TRAFFORD COUNCIL

Report to:	**Accounts & Audit Committee – 23rd November 2023** **Executive – 11th December 2023**
Report for:	**Information**
Report of:	**The Executive Member for Finance and Governance and the Director of Finance and Systems**

Report Title

Treasury Management 2023-24 Mid-Year Performance Report

Summary

This report gives Members a summary of the Treasury Management activities undertaken for the first half of 2023/24 as follows;

Debt Activity:

- The level of external debt fell from £318.1m at 31 March to £303.1m at 30 September 2023,
- Gross loan interest costs totalling £8.4m are to be contained within the current year budget provision,

Investment Activity:

- The level of investments reduced from £70.4m at 31 March to £69.4m at 30 September 2023,
- Estimated external investment interest to be earned for 2023/24 of £3.39m is £0.97m above the £2.42m current year budget requirement,
- The average rate of return achieved during the period April to September 2023 was 4.72%, or 0.14% below the comparable performance indicator of average 1 Month Sterling Overnight Index Average (SONIA) interest rate of 4.86%.

Prudential indicators:

- The Council complied with its legislative and regulatory requirements and
- There were no breaches of prudential indicators.

Recommendations

That the Accounts & Audit Committee & Executive be requested to:

1. Note the Treasury Management activities undertaken in the first half of 2023/24.

Contact person for background papers and further information:

Name: Frank Fallon

Background papers: None

Relationship Corporate Priorities	Value for Money
Relationship to GM Policy or Strategy Framework	Not applicable
Financial	Treasury Management impacts on the Council's budget in terms of borrowing costs and investment returns. As part of the Council's bi-monthly Revenue monitor reports, the P6 monitor reported an estimated surplus for 2023/24 of £3.64m against the original budget of £2.30m. This surplus will contribute towards the Council's overall budget position.
Legal Implications:	Treasury Management activities are subject to requirements detailed in legislation, Department for Levelling Up, Housing and Communities (DLUHC) guidance, Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and Treasury Management Code of Practice. The report sets out details of compliance in respect of these requirements.
Equality/Diversity Implications	All treasury management transactions undertaken by the Council are carried out with institutions with no known direct links to any illegal regimes or which promote the use of forced labour
Sustainability Implications	The Council, when undertaking any treasury management investment fully supports the ethos of socially responsible investments and will avoid direct investment in institutions with material links to environmentally harmful activities. Opportunities to invest monies in products which both supports sustainable assets and complies with the Council's investment strategy will continue to be explored as and when they become available.
Carbon Reduction	Not directly applicable – See above
Staffing/E-Government/Asset Management Implications	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the systems and procedures for this function which are independently tested on a regular basis. Failure to properly manage and monitor the Council's loans and investments could lead to service failure and a loss of reputation. No Treasury Management activity is without risk and the Council's in-house team continually monitor risks to ensure that security of capital sums is maintained at all times and adverse fluctuations in interest rates are avoided.
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

Executive Summary

This report provides Members with a summary of the treasury management activities undertaken during the first half year of 2023/24.

Economic position (Section 2)

- Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.2%.
- Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in September 2023.
- The Monetary Policy Committee (MPC) has increased the Bank Rate since March 2023 from 4.25% to the current level of 5.25%.

Debt (Section 5)

- Total loan debt fell from £318.1m 31.03.2023 to £303.1m 30.09.2023 a net decrease of £15.0m comprising of:
    - £0.1m Public Works Loan Board (PWLB) and £15.0m of Lender's Option Borrower's Option (LOBO) loans repayments.
    - There were no new loans taken during this period.
- Total loan interest of £8.4m is forecasted to be paid in the year of which £3.7m relates to the Council's capital Strategic Investment Programme and is funded from rental income received. The balance of £4.7m relates to debt taken to fund historical and current capital spend.
- The average rate of interest payable at 31.03.2023 of 2.63% has reduced to 2.55% at 30.09.2023.

