Report of the Resources and Personnel Policy Portfolio Holder

TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2023/24 MID-YEAR REPORT

1. Purpose of report

To provide Members with a mid-year update on Treasury Management activity and the Prudential Indicators for 2023/24.

2. Recommendation

Cabinet is asked to consider and NOTE the Treasury Management and Prudential Indicators Mid-Year Report 2023/24.

3. Detail

Regulations issued under the Local Government Act 2003 require the Council to fulfil the requirements of the Chartered Institute of Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities when undertaking its treasury management activities.

As well as the Treasury Management and Prudential Indicators annual report that is presented to Cabinet in July each year, there is a regulatory requirement for Members to at least receive a mid-year review. This is intended to enhance the level of Member scrutiny in these areas.

The CIPFA Code of Practice on Treasury Management requires the Deputy Chief Executive to operate the Treasury Management function in accordance with the Treasury Management Strategy approved by Cabinet on 7 February 2023 and Council on 1 March 2023. Details of all borrowing and investment transactions undertaken in 2023/24 up to 30 September 2023, together with the balances at this date and limits on activity, are provided in APPENDIX 1. There are no issues of non-compliance with these practices that need to be reported.

Under the CIPFA Prudential Code for Capital Finance in Local Authorities, the Council is required to prepare a number of prudential indicators against which treasury management performance should be measured. The objectives of the Prudential Code are to ensure that the Council's capital investment plans are affordable, prudent and sustainable. Fundamental to this is the calculation of a number of prudential indicators, which provide the basis for the management and monitoring of capital expenditure, borrowing and investments. The Council has complied with its 2023/24 prudential indicators up to 30 September 2023 and details are provided in APPENDIX 2.

4. Key Decisions

This is not a key decision.

5. Financial Implications

The comments from the Head of Finance Services were as follows:

This report meets the requirements of the CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities.

All treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice on Treasury Management and the approved Treasury Management Strategy. Further comments are incorporated in the narrative in the executive summary and appendices.

6. Legal Implications

The comments from the Head of Legal Services and Deputy Monitoring Officer were as follows:

Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance. This report demonstrates compliance with the legislative framework.

7. Human Resources Implications

There were no comments from the Human Resources Manager.

8. Union Comments

There were no comments from UNISON.

9. Climate Change Implications

There were no comments received.

10. Data Protection Compliance Implications

This report does not contain any OFFICIAL(SENSITIVE) information and there are no Data Protection issues in relation to this report.

11. Equality Impact Assessment

As there is no change to policy an equality impact assessment is not required.

12. Background Papers

Nil

APPENDIX 1

TREASURY MANAGEMENT ACTIVITY 2023/24 (Q2)

1. Introduction

The Council has 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, as a minimum, treasury management semi-annual and annual outturn reports.

This report includes the new requirement in the 2021 Code, mandatory from April 2023, of quarterly reporting of the treasury management activity and prudential indicators.

The Council's Treasury Management Strategy for 2023/24 was approved at the Cabinet meeting on 7 February 2023. The Council continues to borrow and invest 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 remains central to the Council's Treasury Management Strategy.

2. Economic Context

Economic background: UK inflation remained stubbornly high over much the period compared to the US and Eurozone, keeping expectations elevated of how much further the Bank of England ('the Bank') would hike rates compared to the regions. However, inflation data published later in Q2 undershot expectations causing financial markets to reassess the peak in the Bank Rate. This was followed soon after by the Bank deciding to keep Bank Rate on hold at 5.25% in September against expectation for another 0.25% rise.

Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.2%. However, monthly GDP data showed a 0.5% contraction in July, the largest fall so far in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 7.8% for regular pay which was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 0.6% for regular pay respectively.

Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also fell to 6.2% compared to predictions for it to only edge down to 6.8%.

The Bank of England's Monetary Policy Committee continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%.

Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to then expecting 5.25% to be the peak by the end of the period.

