Appendix 1

Treasury Management Activity 2024/25 (Q3)

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 2024/25 was approved at the Cabinet meeting on 6 February 2024. 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. External Context

Economic Background:

The Chancellor of the Exchequer delivered her Autumn Budget at the end of October. Based on the plans announced, the Office for Budget Responsibility (OBR) reported the plans would provide a short-term boost to GDP growth before weakening further out and push inflation higher over the medium-term. This change to the economic and inflation outlook caused financial markets to readjust expectations of the Bank of England (the 'Bank') Bank Rate and gilt yields higher. The Council's treasury management advisor, Arlingclose, also revised its interest rate forecast upwards in November, with Bank Rate expected to eventually fall to 3.75%.

UK annual Consumer Price Index (CPI) inflation remained above the Bank's 2% target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices rose 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, and remained elevated at 3.6% in November against a forecast of 3.5% and compared to 3.3% in the previous month.

The labour market continued to loosen, but the ONS data still requires treating with some caution. Recent figures reported that the unemployment rate rose to 4.3% (3 month/year) in the three months to October 2024 and economic inactivity fell to 21.7%. The ONS reported pay growth over the same three-month period at 5.2% for both regular earnings (excluding bonuses) and for total earnings.

The Banks's Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous cut from the 5.25% peak at the August MPC meeting. At the December meeting, six MPC members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%. The meeting minutes suggested a reasonably dovish tilt to rates with the outlook for economic growth a concern among policymakers as the Bank downgraded its Q4 GDP forecast from 0.3% to 0.0%.

The November Monetary Policy Report (MPR) showed the Bank expected GDP growth to pick up to around 1.75% in the early period of the forecast horizon before falling back. The impact from the government's autumn budget will push GDP higher in 2025 than was expected in the August MPR, before becoming weaker. The outlook for CPI inflation shows it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by mid-2025. Over the medium-term, once the near-term pressures eased, inflation was expected to stabilise around the 2% target. The unemployment rate was expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

Arlingclose maintained its central view that Bank Rate would continue to fall from the 5.25% peak. From the first cut in August 2024, followed by the next in November which took Bank Rate to 4.75%, the February 2025 meeting is deemed the most likely for the next reduction, with other cuts following steadily in line with MPR to take Bank Rate down to around 3.75% by the end of 2025.

The US Federal Reserve continued cutting interest rates during the period, reducing the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25% to 4.50%, marking the third consecutive reduction. Further interest rate cuts are expected into 2025, but uncertainties around the potential inflationary impact of President Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

The European Central Bank (ECB) also continued its rate cutting cycle, reducing its three key policy rates by 0.25% in December. Eurozone inflation rose above the ECB 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2.0% in the previous month. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

Financial markets:

Financial market sentiment was generally positive over the period, but economic, financial and geopolitical issues meant the ongoing trend of bond yield volatility remained. In the last few months, there was a general rising trend in yields due to upwardly revised interest rate and inflation expectations, causing gilt yields to end the period at substantially higher levels to where they began.

Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at a high of 4.57%, having reached a low of 3.76% in mid-September. While the 20-year gilt started at 4.40%, ended at a high of at 5.08% and hit a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.01% over the period to 31 December 2024.

Credit review*:*

In October, Arlingclose revised its advised recommended maximum unsecured duration limit on most banks on its counterparty list to six months. Duration advice for the remaining five institutions, including the newly added Lloyds Bank Corporate Markets, was kept to a maximum of 100 days.

Fitch revised the outlooks on Royal Bank of Scotland, NatWest Markets PLC, and National Westminster Bank to positive from stable, while affirming their long-term ratings at A+.

Moody's upgraded the ratings on National Bank of Canada to Aa2 from Aa3, having previously had the entity on Rating Watch for a possible upgrade. Moody's also upgraded the ratings on The Co-operative Bank to A3 (from Baa3) and downgraded the ratings on Coventry Building Society to A3 (from A2) and Canada's Toronto-Dominion Bank to Aa2 (from Aa1).

S&P also downgraded Toronto-Dominion Bank, to A+ from AA-, but kept the outlook at stable.