Investments (See Section 6)

- The level of investments reduced from £70.4m at 31.03.2023 to £69.4m at 30.09.2023 a net movement of £1.0m.
- The Rate of Return for all investments during the first half of 2023/24 was 4.72% which is below the recognised performance indicator of the 1 month SONIA which was 4.86%. The reason for the underperformance is that the short-term investments we had earlier in the year were at the low rates available at the time. As the year has progressed rates have increased and at 30 September we are now seeing an average weighted investment return of 5.15%, 0.29% above the SONIA benchmark.
- Estimated external investment interest to be earned for 2023/24 of £3.39m is £0.97m above the £2.42m current year budget requirement
- All investments were repaid on time without issue and placed in accordance with the Council's approved strategy.

Prudential Indicators and limits (Section 8)

- No breaches to any of these limits occurred during this period.

1. BACKGROUND

1.1 This report has been produced in accordance with the requirements of the CIPFA Code of Practice on Treasury Management (2017) which stipulates that the Council receives 3 separate Treasury Management reports on an annual basis as follows;

- 3 year Strategy Statement including the Annual Investment Strategy and Minimum Revenue Provision Policy (issued February),
- Mid-year Review (this report) and
- Performance update, covering activities undertaken during the previous financial year

1.2 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it highlights the treasury management activities undertaken during the first half year of 2023/24.

1.3 For reference CIPFA has defined treasury management as:

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

1.4 This report comprises of the following sections:

- Major Economic Headlines (Section 2);
- Interest Rates (Section 3);
- Treasury Position (Section 4);
- Borrowing Position (Section 5);
- Investment Position (Section 6);
- Risk Benchmarking (Section 7);
- Prudential and Performance indicators (Section 8);
- Outlook 2022/23(Section 9);
- Recommendations (Section 10);

1.5 The treasury management operation ensures;

- The Council's cash flows are well planned and funded,
- That all surplus monies are invested in low risk counterparties, providing sufficient liquidity before considering investment return,
- All new borrowing required for managing the financing of the Council's multi-million pound capital programme is taken in the form of either long or short term loans or using longer term cash flow surpluses and
- That debt previously taken is restructured when opportunities arise to meet Council risk or cost objectives.

1.6 The Treasury Management Strategy Statement, for 2023/24 was approved by Council on 15 February 2023 and there are no policy changes to this. Details in this report reflect the updated economic situation and actual activities undertaken.

2. MAJOR ECONOMIC HEADLINES

2.1 A brief summary of the main economic headlines which occurred during the first half of 2023/24 are outlined below.

- Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in September 2023. The largest downward contribution came from food prices.

- The Bank of England’s Monetary Policy Committee continued tightening monetary policy over most of the period, with three increases taking the Bank Rate to 5.25% in August, from 4.25% in March. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%.

- 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 to date 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.

- Gilt yields fell towards the end of the period. The 5-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%, and 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.

- July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.

3 INTEREST RATES

3.1 The Council's treasury management advisors Arlingclose, provide interest rate forecasts periodically through-out the year and the table below outlines the latest **average** forecasted rates, as issued in September 2023, for the periods stated:

	2023-24 Original Forecast %	**2023-24 Revised Forecast %**	**2024-25 Latest Forecast %**	**2025-26 Latest Forecast %**
Bank Rate	4.50	5.25	4.81	3.63
Investment Rates				
3 month	4.50	5.40	4.89	3.69
1 Year	4.60	5.86	5.30	4.05
PWLB Loan Rates				
5 Year	4.20	5.46	5.10	4.38
20 Year	4.40	5.64	5.40	5.20
50 Year	4.30	5.23	5.11	5.10

3.2 The latest forecast sets out a view that the Bank of England keep the current rate of 5.25%, before a slow reduction beginning in the Autumn of 2024 around which point inflation is forecast to reduce to the Bank's target rate of 2%.

