AUDIT COMMITTEE
18 OCTOBER 2023

Subject Heading:	**2023/24 Treasury Management Mid-Year Report**
SLT Lead:	Kathy Freeman, Strategic Director of Resources (Section 151 officer)
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Policy context:	The code of practice on treasury management 2021 requires that the Authority be provided with a Mid-year report on treasury activities
Financial summary:	There are no direct Financial implications from the report.

The subject matter of this report deals with the following Council Objectives

People making Havering	[X]
Places making	[X]
Resources making Havering	[X]

SUMMARY

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code ("TM Code") require authorities to produce a mid-year report on their treasury management activities.

The Authority's Treasury Management Strategy Statement (TMSS) for 2023/24 was approved at the Cabinet meeting on 8th February 2023 and at Full Council on the 1st March 2023. The TMSS aims to bring together the Council's capital programme and its Budget to ensure borrowing decisions are affordable and sustainable in line with regulation.

This report covers activity on treasury managed investments and borrowings and the associated monitoring and control of risk.

The key highlights of the Mid-Year report are as follows:

- At the end of August 2023 the investment portfolio yield was **5.18% -** this was achieved be keeping investments on very short maturities thereby tracking successive increases in bank rate over this period.
- The Authority weighted average rate of return was 4.65% compared to Link's benchmarking club return of 4.38% for the last published quarter to the end of June – this was virtually risk free as all investments were placed with the Government Debt Management Office and a number of Local Authorities.
- Net interest outturn, expense is expected to be within budget.
- According to the Office for Local Government this Authority has one of the lowest debt servicing cost at 4.6% of core spending power, compared to other authorities in 2021/22.
- The Authority fully complied with the prudential and treasury indicators set out in the (TMSS) for 2023/24.

RECOMMENDATIONS

To note the treasury management activities to August 2023 as detailed in the report.

REPORT DETAIL

Background

1.0 Treasury management

1.1 The authority operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

1.2 The other main function of authority's treasury management operation is to help fund its capital plans. These capital plans provide a guide to the borrowing need of the authority, essentially the longer term cash flow planning required to meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet the Authority's risk or cost objectives.

2.0 Introduction

2.1 This report has been written in accordance with the requirements of the TM Code.

2.2 This is the Mid-Year Review Report required by the TM Code and covers the following:

- Economic update for the first part of the 2023/24 financial year
- Treasury Management Summary to the end of August 2023
- Review of the authority's borrowing strategy for 2023/24
- Review of the authority's investment portfolio for 2023/24; and
- Compliance with Treasury and Prudential Limits for 2023/24.

3.0 Interest rate outlook

3.1 Economics update

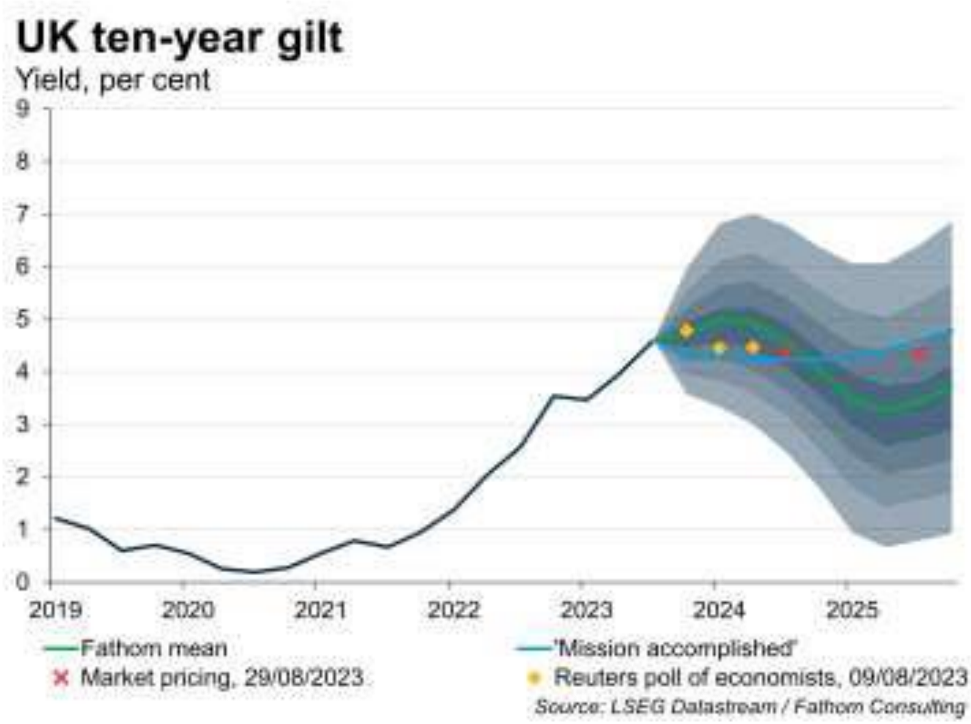
The outlook on interest rates is heavily influenced by the outlook on inflation. Since April 2023 the bank rate increased from 4.25% to currently 5.25%, the latest Bank of England MPC meeting on the 21st September 2023 kept the rate on hold following a 5-4 split decision. This was helped by the August year on year CPI inflation rate announcement the previous day that showed a fall in the rate to 6.7% when most pundits and the market were expecting it to rise.