Credit default swap prices were generally lower at the end of the period compared to the beginning for most of the names on UK and non-UK lists. Price volatility over the period also remained generally more muted compared to previous periods.

Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remain under constant review.

3. Borrowing

a) Debt Activity in Year

The loan debt outstanding as at 31 December 2024 compared to the opening position as at 1 April 2024 is shown below:

Loan Type	Amount Outstanding 01/04/24 £'000	Amount Outstanding 31/12/2024 £'000
Short Term Loans:		
Bramcote Crematorium	357	400
Money Market Loans	-	-
Public Works Loan Board	8,166	8,701
Long Term Loans:		
Money Market Loans	3,000	3,000
Public Works Loan Board	84,064	92,922
Total	**95,587**	**101,623**

This level of borrowing should be considered in the context of the assets held by the Council. The latest valuation used for the Balance Sheet on 31 March 2024 showed that the Council held fixed assets with a total value of £302m. This included General Fund assets at £41m and Housing Revenue Account (HRA) assets at £261m. **The market valuation of Council dwellings is estimated at £620m**. This compares favourably with the current debt portfolio.

b) Loans

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 2024 and has not taken on any new money market loans in the year to date.

Two PWLB loans of £556k and £94k are due to mature on 1 March 2025 with a further PWLB loan of £7.5m due to mature on 28 March 2025. 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. Opening short term loans as at 1 April 2024 also included PWLB annuities of £16k. A sum of £8k was repaid on 13 September 2024 and the remaining £8k is due for repayment on 13 March 2025.

Short term loans as at 1 April 2024 also included £350k invested with the Council by Bramcote Crematorium. A further £400k had been invested by Bramcote Crematorium by 31 December 2024. A withdrawal was made to allow for a distribution of £400k to the two constituent authorities (Broxtowe and Erewash) on 30 September 2024.

The major element of the long-term loans from the PWLB relate to 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 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, another for £6.1m repaid in 2023/24 and one for £7.5m due to be paid in March 2025.

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 2024/25 Capital Programme (including in-year amendments approved by Cabinet) indicates that borrowing of £26.9m 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) Debt Rescheduling

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 2024/25.

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

Long-term Debt

The Council's long-term debt had an average of 7.20 years to maturity at 31 December 2024 (31 March 2024 was 8.12 years). The average interest payable at that date was 4.72% (31 March 2024 was 4.73%).

Short-term Borrowing

Short-term borrowing comprises the continuing loan from the Bramcote Crematorium Joint Committee and the loans outlined further above.

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 6 February 2024. 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 2024/25 to date conformed to the approved strategy. The Council had no security or liquidity difficulties.

b) Interest Received

The total interest receivable for the period ended 31 December 2024 amounted to £599k at an average rate of 4.73% (compared to £696k at 4.69% to 31 December 2023). This was linked to 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.

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 5.01%

The LIBOR interest rate was the average interbank interest rate at which many banks on the London Money Market are prepared to lend one another in unsecured funds denominated GBP. This has been permanently ceased from 1 October 2024 and the Secured Overnight Financing Rate (SOFR) is used instead. This is a benchmark interest rate for dollar-denominated derivatives and loans, but this is mostly used by USA whilst the UK prefers to use SONIA.

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 (£23,500)
- CCLA Better World Cautious Fund (BWCF) – £2.0m (£14,600)
- Royal London Enhanced Cash Plus Fund – £2.0m (£22,100)
- Ninety-One Diversified Income Fund – £2.0m (£7,400)

The £2.0m invested in the CCLA Local Authorities' Property Fund (LAPF) had a dividend yield of 1.10% 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 31 December 2024 is set out in the following table:

	Balance at 01/04/24 £'000	Invests Made £'000	Invests Repaid £'000	Balance at 31/12/24 £'000	Net Change £'000
Short-Term					
Aberdeen MMF	2,000	36,100	(33,280)	4,820	2,820
Insight MMF	-	-	-	-	-
LGIM MMF	2,000	20,200	(17,310)	4,890	2,890
Federated MMF	1,820	40,560	(39,330)	3,050	1,230
PSDF	-	11,080	(6,080)	5,000	5,000
DMADF	-	4,230	(4,230)	-	-
Long-Term					
Royal London Cash Plus	2,000	-	-	2,000	-
Diversified Income Fund	2,000	-	-	2,000	-
LA Property Fund	2,000	-	-	2,000	-
Ninety-One DIF	2,000	-	-	2,000	-
Total	**13,820**	**112,170**	**(100,230)**	**25,760**	**11,940**

