# Treasury Management Report April to September 2023/24 (H1)

## Introduction

In 2003 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, as a minimum, treasury management semi-annual and annual outturn reports.

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

The Council's treasury management strategy for 2023/24 was presented to Cabinet for recommendation on 27th February 2023 approved by Full Council on 9th March 2023. The Council has borrowed 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 – Provided by External Advisors Arlingclose

**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 Council'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 Council's counterparty list recommended by Arlingclose remains under constant review.

## Slough Borough Council Context

On 30th September 2023, the Council had total external borrowing (excluding PFI & leases) of £430m arising from its revenue and capital income and expenditure. External borrowing is forecast to rise from £430m to £502m during the second half of the financial year but will remain below the opening balance as at the 1st of April, and refinancing of loans will not take place until it is needed. 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 | 539 | 510.7 |
| Capitalisation Direction | 149 | 86.9 |
| Housing Revenue Account CFR | 174 | 174.0 |
| **Total CFR** | **853** | **771.6** |
| Less: *Other debt liabilities | 33.1 | 31.2 |
| **Loans CFR** | **819.9** | **740.4** |
| External borrowing** | 590.5 | 502.4 |
| **Internal/ Under borrowing** | 229.4 | 238.0 |
| Less: Balance sheet resources*** | - | - |
| **Loans CFR** | **819.9** | **740.4** |

* 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 above table includes numbers which are yet to be finalised as they are subject to audit. This includes Balance sheet resources figures that are yet to be confirmed.

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

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 | 30.9.23 Rate % |
|---|---|---|---|---|
| Long-term borrowing | | | | |
| - PWLB | 433.97 | -16.97 | 417.0 | 3.04 |
| - LOBOs | 13.0 | 0 | 13.0 | 4.15 |
| - Other | 0 | 0 | 0 | |
| ***Short-term borrowing | 143.5 | -143.5 | 0 | |
| **Total borrowing** | **590.47** | **-160.47** | **430.0** | |
| ***Long-term investments | 119.0 | -119 | 0 | 0 |
| ***Short-term investments | 22.0 | 1.81 | 23.81 | 5.10 |
| **Cash and cash equivalents | 0 | 0 | 0 | |
| **Total investments** | **141.0** | **-120.81** | **23.81** | |
| **Net borrowing** | **449.5** | **-281.28** | **406.19** | |

**subject to audit*

**These are company's assets that are cash or can be converted into cash immediately. Cash equivalents include bank accounts and marketable securities such as commercial paper and short-term government bonds. Cash equivalents should have maturities of three months or less.

***Long term borrowing/ investments are repaid/matures over a period longer than a year.
Short -term borrowing/ investments are repaid/matures over a period shorter than or a year.

**Borrowing**

CIPFA's 2021 Prudential Code is clear that local Councils must not borrow to invest primarily for financial return and that it is not prudent for local Councils 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 Councils planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

*T*he 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.

The Council *has reviewed* its capital programme in light of the Prudential Code 2021 requirements and PWLB lending arrangements to ensure that borrowing to invest primarily for commercial return is no longer undertaken.

## 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 lower 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 than 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 was made available from 15th June 2023. Initially available for a period of one year, this discounted rate is to support local Councils borrowing for the Housing Revenue Account and for refinancing existing HRA loans

At 30th September the Council held £430m of loans, decrease of £16.97m to 31st March 2023, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th September are summarised in Table 3A below.

Table 3A: Borrowing Position

| | 31.3.23 Balance £m | Net Movement £m | 30.9.23 Balance £m | 30.9.23 Weighted Average Rate % |
|---|---|---|---|---|
| Public Works Loan Board | 433.97 | -16.97 | 417.0 | 3.11 |
| Banks (LOBO) | 13.0 | 0 | 13.0 | 4.15 |
| Banks (fixed-term) | 0 | 0 | 0 | |
| Local Councils (long-term) | 0 | 0 | 0 | |
| Local Councils (short-term) | 143.5 | -143.5 | 0 | |
| **Total borrowing** | **590.47** | **-160.47** | **430.0** | |

In general, short-term borrowing cost has continued to increase with the rise in Bank Rate and short-dated market rates. As the Council has no short-term loans as at end of September, the average rate on the Council's short-term loans at 30th September 2023 of £0 was 0%, this compares with 1.84% on £35m loans 3months ago.