Following the September MPC meeting, Arlingclose, the authority's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12 to 24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, it is likely this will reverse at some point. Higher rates will also impact business and the UK manufacturing and services sector contracted during the quarter.

Financial markets: Market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.

Gilt yields fell towards the end of the period (which aligns with PWLB borrowing plus 1%). The five-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%. The 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, whilst the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%. The Sterling Overnight Rate (SONIA) averaged 4.73% over the period.

Credit review: Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank and purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period.

Following the issue of a Section 114 notice, Arlingclose advised against new lending to Birmingham City Council and cut its recommended duration on Warrington Borough Council to a maximum of 100 days.

Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and although no changes were made to recommended durations over the period, Northern Trust Corporation was added to the counterparty list. Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remains under constant review.

3. **Borrowing**

a) Debt Activity in Year

The loan debt outstanding as at 30 September 2023 compared to the opening position as at 1 April 2023 is shown below:

Loan Type	Amount Outstanding 01/04/23 £'000	Amount Outstanding 30/09/2023 £'000
Short Term Loans:		
Bramcote Crematorium	430	435
Money Market Loans	0	0
Public Works Loan Board	7,414	7,407
Long Term Loans:		
Money Market Loans	3,000	3,000
Public Works Loan Board	77,230	77,230
Total	**88,074**	**88,072**

This level of borrowing can be considered in the context of the assets held by the Council. The latest valuation used for the Balance Sheet on 31 March 2023 showed that the Council held fixed assets with a total value of £263.3m. This included General Fund assets at £39.3m and Housing Revenue Account (HRA) assets at £224.0m [the market valuation of dwellings is estimated at £533m]. This compares favourably with the current debt portfolio.

b) Loans

The short term money market loans are from other local authorities and public sector bodies. Broxtowe did not have any money market loans as at 1 April 2023 and has not taken on any new money market loans in the year to date.

PWLB loans of £1.3 million and of £6.1 million are due to mature on 2 December 2023 and 28 March 2024 respectively. As these are due to mature within the next 12 months they are considered short term. There will be a need to replace part or all of these loans. Short term loans at 1 April 2023 included PWLB annuities of £14k. A sum of £7k was repaid on 13 September 2023 and the remaining £7k is due for repayment on 13 March 2024.

Short term loans at 1 April 2023 also included £430k that had been invested with the Council by Bramcote Crematorium. At 30 September 2023, Bramcote Crematorium had invested a further £405k with the Council plus accrued interest. A withdrawal was made to allow for a distribution of £400k to the two constituent authorities (Broxtowe and Erewash) on 29 September 2023. The total loan as at 30 September 2023 was £435k.

The major element of the long-term loans from the PWLB is the loans totalling £66.4m taken out on 28 March 2012 to make the payment to the government. This enabled the Council to exit the Housing Revenue Account (HRA) subsidy system and move to self-financing arrangements that allowed local authorities to support their housing stock from their own HRA income. These loans were for maturity periods between 10 and 20 years and were at special one-off preferential rates made available by the PWLB for this exercise of 13 basis points above the equivalent gilt yield at the date on which the loans were taken out. One of these loans at £6.5m was repaid in 2022/23 with another for £6.1m due to be paid in March 2024.

Debt is kept under review in order to match the level of borrowing with the financing requirement for assets, based on analysis of the Council's balance sheet, with the aim of maintaining borrowing at the most efficient level in line with the prudential framework for capital finance.

The planned financing of the 2023/24 Capital Programme indicates that borrowing of £21.76m in would be required to help fund the programme. This borrowing has not, as yet, been fully undertaken as the availability of large investment balances has meant that there has been no specific need to undertake this borrowing thus far.

The Council will continue to adopt a cautious and considered approach to any borrowing that it may undertake. The Council's treasury advisors, Arlingclose, actively consult with investors, investment banks and capital markets to establish the attraction of different sources of borrowing and their related trade-off between risk and reward. The Council will liaise with its advisors before making any borrowing decisions and then report these to Members.

c) <u>Debt Rescheduling</u>

In conjunction with the treasury management advisors, the Council continues to seek opportunities for the rescheduling of debt that could reduce its overall borrowing costs. No debt rescheduling has taken place to date in 2023/24.

