

North East Derbyshire District Council

Cabinet

18 July 2024

Treasury Management Financial Outturn 2023/24

Report of Councillor P Kerry, Deputy Leader & Portfolio Holder for Strategic Leadership and Finance

Classification: This report is public

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

Contact Officer: Jayne Dethick

PURPOSE/SUMMARY

To inform Cabinet of the Treasury Management outturn position for 2023/24.

RECOMMENDATIONS

1. That Cabinet note the outturn position in respect of the 2023/24 financial year.

Approved by the Portfolio Holder – Cllr Pat Kerry, Deputy Leader with responsibility for finance.

IMPLICATIONS

Finance and Risk

Yes ✓

No

These are detailed in the attached report.

On Behalf of the Section 151 Officer

Legal including Data Protection

Yes ✓

No

The Statement of Accounts is required to be prepared by the 30 September this year. The Council has now completed the draft Statement of Accounts and they have been signed off by the Chief Financial Officer as at 29 May 2024 which secures compliance with the Council's obligations.

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

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: NEDDC: Revenue - £100,000 <input type="checkbox"/> Capital - £250,000 <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	No
Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)	No
District Wards Significantly Affected	None
Consultation: Leader / Deputy Leader <input type="checkbox"/> Cabinet <input type="checkbox"/> SMT <input checked="" type="checkbox"/> Relevant Service Manager <input checked="" type="checkbox"/> Members <input checked="" type="checkbox"/> Public <input type="checkbox"/> Other <input type="checkbox"/>	Yes Details:

Links to Council Plan priorities, including Climate Change, Equalities, and Economics and Health implications.
All

REPORT DETAILS**1 Background**

- 1.1 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.
- 1.2 There is also a new requirement in the Code, which became mandatory from 1 April 2023, of quarterly reporting of the treasury management indicators and the prudential indicators.

1.3 Whilst treasury management updates have been provided for many years alongside the quarterly revenue and capital monitoring reports, the new requirements of the Code require more detailed reporting. Therefore, to meet these new requirements a separate treasury management outturn will be presented alongside the main financial outturn.

2. Treasury Management

2.1 The treasury management function covers the borrowing and investment of Council funds. All transactions are conducted in accordance with the Council's approved strategy and the CIPFA Code of Practice. Good treasury management plays an important role in the sound financial management of the Council's resources.

2.2 The Council approved the 2023/24 Treasury Management Strategy at its meeting on 30 January 2023. **Appendix 1** identifies the Treasury Management activity undertaken in 2023/24. This includes reporting on the treasury management indicators as required by the new Code such as the maturity structure of borrowing. In summary, the Council operated throughout 2023/24 within the Authorised Limit and Operational Boundary limits approved in the approved Treasury Management Strategy.

2.3 The key points from the summary report at **Appendix 1** are:

- The overall borrowing requirement of the Council was £198.988m at 31 March 2024.
- The PWLB debt is £142.809m at March 2024.
- Effective internal borrowing is £45.348m at 31 March 2024.
- No new PWLB borrowing was undertaken in 2023/24.
- Repaid PWLB debt in year of £4.112m.
- PWLB interest paid in year was £5.118m.
- Interest received in year on investments was £1.472m.

Prudential Indicators

2.3 As from 1 April 2023 there is a new requirement that monitoring of prudential indicators should be reported quarterly. Prudential Indicators are a means of demonstrating that capital expenditure plans are affordable to aid decision making. **Appendix 2** identifies the impact on the Prudential Indicators from the treasury management activity in 2023/24.

3 Reasons for Recommendation

3.1 The Council operated in line with its agreed Treasury Management Strategy during the 2023/24 financial year. This ensures that lending and borrowing arrangements were prudent and sustainable, minimising the risk of financial loss to the Council. Effective management of these arrangements ensured that interest costs during the year were minimised to assist the Council's revenue position whilst interest receivable increased slightly above budget due to increased interest rates.