Table 3B: Long-dated Loans borrowed *(if applicable to your borrowing activity)*

| | Repayment Method | Reference no | Loan Balance | Loan Rate |
|---|---|---|---|---|
| PWLB PUBLIC WORKS LOAN BOARD | MATURITY | 607670 | 50,000,000.00 | 4.80 |
| PWLB PUBLIC WORKS LOAN BOARD | EIP | 509819 | 25,000,000.00 | 1.85 |
| PWLB PUBLIC WORKS LOAN BOARD | MATURITY | 498000 | 4,000,000.00 | 3.67 |
| PWLB PUBLIC WORKS LOAN BOARD | MATURITY | 509820 | 40,000,000.00 | 4.54 |
| PWLB PUBLIC WORKS LOAN BOARD | MATURITY | 498001 | 4,000,000.00 | 3.85 |
| PWLB PUBLIC WORKS LOAN BOARD | MATURITY | 487800 | 1,000,000.00 | 4.45 |
| PUBLIC WORKS LOAN BOARD | MATURITY | 500578 | 20,000,000.00 | 3.08 |
| PWLB PUBLIC WORKS LOAN BOARD | MATURITY | 488859 | 500,000.00 | 4.95 |
| PWLB PUBLIC WORKS LOAN BOARD | EIP | 509818 | 13,043,478.25 | 1.07 |
| PWLB PUBLIC WORKS LOAN BOARD | MATURITY | 489227 | 5,000,000.00 | 4.70 |
| PUBLIC WORKS LOAN BOARD | MATURITY | 500582 | 20,000,000.00 | 3.30 |
| PWLB PUBLIC WORKS LOAN BOARD | EIP | 509540 | 9,533,333.36 | 1.40 |
| PWLB PUBLIC WORKS LOAN BOARD | MATURITY | 490923 | 3,000,000.00 | 4.15 |
| PWLB PUBLIC WORKS LOAN BOARD | MATURITY | 490924 | 5,000,000.00 | 4.15 |
| PUBLIC WORKS LOAN BOARD | MATURITY | 500579 | 20,000,000.00 | 3.44 |
| PWLB PUBLIC WORKS LOAN BOARD | EIP | 507555 | 18,750,000.00 | 2.12 |
| PWLB PUBLIC WORKS LOAN BOARD | MATURITY | 494837 | 5,000,000.00 | 4.72 |
| PWLB PUBLIC WORKS LOAN BOARD | EIP | 508164 | 15,500,000.00 | 2.08 |
| PUBLIC WORKS LOAN BOARD | MATURITY | 500584 | 20,000,000.00 | 3.47 |
| PWLB PUBLIC WORKS LOAN BOARD | EIP | 509380 | 20,000,000.00 | 1.69 |
| PUBLIC WORKS LOAN BOARD | MATURITY | 500581 | 15,841,000.00 | 3.49 |
| PUBLIC WORKS LOAN BOARD | MATURITY | 500580 | 20,000,000.00 | 3.50 |
| PWLB PUBLIC WORKS LOAN BOARD | EIP | 508766 | 41,000,000.00 | 2.22 |
| PWLB PUBLIC WORKS LOAN BOARD | EIP | 507556 | 20,833,333.30 | 2.36 |
| PWLB PUBLIC WORKS LOAN BOARD | MATURITY | 507959 | 20,000,000.00 | 2.59 |
| | | | | |
| **TOTAL PWLB** | | | **417,001,144.91** | 3.12 |
| BARCLAYS CAPITAL | MATURITY | 164 | 4,000,000.00 | 4.76 |
| DEXIA MUNICIPAL AGENCY | MATURITY | 166 | 4,000,000.00 | 3.75 |
| DEPFA ACS BANK | MATURITY | 165 | 5,000,000.00 | 3.99 |
| **TOTAL LOBO** | | | **13,000,000.00** | 4.17 |
| **TOTAL LOANS as at 30/09/23** | | | **430,001,144.91** | |

PWLB loans are repayable by one of three methods:

(i) Maturity: half-yearly payments of interest only, with a single repayment of principal at the end of the term.