Whilst the possibility of achieving savings by repaying a loan may initially appear attractive, if a replacement loan is taken out to facilitate this then the replacement loan will have to be replaced at some stage. There is a risk that, as interest rates have risen dramatically recently, new loans could be more expensive and the initial decision to pursue the repayment of the original loan could turn out to be costly in the long term.

There may be opportunities in the future to achieve discounts by repaying loans using funds that are currently invested but the Council's primary concern will be to ensure that it has sufficient liquidity available to meets its liabilities and this represents a significant barrier to debt repayment activity.

Currently most of the Council's PWLB loans would attract a premium, i.e. a penalty, on premature repayment of between 5% and 99%. Those with a higher probability of attracting a discount in the future were interest rates to rise further (i.e. where the current premium is between 0% and 10%) are some loans that were taken out in March 2012 at preferential rates as part of the move to exit the HRA subsidy system as referred to in 1(a) above.

The Council and its treasury management advisors will continue to monitor the situation and evaluate potential opportunities where appropriate. Debt rescheduling activity will only be undertaken when annual revenue savings can be achieved and both a stable debt maturity profile and suitable interest rate structure can be maintained.

d) Cost of Borrowing and Debt Profile

i. Long-term Debt

The Council's long term debt had an average of 7.9 years to maturity at 30 September 2023 (31 March 2023 was 8.4 years). The average interest payable at that date was 3.22% (31 March 2023 was also 3.22%).

ii. Short-term Borrowing

Short-term borrowing comprises the continuing loan from the Bramcote Crematorium Joint Committee and the loans outlined in 1(a) above.

iii. PWLB Rate Changes and Future Borrowing

Most of the Council's long term debt is borrowed from the PWLB. The most recent PWLB Technical Note (published 15 June 2023) shows the current Standard Rate for PWLB loans is 100 basis points above current gilt prices. Those local authorities who submit a Certainty Rate Return, which is primarily a high-level analysis of the authority's capital programme, capital financing and borrowing plans for the next three years, are eligible to borrow at the Certainty Rate. The Certainty Rate is 20 basis points below the Standard Rate. In addition, the PWLB has introduced a HRA Rate at 60 basis points below the standard rate for the financing of HRA scheme.

Given that PWLB lending terms are currently competitive, PWLB will be considered, alongside other lenders, by the Council when looking to take out future long-term borrowing.

4. Investments

a) Investment Policy

The Council's investment policy is governed by guidance from the government, which was implemented in the Investment Strategy approved by Cabinet on 7 February 2023 and then by Council on 1 March 2023. This gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

The Council only places long term investments with banks and building societies which are UK domiciled and have, as a minimum, the Long Term A- (or equivalent) rating from the Fitch, Moody's and Standard and Poors credit rating agencies.

The Council is also able to invest in Money Market Funds (MMF) that are AAA rated and with the UK government, as well as with other local authorities. The maximum permitted duration of investments is two years.

The investment activity during 2023/24 to date conformed to the approved strategy. The Council had no security or liquidity difficulties.

b) <u>Interest Received</u>

The total interest receivable for the period ended 30 September 2023 amounted to £438k at an average rate of 4.15% (compared to £159k at 1.64% to 30 September 2022). This was linked to the incremental increases in the Bank Rate from 2.25% to 5.25% as at 30 September 2023 and the Council holding relatively high levels of cash due to the up-front receipt of capital grants. These surplus funds were included in short-term investments.

The return of Money Market Funds (net of fees) increased during the period up to 30 September 2023, with rates averaging 5.3%.

