Appendix 1

Treasury Management Activity 2023/24

1. Borrowing

a) Debt Outstanding and Transactions during the Year

The amount of loan debt outstanding as at 31 March 2024, together with comparative figures for the previous year, is summarised in the table below:

	Amount Outstanding at 31-Mar-23 £	Amount Outstanding at 31-Mar-24 £
Short Term Loans	7,843,866	8,523,227
Long Term Loans:		
Public Works Loan Board (PWLB)	77,230,304	84,064,429
Local Authorities	-	-
Barclays Bank	3,000,000	3,000,000
TOTAL	**88,074,170**	**95,587,656**

This level of borrowing can be considered in the context of the assets held by the Council. The last valuation used for the Balance Sheet on 31 March 2024 showed that the Council held fixed assets with a total value of £269.9m. This included General Fund assets at £40.4m and Housing Revenue Account (HRA) assets at £225.5m [the market valuation of dwellings is estimated at £537m] and assets under construction at £4.0m. This compares favourably with the debt portfolio totalling £95.8m as at 31 March 2024.

The Local Government Act 2003 requires local authorities to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out its capital budgeting and treasury management activities. The objectives of the Prudential Code are to ensure that local authority **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. These indicators are considered further below at **appendix 2**.

b) Short Term Loans

There was no new short term borrowing loans from other local authorities during 2023/24.

The majority of short-term loans outstanding at 31 March 2024 are long-term PWLB loans, totalling £8.150m, which are now due to mature within the next 12 months. Short term loans also include nominal PWLB annuities due for repayment in 2024/25 totalling £16k (2023/24 was £14k).

Short term loans outstanding also included £357k invested with the Council by the Bramcote Bereavement Services Joint Committee. The equivalent figure was £430k as at 31 March 2023.

c) Long Term Loans

All of the Council's long term loans are currently borrowed from the PWLB, with the exception of a loan of £3.0m at 4.19% with Barclays Bank that is due to mature on 4 February 2073. The majority of the balance of long-term loans from the PWLB comprises the £61.446m borrowed on 28 March 2012 as part of the reform of council housing finance.

New long-term loans received from the PWLB in 2023/24 comprised of

- £2.0m borrowed on 19 December 2023 for six years at 4.28%
- £2.0m borrowed on 21 December 2023 for seven years at 3.99%
- £3.0m borrowed on 26 March 2024 for eight years at 4.38%
- £3.0m borrowed on 26 March 2024 for nine years at 4.43%
- £2.0m borrowed on 27 March 2024 for nine years at 4.36%
- £2.0m borrowed on 27 March 2024 for 10 years at 4.42%
- £1.0m borrowed on 28 March 2024 for seven years at 4.24%.

PWLB loans maturing in the year included £1.3m from 1998 at 5.88% on 2 December 2023 and £6.1m from 2012 at 2.70% on 28 March 2024.

As referred to above, there is a movement of £8.15m in the long term PWLB loans to reflect the re-classification to short term loans as at 31 March 2024 as these will be repaid within the next 12 months.

d) Borrowing Strategy

Overall, debt was 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 the Council's borrowing at the most efficient level in line with the prudential framework for capital finance.

The approved budget for 2023/24 indicated that further prudential borrowing of £22.7m would be required to help finance the revised 2023/24 capital programme. A total of £7.6m of additional external borrowing was actioned with the potential need for additional funds to be re-profiled in line with a revised capital programme in the medium term.

e) Debt Profile

The Council's debt had an average of 8.12 years to maturity at 31 March 2024, compared to 8.41 years on 31 March 2023. The average interest rate payable in the year was 3.39% (2022/23 - 3.22%).

The one-off preferential rates offered by the PWLB for the £66.446m additional loans taken out in March 2012 continue to have a substantial impact upon both the average interest rate payable and the debt profile.

f) Debt Restructuring

The Deputy Chief Executive and Section 151 Officer, in association with the Council's treasury management advisors, Arlingclose, carefully scrutinise the Council's loan portfolio to identify potential opportunities to achieve a reduction in risks and/or savings in interest costs by prematurely repaying loans and refinancing them on similar or different terms.