The MPC meeting on the 20 September stated that CPI inflation is expected to fall significantly further in the near term (six months), reflecting lower annual energy inflation, despite the renewed upward pressure from oil prices, and further declines in food and core goods price inflation. Services price inflation, however, is projected to remain elevated in the near term, with some potential month-to-month volatility. The MPC expect CPI inflation to reach its 2% target rate in Q2 2025.

3.2 *Interest rate forecasts*

The authority's treasury advisor, Link Group (Link), latest interest rate forecast for the bank rate and PWLB issuance is shown in **Appendix A**. This forecast closely resembles that produced by Capital Economics that have a strong record of making accurate predictions.

The TM Code requires that treasury officers obtain intelligence from a number of sources and not to rely solely on the adviser's advice. To that end, the graph below shows the outlook for the UK 10 year gilt (PWLB fixed rates are based on a margin over gilt) based on a poll of economists and on market pricing. Both show a slight dip over next 2 years on their central forecast. The fan chart shows a distinct downward trajectory, the darker the shade the higher the confidence in the prediction.



4.0 <u>Treasury Management Summary</u>

4.1 The mid-year treasury management position is shown in table 1 below.

Table 1: Treasury Management Summary as at 31st August 2023

Investments	01.04.23 £m	Movement £m	31.08.23 £m	Weighted Average Rate %
Fixed Deposit	30.2	11.0	41.2	**4.54**
Total investments	**30.2**	**11.0**	**41.2**	**4.54**
Loans				
PWLB	307.1	0	307.1	**2.89**
Banks (LOBO)	7.0	0	7.0	**3.60**
Temporary Borrowing	13.0	5.0	18.0	**4.28**
Other L/T borrowings	0.8	-0.1	0.7	**4.50**
Total Loans	**327.9**	**4.9**	**332.8**	**2.98**

4.2 There has been no new long term borrowing in the financial year 2023/24 to 31 August 2023. Capital expenditure has been slower than expected in the first 5 months of the year and so the amount met from borrowing has been funded by the Council's cash reserves and temporary borrowing. Furthermore the Council's cash balances at this time of year are generally at their highest buoyed by early Council tax and business rate receipts and Government capital grants paid at the start of the year.

4.3 It is expected that capital activity will be concentrated in the second half of the year when demands on cash balances will become more intense and in the absence of new long term borrowing the strain will be borne by temporary borrowing. The Council's cash deposits are already at their liquidity allowance level so there is no further scope for that source to fund further capital borrowing demand.

4.2 The Authority's treasury investments as at 31st August 2023 totalled **£41.2m** yielding **5.18%** and comprised of **£31.2m** deposited with local authorities and **£10m** with banks. The interest earned up to the 31st August 2023 was **£1.4m**. Borrowings totalled **£332.8m** at a fixed rate of **2.98%** comprising of temporary borrowing from local authorities **£18m** and long term fixed interest rate debt of **£314.8m**, with an average duration of **23.7 years**. Interest cost up to 31st August 2023 was **£4.18m,** giving a net interest expense for the period of **£2.77m**

4.3 **Appendix B** shows the breakdown of the authority's investments & borrowings by counterparty.

5.0 Borrowing Strategy

5.1 Detail

5.1.1 The Council's 2023/24 TMSS assumed there would be new borrowing of £211m in 2023/24. The capital programme has undergone a review and the General Fund- Regeneration Programme element has been scaled back/re-profiled in to later years so that the capital programme new borrowing amount in 2023/24 is forecast at £129m. The TMSS assumed a new long term (more than 1 year) borrowing rate of 4.30% but culmination of 14 successive bank rate increases has meant the long term borrowing rate is now around 5.5%.

5.1.2 The cost of this borrowing was anticipated in the budget and the reduced level of borrowing will result in a budget saving partly offset by the borrowing rate increasing more than expected. The net borrowing cost in 2023/24 would depend on the borrowing rate achieved and the exact date of the borrowing. A reasonable rule of thumb might be to assume an interest cost in 2023/24 of c. £45,833 per month per £10m borrowed. Some of this increase in borrowing will be offset by the additional income generated.

5.1.3 In the longer-term the Council will of course follow the statutory prescriptions for the repayment of debt, known as minimum revenue provision or MRP. Again as a rule of thumb this is payable at 2% or 2.5% per year, thus enabling debt to be repaid over 40 or 50 years, or more quickly where appropriate (e.g. for shorter life assets). In accordance with provisions in the guidance, MRP will be first charged in the year following the date that an asset becomes operational.

