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Report Title: 2022/23 TREASURY MANAGEMENT OUTTURN REPORT

Report to: Cabinet

Date of meeting: 9th October 2023

Responsible Cabinet Member:

Responsible Director / Officer : Financial Services Manager

Is this a Key decision? No

Date added to Forward Plan of Key Decisions if a Key Decision:

EXECUITVE SUMMARY / INTRODUCTION FROM CABINET MEMBER

This report presents the treasury management activity for the 2022/23 financial year and includes:

1. The overall treasury position for 2022/23
2. The borrowing requirement and debt for 2022/23
3. The borrowing outturn for 2022/23
4. Reporting on the quarter 1 2023/24 treasury and capital prudential indicators

RECOMMENDATIONS :

That Cabinet : It is recommended approve the Treasury Management outturn report and indicators for 2022/23.

1. INTRODUCTION

1.1 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 reports. This report fulfils that requirement.

1.2 The Council's treasury management strategy for 2022/23 was approved at a meeting of the Council in February 2022. 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.

1.3 The 2021 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council in February 2022.

2. LOCAL CONTEXT

2.1 The national context and economic commentary is provided as background to the report within Appendix A. On 31 March 2023, the Council had net borrowing of £117.176m 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 usable reserves and working capital 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**
General Fund CFR	£76.424
HRA CFR	£91.306
Total CFR	**£167.730**
Less: Other debt liabilities*	(£0.564)
Borrowing CFR	£167.166
Less: Usable reserves	(£48.661)
Less: Working capital	(£1.329)
Net borrowing	**£117.176**

* Finance leases and transferred debt that form part of the Council's total debt

2.2 The council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, to reduce risk and keep interest costs low.

2.3 The treasury management position as at 31 March 2023 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary	**31.3.22 Balance £m**	**2022/23 Movement £m**	**31.3.23 Balance £m**	**31.3.23 Rate %**
Long-term borrowing	£82.487	£5.998	£88.485	4.22% - 4.95%
Short-term borrowing	£53.003	(£20.002)	£33.001	3.90% - 4.65%
Total borrowing	**£135.490**	**(£14.004)**	**£121.486**	
Long-term investments	£1.000	£0.000	£1.000	0.41%
Cash and cash equivalents	£42.887	(£39.577)	£3.310	3.93% - 3.87%
Total investments	**£43.887**	**(£39.577)**	**£4.310**	
Net borrowing	**£91.603**	**£25.573**	**£117.176**	

Note: the figures in the table are from the balance sheet in the Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments. Long-term investments consist of CCLA Property Fund a mid-long-term strategic investment.

BORROWING UPDATE

2.4 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 Authority. 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 reviewed its capital programme and is not undertaking any such capital projects that are primarily for commercial return.

BORROWING ACTIVITY

2.5 At 31 March 2023 the Council held £121m of loans, a decrease of £14.1m from 31 March 2022, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31 March are summarised in Table 3 below.

Table 3: Borrowing Position	**31.3.22 Balance £m**	**2022/23 Movement £m**	**31.3.23 Balance £m**	**31.3.23 Rate %**	**31.3.23 Maturity years**
Public Works Loan Board	£71.386	£0.000	£71.386	3.15%-4.40%	**10-40 years**
Banks (LOBO)	£3.000	£0.000	£3.000	4.95%	**1-2 years**
Banks (fixed term)	£7.000	£0.000	£7.000	3.35%-3.98%	**<1-60 years**
Local authorities (long-term)	£1.196	£5.904	£7.100	4.44%	**>1 year**
Local authorities (short-term)	£53.001	(£20.001)	£33.000	0.09%-0.28%	**<1 year**
Total borrowing	**£135.583**	**(£14.097)**	**£121.486**		

2.6 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 and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

2.7 The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March around 2% - 4% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Rates have now fallen from September peaks but remain volatile and well above recent historical norms. The PWLB 10 year maturity certainty rate stood at 4.33% at 31st March 2023, 20 years at 4.70% and 30 years at 4.66%.

2.8 A new HRA PWLB rate of gilt yield plus 0.4% (0.4% below the currently available certainty rate) was announced on 15th March 2023. This discounted rate is to support local authorities borrowing for Housing Revenue Accounts and the delivery of social housing and is expected to be available from June 2023, initially for a period of one year.

