Item

ANNUAL TREASURY MANAGEMENT STRATEGY STATEMENT REPORT 2023/24 TO 2026/27

To:
The Executive Councillor for Finance & Resources: Councillor Mike Davey

Strategy & Resources Scrutiny Committee 30th January 2023

Report by:
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Wards affected:
All Wards

Key Decision

1 Executive Summary

1.1 The Council is required to receive and approve, as a minimum, three main treasury management reports each year.

1.2 The first and most important is the Treasury Management Strategy (this report), which covers:

- capital plans (including prudential indicators);
- a Minimum Revenue Provision policy which explains how unfinanced capital expenditure will be charged to revenue over time;
- the Treasury Management Strategy (how investments and borrowings are to be organised) including treasury indicators; and
- a Treasury Management Investment Strategy (the parameters on how investments are to be managed).

1.3 A mid-year treasury management report is produced to update Members on the progress of the capital position, amending prudential indicators as necessary, and advising if any policies require revision.

1.4 The Outturn or Annual Report compares actual performance to the estimates in the Strategy.

1.5 The statutory framework for the prudential system under which local government operates is set out in the Local Government Act 2003 and Capital Financing and Accounting Statutory Instruments. The framework incorporates four statutory codes. These are:

- the Prudential Code (2021 edition) prepared by CIPFA;
- the Treasury Management Code (2021 edition) prepared by CIPFA;
- the Statutory Guidance on Local Government Investments prepared by the Department for Levelling Up, Housing and Communities (DLUHC) (effective 1 April 2018); and
- the Statutory Guidance on Minimum Revenue Provision prepared by DLUHC (effective 1 April 2019).

1.6 The Council's S151 Officer has considered the deliverability, affordability and risk associated with the Council's capital expenditure plans and treasury management activities. The plans are affordable. Where there are risks such as the slippage of capital expenditure, or reductions in investment values or income, these have been reviewed and mitigated at an acceptable level. The Council has access to specialist advice where appropriate.

1.7 Treasury Management Reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Strategy and Resources Scrutiny Committee.

2 Recommendations

The Executive Councillor is asked to recommend to Council:-

2.1 That this report, including the estimated Prudential and Treasury Indicators for 2023/24 to 2026/27 (inclusive) as set out in Appendix C, be approved.

3 Treasury Management Activities

3.1 The Council is required to have regard to the relevant CIPFA and DLUHC Guidance when carrying out its treasury management activities (see paragraph 1.5). The Council is required to set prudential and treasury indicators, including an authorised limit for borrowing, for a minimum of a three-year period and should ensure that its capital plans are affordable, prudent and sustainable.

3.2 The Prudential Code states that, where appropriate, the S151 Officer should have access to specialised advice to enable them to reach their conclusions in respect of affordability and risk. As such, the Council has retained Link Asset Services (LAS) as its specialist treasury management advisors.

3.3 LAS's specialist services include the provision of advice to the Council on developments and best practice in treasury management, the creditworthiness of potential counterparties, deposit and borrowing interest rates, and the performance and outlook of the wider economy.

3.4 The Council recognises that its non-treasury investments mean that it may need to consult with specialists in other areas, particularly commercial property. Arrangements are in place to ensure that the S151 officer and relevant Heads of Service can access appropriate expertise in respect the Council's commercial activities.

4 Borrowing Policy Statement

4.1 The Council is permitted to borrow under the Prudential Framework, introduced with effect from 1 April 2004.

4.2 At present the only debt held by the authority relates to twenty loans from the Public Works Loan Board (PWLB) for self-financing of the Housing Revenue Account (HRA). These loans were taken out in 2012 and total £213,572,000.

4.3 The Council has agreed further external borrowing of £85 million to fund the Park Street redevelopment project. This is in the form of an annuity loan and will be received in three tranches with the first being drawn down in 2024. Where funds are needed for this project before this point, short term borrowing will be undertaken with other lenders including other local authorities.

4.4 More generally, as explained elsewhere in this document and in the Council's Capital Strategy, the current General Fund capital programme establishes that external borrowing is likely to be required in the medium-term. Similarly, to deliver the Council's stated commitments to construct new homes the HRA will need to take on additional borrowing.

4.5 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

4.6 Having already secured funding for the redevelopment of Park Street car park, the General Fund has successfully mitigated the impact of high interest rates on the viability of what is currently the single largest investment in the General Fund capital programme. The expected timing of the cash flows associated with the project and the surplus cash balances held by the Council have created a situation where it may be possible for the General Fund to provide a short-term lending facility to the HRA. This builds on the existing arrangement whereby surplus cash held by the General Fund and the HRA is pooled and invested in accordance with the principles set out in this strategy. A calculation is undertaken annually to determine the proportion of investment income generated which needs to be recognised in the HRA.

4.7 Regulations state that there can be no cross-subsidy between the General Fund and the HRA or vice-versa. Consequently, any sums lent to the HRA by the General Fund must be lent using rates and terms commensurate with the rates the General Fund would achieve if it were to invest the surplus cash available with approved counterparties.