3.3 Gilt yields and subsequently PWLB rates are expected to stabilise with slow reduction over the next few years.

4. TREASURY POSITION

4.1 The Council's investment and debt positions at the beginning and mid-way through the current financial year are listed in the table below;

	31 March 2023		30 September 2023	
	Principal £m	**Average Interest Rate %**	**Principal £m**	**Average Interest Rate %**
DEBT				
Short term (payable before 31.03.24)				
PWLB	4.3	6.62	4.3	6.68
Market	15.0	4.24	0.0	0.00
Sub-total	**19.3**	**4.77**	**4.3**	**6.68**
Long term (payable after 31.03.24)				
PWLB	277.8	2.32	277.8	2.32
Market	21.0	4.79	21.0	4.79
Sub-total	**298.8**	**2.49**	**298.8**	**2.49**
Total debt	**318.1**	**2.63**	**303.1**	**2.55**
INVESTMENTS				
Short term(less than 1 year duration)				
- Instant access	26.3	4.07	27.9	5.30
- Call accounts	0.0	0.00	0.3	5.14
- Term deposit	27.4	3.92	24.5	4.66
Sub-total	**53.7**	**3.99**	**52.7**	**5.00**
Long term (greater than 1 year duration)				
- CCLA	4.7	4.65	4.7	5.58
- Strategic Investment programme (SIP)	12.0	n/a	12.0	n/a
Sub-total	**16.7**	**4.65**	**16.7**	**5.58**
Total Investments	**70.4**	**4.04**	**69.4**	**5.05**

Information in the above table reflects the;

- level of funds available on a temporary basis for investment purposes which fluctuate on a daily basis due to the timing of precept payments, receipt of grants and spend progress on the capital programme and
- repayment of monies borrowed.

5. BORROWING POSITION

5.1 The underlying need to borrow comes from the Capital Financing Requirement (CFR) which represents the total level of outstanding capital expenditure both historic and current, not yet paid for from either revenue or capital resources, for example capital receipts or grants. It is essentially a measure of the Council's indebtedness or its underlying borrowing need.

5.2 The Council needs to ensure that its debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates going out to 2025/26. Whilst this allows some flexibility for limited early borrowing for future years, it also ensures that borrowing is **not undertaken for revenue or speculative purposes.**

5.3 As at 31st March 2023, the level of external debt was £318.1m, which was lower than the CFR at £412.0m and reflects that the Council was under borrowed by the difference of £93.9m as at that date. In effect the Council had used surplus cash balances to finance capital expenditure to the value of £93.9m.

5.4 Since March, the Council's forecast under-borrowing has grown by £37.6m to £131.5m This has been a deliberate policy agreed within Council's Debt Strategy to avoid costly external borrowing where possible. This level of under borrowing is not considered sustainable due to the impact on the Council's cash balances. Therefore, the strategy will be to reduce the level of under borrowing over the next couple of years by using external debt to finance in-year borrowing requirements and when asset strategy investments are repaid these will be replaced by external debt facilities at the time.

This externalisation of this debt will be funded by existing provisions within the Treasury Management and Strategic Investment Programme revenue budgets, and will likely be of sufficient size to reduce the under-borrowing to a similar size as it was at 31st March 2023. The situation will be continued to be monitored, with considerations given to movements in interest rates and future capital plans. The decision to borrow will be taken by the Director of Finance and Systems per delegated powers, and in accordance with the approved Treasury Management and Debt Strategies.

5.4 During the first half of 2023/24, loans to the value of £15.1m were repaid, two LOBO loans of £7.5m each and one PWLB loan of £0.1m, with no new loans being taken. As a result of this the Council's total external loans reduced from £318.1m to £303.1m as per the table below:

Loans	31 March 2023 £m	Borrowed £m	Repaid £m	30 September 2023 £m
Short Term – (less than 1 Year	19.3	0.0	15.1	4.3

duration)				
Long Term – (more than 1 Year duration)	298.8	0.0	0.0	298.8
Total	**318.1**	**0.0**	**15.1**	**303.1**

