Part A

**Report to:** **Audit Committee**

**Date of meeting:** **Thursday, 23 November 2023**

**Report author:** **Chief Finance Officer**

**Title:** **Treasury Management Mid Term Review 2023/24**

1.0 **Summary**

1.1 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management and covers performance against the Council's Treasury Management Strategy Statement and Annual Investment Strategy.

1.2 The report is presented to the Audit Committee as the body delegated by Council to undertake the role of scrutiny of treasury management strategy and policies.

1.3 Audit Committee is asked to recommend the report to Council.

2.0 **Risks**

2.1 The Code of Practice on Treasury Management identifies nine key risks that are inherent in Treasury Management activity. The Council's Treasury Management Policy sets out the risks that it is seeking to manage:

| | | | |
|---|---|---|---|
| 1. | **Credit and Counterparty Risk** | That the entity holding Council funds is unable to repay them when due. | This risk is managed through the maintenance of a list of authorised counterparties, with separate limits to ensure that the exposure to this risk is limited. |
| 2. | **Liquidity Risk** | That the Council may not have the cash it needs on a day to day basis to pay its bills. | This risk is managed through effective cashflow forecasting and the retention by the Council of an adequate working capital balance. In addition, through the Public Works Loan Board and other organisations, the Council is able to access short term borrowing, usually within 24 hours. |

| | | | |
|---|---|---|---|
| 3. | **Interest Rate Risk** | That the costs and benefits expected do not materialise due to changes in interest rates. | This risk is managed through the placing of different types and maturities of investments, the forecasting and monitoring of the interest budget (with assistance from the Council's retained advisors). |
| 4. | **Exchange Rate Risk** | That losses or gains are made due to fluctuations in the prices of currency. | The Council does not engage in any significant non-sterling transactions. |
| 5. | **Inflation** | That Inflation erodes the value of investments. | The Council priorities security and liquidity over yield but where possible investment returns will aim to match inflation to preserve the capital value. |
| 6. | **Refinancing Risk** | That the loans taken by the Council will become due for repayment and need replacing at a time when there is limited finance available or interest rates are significantly higher. | The timing of loan maturities is monitored along with interest rate forecasts. Officers seek advice from the Council's advisors about when to raise any finance needed. |
| 7. | **Legal and Regulatory Risk** | That the Council operates outside its legal powers. | This risk is managed through the Council's training and development of Officers involved in Treasury Management, the independent oversight of Internal and External Audit, and the advice (for example on the contents of this strategy) taken from the Council's Treasury advisors. |
| 8. | **Operational e.g. Fraud, Error and Corruption** | The risk that losses will be caused by impropriety or incompetence. | This risk is managed through the controls in the Council's financial procedures. For example, the segregation of duties between those making investment decisions and those transferring funds. |

| | | | |
|---|---|---|---|
| 9. | **Market / Price Risk** | That the price of investments held fluctuates, principally in secondary markets. | The majority of the Council's investments are not traded, but where they are (e.g. Property investment portfolio) the main investments' value comes from the income they generate which is generally long term and secure. The Council's investment in Royal London Asset Management, relating to the Croxley Park reserve, is held for the long term which enables the Council to reduce the risk of needing to divest when prices fall. |

2.2 In the current macro-economic environment, the two most high-profile risks remain interest rate risk and refinancing risk. This follows a shift in focus during 2022/23 from credit and counterparty risk which had been the prevailing concern since the 2008 banking crisis.

2.3 The principles set out in the Treasury Management Strategy Statement and Annual Investment Strategy remain appropriate to manage these risks.

## 3.0 Recommendations

3.1 That the Committee notes the contents of the 2023/24 mid-year review of the Treasury Management function and recommends the report to Council.

**Further information:**
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**Report approved by:** Hannah Doney, Chief Finance Officer

## 4.0 Detailed proposal

### 4.1 Background

4.1.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017). The primary requirements of the Code are as follows:

i. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
ii. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

iii. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
iv. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
v. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

4.1.2 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2023/24 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's borrowing strategy for 2023/24;
- A review of compliance with Treasury and Prudential Limits for 2023/24;
- A review of the Council's investment portfolio for 2023/24.

**4.2 Economics and interest rates**

4.2.1 The first half of 2023/24 saw:

- Interest rates rise by a further 1%, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- A 0.5% month on month decline in real Gross Domestic Product (GDP) in July, mainly due to more strikes.
- Consumer Price Index (CPI) inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the three month year on year growth of average earnings rose to 7.8% in August, excluding bonuses).

