Item

ANNUAL TREASURY MANAGEMENT STRATEGY

STATEMENT REPORT 2024/25 TO 2027/28

To:
The Executive Councillor for Finance & Resources: Councillor Simon Smith

Strategy & Resources Scrutiny Committee   15th January 2024

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 2024/25 to 2027/28 (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 senior managers can access appropriate expertise in respect of the Council's commercial activities.

4 Borrowing Policy Statement

4.1 The Council is permitted to borrow under the 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.

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 The government recently announced the extension of an arrangement whereby a concessionary PWLB loan rate is available to authorities wishing to take out borrowing for the purpose of financing capital expenditure in their HRA. This arrangement is now in place until June 2025 and enables the Council to borrow at 0.4% lower than would be the case for PWLB borrowing to fund General Fund capital expenditure. As the deadline for the end of the concessionary rate approaches, work will need to be undertaken to identify the extent to which external borrowing should be undertaken. At the present time, even after factoring in the concessionary rate, PWLB rates are significantly higher than they are expected to be in 12-18 months' time.

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 Chief Financial Officer 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.

- The Council has borrowed via the money markets to fund the redevelopment of the Park Street site. The borrowing comprises three annuity loans. These loans require the Council to make a fixed cash repayment every six months comprising interest and repayment of principal over the life of the loans. Over the life of each loan the interest portion of the repayment reduces as the balance outstanding reduces. As permitted by the relevant statutory guidance, the Council has determined that the annuity method is an appropriate approach to provide MRP for Park Street. A hybrid interest rate based on the rates for the agreed loans will be used to calculate MRP.

- 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 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 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 2023/24 to 2027/28

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 reflecting the content of the draft budget setting report which is currently being finalised for approval at full Council in February 2024.

	2023/24 Estimate £'000	**2024/25 Estimate £'000**	**2025/26 Estimate £'000**	**2026/27 Estimate £'000**	**2027/28 Estimate £'000**
General Fund Capital Expenditure	**64,094**	**85,082**	**17,169**	**1,724**	**700**
Financed from:					
Capital Receipts	(7,935)	(9,770)	(3,448)	(1,664)	(700)
Other Contributions and Balances	(13,978)	(9,231)	(221)	(60)	0
General Fund Prudential Borrowing	(42,181)	(66,081)	(13,500)	0	0
HRA Capital Expenditure	**94,568**	**89,127**	**100,161**	**84,262**	**81,725**
Financed from:					
Capital Receipts	(5,091)	(5,279)	(5,154)	(4,398)	(4,041)
Other Contributions and Balances	(64,732)	(30,834)	(31,371)	(34,990)	(29,862)
HRA Prudential Borrowing	(24,745)	(53,014)	(63,636)	(44,874)	(47,822)
Total Capital Expenditure Financed from Prudential Borrowing	**66,926**	**119,095**	**77,136**	**44,874**	**47,822**

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	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**	**2025/26 Estimate £'000**	**2026/27 Estimate £'000**	**2027/28 Estimate £'000**
General Fund Capital Financing Requirement (31 March)	81,240	147,014	158,888	129,321	127,846
HRA Capital Financing Requirement (31 March)	239,721	292,735	356,371	401,245	449,067
Total Capital Financing Requirement (CFR)	**320,961**	**439,749**	**515,259**	**530,566**	**576,913**
Movement in the CFR	**51,012**	**118,788**	**75,510**	**15,307**	**46,347**
Estimated External Gross Debt/Borrowing (Including HRA Reform)	238,317	322,778	453,080	507,096	563,398
Authorised Limit for External Debt	550,000	550,000	600,000	600,000	625,000
Authorised Limit for other long-term liabilities	2,000	2,000	2,000	2,000	2,000
Operational Boundary for External Debt	332,461	451,249	526,759	542,066	588,413
Operational Boundary for other long-term liabilities	1,500	1,500	1,500	1,500	1,500

7.2 With effect from 1 April 2024, local authorites are required to implement a new accounting standard known as IFRS 16. This standard requires that assets previously recognised as operating leases will, in many cases, need to be accounted for on the balance sheet. Authorities will need to recognise an asset corresponding to their ‘right to use’ assets held under operating leases and a liability corresponding to the payments due under the relevant leases to secure use of the leased assets. The authority does not expect its CFR to be significantly impacted by the implementation of IFRS 16 but this will be kept under review and updates will be brought to this committee during 2024-25.