5.3 The table below provides an outline of the Council's loan portfolio as at 30th September 2023;

Lender	No. Loans	Interest rate range	Maturity	Total Principal £m
PWLB	18	1.88% to 9.00%	Feb 2024 to Oct 2069	282.1
Market (long term)	3	4.41% to 4.99%	Aug 2042 to Dec 2067	21.0
Total	**21**			**303.1**

5.4 As highlighted in the above table the Council holds £21.0m of Market loans, which are held at fixed rates of interest. At the start of the year, the Council held £15.0m of loans with variable rates of interest in the form of Lender's Option Borrower's Option (LOBO) loans. These LOBO loans were repaid in June 2023, in accordance with the Director of Finance and Systems' delegated authority, after a review of the facility postion found a repayment to be financially beneficial.

5.5 For 2023/24 the total loan interest costs are currently forecasted to be £8.4m of which £4.7m is being met from the 2023/24 revenue loan interest budget provision together with an application of £3.7m returns generated from the Council's capital Strategic Investment programme.

5.6 The PWLB has 2 main sets of interest rates which Public Sector organisations can borrow funds at referred to as Standard and Certainty rates which offer rates of interest based on:

- Standard rate - prevailing market gilt rate for each respective period plus 100pts (1.00%) and
- Certainty rate - prevailing market gilt rate for each respective period plus 80pts (0.80%).

5.7 In order for the Council to remain eligible to be able to take new PWLB loans at the lower Certainty rate, this is applied for annually by providing a range of information to the PWLB. The in-house treasury management team successfully completed this task in May 2023 thereby enabling savings of £20k p.a. for every £10m borrowed to be achieved should any funds be taken from the PWLB.

5.8 No new borrowing has been undertaken during the first half of the year.

6. INVESTMENT POSITION

6.1 Whenever the in-house treasury management team places any temporary surplus funds with an external institution, it does so in compliance with the Council's Annual Investment Strategy, approved by Council in February 2023. This follows the same criteria adopted in previous years of **S**ecurity of capital, **L**iquidity and finally obtaining an appropriate level of **Y**ield.

6.2 The table below highlights the level of investment transactions carried out during the first half of 2023/24;

Investments	31 March 2023 £m	New £m	Repaid £m	30 Sept. 2023 £m
Instant Access	26.3	234.2	232.6	27.9
Call Accounts	0.0	0.3	0.0	0.3
Term Deposit	27.4	41.5	44.4	24.5
CCLA*	4.7	0.0	0.0	4.7
Strategic Investment programme	12.0	0.0	0.0	12.0
Total	**70.4**	**276.0**	**277.0**	**69.4**

Note *Estimated movement in valuation of the funds invested at that date.

6.3 The movement in the level of investments as at 31 March 2023 to 30 September 2023 reflects the day to day cash flow activities, including balances applied to fund short term capital spend thereby enabling loan servicing costs to be kept to a minimum.

6.4 All the Council's investments maturing during the first half of the financial year were repaid on time without any difficulties.

6.5 A breakdown of the Council's temporary investments as at 31 March 2023 compared to 30 September 2023 per each classification of institution is provided below for reference:

Sector	31 March 2023 £m	30 September 2023 £m
UK Banks	11.4	5.3
Non UK Banks	11.0	11.5
Building Societies	0.0	0.0
Money Market Funds	26.3	27.9
Local Authority	5.0	8.0
Other - CCLA	4.7	4.7
Strategic Investment programme	12.0	12.0
Total	**70.4**	**69.4**

The maturity structure of the investment portfolio was as follows:

Period	**31 March 2023 £m**	**30 September 2023 £m**
Instant Access	26.3	27.9
Call Accounts	0.0	0.3
Up to 3 Months	5.0	0.0
3 to 6 Months	19.9	16.0
6 to 9 Months*	2.5	5.5
9 to 12 months	0.0	3.0
Over 1 year	16.7	16.7
Total	**70.4**	**69.4**

*Investments in the 6 to 9 months period reflect normal year end cash flow requirements.