4.8 The structure of financial markets is such that there can be periods where the cost of borrowing from the PWLB is higher than the rate of interest which the Council would receive if it were to invest surplus cash on a short-term basis with an approved counterparty. The shortest PWLB loan term is one year which may exceed the period when the HRA needs to secure access to cash. Retaining surplus funds within the Council reduces counterparty risk and the administrative burden associated with identifying an appropriate counterparty.

4.9 The interest rate forecast included in Appendix B highlights that PWLB rates are forecast to reduce sharply over the next two years. If these forecasts are accurate, this represents the likely maximum period during which it may be advantageous for the HRA to borrow on a short-term basis from the General Fund to finance its capital programme.

5 Minimum Revenue Provision (MRP) Policy Statement

5.1 Minimum Revenue Provision (MRP) is the revenue charge that the Council is required to make for the repayment of debt, as measured by the underlying need to borrow, rather than actual debt. The underlying debt is needed to finance capital expenditure which has not been fully financed by revenue or capital resources. As capital expenditure is generally expenditure on assets which have a life expectancy of over one year, it is prudent to charge an amount for the repayment of debt over the life of the asset or some similar proxy figure.

5.2 The Local Authorities (Capital Finance and Accounting) regulations require local authorities to calculate for the financial year an amount of MRP which is considered to be ‘prudent’.

5.3 There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial year.

5.4 The Housing Revenue Account share of the CFR is not subject to an MRP charge.

5.5 There is no requirement to make an MRP charge on an asset until the financial year after that asset becomes operational.

5.6 The Government issues statutory guidance on the calculation of MRP. The Council is required to have regard to the guidance based on the underlying principle that the provision should be linked to the life of the assets for which the borrowing is required.

5.7 However, the guidance is clear that differing approaches can be considered as long as the resulting provision is prudent.

5.8 In general, the council will make a minimum revenue provision based on the equal installment method, amortising expenditure equally over the estimated useful life of the asset for which the borrowing is required. However, no provision will be made in respect of expenditure on specific projects where the Head of Finance determines that capital receipts will be generated by the project to repay the debt. Specifically, in respect of the current capital programme:

- The Council has made a loan to a company (which is classed as capital expenditure) to enable it to let intermediate rent properties. This will be financed from internal borrowing. As this loan is to a wholly owned subsidiary company and is secured on assets no MRP will be set aside. However, to ensure that this policy is prudent, the Council will review this loan annually and if the loan is renegotiated. Where there is evidence which suggests that the full amount of the loan may not be repaid or is not secured on assets of appropriate value, it will be necessary to reassess the need to commence MRP to recover the impaired amounts from revenue.

- The Council continues to make capital contributions and loans to the Cambridge Investment Partnership (CIP) – a joint venture and deadlock partnership in which the Council has a 50% stake – to facilitate the development of new housing within the city. These payments are classed as capital expenditure. As the payments are appropriately covered by assets in the CIP and as there are detailed plans to demonstrate that all investment in the CIP will be recovered in less than five years with a significant surplus, no MRP will be set aside. However, to ensure that this policy is prudent, the Council will review the position regularly. Where there is evidence which suggests that the finance provided may not be repaid, it will be necessary to reassess the need to commence MRP to recover the impaired amounts from revenue.

- No MRP will be required on bond investments which are treated as capital expenditure under regulation where those bonds are appropriately secured. This security will be reviewed at least annually.

5.9 In the circumstances outlined above when a capital receipt is received in the form of a loan or bond repayment this will be applied in the year of receipt to the CFR thereby reducing the CFR and extinguishing the unfinanced spend incurred in previous financial years.

5.10 The Council has agreed to finance an element of the capital cost of a new community centre at Clay Farm from internal borrowing. Using the asset life method MRP would normally be made over an asset life of 40 years. However, the element of capital cost being funded from internal borrowing will effectively be repaid over a shorter period from receipts of rental income from the tenant and subsidy from the site developer. The current estimate is that this repayment will take approximately 12 years. The Council has decided to make MRP on this accelerated basis in respect of this asset.

5.11 The Council is required to report whether it has made any voluntary payments over and above that required to comply with its Minimum Revenue Provision policy. The Council can confirm that it made a voluntary overpayment of MRP of £9,545K in the 2019/20 financial year.

6 The Council's Capital Expenditure and Financing 2022/23 to 2026/27

6.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- financed immediately through the application of capital or revenue resources (capital receipts, capital grants, developer contributions, revenue contributions, reserves, etc), which has no resultant impact on the Council's borrowing need; or
- if insufficient financing is available, or a decision is taken not to apply other resources, the funding of capital expenditure will give rise to a borrowing need.

6.2 Estimates of capital expenditure forms one of the required prudential indicators. The table below shows the proposed capital expenditure, incorporating amounts in the capital programme and future anticipated expenditure identified when producing the Council's Capital Strategy and explains how it will be financed.