The Council's treasury advisors, Arlingclose, continues to expect the Bank Rate to remain high for the foreseeable future whilst the MPC looks to return inflation to the target of 2%. The September 2023 MPC chose to maintain the base rate at 5.25% and Arlingclose expects rates to remain high in the short term, with small incremental decreases in the medium term.

SONIA (Sterling Overnight Index Average) is an interest rate published by the Bank of England, which can be seen as the average interest rate at which a selection of financial institutions lends to one another in sterling (GBP) with a maturity of 1 day (overnight). SONIA is a benchmark rate and had an average 1-day rate over the period at 4.73%

The LIBOR interest rate is the average interbank interest rate at which a large number of banks on the London Money Market are prepared to lend one another in unsecured funds denominated GBP. The LIBOR rate is available in seven maturities, from overnight to 12-months and serves as a base rate for all sorts of other products such as savings accounts, mortgages and loans. The 1-month LIBOR average rate over the period was 5.4%.

The Council has a total of four long term investment totalling £8.0m and these along with the interest income received over the period are as follows:

- CCLA Local Authority Property Fund (LAPF) – £2.0m (£22,000)
- CCLA Diversified Income Fund (DIF) – £2.0m (£21,000)
- Royal London Enhanced Cash Plus Fund – £2.0m (£32,000)
- Ninety-One Diversified Income Fund – £2.0m (£33,000)

The £2.0m invested in the CCLA Local Authorities' Property Fund (LAPF) had a dividend yield of 1.1% during the period whilst the £2.0m invested in CCLA Diversified Income Fund had a dividend yield of 1.05%. The Royal London Cash Plus and Ninety-One Diversified Income Funds have dividend yields of 1.60% and 1.65% respectively. The average total income return for the period is 1.35%. Further details of these long-term investments are set out in 3(v).

c) Investments Placed

A summary of all investments (either short or long term) made and repaid from 1 April to 30 September 2023 is set out in the following table:

	Balance at 01/04/23 £000's	Invests Made £000's	Invests Repaid £000's	Balance at 30/09/23 £000's	Net Change £000's
MMF's					
Aberdeen MMF	-	27,900	(23,660)	4,240	4,240
Insight MMF	-	-	-	-	-
LGIM MMF	-	11,770	(6,770)	5,000	5,000
Federated MMF	-	21,180	(16,180)	5,000	5,000
PSDF	4,590	2,640	(2,230)	5,000	410
Long-Term					
Royal London Cash Plus	2,000	0	0	2,000	0
Diversified Income Fund	2,000	0	0	2,000	0
LA Property Fund	2,000	0	0	2,000	0
Ninety-One DIF	2,000	0	0	2,000	0
Total	**12,590**	**63,490**	**(48,840)**	**27,240**	**14,650**

The Money Market Funds (MMF) are set up as individual accounts where funds can be placed short-term, often overnight, and monies withdrawn as and when required. This has a major impact upon the number of investments made with these institutions during the period above.

Use continues to be made of MMF due to their ability to provide a secure and highly liquid place in which to invest and the reduced number of other potential counterparties available as outlined in 2(g) below.

d) Credit Risk

Security of capital has remained the Council's main investment objective. The Council aims to achieve a score of '7' or lower in order to reflect its overriding priority of maintaining the security of any sums invested. This equates to the minimum credit rating threshold of A- for investment counterparties as set out in the 2023/24 Investment Strategy.

Counterparty credit quality has been maintained at an appropriate level during 2023/24 as shown by the credit score analysis in the following table:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2023	5.57	A	5.57	A
30/09/2023	4.65	A+	4.65	A+

No investments were made with institutions where the credit rating exceeded a score of 7 (i.e. lower than A-). All deposits were made with institutions achieving an average score of 5.0 or better. As such, counterparty credit quality has been maintained at an appropriate level during the period.

