

Report to: **Audit and Governance Committee**
Date: **23 July 2024**
Title: **Annual Treasury Management Report 2023/24**
Portfolio Area: **Cllr C Edmonds – Performance and Resources**
Wards Affected: **ALL**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: **N/A**

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RECOMMENDATIONS:

That the Audit and Governance Committee:

- 1. APPROVES the actual 2023/24 prudential and treasury indicators in this report; and**
- 2. NOTES the Annual Treasury Management report for 2023/24.**

1. Executive summary

- 1.1 Income from investments this year was £1,389,643 which is £989,322 higher than the budget of £400,321 at an average return of 4.74%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 5.01%. Therefore the Council achieved a return on investments of 4.74% which was slightly below the benchmark for 23/24 of 5.01%. This was due to two DMO investments at

the start of the financial year which were below 4% and have brought the weighting down.

2. Background

2.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2023/24. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2.2 Treasury management is defined as:

“The management of the local authority’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

2.3 During 2023/24 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Minute CM 81)
- A mid-year (minimum) treasury update report (Minute AC 29/23)
- An annual review following the end of the year describing the activity compared to the strategy (this report)

2.4 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council’s policies previously approved by Members.

2.5 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Governance Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during the year on 14th November 2023 in order to support Members’ scrutiny role.

3. The Economy and Interest Rates

3.1 **UK. Economy.** Against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, and war in the Middle East, UK interest rates have continued to be volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2023/24.

3.2 Markets have sought an end to central banks’ on-going phase of keeping restrictive monetary policy in place on at least one occasion during 2023/24

but to date only the Swiss National Bank has cut rates and that was at the end of March 2024.

- 3.3 UK, EZ and US 10-year yields have all stayed stubbornly high throughout 2023/24. The table below provides a snapshot of the conundrum facing central banks: inflation is easing, albeit gradually, but labour markets remain very tight by historical comparisons, making it an issue of fine judgment as to when rates can be cut.

	UK	Eurozone	US
Bank Rate	5.25%	4%	5.25%-5.5%
GDP	-0.3%q/q Q4 (-0.2%y/y)	+0.0%q/q Q4 (0.1%y/y)	2.0% Q1 Annualised
Inflation	3.4%/y/y (Feb)	2.4%/y/y (Mar)	3.2%/y/y (Feb)
Unemployment Rate	3.9% (Jan)	6.4% (Feb)	3.9% (Feb)

- 3.4 The Bank of England sprung no surprises in their March meeting, leaving interest rates at 5.25% for the fifth time in a row and, despite no MPC members no longer voting to raise interest rates, it retained its relatively hawkish guidance. The Bank's communications suggest the MPC is gaining confidence that inflation will fall sustainably back to the 2.0% target. However, although the MPC noted that "the restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures", conversely it noted that key indicators of inflation persistence remain elevated and policy will be "restrictive for sufficiently long" and "restrictive for an extended period".
- 3.5 Of course, the UK economy has started to perform a little better in Q1 2024 but is still recovering from a shallow recession through the second half of 2023. Indeed, Q4 2023 saw negative GDP growth of -0.3% while y/y growth was also negative at -0.2%.

4. Overall Treasury Position as at 31 March 2024

- 4.1 At the beginning and the end of 2023/24 the Council's treasury position was as follows:

Treasury Portfolio	31 March 2023		31 March 2024	
	£'000	Rate%	£'000	Rate%
Treasury Investments:				
Short term – fixed	10,200	3.98	*16,500	4.74
Money Market Funds	10,800	3.38	9,000	4.94
Property Funds	462	4.26	444	5.16
Total treasury investments	21,462		25,944	
Treasury External Borrowing				
PWLB	27,726	2.54	27,012	2.54
Total external borrowing (£26.370m of long term borrowing and £642k of short term borrowing)	27,726		27,012	
Net treasury investments / (borrowing)	(6,264)		(1,068)	

* The increase in investments as at 31 March 2024 of £6.3 million relates mainly to a grant from the Department for Transport in relation to the Okehampton Transport Hub. This is partly offset by a reduction in investments in Money Market Funds (classified as cash equivalents) of £1.8 million as at 31 March 2024.