4.2.2 The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below have been provided by Link Group and are based on the Certainty Rate (the standard rate minus 20 bps). The Certainty Rate has been available to local authorities since 1 November 2012 subject to an annual application. Watford Borough Council is able to access the Certainty Rate for 2023/24.

4.2.3 The latest interest rate forecast, dated 25 September 2023, sets out Link Group's view that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.

4.2.4 As set out in the following table, the bank rate is expected to remain at 5.25% until September 2024 then fall steadily by 2.5% to 2.75% over the following 18 months while PWLB will begin falling by December 2023 but at a slower rate and by just 1.6% across all maturity periods through to the end of December 2026:

| Link Group Interest Rate View | 25.09.23 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 |
| BANK RATE | 5.25 | 5.25 | 5.25 | 5.00 | 4.50 | 4.00 | 3.50 | 3.00 | 2.75 | 2.75 | 2.75 | 2.75 | 2.75 |
| 3 month ave earnings | 5.30 | 5.30 | 5.30 | 5.00 | 4.50 | 4.00 | 3.50 | 3.00 | 2.80 | 2.80 | 2.80 | 2.80 | 2.80 |
| 6 month ave earnings | 5.60 | 5.50 | 5.40 | 5.10 | 4.60 | 4.10 | 3.60 | 3.10 | 2.90 | 2.90 | 2.90 | 2.90 | 2.90 |
| 12 month ave earnings | 5.80 | 5.70 | 5.50 | 5.20 | 4.70 | 4.20 | 3.70 | 3.20 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 5 yr PWLB | 5.10 | 5.00 | 4.90 | 4.70 | 4.40 | 4.20 | 4.00 | 3.90 | 3.70 | 3.70 | 3.60 | 3.60 | 3.50 |
| 10 yr PWLB | 5.00 | 4.90 | 4.80 | 4.60 | 4.40 | 4.20 | 4.00 | 3.80 | 3.70 | 3.60 | 3.60 | 3.50 | 3.50 |
| 25 yr PWLB | 5.40 | 5.20 | 5.10 | 4.90 | 4.70 | 4.40 | 4.30 | 4.10 | 4.00 | 3.90 | 3.80 | 3.80 | 3.80 |
| 50 yr PWLB | 5.20 | 5.00 | 4.90 | 4.70 | 4.50 | 4.20 | 4.10 | 3.90 | 3.80 | 3.70 | 3.60 | 3.60 | 3.60 |

4.2.5 Further information, provided by Link Group, about the economic context during the first six months of 2023/24 is provided in Appendix 1 – Economics Update.

## 4.3 Capital Investment Strategy Update

4.3.1 The Capital Investment Strategy, containing the Treasury Management Policy and Annual Investment Strategy for 2023/24, was approved by Council on 31 January 2023.

4.3.2 There are no policy changes to the Capital Investment Strategy, Treasury Management Policy or Annual Investment Strategy requested in this report.

## 4.4 The Council's Capital Position (Prudential Indicators)

4.4.1 This table shows the revised estimates for capital expenditure and expenditure to 30 September 2023 against the capital programme agreed at the Budget in January 2023. The total forecast capital investment for 2023/24 is £35.775m compared to an original budget of £46.369m. Variances to budget are set on in the Council's Financial Monitoring Report.

**Prudential indicator for Capital Expenditure:**

| Capital Investment Programme | Original Budget 2023/24 £m | Latest Budget 2023/24 £m | Actuals to 30 September 2023 £m | Forecast Year End Position £m |
|---|---|---|---|---|
| Corporate, Housing & Wellbeing | 15.055 | 17.715 | 1.698 | 12.136 |
| Place | 25.547 | 22.519 | 10.058 | 22.064 |
| Corporate Strategy & Comms | 0.065 | 0.065 | 0.000 | 0.065 |
| Strategic Finance | 5.702 | 6.535 | 0.491 | 1.510 |
| **Total Capital Investment** | **46.369** | **46.834** | **12.247** | **35.775** |

4.4.2 The table below sets out how the capital investment for 2023/24 will be financed:

| Funding Type | Original Budget 2023/24 £m | Forecast Year End Position 2023/24 £m |
|---|---|---|
| Grants & Contributions | 1.026 | 0.398 |
| Reserves | 0.251 | 0.025 |
| Capital Receipts and land transfer | 24.895 | 11.432 |
| Section 106 & CIL Contributions | 0.545 | 2.762 |
| Borrowing (Internal & External) | 19.652 | 21.158 |
| **Total Capital Funding** | **46.369** | **35.775** |

4.4.3 The borrowing element of the table increases the underlying indebtedness of the Council which is expressed as the Capital Financing Requirement (CFR). The net increase in CFR will be lower after taking into account revenue charges for the repayment of debt (the Minimum Revenue Provision).

