Appendix A

Treasury Management Mid-Year Report - 2023/24

1. Introduction

1.1. In February 2021 the Authority 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 Authority to approve, as a minimum, treasury management semi-annual and annual outturn reports.

1.2. 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 non-treasury prudential indicators are incorporated in the Authority's normal quarterly revenue and capital monitoring report.

1.3. The Authority's treasury management strategy for 2023/24 was approved at a meeting on 23 February 2023. The Authority has borrowed and/or invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

2. External Context

2.1. **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.

2.2. 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.

2.3. 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.

2.4. 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%.

2.5. 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.

2.6. 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.

2.7. Following the September MPC meeting, Arlingclose, the authority'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.

2.8. 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. Higher rates will also impact business and according to industry survey data, the UK manufacturing and services sector contracted during the quarter with all measures scoring under 50, indicating contraction in the sectors.

2.9. 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 there may be further monetary tightening in future.

2.10. 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.

2.11. 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.

2.12. 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.

2.13. **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.

2.14. 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.

2.15. **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.

2.16. 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.

2.17. 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.

2.18. 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.

2.19. Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

3. Local Context

3.1. On 31st March 2023, the Authority had net borrowing of £277.4m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	Actual	Estimate
	31 Mar 23 £000	30 Sep 23 £000
General Fund CFR	542,026	542,026
Housing Revenue Account CFR	119,859	119,859
Total CFR	**661,885**	**661,885**
Less other debt liabilities	109,043	109,043
External borrowing	463,572	443,053
Net borrowing/(investments)	**135,923**	**133,532**

3.2. 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 Mar 23 Balance £000	Movement £000	30 Sep 23 Balance £000	30 Sep 23 Rate %
Long-term borrowing	448,372	(5,319)	443,053	3.12%
Short-term borrowing	15,200	(15,000)	200	0%
Total borrowing	**463,572**	**(20,319)**	**443,253**	**3.12%**
Long-term investments	(26,518)	0	(26,518)	3.17%
Short-term investments	(156,857)	(4,500)	(161,357)	5.35%
Cash and cash equivalents	(2,818)	(1,470)	(4,288)	5.32%
Total Investments	**(186,193)**	**(5,970)**	**(192,163)**	**5.05%**
Net borrowing/(investments)	**277,378**	**(26,289)**	**251,089**	

3.3. The movement in borrowing balances between 31st March 2023 and 30th September 2023 can be explained by the planned maturity of short term and long term loans.

4. Borrowing

4.1. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

4.2. The Authority currently holds £21.1m in commercial investments that were purchased prior to the change in the CIPFA Prudential Code. The Authority's commercial investment portfolio is currently performing in line with expectation. However, before undertaking further additional borrowing the Authority will review the options for exiting these investments.

Borrowing strategy and activity

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

4.4. 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.

4.5. 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.

4.6. 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 authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans.

4.7. At 30th September the Authority held £443.05m of loans, a decrease of £24.3m from 31st March 2023, as part of its strategy for funding previous years' capital programmes. Outstanding loans on 30th September are summarised in Table 3 below.

4.8. Table 3: Borrowing Position

	31 Mar 23 Balance £000	Net Movement £000	30 Sep 23 Balance £000	30 Sep 23 Weighted Average Rate %	30 Sep 23 Weighted Average Maturity (Years)
Public Works Loan Board	396,372	(4,319)	395,853	3.00%	28.37
Banks (LOBO)	42,000	(5,000)	37,000	4.25%	44.57
Banks (fixed-term)	10,000	0	10,000	3.89%	42.72
Local authorities	15,200	(15,000)	200	0	1.5
Total borrowing	**463,572**	**(24,319)**	**443,053**	**3.12%**	**30**

4.9. The Authority's is a normally a net lender but will borrow short-term to meet unplanned cashflow deficit. Therefore, the increase in short-term borrowing cost has had little impact on the Authority's finances. The Authority has a £200k (short-term) loan relating to one of its legacy authorities – this loan has yet to be repaid.

4.10. **Loans restructuring**: The Authority does not have a significant medium- to long-term borrowing requirement and will evaluate the opportunity cost of prepaying loans with cash resources. As was the case when the Authority repaid a LOBO (Lender's Option Borrower's Option) loan in August 2023.

4.11. **LOBO loans**: On 1st April 2023 the Authority held £42m 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 Authority has the option to either accept the new rate and terms or to repay the loan at no additional cost.