	2022/23 Estimate £'000	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**	**2025/26 Estimate £'000**	**2026/27 Estimate £'000**
General Fund Capital Expenditure	141,441	35,055	30,359	6,892	4,842
HRA Capital Expenditure	83,781	114,680	94,055	104,139	78,182
Total Capital Expenditure	**225,222**	**149,735**	**124,414**	**111,031**	**83,024**
Resourced by:					
• Capital receipts	25,441	7,231	4,228	5,306	4,214
• Other contributions	93,381	54,154	24,771	29,035	25,828
Total available resources for financing capital expenditure	**118,822**	**61,385**	**28,999**	**34,341**	**30,042**
• Financed from internal and external borrowing (General Fund)	106,400	30,854	27,860	5,355	4,600

• Financed from internal and external borrowing (HRA)	0	57,496	67,555	71,335	48,382
Total Financed from internal and external borrowing	**106,400**	**88,350**	**95,415**	**76,690**	**52,982**

7 The Council's Prudential and Treasury Management Indicators

7.1 The table below shows the Capital Financing Requirement (CFR), which is the underlying need to incur borrowing for a capital purpose. It also shows the indicative debt position over the period. This is termed the Operational Boundary which the Council would not normally expect to exceed. Actual debt levels may be lower due to the use of surplus cash balances, timing of capital expenditure and the availability of capital receipts and other sources of non-debt finance. Regulations require that the Council's external debt level cannot exceed the Authorised Limit set out below.

Capital Financing Requirement & Cumulative External Borrowing	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
General Fund Capital Financing Requirement (31 March)	148,633	158,511	146,091	139,053	99,204
HRA Capital Financing Requirement (31 March)	214,321	271,817	339,372	410,707	459,089
Total Capital Financing Requirement (CFR)	**362,954**	**430,328**	**485,463**	**549,760**	**558,293**
Movement in the CFR	**55,077**	**67,374**	**55,135**	**64,298**	**8,533**
Estimated External Gross Debt/Borrowing (Including HRA Reform)	266,167	353,517	428,052	498,738	546,006
Authorised Limit for External Debt	450,000	550,000	550,000	600,000	600,000
Authorised Limit for other long term liabilities	2,000	2,000	2,000	2,000	2,000
Operational Boundary for External Debt	341,744	435,328	490,463	554,760	563,293
Operational Boundary for other long term liabilities	1,500	1,500	1,500	1,500	1,500

7.2 Two additional indicators are reported in Appendix C in accordance with updates to the Prudential Code effective from 1 April 2023. The Council is now required to disclose its actual and estimated net income from commercial and service investments as a proportion of its net revenue stream. This indicator is important in the context of understanding the contribution commercial income makes to the Council's net budget recognising that the Council has a significant portfolio of investment properties. The Council's Capital Strategy defines the activities which the Council classifies as being commercial in nature and this also includes car parking and bereavement services, as well as loans the Council has made to connected entities within the Council Group.

7.3 This indicator needs to be understood with reference to the environment in which these commercial activities operate. The loans made by the Council will typically be project-specific and therefore will not return a constant level of income. The performance of services provided in a competitive marketplace will be subject to variation linked to factors particular to that market. By necessity the budget-setting process evaluates the impact of the current economic conditions on the performance of its commercial activities. Consequently, year-on-year changes in relation to an indicator should not, in isolation, be treated as a cause for concern providing the change is consistent with the Council's budget estimates and therefore managed appropriately the context of medium-term financial planning.

7.4 The other additional mandatory indicator, which was first reported as part of the mid-year Treasury report in September 2022, is known as the Liability Benchmark. This indicator is presented in graph form with separate graphs being produced for the General Fund and the HRA. The format used shows the relationship between the following elements over the life of the Council's debt portfolio:

a) Existing loan debt outstanding: the Authority's existing loans, including the borrowing for the Park Street project which has been agreed in advance, that are still outstanding in future years.
b) Loans CFR: this is 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.
c) Net loans requirement: this will show the Authority's gross loan debt less treasury management investments at the last financial

year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

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

7.5 Unlike projections of capital expenditure reported elsewhere within this document, the liability benchmark is based on the approved capital programme and therefore excludes anticipated capital expenditure which is otherwise reflected in the Council's five-year forecast referred to in various sections of this document. The effect of this is show a peak in the Council's General Fund CFR in March 2024 by which time the Council is expected to have significant unfinanced expenditure within its CFR. This principally relates to CIP projects and the project at Park Street. The CFR will start to reduce once Park Street becomes operational and when loans from the Council to CIP are repaid. There will, however, be other capital schemes which come forward for approval in the coming years. For reasons explained in the Council's Medium Financial Strategy it is likely that new capital expenditure will need to be funded through additional borrowing which will increase the CFR when the associated expenditure is incurred.

7.6 The liability benchmark is intended to be a live indicator which informs the Council's decisions about timing and duration of borrowing hence it informs the borrowing strategy set out in Section 4 above.

8 Investment Strategy

8.1 The Council's overall approach to investment in financial and non-financial assets is outlined in the Capital Strategy presented in a separate report to the Strategy and Resources Scrutiny Committee and Council**.**

9 Financial Asset Counterparties

9.1 The full listing of approved counterparties is presented at Appendix A, showing the category under which each counterparty has been approved, the appropriate deposit limit, and current duration limit.

9.2 There is no or very low risk to the capital invested (other than the risk of failure of the financial institution) for fixed term deposits and constant net asset value money market funds.

9.3 The Council continually reviews its investment policy. The current economic climate has created considerable uncertainty. This has impacted asset pricing. The Council holds investments in commercial property, both directly owned and through the CCLA Local Authorities' Property Fund, and has investments in short-dated bond funds. The pricing of both asset types has been particularly impacted. Further volatility in capital values is anticipated over the economic cycle.

