TITLE:	**Finance Report**
Committee:	Finance & Assets
Date:	28 September 2023
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1.0 ISSUE

1.1 This report provides Members with budget monitoring information for services under the Finance & Assets Committee and then, as part of its corporate remit, for the Council as a whole.

2.0 RECOMMENDATION(S)

2.1 Members are requested to note:

- this Committee has a projected yearend underspend of £265,000 when compared to its approved revenue budget of £5,967,312.
- that overall the Council has a projected yearend underspend of £324,000 when compared to its approved revenue budget of £16,856,960.
- that the overall position for the Council on Capital is a projected outturn of £6,938,121, which is an underspend of £862,666 when compared to the revised budget.
- the treasury management activity of the Council in the first three months of the year as detailed in appendix 5.

3.0 BUDGET MONITORING

3.1 Under Financial Regulations, each policy committee is required to consider projections of financial performance against both its revenue and capital budget on a quarterly basis, with this Committee further considering the overall Council position.

3.2 This is the first report for the 2023/24 financial year and details actual expenditure incurred and income received as at 30th June 2023 and projections as to the yearend position at this time.

Revenue

3.3 Appendix 1 details the overall revenue position for both this Committee and the Council overall. In appendix 1 the budgets under the stewardship of this Committee are shown in detail, with then the position for the Operational Services Committee and the funding lines shown in summary.

3.4 The detailed revenue position for the Operational Services Committee is shown in appendix 2. There are two forecast yearend variations being reported at this time, with the net position being that the Committee is forecast to come in £195,000 overspent when compared to its net budget. The main factor leading to this is a £200,000 overspend on Planning where income levels are falling behind the level anticipated when the budget was built. Further detail is included in the Budget Monitoring Report presented to Operational Services Committee on the 18th September 2023.

3.5 With regard to the Finance & Assets Committee, the significant variances of actual spend compared to profiled budgeted spend at the end of June 2023, where no variance is forecast for yearend, are detailed below:

Service	Variance £	Explanation
Asset Management	(25,699)	This additional income relates to an easement granted in Soham.
Corporate Management	(257,263)	Accruals from 2022/23 remain unpaid in relation to external audit costs
Cost of other Elections	(37,561)	Rollover of income from external elections in previous years, will be refunded or put in reserve during 2023/24.
Housing Strategic	23,789	Funding from the Cambridgeshire and Peterborough Combined Authority for Market Town projects has been claimed, but not yet received.
Land Charges Admin	(50,599)	Grant income from Government received in 2022/23 has been rolled forward to be matched against expenditure to be incurred in 2023/24.
Local Plans	(83,955)	Income from DLUHC in relation to Neighbourhood Plans has been rolled forward and will be spent in 2023/24.
Parks & Gardens	18,215	Expenditure will be funded from Section 106 grant at the end of the year.
Registration of Electors	(38,844)	Rollover of grant income from 2022/23 will be used to fund work in the current year.
Reprographics	(15,640)	Increased income due to the local election.
Sport & Recreation	(36,374)	Roll forward of external grant income received in 2022/23.

3.6 Explanations for the forecast yearend variances reported for this Committee are detailed in the table below:

Service	Variance £	Explanation
Economic Development	(15,000)	Occupancy rates at the e-Space Centres in the first quarter of the year were in advance of the level projected in the budget.
General Gang	(15,000)	This results from a staff vacancy in first quarter of the year.
Housing Benefits	(85,000)	Because of timing issues, the 2023/24 budget for housing benefits reflects 2022/23 expenditure. 2023/24 spend information has now been calculated and the revised figures used to determine the forecast yearend position.
Housing Strategic	(40,000)	This reflects staff savings in the first quarter of the year
Interest & Financial Transactions	(160,000)	With the Bank of England's bank rate continuing to rise, improved interest rates are being obtained on treasury deposits leading to higher interest receipts than budgeted. (See Section 4 of report and appendix 5.)
Member & Committee Support	(10,000)	This reflects staff savings in the first quarter of the year.
Office Accommodation	(35,000)	Transitional Business Rate relief has been received for the Grange resulting in this underspend.
Parking of Vehicles	30,000	Car parking income collected still remains below pre-Covid levels at the Angel Drove Car Park.
Internal Drainage Board	(104,000)	Additional Government support grant provided in 2023/24.
Business Rates	(150,000)	We have two new solar farms in the District. The District Council retains 100% of Renewable Energy Business Rates resulting in this income being in advance of budget.

Additional Staff Costs	65,000	This reflects the additional cost which would result from the pay offer that has currently been offered by the National Employers, but not accepted by the unions. The figure is the difference between the 4% budgeted and the offer of £1,925 per FTE. Until an offer is accepted, this figure may change and will be shown on individual cost centres at this point.

Capital

3.7 The Council's revised capital budget stands at £7,800,787; including £1,237,281 of slippage brought forward from 2022/23 and a reduction of £5,793 on Disability Facilities grant spend, where the capital element of the grant received from the County Council is lower than predicted in the budget.