4.2 The following is a list of the Council's investments at 31 March 2024.

Fixed Term Deposits

Amount	Investment	Average Interest rate
£3,000,000	Lloyds Bank Plc	5.35%
£3,000,000	Standard Chartered	5.51%
£3,000,000	Nat West Markets Plc	5.51%
£7,500,000	DMO	5.18%
£16,500,000	Total	

Money Market Funds

Amount	Investment	Average Interest rate
£3,000,000	BlackRock	5.00%
£3,000,000	Deutsche	4.98%
£3,000,000	LGIM	4.94%
£9,000,000	Total	

Property Funds

Amount	Investment	Dividend Yield
£443,906	CCLA – Property Fund	5.16%

- 4.3 At Council in February 2017, it was approved (Minute CM54 and HC50) that a sum of £500,000 be used to invest in CCLA’s (CCLA Investment Management Limited) Local Authorities Property Fund, with the investment being placed in April 2017.
- 4.4 The investment was made with a view to a long term commitment. The bid market value as at 31 March 2024 for the Council’s investment was £443,906.

South West Mutual

- 4.5 South West Mutual have provided an update on their website which references that for the past few years, they have worked hard to find the starting point for a regional mutual bank for Devon, Cornwall, Somerset and Dorset. However they have reached a point that it has become clear to them that while there will be a time to launch the bank, that time has not yet come and they are moving forwards as a lean, volunteer-led member organisation.
- 4.6 In December 2018 the Council supported the formation of the South West Mutual with an economic grant of £49,995 which was funded out of the business rate pilot gain from 2018/19. Further information is available on their website. <https://southwestmutual.co.uk/>

5. The Strategy for 2023/24

Investment strategy and control of interest rate risk

- 5.1 Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures that were not transitory, and realised that tighter monetary policy was called for.
- 5.2 Starting April at 4.25%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by August. By the end of the financial year, no further increases were anticipated. Indeed, the market is pricing in a first cut in Bank Rate in August 2024.
- 5.3 The upward sloping yield curve that prevailed throughout 2023/24 meant that local authorities continued to be faced with the challenge of proactive investment of surplus cash, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and “laddering” deposits

on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

- 5.4 With bond markets selling off, UK equity market valuations struggled to make progress, as did property funds, although there have been some spirited, if temporary, market rallies from time to time – including in November and December 2023. However, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration), have continued to be at the forefront of most local authority investment strategies, particularly given Money Market Funds have also provided decent returns in close proximity to Bank Rate for liquidity purposes. In the latter part of 2023/24, the local authority to local authority market lacked any meaningful measure of depth, forcing short-term investment rates above 7% in the last week of March.
- 5.5 While the Council has taken a prudent approach to investing surplus monies, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Global Financial Crisis of 2008/09. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.
- 5.6 The Treasury Management Strategy Report for 2023/24 was approved by the Council on 4 April 2023 (Minute – CM81).

Borrowing strategy and control of interest rate risk

- 5.7 During 2023/24, the Council has a slightly over-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement) is lower than the external borrowing of the Council. This is a temporary position and future Housing capital projects will bring this back into line.
- 5.8 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this has been kept under review to avoid incurring higher borrowing costs in the future when this Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 5.9 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Strategic Finance (S.151 Officer) therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:
- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings

would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short-term rates than initially expected, perhaps arising from the stickiness of inflation in the major developed economies, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