The table below shows how credit risk scores relate to long-term credit ratings:

Rating	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
Score	1	2	3	4	5	6	7	8	9	10

e) Risk Benchmarking

The Investment Strategy 2023/24 to 2025/26 contained a number of security, liquidity and risk benchmarks to allow officers to monitor the current and trend positions and incorporate these within investment decisions. The benchmarks have been met in full bar one for the period to 30 September 2023 such that:

- the Council’s maximum average credit risk score has been less than 7;
- a bank overdraft limit of £1.0m has been maintained;
- liquid short-term deposits of at least £0.5m have been available within one week;
- the average weighted life of investments has been below a maximum of six months

The following indicator has not been met for the period to 30 September 2023:

- Returns on investment have been above the SONIA average 1-day interest rate and the 1-month LIBOR average rate over the period.

The average rate achieved by the Council was 4.15% which was below the SONIA average 1-day rate of 4.75%. This was largely due to the volatility in the market causing SONIA rates to fluctuate, although the Council’s overall score was affected by the lower performance in the long-term investments as shown above.

f) Counterparty Update

The Deputy Chief Executive maintains a counterparty list based upon criteria set out in the Investment Strategy. Any proposed revisions to the criteria will be submitted to Cabinet for formal approval as set out in 2(g) below.

The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For example, if an institution is rated by two agencies and one meets the Council's criteria and the other does not, the institution will fall outside the lending criteria.

Creditworthiness information is provided by the treasury management advisors, Arlingclose, on all counterparties that comply with the criteria set out in the Investments Strategy. Any counterparty failing to meet the criteria is removed from the counterparty list.

g) Changes to the Investments Strategy

Due to the level of uncertainty in financial markets, it is important that there is sufficient flexibility to enable changes to be made to the Investments Strategy at short notice should they be considered necessary by the Deputy Chief Executive.

Any such changes to the Investments Strategy will be made by the Chief Executive exercising Standing Order 32 powers following consultation with the Leader of the Council and the Portfolio Holder for Resources and Personnel Policy. A report setting out the detail behind these changes would then be presented to Cabinet at the next available opportunity.

h) Regulatory Update – Statutory Override

In July 2018, the government consulted on statutory overrides relating to the introduction of the IFRS 9 Financial Instruments accounting standard from 2018/19. It has since decided to introduce a temporary statutory override for fair value movements in pooled funds. The government accepted arguments made in the consultation responses that the un-amended adoption of IFRS 9 could result in unwarranted volatility for the General Fund and impact unnecessarily upon Council Tax and/or service expenditure. The subsequent statutory override, while requiring IFRS 9 to be adopted in full, requires fair value movements in pooled investment funds to be taken to a separate unusable reserve instead rather than directly to the General Fund.

The override applies to all collective investment schemes and not just to pooled property funds. As set out above, in order to promote transparency, the guidance requires a separate unusable reserve to be used to hold the fair value movements rather than the Financial Instruments Adjustment Account.

In April 2023, the Department for Levelling Up, Housing and Communities

(DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for two years until 31 March 2025 but no other changes have been made. Whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not. The Council will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

i) Prudential and Treasury Management Code Changes

The Prudential Code requires the production of a high-level Capital Strategy report to full Council covering the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit are included in this report

The definition of investments in the Treasury Management Code now covers all of the Council's financial assets as well as other non-financial assets that are held primarily for a financial return. This is replicated in the Government's Investment Guidance in which the definition of investments is further broadened to include all such assets held partially for financial return. The Council has no such assets at present.

5. Treasury Management Indicators

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

i) 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.

Credit Risk Indicator	Target 2023/24
Portfolio Average Credit Rating	A-

The Council has complied with this indicator by achieving an average credit rating of A for its investment portfolio between 1 April and 30 September 2023.

ii) 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.