3.8 The outturn position is forecast to be £6,938,121, an underspend of £862,666. The underspend is in relation to the purchase of Waste vehicles where the price agreed for the ten refuse collection vehicles is lower than that included in the budget. See report to Operational Services Committee on the 27th March 2023. While this underspend is reported at this point, there remains the potential that some of this may be utilised following a review of small fleet requirements within ECSS.

4.0 TREASURY MANAGEMENT

4.1 Under revised Treasury Management requirements, as detailed in the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021, councils are now required to report their treasury management activity on a quarterly basis. While the Strategy, mid-year review and Yearend reports still need to go to Full Council, the reports at the end of quarter one and three only need to go to Committee. It is therefore the intention to include these reports as part of this Finance Report at the end of quarters one and three.

4.2 The full treasury management up-date report is included as appendix 5, which details that the Council had cash holdings of £30,955,005 at the end of June 2023 and had received interest income during the first quarter of £265,703. This being in excess of that forecast in the budget, due mainly to interest rates rising further than forecast when the budget was prepared. As detailed above the current forecast is for interest receipts to be £160,000 above budget at yearend.

4.3 To note, the economic up-date in the report reflects the position at the end of June 2023 (the report date).

5.0 ARGUMENTS/CONCLUSION(S)

5.1 The projected net revenue expenditure for the Council is forecast to be a £324,000 underspend compared to the Council's approved budget. This will be moved to the Surplus Savings Reserve at yearend.

6.0 FINANCIAL IMPLICATIONS / EQUALITY IMPACT STATEMENT / CARBON IMPACT ASSESSMENT

6.1 There is a revenue underspend compared to this Council's approved budget, therefore all things being equal, this will be transferred to the Surplus Savings Reserve at year-end.

6.2 Equality Impact Assessment (EIA) is not required.

6.3 Carbon Impact Assessment (CIA) is not required.

7.0 APPENDICES

Appendix 1 – Summary Budget Monitoring Report – 30th June 2023

Appendix 2 – Operational Services Budget Monitoring Report – 30th June 2023

Appendix 3 – Capital Budget Monitoring Report – 30th June 2023

Appendix 4 – Reserve Balances – 30th June 2023

Appendix 5 – Treasury Management Report – 30th June 2023

Background Documents:

Council Budget approved by Full Council on the 21st February 2023

FINANCE & ASSETS COMMITTEE BUDGET MONITORING REPORT - 30th June 2023

Revenue	Total Budget 2023/24	Profiled Budget to 30 June 2023	Actual to 30 June 2023	Variance	Forecast Outturn	Variance between Total Budget & Forecast Outturn
	£	£	£	£	£	£
Asset Management	150,433	-.-	(25,699)	(25,699)	150,433	
Award Ditches	9,833	2,458	1,639	(819)	9,833	
Civic Relations	23,692	5,920	4,691	(1,229)	23,692	
Closed Churchyards	32,391	8,098	9,853	1,755	32,391	
Community Safety	-.-	-.-	-.-	-.-	-.-	
Community Transport	15,000	-.-	-.-	-.-	15,000	
Corporate Management	383,053	107,481	(149,782)	(257,263)	383,053	
Cost of Other Elections	-.-	-.-	(37,561)	(37,561)	-.-	
Council Tax Accounting	538,783	138,127	130,070	(8,057)	538,783	
Crematorium		-.-	-.-	-.-	-.-	
Data Management	110,822	27,703	26,943	(760)	110,822	
Depot Services	(71,008)	(18,065)	(16,575)	1,490	(71,008)	
Economic Development	107,877	25,894	(86,278)	(112,172)	92,877	(15,000)
Financial Services	295,597	70,481	64,123	(6,358)	295,597	
General Gang	99,271	24,517	11,446	(13,071)	84,271	(15,000)
Health & Safety (Work)	26,696	-.-	47	47	26,696	
Housing Benefits	410,147	85,608	(125,896)	(211,504)	325,147	(85,000)
Housing Strategic	192,954	82,247	106,036	23,789	152,954	(40,000)
Human Resources	242,675	47,890	46,180	(1,710)	242,675	
Interest & Financial Transactions	(660,452)	(115,550)	(218,793)	(103,243)	(820,452)	(160,000)
Internal Audit	80,038	18,469	18,469	-.-	80,038	
Land Charges Admin	(52,356)	(13,714)	(64,313)	(50,599)	(52,356)	
Legal	165,269	41,317	39,665	(1,652)	165,269	
Local Elections	22,500	73,404	80,035	6,631	22,500	
Local Plans	145,111	23,778	(60,177)	(83,955)	145,111	
Management Team	771,860	191,225	194,053	2,828	771,860	
Member & Committee Support	629,577	155,145	134,284	(20,861)	619,577	(10,000)
Miscellaneous Properties	(46,649)	(4,162)	(13,122)	(8,960)	(46,649)	
Miscellaneous Finance	722,713	1,480	1,739	259	722,713	
Museums - Old Gaol House	-.-	-.-	521	521	-.-	
NNDR Collection Costs	47,266	37,922	34,776	(3,146)	47,266	
Office Accommodation	566,749	253,953	235,722	(18,231)	531,749	(35,000)
Oliver Cromwell House	-.-	-.-	-.-	-.-	-.-	
Out Of Hours call out Service	14,000	3,500	710	(2,790)	14,000	
Parking Of Vehicles	76,766	99,236	144,897	45,661	106,766	30,000
Parks And Gardens Team	357,589	266,833	285,048	18,215	357,589	
Payroll	92,770	30,135	38,512	8,377	92,770	
Public Conveniences	185,776	43,149	39,522	(3,627)	185,776	
Refuse Collection	-.-	-.-	-.-	-.-	-.-	
Registration of Electors	45,091	13,429	(25,415)	(38,844)	45,091	
Reprographics	156,130	44,378	28,738	(15,640)	156,130	
Sport & Recreation	79,348	7,558	(28,816)	(36,374)	79,348	
Additional Staff Costs			-.-	-.-	65,000	65,000
Finance & Assets Committee Total	**5,967,312**	**1,779,844**	**825,292**	**(954,552)**	**5,702,312**	**(265,000)**
Operational Services Committee	6,968,362	1,964,981	131,606	(1,833,375)	7,163,362	195,000
Other Spend						
Parish Precepts	3,000,653	1,500,326	1,500,326	-.-	3,000,653	-.-
Internal Drainage Boards	632,991	233,688	233,688	-.-	528,991	(104,000)
Movement in Corporate Reserves	287,642	-.-	-.-	-.-	287,642	
Revenue Budget Total	**16,856,960**	**5,478,839**	**2,690,912**	**(2,787,927)**	**16,682,960**	**(174,000)**
Funding						
Council Tax	(7,580,954)	-.-	-.-	-.-	(7,580,954)	-.-
Revenue Support Grant	(102,089)	(25,522)	(27,564)	(2,042)	(102,089)	-.-
Business Rates	(5,717,544)	-.-	(137,614)	(137,614)	(5,867,544)	(150,000)
Other Government Grants (NHB / RSG etc.)	(1,480,794)	(104,661)	(522,240)	(417,579)	(1,480,794)	-.-
Budgeted draw from Surplus Savings Reserve	(1,975,579)	-.-	-.-	-.-	(1,975,579)	-.-
	(16,856,960)	**(130,183)**	**(687,418)**	**(557,235)**	**(17,006,960)**	**(150,000)**
Revenue Total	**-.-**	**5,348,656**	**2,003,494**	**(3,345,162)**	**(324,000)**	**(324,000)**