No suitable debt restructuring opportunities were identified in 2022/23 as the cost associated with premiums payable on the premature repayment of loans could not be offset by lower refinancing rates.

2. Investments

a) Investment Policy

The Council's Investment Policy is governed by guidance from Central 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 investment activity during 2023/24 conformed to the approved strategy with security of capital being the Council's main investment objective.

Counterparty credit quality was assessed and monitored with reference to credit ratings and other available information. The minimum long-term counterparty credit rating determined for the investment strategy was the Long Term A- (or equivalent) rating from the Fitch, Moody's and Standard and Poor credit rating agencies.

In keeping with Central Government guidance, the Council sought to maintain a sufficient level of liquidity through the use of money market funds (MMF) and overnight deposit and call accounts. The Council had no liquidity difficulties in 2023/24.

b) Interest Received

The total interest receivable for the year amounted to £1.122m (compared to £655k in 2022/23). This includes interest from the following long-term investments:

- Interest of £90k from a £2.0m investment with the CCLA Local Authorities Property Fund (LAPF) (£80k 2022/23);
- Interest of £66k from a £2.0m investment with the CCLA Diversified Income Fund (£58k in 2022/23) [Note from 16 February 2024 this fund merged with the Better World Cautious Fund]; and
- Interest of £83k from a £2.0m investment in the Ninety-One Diversified Income Fund (£77k in 2022/23).

The table below in 3c includes details of the changes in the average life of investments during 2023/24.

The average interest rate received on investments in 2023/24 was 4.73% (2.33% in 2022/23). The UK Bank Rate increased a number of times during 2023/24, ranging from 4.50% in May 2023 to 5.25% in August 2023, where it has since remained constant (compared to starting 2022/23 at 0.75% and increasing to 4.25% in March 2023). This increase was reflected in short-term money market rates with a corresponding impact on investment income. The rates of return on investments also continues to reflect the priorities of security and liquidity before yield.

c) Investments Placed

A summary of all investments placed in 2022/23 is set out below.

	Average Credit score	Balance at 01-Apr-23 £000s	Investment Made £000s	Investment Repaid £000s	Balance at 31-Mar-24 £000s	Movement £000s
UK Banks and Building Societies						
Santander UK	A+	-	1,300	(1,300)	-	-
Local Authorities	A+	-	-	-	-	-
Money Market Funds						
Aberdeen	AAA	-	33,350	(31,350)	2,000	2,000
Legal & General (LGIM)	AAA	-	22,280	(20,280)	2,000	2,000
Federated	AAA	-	34,260	(32,440)	1,820	1,820
Public Sector Deposit Fund	AAA	4,590	5,075	(9,665)	-	(4,590)
DMADF	AAA	-	13,680	(13,680)	-	-
Other Funds						
Royal London Enhanced Cash Plus Fund	AA	2,000	-	-	2,000	-
Ninety One Diversified Income Fund	AA	2,000	-	-	2,000	-
CCLA Diversified Income Fund	AA	2,000	-	-	2,000	-
CCLA Property Fund	AA	2,000	-	-	2,000	-
Total		**12,590**	**109,945**	**(108,715)**	**13,820**	**(1,230)**

Investments with counterparties such as the Money Market Funds are set up as individual accounts where funds can be placed short-term (often overnight) and monies withdrawn as and when required. This increases the volume and value of investments made with these institutions during the year.

Money Market Fund credit ratings are indicative only due to the disparate investment strategies utilised by the funds.

d) Credit Score Analysis

Counterparty credit quality has been maintained in accordance with the approved Treasury Management Strategy. No investments were made with institutions where the credit rating exceeded a score of 7. All deposits were made with institutions achieving an average score of 5 or better.