Liquidity Risk Indicator	Target 2023/24
Total cash available within 3 months	£10.0m

The Council has complied with this indicator by maintaining an average of £19.0m in cash available to meet unexpected payments within a rolling three-month period from 1 April and 30 September 2023.

iii) Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. Bank rate rose by 1.25% from 4.25% on 1 April to 5.25% by 30 September 2023. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates for 2023/24 are:

Interest rate risk indicator	Target Limit 2023/24
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.0m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1.0m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

Even after the incremental increases in the Bank Rate throughout the last year, the target limits for 2023/24 have been complied with for the mid-year period.

iv) Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. It is intended to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Lower Limit %	Upper Limit %	Fixed Rate Borrowing 30-Sep-23	Level %	Compliance with Set Limits
Under 12 months	0	50	7,407	8	Yes
12 months to 2 years	0	50	8,166	9	Yes
2 years to 5 years	0	50	26,059	31	Yes
5 years to 10 years	0	75	35,996	42	Yes
10 years to 20 years	0	100	2,009	2	Yes
20 years to 30 years	0	100	2,000	2	Yes
30 years to 40 years	0	100	3,000	3	Yes
40 years to 50 years	0	100	3,000	3	Yes

As suggested in the Code, fixed rate investments of less than 12 months and fixed rate borrowing with less than 12 months to maturity are regarded as variable rather than fixed rate investments and borrowings as their replacement could be subject to movements in interest rates. This principle has been applied in calculating the fixed and variable interest rate exposures on debt and investments. However, the borrowing with less than 12 months to maturity at 30 September 2023 is shown as fixed rate borrowing in the maturity structure.

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.

v) Principal Sums Invested for Periods Longer than a Year

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Risk Indicator	Target Limit 2023/24
Upper limit on principal invested beyond year end	£8.0m

The Council has complied with the limit during the period, with a total of £8.0m in long term investments as at 30 September 2023 consisting of:

- £2.0m invested in the CCLA Local Authorities' Property Fund (LAPF). Although the Council can theoretically redeem part or all of its holding in the fund by giving six months' notice as set out in 2(c), this is intended to be a long term investment.
- £2.0m invested in the CCLA Diversified Income Fund. Whilst this is intended to be a long term investment, two days' notice is required should this investment need to be repaid to the Council.
- £2.0m invested in the Royal London Enhanced Cash Plus Fund. Whilst this is intended to be a long term investment, should the Council require this to be repaid then it can be done with one day's notice.
- £2.0m invested in the Ninety-One Diversified Income Fund. The minimum recommended period for such an investment is three to five years. However, should this need to be repaid to the Council then it can be done with three days' notice.

APPENDIX 2

PRUDENTIAL INDICATORS

1. Introduction

The Local Government Act 2003 requires local authorities to comply with the Prudential Code for Capital Finance in Local Authorities when carrying out their capital budgeting and treasury management activities. Fundamental to this is the calculation of a number of prudential indicators, which provide the basis for the management and monitoring of capital expenditure, borrowing and investments. The indicators are based on the Council's planned and actual capital spending.

2. Capital Expenditure and Financing 2022/23

The Council undertakes capital expenditure on assets which have a long term value. These activities may either be:

- financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resulting impact upon the Council's borrowing need; or

- if insufficient financing is available or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

Actual capital expenditure forms one of the required prudential indicators. The following table shows the 2023/24 capital programme as at 16 October 2023 compared with the original estimate for the year across each area:

	2023/24 Original Estimate £000	2023/24 Estimate at 16/10/23 £000
Housing (HRA/GF) (including Housing Delivery)	20,485	32,831
Business Growth (including Stapleford Towns Fund, LUF and UKSPF)	11,368	15,940
Leisure and Health	0	8
Environment and Climate Change	1,228	1,767
Community Safety	0	29
Finance and Resources	366	1,620
Total	**33,447**	**52,195**

The change to the original estimate is largely accounted for by the carry forward of unspent capital budgets totalling £11.5m from 2022/23 plus additional budget allocations for HRA repairs and compliance works and housing acquisitions. Although this quarterly report is to 30 September 2023, the capital budgets include adjustments approved in early October for completeness as these show an increase in planned expenditure.

