.05%	0.07%

5.12 Leaving market conditions aside, the Council's return on investments is influenced by a number of 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.

6. Borrowing

6.1 The Council can raise cash through borrowing in order to fund expenditure on its capital programme for the benefit of Cambridgeshire. The amount of new borrowing needed each year is determined by capital expenditure plans and projections of the Capital Financing Requirement, underlying borrowing requirement, forecast cash-backed reserves and both current and forecast economic conditions.

6.2 The Council will continue to utilise short to medium-term borrowing from other local authorities and authorised brokers, as well as PWLB whilst rates remain low or longer-term borrowing is required. The Council intends to keep a proportion of the borrowing portfolio short-dated; but has also focused on extending the average duration of loans in the portfolio, whilst there have been opportunities to fix loans for extended maturities at historically low levels.

6.3 In quarter 3, the Council repaid on maturity a total of £55.1m, of which £10.0m was short-term loans from other local authorities and £45.01m was longer-term loans from other authorities / PWLB. Loans raised during quarter 3 amounted to £56.0m, of which £30.0m was medium-term borrowing from other local authorities, and £26.0m PWLB loans.

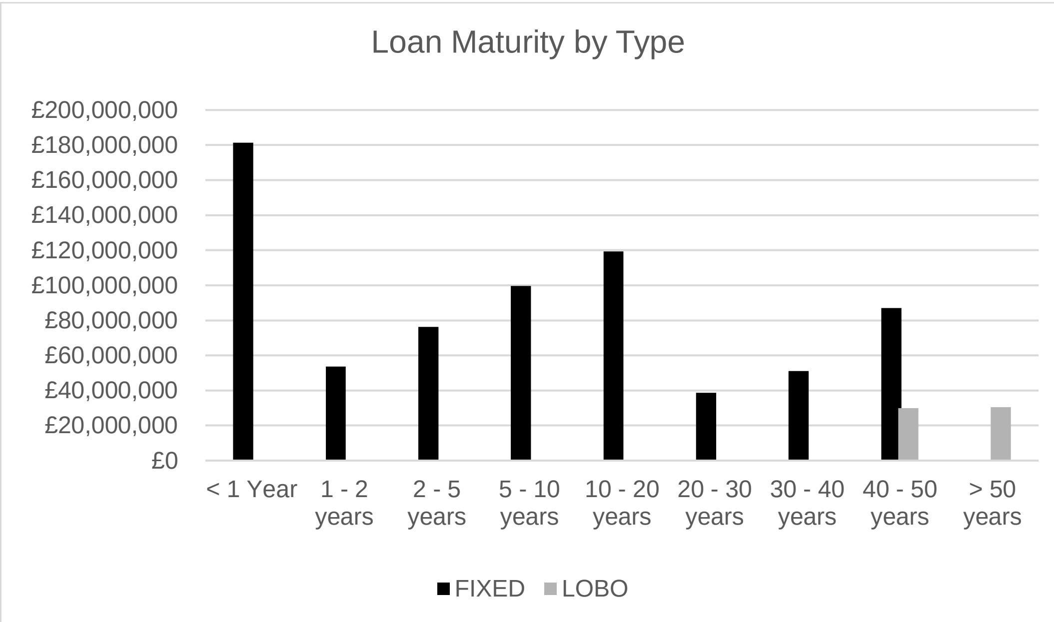
6.4 At the end of quarter 3, the Council held £767.4m of borrowing of which £52m was short-term borrowing that matures in less than 1 year from date of issue. The Council continues to be able to re-finance loans as required, generally at this time at a lower interest rate than the maturity loan. As opportunities arise, we have been seeking longer loan terms, rather than less than 1 year, in view of the current conditions. However, it is anticipated that this will become less favourable an option as rates are expected to rise.

6.5 Table 8 below sets out the maturity profile of the Council's borrowing portfolio at the end of quarter 3; £469.9m is held with the PWLB, £237.0m from other local authorities, £45.0m in market loans and £15.5m is a single market Lender Option Borrower Option (LOBO) loan. Of the £767.4m of borrowing, £181.4m (including both short-term and longer-term loans) will mature in less than 1 year, therefore potentially requiring refinancing.

Table 8: Loan Maturity Profile (Closing) – quarter 3 2021/22

Term remaining	Borrowing	
	£m	%
< 1 Year	181.3	23.6
1 - 2 years	53.7	7.0
2 - 5 years	76.2	9.9
5 - 10 years	99.7	13.0
10 - 20 years	119.2	15.5
20 - 30 years	38.7	5.0
30 - 40 years	51.0	6.7
40 - 50 years	117.0	15.3
> 50 years	30.5	4.0
Total	767.4	100.0

Figure 2: Loan Maturities by Type (Closing) – quarter 3 2021/22



6.6 The market LOBO loan is included in Table 8 at final maturity rather than next potential call date. In the current low interest rate environment, the likelihood of the lender exercising their option to increase the interest rate on this loan - and so triggering the Council’s option to repayment at par - is considered to be low.

6.7 The Council is in an internally borrowed cash position and balances will need to be replenished at some point in the future (subject to expenditure demands). This strategy is prudent while investment returns are lower than the cost of servicing debt and also 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.

