North East Derbyshire District Council

Council

27 November 2023

Treasury Management Update

Report of the Portfolio Holder with Responsibility for Finance

Classification: This report is public

Report By: Jayne Dethick, Director - Finance and Resources (S151 Officer)

Contact Officer: as above

PURPOSE/SUMMARY

To update Council on the treasury management activities for the period April to September 2023.

RECOMMENDATIONS

1. That Council note the treasury management activities undertaken during the period April to September 2023 as outlined in Appendix 1.

Approved by the Portfolio Holder – Yes

IMPLICATIONS

Finance and Risk **Yes ✓** **No**

Financial Implications are considered throughout the report. Consideration of financial risk is part of the decision making process when borrowing and investing the Council's funds.

On Behalf of the Section 151 Officer

Legal including Data Protection **Yes** **No ✓**

There are no legal issues arising directly from the report. Having a Treasury Management Strategy in place complies with the requirements of the Local Government Act 2003 and updated advice and guidance from the Government and CIPFA

On Behalf of the Solicitor to the Council

Staffing Yes No ✓

There are no staffing issues arising directly from this report.

On Behalf of the Head of Paid Service

DECISION INFORMATION

Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: *BDC:* *Revenue - £75,000* ☐ *Capital - £150,000* ☐ *NEDDC:* *Revenue - £100,000* ☑ *Capital - £250,000* ☑ ☑ *Please indicate which threshold applies*	No
Is the decision subject to Call-In?(Only Key Decisions are subject to Call-In)	No
Has the relevant Portfolio Holder been informed	Yes
District Wards Affected	All
Links to Corporate Plan priorities or Policy Framework	All

REPORT DETAILS

1.1 In January 2023, the Council approved 2023/24 Treasury Management Strategy including adoption of the updated Chartered Institute of Public Finance and Accountancy's amended *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code). The Code requires local authorities to approve treasury management semi-annual and annual outturn reports. This is a practice that the Council has followed for many years so no additional compliance is required in this respect. The Code also now requires that monitoring of prudential indicators be included as part of the reporting process. Prudential Indicators are a means of demonstrating that capital expenditure plans are affordable to aid decision making.

1.2 The treasury management function covers the borrowing and investment of Council money. This includes both the management of the Council's daily cash position and the management of its long-term debt. All transactions are conducted in accordance with the

Council's approved strategy and the Code. Good treasury management plays an important role in the sound financial management of the Council's resources.

1.3 **Appendix 1** identifies the Treasury Management activity undertaken in the period April - September 2023. **Appendix 2** identifies the impact on the Prudential Indicators from the treasury management activity in the first half of the financial year.

1.4 Treasury Management is a specialist area and the Council uses external treasury advisors, Arlingclose Ltd, to assist. They provide a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports.
- Economic and interest rate analysis.
- Debt services which include advice on the timing of borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing, and investment instruments.
- Several places at training events offered on a regular basis.
- Credit ratings/market information service comprising the three main credit rating agencies.

2 Reasons for Recommendation

2.1 The report details the treasury management activities for the period April to September 2023 in line with the CIPFA Treasury Management Code of Practice

3 Alternative Options and Reasons for Rejection

3.1 There are no alternative options being considered at this time.

DOCUMENT INFORMATION

Appendix No	Title
1	Treasury Management Activity April – September 2023
Background Papers	
Report Author	**Contact Number**
Jayne Dethick – Director - Finance and Resources (S151 Officer)	(01246) 217078

Appendix 1

Treasury Management Report April – September 2023/24

Introduction

In January 2023, the Council 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, treasury management semi-annual and annual outturn reports.

There is also a new requirement in the Code, which became mandatory from 1st April 2023, of quarterly reporting of the treasury management indicators and the prudential indicators. This takes place with budget monitoring each quarter to Cabinet.

The Council's treasury management strategy for 2023/24 was approved at a meeting on 30th January 2023. The Council has borrowed and invested 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.

External Context

Economic background:

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

Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.2%. However, monthly GDP data showed a 0.5% contraction in July, the largest fall 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.

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.

Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.

The Bank of England's Monetary Policy Committee continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.

Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to 5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.

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

The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, the GfK measure hit -21 in September, it is likely this will reverse at some point. Higher rates will also impact business and according to S&P/CIPS survey data, the UK manufacturing and services sector contracted during the quarter with all measures scoring under 50, indicating contraction in the sectors.

The US Federal Reserve increased its key interest rate to 5.25-5.50% over the period, pausing in September following a 0.25% rise the month before, and indicating that it may have not quite completed its monetary tightening cycle.