Excluded from the 2023/24 capital programme are schemes totalling £3.2m that are on a 'reserve list' to be brought forward for formal approval to proceed once a source of funding is identified.

The table below shows the planned capital expenditure up to 16 October 2023 and how this will be financed:

	Original Estimate 2023/24 £000	Original Estimate at 16/10/2023 £000
General Fund	13,762	20,846
HRA	19,685	31,349
Total Capital Expenditure	**33,447**	**52,195**
Financed by:		
Capital Receipts	2,498	4,580
Capital Grants	14,540	20,146
Revenue (including Major Repairs Reserve)	6,334	5,709
Unfinanced Capital Expenditure	**10,075**	**21,760**

The increase in the estimated use of capital receipts in year is primarily due to schemes carried forward from 2022/23 and the further use of HRA capital receipts to assist the financing of capital schemes in the Housing Delivery Plan.

It is anticipated that the schemes on the 'reserve list' would be financed from capital receipts received at a future date if available. Unfinanced capital expenditure will be met from additional borrowing as set out above.

3. Overall Borrowing Need

The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position and represents net capital expenditure that has not yet been paid for by revenue or other resources.

Part of the treasury management activity seeks to address this borrowing need, either through borrowing from external bodies or utilising temporary cash resources within the Council.

As set out in 1(a) in APPENDIX 1, the Council has not fully taken out the anticipated borrowing of £21.76m in respect of the planned capital expenditure for 2023/24 shown as unfinanced above. It is likely that some of this borrowing will be delayed until 2024/25 if there is significant slippage in the capital programme from 2023/24 into the following year. Any additional borrowing to be undertaken will seek to align the Council's overall borrowing level with the CFR. As at 30 September 2023, the Council has PWLB loans of £1.3m and £6.1m that are due to be repaid in 2023/24. These may be replaced, at least in part depending upon cash flows, with other borrowing before 31 March 2024.

The Council's CFR will next be calculated as at 31 March 2024 when the financing of actual capital expenditure incurred in 2023/24 will be undertaken. This will be reported to Cabinet in July 2024.

4. Prudential Indicators and Compliance Issues

Some of the prudential indicators provide either an overview or specific limits on treasury management activity. These are as follows:

i) Gross Borrowing Compared to the Capital Financing Requirement (CFR)

In order to ensure that borrowing levels are prudent over the medium term, the Council's external borrowing must only be for a capital purpose. Gross borrowing should not therefore, except in the short term, exceed the CFR. This indicator will be calculated at the end of 2023/24 and the result reported to Cabinet in July 2024. It is presently anticipated that the Council will comply with this indicator.

ii) Authorised Limit

This is the statutory limit determined under section 3(1) of the Local Government Act 2003 and represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which could be afforded in the short term to maximise treasury management opportunities and cover temporary cash flow shortfalls, but is unlikely to be sustainable over the longer term. The table below demonstrates up to October 2023, the Council has maintained gross borrowing within its authorised limit.

iii) Operational Boundary

This indicator is based on the probable external debt during the course of the year. The operational boundary is not a limit and actual borrowing can vary around the levels shown for short times. The operational boundary should act as an indicator to ensure the authorised limit is not breached and is a key management tool for in year monitoring of treasury management activities by the Deputy Chief Executive.

	Values £000
Authorised Limit for Borrowing	121,000
Operational Boundary for External Debt	96,800
*Maximum Gross Borrowing (April to September 2023)	**88,074**

The maximum external debt in the period from April to September 2023 represents the gross borrowing figures as set out in 1(a) and includes the loan received from Bramcote Crematorium during this period.

iv) Proportion of Financing Costs to Net Revenue Stream

This indicator compares net financing costs (borrowing costs less investment income) to net revenue income from revenue support grant, business rates, housing revenue account subsidy, council tax and rent income. The purpose of the indicator is to show how the proportion of net income used to pay for financing costs is changing over time. The indicator will be calculated for 2023/24 at the end of the financial year and reported to Cabinet in July 2024.