OPERATIONAL SERVICES COMMITTEE BUDGET MONITORING REPORT - 30th June 2023

Revenue	Total Budget 2023-24	Profiled Budget to 30 June 2023	Actual to 30 June 2023	Variance	Forecast Outturn	Variance between Total Budget & Projected Outturn
	£	£	£	£	£	£
Building Regulations	36,736	(20,822)	(20,169)	653	36,736	
CIL	-.-	-.-	(1,434,152)	(1,434,152)	-.-	
Climate Change	100,000	25,000	19,323	(5,677)	100,000	
Community Projects & Grants	193,482	45,867	45,536	(331)	193,482	
Community Safety	62,133	28,575	28,302	(273)	62,133	
Cons.Area & Listed Buildings	69,861	17,465	17,553	88	69,861	
Customer Services	543,885	143,654	132,244	(11,410)	538,885	(5,000)
Dog Warden Scheme	43,226	10,740	8,795	(1,945)	43,226	
Ely Markets	-.-	(58,381)	(58,381)	-.-	-.-	
Emergency Planning	30,024	358	7,357	6,999	30,024	
Environmental Issues	147,961	33,180	31,227	(1,953)	147,961	
Health - Admin. & Misc.	529,805	132,895	(52,107)	(185,002)	529,805	
Homelessness	247,158	130,105	(331,124)	(461,229)	247,158	
IT	1,011,782	566,862	576,752	9,890	1,011,782	
Leisure Centre	(301,550)	265	-.-	(265)	(301,550)	
Licencing	19,067	4,592	(47,922)	(52,514)	19,067	
Marketing & Grants	42,192	17,235	(10,713)	(27,948)	42,192	
Neighbourhood Panels	1,500	375	-.-	(375)	1,500	
Nuisance Investigation	103,673	25,918	22,430	(3,488)	103,673	
Pest Control	11,033	2,758	2,643	(115)	11,033	
Planning	253,594	(96,700)	192,988	289,688	453,594	200,000
Public Relations	109,883	27,471	27,283	(188)	109,883	
Refuge Recycling	1,276,987	319,247	325,603	6,356	1,276,987	
Refuse Collection	1,497,443	385,826	378,447	(7,379)	1,497,443	
Street Cleansing	876,471	219,118	219,118	-.-	876,471	
Street Naming & Numbering	16,704	4,176	(8,791)	(12,967)	16,704	
Travellers Sites	(18,159)	(16,666)	6,171	22,837	(18,159)	
Tree Preservation	63,471	15,868	53,193	37,325	63,471	
Revenue Total	**6,968,362**	**1,964,981**	**131,606**	**(1,833,375)**	**7,163,362**	**195,000**