Having fallen throughout 2023, annual US inflation started to pick up again in July 2023, rising from 3% in June, which represented the lowest level since March 2021, to 3.2% in July and then jumping again to 3.7% in August, beating expectations for a rise to 3.6%. Rising oil prices were the main cause of the increase. US GDP growth registered 2.1% annualised in the second calendar quarter of 2023, down from the initial estimate of 2.4% but above the 2% expansion seen in the first quarter.

The European Central Bank increased its key deposit, main refinancing, and marginal lending interest rates to 4.00%, 4.50% and 4.75% respectively in September, and hinted these levels may represent the peak in rates but also emphasising rates would stay high for as long as required to bring inflation down to target.

Although continuing to decline steadily, inflation has been sticky, Eurozone annual headline CPI fell to 5.2% in August while annual core inflation eased to 5.3% having stuck at 5.5% in the previous two months. GDP growth remains weak, with recent data showing the region expanded by only 0.1% in the three months to June 2023, the rate as the previous quarter.

Financial markets:

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

Gilt yields fell towards the end of the period. 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.

Credit review:

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

During the second quarter of the period, Moody's revised the outlook on Svenska Handelsbanken to negative from stable, citing concerns around the Swedish real estate sector.

Having put the US sovereign rating on Rating Watch Negative earlier in the period, Fitch took further action in August, downgrading the long-term rating to AA+, partly around ongoing debt ceiling concerns but also an expected fiscal deterioration over the next couple of years.

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

Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and although no changes were made to recommended durations over the period, Northern Trust Corporation was added to the counterparty list.

Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Local Context

On 31st March 2023, the Council had net borrowing of £26m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.23 Actual £m	**31.3.24 Forecast £m**
General Fund CFR	20.9	25.8
HRA CFR	171.3	181.7
Total CFR	**192.2**	**207.5**
Less: *Other debt liabilities	0	(0.2)
Borrowing CFR	**192.2**	**207.3**
External borrowing**	(146.9)	(150.8)
Internal borrowing	45.3	56.5
Less: Balance sheet resources	(71.3)	(68.2)

Net	26.0	11.7

* finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

** shows only loans to which the Council is committed and excludes optional refinancing

The treasury management position at 30th September and the change over the six months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.23 Balance £m	Movement £m	30.9.23 Balance £m
Long Term Borrowing – PWLB	146.9	(4.0)	142.9
Total Borrowing	**146.9**	**(4.0)**	**142.9**
Short-Term Investments	(26.0)	(2.5)	(28.5)
Total Investments	**(26.0)**	**(2.5)**	**(28.5)**
Net Borrowing	**120.9**	**(6.5)**	**114.4**

Borrowing

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

The Council has not invested in assets primarily for financial return or that are not primarily related to the functions of the Council. It has no plans to do so in future.

Borrowing strategy and activity

As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

There was a substantial rise in the cost of both short- and long-term borrowing over the last 18 months. Bank Rate rose by 1% from 4.25% at the beginning of April to 5.25% at the end of September. Bank rate was 2% higher that at the end of September 2022.

UK gilt yields were volatile, mainly facing upward pressure since early April following signs that UK growth had been more resilient, inflation stickier than expected, and that the Bank of England saw persistently higher rates through 2023/24 as key to dampening domestic demand. Gilt yields, and consequently PWLB borrowing rates, rose and broadly remained at elevated levels. On 30th September, the PWLB certainty rates for maturity loans were 5.26% for 10-year loans, 5.64% for 20-year loans and 5.43% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.

A new PWLB HRA rate which is 0.4% below the certainty rate has been made available from 15th June 2023. Initially available for a period of one year, this discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans, providing a window of opportunity for HRA-related borrowing and to replace the Council's £2m loans relating to the HRA maturing during this time frame.

At 30th September the Council held £142.875m of loans, (a slightly lower figure than at 31st March 2023, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans at this point are summarised in Table 3A below.

Table 3A: Borrowing Position

PWLB Borrowing Term	Maturity Profile 31 March 2023 £'000	Maturity Profile 30 Sept 2023 £'000
12 Months	4,112	66
1 - 2 years	6,109	6,109
2 - 5 years	15,191	15,191
5 - 10 years	24,419	24,419
10 - 15 years	42,000	42,000
Over 15 years	55,090	55,090
Total PWLB Debt	**146,921**	**142,875**

The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short-term and long-term borrowing was maintained.