9.4 The Council will continue to monitor the total return generated by its investment in funds, all of which are actively managed by professional fund managers. In this context, it is important to recognise that the income distributions the Council receives will not necessarily be subject to the same volatility as capital values. The Council recognises the need for it to be able to continue to justify retaining these assets. This is important as one of the consequences of doing so is to bring forward the date when the Council will need to borrow to fund its capital programme.

9.5 The Council has made a loan of £7.5 million to Cambridge City Council Housing Company, a wholly owned subsidiary. This loan earns 2.02% and is secured on the properties owned by the company. It has been identified that the subsidy control regime may impact on whether the Council is permitted to provide loan finance at a rate which is less than the prevailing market rate. A legal opinion has been requested and future treasury management reporting will be updated to take account of the advice received.

9.6 The Council has continued to make loans available to Cambridge Investment Partnership, a joint venture – see paragraph 5.8 for further details.

9.7 The Council invests in local business bonds issued by Allia Limited. The bonds are secured on the Allia Future Business Centre. The authorised counterparty limit for such investments as set out at Appendix A is £5 million, and this limit was reached during the year in respect of long-term (5 year) bonds.

10 Interest Rates & Interest Received

10.1 In support of effective forecasting the Council needs to be aware of the potential influence of interest rates on its treasury management. The Council is provided with regular interest rate forecasts by its treasury advisors, and the latest forecast is presented at Appendix B.

10.2 Total interest and dividends of £1.297m (on our traditional treasury investments, i.e. excluding the investments referred to in para 9.3 and 9.4 and loans made to the connected entities) are due or have been received in respect of the Council's deposits up to 30 November 2022 (for this financial year) at an average rate of 1.32% (0.24% at 30 November 2021).

10.3 The Council continues to benefit from multiple recent increases in the Bank of England base rate. This has led to a significant improvement in investment returns generated from that observed in recent years. The impact of this improvement is reflected in the Council's draft budget. The Council will continue to monitor forecast rates and the assumptions underpinning those forecasts as changes in global markets could significantly impact central bank policy which will in turn impact the Council's treasury management strategy.

11 Implications

(a) Financial Implications

The prudential and treasury indicators have been amended to take account of known financial activities.

(b) Staffing Implications

None.

(c) Equality and Poverty Implications

No negative impacts identified.

(d) Net Zero Carbon, Climate Change and Environmental Implications

None.

(e) Procurement Implications

None.

(f) Community Safety Implications

No community safety implications.

12 Consultation and communication considerations

None required.

13 Background papers

No background papers were used in the preparation of this report.

14 Appendices

Appendix A – The Council's current Counterparty list
Appendix B – Link's opinion on UK Forecast Interest Rates
Appendix C – Prudential and Treasury Management Indicators
Appendix D – Glossary of Terms and Abbreviations

15 Inspection of papers

To inspect the background papers or if you have a query on the report please contact:

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Treasury Management Annual Investment Strategy

Current Counterparty List

The full listing of approved counterparties is shown below, showing the category under which the counterparty has been approved, the appropriate deposit limit and current duration limits (*references have now been made to RFB & NRFB for UK Banks, with explanations within the Glossary at Appendix D).

Link Group Colour	Council's Current Deposit Period	Category	Limit (£)
UK Banks and Building Societies: -			
Yellow	60 months	UK Banks and Building Societies	35m
Magenta	60 months	UK Banks and Building Societies	35m
Pink	60 months	UK Banks and Building Societies	35m
Purple	24 months	UK Banks and Building Societies	30m
Blue	12 months	UK Banks and Building Societies	30m
Orange	12 months	UK Banks and Building Societies	30m
Red	6 months	UK Banks and Building Societies	20m
Green	100 days	UK Banks and Building Societies	10m
No Colour	Not recommended	UK Banks and Building Societies	0m

Name	Council's Current Deposit Period	Category	Limit (£)
Specified Investments: -			
All UK Local Authorities	N/A	Local Authority	20m
All UK Passenger Transport Authorities	N/A	Passenger Transport Authority	20m
All UK Police Authorities	N/A	Police Authority	20m
All UK Fire Authorities	N/A	Fire Authority	20m

Name	Council's Current Deposit Period	Category	Limit (£)
Debt Management Account Deposit Facility	N/A	DMADF	Unlimited
Enhanced Cash Funds (Standard & Poor's: AAAf/S1, Fitch: AAA/S1)	Over 3 months and up to 1 year	Financial Instrument	10m (per single counterparty)
Enhanced Money Market Funds (not below AAf) - VNAV	Over 3 months and up to 1 year	Financial Instrument	5m (per fund)
Money Market Funds (AAAf) – CNAV, VNAV & LVNAV	Liquid Rolling Balance	Financial Instrument	15m (per fund) With no maximum limit overall
UK Government Treasury Bills	Up to 6 months	Financial Instrument	15m
Members of a Banking Group	Using Link's Credit Criteria	UK Banks and UK Nationalised Banks	40m
Non-Specified Investments: -			
All UK Local Authorities – longer term limit	Over 1 year and up to 5 years	Local Authority	Up to 35m (in total)
Cambridge City Council Housing (CCHC) Working Capital Loan *	Up to 1 year	Loan	200,000
Cherry Hinton Community Benefit Society	Up to 1 year	Loan	50,000
CCHC Investment *	Rolling Balance	Loan (Asset Security)	7,500,000
Cambridge Investment Partnership (Mill Road)*	Rolling Balance	Loan (Asset Security)	17,800,000
Cambridge Investment Partnership (Cromwell Road)*	Rolling Balance	Loan (Asset Security)	48,300,000
Cambridge Investment Partnership (Orchard Park L2)*	Rolling Balance	Loan (Asset Security)	11,529,000
Cambridge Investment Partnership	Rolling Balance	Loan (Asset Security)	33,940,000

