North Lincolnshire Council Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2023/24

INDEX

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and 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."*

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- an overview of how the associated risk is managed.
- the implications for future financial sustainability.

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.2.2 Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital plans, (including prudential indicators);
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report –** This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

d. **Quarterly reports** – Performance on prudential indicators, including forecast debt and investments will be incorporated into the council's existing quarterly budget monitoring reporting. These reports are not required to be presented to Full Council.

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken for a) by the Governance Scrutiny Panel and for a), b), & c) by the Audit Committee.

1.3 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers two main areas:

Capital issues
- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, Department of Levelling Up, Housing and Communities (DLUHC) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training for the Audit Committee was delivered in January 2023 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The Council uses Link Group, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

1.6 Minimum Revenue Provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

DLUHC regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement

For capital expenditure incurred before 1.4.08 the MRP policy will be to set aside 1/50th of the balance per annum.

From 1 April 2008 the MRP policy will be

- **Asset life annuity method** – MRP will be based on the estimated life of the assets, in accordance with the regulations using the annuity method.

These options provide for a reduction in the borrowing need over approximately the asset's life.

Repayments included in finance leases are applied as MRP over the life of the contract.

MRP Overpayments - A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31.3.23 the total VRP overpayments were £4.0m.

2 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the annual investment strategy.

2.1 Current portfolio position

The overall treasury management portfolio as at 31.3.22 and for the position as at 31.12.22 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	Actual		Current	
	31.3.22	**31.3.22**	**31.12.2022**	**31.12.2022**
Treasury investments	£000	%	£000	%
banks	13,051	27%	10,565	22%
DMADF (H.M.Treasury)	24,000	49%	30,400	63%
money market funds	12,000	24%	7,500	15%
Total treasury investments	**49,051**	**100%**	**48,465**	**100%**
Treasury external borrowing				
local authorities	6,000	4%	3,000	2%
PWLB	146,616	96%	144,775	98%
Total external borrowing	**152,616**	**100%**	**147,775**	**100%**
Net treasury investments / (borrowing)	**103,566**	**0**	**99,310**	**0**

2.2 Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 3rd January 2023. These are forecasts for PWLB certainty rates, gilt yields plus 0.80%.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Forecasts for Bank Rate
After several years of historically low interest rates there has been a steep increase in interest rate to tackle rising inflation. From March 2020 to mid-December 2021 the UK Bank rate was 0.1%, which is now 3.5% and expected to rise to 4.5% in June 2023 before starting to fall back in March 2024.

Forecasts for PWLB rates and gilt and treasury yields

As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US. There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates.

There is a growing risk that medium to long term PWLB rates will increase.

Investment and borrowing rates

- **Investment returns** are expected to peak in 2023/24 before reducing over the following year.
- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England but have been increasing and are forecast to peak in 2023. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.
- The current PWLB margins over gilt yields are as follows: -.
  - **PWLB Standard Rate** is gilt plus 1.0%
  - **PWLB Certainty Rate** is gilt plus 0.80%
  - **Local Infrastructure Rate** is gilt plus 0.60%
- Borrowing for capital expenditure. Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are now above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.
- The council will only borrow when cash balances fall below £20m. While this authority will not be able to avoid borrowing to finance new capital expenditure and to replace maturing debt, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

2.3 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Director of Governance and Communities will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. The current strategy remains to only borrow to meet cashflow requirements.

Any decisions to borrow will be reported to the Audit Committee at the next available opportunity.

2.4 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs and will also not borrow primarily for yield.