4.4.4 The latest forecast for the CFR, which is the underlying need to borrow for a capital purpose, is set out in the table below. The reduced forecast for the CFR reflects the forecast reduced need to borrow for capital investment in 2023/24. It also shows the expected debt position over the period, which is termed the Operational Boundary.

| 2023/24 | Original Estimate<br><br>£m | Current Position<br><br>£m | Revised Estimate<br><br>£m |
|---|---|---|---|
| **Prudential indicator - Capital Financing Requirement:** | | | |
| Capital Financing Requirement | 347.832 | | 323.635 |
| Net Movement in CFR | 11.877 | | 13.142 |
| **Prudential indicator – the Operational Boundary for external debt:** | | | |
| Borrowing | 175.000 | 64.500 | 50.000 |
| Liability - Croxley Park Finance Lease | 222.000 | 221.512 | 222.000 |
| **Total debt (year end position)** | **397.000** | **286.012** | **272.000** |

*Note the CFR may be subject to restatement following the conclusion of the outstanding external audits.*

4.4.5 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and next two financial years. This allows some flexibility for limited early borrowing for future years. Where external borrowing is below the underlying need to borrow, this is financed in the short term through internal borrowing. This currently forecast to be £55.123 at year end.

| 2022/23 | Original Indicator<br><br>£m | Revised Indicator<br><br>£m |
|---|---|---|
| Capital Financing Requirement | 347.832 | 323.635 |
| Gross External Borrowing (including finance lease liability) | 313.877 | 268.512 |
| **Internal Borrowing** | **33.955** | **55.123** |

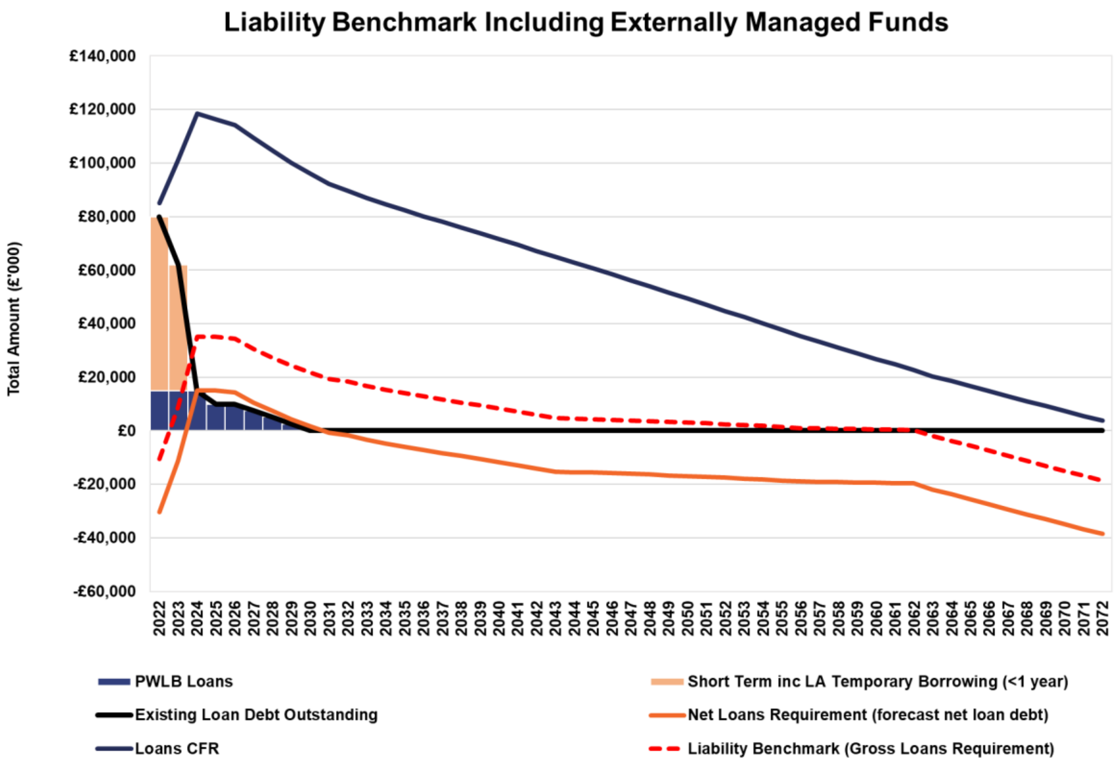
4.4.6 The Authorised Limit is a prudential indicator which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