5.1.4 The Council's retained adviser, Link, projects that by 2025 the 50 year PWLB rate will fall to 4.0%. It is therefore reasonable to push back projects in the capital programme where possible until new borrowing rates fall below the budgeted rate.

5.1.5 Link's forecast could reasonably be described as part of a broader economic consensus: for example, Capital Economics published a paper on 25 August 2023 forecasting roughly similar long-term rates as far as 10 years (limit of their forecasting) by 2025. If these projections turn out to be correct then it would not be sensible to enter into a 50-year contract at 5.24% interest (the rate as at 21 September 2023) when the expectation would be to be able to execute the same long-term borrowing at around 4% or lower by 2025.

5.1.6 However, the obvious risk in this approach is that the consensus forecasts on which the Council relies may turn out to be incorrect and that interest rates actually rise. If so, the Council will eventually be forced to undertake its longer-term borrowing at a higher rate than could have been obtained.

5.1.7 So far in 2023/24 the council has borrowed £5m short-term (i.e. for less than one year) at an average interest rate of 4.24%. This interest rate is expected to rise once these loans mature and the impact of increased borrowing from this source mans the average rate will converge with the prevailing rate of around 5.3%. The expectation is that within the next two years this could be borrowed at an average rate of around 4%, saving £13,000 per £1m in a full year. If interest rates instead rise, against the consensus forecast, then for every 10 "basis points (bps)" (i.e. by 0.1%) then the extra cost of delaying the decision on borrowing would be £1,000 per £1m borrowed.

5.1.8 Clearly this is a difficult balance to strike, but at present given the prevailing economic consensus maintaining the position on using temporary borrowing makes sense. Last June, the PWLB introduced a concessionary rate for HRA borrowing which is 40bps (0.4%) below the rate at which the General Fund can borrow at. Officers may use this source to help fund the HRA borrowing requirement, estimated at £93m in 2023/24, albeit between 2 and 5 year in duration and then refinance with PWLB debt over a much longer duration when interest rates are expected to be cheaper. The same approach may be applied on the estimated £36m new borrowing for the General Fund element of the capital programme in 2023/24 should liquidity on the money markets tighten and temporary debt costs increase relatively. However, should the interest rate outlook change, officers will have the flexibility to draw down new debt on longer durations to secure the capital programme.

5.1.9 PWLB debt remains the most economical source of long term capital finance, but over shorter durations up to three to five years the money markets can be a cheaper source of capital finance. Officers constantly evaluate other sources of finance.

5.2 Debt Rescheduling

The possibility of debt rescheduling is regularly discussed with our treasury adviser. However opportunities have been almost non-existent in the current economic climate. The current PWLB rules on redemption are prohibitive and costly.

5.3 LOBO's

The Authority holds a **£7m** LOBO loan with Danske Bank at **3.60%** who have the option to propose an increase in the interest rate at set dates, while the Authority has the option to either accept the new rate or to repay the loan at no additional cost. Link stated there is a significant probability that the lender may propose an increase in the rate in November 2023. If called, this will be financed from current cash balances, officers will continue to monitor and discuss with Danske Bank going forward.

6.0 Budgeted Income and Return

6.1 The Authority 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 2 below:

Table 2: 2023-24 Treasury Investment Performance to 31st August 2023

Period	Benchmark Average 3 month SONIA compounded, looking back	Budget Rate %	Actual Rate %
01/04/23 to 31/08/23	4.63	3.12%	4.54

6.2 The authority slightly underperformed its benchmark during the period. This was due in part to the rapid successive increases in the Bank Rate by the BoE MPC, this has been mitigated by keeping the majority of our funds in near dated liquid investments to meet cash calls as they fall due.

6.3 It is expected that the average 3 month SONIA rate will stabilise at current levels as the bank rate nears its peak. Accordingly investments will be kept in shorter maturities (less than 3 months) for the remainder of the financial year.

6.4 The continued delays to capital expenditure has meant investment balances are running higher than planned. Investment income is expected to exceed budget, whilst borrowing costs are expected to be held below the budget forecast.

6.5 The Authority is a member of the Link treasury investment benchmarking club consisting of 13 London Boroughs, one County Council and one unitary authority, Results are published on a quarterly basis, the latest being quarter ending, June 2023. This Authority posted a weighted average rate of return in the first quarter of 4.65% compared to the club average of 4.38%. As this

Authority had placed its investments in the Government Debt Management Office the investments are considered to be virtually risk free.

6.6 The Authority's excess cash is being steadily used to fund capital expenditure subject to a liquidity allowance of £40m. By definition this cash is invested on very short durations and as a result the return on these investments has been able to increase almost at the same pace as successive increases in the Bank rate over this period.