4.12. As market interest rates rose, there was increased probability of call options on the LOBOs being exercised by lenders. £5m of LOBO loans had annual/semi-annual call option dates during the six-month period to September 2023, lenders exercised their option on the following of the Authority's loan:

	Amount £000	Rate %	Final Maturity	New Rate Proposed	Action taken by the Council
Commerzbank	5,000	4.32	05/09/2042	6.44	Repaid at no cost from cash resources

4.13. The Authority has £27m LOBO loans with call dates within the next 12 months as follows:

	Amount £000	Rate %	Final Maturity	Next Option	Action to be taken by the Council
FMS Wertmanagement	10,000	4.50	27-Apr-55	27-Oct-23	Repay from cash resources or new borrowing
KBC Bank	17,000	4.45	28-Mar-77	28-Mar-24	Repay from cash resources or new borrowing

4.14. The Authority has liaised with treasury management advisors Arlingclose over the likelihood of the options being exercised. If the option is exercised and an increased rate proposed, the Authority plans to repay the loan at no additional cost as accepting the revised terms would mean the Authority would still have refinancing risk in later years. If required, the Authority will repay the LOBO loans with available cash or by borrowing from other local authorities or the PWLB.

5. Treasury Investment Activity

5.1. The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority'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.

5.2. The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the half year, the Authority's investment balances ranged between £180.56m and £251.53m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

5.3. Table 4: Treasury Investment Position

	31 Mar 23 Balance £000	Net Movement £000	30 Sep 23 Balance £000	30 Sep 23 Weighted Average Rate %	30 Sep 23 Weighted Average Maturity (Years)
Bank & Building Societies (unsecured)	11,357	0	11,357	5.44%	46
Government (including local authorities)	145,500	4,500	150,000	5.38%	186
Money Market Funds	2,818	1,470	4,288	5.32%	0
Real Estate Investment Trusts	26,518	(609)	25,909	3.17%	5
Total investments	**186,193**	**5,361**	**191,554**	**5.09%**	**149**

5.4. Both the CIPFA Code and government guidance require the Authority 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 Authority'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.

5.5. 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 4.8% and 5.4% by the end of June and Money Market Rates between 4.6% and 4.9%.

5.6. £25.9m that is available for longer-term investment invested in pooled property funds. One of the property funds that the Council is invested in has giving notice of its intention to terminate by the 31st December 2023 unless it is able to merge with another fund.

5.7. If the fund was to terminate, the fund manager would commence liquidating all fund assets and return proceeds from each asset sold to unitholders in proportion to their holding in the Fund. The fund has recently either achieved or exceeded book valuation when assets have been disposed, therefore it is hoped that any losses, if there are any, will be minimal.

5.8. 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

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31-Mar-23	5.13	A+	15%	97	3.78
30-Sep-23	4.85	A+	9%	172	5.00
Similar Local Authorities	4.57	A+	65%	42	4.71
All Local Authorities	4.47	AA-	59%	13	4.79

5.9. **Externally Managed Pooled Funds**: £25.9m of the Authority's investments is invested in externally managed strategic pooled property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

5.10. Investor sentiment for UK commercial property was more settled than in Q3 and Q4 of 2022 when the sharp rise in bond yields resulted in a big fall in property valuations. There were signs of returning investor interest, occupier resilience and a perception that the downturn in commercial real estate may be bottoming out. It helped rental income and led to some stabilisation in capital values. However, the combination of high interest rates and bond yield, higher funding costs and the prospect of sluggish economic growth constrain the outlook for commercial property.

5.11. The change in the Authority's funds' capital values and income return over the 6-month period is shown in Table 4.

5.12. Income returns as at 30th September is significantly above budget at 1.50%. The Authority has budgeted £0.487m income from these investments in 2023/24. The forecast income earned up to 30th September is £0.465m. During budget setting, it was anticipated that there would be significant cooling in the property market given the fiscal policy of central banks to push up interest rates. Whilst there has been some reduction in pricing, this has not affected yield in the manner that was anticipated.

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

5.14. **Statutory override**: In April 2023 the Department for Levelling Up, Housing and Communities published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for two years until 31st March 2025 but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not. The Authority will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

6. <u>Non-Treasury Investments</u>

6.1. The definition of investments in the Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority 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).

6.2. 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.

6.3. The Authority also held £21.55m of such investments in:

- directly owned property £21.1m
- shareholding in subsidiaries £0.45m

6.4. The above investments in property are long term in nature and primarily to allow the Council to generate positive rental income net of costs on an annual basis to support the delivery of local services – they are not for capital purposes. Therefore, the Council does not plan to crystalise the above accounting gains/losses.