**Prudential indicator – the Authorised Limit for external debt:**

| 2023/24 | Original Indicator £m | Current Position £m | Revised Indicator £m |
|---|---|---|---|
| Borrowing | 180.000 | 64.500 | 64.500 |
| Liability - Croxley Park Finance Lease | 227.000 | 221.512 | 227.000 |
| **Total** | **407.000** | **286.012** | **291.500** |

4.4.7 The Treasury Management Code of Practice requires local authorities to calculate their Liability Benchmark. The benchmark includes a projection of external debt required over the long term to fund the organisation's approved budgets and plans compared to the forecast of total borrowing outstanding. The benchmark should be used to evaluate the amount, timing and maturities needed for new borrowing in relation to the organisation's planned borrowing needs in order to avoid borrowing too much, too little, too long or too short.

4.4.8 The Liability Benchmark, based on the latest estimates for the capital financing requirement and borrowing at 30 September 2023, is shown in the graph below. The cash currently invested in externally managed funds has been incorporated in the available cash, reducing the net and gross loans requirement. This reflects a change in approach in relation to the cash held in the externally managed funds and this is set out further in section 4.9.



4.4.9 Under the Prudential Code, the Council is also required to report on the affordability of the Council's capital plans to ensure that the capital assets proposed means that the total capital investment of the authority remains within sustainable limits. The revised estimates reported are based on the position reported in the Council's Financial Monitoring Report – Quarter 2 which is based on information as at 30 September 2023.

4.4.10 The first of these indicators is 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 net revenue stream is the Council's core funding of Council Tax, Business rates, and unringfenced central government grants. Investment income includes interest from Treasury Management activities and interest from loans to joint ventures and subsidiaries. The calculation excludes the financing costs and income in relation to Croxley Business Park Finance Lease.

| | 2023/24 Original Estimate £m | 2023/24 Revised Estimate £m |
|---|---|---|
| Cost of Capital | 2.212 | 2.348 |
| Net Revenue Stream | 14.161 | 14.260 |
| **Ratio %** | **15.6%** | **16.5%** |

4.4.11 The second indicator is the Net income from commercial investment to net revenue stream. This indicator is intended to show the financial exposure of the authority to the loss of income.

4.4.12 Net income from commercial investments comprises net income from financial investments (other than treasury management investments), together with net income from other assets held primarily for financial return, such as commercial property.

| | 2023/24 Original Estimate £m | 2023/24 Revised Estimate £m |
|---|---|---|
| Commercial Investment | 12.367 | 10.363 |
| Net Revenue Stream | 14.161 | 14.260 |
| **Ratio %** | **87.3%** | **72.7%** |

## 4.5 Borrowing

4.5.1 The Council's forecast year end capital financing requirement (CFR) excluding the finance lease liability for 2023/24 is £102.123m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. At 30 September 2023 the Council had external borrowing of £64.500m. This is forecast to reduce to £47.000m with the remaining balance of £55.123m financed in the short term by the utilisation of cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails (i.e. PWLB interest rates fall to a level that would make externalisation of borrowing prudent in the long term).

**4.5.2** Due to the overall financial position and the underlying need to borrow for capital purposes (the CFR), new external borrowing of £32.000m has been undertaken in the first six months of the year. During the same period, £47.500m of borrowing matured and was repaid. This was a net decrease in external borrowing of £15.5m reflecting the strategy of maximising internal borrowing. The weighted average interest rate of matured borrowing was 1.91%, of which the lowest interest rate was 0.2% and the highest was 4%. This compares to the weighted average interest rate of 5.08% for new borrowing of which the lowest was 4.57% (achieved in May 2023) and the highest was 5.85%. This is a stark illustration of the increase in borrowing costs over the last 12 months. The average across the debt portfolio at 30 September 2023 was 4.33%.