CAPITAL BUDGET MONITORING 2023/24 - 30th June 2023

Capital	Published Budget 2023-24 £	Slippage from 2022-23 £	Approved Additions £	Revised Budget 2023-24 £	Actual at 30th June 2023 £	Forecast Outturn £	Variance between Revised Budget & Forecast £
OPERATIONAL SERVICES							
Conservation Area Schemes - 2nd round		27,506		**27,506**		27,506	0
Refuse & Cleansing Vehicles	2,775,000			**2,775,000**		1,912,334	(862,666)
Waste - Wheelied Bins	1,040,000			**1,040,000**	17,202	1,040,000	0
Mandatory Disabled Facilities Grants	697,299	928,801	(5,793)	**1,620,307**	144,478	1,620,307	0
Empty Properties, Discretionary DFGs, Minor Works, Home Repair Asst.	75,000			**75,000**	13,866	75,000	0
Vehicle Etc. Replacements	100,000			**100,000**	20,611	100,000	0
Leisure Centre				**0**	(18,038)	0	0
Operational Services Total	**4,687,299**	**956,307**	**(5,793)**	**5,637,813**	**178,119**	**4,775,147**	**(862,666)**
FINANCE & ASSETS							
Solar Panels on Council Buildings	100,000	50,000		**150,000**	49,900	150,000	0
Depot		636,624		**636,624**	63,020	636,624	0
A14 Contribution	82,000	(82,000)		**0**		0	0
Loan to EC CLT		76,350		**76,350**		76,350	0
New Loan Agreement with ECTC	1,700,000	(400,000)		**1,300,000**		1,300,000	0
Finance & Assets Total	**1,882,000**	**280,974**	**0**	**2,162,974**	**112,920**	**2,162,974**	**0**
Total	**6,569,299**	**1,237,281**	**(5,793)**	**7,800,787**	**291,039**	**6,938,121**	**(862,666)**

SOURCES OF FINANCING	Published Budget 2023-24 £	Slippage from 2022-23 £	Approved Additions £	Revised Budget 2023-24 £	Variances £	Forecast Outturn £
Operational Services						
Grants / Contributions (DFG)	608,471	404,111	(5,793)	1,006,789		1,006,789
Capital Receipts	203,828	552,196		756,024		756,024
Borrowing	3,775,000	0		3,775,000	(1,662,666)	2,112,334
Section 106 / CIL	100,000	0		100,000	800,000	900,000
Operational Services Total	**4,687,299**	**956,307**	**(5,793)**	**5,637,813**	**(862,666)**	**4,775,147**
Finance & Assets						
Revenue Contributions	42,000	(42,000)		0		0
Capital Receipts	100,000	50,000		150,000		150,000
Section 106 / CIL	40,000	(40,000)		0		0
Borrowing	1,700,000	312,974	0	2,012,974	0	2,012,974
Finance & Assets Total	**1,882,000**	**280,974**	**0**	**2,162,974**	**0**	**2,162,974**
Capital Funding Total	**6,569,299**	**1,237,281**	**(5,793)**	**7,800,787**	**(862,666)**	**6,938,121**

Capital Resources Forecast	Published Budget 2023-24 £	Slippage from 2022-23 £	Approved Additions £	Revised Budget 2023-24 £	Variances £	Outturn £
Balance Brought Forward	1,396,717	84,085		1,480,802		1,480,802
Add receipts from Sales of Assets	50,000			50,000		50,000
Less Capital Receipts Applied	(303,828)	(602,196)		(906,024)	0	(906,024)
Capital Reserves Carried Forward	**1,142,889**	**(518,111)**	**0**	**624,778**	**0**	**624,778**

Borrowing	Published Budget 2023-24 £	Slippage from 2022-23 £	Approved Additions £	Revised Budget 2023-24 £	Variances £	Outturn £
Balance Brought Forward	10,012,611	114,065		10,126,676		10,126,676
Less MRP Applied	(327,765)			(327,765)	8,384	(319,381)
Repayment from ECTC				0		0
Add additional Borrowing Applied	5,475,000	312,974	0	5,787,974	(1,662,666)	4,125,308
Borrowing Carried Forward	**15,159,846**	**427,039**	**0**	**15,586,885**	**(1,654,282)**	**13,932,603**