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

3. Treasury Management Limits on Activity

There are four treasury management indicators that were previously prudential indicators. The indicators are:

- Upper limits on fixed rate exposure – This indicator identifies a maximum limit for fixed interest rates based upon the debt position net of investments.
- Upper limits on variable rate exposure – Similar to the previous indicator this covers a maximum limit on variable interest rates.
- Maturity structures of fixed rate borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.
- Total principal funds invested for periods longer than one year – These limits aim to reduce the risk of long-term investments needing to be realised before their natural maturity dates due to cash flow requirements, which could result in the investment being realised when market conditions are unfavourable.

The purpose of these indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk of an adverse movement in interest rates impacting negatively on the Council's overall financial position.

	2023/24 Planned Upper		2023/24 Actual 31-Mar-24	
Limits on fixed interest rates	100%		91%	
Limits on variable interest rates	40%		9%	
Maturity Profile of Borrowings	Lower	Upper	Lower	Upper
Under 12 months	0%	50%	0%	9%
12 months to 2 years	0%	50%	0%	9%
2 years to 5 years	0%	50%	0%	26%
5 years to 10 years	0%	75%	0%	46%
10 years to 20 years	0%	100%	0%	2%
20 years to 30 years	0%	100%	0%	5%
30 years to 40 years	0%	100%	0%	0%
40 years to 50 years	0%	100%	0%	3%
50 years and above	0%	100%	0%	0%

The CIPFA Prudential Code for Capital Finance in Local Authorities requires indicators to be set for the maturity structure of fixed borrowing only. The above limits applied equally to total borrowing (fixed and variable borrowing).

As suggested in the CIPFA Code of Practice on Treasury Management, all investments (whether fixed or variable rate) with a period of less than twelve months to maturity are regarded as variable rather than fixed rate investments as they are potentially subject to movements in interest rates when they mature. Likewise, any fixed rate borrowing that is due to mature within twelve months is regarded as being at a variable rate as the rate to be paid on any replacement loan could differ from the rate currently being paid.

With regard to the total principal funds invested, the investment strategy 2023/24 proposed that investments would only be made with those institutions on the counterparty list that were viewed as presenting the least risk.

At 31 March 2024 the Council's investments with a duration more than one-year totalled £8.0m. This consisted of £2.0m invested in the Royal London Enhanced Cash Plus Fund; £2.0m invested in the CCLA Local Authorities Property Fund (LAPF); £2.0m invested in the CCLA Diversified Income Fund (BWCF); and £2.0m invested in the Ninety-One Diversified Income Fund.

4. Regulatory Framework, Risk and Performance

The Council has complied with all of the relevant statutory and regulatory requirements which require the Council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. In particular, the Council's adoption of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities means that its capital expenditure is prudent, affordable and sustainable and that its treasury management practices demonstrate a low risk approach.

5. Money Market Brokers

The Treasury Management Strategy Statement 2023/24 to 2025/26, approved by Cabinet on 7 February 2023 and by Council on 1 March 2023, included details of the external money market brokers to be used for Treasury Management.

- Tradition (UK) Limited of Beaufort House, 15 St Botolph Street, London EC3A 7QX
- Sterling International Brokers of 1 Churchill Place, Canary Wharf, London. E14 5RD
- Martins Brokers (UK) Limited of 20th Floor, 1 Churchill Place, Canary Wharf, London E14 5RD
- King and Shaxson Limited of 6th Floor, 120 Cannon Street, London. EC4N 6AS
- Imperial Treasury Services of 25 St Andrew Street, Hertford. SG14 1HZ

Whilst the treasury management advisors, Arlinglose, provide support to the internal treasury function, market rules and the CIPFA Treasury Management Code confirms that the final decision on treasury management matters rests with the Council. The service provided by the Council's treasury management advisors is subject to regular review.

Appendix 2

Prudential Indicators 2023/24

1. Introduction

The Local Government Act 2003 requires local authorities to comply with the CIPFA 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 2023/24

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 table below shows the actual capital expenditure and how this was financed.