4.5.3 The Council's external borrowing portfolio is detailed in Appendix 3. The Council has £15.000m of long term loans with the PWLB (loans over 12 months) and £49.500 short term loans. All short term borrowing is from the local to local authority market. Use of the local to local market enables the Council to take advantage of lower rates that are below the prevailing PWLB rates at the shorter end of the yield curve without exposure to credit risk associated with banks. The weighted average maturity profile of the Council's borrowing portfolio at 31 September 2023 is 511 days.

4.5.4 During the second half of 2023/24, the Council will utilise funds currently invested with external fund managers to increase internal borrowing and reduce the Council's exposure to high interest rates. Further details are set out in section 4.9. As a result of this strategy, it is not expected that further external borrowing will be undertaken during 2023/24. The projected balance for external borrowing at 31 March 2024 is therefore £47.000m, of which £15.000m will be long term (over 12 months to maturity) at year end.

**4.5.5** In addition, the capital programme continues to be kept under regular review due to the effects of inflationary pressures, shortages of materials and labour. This includes reviewing the value for money of projects in light of higher construction and borrowing costs and considering the timing of projects to reduce exposure to high interest rates in the short term. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the long-term.

**4.6 Compliance with Treasury and Prudential Limits**

4.6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2023, the Council has operated within the treasury and prudential indicators set out in the Council's Capital Investment Strategy and Treasury Management Policy for 2023/24. The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

4.6.2 All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

**4.7 Annual investment strategy**

4.7.1 In accordance with the CIPFA Treasury Management Code of Practice, the Council's Annual Investment Strategy sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

4.7.2 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and 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, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

4.7.3 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the period ended 30 September 2023.

**4.7.4 Creditworthiness**

The credit rating agency Fitch continues to hold the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook. Standard and Poor and Moody's credit rating agencies both report a stable outlook.

**4.7.5 Investment Counterparty criteria**

The current investment counterparty criteria selection approved in the Annual Investment Strategy is meeting the requirement of the treasury management function.

4.7.6 The Council has continued to limit exposure to banks and building societies with deposits limited to the Council's bank, Lloyds, and the UK government through short term investments with the Debt Management Office (DMO).

## 4.8 Investment balances

4.8.1 The average level of funds available for investment purposes during the first half of the financial year was £21.068m. These funds were available on a temporary basis. The level of funds available fluctuates and is mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. On average daily, £19.869m was invested with the DMO and a balance of £1.199m was retained in the Council's current account for liquidity. The average interest rate earned on investments was 4.52%. Deposits with the DMO ranged from 4.05% to 5.2% while interest paid on the Lloyds current account was between 2.16% and 3.95%. This compares to average Bank of England Base Rate of 4.80% (low 4.25%, high 5.25%). The Sterling Overnight Index Average (SONIA) benchmark is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. Over the same period, the average SONIA rate was 4.73% (low 4.18%, high 5.19%). Performance against these benchmarks reflects effective short-term cash management, avoiding excessive exposure to the lower rates paid on overnight bank deposits.

4.8.2 Over the first six months of the year, the average interest rate earned on investments (4.52%) has been marginally higher than the average rate paid on borrowing (4.33%). However, this is due to the longer term nature of the borrowing, benefiting from rates achieved up to 18 months ago. Therefore, the Council has continued to prioritise internal borrowing, utilising internal cash balances to offset the need to borrowing in the short term and reducing future net interest cost.

4.8.3 The Council's investment portfolio is set out in appendix 4.

## 4.9 Externally Managed Funds

4.9.1 On the acquisition of the finance lease for Croxley Business Park, the Council received £92.000m towards future revenue (£24.000m) and capital expenditure (£68.000m) in relation to shortfalls in rental income (voids) the cost of planned programmed maintenance and refurbishment. This funding was placed in a revenue earmarked reserve and capital contributions reserve.

4.9.2 In addition to earmarking the funding in reserves, it was also decided to separately invest the underlying cash with the objective of achieving capital growth over and above inflation, effectively ringfencing this cash from the Council's wider treasury management activity. In November 2020 the Council placed £90.000m with Royal London Asset Management (RLAM) following a competitive appointment process supported by the Councils Treasury Advisors.

4.9.3 The funds are pooled investment funds and the value of the investment is subject to market and price risk with the value changing on a daily basis. The funds are invested in accumulating asset classes which means that the gains increase the capital value of the fund rather than being distributed as interest income. The investment horizon for funds of this nature is usually three to five years due to price volatility.