6.6 The table below highlights the results of the **short term** investment activities and shows the Council performance against the 1 month SONIA benchmark, a recognised market performance indicator.

Average level of short term investments (up to 1 yr.) 1 Apr to 30 Sep £m	**Average interest rate earned %**	**Average 1 month SONIA (*) rate %**	**Under achieved interest against SONIA £k**
72.3	4.72	4.86	41

*SONIA (Sterling Overnight Index Average) is administered and published by the Bank of England, and is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

6.7 The average performance for the first of the year is 0.14% below the benchmark. The reason for the underperformance is that the short-term investments we had earlier in the year were at the low rates available at the time. As the year has progressed rates have increased and at 30 September we are now seeing an average weighted investment return of 5.15%, 0.29% above the SONIA benchmark.

6.8 With regards to the Council's 2 **long term** investments totalling £16.7m, details of these investments are provided below;

Church Commissioners Local Authority (CCLA) - In September 2015, the Council invested £5m, for a minimum period of 5 years in the Local Authority Property Investment fund, managed by CCLA and this enabled 1,643,872 units to be purchased in the fund. The objective of this fund which invests in commercial property throughout the UK, is to create long term returns in the form of capital growth and short term income from quarterly dividend returns. At 31 March 2023 the Council's investment was worth £4.74m and by 30th September 2023 this had reduced to £4.68m. The level of dividends received for the first half of

2023/24 generated an annualised return of 5.58% gross of fees compared to 4.07% for the same period in 2022/23. Slower and quite possibly negative rates of economic growth, could result in declines in equity prices in response to earnings news over the next few months.

From April 2018, local authorities were required to comply with the new standard International Financial Reporting Standard 9 (IFRS 9): Financial Instruments. Changes brought by IFRS 9 meant that more financial assets, such as the Council's CCLA investment, would be required to have any annual changes in value (known as "fair value movements") recognised as profit or loss, whereas before movements for such instruments may have been held in a reserve with any movement in value only affecting general fund balances when sold.

Due to the nature of these losses in value being required to be recognised in the revenue accounts of Local Authorities, the government introduced a statutory override to allow for any losses to be reversed out to a reserve. This statutory override will expire in March 2025. Prior to the expiry of this override the Council will need to decide whether it should disinvest from the CCLA to mitigate the risk negative valuations. This decision will be taken by the Director of Finance and Systems in due course, in accordance with delegated powers and the approved Treasury Management Strategy.

- **Strategic Investment Programme** - In August 2019 the Council entered into a £17.6m 5 year loan facility agreement with Queens Holding Limited secured on 4 prominent income producing properties known as Albert Estate within Manchester City Centre. In April 2022 an early repayment instalment of £5.6m was received reducing the value to £12.0m. All interest repayments on the facility have been made in full and on time.

6.8 Estimated external investment interest to be earned for 2023/24 of £3.37m is £0.97m above the £2.42m current year budget requirement.

6.9 As shown by the interest rate forecasts in section 3, investment return rates are expected to continue to stay at this level for the next 12 months before reducing in the following two years. The Council investment return over the next three years will be determined on these rates and the levels of cash that available to invest.

6.10 Whilst it has to be acknowledged that all investments carry some form of risk, the Council's in-house team ensures that this is at all times kept to a minimum, as monies are only placed in low risk institutions with returns set to reflect this strategy.

6.11 For reference Appendix A details the Council's investments, as at 30th September 2023.

7. RISK BENCHMARKING

7.1 In accordance with the Code and DLUHC Investment Guidance, appropriate security and liquidity benchmarks are used by the in-house treasury management team to monitor the current and future potential risk conditions enabling any corrective action to the strategy to be applied if required.

7.2 These benchmarks are simple guides to maximum risk (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria.

7.3 During the first half of 2023/24 it can be reported that no benchmarks, which were set in the Strategy report in February 2023, were breached as shown from the table below.