Name	Council's Current Deposit Period	Category	Limit (£)
CCLA Local Authorities' Property Fund	Minimum of 5 years	Pooled UK Property Fund	Up to 15m
Certificates of Deposit (with UK Banking Institutions)	Liquid Rolling Balance	Financial Instrument	See limits above
Certificates of Deposit (with UK Building Societies)	Liquid Rolling Balance	Financial Instrument	See limits above
Certificates of Deposit (with Foreign Banking Institutions)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)
Enhanced Cash Funds (Standard & Poor's: AAAf/S1, Fitch: AAA/S1)	Over 1 year and up to 5 years	Financial Instrument	10m (per single counterparty)
Enhanced Money Market Funds (not below AAf) - VNAV	Over 1 year and up to 5 years	Financial Instrument	5m (per fund)
Commercial Property Investments funded from cash balances	Over 1 year	Commercial Property	25m (in total)
Municipal Bonds Agency	N/A	Pooled Financial Instrument Facility	50,000
Secured Local Bond – Allia Limited	N/A	Local Business Bond	Up to 5m in total
Supranational Bonds – AAA	Using Link's Credit Criteria	Multi-lateral Development Bank Bond	15m
UK Government Gilts	Over 1 year & up to 30 Years	Financial Instrument	15m

Note: In addition to the limits above, the total non-specified items over 1 year **(excluding balances with related parties*)** will not exceed £50m.

Link Asset Services Opinion on Forecast UK Interest Rates – As Currently Predicted

Introduction

The paragraphs that follow reflect the views of the Council's treasury management advisors (Link Asset Services) on UK Interest Rates as currently predicted.

Interest rates

The Bank of England voted in a majority of 6-3 to increase interest rates from 3.0% to 3.5%. The vote took place on 15 December 2022. Link Asset Services has provided the following interest rate forecast, issued in December 2022:-

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

* The PWLB rates quoted are the discounted 'certainty rates' which are available to the Council as a qualifying local authority.

- Over recent weeks, relative calm has returned to the gilt markets and the £ has now risen from a historic low of $1.03 to $1.22, and the cumulative movement in gilt yields over the course of 2022 remains broadly in line with that seen in the Euro-zone bond markets but somewhat higher than the US (40bps).

- Market expectations remain for Bank Rate to peak at between 4.5% and 4.75% by mid-2023, and it has been announced today that the Chancellor's Budget will take place on 15 March, accompanied by analysis from the Office for Budget Responsibility, and followed on 23 March by the planned MPC meeting.

- Market views remain similar to those of Link Group's Interest Rate Strategy Group (IRSG). IRSG still sees the peak in Bank Rate at 4.5%, although there are several challenges ahead that could see the Bank leave rates at an elevated level for longer, once the peak is reached.

- The first of those challenges is the tight labour market (unemployment is at a near 48 year low 3.7%), and average wage increases are now above 6% y/y, against the backdrop of a significant number of high profile strikes throughout December and January (the Bank would broadly want wages to be in the range of 3% - 3.5%). There is also the prospect that unless the workforce participation rate increases and/or immigration policies are relaxed, there is no clear route that would give rise to sustainable increases in economic growth.

- So much of the eventual numbers will also be guided by what happens in Ukraine too, particularly the implications for further need for energy subsidies for UK households and businesses. The current Government support is due to be extended from April, but households can typically expect to pay £3,000 per annum under the revised scheme compared to the current £2,500.

- Regarding our forecast for PWLB rates, investors will likely remain a little nervous over the UK's future fiscal policy and foreign investors may require a "confidence premium" until it is clear that the Sunak Government is able to meet most of its spending commitments within acceptable financial constraints. However, in addition, the OBR forecasts the Central Government Net Cash Requirement is £650bn between 2023/24 and 2027/28 and maturing gilts will swell that figure to >£1.2trillion, and Quantitative Tightening will potentially push the eventual number even higher. So, the Bank and the Government will need to tread carefully in their messaging to markets and the way that funding requirements are met.

- As for the housing market, the most recent surveys by Halifax and Nationwide Building Society show house prices falling. Historically, the MPC has appeared reluctant to tighten monetary policy in a falling housing market, but it looks like it is going to have to at least for a further three to six months whilst unemployment remains low and wages are rising fast.

- Of course, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has led with increases of 425 basis points in the year to date and is expected to increase rates further into 2023. Similarly, the ECB has also started to tighten monetary policy, currently to 2%, Nonetheless, it is US monetary policies that will continue to have the greatest impact on global bond markets.