7.0 Regulation and Government Consultations

7.1 The DLUHC has issued the Consultation on Local Government capital risk mitigation measures in the Levelling Up and Regeneration Bill (LUR Bill): capital risk metrics on the 13th July 2023 which closed on 23 September 2023. The LUR Bill was introduced in May 2022 and sets out four risk metrics for local authorities in England, which, if breached would mean the Authority comes into scope of the new powers which provide the government with the flexibility to intercede where it is appropriate to do so. The detailed methods of calculation are to be included in regulations, reflecting the fact that specific risks evolve and emerge, and the consultation sought views on **appropriate calculations** which give a reasonable reflection of a Council's level of risk for that metric. In addition to the four risk metrics there are other measures which seek to provide contextual information about an Authority. The table below produced by London Councils provides a useful summary:

Metrics		Initial Assessment
Financial Performance / Risk Metrics		
1	*Reserves as a percentage of Net Revenue Expenditure*	*Provides a relative assessment of reserve levels compared to annual spending*
2	*Reserves as a percentage of service spend*	*Provides an alternative assessment of reserve levels compared to annual spending; results are very similar under both reserve metrics.*
6	*Social care spend as % of Core Spending Power*	*Provides an indicator regarding budget flexibility, and the amount of funding currently directed towards statutory services*
7	*Debt servicing as % of Core Spending Power*	*Provides a relative assessment of the impact of debt on the revenue budget*
8	*Total debt as % of Core Spending Power*	*Provides a relative assessment of the level of indebtedness on an authority.*
Contextual Metrics		
3	*Total Core Spending Power per dwelling*	*Provides a relative assessment of the total revenue available to a local authority*
4	*Level of Band D council tax rates*	*Straight comparison of council tax levels - given central restrictions on annual CT increases does not provide a true sense of local revenue raising ability.*
5	*Council Tax revenue per dwelling*	*Comparison of current CT levels per dwelling, provides context regarding local revenue raised per local dwelling (see above)*

7.2 The metrics are intended to be broadly consistent with existing metrics such as those the prudential indicators in the CIPFA Prudential Code, but will not necessarily be exactly the same given the different purpose.

7.3 The data for these indicators has been benchmarked across London using year- end figures from the 2021/22 Statement of Accounts. This shows that Havering scored well in terms of debt servicing costs at 4.6% of core spending power (In the lowest 30 of England on this particular metric, median for English Authorities was 9%. In terms of Total debt as a percentage of core spending power Havering scored 234% compared to England median of 226%, while in Havering's CIPFA nearest neighbours the median figure was 249%. This will need to be monitored and considered as part of planning the capital programme. Based on the Council increasing its planned borrowing by £129m in 2023/24 then the debt servicing cost ratio would be expected to increase to 5.8% and the total debt ratio would rise to around 315% (TBC).

7.4 Officers feel the debt figures they published do not accurately account for the level of 'Core Spending Power' in Havering. This is the core revenue funding available for local authority services, including Council Tax and locally retained business rates. This is recorded as £186.7m for 2021/22, some way below our actual General Fund budget which accounts for other additional grants and income sources. Local authorities have for years told government that core spending power isn't a good measure as it understates our budget and hence makes a debt ratio like this look higher than it really is. In comparing authorities in this league table approach, there are fundamental flaws that makes the comparison meaningless as there is no like to like comparison. Few examples of such flaws are, comparing authorities which have ring fenced HRA with those who don't have their own stock; there are other aspects of our funding that this process does not include, which make the debt ratio comparison problematic.

8.0 Compliance with Prudential and Treasury Indicators

8.1 It is a statutory duty for the Authority to determine and keep under review the affordable borrowing limits. The Authority's approved 2023/24 Treasury and Prudential Indicators (affordability limits) were included and approved by Full Council as part of the TMSS 1st March 2023.

8.2 During the period, the Authority has operated within the treasury limits and Prudential Indicators set out in the authority TMSS and in compliance with the authority's Treasury Management Practices. An update on indicators and limits are reported in **Appendix C** of this report.

IMPLICATIONS AND RISKS

Financial implications and risks:

Year to date treasury activity is in accordance with the Authority's approved TMSS. There have been no breach in the Authority's treasury indicators and prudential indicators set out in the TMSS.

It is expected that the authority's net interest costs will be below budget in 2023/24 and any new borrowing undertaken for the capital programme for remainder of 2023/24 will be in accordance with the Authority's treasury limits and prudential indicators.

The key risks include:

Inflation – Inflation drives direct costs within project business cases on which the borrowing requirement is based and also drives Monetary Policy affecting the Bank of England Bank Rate impacting the cost of borrowing available to the Council.

Exposure to Interest rate fluctuation is a key risk and the council must weigh this risk in determining the source and length of borrowing, balancing the certainty of long term fixed rates with risk of locking in rates that may prove more expensive vs the potential benefits of short term fixed rates with risk that rates at point of maturity and re-financing prove more expensive.

Government policy - can impact the availability and cost of PWLB borrowing with examples including uncertain availability of limited concessionary rates such as the HRA concession noted in this report and the increases in PWLB rates initiated between 2019 and 2021. Mention of a likely regulation change is set out in section 7 above.