4 Alternative Options and Reasons for Rejection

4.1 This report is primarily a factual report detailing the actual position against the Council's previously approved treasury management strategy. Accordingly, the report does not set out any options where a decision is required by Members.

DOCUMENT INFORMATION

Appendix No	Title
1	Treasury Management Outturn 2023/24
2	Prudential Indicators Outturn 2023/24
Background Papers	

Treasury Management Outturn Report 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. This quarterly report provides an additional update.

This report includes the new requirement in the 2021 code, mandatory from 1 April 2023, of quarterly reporting of the treasury management prudential indicators.

The Council's treasury management strategy for 2023/24 was approved at a meeting on 30 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 continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year headline consumer price inflation (CPI) had fallen to 3.4% in February but was still above the Bank of England's 2% target at the end of the period. The core measure of CPI, i.e., excluding food and energy, also slowed in February to 4.5% from 5.1% in January, a rate that had stubbornly persisted for three consecutive months.

The UK economy entered a technical recession in the second half of 2023, as growth rates of -0.1% and -0.3% respectively were recorded for Q3 and Q4. Over the 2023 calendar year GDP growth only expanded by 0.1% compared to 2022. Of the recent monthly data, the Office for National Statistics reported a rebound in activity with economy expanding 0.2% in January 2024. While the economy may somewhat recover in Q1 2024, the data suggests that prior increases in interest rates and higher price levels are depressing growth, which will continue to bear down on inflation throughout 2024.

Labour market data provided a mixed message for policymakers. Employment and vacancies declined, and unemployment rose to 4.3% (3mth/year) in July 2023. The same month saw the highest annual growth rate of 8.5% for total pay (i.e., including bonuses) and 7.8% for regular pay growth (i.e., excluding bonuses). Thereafter, unemployment began to decline, falling to 3.9% (3mth/year) in January and pay growth also edged lower to 5.6% for total pay and 6.1% for regular pay, but remained above the Bank of England's forecast.

Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023 with a 3-way split in the Committee's voting as the UK economy appeared resilient in the face of the dual headwinds of higher inflation and interest rates. Bank Rate was maintained at 5.25% through to March 2024. The vote at the March was 8-1 in favour of maintaining rates at this level, with the single dissenter preferring to cut rates immediately by 0.25%. Although financial markets shifted their interest rate expectations downwards with expectations of a cut in June, the MPC's focus remained on assessing how long interest rates would need to be restrictive in order to control inflation over the medium term.

In the Bank's quarterly Monetary Policy Report (MPR) released in August 2023 the near-term projection for services price inflation was revised upwards, goods price inflation widespread across products, indicating stronger domestic inflationary pressure with second-round effects in domestic prices and wages likely taking longer to unwind than they did to emerge. In the February 2024 MPR the Bank's expectations for the UK economy were positive for the first half of 2024, with a recovery from the mild recession in calendar H2 2023 being gradual. Headline CPI was forecast to dip below the 2% target quicker than previously thought due to declining energy prices, these effects would hold inflation slightly above target for much of the forecast horizon.

Following this MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% remains the peak in Bank Rate and that interest rates will most likely start to be cut later in H2 2024. The risks in the short-term are deemed to be to the downside as a rate cut may come sooner than expected, but then more broadly balanced over the medium term.

The US Federal Reserve also pushed up rates over the period, reaching a peak range of between 5.25-5.50% in August 2023, where it has stayed since. US policymakers have maintained the relatively dovish stance from the December FOMC meeting and at the meeting in March, economic projections pointed to interest rates being cut by a total of 0.75% in 2024.

Following a similarly sharp upward trajectory, the European Central Bank hiked rates to historically high levels over period, pushing its main refinancing rate to 4.5% in September 2023, where it has remained. Economic growth in the region remains weak, with a potential recession on the cards, but inflation remains sticky and above the ECB's target, putting pressure on policymakers on how to balance these factors.