Reserve Balances – 30th June 2023

Description	2023/24 Opening Balance 1 April £	Transfers to Reserve £	Contributions from Reserve £	Forecast Balance 31 March £
District Elections	161,932		(85,117)	76,815
Historic Buildings Grants	6,190			6,190
Housing Conditions Survey	25,000	5,000		30,000
Change Management	231,558		(174,257)	57,301
Major Project Development	100,000			100,000
Surplus Savings Reserve	8,554,452	324,000	(1,975,579)	6,902,873
Vehicle Replacements	74,240			74,240
Sports Facilities Funding Reserve	288,000			288,000
IT	160,000	40,000	(100,000)	100,000
CIL Admin	217,069	70,000	(100,000)	187,069
Asset Management	12,679			12,679
Care and Repair	45,000			45,000
Community Fund Reserves	30,884			30,884
Housing	79,547			79,547
Affordable Housing	221,800			221,800
General Fund Balance	1,063,294	174,257		1,237,551
Commercial Invest to Save	20,000			20,000
CLT Grant Applications	20,000			20,000
Travellers' Sites	0	56,959		56,959
Enterprise Zone NNDR	738,418	287,642	(22,341)	1,003,719
Cambridgeshire Horizons - General	431,119			431,119
Growth and Infrastructure Fund	2,307,216		(1,100,000)	1,207,216
Exceptional Hardship Fund	2,637			2,637
Climate Change	70,999			70,999
Other				
CIL	10,435,509	1,400,000	(1,000,000)	10,835,509
Section 106 Agreements	3,467,395		(500,000)	2,967,395
Internal Borrowing	(10,126,676)	(4,125,308)	319,381	(13,932,603)
Total Reserves	18,638,263	(1,767,450)	(4,737,913)	12,132,900

Treasury Management Update

Quarterly report

30th June 2023

Contents

Treasury Management Update
Quarter Ended 30th June 2023

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

1. Economics update

- The first quarter of 2023/24 saw:
  - A 0.2% month on month rise in real GDP in April, partly due to fewer strikes;
  - CPI inflation falling from 10.1% to 8.7% in April, before remaining at 8.7% in May. This was the highest reading in the G7;
  - Core CPI inflation rise in both April and May, reaching a new 31-year high of 7.1%;
  - A tighter labour market in April, as the 3 month year on year growth of average earnings rose from 6.1% to 6.5%;
  - Interest rates rise by a further 75bps over the quarter, taking Bank Rate from 4.25% to 5.00%;
  - 10-year gilt yields nearing the "mini-Budget" peaks, as inflation surprised to the upside.
- The economy has weathered the drag from higher inflation better than was widely expected. The 0.2% month on month (m/m) rise in real GDP in April, following March's 0.3% m/m contraction will further raise hopes that the economy will escape a recession this year. Some of the strength in April was due to fewer strikes by train workers and teachers in that month. Moreover, some of the falls in activity in other areas in April were probably temporary too. Strikes by junior doctors and civil servants contributed to the fall in health output (0.9% m/m) and the meagre 0.1% m/m increase in public administration.
- The fall in the composite Purchasing Managers Index (PMI) from 54.0 in May to a three-month low of 52.8 in June (>50 points to expansion in the economy, <50 points to contraction) was worse than the consensus forecast of 53.6. Both the services and manufacturing PMIs fell. The decline in the services PMI was bigger (from 55.2 to 53.7), but it remains consistent with services activity expanding by an annualised 2%. The fall in the manufacturing PMI was smaller (from 47.1 to 46.2), but it is consistent with the annual rate of manufacturing output falling from -0.8% in April to around -5.0%. At face value, the composite PMI points to the 0.1% q/q rise in GDP in Q1 2023 being followed by a 0.2% q/q gain in Q2 2023.
- Meanwhile, the 0.3% m/m rise in retail sales volumes in May was far better than the consensus forecast of a 0.2% m/m decline and followed the robust 0.5% m/m rise in April. Some of the rise was due to the warmer weather. Indeed, the largest move was a 2.7% m/m jump in non-store sales, due to people stocking up on outdoor-related goods. But department stores also managed to squeeze out a 0.6% m/m rise in sales and the household goods sub-sector enjoyed a reasonable performance too. Overall, the figures were far better than analysts had expected. In addition, the GfK measure of consumer confidence rebounded from -27 to a 17-month high of -24 in June.
- The recent resilience of the economy has been due to a confluence of factors including the continued rebound in activity after the pandemic, households spending some of their pandemic savings, and the tight labour market and government handouts both supporting household incomes. That said, as government support fades, real household incomes are unlikely to grow rapidly. Furthermore, higher interest rates will mean GDP is likely to contract later this year. Our central assumption is that inflation will drop to the 2.0% target only if the Bank triggers a recession

by raising rates from 5.00% now to at least 5.5% and keeps rates there until at least mid-2024. Our colleagues at Capital Economics estimate that around 60% of the drag on real activity from the rise in rates has yet to bite, and the drag on the quarterly rate of real GDP growth over the next year may be about 0.2ppts bigger than over the past year.