Legal implications and risks:

Cabinet is required to have a full understanding of all financial risks and be satisfied that they are propitiate to its overall budget and that the Council is not exposed to any unacceptable, unnecessary or disproportional risk in the management of its financial affairs.
Members also need to feel assured that there has been no breach of the Authority's prudential indicators and treasury indicators.

Human Resources implications and risks:

There are no HR implications from this report.

Equalities Implications and Risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
(iii) Foster good relations between those who have protected characteristics and those who do not.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce.

Health and Wellbeing Implications and Risks:

The Council is committed to improving the quality of life and wellbeing for all Havering employees and residents in respect of socio-economics and health determinants. There are no direct implications to the Council’s workforce and resident’s health and wellbeing as a result of this report.

BACKGROUND PAPERS

None

Appendix A

Interest Rate Forecast

Table 1: Link interest rate outlook*

	Type	Now	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Bank Rate		5.25	5.25	5.25	5.25	5.00	4.50	4.00	3.50
5yr PWLB	GF	5.04	5.10	5.00	4.90	4.70	4.40	4.20	4.00
	HRA	4.64	4.70	4.60	4.50	4.30	4.00	3.80	3.60
10yr PWLB	GF	5.30	5.00	4.90	4.80	4.60	4.40	4.20	4.00
	HRA	4.90	4.60	4.50	4.40	4.20	4.00	3.80	3.60
25yr PWLB	GF	5.76	5.40	5.20	5.10	4.90	4.70	4.40	4.30
	HRA	5.36	5.00	4.80	4.70	4.50	4.30	4.00	3.90
50yr PWLB	GF	5.52	5.20	5.00	4.90	4.70	4.50	4.20	4.10
	HRA	5.12	4.80	4.60	4.50	4.30	4.10	3.80	3.70

* Source Link publication 25th September 2023,

Appendix B

Table 1 breakdown of Investments as at 31st August 2023

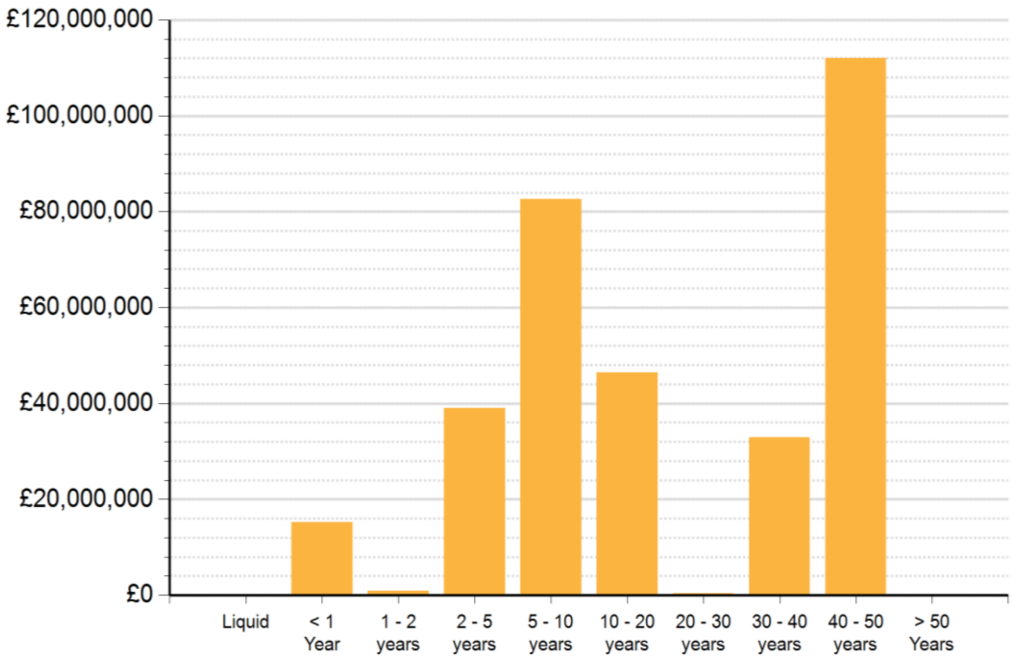
Class	Type	Start / Purchase Date	Maturity Date	Counterparty	Rate	Principal O/S (£)
Deposit	Fixed	24/08/23	04/09/23	Bournemouth, Christchurch & Poole	5.2000%	4,700,000.00
Deposit	Fixed	15/06/23	05/09/23	Worcestershire County Council	4.8500%	5,000,000.00
Deposit	Fixed	23/08/23	05/09/23	Calderdale Metropolitan Borough Council	5.2000%	1,500,000.00
Deposit	Fixed	30/08/23	06/09/23	Hertfordshire County Council	5.3000%	5,000,000.00
Deposit	Fixed	07/08/23	07/09/23	National Westminster Bank plc	5.1900%	10,000,000.00
Deposit	Fixed	25/08/23	08/09/23	Leeds City Council	5.2300%	5,000,000.00
Deposit	Fixed	31/08/23	29/09/23	Liverpool City Council	5.2500%	5,000,000.00
Deposit	Fixed	30/08/23	06/10/23	Cheltenham Borough Council	5.2000%	5,000,000.00
Deposit Total					**5.1769%**	**-41,200,000.00**