There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Council will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

Treasury Investment Activity

The CIPFA Treasury Management Code now defines treasury management investments as investments which arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £20.5 and £37.5 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

Bank Name	Duration of Loan	B/Fwd 01/04/23 £000's	Amount Invested 2023/24 £000's	Amount Returned 2023/24 £000's	Balance Invested 30/09/23 £000's	Interest Received 30/09/23 £000's
Federated Fund 3	Call	3,000	1,070	(1,070)	3,000	(70)
Federated GBP 3	Call	2,000	50	(50)	2,000	(50)
Aberdeen Standard	Call	1,000	11,084	(11,084)	1,000	(84)
CCLA Public Sector Deposit Fund	1 Day Call	5,000	94	(5,094)	0	(94)
Aviva	Call	1,500	3,612	(112)	5,000	(112)
Invesco	Call	0	9,068	(4,068)	5,000	(68)
JP Morgan	Call	0	3,003	(3,003)	0	(3)
Goldman Sachs	Call	0	6,513	(4,013)	2,500	(13)
SSGA	Call	3,500	7,022	(10,522)	0	(22)
Debt Management Account Deposit Facility	Various	0	0	(0)	0	(0)
Ashford Borough Council	12 Months	5,000	94	(94)	5,000	(94)
Lancashire County Council	12 Months	5,000	52	(52)	5,000	(52)
Total		**26,000**	**41,662**	**(39,162)**	**28,500**	**(662)**

Overnight Investments

The balance of the daily surplus funds can be placed as overnight investments with the Councils bank which is Lloyds. The maximum amount invested with Lloyds in the first three quarters of the financial year was £4.990m. There has been no breach of the £5m limit set in the Treasury Management Strategy. For clarity, this limit relates to the amount invested and doesn't include interest accruing as a result. The interest earned from daily balances up to 30 September 2023 is £50,886.34.

Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

As demonstrated by the liability benchmark in this report, the Council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

Bank Rate increased by 1%, from 4.25% at the beginning of April to 5.25% by the end of September. Short-dated cash rates rose commensurately, with 3-month rates rising to around 5.25% and 12-month rates to nearly 6%. The rates on DMADF deposits also rose, ranging between 4.8% and 5.4% by the end of September and Money Market Rates between 5.21% and 5.33%.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity (days)**	**Rate of Return %**
31.03.2023 30.09.2023	4.69	A+	64%	18	4.14
Similar Las/All LAs	4.43	AA-	56%	63	4.71

*Weighted average maturity

Statutory override: In April 2023 the Department for Levelling Up, Housing and Communities 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 2 years until 31st 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.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's strategy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Non-Treasury Investments

The definition of investments in the Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

The Council held £15.8m of such investments in

- Loans to Rykneld Homes Ltd £6.765m
- Loans to Northwood Group Ltd £8.891m
- Shares in Northwood Group Ltd £0.127m

The Council held £21.8m of investments made for commercial purposes

- Directly owned property £21.8m

These investments generated £0.230m of investment income for the Council after taking account of direct costs, representing a rate of return of 1.06% as at 30th September 2023.

Treasury Performance

The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Actual £m	**Budget £m**	**Over/ under**	**Actual %**	**Benchmark %**	**Over/ under**
PWLB Borrowing	142.9	150.8	Under	3.53	4.33	Under
Total borrowing	142.9	150.8	Under	3.53	4.33	Under
Total debt	142.9	150.8	Under	3.53	4.33	Under
Investments (see table 4)	28.5	11.7	Over	4.60	2.42	Over
Total treasury investments	28.5	11.7	Over	4.60	2.42	Over

Compliance

The S151 Officer reports that all treasury management activities undertaken during the quarter complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	2023/24 Maximum per counterparty	**30.9.23 Actual**	**2023/24 Limit**	**Complied?**
The UK Government	Unlimited	£0m	n/a	Yes
Local authorities & other government entities	£5m	£10m	Unlimited	Yes

Secured investments	£5m	£0m	Unlimited	Yes
Banks (unsecured)	£5m	£0m	Unlimited	Yes
Building societies (unsecured)	£5m	£0m	£20m	Yes
Registered providers (unsecured)	£5m	£0m	£20m	Yes
Money market funds	£5m	£20m	Unlimited	Yes
Strategic pooled funds	£5m	£0m	£20m	Yes
Real Estate Investment Trusts	£5m	£0m	£20m	Yes
Other investments	£5m	£0m	£20m	Yes

Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 8 below.