(ii) EIP (Equal Instalments of Principal): equal half-yearly instalments of principal together with interest on the balance outstanding at the time.

(iii) Annuity or ER (Equal Repayments): fixed half-yearly payments to include principal and interest.

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.

LOBO loans: The Council continues to hold £13m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. Maturity dates are between 2054 and 2066. No banks exercised their option during the year.

**Other Debt Activity**

Although not classed as borrowing, the Council also had £28.07m of PFI (Private Finance Initiative) finance for 2023/24 and £3.18m of finance leases.

After £1.81m repayment of prior years' liabilities, total debt other than borrowing stood at £31.25m on 30th September 2023, taking total debt to £461.25m.

Table 4: PFI & Leases

| | 2022/23 | 2023/24 |
|---|---|---|
| **Capital balance** | | |
| Building leases | 3,519,001 | 3,180,481 |
| PFI | 29,542,965 | 28,072,925 |
| | **33,061,966** | **31,253,406** |
| | | |
| **Repaid** | | |
| Building leases | (536,432) | (338,520) |
| PFI | (803,596) | (1,470,040) |
| | **(1,340,028)** | **(1,808,560)** |

**Policy on borrowing in advance of need**

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism. There are no plans to borrow in advance of need while the Council reduces its overall borrowing over the next 5-6 years

**Treasury Investment Activity**

The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Council'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 half year, the Council's investment balances ranged between £141m and £23.81million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

| | 31.3.23 Balance £m | Net Movement £m | 30.9.23 Balance £m | 30.9.23 Income Return % | 30.9.23 Weighted Average Maturity days |
|---|---|---|---|---|---|
| Banks & building societies (unsecured) | 0.21 | 0.31 | 0.52 | 0 | 1 |
| Government (incl. local authorities) | 119.0 | -106 | 13.0 | 5.18 | 3 |
| Money Market Funds | 22.0 | -11.19 | 10.81 | 5.33 | 1 |
| **Total investments** | **141.21** | **-116.88** | **24.33** | | |

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.

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.

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 5.17% and 5.26% by the end of September and Money Market Rates between 5.18% 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 | 3.81 | AA- | 16% | 28 | 3.82 |
| 30.09.2023 | 4.15 | AA- | 45% | 1 | 5.25 |
| **Similar LAs** | **4.57** | **AA-** | **65%** | **42** | **2.46** |
| **All LAs** | **4.47** | **AA-** | **59%** | **13** | **3.69** |

**Non-Treasury Investments**

The definition of investments in the 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).

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.

. Table 6: Non-Treasury Investments

| Interest receivable 2023/24 £000s | Debtor | Balance at 30/09/2023 £000s | Interest receivable 30/09/2023 £000s | Rate % |
|---|---|---|---|---|
| 1,551 | James Elliman Homes | 51,700 | 1,551 | 3% |
| 0 | SUR LLP - senior debt | 0 | 0 | 5% |
| 144 | SUR LLP - loan notes | 2,885 | 0-144 | 5% |
| 354 | GRE 5 Ltd | 2,131 | 286 | 6% |
| 71 | Slough Children First Ltd | 5,000 | 71 | 1% |
| 0 | St Bernards School | 0 | 0 | 1.41% |
| **2,120** | | **61,716** | **2,052** | **3.40%** |

**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 | Actual % | Benchmark % | Over/ under |
|---|---|---|---|---|
| PWLB<br>LOBO LOANS | 417<br>13 | 3.12<br>4.17 | **5.50** | **Under**<br>**Under** |
| **Total borrowing** | **430** | | | |
| PFI and Finance leases | 31.25 | | | |
| **Total debt** | **461.25** | | | |
| DMO<br>MMF | 13<br>10.81 | 5.18<br>5.33 | 5.25<br>5.25 | Under<br>Under |
| **Total treasury investments** | 23.81 | | | |
| **Net Debt** | **437.44** | n/a | n/a | n/a |