2.9 In furtherance of these objectives, new loans totalling £39m were borrowed in 2022/23 to repay £53m existing short-term borrowing and create liquidity. This strategy enabled the Council to reduce net borrowing costs by utilising the Local authority lending market.

2.10 New borrowing of £39m from Local Authorities in the year was for less than 1 year and at interest rates between 3.90% and 4.65%. Loans repaid to Local Authorities in the year of

£53m were from between less than a month and 1 year at interest rates of between 0.09% and 0.28*%.

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

2.12 LOBO loans: The Council continues to hold £3m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The bank did not exercise its option to increase the rate during the year.

TREASURY INVESTMENT ACTIVITY

2.13 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that 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.

2.14 The Council holds a significant level of invested funds, representing income received in advance of expenditure plus balances and reserves held and money borrowed in advance of need. During 2022/23, the council's investment balances ranged between £12m and £61m, averaging £29m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position	31.3.22 Balance £m	2022/23 Movement £	31.3.23 Balance £m	31.3.23 Income Return %	31.3.23 Rate %
Banks & building societies (unsecured)	£1.155	£0.283	(£0.872)		**0.35%**
Government (Inc. local authorities)	£27.730	(£27.730)	£0.000		**0%**
Money Market Funds	£20.000	(£15.820)	£4.180		**4.08% - 4.12%**
Pooled Property Funds	£1.000	£0.000	£1.000	3.62%	**4.26%**
Total investments	**£49.885**	**(£43.267)**	**£4.308**		

2.15 The main reason the balance held in investments has reduced from the prior year is due to the final settlement and repayment of £23m Government funds during 2022/23 that were received in advance of spend in relation to COVID business grants.

2.16 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.

2.17 Bank Rate has increased from 0.75% at the beginning of the year to 4.25% at the end of March 2023. Short-dated cash rates, which had ranged between 0.7% - 1.5% at the beginning of April, rose by around 3.5% for overnight/7-day maturities and 3.3% for 6-12 month maturities.

2.18 By end March 2023, the rates on DMADF deposits ranged between 4.05% and 4.15%. The return on the Council's sterling Low Volatility Net Asset Value (LVNAV) Money Market Funds ranged between [0.9% - 1.1% p.a.] in early April and between [3.8% and 3.9%] at the end of March.

2.19 The progression of credit risk and return metrics for the Council's investments managed in-house are shown in the extracts from Arlingclose 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)**	**Total Return %**
31.03.2022	4.25	AA-	43%	68	0.46%
31.03.2023	5.10	A+	32%	290	1.50%
Similar Las	4.52	A+	63%	56	3.57%
All Las	4.56	A+	59%	12	3.67%

2.20 Externally Managed Pooled Funds: In accordance with the strategy, £1m of the Council's investments are held in CCLA Local Authority Property Fund an externally managed strategic pooled property fund where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

2.21 Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

2.22 The Council had budgeted £57k income from these investments in 2022/23. Income received was £283k, whist a further £58k has been declared and is due to be paid by April/May.

2.23 The DLUHC published a consultation on the IFRS 9 pooled investment fund statutory override for English authorities for fair value gains and losses on pooled investment funds which was due to expire with effect from 2023/24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. The override will be extended for two years and therefore remain in place for the 2023/24 and 2024/25 financial years. Under the Regulations, gains and losses resulting from unrealised fair value movements relating to treasury pooled investment funds, that otherwise must be recognised in profit or loss under IFRS 9, are not charges to the revenue account, and must be taken into an unusable reserve account.

3. FINANCIAL IMPLICATIONS

3.1 Other Non-Treasury Holdings and Activity - Although not classed as treasury management activities the definition of investments in CIPFA's revised Treasury Management 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).

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

3.3 At the balance sheet date of 31st March 2023, the Council also held £49m of investments in directly owned property, loans to homeowners and local bodies and investments in a trading subsidiary (subject to Audit).