7.3 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. This includes car parking and bereavement services, as well as loans the Council has made to connected entities within the Council Group.

7.4 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 in the context of medium-term financial planning.

7.5 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 key 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) 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, as set out above in this document, and planned MRP.

c) Borrowing Requirement: this will show separately for the HRA and the GF the additional amount which needs to be borrowed externally to deliver the Council's current capital programme. All borrowing is undertaken in the name of the Council but the GF and HRA need to account separately for the interest payable associated with borrowing undertaken to fund either the GF or HRA capital plan.

d) Liability benchmark: this reflects the total amount of borrowing required after taking account of the Council's liquidity needs.

e) Investment benchmark: this reflects the amount the Council should invest based on projected cash balances after reflecting the current GF capital programme and borrowing already agreed. An investment benchmark exists where borrowing exceeds balances required to fund the capital programme. The investment benchmark is expressed as a negative. The amount the Council has available to invest will reduce as the borrowing agreed is used to fund new schemes identified in future capital plans approved as part of the budget setting process. This will be reflected in updates to the liability benchmark presented in future iterations of this document.

7.6 It is important to note that the liability benchmark is based on the approved capital programme and therefore excludes anticipated capital expenditure based on schemes expected to come forward over the life of the current MTFS. The effect of this is to show a peak in the Council's General Fund CFR in March 2026 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 continue to reduce as the Council repays the Park Street borrowing 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.

7.7 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. The current liability benchmark indicates that there may be some capacity for the General Fund to provide short-term borrowing to the HRA to meets its borrowing requirement for finite periods. This will be kept under review.

8 Investment Strategy

8.1 DLUHC and CIPFA define 'investments' as including both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

8.2 The Authority's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

8.3 The Authority's investment priorities will be security first, portfolio liquidity second and then yield (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Authority's risk appetite.

8.4 In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as other pooled funds which may meet the authority's needs.

8.5 The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

a. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk.

The key ratings used to monitor counterparties are the short-term and long-term ratings.

b. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

c. Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

d. This Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in Appendix A under the categories of ‘specified’ and ‘non-specified’ investments.

e. Specified investments are those with a high level of credit quality and subject to a maturity limit of less than one year.

f. Non-specified investments are those which could have less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

g. Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table set out in Appendix A.

h. Transaction limits are set for each type of investment in Appendix A.

i. This Authority will set a limit for its investments which are invested for longer than 365 days.

j. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.

k. This Authority has engaged external consultants, (LAS), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.

l. All investments will be denominated in sterling.

8.6 Information regarding the performance of the Council's investment will be provided to senior management team as part of the quarterly budget monitoring process and to the Strategy and Resources Scrutiny Committee as part of mid-year and outturn reporting. Benchmark information is also collected and used for comparison purposes.

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. The loan is kept under review and the loan facility is periodically renewed.

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 in respect of long-term (5 year) bonds. In December 2023, a £2.2M bond was repaid.

9.8 The Council recognises that there is continuing debate about how best to capture information about the environmental, social and governance (often known as 'ESG') implications of investing decisions taken by the Council. Longer-term investments can sometimes be more readily assessed in terms of their ESG impact particularly where funds invested have a clear and demonstrable benefit on the environment and society, e.g., investments in sustainable development, decarbonisation and green technologies. More generally, our treasury management advisors have indicated that there is still a lack of consensus in the industry about what would be the most effective methodology to provide relevant, consistent and objective information to investors about potential counterparties. Information about investments currently held was provided as part of the mid-year report earlier this year. Further information will be provided when this is available.

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 £4.307m (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 2023 (for this financial year) at an average rate of 4.14% (the equivalent rate for the eight months to 30 November 2022 was 1.32%).