Table 2 breakdown of Borrowings as at 31st August 2023

Class	Start / Purchase Date	Maturity Date	Counterparty	Rate	Principal O/S (£)
Loan	06/04/00	04/04/25	PWLB	4.8750%	478,411.83
Loan	06/04/00	04/04/25	PWLB	4.8750%	500,694.11
Loan	28/03/12	28/03/26	PWLB	2.9200%	2,801,126.17
Loan	28/03/12	28/03/26	PWLB	2.9200%	248,473.83
Loan	28/03/12	28/03/27	PWLB	3.0100%	15,178,400.38
Loan	28/03/12	28/03/27	PWLB	3.0100%	1,346,399.62
Loan	14/07/99	27/06/27	PWLB	4.7500%	478,411.83
Loan	14/07/99	27/06/27	PWLB	4.7500%	500,694.11
Loan	28/03/12	28/03/28	PWLB	3.0800%	15,178,400.38
Loan	28/03/12	28/03/28	PWLB	3.0800%	1,346,399.62
Loan	23/07/98	04/04/28	PWLB	5.5000%	956,823.67
Loan	23/07/98	04/04/28	PWLB	5.5000%	1,001,388.21
Loan	28/03/12	28/03/29	PWLB	3.1500%	15,178,400.38
Loan	28/03/12	28/03/29	PWLB	3.1500%	1,346,399.62
Loan	28/03/12	28/03/30	PWLB	3.2100%	15,178,400.38
Loan	28/03/12	28/03/30	PWLB	3.2100%	1,346,399.62
Loan	28/03/12	28/03/31	PWLB	3.2600%	15,178,400.38
Loan	28/03/12	28/03/31	PWLB	3.2600%	1,346,399.62
Loan	28/03/12	28/03/32	PWLB	3.3000%	15,178,400.38
Loan	28/03/12	28/03/32	PWLB	3.3000%	1,346,399.62
Loan	28/03/12	28/03/33	PWLB	3.3400%	15,178,400.38
Loan	28/03/12	28/03/33	PWLB	3.3400%	1,346,399.62
Loan	28/03/12	28/03/34	PWLB	3.3700%	15,178,400.38
Loan	28/03/12	28/03/34	PWLB	3.3700%	1,346,399.62
Loan	28/03/12	28/03/42	PWLB	3.5000%	27,555,674.58
Loan	28/03/12	28/03/42	PWLB	3.5000%	2,444,325.42
Loan	01/04/94	01/04/44	Richard Beard	4.5000%	6,500.00
Loan	01/04/94	01/04/44	Lucas Play site	4.5000%	146,214.51
Loan	01/04/96	01/04/46	Havering Theatre Trust	4.5000%	500,443.60
Loan	23/01/06	23/01/56	PWLB	3.7000%	956,823.67
Loan	23/01/06	23/01/56	PWLB	3.7000%	1,001,388.21
Loan	27/01/06	23/01/56	PWLB	3.7000%	956,823.67
Loan	27/01/06	23/01/56	PWLB	3.7000%	1,001,388.21
Loan	31/01/06	23/01/56	PWLB	3.9000%	956,823.67
Loan	31/01/06	23/01/56	PWLB	3.9000%	1,001,388.21
Loan	14/03/06	14/03/56	PWLB	4.1000%	2,818,135.14
Loan	14/03/06	14/03/56	PWLB	4.1000%	2,949,391.21
Loan	06/04/06	04/04/56	PWLB	4.2000%	642,028.68
Loan	06/04/06	04/04/56	PWLB	4.2000%	671,931.49
Loan	16/06/06	16/06/56	PWLB	4.2500%	1,210,674.25
Loan	16/06/06	16/06/56	PWLB	4.2500%	1,267,062.01
Loan	31/08/06	28/08/56	PWLB	4.2000%	478,411.83
Loan	31/08/06	28/08/56	PWLB	4.2000%	500,694.11