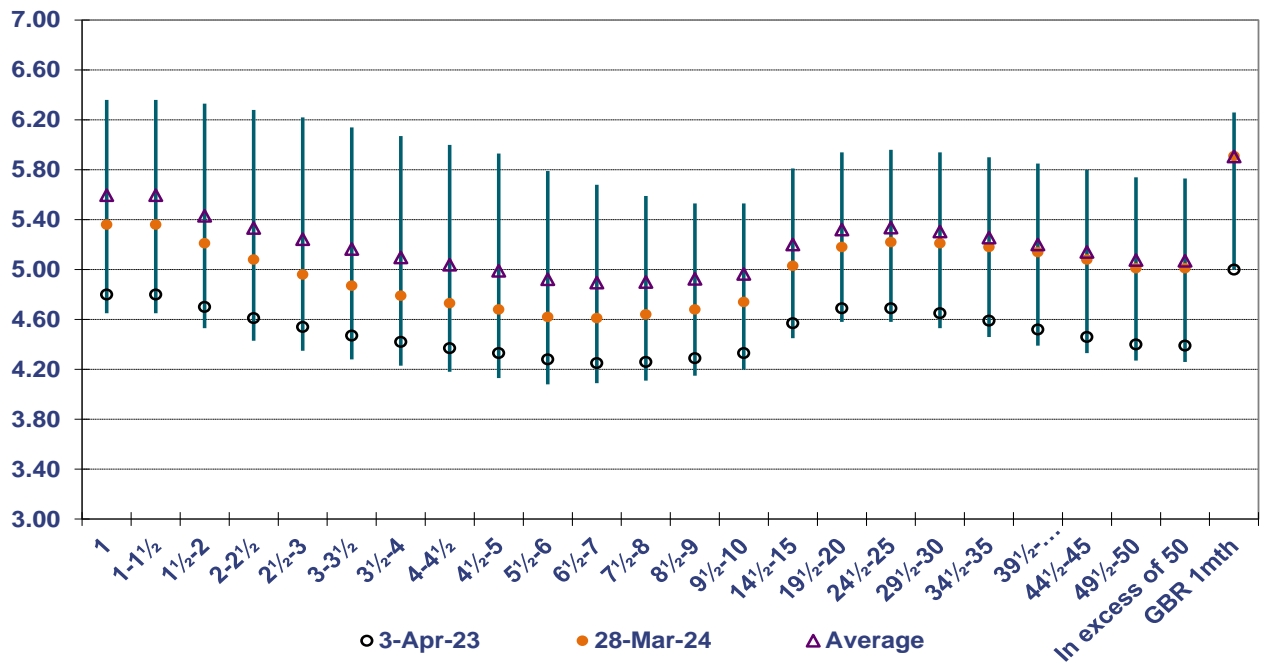
5.10 Interest rate forecasts initially suggested further gradual rises in short, medium and longer-term fixed borrowing rates during 2023/24. Bank Rate had initially been forecast to peak at 4.5% but it is now expected to have peaked at 5.25%.

5.11 Interest rate forecasts are shown below.

Link Group Interest Rate View		08.01.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00	
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10	
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20	
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50	
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70	
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10	
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90	

5.12 Actual PWLB borrowing rates - the graph below shows, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.

PWLB Certainty Rate Variations 3.4.23 to 28.3.24



FINANCIAL YEAR TO QUARTER ENDED 28/03/2024							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	5.25	5.19	5.19	5.20	5.22	5.25	5.08
High Date	03/08/2023	28/03/2024	28/03/2024	26/03/2024	25/03/2024	22/03/2024	28/03/2024
Low	4.25	4.18	4.18	4.02	3.81	3.32	2.27
Low Date	03/04/2023	04/04/2023	11/04/2023	03/04/2023	03/04/2023	03/04/2023	03/04/2023
Average	5.03	4.96	4.96	4.93	4.84	4.64	3.93
Spread	1.00	1.01	1.01	1.18	1.41	1.94	2.80

5.13 PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

5.14 However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation

rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by levels of persistent inflation that are exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

5.15 At the close of the day on 28 March 2024, all gilt yields from 1 to 50 years were between 3.81% and 4.56%, with the 1 year being the highest and 6-7 years being the lowest yield.

5.16 Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

6. Borrowing Outturn for 2023/24

6.1 Details of the loans outstanding at 31 March 2024 are shown below:

Lender	Type	Maturity	Interest Rate %	Principal held at 31 March 2023 £'000	Principal held at 31 March 2024 £'000
PWLB - Maturity	Fixed Interest Rate	45 Years	4.55	2,100	2,100
PWLB - Annuity	Fixed Interest Rate	9 Years	1.92	1,234	934
PWLB - Annuity	Fixed Interest Rate	22 Years	1.95	1,273	1,213
PWLB - Annuity	Fixed Interest Rate	50 Years	2.65	12,105	11,966
PWLB - Annuity	Fixed Interest Rate	50 Years	2.60	3,432	3,392
PWLB - 23 maturity loans	Fixed Interest Rate	49 Years	2.54*	3,592	3,507
PWLB - Annuity	Fixed Interest Rate	50 Years	2.31	1,720	1,698
PWLB - Annuity	Fixed Interest Rate	30 Years	1.73	2,270	2,202
Total				27,726	27,012

*Average interest rate

Repayments

- 6.2 During 2023/24 the Council repaid interest of £719,000 at an average rate of 2.54%.