- The labour market became tighter over the quarter and wage growth reaccelerated. Labour demand was stronger than the consensus had expected. The three-month change in employment rose from +182,000 in March to +250,000 in April. Meanwhile, labour supply continued to recover as the size of the labour force grew by 303,000 in the three months to April. That was supported by a further 140,000 decline in inactivity as people returned to work from retirement and caring responsibilities (while inactivity due to long-term sick continued to rise). But it was not enough to offset the big rise in employment, which meant the unemployment rate fell from 3.9% to 3.8%
- The tighter labour market supported wage growth in April, although the 9.7% rise in the National Living Wage on 1st April (compared to the 6.6% increase in April last year) probably had a lot to do with it too. The 3myy rate of average earnings growth reaccelerated from 6.1% to 6.5% (consensus 6.1%) and UK wage growth remains much faster than in the US and the Euro-zone. In addition, regular private sector wage growth increased from 7.1% 3myy to 7.6%, which left it well above the Bank's forecast for it to fall below 7.0%. Overall, the loosening in the labour market appears to have stalled in April and regular private sector wage growth was well above the Bank's forecast.
- CPI inflation stayed at 8.7% in May (consensus 8.4%) and, perhaps more worryingly, core CPI inflation rose again, from 6.8% to a new 31-year high of 7.1%. The rise in core inflation built on the leap from 6.2% in March to 6.8% and means it is accelerating in the UK while it is slowing in the US and the Euro-zone (both fell to 5.3%). A further decline in fuel inflation, from -8.9% to -13.1%, and the second fall in food inflation in as many months, from 19.3% to 18.7%, explained why overall CPI inflation didn't rise. And the scheduled fall in the average annual utility price from £2,500 to £2,074 on 1st July means overall CPI inflation will probably ease in the coming months. But the problem is that the recent surge in core inflation and the reacceleration in wage growth shows that domestic inflationary pressures are still strengthening.
- This suggests the Bank may have more work to do than the Fed or ECB. Indeed, the Bank of England sounded somewhat hawkish in the June meeting. This came through most in the MPC's decision to step up the pace of hiking from the 25bps at the previous two meetings. The 7-2 vote, with only two members voting to leave rates unchanged at 4.50%, revealed support for stepping up the fight against high inflation.
- That said, the Bank has not committed to raising rates again or suggested that 50bps rises are now the norm. What it did say was that "the scale of the recent upside surprises in official estimates of wage growth and services CPI inflation suggested a 0.5 percentage point increase in interest rates was required at this particular meeting". Moreover, the Committee did not strengthen its forward guidance that any further rate hikes would be conditional on the data. However, it looks highly probable, given the on-going strength of inflation and employment data, that the Bank will need to raise rates to at least 5.5% and to keep rates at their peak until the mid-point of 2024. We still think it is only a matter of time before the rise in rates weakens the economy sufficiently to push it into recession. That is why instead of rising to between 6.00%-6.25%, as is currently priced in by markets, we think rates are more likely to peak between 5.50-6.00%. Our forecast is also for rates to be cut in the second half of 2024, and we expect rates to then fall further than markets are pricing in.
- Growing evidence that UK price pressures are becoming increasingly domestically generated has driven up market interest rate expectations and at one point pushed the 10-year gilt yield up to 4.49% in late June, very close to its peak seen after the "mini-budget". Yields have since fallen slightly back to 4.38%. But growing expectations that rates in the UK will remain higher for longer than in the US mean they are still more than 70 bps above US yields. While higher interest rates are priced into the markets, the likely dent to the real economy from the high level of interest rates is not. That's why we think there is scope for market rate expectations to fall back in 2024 and why

we expect the 10-year PWLB Certainty Rate to drop back from c5.20% to 5.00% by the end of this year and to 4.20% by the end of 2024.

- The pound strengthened from $1.24 at the start of April to a one-year high at $1.26 in early May, which was partly due to the risks from the global banking issues being seen as a bigger problem for the US than the UK. The pound then fell back to $1.23 at the end of May, before rising again to $1.28 in the middle of June as the strong core CPI inflation data released in June suggested the Bank of England was going to have to raise rates more than the Fed or ECB in order to tame domestic inflation. However, sterling's strong run may falter because more hikes in the near term to combat high inflation are likely to weaken growth (and, hopefully, at some point inflation too) to such a degree that the policy rate will probably be brought back down, potentially quite quickly, as the economic cycle trends downwards decisively. This suggests that additional rate hikes are unlikely to do much to boost the pound.
- In early April, investors turned more optimistic about global GDP growth, pushing up UK equity prices. But this period of optimism appears to have been short-lived. The FTSE 100 has fallen by 4.8% since 21st April, from around 7,914 to 7,553, reversing part of the 7.9% rise since 17th March. Despite the recent resilience of economic activity, expectations for equity earnings have become a bit more downbeat. Nonetheless, further down the track, more rate cuts than markets anticipate should help the FTSE 100 rally.

MPC meetings 11th May and 22nd June 2023

- On 11th May, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 25 basis points to 4.50%, and on 22nd June moved rates up a further 50 basis points to 5.00%. Both increases reflected a split vote – seven members voting for an increase and two for none.
- Nonetheless, with UK inflation significantly higher than in other G7 countries, the MPC will have a difficult task in convincing investors that they will be able to dampen inflation pressures anytime soon. Talk of the Bank's inflation models being "broken" is perhaps another reason why gilt investors are demanding a premium relative to US and Euro-zone bonds, for example.
- Of course, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has already hiked short-term rates to a range of 5.00%-5.25%, but a further increase is pencilled in for July, whilst the ECB looks likely to raise its Deposit rate at least once more to a peak of 3.75%, with upside risk of higher to come.

2. Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. 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, made on 26th June, sets out a view that both short 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, against a backdrop of a stubbornly robust economy and a tight labour market.

