Appendix A

Treasury Management 6 Month Performance Review

1.0 Introduction

The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports.

The Council's treasury management strategy for 2023/24 was approved at a meeting on 22nd February 2023. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remain central to the Council's treasury management strategy, which includes reporting to Cabinet and Council.

1.2 The Function of Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Treasury management is defined as:

> "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.0 External Context

2.1 Economic background

The first half of 2023/24 saw:

Interest rates rise by a further 100bps (basis points), 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.

A 0.5% month on month decline in real GDP in July, was mainly due to strike action.

CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7 group.

Core CPI inflation declining to 6.2% in August 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 3m year on year growth of average earnings rose to 7.8% in August, excluding bonuses).

The 0.5% month on month fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is a suggestion of underlying weakness.

The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% quarter on quarter rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.

The 0.4% month on month rebound in retail sales volumes in August partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.

As the growing drag from higher interest rates intensifies over the next six months, Link expect 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, 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. Link 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.

The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3m year on year rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myear on year in June to 8.1% 3m year on year, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.

CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.

2.2 Financial markets

In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.

Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".

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 at the next meeting on 2nd November, or even pause in November and raise rates in December.

The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).

The pound weakened from its cycle high of $1.30 in the middle of July to $1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.

The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100’s relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

3.0 Local Context

On 31st March 2023, the Council had theoretical net investments of £53.6m (this level may not be reached due to daily cashflows) arising from its revenue income and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.23 Actual £m
Capital Financing Requirement	72.3
Less: Other debt liabilities(1)	(0.6)
Total Loan CFR	**71.7**
External borrowing	(34.4)
Internal borrowing	**(37.3)**
Balance Sheet Resources(2)	90.9
Net Investing or (New Borrowing)	**53.6(3)**

(1)Finance lease for Phoenix Court
(2)Includes debtors, stock, cash, reserves, less overdraft, creditors, provisions, long term liabilities, unusable reserves.
(3)This figure will approximate to the investment balance; it will not exactly match because of day-to-day cash flow fluctuations.

The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, to reduce risk and keep interest costs low. The treasury management position as at 30th September 2023 and the change during the period is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.23 Balance £m	Movement £m	30.9.23 Balance £m	30.9.23 Rate %(1)
Long-term borrowing	34.36	(0.08)	34.28	2.83
Short-term borrowing	0.00	0.00	0.00	0.00
Total borrowing	**34.36**	**(0.08)**	**34.28**	**2.83**
Long-term investments	4.00	0.00	4.00	4.34(2)
Short-term investments	40.00(3)	13.00	53.00(3)	5.29
Cash equivalents	11.52	1.42	12.44	5.14
Total investments	**55.52**	**13.92(4)**	**69.44**	**5.21**
Net borrowing/(Investing)	**(21.16)**	**(14.00)**	**(35.16)**	

(1) Weighted average
(2)Based on face value of investment and based on Q1 income projected for full year.
(3)This does not include loans to local organisations, as these are not considered investments. These are DMO deposits.
(4)This is a net movement, investments made were £241.050m and investments returned £227.135m.

The movement in the cash and cash equivalent has been as result of increased reserves and working capital. In general levels of cash are at their lowest towards the year end, when council tax is not being taken. The funds were invested in bank deposits, the DMO and Money Market Funds to ensure easy access to maintain liquidity.

3.1 Borrowing

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

PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

3.2 Borrowing Strategy and activity during the period

As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, this is achieved by borrowing from PWLB if required. The PWLB borrowing rates are based on gilt prices.

Gilt yields and PWLB certainty rates were on a generally rising trend throughout the first half of 2023/24. At the beginning of April, the 5-year rate was the cheapest part of the curve and touched 4.14% whilst the 25-year rate was relatively expensive at 4.58%.