Financial markets: Sentiment in financial markets remained uncertain and bond yields continued to be volatile over the year. During the first half of the year, yields rose as interest rates continued to be pushed up in response to rising inflation. From October they started declining again before falling sharply in December as falling inflation and dovish central bank attitudes caused financial markets to expect cuts in interest rates in 2024. When it emerged in January that inflation was stickier than

expected and the BoE and the Federal Reserve were data dependent and not inclined to cut rates soon, yields rose once again, ending the period some 50+ bps higher than when it started.

Over the financial year, the 10-year UK benchmark gilt yield rose from 3.44% to peak at 4.75% in August, before then dropping to 3.44% in late December 2023 and rising again to 3.92% (28th March 2024). The Sterling Overnight Rate (SONIA) averaged 4.96% over the period to 31 March.

Credit review: In response to an improving outlook for credit markets, in January 2024 Arlingclose moved away from its previous temporary stance of a 35-day maximum duration and increased its advised recommended maximum unsecured duration limit on all banks on its counterparty list to 100 days.

Earlier in the period, S&P revised the UK sovereign outlook to stable and upgraded Barclays Bank to A+. Moody's also revised the UK outlook to stable, Handelsbanken's outlook to negative, downgraded five local authorities, and affirmed HSBC's outlook at stable while upgrading its Baseline Credit Assessment. Fitch revised UOB's and BMO's outlooks to stable.

In the final quarter of the financial year, Fitch revised the outlook on the UK sovereign rating to stable from negative based on their assessment that the risks to the UK's public finances had decreased since its previous review in October 2022, the time of the mini- budget.

Moody's, meanwhile, upgraded the long-term ratings of German lenders Helaba, Bayern LB and LBBW on better solvency and capital positions, despite challenges from a slowing German economy and exposure to the commercial real estate sector. Moody's also upgraded or placed on review for an upgrade, Australian banks including ANZ, CBA NAB and Westpac on the back of the introduction of a new bank resolution regime.

Credit default swap prices began the financial year at elevated levels following the fallout from Silicon Valley Bank and collapse/takeover of other lenders. From then the general trend was one of falling prices and UK lenders' CDS ended the period at similar levels to those seen in early 2023. Earlier in the year some Canadian lenders saw their CDS prices rise due to concerns over a slowing domestic economy and housing market, while some German lenders were impacted by similar economic concerns and exposure to commercial real estate towards the end of the period, with LBBW remaining the most elevated.

Heightened 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 Authority's counterparty list recommended by Arlingclose remain under constant review.

Local Context

On 31 March 2024, the Council had net borrowing of £127.4m 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 Actual £m
General Fund CFR	20.9	21.7
HRA CFR	171.3	177.3
Total CFR	192.2	199.0
Less: *Other debt liabilities	0	0
Borrowing CFR	192.2	199.0
External borrowing**	(146.9)	(142.8)
Internal borrowing	45.3	56.2
Less: Balance sheet resources	(71.3)	(70.2)
Net	26.0	14.0

* 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 31 March and the change over the quarter is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.23 Balance £m	Movement £m	31.3.24 Balance £m	31.3.24 Rate %
Long Term Borrowing – PWLB	146.9	(4.1)	142.8	3.54
Total Borrowing	146.9	(4.1)	142.8	3.54
Short-Term Investments	(26.0)	12.0	(14.0)	(5.53)
Cash and cash Equivalents	(0.7)	(0.7)	(1.4)	(5.15)
Total Investments	(26.7)	11.3	(15.4)	(5.45)
Net Borrowing	120.2	7.2	127.4	

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

Interest rates have seen substantial rises over the last two years, although these rises have now begun to plateau. Gilt yields fell in late 2023, reaching April 2023 lows in December 2023 before rebounding to an extent in the first three months of 2024. Gilt yields have remained volatile, seeing upward pressure from perceived sticker inflation at times and downward pressure from falling inflation and a struggling economy at other times.

On 31 December, the PWLB certainty rates for maturity loans were 4.74% for 10-year loans, 5.18% for 20-year loans and 5.01% for 50-year loans. Their equivalents on 31 March 2023 were 4.33%, 4.70% and 4.41% respectively.