2.5 Debt rescheduling

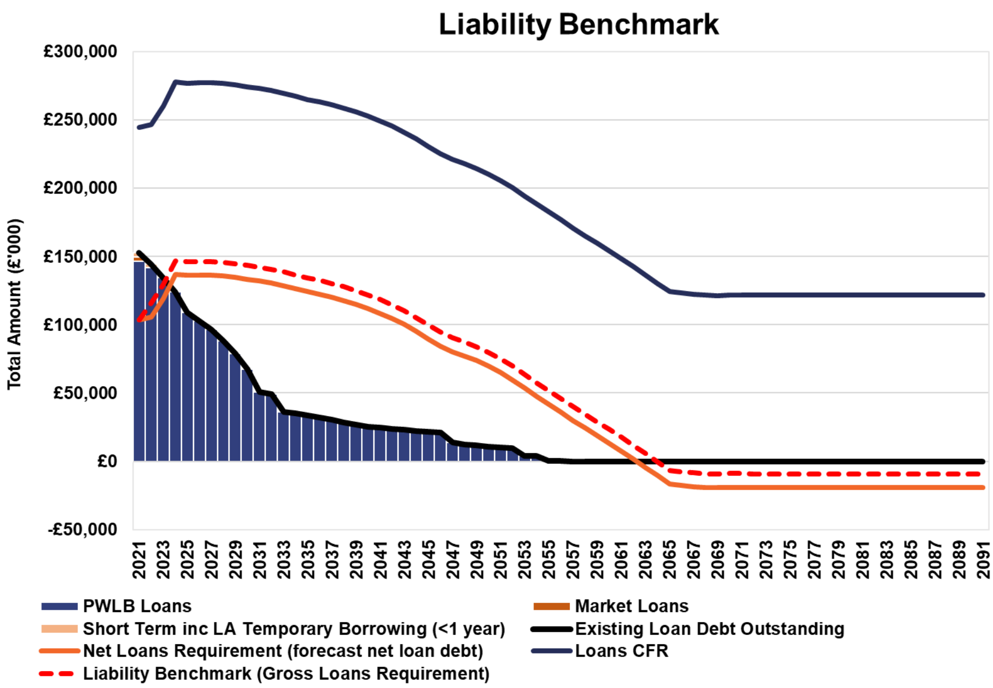
The Rescheduling of current borrowing in our debt portfolio will be kept under review but the legal requirements on the PWLB and the associated accounting requirements means this is unlikely to be beneficial to the council.

2.6 Liability Benchmark

A new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



2.7 Sources of borrowing

The PWLB remains the primary source of borrowing for the council. Consideration may be given to any other suitable source of borrowing. Other such sources include:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the PWLB Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).
- Municipal Bond Agency and UK Infrastructure Bank where circumstances make their use value for money.

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

Approved sources of long- and short-term borrowing

Funding Source	**Fixed**	**Variable**
Internal (capital receipts & revenue balances)	●	●
PWLB	●	●
Local authorities	●	●
Overdraft		●
Municipal bond agency	●	●
Banks	●	●
Finance leases	●	●
Pension funds	●	●
Insurance companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Negotiable Bonds	●	●
Commercial Paper/ Medium Term Notes	●	

Lender Option, Borrower Option (L.O.B.O.) loans will not be used.

3 ANNUAL INVESTMENT STRATEGY

3.1 Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity in accordance with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate , the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods of more than one year, and/or are more complex instruments

which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of 5% of the value of its portfolio at the time of the potential investment.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 3.2.

7. **Transaction limits** are set for each type of investment in 3.2.

8. This authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 3.3).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 3.3).

10. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the DLUHC, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23.

However, this authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 3.5). Regular monitoring of investment performance will be carried out during the year.

3.2 Creditworthiness policy

The primary principle governing the Council’s investment criteria is the security of its investments, although the yield or return on the investment is also a consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council’s prudential indicators covering the maximum principal sums invested.

The Director of Governance and Communities will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to

Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by the Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed considering market conditions.

The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Council will only use banks which:
  i. are UK banks; and/or
  ii. are non-UK and domiciled in a country which has a minimum sovereign Long-Term rating of AA-

  and have, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where rated):

  i. Short Term – *BBB-; Baa3, BBB-*
  ii. Long Term – *F-3, P-3, A-3*
- Banks 2 – Part nationalised UK bank – These banks can be included provided they continue to be part nationalised or meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Bank subsidiary and treasury operation -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
  i. Building societies. The Council will use all societies which meet the ratings for banks outlined above;
- Money Market Funds (MMFs) – *AAAmmf*
- UK Government (including gilts, Treasury Bills and the Debt Management Account Deposit Facility (DMADF))
- Local authorities, parish councils etc
- Supranational institutions