6.5. Northamptonshire County Council (NCC) made a loan of £1.8m to LGSS (now Pathfinder Legal Services Limited – (PLSL)) which was a subsidiary of the County Council set up in partnership with and jointly owned with Cambridgeshire County Council, Central Bedfordshire Council. The loan was made to provide working capital to PLSL when it was set up. On vesting day for NNC, half (£0.9m) of the loan provided by NCC was transferred to the Council and the other half to West Northamptonshire Council.

6.6. These investments generated £0.65m of investment income for the Authority after taking account of direct costs, representing a rate of return of 3.02%.

7. Compliance

7.1. The Council's Section 151 Officer reports that all treasury management activities undertaken during the quarter complied fully with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	2023/24 Maximum £000	30.9.23 Actual £000	Complied? Yes/No
Any single organisation, except the UK Government	20,000	20,000	Yes
Any group of organisations under the same ownership	20,000	20,000	Yes
Any group of pooled funds under the same management	20,000	0	Yes
Limit per non-UK country	20,000	0	Yes
Registered providers and registered social landlords	10,000	0	Yes
Unsecured investments with banks and building societies	20,000	6,000	Yes
Money Market Funds (Per Fund)	20,000	20,000	Yes
Real Estate Investment Trusts	20,000	12,000	Yes

7.2. 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

	TMSS Boundary / Limit £000	Total Debt £000	Headroom £000	Complied Yes / No
Operational Boundary	721,310	443,053	278,257	Yes
Authorised Limit	793,540	443,053	350,487	Yes

7.3. 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.

8. Treasury Management Prudential Indicators

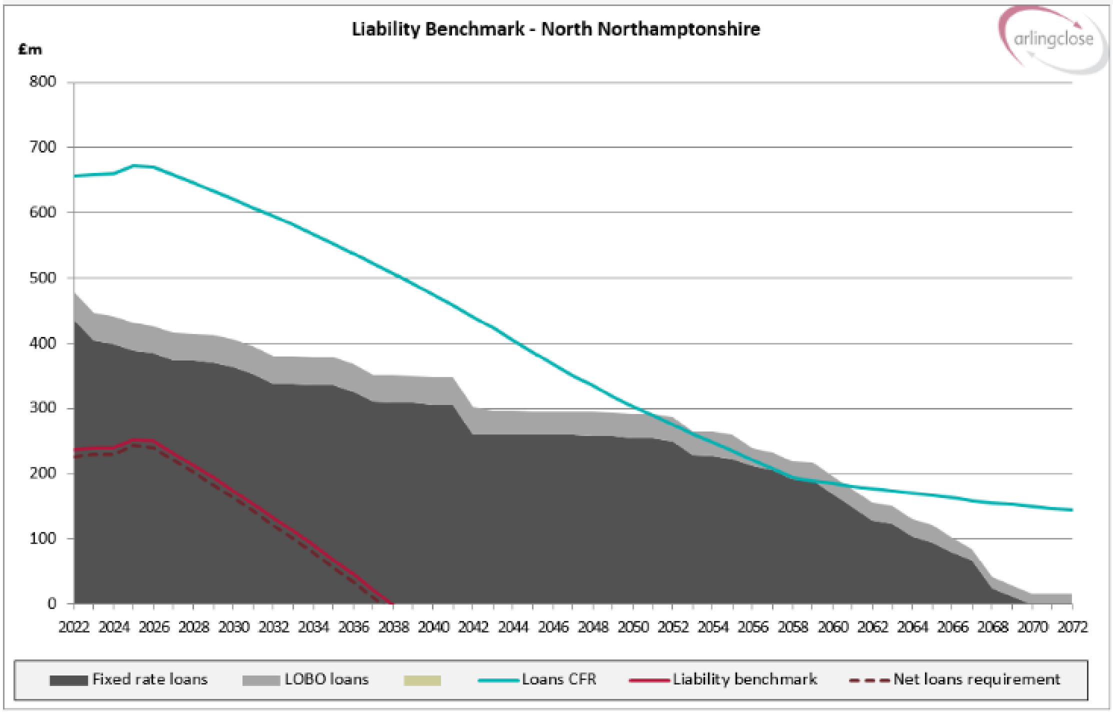
8.1. As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