You will note that our forecasts have steadily increased during the quarter as the data continued to spring upside surprises, and the Bank of England continued to under-estimate how prevalent inflation is, and how tight the labour market is. The Government has also noted that despite immigration increasing markedly, high levels of ill-health amongst the workforce has led to wage demands remaining strong until such time as there is a loosening in demand for business services.

Our current and previous PWLB rate forecasts below are based on the Certainty Rate.

Link Group Interest Rate View	26.06.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

Link Group Interest Rate View	24.05.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	4.75	5.00	5.00	4.75	4.50	4.00	3.50	3.25	2.75	2.50	2.50	2.50	2.50
3 month ave earnings	4.80	5.00	5.00	4.80	4.50	4.00	3.50	3.30	2.80	2.50	2.50	2.50	2.50
6 month ave earnings	5.10	5.20	5.10	4.90	4.50	3.90	3.40	3.20	2.90	2.60	2.60	2.60	2.60
12 month ave earnings	5.40	5.40	5.30	5.00	4.50	3.90	3.40	3.20	2.90	2.70	2.70	2.70	2.70
5 yr PWLB	5.00	5.00	5.00	4.80	4.50	4.10	3.70	3.50	3.30	3.20	3.20	3.10	3.10
10 yr PWLB	5.00	5.00	5.00	4.80	4.40	4.10	3.80	3.60	3.50	3.40	3.30	3.30	3.30
25 yr PWLB	5.30	5.30	5.20	5.10	4.80	4.50	4.20	4.00	3.80	3.70	3.60	3.60	3.60
50 yr PWLB	5.10	5.10	5.00	4.90	4.60	4.30	4.00	3.80	3.60	3.50	3.40	3.40	3.40

Link Group Interest Rate View	27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- Our central forecast for interest rates was previously updated on 25th May and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened to a degree, especially as it moved to a more aggressive 0.5% hike in June but, with inflation remaining elevated, we anticipate that Bank Rate will need to increase to at least 5.5%, if not higher, to sufficiently slow the UK economy and loosen the labour market.
- Moreover, we also still anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but timing on this will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged. Our current judgment is that rates will have to increase and stay at their peak until the second quarter of 2024 as a minimum.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the

on-going conflict between Russia and Ukraine and whether there are any further implications for Russia itself following the recent aborted mutiny by the Wagner group.

- On the positive side, consumers are still estimated to be sitting on excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, most of those excess savings are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

- Gilt yield curve movements have shifted upwards, especially at the shorter end of the yield curve since our previous forecast but remain relatively volatile. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.90% to 5.60%.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, the rising gilt yields we have seen of late).

- **The Bank of England** increases Bank Rate too fast and too far over the coming months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

- **A broadening of banking sector fragilities,** which have been successfully addressed in the near-term by central banks and the market generally, but which may require further intervention if short-term interest rates stay elevated for longer than is anticipated.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- Despite the recent tightening by 0.5%, the **Bank of England proves too timid** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer-term **US treasury yields** rise strongly if inflation remains more stubborn than the market currently anticipates, pulling gilt yields up higher consequently.

- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields compensating.

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 21st February 2023. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to six months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

As shown in the interest rate forecasts in section 2, investment rates have improved dramatically during the first quarter of 2023/24 and are expected to improve further as Bank Rate continues to increase over the next few months.