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch long term rating	The higher of		Time Limit
		Value (£m)	% of portfolio	
Banks 1 higher quality	AAA-	5	12.5%	1 year
Banks 1 medium quality	AA-	3	7.5%	1 year
Banks 1 lower quality	BBB-	1	2.5%	1 year
Banks 2 – UK part nationalised	BBB-	3	7.5%	1 year
Limit 3 category – Council's banker	BBB-	5	20.0%	60 days
Building Societies	BBB-	1	2.5%	1 year
Debt Management Account Deposit Facility	UK sovereign rating	Unlimited		1 year
Local authorities	N/A	5	10.0%	1year
	Fund rating**	Value (£m)	% of portfolio	Time Limit
Money Market Funds per fund	AAAmmf	5	10.0%	liquid

Short- and long-term credit ratings have remained relatively stable over the past year. However, the UK Sovereign rating Outlook has recently been changed to negative from stable reflecting an increased chance of a future reduction.

3.3 Other limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 5% of the total treasury management investment portfolio or £3m whichever is the larger.

b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-** from Fitch or equivalent .

c) **Other limits.** In addition:

- no more than 5% or £2m whichever is the larger will be placed with any non-UK country at any time.
- limits in place above will apply to a group of companies.
- sector limits will be monitored regularly for appropriateness.

3.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.

Considering the current economic situation, the council expects to earn the following returns on its investments.

Average earnings in each year	Now	Previously
2022/23	1.65%	0.60%
2023/24	3.45%	0.75%
2024/25	2.50%	1.00%
2025/26	2.00%	1.25%
Long term later years	2.00%	2.00%

3.5 Investment performance / risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 1-month average SONIA (Sterling Over Night Index).

3.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

3.7 External fund managers

The Council does not currently use external fund managers. However, it will keep this decision under review and if it is proposed to engage external fund managers this will be reported to the Audit Committee.

4 APPENDIX 1

4.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2023/24 – 2025/26

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

4.1.1 Capital expenditure

This prudential indicator is a summary of the Council'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:

£m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital expenditure	37.7	40.3	46.4	46.2
Finance Leases				10.0
	37.7	**40.3**	**46.4**	**56.2**

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.

Financing of capital expenditure £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital receipts	1.7	3.0	3.0	3.0
External Financing	24.7	29.5	25.8	29.0
Revenue	0.3	0.2	0.0	0.0
Net financing need for the year	**11.1**	**7.6**	**17.6**	**24.2**

The Council is now required to confirm to the PWLB that it does not plan to incur Capital expenditure on projects for yield schemes if it wishes to access PWLB borrowing. PWLB borrowing remains a lower cost option than other borrowing available to councils.

4.1.2 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:

4.1.3 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

The maximum percentage for this prudential indicator should be 10% with a target of 7.5% (1% above the estimated Unitary average).