The cost of short-term borrowing from other local authorities has generally risen with Base Rate over the year. Interest rates peaked at around 7% towards the later part of March 2024 as many authorities required cash at the same time. These rates are expected to fall back to more normal market levels in April 2024.

On 31 December, the PWLB certainty rates for maturity loans were 4.19% for 10-year loans, 4.90% for 20-year loans and 4.67% for 50-year loans. Their equivalents on 31 March 2023 were 4.33%, 4.70% and 4.41% respectively.

A new PWLB HRA rate which is 0.4% below the certainty rate was made available from 15th June 2023. This rate will now be available until June 2025. The 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 £4m loans relating to the HRA maturing during this time frame.

At 31 March 2024 the Council held £142.8m of loans, a decrease of £4.1m since 31 March 2023, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31 March are summarised in Table 3A below.

Table 3A: Borrowing Position

PWLB Borrowing	Maturity Profile	Net	Maturity Profile
Term	31 March 2023	Movement	31 March 2024
	£'000	£'000	£'000
12 Months	4,112	(4,112)	0
1 - 2 years	6,109	(0)	6,109
2 - 5 years	15,191	(0)	15,191
5 - 10 years	24,419	(0)	24,419
10 - 15 years	42,000	(0)	42,000
Over 15 years	55,090	(0)	55,090
Total PWLB Debt	146,921	(4,112)	142,809

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 Management Investment Activity

CIPFA revised TM Code defines treasury management investments as those which arise from the Council's cash flows or treasury risk management activity that ultimately represents balances which 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 £14.0 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 31/3/24 £000's	Interest Received 31/3/24 £000's
Federated Fund 3	Call	3,000	1,150	(1,150)	3,000	(150)
Federated GBP 3	Call	2,000	186	(2,186)	0	(186)
Aberdeen Standard	Call	1,000	20,593	(21,593)	0	(93)
CCLA Public Sector Deposit Fund	1 Day Call	5,000	94	(5,094)	0	(94)
Aviva	Call	1,500	3,742	(5,242)	0	(242)
Invesco	Call	0	10,191	(9,191)	1,000	(191)
JP Morgan	Call	0	3,003	(3,003)	0	(3)
Goldman Sachs	Call	0	6,518	(6,518)	0	(18)
SSGA	Call	3,500	28,089	(31,589)	0	(89)
Ashford Borough Council	12 Months	5,000	133	(5,133)	0	(133)
Lancashire County Council	12 Months	5,000	5,191	(5,191)	5,000	(191)
Aberdeen County Council	12 Months	0	5,082	(82)	5,000	(82)
Total		26,000	83,972	(95,972)	14,000	(1,472)

Overnight Investments

The balance of the daily surplus funds can be placed as overnight investments with the Council's bank which is Lloyds. The maximum amount invested with Lloyds in 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 31 March 2024 is £81,857.92.

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% over the period, from 4.25% at the beginning of April to 5.25% by the end of December. Short term rates peaked at 5.6% for 3-month rates and 6.6% for 12-month rates during the period, although these rates subsequently began to reduce towards the end of the period. Money Market Rates also rose and were between 5.27% and 5.29% by the end of March.

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 31.3.2024	5.29	A+	32%	155	5.61
Similar Las/All LAs	4.90	A+	61%	50	5.07

*Weighted average maturity

Statutory override: 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 Authority 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 CIPFA's revised 2021 Treasury Management Code 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 also held £15.9m of such investments in

- Loans to Rykneld Homes Ltd £6.5m
- Loans to Northwood Group Ltd £9.4m

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

- Directly owned property £21.8m

These investments generated £0.553m of investment income for the Council after taking account of direct costs, representing a rate of return of 2.53% as at 31 March 2024.

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	142.8	150.8	Under	3.54	4.33	Under
Total borrowing	142.8	150.8	Under	3.54	4.33	Under
Total debt	142.8	150.8	Under	3.54	4.33	Under
Investments (see table 4)	14.0	11.7	Over	5.53	2.42	Over
Total treasury investments	14.0	11.7	Over	5.53	2.42	Over

Consultation

In December DLUHC published two consultations: a “final” consultation on proposed changes to regulations and statutory guidance on MRP closing on 16th February and a “call for views” on capital measures to improve sector stability and efficiency closing on 31 January.