6.8 No borrowing rescheduling was undertaken during quarter 3. Rescheduling opportunities are limited in the current economic climate. For PWLB loans, due to the spread between the carrying rate of existing borrowing and early redemption rates, substantial exit (premium) costs would be incurred. For market borrowing, the lender uses the certainty of the loans cashflow profile to hedge against forecast interest rate movements and so would pass the cost of unwinding these instruments onto the Council as an exit (premium) cost. Officers continue to monitor the position regularly.

7. Compliance with Treasury and Prudential Limits

7.1 The Council’s treasury and prudential indicators are shown in Appendix 2.

7.2 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 31st December 2021, the Council has operated within the treasury and prudential indicators set out in the Council’s Treasury Management Strategy Statement for 2021/22.

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

8. Alignment with Corporate Priorities

8.1 Communities at the heart of everything we do

There are no significant implications for this priority.

8.2 A good quality of life for everyone

There are no significant implications for this priority.

8.3 Helping our children learn, develop and live life to the full

There are no significant implications for this priority.

8.4 Cambridgeshire: a well-connected, safe, clean, green environment

There are no significant implications for this priority.

8.5 Protecting and caring for those who need us

There are no significant implications for this priority.

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 Debt Charges Budget and are reported through the Budget 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. Further details can be found within Appendix 2.

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.

9.7 Public Health Implications

There are no significant implications for this category.

10. Source documents

10.1 None

Appendix 1: Detailed economic commentary on developments during quarter ended 31st December 2021

During the quarter ended 31st December 2021 (quarter 3 (Q3) of financial year 2021/22):

- GDP rose 0.1% in October as product/labour shortages held back output.
- There were signs of faster GDP growth in November, before surging COVID-19 cases in December hit activity.
- Inflation jumped to a nine-year high of 5.1% in November.
- Bank Rate rose from 0.10% to 0.25% in December.
- Gilt yields and sterling fell, before both turned a corner in recent weeks.

Q3 had a weak start in October, with the economy eking out GDP growth of only 0.1% month-on-month (m/m). That was much lower than the 0.6% m/m growth in September and reflected falls in output in hospitality (-5.6% m/m), energy (-2.8% m/m) and mining (-5.0% m/m). In fact, without the boost from more face-to-face doctor appointments and the vaccine programme, GDP would have contracted in month-on-month terms.

There were signs that activity gained some momentum in November, driven mainly by faster growth in consumer spending. In November, retail sales jumped by 1.4% m/m, households' unsecured borrowing rose by a healthy £1.2bn, and survey data pointed to resilience in other sectors too, despite continued supply chain disruptions and shortages.

The forecast is for GDP growth in December of -0.1% m/m, however, the fall could be larger than that. Indeed, the flash composite PMI for December was consistent with GDP growth of -1.5% m/m. Although it is suspected that this is a little pessimistic, a more conservative estimate of -0.5% m/m would pull down the forecast for Q3 to +0.7% q/q.

CPI inflation surged to a 10-year high of 5.1% in November. Some of the rise was due to one-off factors, such as the 5.1% m/m increase in fuel prices on the back of the surge in oil prices in October. But there was evidence of more persistent price pressures too. Food inflation added 0.1ppts to overall inflation, which reflected higher costs faced by suppliers. Higher second-hand car inflation and rising housing rents also contributed. Meanwhile, another rise in core producer output price inflation from 7.1% to 7.9% in November suggests that shortages are still boosting prices further up the inflation pipeline.

The Bank of England surprised many with a hike to Bank Rate at the December Monetary Policy Committee (MPC) meeting from 0.10% to 0.25%, as it was expected the Bank would wait for more information on the impact of Omicron before raising rates. But a series of strong data releases on the labour market and inflation in the run-up to the meeting seemed to have influenced this. Minutes of the meeting indicated that, despite acknowledging the downward impact on GDP from Omicron, the MPC was more concerned about the upside risks to inflation.

Appendix 2: Treasury and Prudential Indicators Quarter 3

Treasury / Prudential Indicator	2021/22 Indicator	2021/22 Quarter 3
Authorised limit for external debt (Inc’ loans raised to on-lend to Housing & Investment Company)	-----£1,074.0m-----	
Operational boundary for external debt (Inc’ loans raised to on-lend to Housing & Investment Company)	----- £1,044.0m-----	
Total Net Borrowing – Quarter 3	--------£655.8m------	
Capital Financing Requirement (CFR) *[Including PFI and Finance Lease Liabilities]*	£984.4m	£946.4m
Ratio of financing costs to net revenue streams	8.8%	5.9%
Upper limit of fixed interest rates based on net debt*	150%	115%
Upper limit of variable interest rates based on net debt*	65%	-15%
Principal sums invested over 365 days (exc’ third party loans)	£50.0m	£37.5m
Maturity structure of borrowing limits**: -		
Under 12 months	Max. 80% Min. 0%	23.6%
12 months to 2 years	Max. 50% Min. 0%	7.0%
2 years to 5 years	Max. 50% Min. 0%	9.9%
5 years to 10 years	Max. 50% Min. 0%	13.0%
10 years and above	Max. 100% Min. 0%	46.5%

*The interest rate exposure is calculated 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.

**The Treasury Management Code of Practice guidance notes requires that maturity is determined by the earliest date on which the lender can trigger repayment, which in the case of LOBO loans is the next break/call point. This approach differs to Table 8 at paragraph 6.5 above, which instead shows the Council’s LOBO loan at maturity date as the likelihood of the option being exercised is low.