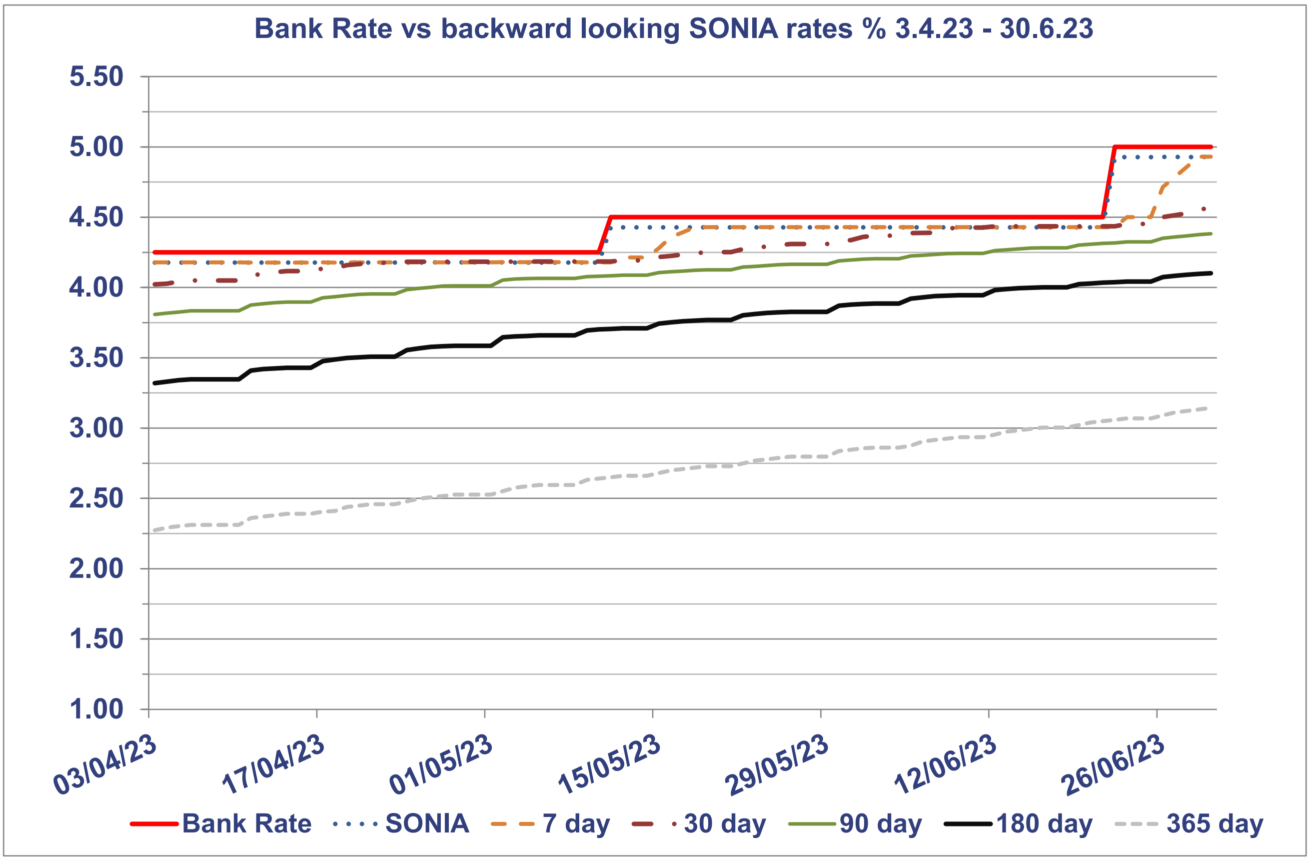
Creditworthiness.
There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

Investment counterparty criteria
The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

CDS prices
For UK banks, these have retreated from the spikes caused by the Truss / Kwarteng policy approach in September. Prices are not misaligned with other creditworthiness indicators, such as credit ratings. Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment balances
The average level of funds available for investment purposes during the quarter was £30.217 million. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of Council Tax and Business Rate receipts, precept payments to our precepting authorities and grant receipts from Government.

As highlighted earlier in this report, we are now using the Sterling Overnight Index Averages. the backward-looking benchmark reflects where the market was positioned when investments were placed.



FINANCIAL YEAR TO QUARTER ENDED 30/06/2023							
	Bank Rate	**SONIA**	**7 day**	**30 day**	**90 day**	**180 day**	**365 day**
High	5.00	4.93	4.93	4.57	4.38	4.10	3.14
High Date	22/06/2023	30/06/2023	30/06/2023	30/06/2023	30/06/2023	30/06/2023	30/06/2023
Low	4.25	4.18	4.18	4.02	3.81	3.32	2.27
Low Date	03/04/2023	04/04/2023	11/04/2023	03/04/2023	03/04/2023	03/04/2023	03/04/2023
Average	4.44	4.37	4.34	4.27	4.11	3.74	2.70
Spread	0.75	0.75	0.75	0.55	0.57	0.78	0.87

The Council's budgeted investment return for 2023/24 is £511,340. Performance for the year to date is above budget and we are now forecasting additional interest income of £160,000 by yearend. This additional interest being as a result of the higher interest rates than was predicted when the budget was set.

Approved limits
Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th June 2023.

The list of investments held as of 30th June 2023 were:

	Value £	Fixed Interest Rate
NatWest Bank Current Account	655,005	
Money Market Funds – Blackrock	5,000,000	
Money Market Funds - Insight	3,300,000	
Standard Chartered Bank	6,000,000	4.17%
Lloyds Bank	5,000,000	4.67%
Santander UK	6,000,000	3.75%
SMBC Bank	5,000,000	5.22%
	30,955,005	

4. Borrowing

No borrowing was undertaken during the quarter ended 30th June 2023 and it is anticipated that no further borrowing will be needed during this financial year.

5. Compliance with Treasury and Prudential Limits

The prudential and treasury Indicators are shown in Appendix 1.

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 30th June 2023, the Council has operated within the treasury and prudential indicators set out in the Council’s Treasury Management Strategy Statement for 2023/24. The Director, Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

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

APPENDIX 1: Prudential and Treasury Indicators for 2023-24 as of 30th June 2023

Treasury Indicators	30th June 2023 Actual £000	31st March 2023 Actual £000
Authorised limit for external debt	10,000	10,000
Operational boundary for external debt	0	0
Gross external debt	0	0
Investments	30,955	29,941
Net Investments	30,955	29,941

Prudential Indicators	Yearend Forecast as at 30th June 2023 £000	31st March 2023 Actual £000
Capital Financing Requirement (CFR) - brought forward	10,127	9,489
Capital Expenditure funded by borrowing	4,125	5,871
Minimum Revenue Provision & Repayment of Loan from ECTC	(319)	(5,234)
Annual change in CFR	3,806	637
Capital Financing Requirement (CFR) - carry forward	13,933	10,127