Draft regulations and draft statutory guidance are included in the MRP consultation. The proposals remain broadly the same as those in June 2022 – to limit the scope for authorities to (a) make no MRP on parts of the capital financing requirement (CFR) and (b) to use capital receipts in lieu of a revenue charge for MRP.

In its call for views on capital measures, Government wishes to engage with councils to identify and develop options for the use of capital resources and borrowing to support and encourage ‘invest-to-save’ activity and to manage budget pressures without seeking exceptional financial support. Whilst Government has identified some options including allowing authorities to capitalise general cost pressures and meet these with capital receipts, there is no commitment to take any of the options forward.

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	31.3.24 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	£4m	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

	2023/24 Maximum £m	31.3.24 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied?
Borrowing	146.9	142.8	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 Indicators

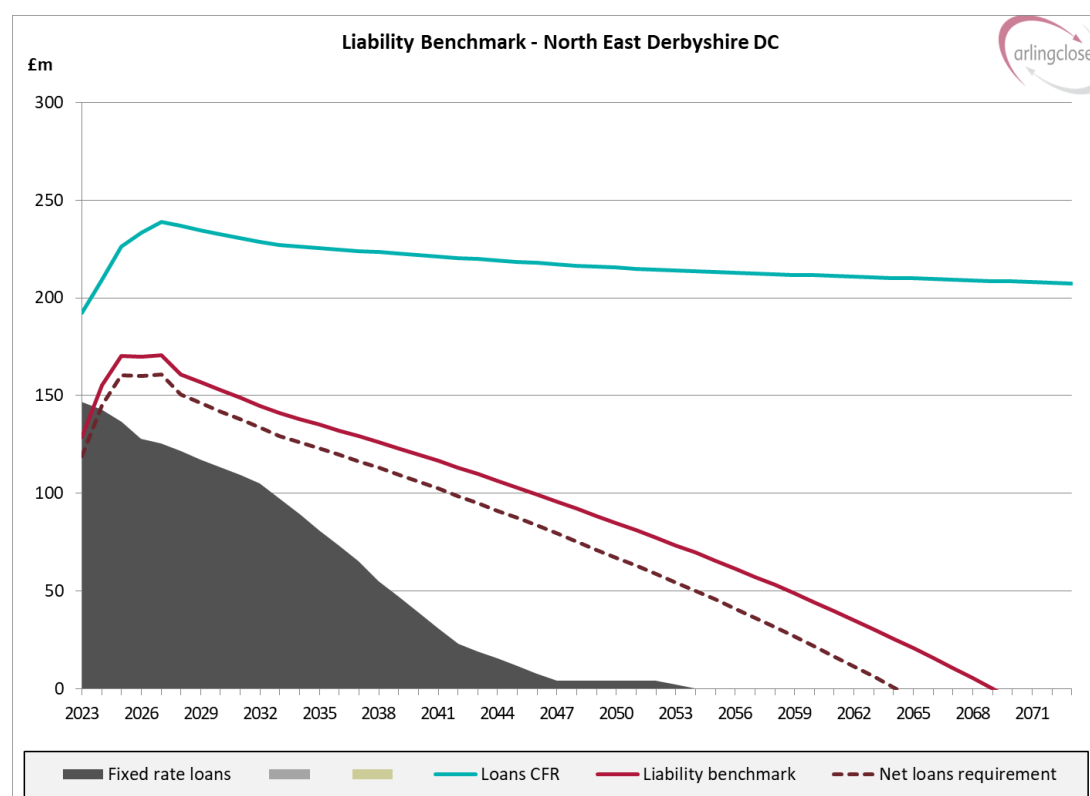
As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