	2022/23 Actual £000s	2023/24 Actual £000s
General Fund	5,208	5,063
HRA	8,687	12,814
Total Capital Expenditure	**13,895**	**17,877**
Financed by:		
Capital Receipts	829	2,405
Capital Grants	2,527	3,725
Other	3,990	4,836
Unfinanced Capital Expenditure	**8,753**	**6,911**

Further details of capital expenditure are included in the Statement of Accounts Update and Outturn Position 2023/24 report elsewhere on this agenda.

3. The Council's 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 in 2023/24 and prior years that has not yet been paid for by revenue or other resources.

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

Whilst additional borrowing can be undertaken or existing loans repaid at any time within the confines of the treasury management strategy, the Council is required by statute to make an annual revenue charge to reduce the CFR. This charge is effectively a repayment of the General Fund borrowing need and is known as the minimum revenue provision (MRP).

The total CFR can also be reduced by the application of additional capital resources, such as unapplied capital receipts, and/or charging more than the MRP statutory revenue charge each year through a voluntary revenue provision (VRP).

The Council's 2023/24 MRP Policy, as required by Central Government guidance, was approved by Cabinet on 7 February 2023. For expenditure incurred before 1 April 2008, the General Fund MRP was based upon 4% of the CFR at that date utilising a reducing balance approach. For all unsupported borrowing incurred since 1 April 2008, the MRP was based upon the estimated life of the assets that the borrowing was intended to finance using an annuity based, as opposed to equal instalment, approach to more accurately reflect the time value of money.

Whilst there is no statutory requirement to charge MRP to the HRA, a local authority can charge VRP to the HRA should it wish to do so. No VRP was to be charged to the HRA in 2023/24

The Council's CFR for 2023/24 represents a key prudential indicator and is shown below.

Capital Financing Requirement (CFR)	General Fund £'000	HRA £'000	Total £'000
Opening Balance at 1 April 2023	**29,416**	**84,010**	**113,426**
Add: Unfinanced Capital Expenditure 2023/24	1,769	5,142	6,911
Less: MRP/VRP in 2023/24	(1,220)	0	(1,220)
Closing Balance at 31 March 2024	**29,965**	**89,152**	**119,117**

4. Treasury Position as at 31 March 2024

Whilst the Council's gauge of its underlying need to borrow is the CFR, the Deputy Chief Executive and Section 151 Officer can manage the Council's actual borrowing position by either:

- Borrowing to the CFR; or
- Choosing to utilise some temporary internal cash flow funds in lieu of borrowing (under borrowing); or
- Borrowing for future increases in the CFR (borrowing in advance of need)

The figures in this report are based upon the principal amounts borrowed and invested and so may differ from those in the final accounts by items such as accrued interest.

The Deputy Chief Executive and Section 151 Officer managed the debt position in 2023/24 by, on occasions, choosing to utilise some temporary internal cash flow funds in lieu of additional borrowing.

The borrowing position at 31 March 2024 compared with the previous year was:

Actual Borrowing Position	Principal 31-Mar-23 £000s	Av. Rate	Principal 31-Mar-24 £000s	Av. Rate
Fixed Interest Rate Debt	87,645	3.22%	95,231	3.39%
Variable Interest Rate Debt	0	-	0	-
Total Debt	**87,645**	**3.22%**	**95,231**	**3.39%**
Capital Financing Requirement				
CFR – General Fund	29,416		29,965	
CFR – HRA	84,010		89,152	
Total Capital Financing Requirement	**113,426**		**119,117**	
Over/(Under) Borrowing	**(25,781)**		**(23,886)**	

5. 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 and the Capital Financing Requirement (CFR)

In order to ensure that over the medium term gross borrowing will only be for a capital purpose, the Council needs to ensure that its gross borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional increases to the CFR for the current and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes. The table below highlights the Council's gross borrowing position against the CFR.