Appendix C

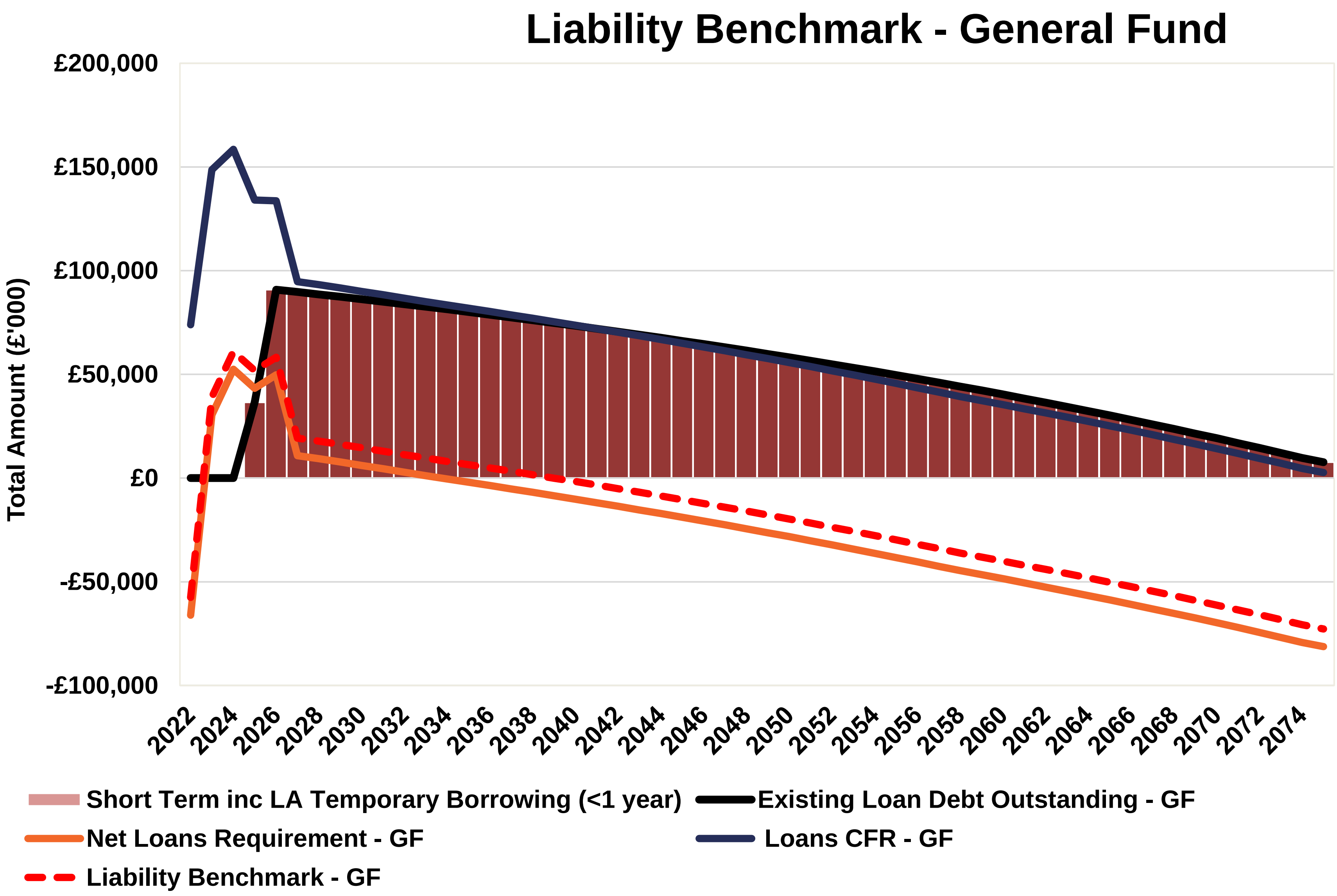
PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