Liability Benchmark**:**

8.2. This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £10m required to manage day-to-day cash flow.

	31.3.23 Actual £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
Loans CFR	658.885	659.602	672.183	669.372
Less: Balance sheet resources	-429.469	-429.469	-429.469	-429.469
Net loans requirement	**229.416**	**230.133**	**242.714**	**239.903**
Plus: Liquidity allowance	10.000	10.000	10.000	10.000
Liability benchmark	**239.416**	**240.133**	**252.714**	**249.903**
Existing Borrowing	**463.572**	**438.083**	**428.242**	**423.49**

8.3. Following on from the medium-term forecast above, the long-term liability benchmark assumes some capital expenditure funded by borrowing annually, minimum revenue provision on new capital expenditure based on a 25 year asset life and income, expenditure and reserves all increasing by inflation of 2.0% per annum. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



8.4. Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.

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

	Upper Limit	Lower Limit	30.9.23 Actual	Complied ?
Under 12 months	30%	0%	8.51%	Yes
12 months and within 2 Years	30%	0%	1.02%	Yes
2 Years and within 5 Years	30%	0%	6.38%	Yes
5 years and within 10 years	35%	0%	7.82%	Yes
10 years and within 20 years	40%	0%	17.64%	Yes
20 years and within 30 years	40%	0%	7.16%	Yes
30 years and within 40 years	45%	0%	30.41%	Yes
40 years and within 50 years	50%	0%	21.07%	Yes
Over 50 years	20%	0%	0.00%	Yes

8.6. 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.

8.7. Liquidity**:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each period without giving prior notice.

	30.9.23 Actual	**2023/24 Target**	**Complied?**
Total sum borrowed in past 3 months without prior notice	0	£25m	Yes

Prudential Indicators Mid Year 2023/24

9. Prudential Indicators

9.1. The Authority measures and manages its capital expenditure, borrowing and commercial and service investments with references to the following indicators.

9.2. It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis.

9.3. **Capital Expenditure:** The Authority has undertaken and is planning capital expenditure as summarised below:

	2022/23 actual £000	2023/24 forecast £000	2024/25 budget £000	2025/26 budget £000
General Fund services	35,430	64,116	18,955	7,674
Council housing (HRA)	9,564	7,429	15,220	13,950

9.4. **Capital Financing Requirement:** The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP / loans fund repayments and capital receipts used to replace debt.

	31-Mar-23 actual £000	31-Mar-24 forecast £000	31-Mar-25 budget £000	31-Mar-26 budget £000
General Fund services	542,026	542,352	554,445	551,885
Council housing (HRA)	116,859	117,250	117,739	117,487
TOTAL CFR	**658,885**	**659,602**	**672,184**	**669,372**

9.5. **Gross Debt and the Capital Financing Requirement:** Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Authority has complied and expects to continue to comply with this requirement in the medium term as is shown below.

	31-Mar-23 actual £000	31-Mar-24 forecast £000	31-Mar-25 budget £000	31-Mar-26 budget £000	Debt at 30-Sep-23 £000
Debt (General Fund)	463,572	438,083	428,242	423,490	443,053
Capital Financing Requirement	658,885	659,602	672,184	669,372	

9.6. **Debt and the Authorised Limit and Operational Boundary:** The Authority is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

	Maximum debt H1 2023/24 £000	Debt at 30-Sep-23 £000	2023/24 Authorised Limit £000	2023/24 Operational Boundary £000	Complied? Yes/No
Borrowing	463,572	443,053	793,540	721,310	Yes/No

9.7. Since the operational boundary is a management tool for in-year monitoring it is not significant if the boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

9.8. **Net Income from Commercial and Service Investments to Net Revenue Stream**: The Authority’s income from commercial and service investments as a proportion of its net revenue stream has been and is expected to be as indicated below.

	2022/23 actual £000	2023/24 forecast £000	2024/25 budget £000	2025/26 budget £000
Total net income from service and commercial investments	636	650	663	676
Proportion of net revenue stream	0.21%	0.19%	0.19%	0.20%

9.9. **Proportion of Financing Costs to Net Revenue Stream:** Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP / loans fund repayments are charged to revenue.

9.10. 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 £000	2023/24 forecast £000	2024/25 budget £000	2025/26 budget £000
Financing costs (£m)	10,781	10,663	10,535	10,429
Proportion of net revenue stream	3.64%	3.16%	3.08%	3.11%

9.11. **Treasury Management Indicators**: These indicators (Liability Benchmark, Maturity Structure of Borrowing, Long-Term Treasury Management Investments are within the Treasury Management Mid-Year Report 2023/24.