Borrowing in advance of need

- 6.3 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. The Council has not taken out any borrowing in 2023/24.
- 6.4 In September 2019, when borrowing rates fell to a point where it was considered optimal to do so in order to finance capital expenditure which would be incurred within the time frame of the forward approved Capital Financing Requirement estimates, the Council borrowed £2.5 million at an interest rate of 1.73% for future forecast capital expenditure. In taking this decision, the Council carefully considered achieving best value, the risk of having to borrow at higher rates at a later date, the carrying cost of the difference between interest paid on such debt and interest received from investing funds which would be surplus until used, the current economic climate and that the Council could ensure the security of such funds placed on temporary investment.

Debt rescheduling

- 6.5 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7. Investment Outturn for 2023/24

- 7.1 **Investment Policy** – the Council’s investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 4 April 2023 (Minute – CM81). This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).
- 7.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 7.3 **Resources** – the Council’s cash balances comprise revenue and capital resources and cash flow monies. Income from investments this year was £1,389,643 which is £989,322 higher than the budget of £400,321 at an

average return of 4.74%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 5.01%. Therefore the Council achieved a return on investments of 4.74% which was slightly below the benchmark for 23/24 of 5.01%. This was due to two DMO investments at the start of the financial year which were below 4% and have brought the weighting down.

7.4 By March 2024 the rate of investment return achieved on investments was 5.19% (Link Services March 2024 report).

7.5 The Council's core cash resources comprised as follows:

Balance Sheet Resources £'000	31 March 2023	31 March 2024
General Fund Balance	1,569	1,718
Earmarked Reserves	8,902	11,154
Usable Capital Receipts	70	70
Provisions	733	643
Other (Collection Fund and Capital contributions unapplied)	2,125	(6)
Total	13,399	13,579

8. Other Issues 2023/24

IFRS 9 fair value of investments

8.1 Following the consultation undertaken by the Department of Levelling Up, Housing and Communities [DLUHC] on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

9. Outcomes/outputs

9.1 Income from investments this year was £1,389,643 which is £989,322 higher than the budget of £400,321.

9.2 Industry performance is judged and monitored by reference to a standard benchmark; this is the Sterling Overnight Interbank Average rate (SONIA). The SONIA rate at the end of March was 5.01% which is 0.27% higher than our average return of 4.74% as at 31 March 2024.

10. Options available and consideration of risk

10.1 The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit rating is required, together with a limit of £3m per counterparty. This has resulted in only a small number of institutions in which the Council can invest (see Appendix A).

10.2 The Council's treasury management activities and interest rates are reviewed daily to ensure cash flow is adequately planned with surplus funds being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

10.3 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy will be brought to Members' attention in treasury management update reports.

11. Proposed Way Forward

11.1 The Council's treasury activities and interest rates will continue to be monitored daily and appropriate action taken to mitigate risk whilst optimising investment return where possible.

12. Compliance with Treasury Limits and Prudential Indicators

12.1 During 2023/24 the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The Council's Prudential Indicators for 2023/24 are detailed and shown in Appendix B.

13. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	Statutory powers are provided by the Local Government Act 1972 Section 151 and the Local Government Act 2003

Financial Implications to include reference to value for money	Y	<p>Income from investments this year was £1,389,643 which is £989,322 higher than the budget of £400,321 at an average return of 4.74%.</p> <p>The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 5.01%. Therefore the Council achieved a return on investments of 4.74% which was slightly below the benchmark for 23/24 of 5.01%. This was due to two DMO investments at the start of the financial year which were below 4% and have brought the weighting down.</p> <p>By March 2024 the rate of investment return achieved on investments was 5.19% (Link Services March 2024 report).</p> <p>Consideration of the Annual Treasury Report forms an essential component of the Council's systems for public accountability. It also provides a platform for future investment planning.</p>
Risk	Y	<p>The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation.</p> <p>The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines.</p> <p>The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and Members.</p>
Supporting Corporate Strategy		The income from treasury management supports all the Council's corporate strategy themes.
Climate Change - Carbon / Biodiversity Impact		No direct carbon/biodiversity impact arising from the recommendations.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	None directly arising from this report.
Safeguarding	N	None directly arising from this report.