Indicator	Target	Actual
Security – potential default rate of the Council's investment portfolio based on rates issued by the 3 main credit rating agencies.	Max 0.05%	Max 0.03%
Liquidity – investments available within 1 week notice	£5m min.	Achieved
Liquidity – Weighted Average Life of investments (ex CCLA Property Fund)	6 months	This was not breached and as at 30 September was 3 months.
Yield – Investment interest return to exceed 1 month SONIA rate	4.86% (Avg. 1 Month SONIA)	4.76% (All Investments 1 April to 30 Sept)
Origin of investments placed - maximum investments to be directly placed with non-UK counterparties.	UK institutions 100% Non UK institutions 40%	Achieved

8. PRUDENTIAL AND PERFORMANCE INDICATORS

8.1 In accordance with DLUHC Guidance and the Code, a number of prudential indicators are in place ensuring that the Council's capital expenditure plans and borrowing remain robust, prudent and sustainable.

8.2 These indicators as set out in the Council's Treasury Management Strategy report for 2023/24 were approved by Council in February 2023 and are monitored and reported through the Council's bi-monthly monitoring reports. During the half year ended 30th September 2023, the Council has operated within these indicators and no breaches occurred. Further information can be found in Appendix B

8.3 Due to the nature of the treasury management function the Council's in-house team processes multi-million pound transactions on a daily basis and to ensure the Council's finances are protected and all associated risk kept to a minimum, robust systems and procedures have been put into place. These systems and procedures are continually reviewed by the in-house team to ensure they remain fit for purpose.

9. OUTLOOK 2023/24

9.1 Following the Bank of England's September Monetary Policy Committee meeting there is a view that 5.25% will now be the peak in Bank Rate, and will remain the rate until Q3 2024.

9.2 At 6.7% in September, CPI inflation remains well above the BoE's 2% target, but is expected to continue to fall sharply, to 4.75% in 2023 Q4, 4.50% in 2024 Q1 and 3.75% in 2024 Q2.

9.3 Growth in the UK economy is expected to be flat for the remainder of 2023/24, with some limited growth expected in 2024/25.

10. RECOMMENDATIONS

10.1 That the Accounts & Audit Committee & Executive be requested to;

- Note the Treasury Management activities undertaken in the first half of 2023/24.

Other Options

This report is a mandatory report which has been produced in order to comply with Financial Regulations, relevant legislation and provides an overview of transactions undertaken during the first half of 2023/24. There are no other options to consider.

Consultation

There are no applicable consultation requirements in respect of this report.

Reasons for Recommendation

The report is a mandatory report which has been produced in order to comply with the requirements of the Council's Financial Procedure Rules which incorporate the requirements of both the CIPFA Prudential Code for Capital Finance and the CIPFA Code of Practice on Treasury Management.

Finance Officer Clearance …DM….

Legal Officer Clearance …EM…..

DIRECTOR'S SIGNATURE

G. Bentley

APPENDIX A

Breakdown of Investments as at 30 September 2023

Counterparty	Amount (31 March 2023)	Amount (30 Sept 2023)	Long Term Credit Rating
	£	£	
Money Market Fund – instant access			
Aberdeen	3,000,000	3,000,000	aaa
CCLA	6,450,000	3,000,000	aaa
Federated Investors	6,380,000	5,450,000	aaa
Insight Liquidity	3,000,000	3,000,000	aaa
Invesco Aim	1,550,000	5,000,000	aaa
Legal & General	2,900,000	5,400,000	aaa
Morgan Stanley	3,000,000	3,000,000	aaa
Sub total	**26,280,000**	**27,850,000**	
Call Accounts			
Lloyds Bank	0	335,000	a+
Sub total	**0**	**335,000**	
Term Deposit			
Australia and New Zealand Bank	2,500,000	3,000,000	a+
Development bank of Singapore	3,000,000	3,000,000	aa-
First Abu Dhabi Bank	5,500,000	5,500,000	aa-
National Bank of Kuwait (International)	2,500,000	5,000,000	a+
Nationwide Building Society	0	0	-
Newcastle Building Society	0	0	-
Principality Building Society	0	0	-
Santander Bank	5,500,000	0	a+
Yorkshire Building Society	0	0	-
Barclay Bank PLC	3,000,000	0	-
Cornwall Council	5,000,000	0	-
Lloyds Bank PLC	355,000	0	-
Renfrewshire Council	0	5,000,000	a1
Lancashire County Council	0	3,000,000	nr
Sub total	**27,355,000**	**24,500,000**	
Property Funds			
Church Commissioners Local Authority	4,738,790	4,676,816	n/r
Sub total	**4,738,790**	**4,676,816**	
Other			
Strategic Investment Programme	12,010,000	12,010,000	-
Sub total	**12,010,000**	**12,010,000**	
Total	**70,383,790**	**69,371,816**	