July saw short-dated rates peak at their most expensive. The 1-year rate spiked to 6.36% and the 5-year rate to 5.93%. Although, in due course, short-dated rate expectations fell, the medium dates shifted higher through August and the 10-year rate pushed higher to 5.51% and the 25-year rate to 5.73%. The 50-year rate was 4.27% on 5th April but rose to 5.45% on 28th September.

Forecast rates are expected to fall back over the next two to three years as inflation dampens. The CPI measure of inflation is expected to fall below 2% in the second half of 2024, and Link forecasts 50-year rates to stand at 3.90% by the end of September 2025. However, there is considerable gilt issuance to be absorbed by the market over the next couple of years, as a minimum, so there is a high degree of uncertainty as to whether rates will fall that far.

At 30th September 2023, the Council held £34.28m of loans, a decrease of £0.08m from 31st March 2023. Outstanding loans on 30th September are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.23 Balance £m	Net Movement £m	30.9.23 Balance £m	30.9.23 Weighted Average Rate %	30.9.23 Weighted Average Maturity (years)
Public Works Loan Board	34.34	(0.08)	34.26	2.83%	21
Salix Loan	0.02	0.00	0.02	0.00%	3
Short-term	0.00	0.00	0.00	0.00%	0
Total borrowing	**34.36**	**(0.08)**	**34.28**	**2.83%**	**21**

The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

With short-term interest rates remaining much lower than long-term rates, the Council considered it to be more cost effective in the near term to use internal resources or short-term loans instead. The Council had not used a short-term loan facility so far in this financial year.

Although it was anticipated that the Council's CFR would increase due to the capital programme, delays in the capital programme and availability of internal funds, has meant no new borrowing has been taken out.

Table 4: Borrowing Schedule

Long-dated Loans borrowed	PWLB Reference	Amount £	Rate %	Period (Years)
PWLB 1	495152	5,000,000	3.90	35
PWLB 2	495153	5,000,000	3.91	34
PWLB 12	506436	5,000,000	2.78	14
PWLB 13	508696	7,291,685	2.49	15
PWLB 15	509389	11,963,000	2.18	16
Salix Loan		21,939	0.00	2
Total borrowing		**34,276,624**	**2.83**	(weighted) **21**

The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of medium-term and long-term borrowing is maintained.

Table 5: Gross Debt and the Capital Financing Requirement

	2023/24 Budget £m	2023/24 Forecast £m
Debt (including leases)	34.9	34.9
Capital Financing Requirement	**75.3**	**76.7**

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the table above, this requirement has been complied with.

3.3 Treasury Investment Activity

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

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the period from 1st April 2023 to 30th September 2023 the balances invested (excluding loans and property fund) ranged between £35.82m and £73.07m, and actual interest received was £0.883m, this does not include interest owed but not yet paid (ie on investments not yet matured).

The investment position is shown in table 6 below.

Table 6: Treasury Investment Position

The weighted average rate for the investment portfolio up to 30.09.2023 was 5.28%.

	31.3.23 Balance £m	Net Movement £m	30.9.23 Balance £m	30.9.23 Weighted Return(1,2) %	30.9.23 Weighted Average Maturity(3) Days
Banks & building societies (unsecured)	1.12	(0.68)	0.44	1.45	1
Government (DMO)	40.00	13.00	53.00	5.29	96
Money Market Funds (8 Funds)	10.40	(1.60)	12.00	5.27	1
Loans to other organisations	2.08	(0.09)(4)	1.99	7.58(5)	>365
Other Pooled Fund					
- Property fund (CCLA)	4.00	0.00	4.00	4.34	>365
Total investments	**57.60**	**13.83**	**71.43**	**5.28**	

(1)Weighted Income return is based on the rate of return and the investments held as at 30/09/2023.

(2)Returns as at 31/03/2023, Banks and Building Societies 0.10%, Government 3.96%, MMFs 3.68%, Loans 4.24%, Property Fund 3.98%.

(3)Based on the date the investment was made.