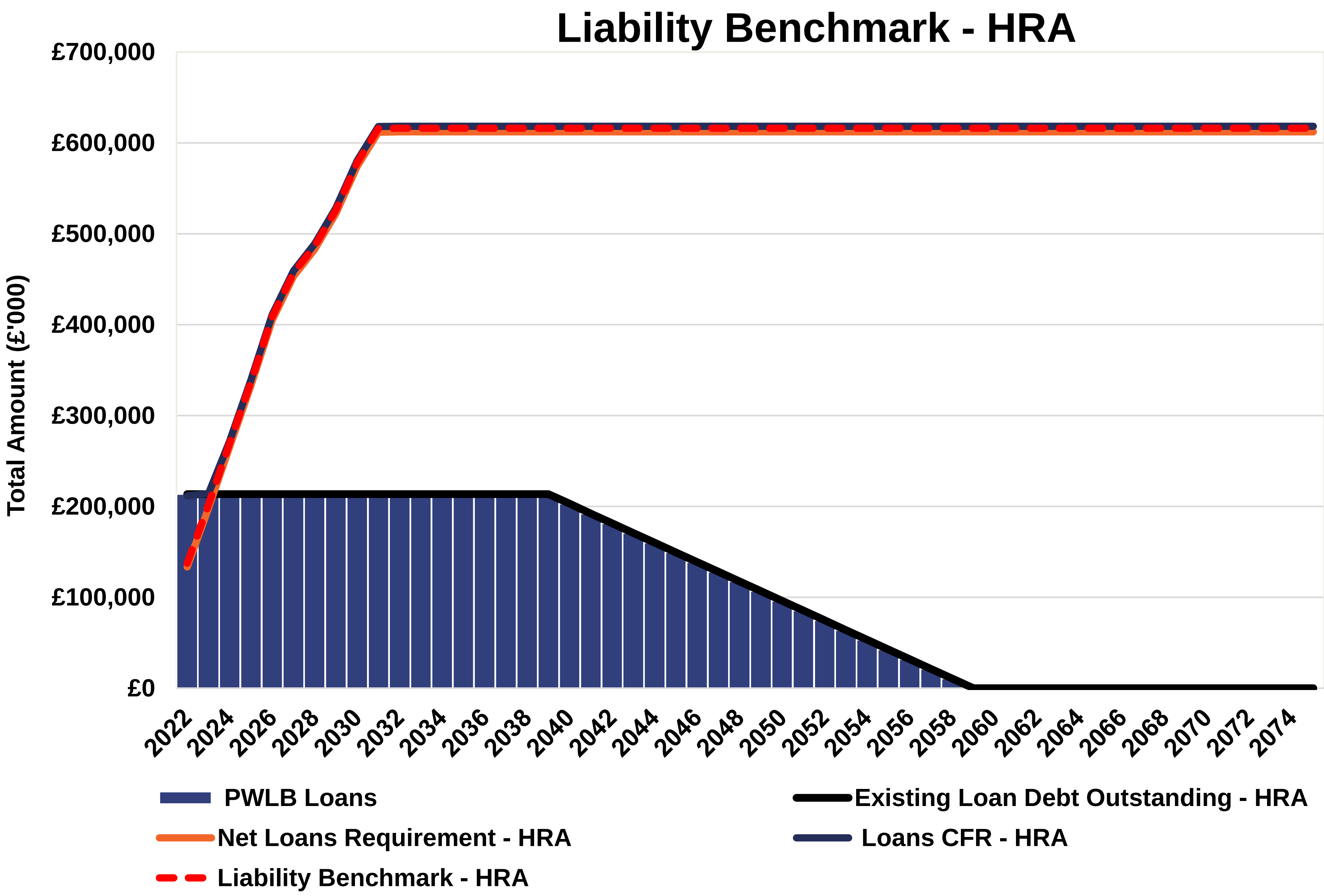
	Estimate 2022/23 £'000	Estimate 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000
PRUDENTIAL INDICATORS					
Capital expenditure					
- General Fund	141,441	35,055	30,359	6,892	4,842
- HRA	83,781	114,680	94,055	104,139	78,182
Total	**225,222**	**149,735**	**124,414**	**111,031**	**83,024**
Capital Financing Requirement (CFR) as at 31 March					
- General Fund	148,633	158,511	146,091	139,053	99,204
- HRA	214,321	271,817	339,372	410,707	459,089
Total	**362,954**	**430,328**	**485,463**	**549,760**	**558,293**
Change in the CFR	**77,336**	**67,374**	**55,135**	**64,298**	**8,533**
Surplus Cash Deposits (Annualised Average)	160,000	105,000	87,000	68,000	50,000
External Gross Debt	266,167	353,517	428,052	498,738	546,006
Ratio of financing costs to net revenue stream					
-General Fund Financing Cost	(1,834)	(370)	296	18	611
-HRA Financing Cost	6,654	8,449	11,003	13,566	15,660
Total	**4,820**	**8,079**	**11,299**	**13,584**	**16,271**
% of net revenue stream					
-General Fund	(7.41%)	(1.55%)	0.18%	0.10%	6.75%
-HRA	14.38%	16.60%	20.56%	23.68%	25.86%

Net income from commercial and service investments to net revenue stream					
-General Fund	9,701	10,419	10,379	10,379	10,379
-HRA	478	493	413	413	413
% of net revenue stream					
-General Fund	39.20%	43.72%	41.78%	59.66%	57.86%
-HRA	1.03%	0.97%	0.77%	0.72%	0.68%

	Estimate 2022/23 £'000	**Estimate 2023/24 £'000**	**Estimate 2024/25 £'000**	**Estimate 2025/26 £'000**	**Estimate 2026/27 £'000**
TREASURY INDICATORS					
Authorised limit					
for borrowing	450,000	550,000	550,000	550,000	600,000
for other long term liabilities	2,000	2,000	2,000	2,000	2,000
Total	**452,000**	**552,000**	**552,000**	**552,000**	**602,000**
Operational boundary					
for borrowing	341,744	406,638	461,773	526,071	568,503
for other long term liabilities	1,500	1,500	1,500	1,500	1,500
Total	**343,244**	**408,138**	**463,273**	**527,571**	**570,003**
Upper limit for total principal sums deposited for over 364 days	50,000	50,000	50,000	50,000	50,000
Upper limit for fixed & variable interest rate exposure					