3.4 These non-treasury investments generated £2m of investment income for the Council after taking account of direct costs, representing a rate of return of 4.0%. This has typically been higher than the return earned on treasury investments to reflect the additional risks to the Council of holding such investments. However, due to higher interest rates the rate for 2022/23 is in line with treasury investments.

3.5 Performance Report - The Council measures the financial performance of its treasury management activities in terms of its impact on the revenue budget. The table below sets out the comparison of the impact on borrowing between budget and actuals.

Table 6: Revenue Implications of Treasury Management Activity	**Budget 2022-23 £m**	**Actual 2022/23 £m**	**Variance £m**
General Fund Interest Paid	£0.903	£0.665	(£0.238)
HRA Interest Paid	£2.846	£2.708	(£0.138)
General Fund Interest Received	£0.082	£0.437	(£0.355)
HRA Interest Received	£0.016	£0.06	(£0.044)
MRP	£1.730	£1.558	(£0.172)

3.6 The amount of the Authority's revenue budget required to be set aside for the future repayment of external borrowing is known as the Minimum Revenue Provision (MRP). This amount is calculated by reference to the Council's balance sheet as at the end of the previous financial year. The underspend on MRP relates to slippage in the capital programme in the 2021/22 financial year and less borrowing required to fund the capital spend.

3.7 Higher interest receivable figures reflect the higher than forecast cash balances held throughout the year and the higher interest environment. Recognising the risk posed by anticipated high interest rates we were prudent in the budget set for interest payable. However, interest rates were lower than anticipated and therefore actuals resulted in a favourable variance.

3.8 Compliance Report – The Finance Director reported that all treasury management activities undertaken during 2022/23 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy 2022/23.

3.9 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below, and compliance with the specific investment limits is demonstrated in table 8 below.

Table 7: Debt Limits	**2022/23 Maximum £m**	**31.3.23 Actual £m**	**2022/23 Operational Boundary £m**	**2022/23 Authorised Limit £m**	**Complied? Yes/No**
Borrowing	£125.559	£121.486	£192.000	£197.000	**Yes**
Long term liabilities, PFI & Finance Leases	£0.564	£0.564	£2.000	£2.000	**Yes**
Total debt	**£126.123**	**£122.050**	**£194.000**	**£199.000**	**Yes**

3.10 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. Total debt did not exceed the operational boundary during 2022/23.

Table 8: Investment Limits	**2022/23 Maximum**	**31.3.23 Actual**	**2022/23 Limit**	**Complied? Yes/No**
Any single organisation, except the UK Government	£1.010m	-£0.872m	£1.6m	Yes
UK Central Government	Unlimited	Nil	Unlimited	Yes
UK Central Government Local Authorities	£9m	£9m	£3m (2years)	Yes
Secured Investments	Nil	Nil	£3m (5 years)	Yes
Banks (unsecured)	£1.010m	-£0.872m	£1.6m (unlimited)	
Any group pooled funds under the same Management (incorporates Money Market Funds and Strategic Pooled Funds)	£5m	£3.985m	£8m	Yes
Negotiable instruments held in a broker’s nominee account	Nil	Nil	£5m per broker	Yes
Limit per non-UK country	Nil	Nil	£1.5m per country	Yes
Registered providers and registered social landlords (unsecured)	Nil	Nil	£3m in total	Yes
Unsecured investments with building societies	Nil	Nil	£1.5m in total (1 year)	Yes
Strategic Pooled Funds	£1m	£1m	£3m	Yes

Money Market Funds	£25m	£4.180m	£5m per fund Unlimited	Yes
Other Investments	Nil	Nil	£1m (2 years)	Yes

3.11 Treasury Management Indicators - The Council measures and manages its exposures to treasury management risks using the following indicators.

3.12 Security - The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**31.3.23 Actual**	**2022/23 Target**	**Complied?**
Portfolio average credit rating	A+	A	Yes

3.13 Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount cash available to meet unexpected payments within a rolling three-month period, and the amount it can borrow each quarter without giving prior notice.

Liquidity	**31.3.23 Actual**	**2022/23 Target**	**Complied?**
Liquid short-term deposits	£4.180m	£12m	No
Bank overdraft	£0.250m	£0.250m	Yes

* Liquid short-term deposit did not comply as total investments £14.180 of which £10m were long term investments with local authorities and CCLA PF. The target was set at a time when balances were previously much higher. The impact of this was not deemed significant.