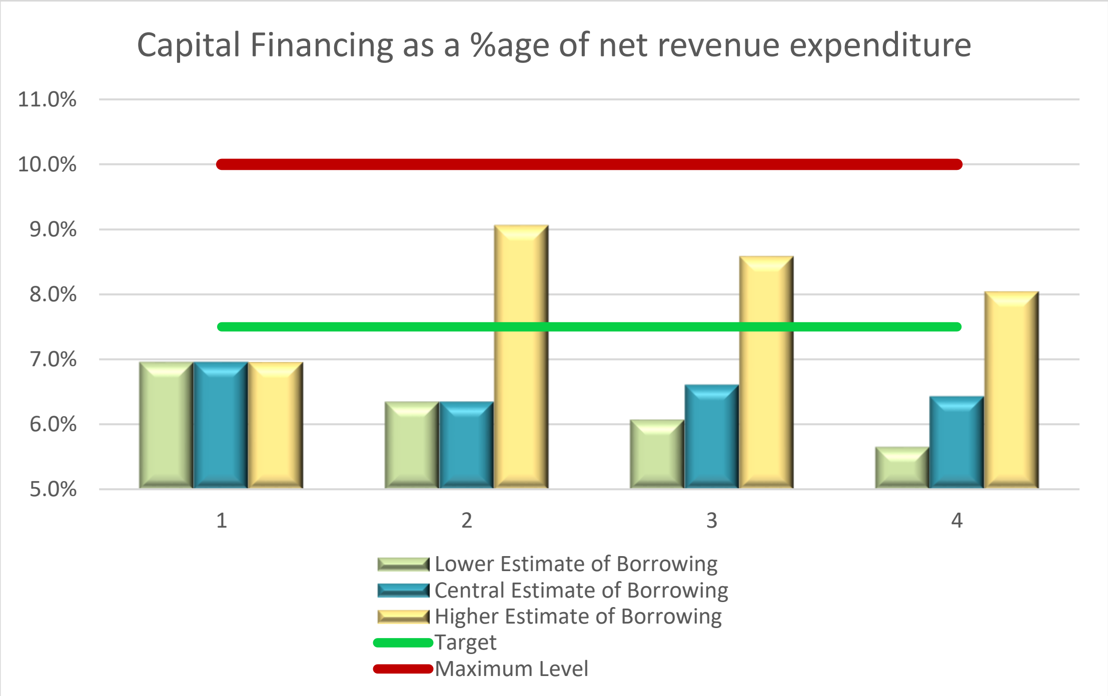
The table and graph below looks at three potential scenarios:-

Lower Estimate of Borrowing – This scenario assumes the council does not borrow in the plan period.

Central Estimate of Borrowing – This scenario assumes the council resumes borrowing to finance its capital programme and refinance its debt repayments from the end of 2023/24.

Higher Estimate of Borrowing – This scenario assumes the council utilises its cash balances at a much faster rate than is currently forecast and must borrow to satisfy its underlying need to borrow (Capital Financing Requirement).

Capital Financing Costs as a percentage of net revenue expenditure	2022/23	2023/24	2024/25	2025/26
Lower Estimate of Borrowing	7.0%	6.4%	6.1%	5.7%
Central Estimate of Borrowing	7.0%	6.4%	6.6%	6.4%
Higher Estimate of Borrowing	7.0%	9.1%	8.6%	8.0%
Target	7.5%	7.5%	7.5%	7.5%
Maximum Level	10.0%	10.0%	10.0%	10.0%



Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2023/24		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	40%
5 years to 10 years	0%	45%
10 years to 20 years	0%	50%
20 years to 30 years	0%	75%
30 years to 40 years	0%	60%
40 years to 50 years	0%	25%
Maturity structure of variable interest rate borrowing 2023/24		
	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	90%
2 years to 5 years	0%	90%
5 years to 10 years	0%	90%
10 years to 20 years	0%	50%
20 years to 30 years	0%	20%
30 years to 40 years	0%	10%
40 years to 50 years	0%	10%

4.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council'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 Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for 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 asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g., finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently doesn't have any such leases within the CFR.

The Council is asked to approve the CFR projections below:

£m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Financing Requirement (CFR)				
Services	37.7	40.3	46.4	56.2
Total CFR	250.7	252.4	263.6	281.0
Movement in CFR	**5.5**	**1.7**	**11.2**	**17.4**
Movement in CFR represented by				
Net financing need for the year (above)	11.1	7.6	17.6	24.2
Less MRP/VRP and other financing movements	5.5	6.0	6.5	6.8
Movement in CFR	**5.5**	**1.7**	**11.1**	**17.4**

4.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Year End Resources £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Fund balances / reserves	101.1	89.1	83.1	79.1
Capital receipts	3.0	1.2	0.0	0.0
Provisions	8.9	7.9	7.9	7.9
Total core funds	**113.0**	**98.2**	**90.9**	**86.9**
Working capital	(25.9)	(25.0)	(25.0)	(25.0)
Under/over borrowing	98.1	107.8	97.0	69.6
Expected investments	**72.2**	**82.8**	**72.0**	**44.6**

External Debt £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Debt	152.6	144.6	166.6	211.4
The Capital Financing Requirement	250.7	252.4	263.6	281.0
Under / (over) borrowing	**98.1**	**107.8**	**97.0**	**69.6**

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to 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 Director of Governance and Communities reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and the proposals in this budget report.