Community Safety, Crime and Disorder	N	None directly arising from this report.
Health, Safety and Wellbeing	N	None directly arising from this report.
Other implications	N	None directly arising from this report.

Supporting Information

Appendices:

Appendix A – Lending list as at 31 March 2024

Appendix B - Prudential and Treasury Indicators 2023/24

Background Papers:

Annual treasury strategy in advance of the year (Council 4 April 2023 – CM81)

A mid-year treasury update report (Audit Committee 5 December 2023 – AC29/23)

APPENDIX A

Counterparty as at 28th March 2024		Fitch Rating				Moody's Ratings				S&P Ratings			Suggested Duration		
United Kingdom		Long Term	Short Term	Viability	Support	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term				
AAA Rated and Government Backed Securities	Collateralised LA Deposit*												Y - 60 mths		
	Debt Management Office												Y - 60 mths		
	Multilateral Development Banks												Y - 60 mths		
	Supranationals												Y - 60 mths		
	UK Gilts												Y - 60 mths		
	Al Rayan Bank PLC						NO	A1		P-1			P - 6 mths		
	Bank of Scotland PLC (RFB)	SB	A+	F1	a		WD	SB	A1		P-1	SB	A+	A-1	P - 6 mths
	Barclays Bank PLC (NRFB)	SB	A+	F1	a		WD	SB	A1		P-1	SB	A+	A-1	P - 6 mths
	Barclays Bank UK PLC (RFB)	SB	A+	F1	a		WD	SB	A1		P-1	SB	A+	A-1	P - 6 mths
	Clydesdale Bank PLC	PO	A-	F2	bbb+		WD	PW	A3		P-2	SB	A-	A-2	G - 100 days
	Co-operative Bank PLC (The)	PO	BB+	B	bb		WD	PO	Baa3		P-3				N/C - 0 mths
	Goldman Sachs International Bank	SB	A+	F1			WD	SB	A1		P-1	SB	A+	A-1	P - 6 mths
	Handelsbanken Plc	SB	AA	F1+			WD					SB	AA-	A-1+	O - 12 mths
	HSBC Bank PLC (NRFB)	SB	AA-	F1+	a		WD	SB	A1		P-1	SB	A+	A-1	O - 12 mths
	HSBC UK Bank Plc (RFB)	SB	AA-	F1+	a		WD	SB	A1		P-1	SB	A+	A-1	O - 12 mths
	Lloyds Bank Corporate Markets Plc (NRFB)	SB	A+	F1			WD	SB	A1		P-1	SB	A	A-1	P - 6 mths
	Lloyds Bank Plc (RFB)	SB	A+	F1	a		WD	SB	A1		P-1	SB	A+	A-1	P - 6 mths
	National Bank of Kuwait (International) PLC	SB	A+	F1			WD					SB	A	A-1	P - 6 mths
	NatWest Markets Plc (NRFB)	SB	A+	F1	WD		WD	SB	A1		P-1	SB	A	A-1	P - 6 mths
	Santander Financial Services Plc (NRFB)	SB	A+	F1			WD	SB	A1		P-1	SB	A-	A-2	P - 6 mths
	Santander UK PLC	SB	A+	F1	a		WD	SB	A1		P-1	SB	A	A-1	P - 6 mths
SMBC Bank International PLC	SB	A-	F1			WD	SB	A1		P-1	SB	A	A-1	P - 6 mths	
Standard Chartered Bank	SB	A+	F1	a		WD	SB	A1		P-1	SB	A+	A-1	P - 6 mths	
Building Societies	Coventry Building Society	SB	A-	F1	a-		WD	SB	A2		P-1				P - 6 mths
	Leeds Building Society	SB	A-	F1	a-		WD	SB	A3		P-2				G - 100 days
	Nationwide Building Society	SB	A	F1	a		WD	SB	A1		P-1	SB	A+	A-1	P - 6 mths
	Principality Building Society	SB	BBB+	F2	bbb+		WD	SB	Baa1		P-2				N/C - 0 mths
	Skipton Building Society	SB	A-	F1	a-		WD	SB	A2		P-1				P - 6 mths
	West Bromwich Building Society							SB	Ba3		NP				N/C - 0 mths
Nationalised and Part Nationalised Banks	Yorkshire Building Society	SB	A-	F1	a-		WD	PO	A3		P-2				G - 100 days
	National Westminster Bank PLC (RFB)	SB	A+	F1	a		WD	SB	A1		P-1	SB	A+	A-1	B - 12 mths
	Royal Bank of Scotland Group Plc (RFB)	SB	A+	F1	a		WD	SB	A1		P-1	SB	A+	A-1	B - 12 mths