Table 8: Debt and the Authorised Limit and Operational Boundary

	Q1 2023/24 Maximum £m	**30.9.23 Actual £m**	**2023/24 Operational Boundary £m**	**2023/24 Authorised Limit £m**	**Complied?**
Borrowing	146.9	142.9	212.5	217.5	Yes
Total debt	**146.9**	**142.9**	**212.5**	**217.5**	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Treasury Management Prudential Indicators

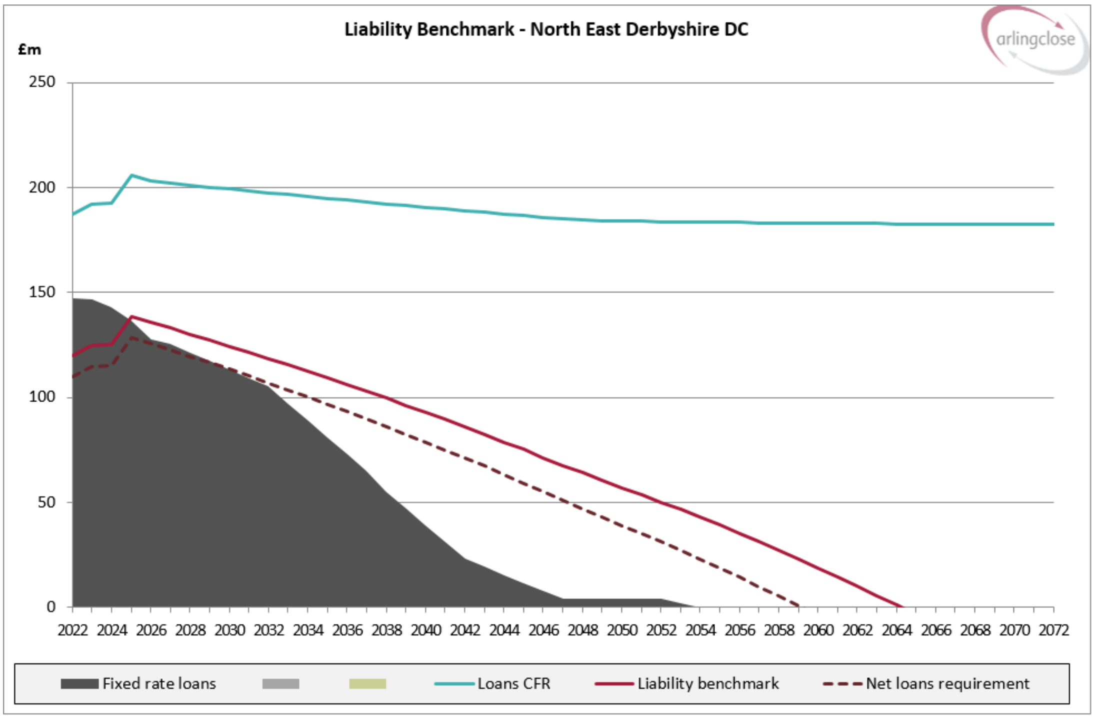
As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

1. Liability Benchmark**:**

This new indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £10m required to manage day-to-day cash flow.

	31.3.23 Actual	31.3.24 Forecast	31.3.25 Forecast	31.3.26 Forecast
Loans CFR	192.3	207.5	221.3	218.1
Less: Balance sheet resources	(71.4)	(68.2)	(73.6)	(71.6)
Net loans requirement	**120.9**	**139.3**	**147.7**	**146.5**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	**130.9**	**149.3**	**157.7**	**156.5**
Existing borrowing	**146.9**	**150.8**	**157.0**	**156.0**

Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £15.7m in 2023/24, minimum revenue provision on new capital expenditure based on a 50-year asset life. This is shown in the chart below together with the maturity profile of the Council's existing borrowing.



Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.

2. <u>Maturity Structure of Borrowing</u>**:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Upper Limit	Lower Limit	30.9.23 Actual	Complied?
Under 12 months	20%	0%	0.05%	Yes
12 months and within 24 months	20%	0%	4.28%	Yes

24 months and within 5 years	40%	0%	10.63%	Yes
5 years and within 10 years	40%	0%	17.09%	Yes
10 years and above	90%	0%	67.95%	Yes

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.

3. Long-term Treasury Management Investments**:** 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 prudential limits on the long-term treasury management limits are:

	2023/24	**2024/25**	**2025/26**	**No fixed date**
Limit on principal invested beyond year end	£20m	£20m	£20m	£20m
Actual principal invested beyond year end	£0m	£0m	£0m	£0m
Complied?	Yes	Yes	Yes	Yes

Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Additional indicators

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.