4.4 Treasury Indicators: limits to borrowing activity

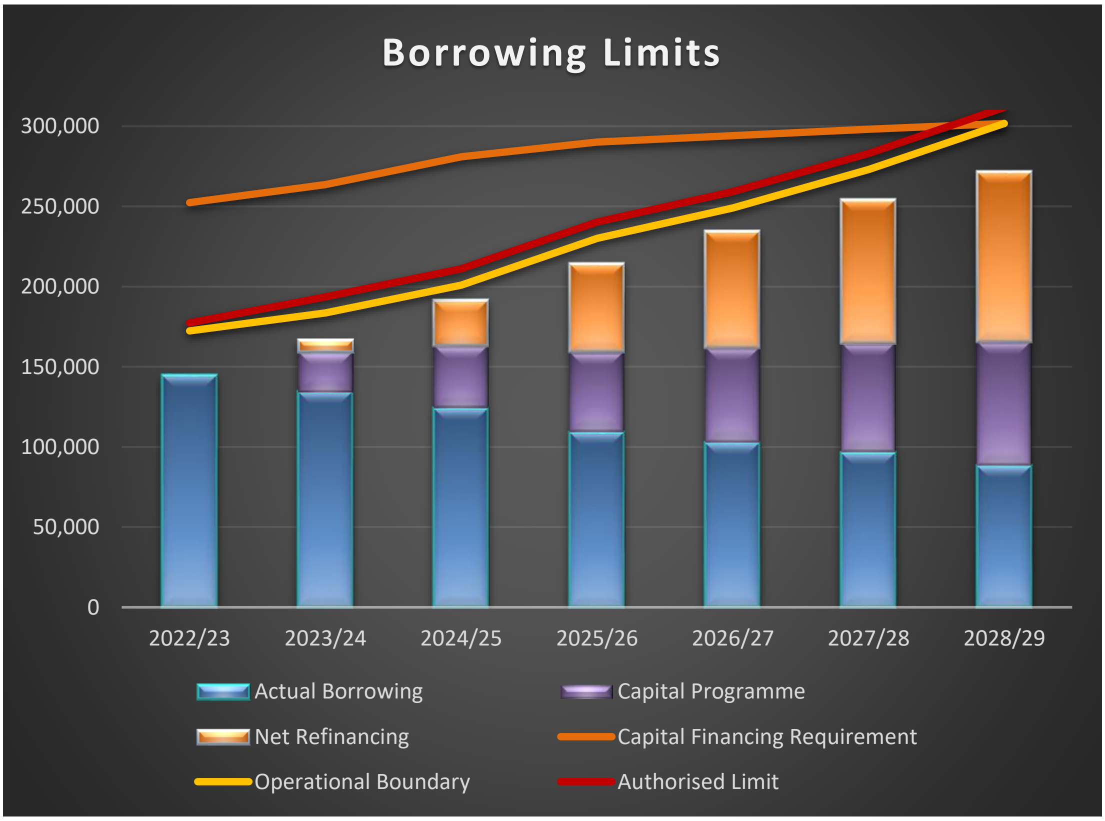
The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt	172,359	183,564	190,984	225,132
Other long-term liabilities	0	0	10,000	5,000
Total	**172,359**	**183,564**	**200,984**	**230,132**

The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the 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.

1. 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 this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt	177,359	193,564	200,984	235,132
Other long-term liabilities	0	0	10,000	5,000
Total	**177,359**	**193,564**	**210,984**	**240,132**



4.5 Limits on Commercial Income

A council that is heavily reliant on Commercial Income is subject to a wider range of financial risk than other councils. It is therefore appropriate to place a limit on the level of Commercial Income as a percentage of the net revenue stream. For North Lincolnshire Council this limit it 5%.

Commercial Income/ Net Revenue Stream £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Rental Income	5.2	5.4	5.5	5.5
As a Percentage of Net Revenue Stream	3.1%	2.9%	2.8%	2.7%