**Compliance**

The Executive Director of Finance & Commercial (S151) 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

| | **Minimum Credit Criteria** | Max. % or amount per Institution | Max. Maturity Period | **30.6.23 Actual** | **Complied?** Yes/No |
|---|---|---|---|---|---|
| **Specified Investments** | | | | | |
| DMADF – UK Government | N/A | 100% | 6 mths | £21m | Yes |
| Money Market Funds | AAA | 100% | Daily | £14.36m | Yes |
| Local Authorities | N/A | 100%/£20m | 10 yrs | 0 | Yes |
| Lloyds Bank plc (the Council's bankers) | A+ | £20m<br>£5m | Overnight Deposits**<br>Up to 12mths | £159k | Yes |
| Term deposits with banks & rated building societies | A+ | | Up to 3 yrs | 0 | Yes |
| Current & Ex – Government Supported banks | A+ | 50% | Up to 1yr | 0 | N/A |
| **Unspecified Investments** | | | | | |
| UK Government supported banks | N/A | £70m or 50% of total investments | 3yrs | 0 | N/A |
| Enhanced Money Market Funds | N/A | £25m | 4yrs | 0 | N/A |
| Pooled Property Funds | N/A | £25m | 4yrs | 0 | N/A |
| Short Term Investment grade Sterling instruments | N/A | £25m | 4yrs | 0 | N/A |

* DMO – is the maximum period offered by the Debt Management Office of HM Treasury
** Over £20 million with the explicit agreement of the Director of Finance

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

| | **H1 2023/24 Previous Forecast** | **30.9.23 Actual** | **2023/24 Operational Boundary** | **2023/24 Authorised Limit** | **Complied?** Yes/No |
|---|---|---|---|---|---|
| Borrowing | 468.35 | 430.0 | 609 | 638 | Yes |
| PFI and Finance Leases | **31.25** | **31.35** | | | |
| **Total debt** | **499.6** | **461.35** | | | 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. Total debt was above the operational boundary for 0 days since 1st April 2023.

## 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. 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 | 30.9.23 Actual | Complied? |
|---|---|---|---|---|
| Under 12 months | 70% | 0% | 18.4% | Yes |
| 12 months and within 24 months | 50% | 0% | 9.3% | Yes |
| 24 months and within 5 years | 35% | 0% | 5.8% | Yes |
| 5 years and within 10 years | 25% | 0% | 9.0% | Yes |
| 10 years and above | 50% | 0% | 57.5% | 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.

2. 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 | 2026/27 |
|---|---|---|---|---|
| Limit on principal invested beyond year end | £90m | £90m | £90m | £90m |
| Actual principal invested beyond year end | 0 | 0 | 0 | 0 |
| 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 score 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 score | A | AAA | Yes |

The Authority 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.

| | 2022/23 actual | 2023/24 forecast | 2024/25 budget * | 2025/26 budget |
|---|---|---|---|---|
| General Fund services | 16.620 | 11.152 | 23.291 | 9.352 |
| Council housing (HRA) | 8.710 | 11.399 | 24.693 | 19.998 |
| Capital investments | 0 | 0 | 0 | 0 |

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

The main General Fund capital projects and HRA capital expenditure is recorded separately. The Authority also incurred £0m of capital expenditure on investments.

**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.

| | 31.3.2023 actual | 31.3.2024 forecast | 31.3.2025 budget * | 31.3.2026 budget |
|---|---|---|---|---|
| General Fund services | 539 | 511 | 503 | 448 |
| Capitalisation Direction | 140 | 87 | 0 | 0 |
| Council housing (HRA) | 174 | 174 | 174 | 174 |
| Capital investments | 0 | 0 | 0 | 0 |
| **TOTAL CFR** | **853** | **772** | **677** | **622** |

**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 30.9.2023 |
|---|---|---|---|---|---|
| Debt (incl. PFI & leases) | 623.6 | 533.7 | 493.6 | 442,5 | 461.35? |
| Capital Financing Requirement | 853 | 772 | 677 | 622 | 853 |