10.3 The Bank of England base rate is now generally understood to have peaked at 5.25%. The Council continues to benefit from what is a higher interest rate environment than has been the case in recent years. The MTFS reflects expected investment rate income in future years. This is expected to reduce from that observed in 2023/24 as existing cash balances are used to fund capital expenditure and the base rate begins to reduce. The first forecast reduction in base rate is currently expected to take place in Autumn 2024 but may happen sooner depending on economic conditions, particularly economic output.

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
See paragraph 9.8 for relevant commentary

(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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Appendix A

Treasury Management Annual Investment Strategy

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.

Current Counterparty List

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

Name	Council's Current Deposit Period	Category	Limit (£)
All UK Fire Authorities	N/A	Fire Authority	20m
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.

Appendix B

Link Asset Service’s Opinion on Forecast UK Interest Rates

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 first half of 2023/24 saw:
    - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
    - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
    - CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
    - Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
    - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).

- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

- In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that “further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures”, citing the rise in global bond yields and the upside risks to inflation from “energy prices given events in the Middle East”. So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be “sufficiently restrictive for sufficiently long” and that the “MPC’s projections indicate that monetary policy is likely to need to be restrictive for an extended period of time”. Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

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

PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

Estimates	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
PRUDENTIAL INDICATORS					
Capital expenditure					
- GF	64,094	85,082	17,169	1,724	700
- HRA	94,568	89,127	100,161	84,262	81,725
Total	**140,662**	**174,209**	**117,330**	**85,986**	**82,425**
Capital Financing Requirement (CFR) as at 31 March					
- GF	81,240	147,014	158,888	129,321	127,846
- HRA	239,721	292,735	356,371	401,245	449,067
Total	**320,961**	**439,749**	**515,259**	**530,566**	**576,913**
Change in the CFR	**51,012**	**118,788**	**75,510**	**15,307**	**46,347**

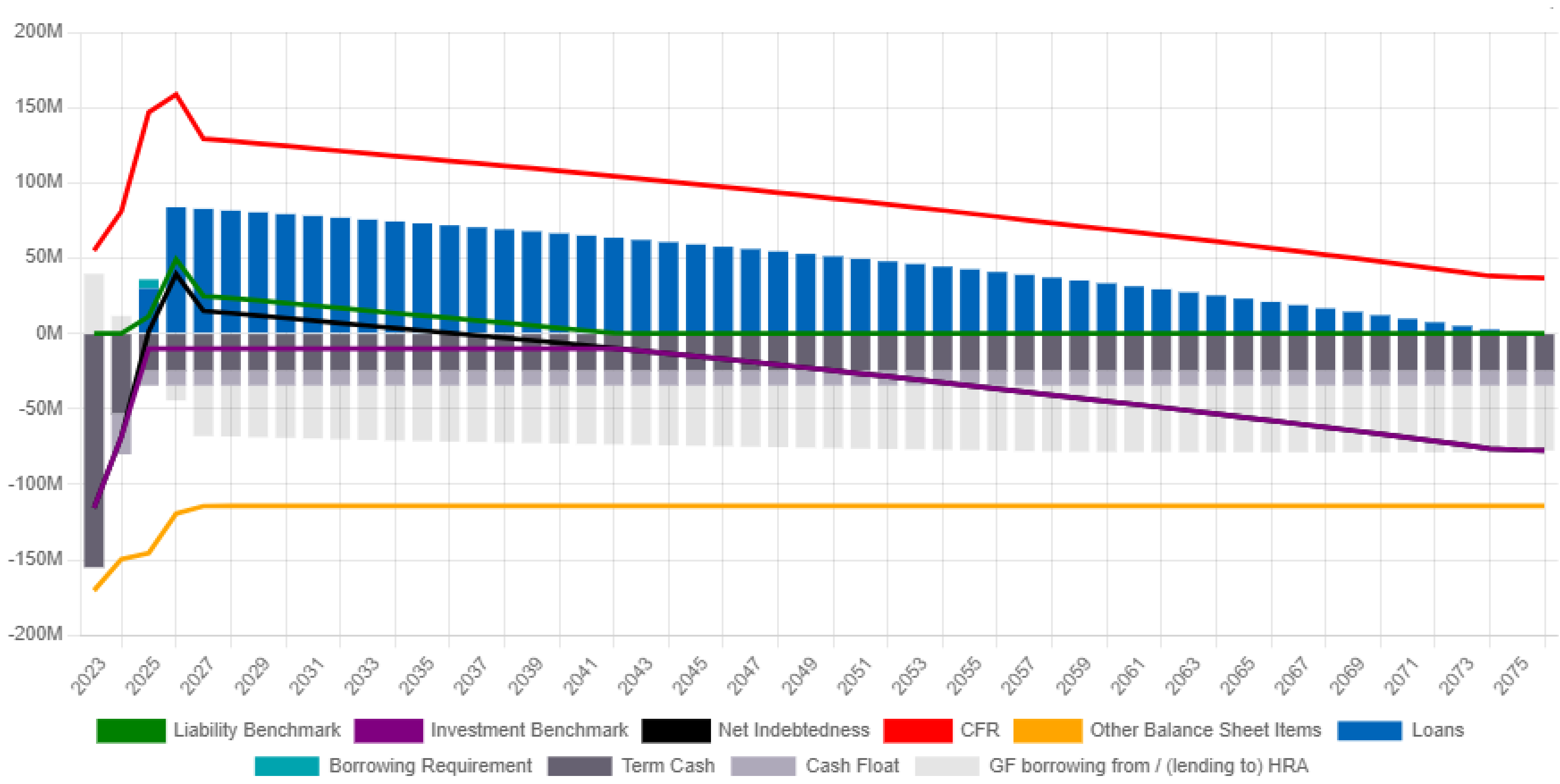
The above table reflect capital expenditure in the capital plan which is being prepared for approval as part of the budget-setting report and highlights the expected impact of that expenditure on the council's Capital Financing Requirement.