3.14 Interest Rate Exposures: This indicator is set to control the Councils exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Interest rate risk indicator	**31.3.23 Actual £000**	**22/23 Limit £000**	**Complied**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£133	£148	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£135	£264	Yes

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

3.16 Maturity Structure of Borrowing: This indicator is set to control the Councils exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Maturity Structure of Borrowing	**31.3.23 Actual**	**Upper Limit**	**Lower Limit**	**Complied?**
Under 12 months	27%	50%	0%	Yes
12 months and within 24 months	7%	50%	0%	Yes
24 months and within 5 years	0%	60%	0%	Yes
5 years and within 10 years	7%	80%	0%	Yes
10 years and above	58%	100%	0%	Yes

3.17 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.

3.18 Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Principal Sums Invested for Periods Longer than 365 days	2022/23 £m	2023/24 £m	2024/25 £m
Actual principal invested beyond year end	£10m	£10m	Nil
Limit on principal invested beyond year end	£12m	£12m	£12m
Complied	Yes	Yes	Yes

4. Risk Implications

4.1 As detailed within this document and the Treasury Management Strategy.

5. Legal Implications

5.1 As detailed within this document and the Treasury Management Strategy.

6. Conclusion

6.1 Overall the Council remains in line with the Treasury Management Strategy as approved in February 2023. The treasury activities continue to be monitored on a daily basis.

7. Background Papers

- Treasury Management Strategy 2023/24
- 2022/23 Outturn Reports for the General Fund and the Housing Revenue Account.
- Arlingclose updates and reports
- Current and future cashflows and loan registers
- Capital Financing Reports for GF/HRA

Areas of consideration: e.g. does this report raise any of the following issues and if so how have these been considered/mitigated against?

Consultations	**Comment**
Monitoring Officer Consultation:	
Section 151 Officer Consultation:	
Existing Council Policies:	
Equality Issues/EQIA assessment:	

Appendix A Treasury Management Prudential Indicators Q1 2023/24

1. NATIONAL CONTEXT AND ECONOMIC COMMENTARY

1.1 Economic background: The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending. Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

1.2 Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.

1.3 The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate 3month/year eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December. The most recent information for the period December-February showed an unemployment rate of 3.7%.

1.4 Nominal earnings were robust throughout the year, with earnings growth in December-February at as 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for inflation, however, both measures were negative for that period and have been so throughout most of the year.

1.5 Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. For the October-December period was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Q4 was 0.6%.

1.6 The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

1.7 After reaching 9.1% in June, annual US inflation slowed for eight consecutive months to 6% in February. The Federal Reserve continued raising interest rates over the period with consecutive increases at each Federal Open Market Committee meetings, taking policy rates to a range of 4.75%- 5.00% at the March meeting. From the record-high of 10.6% in October, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in March, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.

1.8 As 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 authorities remain under financial pressure, but Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree caution is merited with certain authorities.

Appendix B

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

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 £7m required to manage day-to-day cash flow.

Liability Benchmark	**31.3.23 Actual**	**31.3.24 Forecast**	**31.3.25 Forecast**	**31.3.26 Forecast**
Loans CFR	167.7	195.5	197.5	198.5
External Borrowing	(121.0)	(82.4)	(82.3)	(82.2)
Less: Balance sheet resources (including working capital)	(50.00)	(66.1)	(58.9)	(63.1)
Investments / (new Borrowing)	**(3.3)**	**47.0**	**56.3**	**53.2**
Plus: Liquidity allowance	7.0	7.0	7.0	7.0
Liability benchmark	**124.7**	**136.4**	**145.5**	**142.5**
Existing borrowing	*121.0*	*82.3*	*82.2*	*82.1*

Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing in line with the current forecast capital programme, minimum revenue provision and income, expenditure and reserves all in line with the 2023/24 budget and forecasts.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Maturity Structure of Borrowing	**Upper Limit**	**Lower Limit**	**30.6.23 Actual**	**Complied?**
Under 12 months	50%	0%	28%	Yes
12 months and within 24 months	50%	0%	7%	Yes
24 months and within 5 years	60%	0%	0%	Yes
5 years and within 10 years	80%	0%	7%	Yes

10 years and above	100%	0%	57%	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.