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 Actual	31.3.25 Forecast	31.3.26 Forecast
Loans CFR	192.3	199.0	221.3	218.1
Less: Balance sheet resources	(71.4)	(70.2)	(73.6)	(71.6)
Net loans requirement	120.9	128.8	147.7	146.5
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	130.9	138.8	157.7	156.5
Existing borrowing	146.9	142.8	157.0	156.0

Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £10.1m 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. Maturity Structure of Borrowing: 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	31.3.24 Actual	Complied?
Under 12 months	20%	0%	0.00%	Yes
12 months and within 24 months	20%	0%	4.28%	Yes
24 months and within 5 years	40%	0%	10.64%	Yes
5 years and within 10 years	40%	0%	17.10%	Yes
10 years and above	90%	0%	67.98%	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	31.3.24 Actual	Complied?
Portfolio average credit rating	<3.0	2.0	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.

	31.3.24 Actual £m	2023/24 Target £m	Complied?
Total cash available within 3 months	5.4	11.7	No

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. Bank Rate rose by 1.25% from 4.25% on 1 April to 5.25% by 31 December.

Interest rate risk indicator	2023/24 Target	31.3.24 Actual	Complied
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£1.5m	£0.0m	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£1.5m	£0.0m	Yes

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

	<u>31/3/23</u>	<u>31/3/24</u>
Bank Rate	4.25%	5.25%
1-year PWLB certainty rate, maturity loans	4.78%	5.36%
5-year PWLB certainty rate, maturity loans	4.31%	4.68%
10-year PWLB certainty rate, maturity loans	4.33%	4.74%
20-year PWLB certainty rate, maturity loans	4.70%	5.18%
50-year PWLB certainty rate, maturity loans	4.41%	5.01%

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.

Prudential Indicators Outturn 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 Council has undertaken and is planning capital expenditure as summarised below.

	2022/23 actual £m	2023/24 actual £m	2024/25 budget * £m	2025/26 budget £m
General Fund services	£8.970	£15.429	£19.839	£5.145
Council housing (HRA)	£20.304	£30.387	£28.094	£12.252
Capital investments	£0.000	£0.000	£0.000	£0.000
Total	£29.274	£45.816	£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 Refurbishment of Mill Lane Project, General Asset Refurbishment, Dronfield Sports Centre Carbon Efficiencies Programme, Vehicle Replacement, UK Shared Prosperity Fund, Clay Cross Towns Fund Projects, and 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, 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 actual £m	31.3.2025 budget * £m	31.3.2026 budget £m
General Fund services	£20.923	£21.697	£32.029	£28.240
Council housing (HRA)	£171.346	£177.291	£189.288	£189.888
Capital investments	£0.000	£0.000	£0.000	£0.000
TOTAL CFR	£192.270	£198.988	£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 actual £m	31.3.2025 budget £m	31.3.2026 budget £m	Debt at 31.3.2024 £m
Debt (incl. PFI & leases)	£146.921	£142.809	£156.995	£155.995	£142.809
Capital Financing Requirement	£192.270	£198.988	£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 2023/24 £m	Debt at 31.3.24 £m	2023/24 Authorised Limit £m	2023/24 Operational Boundary £m	Complied?
Borrowing	£146.921	£142.809	£217.500	£212.500	Yes
Total debt	£146.921	£142.809	£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 actual £m	2024/25 budget £m	2025/26 budget £m
Total net income from service and commercial investments	1.195	1.203	0.944	0.793
Proportion of net revenue stream	7.96%	7.57%	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 actual	2024/25 budget *	2025/26 budget
Financing costs (£m)	(0.4)	(0.8)	(0.1)	0.4
Proportion of net revenue stream	(2.37%)	(4.98%)	(0.52%)	2.75%

* £0m of the increase in financing costs in 2024/25 arises from a change in the accounting for leases and does not represent additional cost to the Authority.

Treasury Management Indicators:

These indicators (Liability Benchmark, Maturity Structure of Borrowing, Long-Term Treasury Management Investments) are within the Appendix 1 Treasury Management Outturn 2023/24.