Estimates	2023/24	2024/25	2025/26	2026/27	2027/28
Deposits at 31 March (Average Annualised Balances) (£'000)	126,495	82,706	69,976	53,689	52,929
External Gross Debt (based on current capital plan) (£'000)	238,317	322,778	453,080	507,096	563,398
Prudential Indicators					
Ratio of financing costs to net revenue stream					
-GF (%)	1.16	2.97	10.68	21.54	25.76
-HRA (%)	16.55	19.39	23.51	26.18	27.43
Ratio of net financing costs to net revenue stream					
-GF (%)	(11.97)	(4.61)	6.67	17.90	22.34
-HRA (%)	12.31	16.92	21.91	24.97	26.31
Net income from commercial and service investments to net revenue stream					
-GF (£'000)	11,078	11,679	11,588	11,400	10,842
-HRA (£'000)	493	413	413	413	413
% of net revenue stream					
-GF (%)	41.82	40.93	38.27	54.29	48.46
-HRA (%)	0.97	0.74	0.71	0.71	0.67

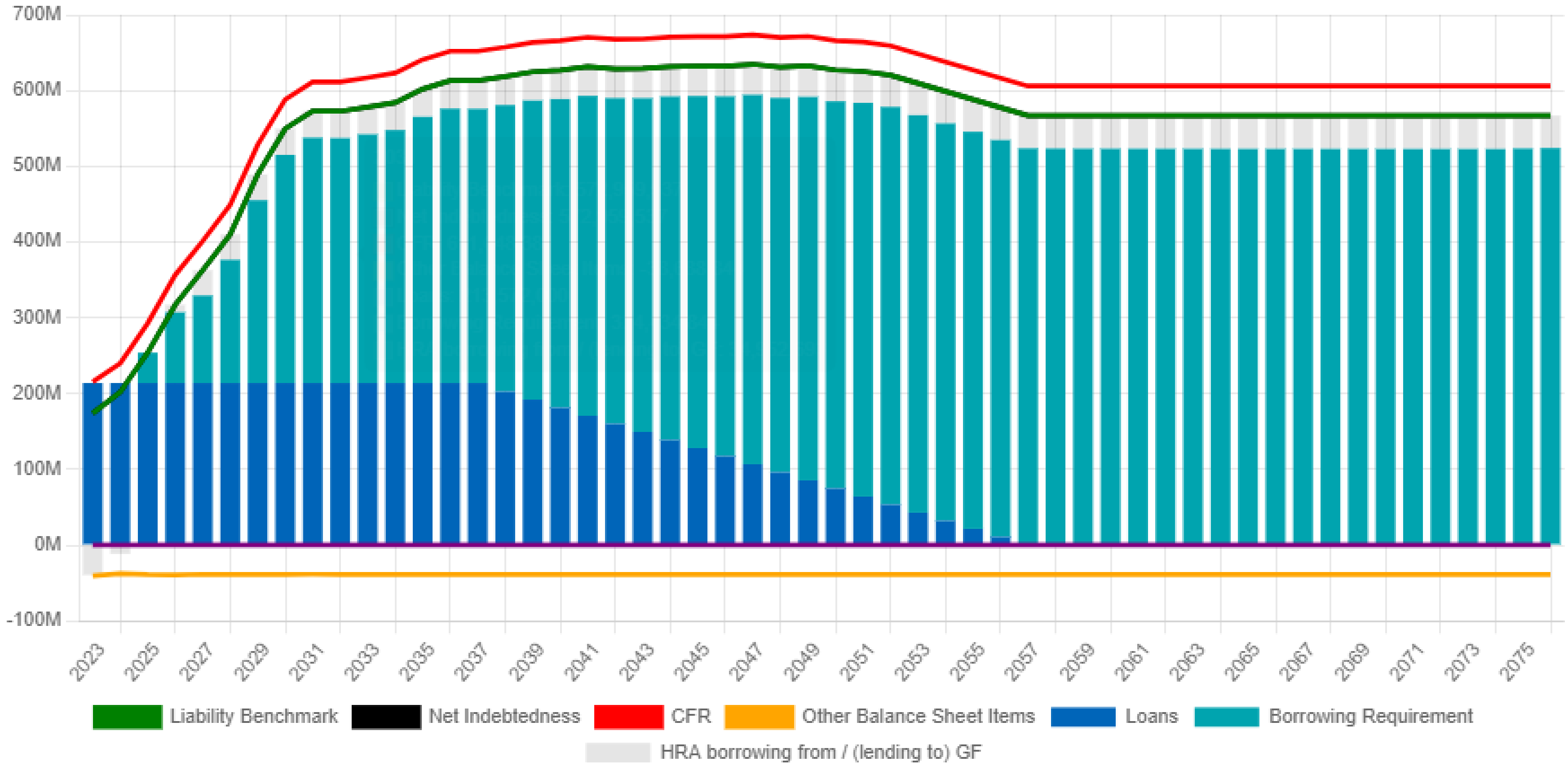
The prudential indicator percentages set out in the above table reflects the treasury management implications of the projected capital expenditure, funding sources, financing costs and investment income set out in the council's current Medium Term Financial Strategy (MTFS). The use of the MTFS is considered to provide the most relevant source of data to show how the council's performance against CIPFA's prudential indicators is expected to change over the period covered by the MTFS.

Estimates	Estimate 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000	Estimate 2026/27 £'000
Treasury Indicators					
Authorised Limit					
for borrowing	550,000	550,000	600,000	600,000	625,000
for other long-term liabilities	2,000	2,000	2,000	2,000	2,000
Total	**552,000**	**552,000**	**602,000**	**602,000**	**627,000**
Operational boundary					
for borrowing	**332,461**	**451,249**	**526,759**	**542,066**	**588,413**
for other long-term liabilities	1,500	1,500	1,500	1,500	1,500
Total	**333,961**	**452,749**	**528,259**	**543,566**	**589,913**
Upper limit for total principal sums deposited for over 364 days & up to 5 years	50,000	30,000	20,000	20,000	20,000
Analysis of exposure to fixed and variable interest rates					
Net interest on fixed rate borrowing/deposits	5,065	9,613	14,465	17,970	20,072
Net interest on variable rate borrowing/deposits	(2,258)	(1,773)	(1,290)	(1,058)	(1,045)
Maturity structure of new fixed rate borrowing		Upper Limit	Lower Limit		
10 years and above		100%	0%		

General Fund Liability Benchmark



HRA Liability Benchmark



Appendix D

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