Long-term Treasury Management Investments: The purpose of this indicator is to control the Authority'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:

Long-term Treasury Management Investments	2023/24	2024/25	2025/26	No fixed date
Limit on principal invested beyond year end	£10m	£10m	£10m	£1m
Actual principal invested beyond year end	£6m	Nil	Nil	£1m
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 Authority 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.

Security	2023/24 Target	30.6.23 Actual	Complied?
Portfolio average credit rating	A	A+	Yes

Liquidity: The Authority 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, it can borrow each period without giving prior notice.

Liquidity	30.6.23 Actual	2023/24 Target	Complied?
Total cash available within 3 months	£10.1m	£7m	Yes
Total sum borrowed in past 3 months without prior notice	£4m	No Target Set	N/A

Interest Rate Exposures: This indicator is set to control the Authority'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% by 30th June.

Interest rate risk indicator	2023/24 Target £000	30.6.23 Actual £000	Complied
Upper limit on one-year revenue impact of a 1% rise in interest rates	£50	£119	No
Upper limit on one-year revenue impact of a 1% fall in interest rates	(£50)	(£122)	No

The above limits were breached because they were based on lower investment and lower loan balances which reflected the Councils portfolio as at 31/12/2022 when the Treasury Management Strategy was written. The Councils investment balances have increased by 58% and loan balances have increased by 70% due to large capital projects and for cashflow purposes.

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

	31/3/23	30/6/23
Bank Rate	4.25%	5.00%
1-year PWLB certainty rate, maturity loans	4.78%	6.22%
5-year PWLB certainty rate, maturity loans	4.31%	5.71%
10-year PWLB certainty rate, maturity loans	4.33%	5.25%
20-year PWLB certainty rate, maturity loans	4.70%	5.36%
50-year PWLB certainty rate, maturity loans	4.41%	4.95%

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 C Capital Prudential Indicators Q1 2023/24

The Authority measures and manages its capital expenditure, borrowing and capital 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.

The figures below have been updated in line with the 2022/23 accounts, which are still subject to audit

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	18.0	52.2	23.4	12.3
Council housing (HRA)	11.5	10.6	9.5	9.3
Capital investments	0.2	12.8	1.0	0

The main General Fund capital projects include:

- North Quay Redevelopment
- 6 Day Market & Market Realm Redevelopment
- Wintergardens Restoration
- Conversion of former Palmers Department store to Learning Hub

HRA capital expenditure is recorded separately and includes the building and acquisition of new homes over the forecast period to replace sales under Right to Buy in line with government guidance. Programmed capital expenditure is also driven to maintaining and improve the overall stock currently held by the HRA, this is prepared over the medium term and reviewed and updated annually.

Capital investments include loans and shares made for service purposes and property to be held primarily for financial return in line with the definition in the CIPFA Treasury Management Code.

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 and capital receipts used to replace debt.

The actual CFR is calculated on an annual basis, but an updated CFR forecast at 30th June 2023 is shown below.

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget
General Fund services	74.3	89.4	89.6	89.7
Council housing (HRA)	91.3	93.1	94.0	94.8
Capital investments	2.1	14.3	15.1	15.0
TOTAL CFR	**167.7**	**196.8**	**198.7**	**199.5**

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 Authority has complied and expects to continue to comply with this requirement in the medium term as is shown below.

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	Debt at 30.6.2023
Debt (incl. PFI & leases)	122.0	82.8	82.6	82.4	123.0
Capital Financing Requirement	167.7	196.8	198.7	199.5	

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 and to keep it under review. 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 30.6.23 £m	2023/24 Authorised Limit £m	2023/24 Operational Boundary £m	Complied? Yes/No
Borrowing	125.5	122.5	205.0	200.0	Yes
PFI and Finance Leases	0.5	0.5	2.0	2.0	Yes
Total debt	**126.0**	**123.0**	**207.0**	**202.0**	**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.

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)	2.2	3.9	4.6	4.8
Proportion of net revenue stream	14.6%	25.3%	29.4%	35.8%