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 2024/25 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
30/09/2024	5.04	A+	5.04	A+
31/12/2024	4.94	A+	4.94	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) <u>Risk Benchmarking</u>

The Investment Strategy 2024/25 to 2026/27 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 31 December 2024 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 31 December 2024:

- The average rate achieved by the Council was 4.73% which was marginally below the SONIA average 1-day rate of 5.01%. 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) <u>Counterparty Update</u>

The Deputy Chief Executive and Section 151 Officer 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 further 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 and Section 151 Officer.

Any such changes to the Investments Strategy will be made by the Chief Executive exercising urgency 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 2024/25
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 31 December 2024.

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 2024/25
Total cash available within 3 months	£10.0m

The Council has complied with this indicator by maintaining an average of £19.8m in cash available to meet unexpected payments within a rolling three-month period from 1 April and 31 December 2024.

iii) Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. Bank rate dropped by 50 basis points from 5.25% on 1 April to 4.75% by 31 December 2024. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates for 2024/25 are:

Interest rate risk indicator	Target Limit 2024/25
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 2024/25 have been complied with for Q3.

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 31-Dec-24	Level %	Compliance with Set Limits
Under 12 months	0	50	8,301	8	Yes
12 months to 2 years	0	50	9,203	9	Yes
2 years to 5 years	0	50	25,323	25	Yes
5 years to 10 years	0	75	45,110	45	Yes
10 years to 20 years	0	100	5,285	5	Yes
20 years to 30 years	0	100	5,000	5	Yes
30 years to 40 years	0	100	0	0	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 31 December 2024 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 2024/25
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 31 December 2024 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 Better World Cautious 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 2024/25

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 2024/25 Capital Programme as at 31 December 2024 compared with the original estimate for the year across each area:

	2024/25 Original Estimate £'000	2024/25 Estimate at 31/12/2024 £'000
Housing (HRA/GF) (including Housing Delivery)	18,555	34,075
Business Growth (including Stapleford Towns Fund, LUF and UKSPF)	13,218	23,083
Leisure and Health	0	1,039
Environment and Climate Change	2,159	4,088
Community Safety	0	19
Finance and Resources	296	1,642
Total	**34,228**	**63,946**

The change to the original estimate is largely due to bringing forward unspent capital budgets totalling £38m from 2023/24.

Excluded from the 2024/25 Capital Programme are schemes totalling £4.1m 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 31 December 2024 and how this will be financed:

	Original Estimate 2024/25 £'000	**Revised Estimate at 31/12/2024 £'000**
General Fund	17,755	31,516
HRA	16,472	32,430
Total Capital Expenditure	**34,227**	**63,946**
Financed by:		
Capital Receipts	990	2,890
Capital Grants	15,536	30,780
Revenue (including Major Repairs Reserve)	4,860	4,085
Unfinanced Capital Expenditure	**12,841**	**26,191**

The increase in the estimated use of capital receipts in year is primarily due to schemes carried forward from 2023/24 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 **Appendix 1**, the Council has not fully taken out the anticipated borrowing of £26.9m in respect of the planned capital expenditure for 2024/25 shown as unfinanced above. It is likely that some of this borrowing will be delayed until 2025/26 if there is significant slippage in the capital programme from 2024/25 into the following year. Any additional borrowing to be undertaken will seek to align the Council's overall borrowing level with the CFR. The Council has three PWLB loans of £556k, £94k and £7.5m value that are due to be repaid in 2024/25. These may be replaced, at least in part depending upon cash flows, with other borrowing before 31 March 2025.

The Council's CFR will next be calculated as at 31 March 2025 when the financing of actual capital expenditure incurred in 2024/25 will be undertaken. This will be reported to Cabinet in July 2025.

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 2024/25 and the result reported to Cabinet in July 2025. 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 December 2024 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 2024/25 at the end of the financial year and reported to Cabinet in July 2025.