Net interest on fixed rate borrowing/deposits	5,372	8,296	11,499	13,792	16,467
Net interest on variable rate borrowing/deposits	-68	-30	-30	-23	-23
Maturity structure of new fixed rate borrowing		Upper Limit	Lower Limit		
10 years and above (PWLB borrowing for HRA Reform)		100%	100%		


Liability Benchmark - General Fund
£200,000
£150,000
£100,000
£50,000
£0
-£50,000
-£100,000
Total Amount (£'000)
2022
2024
2026
2028
2030
2032
2034
2036
2038
2040
2042
2044
2046
2048
2050
2052
2054
2056
2058
2060
2062
2064
2066
2068
2070
2072
2074
Short Term inc LA Temporary Borrowing (<1 year)
Existing Loan Debt Outstanding - GF
Net Loans Requirement - GF
Loans CFR - GF
Liability Benchmark - GF



Liability Benchmark - HRA
Total Amount (£'000)
£700,000
£600,000
£500,000
£400,000
£300,000
£200,000
£100,000
£0
2022
2024
2026
2028
2030
2032
2034
2036
2038
2040
2042
2044
2046
2048
2050
2052
2054
2056
2058
2060
2062
2064
2066
2068
2070
2072
2074
PWLB Loans
Existing Loan Debt Outstanding - HRA
Net Loans Requirement - HRA
Loans CFR - HRA
Liability Benchmark - HRA

Treasury Management – Glossary of Terms and Abbreviations

Term	Definition
Authorised Limit for External Borrowing	Represents a control on the maximum level of borrowing
Capital Expenditure	Expenditure capitalised in accordance with regulations i.e. material expenditure either by Government Directive or on capital assets, such as land and buildings, owned by the Council (as opposed to revenue expenditure which is on day to day items including employees' pay, premises costs and supplies and services)
Capital Financing Requirement	A measure of the Council's underlying borrowing need i.e. it represents the total historical outstanding capital expenditure which has not been paid for from either revenue or capital resources
Certificates of Deposit (CDs)	Low risk certificates issued by banks which offer a higher rate of return
CIP	Cambridge Investment Partnership
CIPFA	Chartered Institute of Public Finance and Accountancy
Corporate Bonds	Financial instruments issued by corporations
Counterparties	Financial Institutions with which funds may be placed
Credit Risk	Risk of borrower defaulting on any type of debt by failing to make payments which it is obligated to do
DLUHC	Department for Levelling Up, Housing and Communities (formerly the Ministry for Housing, Communities and Local Government)
Enhanced Cash Funds	Higher yielding funds typically for investments exceeding 3 months
Eurocurrency	Currency deposited by national governments or corporations in banks outside of their home market

Term	Definition
External Gross Debt	Long-term liabilities including Private Finance Initiatives and Finance Leases
Government CNAV	Highly liquid sovereign stock based on a Constant Net Asset Value (CNAV)
HRA	Housing Revenue Account - a ‘ring-fenced’ account for local authority housing where a council acts as landlord
HRA Self-Financing	A new funding regime for the HRA introduced in place of the previous annual subsidy system
Liquidity	A measure of how readily available a deposit is
Low Volatility Net Asset Value (LVNAV)	Highly liquid sovereign stock based on a Constant Net Asset Value (CNAV)
MPC	Monetary Policy Committee - The Bank of England Committee responsible for setting the UK’s bank base rate
Minimum Revenue Provision (MRP)	Revenue charge to finance the repayment of debt
NHBC	National House Building Council
Non Ring-Fenced Bank (NRFB)	Government & Bank of England rules apply to all UK Banks from 1 January 2019, requiring them to split their business into ‘core’ retail and investment units known as Ring and Non Ring Fenced Banks
Non-Specified Investments	These are investments that do not meet the conditions laid down for Specified Investments and potentially carry additional risk, e.g. lending for periods beyond 1 year
Operational Boundary	Limit which external borrowing is not normally expected to exceed
PWLB	Public Works Loans Board – an Executive Government Agency of HM Treasury from which local authorities and other prescribed bodies may borrow at favourable interest rates

Term	Definition
Quantitative Easing (QE)	A financial mechanism whereby the Central Bank creates money to buy bonds from financial institutions, which reduces interest rates, leaving businesses and individuals to borrow more. This is intended to lead to an increase in spending, creating more jobs and boosting the economy
Ring Fenced Bank (RFB)	Government & Bank of England rules apply to all UK Banks from 1 January 2019, requiring them to split their business into 'core' retail and investment units known as Ring and Non Ring Fenced Banks
Security	A measure of the creditworthiness of a counterparty
Specified Investments	Those investments identified as offering high security and liquidity. They are also Sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' credit rating criteria where applicable
Supranational Bonds	Multilateral Development Bank Bond
UK Government Gilts	Longer-term Government securities with maturities over 6 months and up to 30 years
UK Government Treasury Bills	Short-term securities with a maximum maturity of 6 months issued by HM Treasury
Variable Net Asset Value (VNAV)	MMF values based on daily market fluctuations to 2 decimal places known as mark-to-market prices
Weighted Average Life (WAL)	Weighted average length of time of unpaid principal
Weighted Average Maturity (WAM)	Weighted average amount of time to maturity
Yield	Interest, or rate of return, on an investment