Key	
Watches and Outlooks	Duration
SB Stable Outlook	Yellow - Y 60 Months
NO Negative Outlook	Blue - B 12 Months
NW Negative Watch	Orange - O 12 Months
PO Positive Outlook	Pink - P 6 Months
PW Positive Watch	Green - G 100 Days
EO Evolving Outlook	
EW Evolving Watch	
WD Rating Withdrawn	

APPENDIX B

PRUDENTIAL AND TREASURY INDICATORS 2023/24

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans.

Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The tables below show the actual capital expenditure and how this was financed.

Capital Expenditure	2022/23 Actual £000	2023/24 Estimate £000	2023/24 Actual £000
General Fund services	2,032	5,864	4,327
TOTAL	2,032	5,864	4,327

**The main projects included in the actual for 2023/24 were Private Sector Renewal Grants, Disabled Facilities Grants, Local Authority Housing Fund (LAHF) and Okehampton Transport Hub.

Capital Expenditure and Financing	2022/23 Actual £000	2023/24 Estimate £000	2023/24 Actual £000
Capital Expenditure	2,032	5,864	4,327
Financed by:			
External sources	(1,774)	(3,597)	(3,313)
Own resources	(258)	(1,869)	(1,014)
Unfinanced capital expenditure	0	(398)	0

The Council's Overall Borrowing Need (the Capital Financing Requirement)

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2023/24 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

CFR	2022/23 Actual £000	2023/24 Estimate £000	2023/24 Actual £000
Opening balance	24,900	24,253	24,253
Add unfinanced capital expenditure (as above)	0	398	0
Less MRP/VRP	(647)	(660)	(659)
Closing balance	24,253	23,991	23,594

The Council's Gross Debt and the Capital Financing Requirement

Statutory guidance states that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the indicator below, the debt is slightly higher than the CFR by £3.42m in 2023/24. This is only a short term position as this will finance future capital expenditure which will be incurred within the time frame of the forward approved Capital Financing Requirement estimates.

	2022/23 Actual £000	2023/24 Estimate £000	2023/24 Actual £000
Debt	27,726	27,012	27,012
Capital Financing Requirement	24,253	23,991	23,594
Over/(under) funding of CFR	3,473	3,021	3,418

AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans.

These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio 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, offset by any investment income receivable. 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 Estimate	2023/24 Actual
Financing costs (£)	778,880	978,480	(11,164)
Proportion of net revenue stream	10.0%	11.4%	(0.1%)

*The estimates were prepared in January 2023. During the year income from investments was £1,389,643 which was £989,322 higher than the budget of £400,321. This was due to successive increases in the bank base rate. As at March 2024 the Council was achieving 5.19% return from its treasury management investments. In addition to this the Council took out no external borrowing in 2023/24 and therefore financing costs were lower than estimated.

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary – this is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

Operational Boundary	2022/23	2023/24
	£	£
Borrowing	35,000,000	35,000,000
Other long term liabilities	-	-
Total	35,000,000	35,000,000

The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

Authorised limit	2022/23	2023/24
	£	£
Borrowing	50,000,000	50,000,000
Other long term liabilities	-	-
Total	50,000,000	50,000,000

West Devon Borough Council's current level of borrowing as at 31 March 2024 was £27.012 million.

The maturity analysis of fixed rate borrowing is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

Refinancing rate risk indicator	Approved minimum limits	Approved maximum limits	Actual 31 March 2023		Actual 31 March 2024	
			£million	%	£million	%
	%	%				
Less than 1 year	0%	10%	0.713	2.3	0.642	2.4
Between 1 and 2 years	0%	10%	0.642	2.3	0.745	2.8
Between 2 and 5 years	0%	30%	1.869	6.7	1.493	5.5
Between 5 and 10 years	0%	30%	2.135	7.7	2.289	8.5
Between 10 and 20 years	0%	50%	5.037	18.2	5.088	18.8
20 years and above	0%	100%	17.330	62.5	16.755	62.0
Total			27.726	100	27.012	100