	31-Mar-23 Actual £'000	31-Mar-24 Actual £'000
Gross Borrowing		
- PWLB and Market	87,645	95,231
- Bramcote Crematorium	430	357
Gross Borrowing Position	**88,075**	**95,588**
Capital Financing Requirement (CFR)		
CFR – General Fund	29,416	29,965
CFR – HRA	84,010	89,152
Total CFR	**110,582**	**119,117**

The Deputy Chief Executive and Section 151 Officer reports that gross borrowing was below the CFR at 31 March 2024, as it was at 31 March 2023.

There was a net increase of £7.586m in PWLB loans in 2024/25. This was due to two maturity loans being repaid totalling of £8.150m and annuity repayments of £14k. These were offset by seven new PWLB loans totalling £15.0m taken between December 2023 and March 2024 to refinance maturing debt, to provide additional prudential capital borrowing and to replace internal borrowing. There was no change in the level of money market and local authority loans during 2023/24.

The additional borrowing undertaken in 2023/24 was intended to bring greater alignment between the overall borrowing level and the Council's underlying need to borrow as measured by the CFR, replacing some previous internal borrowing. The decrease in borrowing from Bramcote Bereavements Services Joint Committee in 2023/24 reflects the reduction in available surplus when compared with previous years.

The CFR increase shown here is analysed in section 3 above.

As stated above, gross borrowing at 31 March 2024 was below the CFR and it is anticipated that gross borrowing will continue to be below the CFR over the current and following two financial years. Any borrowing decisions will take account of the effect upon the total CFR.

ii) Authorised Limit and Operational Boundary for External Debt

The authorised limit is a 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 that during 2023/24 the Council has maintained gross borrowing within its authorised limit.

The operational boundary 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 and Section 151 Officer.

Actual external debt is gross borrowing plus other long-term liabilities. As mentioned previously, gross borrowing includes sums invested with the Council by the Bramcote Bereavement Services Joint Committee. Other long-term liabilities are liabilities outstanding (other than borrowing) in relation to the financing of capital expenditure. They relate to, for example, private finance initiative (PFI) credits or finance leases. The Council did not have such long-term liabilities at any stage during 2023/24.

	Operational Boundary 31-Mar-24 £000	Authorised Limit 31-Mar-24 £000	Actual External Debt 31-Mar-24 £000
Borrowing	96,540	120,650	95,231
Other Long-Term Liabilities	0	0	0
Total	96,540	120,650	**95,231**

The Deputy Chief Executive and Section 151 Officer reports that there were no breaches of the authorised limit during 2023/24. The maximum level of borrowing during 2023/24 was £100.3m for one-day (27 March 2024).

iii) Total Principal Sums Invested for More than One Year

This limit is intended to contain exposure to the possibility of any loss that may arise as a result of the Council having to seek early repayment of any investments made. If an investment has to be re-paid before its natural maturity date due to cash flow requirements then, if market conditions are unfavourable, there could be an adverse impact upon the Council.

The Council's policy for 2023/24 as set out in the annual investment strategy was to retain the flexibility to invest a proportion of its available balances for a period in excess of one year should credit conditions continue to show signs of stabilisation or improvement. An estimated amount of £8 million was identified in the strategy as being available for longer term investment. Details of sums invested over more than one year are identified in section 4 of **appendix 1**.

iv) Ratio of Financing Costs to Net Revenue Stream

This indicator as shown in the table below compares net financing costs (borrowing costs less investment income) to net revenue income from business rates, 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.

	2022/23 Actual	2023/24 Actual
General Fund	10.1%*	4.7%*
HRA	14.5%	13.8%

Note* - The General Fund indicator has been re-stated to exclude Collection Fund Surplus/Deficits which are timing issues for the General Fund, rather than a regular revenue funding stream.

The improvement in the General Fund performance reflects the significant additional investment interest income received in 2024/25. This was as a result of positive cash flow management, lower than anticipated spend on the capital programme and movements in interest rates during the year. If investment income does stabilise going forward, it is likely that this ratio for the General Fund will return to earlier levels at around 14.0% in future years

The improvement in the HRA performance again reflects the significant additional investment interest income received in 2024/25. This was slightly offset by an increase in prudential borrowing costs in year.