4.9.4 Under Internal Financial Reporting Standard 9: Financial Instruments (IFRS 9), adopted by the Code of Practice on local Authority Accounting from April 2019, annual changes in value (known as "fair value movements") must be recognised as profit or loss in the Council's general fund. Consequently, authorities would be required to consider these fair value movements as part of their statutory duty of setting an annual balanced budget.

4.9.5 On the introduction of IFRS 9 a statutory override was originally agreed to 31 March 2023 for five years reflecting the duration that pooled investment funds are typically held and provide authorities sufficient time to review their investment strategies. This has subsequently been extended to 31 March 2025 following a consultation which recognised that allowing the override to end could put additional pressure on local authorities' finances. However, it is not expected that any further extension will be agreed beyond March 2025.

4.9.6 Having initially outperformed inflation for the first 18 months, the performance of the fund has been impacted by rising inflation and volatility in the bond and equity markets. At 31 March 2023, the value of the funds was £84.020m after a drawdown of £11.900m during 2022/23. In September 2023, the Council made a further withdrawal of £8.000m to rebalance the cash against the amounts held in the Croxley Park Revenue Earmarked Reserve and Capital Contributions Reserve. The value of the funds was £76.627m as at 30 September 2023. This included unrealised gains of £1.748m.

4.9.7 The interest rate environment has changed significantly since the funds were invested in November 2020 and the Council is now exposed to high interest rates on external borrowing. To reduce this exposure, the Council will draw down from the RLAM funds over the last six months of 2023/24 to utilise the cash for internal borrowing rather than taking additional external borrowing. This will mean that the Council is divested from the funds in advance of the end of the statutory override in March 2025.

4.9.8 This approach will significantly reduce the overall risk profile of the Council's treasury management activities but reducing exposure to price and market risk and interest rate risk.

4.9.9 This does not impact on the values held in Croxley Park Earmarked Reserve or Capital Contributions Reserve. These funds remain earmarked and available to support and manage the risks and future costs associated with the Croxley Business Park investment.

5.0 **Implications**

5.1 **Financial**

5.1.1 The Council has set an income budget of £0.275m for 2023/24. At 30 September the Council has received £0.398m, benefiting from the high interest rates and higher cash balances than expected in the first six months of the year.

5.1.2 Based on current external borrowing, the Council will incur interest payable costs of £2.455m. The interest expense budget for 2023/24 is £1.827m. The budget has been exceeded as a result of interest rates continuing to increase at the beginning on the financial year and not reducing.

5.1.3 The strategy to draw down externally managed funds will remove the requirement to refinance external borrowing maturing during the remainder of the financial year and will create additional interest income. It is expected that this additional income will more than exceed the additional borrowing costs in the current year. This will be reported through the Council's Financial Monitoring Report.

5.2 **Legal Issues** (Monitoring Officer)

5.2.1 The Group Head of Democracy and Governance comments that there are no legal implications directly arising from this report.

5.3 **Equalities, Human Rights and Data Protection**

5.3.1 Under s149 (1) of the Equality Act the council must have due regard, in the exercise of its functions, to the need to –

- eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Act
- advance equality of opportunity between persons who share relevant protected characteristics and persons who do not share them
- foster good relations between persons who share relevant protected characteristics and persons who do not share them.

5.3.2 Having had regard to the council's obligations under s149, it is considered there are no relevant issues arising directly from this report.

5.3.3 Having had regard to the council's obligations under the General Data Protection Regulation (GDPR) 2018, it is considered that officers are not required to undertake a Data Processing Impact Assessment (DPIA) for this report.

5.4 **Staffing**

5.4.1 There are no staffing implications arising from this report.

5.5 **Accommodation**

5.5.1 There are no accommodation implications arising from this report.

5.6 **Community Safety/Crime and Disorder**

5.6.1 Section 17 of the Crime and Disorder Act 1998 requires the council to give due regard to the likely effect of the exercise of its functions on crime and disorder in its area and to do all it reasonably can to prevent these. There are no issues arising from this report.

5.7 **Sustainability**

5.7.1 There are no sustainability implications arising from this report.

**Appendices**

- Appendix 1 – Economics Update
- Appendix 2 – PWLB Rates
- Appendix 3 – External Borrowing Portfolio
- Appendix 4 – Investment Portfolio

**Background papers**

The following background papers were used in the preparation of this report. If you wish to inspect or take copies of the background papers, please contact the officer named on the front page of the report.

Capital Strategy 2023/24 approved by Council 31 January 2023