Loan	08/03/07	28/02/57	PWLB	4.2500%	2,392,059.17
Loan	08/03/07	28/02/57	PWLB	4.2500%	2,503,470.53
Loan	07/08/97	01/08/57	PWLB	6.8750%	1,435,235.50
Loan	07/08/97	01/08/57	PWLB	6.8750%	1,502,082.32
Loan	22/12/97	01/08/57	PWLB	6.2500%	334,888.28
Loan	22/12/97	01/08/57	PWLB	6.2500%	350,485.88
Loan	05/08/97	05/08/57	PWLB	6.8750%	3,588,088.75
Loan	05/08/97	05/08/57	PWLB	6.8750%	3,755,205.80
Loan	04/03/98	01/02/58	PWLB	6.0000%	334,888.28
Loan	04/03/98	01/02/58	PWLB	6.0000%	350,485.88
Loan	18/11/05	18/11/65	Danske Bank	3.6000%	3,420,347.79
Loan	18/11/05	18/11/65	Danske Bank	3.6000%	3,579,652.21
Loan	01/12/20	01/12/69	PWLB	1.5300%	30,000,000.00
Loan	24/03/20	24/03/70	PWLB	1.4800%	25,000,000.00
Loan	08/11/21	08/11/71	PWLB	1.7000%	25,000,000.00
Loan	29/12/21	29/12/71	PWLB	1.4300%	25,000,000.00
Fixed Total				**2.9043%**	**314,777,436.62**
Loan	15/03/23	15/09/23	Tendering District Council	4.3000%	3,000,000.00
Loan	04/04/23	04/12/23	West Yorkshire Combined Authority	4.2800%	15,000,000.00
Temporary Borrowing - Fixed Total				**4.2833%**	**18,000,000.00**
Loan Total				**2.9789%**	**332,777,436.62**

Fixed rate debt Maturity profile



<u>Appendix C</u>

Prudential Indicators Estimate 2023/2024

All treasury management activities undertaken during the period complied fully with the CIPFA Code of Practice and the authority's approved Treasury Management Strategy. Compliance with specific treasury limits is demonstrated in tables below.

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

<u>Table 1: Capital expenditure forecast 2023/24</u>

Capital expenditure £m	**2023/24 TMSS Estimate**	**2023/24 (P3) Forecast**
Non HRA	75.3	66.1
HRA	143.2	134.7
Regeneration Program *	170.6	19.8
Total **	389.1	220.6

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

<u>Table 2: Financing of Capital expenditure forecast 2023/24</u>

Financing of capital expenditure £m	**2023/24 TMSS Estimate**	**2023/24 (P3) Forecast**
Capital receipts	88.1	43.7
Capital grants	71.0	35.2
Revenue and Reserves	10.4	5.2
Net financing need for the year ***	**219.6**	**136.5**

The net financing need for regeneration programme activities included in the above table against expenditure is shown below:

Table 3: Regeneration Programme forecast 2023/24

Regeneration Programme £m	2023/24 TMSS Estimate	2023/24 (P3) Forecast
Capital Expenditure	170.6	19.8
Other Sources of Financing	64.4	0.8
Net financing need for the year	**106.2**	**19.0**
Percentage of total net financing need	**48.4%**	**13.9**

The Authority's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for (e.g. by capital grants), through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (OLTL) which relates to PFI schemes and finance leases. The Authority currently has no such liabilities within its CFR.

Table 4: Capital financing requirement forecast 2023/24

Capital Financing Requirement £m	2023/24 TMSS Estimate	2023/24 (P3) Forecast
Non HRA Service	168.5	160.8
Regeneration	190.3	87.6
Housing	456.2	440.1
Total CFR	**815.0**	**688.5**
Movement in CFR	**210.7**	**129.1**

Net financing need for the year	219.6	136.5
Less MRP	7.7	6.2
Less receipts set aside	1.2	1.2
Movement in CFR	**210.7**	**129.1**

The Authority's forward projections for borrowing are summarised below in Table 5 below, the Authority must ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes. The expected change in debt will be influenced by changes in the CFR and long term interest rates.

However it should be noted that this change in debt is due to external factors set out in the covering report and capital slippage. Table 5 shows internal borrowing of £231.6m but this is dependent on the changes to the Authority's cash backed reserves and net working capital. External cash balances of £40m are maintained over the medium term to mitigate liquidity risk.

Table 5: Capital Financing Requirement (CFR) and Borrowing

£m	2022/23 Actual	2023/24 TMSS Estimate	2023/24 Forecast	2024/25 TMSS Estimate	2025/26 TMSS Estimate
Debt at 1 April	**315.0**	**345.0**	**327.8**	**555.7**	**665.4**
Expected change in Debt	**12.8**	**210.7**	**101.4**	**109.7**	**83.6**
Actual gross debt at 31 March	**327.8**	**555.7**	**429.2**	**665.4**	**749.0**
The Capital Financing Requirement	**559.4**	**815.0**	**688.5**	**924.7**	**988.3**
Under / (over) borrowing	**231.6**	**259.3**	**259.3**	**259.3**	**239.3**

Within the above figures the level of debt relating to regeneration activities is detailed in table 6 below.

Table 6: Regeneration Programme debt

	2023/24 TMSS Estimate	2023/24 (P3) Forecast
CFR at 31 March £m	190.3	87.6
Percentage of total CFR %	23.34	12.72

Ratio of financing costs to net revenue stream

Table 7 identifies the trend in the cost of capital, (borrowing and other long term obligation costs), against service spending, HRA rents and the regeneration programme. The estimates of financing costs include current commitments and the proposals in this budget report.