(4)The loan to Cambridge Regional College and the loan to Huntingdon Gym were both fully repaid in the quarter.

(5)This includes the quarter 2 end rate for the Urban and Civic loan of 7.59%, which is a variable (monthly) rate, the rate has increased from 6.02% in April.

3.4 Risk Management

Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Short-dated cash market investment rates ranged between 4.15% as at 1st April 2023 to 5.2% on 29th September 2023 for the overnight rate.

By the end of September, the rates on DMADF deposits ranged between 5.17% (overnight) and 5.29% (6 months). In April rates had been 4.05% to 4.19%. The return on the council's sterling low volatility net asset value (LVNAV) Money Market Funds ranged between 5.20% to 5.35%, in April the equivalent rates were 4.16% and 4.24%

Given the risk of short-term unsecured bank investments and the low returns, the Council has maintained a diversified portfolio of asset classes as shown in table 4 above. An amount of £4m has been maintained in the long-term property fund (CCLA) over the period.

The progression of risk and return metrics are shown in the extracts from Link Group's quarterly investment benchmarking in Table 7 below.

Table 7: Investment Benchmarking – Treasury investments managed in-house.

	Portfolio Risk Score(1)	**Average Credit Rating**	**Weighted Average Maturity (days)**	**Rate of Return %**
30.09.2022	n/a	AA-	15	0.82
31.03.2023	1.04	AA	17	3.92
30.09.2023	1.03	AA	42	5.27

(1)This is a new measure from Link, will be used as a comparative from the next report, it works on a scale of 1 to 7, with 7 highest risk.

£4m of the Council's investments are held in externally managed strategic pooled property funds – CCLA Property Fund where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. This fund generated a total return in quarter 1 of £43,369 and 4.34% (2022/23 Q1 £36,976 3.70%) for period of 1st April to 30th June 2023 which is used to support services in year.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. The council was notified in October 2022 that the notice period for withdrawals from the fund was being increased from 90 days to 6 months. The council has never made a withdrawal and views the fund as a long-term investment, so in the short to medium term this is not expected to cause any issues, quarterly dividends are expected to be paid as normal.

The fund altered the notice period in response to uncertainty in the property market, redemptions from the fund are currently relatively low.

Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates. In light of their performance over the medium-term and the Council's latest cash flow forecasts, investment in these funds has been maintained.

3.5 Non-Treasury Investments

The definition of investments in CIPFA's 2021 Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also includes within the definition of investments all such assets held partially or wholly for financial return.

The Authority also held investments in:

- directly owned property £70.9m

Table 8: Property held for investment purposes.

Property	31.3.2022	31.3.2023 Actual*	
	Value in accounts £000s	Gains or (losses) £000s	Value in accounts £000s
Existing Portfolio	33,966	(3,638)	30,328
2 Stonehill	2,338	143	2,481
80 Wilbury Way	1,775	98	1,873
Shawlands Retail Park	5,523	532	6,055
1400 & 1500 Parkway, Fareham	4,150	(113)	4,037
Units 21a, 21b,23a,b,c Little End Road, St Neots	3,290	31	3,321

Rowley Centre, St Neots	3,303	3,338	6,641
Tri-link, Wakefield	14,200	548	14,748
Alms Close	1,522	(75)	1,447
TOTAL	**70,067**	**864**	**70,931**

These investments generated £2.8m of investment income for the Authority from April to September 2023 after taking account of direct costs.

The main changes to the valuations are for Rowley Centre and for the existing portfolio. The increase in property value at the Rowley Centre is as a result of an increase in rents since the ending of reduced rents during covid. For the existing portfolio, the Oak Tree Centre has been reduced in value by £2.3m (as a result of rent reductions), and land at St Peters Road has been reduced in value by £1.1mbecause of changes to the valuation basis. There were other less significant changes in value (gains and losses) in the remainder of the portfolio.

The Authority is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Strategy. The current forecast is showing a decrease in expected gross investment income of £155,000 due to vacant units, leases ending, and a reduced number of new tenants.