APPENDIX B

Prudential Indicators – 2023/24

The Prudential Code for Capital Finance in Local Authority was reviewed and updated following a consultation with Local Authorities in November 2021. The Code requires that the Council report and monitor Prudential Indicators on at least a quarterly basis during the financial year. The objectives of the Prudential Code and indicators are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and to support and record local decision making in manner that is publicly accountable.

The prudential indicators cover the three areas in which the Council is required to report and monitor; Capital Expenditure, External Debt, and Affordability. The indicators are approved and set by the Council in February each year as part of the wider budget setting process. These indicators have been restated for monitoring purposes during the year

Summary as at Mid-Year

Capital Expenditure Indicators

Since February, the updated indicators for Capital Expenditure show a decrease £50.17m in capital spend in 2023/24. This is in-line with the reprofiling of spend within the programme, as certain schemes will now incur costs in later years. The expenditure for the Investment Strategy shows a similar movement as investments have been reprofiled to match the cashflows of ongoing property developments which the Strategy is funding, in addition to the new investments, approved by IMB, having the majority of their expenditure in the later years of the programme.

External debt indicators

The External Debt indicators for Mid-Year are confirmations that the Council are operating within the agreed boundaries for Treasury Management activity as set by Council in February.

Affordability indicators

The ‘Finance Costs to Net Revenue Stream’ indicator has been reassessed since February and the new forecast has been calculated on a different basis than the figures previously presented. This recalculation has been done to bring the indicator in-line more accurately with the intention of the Prudential Code. The new forecast for 2023/24 is a negative 0.9% due to the inflow of interest payments to the Council, i.e. investment income, being higher the outflow of interest payments, i.e. the cost of external borrowing. This is likely to change in future years as the Council’s ability to utilise surplus cash balances to avoid additional borrowing will be reduced as the Capital Programme and Asset Investment Strategy commitments increase.

Capital expenditure indicators:

- **Estimates of capital expenditure**; Actual total capital expenditure for previous financial year and estimates of spend for the following three years. Variances found here from the approved indicator level to the current forecast level are due to revisions to the programme, reported through the regular Capital Budget Monitoring and approved by the Executive.
- **Estimates of capital financing requirement;** this reflects the estimated need to borrow for capital investment (i.e., the anticipated level of capital expenditure not financed from capital grants and contributions, revenue or capital receipts).

Prudential Indicators – Capital Expenditure	2023/24			2024/25	2025/26
Period 6 2023/24	Original Forecast	Current Forecast	Variance	Forecast	Forecast
	£m	£m	£m	£m	£m
Capital Expenditure					
Capital expenditure - General Programme	91.49	87.73	(3.76)	78.36	48.22
Capital expenditure - Investment Strategy	109.09	62.68	(46.41)	47.32	34.04
Capital expenditure - Total	**200.58**	**150.41**	(50.17)	**125.68**	**82.26**
Capital Financing Requirement (CFR)	**579.09**	**437.95**	(141.14)	**465.18**	**492.55**

External debt indicators

- **Authorised limit for external debt;** This is a key prudential indicator and represents a control on the maximum level of external debt that the Council will require for all known potential requirements. It includes headroom to cover the risk of short-term cash flow variations that could lead to temporary borrowing and any potential effects arising from bringing “off balance sheet” leased assets onto the balance sheet in compliance with IFRS 16.