Table 7: Ratio of financing costs to HRA rents 2023/24

%	2023/24 TMSS Estimate	2023/24 (P3) Forecast
Council housing (HRA)	27.95	24.24

Table 8 shows the trend in the Non-HRA cost of capital (borrowing and other long term obligation costs), regeneration finance costs are shown both gross and net of Mercury Land Holding (MLH) investment income, against net revenue stream.

Table 8: Ratio of Non HRA net financing costs to net revenue stream 2021/22 – 2025/26.

%	2023/24 TMSS Estimate	2023/24 (P3) Forecast
Main services	6.73	3.30
Regeneration programme	3.04	1.72

Operational Boundary for External Debt

The operational boundary is based on the authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. The Authority total debt as at 31.08.2023 was £332.8m and no limit has been exceeded.

Table 9: Operational Boundary

Operational Boundary	TMSS Limit 2023/24 £m	Forecast 2023/24 £m
Borrowing	699.7	429.2
Other long-term liabilities	10.0	0
Regeneration Programme	190.3	0
Total	900.0	429.2

Authorised Limit for External Debt

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 10: Authorised limit for external debt

Authorised Limit	TMSS Limit 2023/24 £m	Forecast 2023/24
Borrowing	749.7	429.2
Other long-term liabilities	10.0	0
Regeneration Programme	190.3	0
Total	950.0	429.2

TREASURY LIMITS

Treasury Management Limits on Activity There are two debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair opportunities to reduce costs/improve performance. The Code requires that for LOBO maturity date should be considered the most probable maturity date and not the next call date.

1.1 Maturity Structure of Borrowing

1.2.1 This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are as follows:

Table 2: Loan maturity structure as at 31 August 2023

	Upper %	Lower %	Actual %
Under 12 months	40	0	5.44
12 months and within 24 months	60	0	0.29
24 months and within 5 years	80	0	11.73
5 years and within 10 years	100	0	24.83
10 years and above	100	0	57.71

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.

The limits set in the 2023/24 treasury management strategy in comparison to the half year are set below. It is the authority's policy to classify available for sale investments with maturities exceeding one year as long term investments.

Table 3: Investments for periods longer than 365 days

	2023/24 Limit £m	2023/24 Actual 31.08.23 £m	2024/25 Limit £m
Limit on principal invested beyond year end	50	0	25

Appendix D

Glossary of Terms

A bond is a debt instrument in which an investor lends money for a specified period of time at a fixed rate of interest. The issuing entity could be corporate, financial or government.

A floating rate note (FRN) is a money market instrument with a Floating/variable rate of interest, which re-fixes over a reference rate, for example 3 month LIBOR.

Bail in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings. A bail-in is the opposite of a bail-out, which involves the rescue of a financial institution by external parties, typically governments using taxpayer's money.

Borrowing Requirements The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.

Capital Financing Requirement (CFR) Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure

Certificates of deposit (CDs) are a negotiable form of fixed deposit, ranked pari passu with fixed deposits. The difference is that you are not obligated to hold the CD to maturity, you can realise the cash by selling in the secondary market.

Coupon is the total amount of interest a security will pay. The coupon period depends on the security. A CD will often pay interest at maturity, while a bond may pay semi-annually or annually and an FRN will most likely pay every 3 months.

Counterparties Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMFs.

Covered bond Covered bonds are conventional bonds (fixed or floating) issued by financial institutions, that are backed by a separate group of loans, usually prime residential mortgages. This lowers the creditor's exposure to default risk, enhancing the credit. This is why the issue is usually rated AAA, higher than the rating given to the issuer reduces exposure to bail-in risk.

CPI The Consumer Price Index (CPI) is the official measure of inflation in consumer prices in the United Kingdom

Credit rating A measure of the credit worthiness of a borrower. A credit rating can be assigned to country, organisation or specific debt issue/ financial obligation. There are a number of credit ratings agencies but the main 3 are Standard & Poor's, Fitch or Moody's.

GDP the monetary value of all finished goods and services made within a country during a specific period.

Interest Rate Exposures A measure of the proportion of money invested and what impact movements in the financial markets would have on them.

Market Loans Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.

MIFID is the Markets in Financial Instruments Directive. A European Union Directive.

Minimum Revenue Provision (MRP) This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.

Money Market Fund (MMF) A 'pool' of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.

Monetary Policy Committee (**MPC**) is a committee of the Bank of England, which meets for three and a half days, eight times a year, to decide the official interest rate in the United Kingdom (the Bank of England Base Rate).

Principal is the total amount being borrowed or lent.

Spread is the difference between the buy and sell price of a security. It can also be the gap, usually in basis points, between the yield of a security and the benchmark security.

SONIA sterling overnight interest average rate, the average rate at which banks offer funds in the overnight sterling market.