Table 9: Proportionality of Investments

	2022/23 Actual £000s	**2023/24 Original Budget £000s**	**2023/24 Current Budget £000s**	**2023/24 Forecast Outturn £000s**
Gross service expenditure	83,432	75,115	75,115	73,433
Investment income	4,177	2,806	2,752	2,697
Service Investments	92	78	78	139
Proportion	**5%**	**4%**	**4%**	**4%**

Table 10: Net Income from Commercial and Service Investments to Net Revenue Stream

	2022/23 Actual £000s	2023/24 Original Budget £000s	2023/24 Current Budget £000s	2023/24 Forecast Outturn £000s
Total Net Income from Services and Commercial Investments	4,269	2,884	2,830	2,836
Net Revenue Stream (Total Service Expenditure)	17,303	24,113	24,344	23,142
Proportion of net revenue stream	**25%**	**12%**	**12%**	**12%**

(1)This includes CCLA property fund, loans to local organisations, and commercial estates.

Table 11: Proportion of Financing Costs to Net Revenue Stream

	2022/23 Actual £000s	2023/24 Original Budget £000s	2023/24 Current Budget £000s	2023/24 Forecast Outturn £000s
Net Revenue Stream (Total Service Expenditure)	17,303	24,113	24,344	23,142
Financing Costs (MRP and Interest Payable)	3,600	3,866	3,866	3,869
Proportion of Net Revenue Stream	**21%**	**16%**	**16%**	**17%**

4.0 Compliance

The Chief Finance Officer (s151 officer) reports that all treasury management activities undertaken during the first half year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 9 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 12: Debt Limits

	30.9.23 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied?
General	10.60(1)	70.00	80.00	Yes
Loans	0.00(2)	15.00	20.00	Yes
CIS	24.25	30.00	35.00	Yes
Total debt	**34.85**	**115.00**	**135.00**	

(1) This includes £560,000 relating to the finance lease of Phoenix Court

(2)The loan from PWLB of £83,000 to finance the loan to Cambridge Regional College was paid off in August 2023. Two loans to other organisations Urban and Civic £1.9m and Somersham Parish Council £4,000, neither of these loans were financed by borrowing. The Urban and Civic loan was financed by a government grant and the Somersham PC loan was financed by working capital.

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was below the operational boundary all through the half year.

Table 13: Investment Limits

	30.9.23 Actual £m	2023/24 Limit £m	Complied?
Deposit Accounts			
NatWest (1)	0.44	4.00	Yes
Debt Management Office (DMO)	53.00	Unlimited	Yes
Barclays	0.001	2.00	Yes
Money Market Funds			
Aberdeen Liquidity Fund	0.80	4.00	Yes
BlackRock Institutional sterling liquidity Fund	1.80	4.00	Yes
CCLA Public Sector Deposit Fund	1.80	4.00	Yes
Federated Short Term Prime Fund	1.80	4.00	Yes
HSBC Global Liquidity (3) Funds ESG	1.90	4.00	
Insight Liquidity Funds	1.00	4.00	Yes
Invesco	1.90	4.00	Yes
Legal & General Sterling Liquidity Fund	1.00	4.00	Yes
Property Fund			
CCLA Property Fund	4.00	5.00	Yes
Total	**69.44**		

(1)Natwest is the council's transactional bank, the balance held is sufficient for operational needs.

5.0 Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Security

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

Table 14: Average Credit Rating

	30.9.23 Actual	2023/24 Target	Complied?
Portfolio average credit rating	AA	A-	Yes

(1)Credit ratings (Fitch, investment grade) are in descending order AAA, AA+, AA, AA-,A+,A,A-,BBB+,BBB,BBB-.

Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Table 15: Total Cash Available

	30.9.23 Actual £m	2023/24 Target £m	Complied?
Total cash available within 3 months	53.44	10	Yes

Interest Rate Exposures (Discretionary local measure)

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Table 16: Interest Rate Risk

Interest rate risk indicator	30.9.23 Actual	30.9.23 Theoretical[1]	2023/24 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	£0	£190,000	£630,000	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0	£190,000	£630,000	Yes

[1]In reality all borrowing is at a fixed interest rate (with PWLB) and so changes in rates will only be realised when and if the loans need to be refinanced. The loans that may need refinancing (ie those linked to asset purchases) have a weighted average years to maturity of 15 years. CIPFA no longer recommends setting limits for interest rate exposure, this is a locally adopted indicator.

The impact of a change in interest rates is calculated on the weighted average rate of interest (2.84%) being increased or reduced by 1%.

Maturity Structure of Borrowing

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

Table 17: Maturity Structure

	30.9.23 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	0.0%	80%	0%	Yes
12 months and within 24 months	0.0%	80%	0%	Yes
24 months and within 5 years	0.1%	80%	0%	Yes
5 years and within 10 years	0.0%	100%	0%	Yes
10 years and above	99.9%	100%	0%	Yes

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

Principal Sums Invested for Periods Longer than a Year.

Table 18: Sums Invested for Beyond One Year

	2023/24	2024/25	2025/26	Beyond
Actual principal invested beyond year end. (CCLA Property Fund)	£4.00m	£4.00m	£4.00m	£4.00m
Limit on principal invested beyond year end	£12.00m	£10.00m	£8.00m	£6.00m
Complied?	Yes	Yes	Yes	Yes

Other Indicators - CIS
The council has adopted voluntary indicators for the Commercial Investment Strategy properties.

Table 19: Other Indicators

Indicator	2022/23 Actual	2023/24 Forecast
Interest Cover Ratio	2.3	1.7 (1)
Loan to Value Ratio	106.0%	106.0%
Gross Rent Multiplier	14.4	12.7 (1)

(1) Rents lower because of vacant properties, so cover of interest and rent multiplier reduced

6.0 Treasury Management Training and Resilience Activities
During the period the Treasury and Financial Accountant undertook training including Link's Strategic Treasury Issues webinar (update on the economy, credit environment, and new government risk metrics), CCLA's ESG and mental health benchmark (CCLA corporate mental health benchmark UK 100), and Natwest fraud webinar (an update on the latest fraud trends). In addition, the Finance Business Partner that provides treasury cover has undertaken the Strategic Treasury Issues webinar and is taking CIPFA's Introduction to Treasury Management e-learning course. The Finance Manager has also attended Link's Strategic Treasury Issues webinar.

The Treasury Management Practices (treasury processes and procedures) have been updated, and basic instructions on how to perform daily treasury management tasks have also been rewritten and updated. These have been shared with the relevant treasury officers.

6.2 Environmental, Social and Governance

For investing ESG means the consideration of ESG factors alongside financial factors in the investment decision making process. An organisation with a high carbon footprint would not score well on environmental impact; one that negatively affects people's health would not score well for social impact; and one without appropriate structures and processes to ensure good corporate decision-making and behaviour would not rate highly for governance.

ESG is a developing area for treasury management, progress will be monitored and any ESG related updates to the Treasury Management Strategy will be made where recommended by CIPFA or Link Group and beneficial to the council's treasury strategy.

Even at this early stage all of the money market funds the council uses are signatories to the UN Principles for Responsible Investments. The UN Principles provides possible actions for incorporating ESG issues into investment practice. By implementing these practices organisations contribute to developing a more sustainable global system. In addition, the council's bank Natwest is a signatory to the UN Principles of Responsible Banking. The UN Principles support banks to take action to align their core strategy, decision making, lending and investing with the UN Sustainable Goals and international climate agreements.

7.0 Interest Rate Forecast for 2023/24 and beyond (Provided by Link Group)

The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 25th September sets out a view that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.

The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	25.09.23												
	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	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60