- **Operational boundary for external debt;** calculated on a similar basis as the authorised limit but represents the likely level of external debt that may be reached during the course of the year and is not a limit.
- **Gross debt and the capital financing requirement;** The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 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 or speculative purposes.**

Prudential Indicators -	2023/24			2024/25	2025/26
Period 6 2023/24	Approved Limit	Current Forecast	Variance to Limit	Approved Limit	Approved Limit
	£m	£m	£m	£m	£m
External Debt					
Authorised limit for external debt - Capital Programme	240.00	143.20	96.80	250	260
Authorised limit for external debt - Investment Strategy	375.00	159.90	215.10	450	475
Other long-term liabilities (PFI)	3.40	3.38	0.02	3.0	2.6
Authorised limit for external debt - Total	**618.40**	**306.48**	**311.92**	**703.0**	**737.6**
Operational boundary for external debt - Capital Programme	220.00	143.20	76.80	230	240
Operational boundary for external debt - Investment Strategy	375.00	159.90	215.10	450	475
Other long-term liabilities (PFI)	3.40	3.38	0.02	3.0	2.6
Operational boundary for external debt - Total	**598.40**	**306.48**	**291.92**	**683.0**	**717.6**
Forecast capital financing requirement (CFR)		**437.95**			
Actual external debt (£m): at 30/09/23 *		**306.48**			
Over-borrowed/(Under-borrowed)		(131.47)			
Is Actual Debt below the CFR?		**YES**			

* Actual External Debt £306.48m includes external loans £303.10m and PFI Liability £3.38m

Affordability indicators

- **Estimates of financing costs to net revenue stream;** this indicator shows the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the Council's net revenue stream. This demonstrates the affordability and proportionality of that borrowing by comparing it to the Council's net revenue stream as a whole.
- **Estimates of net income from commercial and service investments to net revenue stream;** This indicator compares income from commercial investments to the Council's net revenue stream. As before, this comparison allows for consideration for the Council reliance on that income and its proportionality.

Prudential Indicators - Period 6 2023/24	2023/24			2024/25	2025/26
	Forecast	P6 Forecast	Variance	Forecast	Forecast
	%	%	%	%	%
Affordability					
Financing Costs to net revenue stream - Recalculation*	0.6%	-1.10%	-1.70%	1.30%	2.10%
Net Income for commercial and service investments to net revenue stream	8.5%	8.2%	-0.30%	7.1%	6.8%

*The 'Finance Costs to Net Revenue Stream' PI has been reassessed and calculated on a different basis than the figures presented in the February Budget Report. This recalculation has been done to bring the indicator in-line more accurately with the intention of the Prudential Code and will be used for monitoring purposes during the year with formal changes presented in February 2024.

Affordability - Financing Costs to Net Revenue Stream (Detailed Table)	**2023/24 Mid-year Forecast**
Net Revenue Stream (£k)	203,991
Net Financing Costs * (£k)	(2,232)
Net Financing Costs to NRS (correct Prudential Indicator)	**(1.10)%**
Gross Financing Costs (£k)	13,655
Gross Investment Interest Income (£k)	(15,886)
Net Financing Costs (£k)	**(2,232)**
Using **Gross** Financing Costs to NRS	6.69%

The forecast for 2023/24 is negative due to the inflow of interest payments to the Council, i.e. investment income, being higher the Gross Financing Costs (interest payments and MRP), i.e. cost of external borrowing. This is likely to change in future years as the Council's ability to utilise surplus cash balances to avoid additional borrowing will be reduced as the Capital Programme and Asset Investment Strategy commitments increase.

The prudential indicator requires a comparison between Net Financing Costs and the Net Revenue Budget, however this does not demonstrate fully the risk due to the high levels of investment income that the Council generates. The Gross Investment Interest Income and Gross Financing Costs are more appropriate measure of risk as this is the amount of exposure the council needs to meet.