	2023/24 Target	**30.9.23 Actual**	**Complied?**
Portfolio average credit rating	<3.0	1.57	Yes

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 / it can borrow each period without giving prior notice.

	2023/24 Target £m	**30.9.23 Actual £m**	**Complied?**
Total cash available within 3 months	11.7	21.5	Yes

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. Bank Rate rose by 0.75% during the quarter, from the prevailing rate of 4.25% on 1st April to 5.25% by 30th September.

Interest rate risk indicator	2023/24 Target	30.9.23 Actual	Complied
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.5m	£1.5m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	(£1.5m)	(£1.5m)	Yes

For context, the changes in interest rates during the quarter were:

	31/3/23	30/9/23
Bank Rate	4.25%	5.25%
1-year PWLB certainty rate, maturity loans	4.78%	5.69%
5-year PWLB certainty rate, maturity loans	4.31%	5.22%
10-year PWLB certainty rate, maturity loans	4.33%	5.26%
20-year PWLB certainty rate, maturity loans	4.70%	5.64%
50-year PWLB certainty rate, maturity loans	4.41%	5.43%

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

Appendix 2

Prudential Indicators April – September 2023/24

The Council measures and manages its capital expenditure, borrowing and commercial and service investments with references to the following indicators.

It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis.

Capital Expenditure:

The Authority has undertaken and is planning capital expenditure as summarised below.

	2022/23 actual £m	2023/24 forecast £m	2024/25 budget * £m	2025/26 budget £m
General Fund services	£8.970	£25.707	£19.839	£5.145
Council housing (HRA)	£20.304	£33.509	£28.094	£12.252
Capital investments	£0.000	£0.000	£0.000	£0.000
Total	**£29.274**	**£59.216**	**£47.933**	**£17.397**

* £0m of capital expenditure in arises from a change in the accounting for leases and does not represent cash expenditure.

The main General Fund capital projects to date have included Vehicle Replacement, Clay Cross Towns Fund Projects including the rebuilding of Sharley Park Active Community Hub. HRA capital expenditure is recorded separately and to date includes capital works on Council Dwellings, North Wingfield New build Project and Pine View Danesmoor replacement housing and a stock purchase programme.

Capital Financing Requirement:

The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP/loans fund repayments and capital receipts used to replace debt.

	31.3.2023 actual £m	31.3.2024 forecast £m	31.3.2025 budget * £m	31.3.2026 budget £m
General Fund services	£20.923	£25.843	£32.029	£28.240
Council housing (HRA)	£171.346	£181.695	£189.288	£189.888
Capital investments	£0.000	£0.000	£0.000	£0.000
TOTAL CFR	**£192.270**	**£207.538**	**£221.317**	**£218.128**

* £0.693m of the CFR increase in 2024/25 arises from a change in the accounting for leases

Gross Debt and the Capital Financing Requirement:

Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Council has complied and expects to continue to comply with this requirement in the medium term as is shown below.

	31.3.2023 actual £m	**31.3.2024 forecast £m**	**31.3.2025 budget £m**	**31.3.2026 budget £m**	**Debt at 30.9.2023 £m**
Debt (incl. PFI & leases)	£146.921	£150.809	£156.995	£155.995	£142.875
Capital Financing Requirement	£192.270	£207.538	£221.317	£218.128	

Debt and the Authorised Limit and Operational Boundary:

The Authority is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

	Maximum debt Q1 2023/24 £m	**Debt at 30.9.23 £m**	**2023/24 Authorised Limit £m**	**2023/24 Operational Boundary £m**	**Complied?**
Borrowing	£146.921	£142.875	£217.500	£212.500	Yes
Total debt	**£146.921**	**£142.875**	**£217.500**	**£212.500**	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Net Income from Commercial and Service Investments to Net Revenue Stream:

The Authority's income from commercial and service investments as a proportion of its net revenue stream has been and is expected to be as indicated below.

	2022/23 actual £m	**2023/24 forecast £m**	**2024/25 budget £m**	**2025/26 budget £m**
Total net income from service and commercial investments	1.195	1.064	0.944	0.793

Proportion of net revenue stream	7.96%	6.30%	5.86%	5.67%

Proportion of Financing Costs to Net Revenue Stream:

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue.

The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget
Financing costs (£m)	(0.4)	(0.2)	(0.1)	0.4
Proportion of net revenue stream	(2.37%)	(1.33%)	(0.52%)	2.75%