

FAREHAM

BOROUGH COUNCIL

Report to the Executive for Decision 07 December 2021

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|------------------------------|--|
| Portfolio: | Policy and Resources |
| Subject: | Treasury Management and Capital Monitoring Report 2021/22 |
| Report of: | Deputy Chief Executive Officer |
| Corporate Priorities: | A dynamic, prudent and progressive Council |

Purpose:

This report summarises the Council's investment activity and capital expenditure up to 30 September 2021 and provides details of the Council's money market transactions. It also provides information on the performance against the Treasury and Prudential Indicators.

Executive summary:

During the first half of the year the Council operated within the Treasury and Prudential Indicators.

The overall investment position is set out in the following table:-

| | 31 March 2021 Actual £'000 | 30 Sept 2021 Actual £'000 |
|----------------------|---|--|
| Total borrowing | 55,967 | 55,967 |
| Total investments | (18,625) | (21,773) |
| Net borrowing | 37,342 | 34,194 |

The Council's net interest budget for 2021/22 is £695,700 (£661,300 actual in 2020/21) and is currently on target to achieve this by the year end.

A summary of the capital programme expenditure against budgets in the current year, is set out in the following table:-

| Capital Programme | Revised Budget 2021/22 £ | Budget to 30 Sep 21 £ | Actual to 30 Sep 21 £ | Variation £ |
|--------------------------|---|--------------------------------------|--------------------------------------|------------------------|
| General Fund | 24,203,300 | 7,200,000 | 6,232,320 | -967,680 |
| HRA | 11,900,800 | 3,695,000 | 2,745,636 | -949,364 |
| Total | 36,104,100 | 10,895,000 | 8,977,956 | -1,917,044 |

Recommendation:

It is recommended that the Executive notes the Treasury Management and Capital Monitoring Report for 2021/22.

Reason:

To inform the Executive of the Council's investment, borrowing and capital programme activity up to 30 September 2021.

Cost of proposals:

Not applicable.

Appendices:

A: Economic Commentary and Outlook by Arlingclose
B: Treasury and Prudential Indicators 2021/22 half yearly performance

Background papers: None

Reference papers:

Treasury Management Strategy and Prudential Indicators 2021-22, Council, 25 February 2021

Finance Strategy, Capital Programme, Revenue Budget and Council Tax 2021/22, Executive, 1 February 2021

Housing Revenue Account 2021/22, Executive, 1 February 2021

Capital and Treasury Management Outturn 2020/21, Executive, 5 July 2021

Prudential Code for Capital Finance in Local Authorities (2017)

Treasury Management in the Public Services Code of Practice (2017)

FAREHAM

BOROUGH COUNCIL

Executive Briefing Paper

| | |
|---------------------|---|
| Date: | 07 December 2021 |
| Subject: | Treasury Management and Capital Monitoring Report 2021/22 |
| Briefing by: | Deputy Chief Executive Officer |
| Portfolio: | Policy and Resources |

INTRODUCTION

1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management at least twice yearly (mid-year and at year end). This report therefore ensures the Council is implementing best practice in accordance with the Code.
2. The Council's Treasury Management Strategy for 2021/22 was approved by Full Council on 25 February 2021.
3. The Council has borrowed and invested large sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
4. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by Full Council, covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy for 2021/22 was approved by Full Council on 25 February 2021.
5. An economic commentary by the Council's Treasury Advisors, Arlingclose, can be found in Appendix A.
6. The report also includes progress to 30 September 2021 on the Capital Programme.

BORROWING ACTIVITY

7. At 30 September 2021, the Council held £56 million of loans, (no change since 31 March 2021). The Council expects to borrow externally up to an additional £5 million in 2021/22 to part fund the capital programme.
8. The Council's main objective when borrowing continues to be striking an appropriately

low risk balance between securing low interest rates and achieving cost certainty over the period for which the funds are required.

9. With short-term interest rates remaining much lower than long-term rates and temporary investments earning Bank Rate or lower, it is more cost effective in the near term to use internal resources and short-term loans. This strategy enabled the Council to reduce net borrowing costs and reduce overall treasury risk.
10. Borrowing activity to 30 September 2021 was:

| | Balance on 31 March 2021 £'000 | Balance on 30 Sept 2021 £'000 | Average Rate |
|-------------------------|---|--|-------------------------|
| Long-term borrowing | 40,000 | 40,000 | 3.50% |
| Short-term borrowing | 13,000 | 13,000 | 0.40% |
| Portchester Crematorium | 2,967 | 2,967 | 0.00% |
| Total Borrowing | 55,967 | 55,967 | |

The Council holds investments from Portchester Crematorium Joint Committee which is treated as a temporary loan.

INVESTMENT ACTIVITY

11. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six-month period, the Council's investment balance ranged between £16 and £25 million due to timing differences between income and expenditure.
12. Both the CIPFA Code and government guidance require the Council 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 Council'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.
13. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2021/22. The policy details the high quality and secure counterparty types the Council can invest with.
14. Given the continuing risk and low returns from short-term unsecured bank investments, the Council has diversified into more secure and higher yielding asset classes. £12 million that is available for longer-term investment was moved from bank and building society deposits into externally managed strategic pooled diversified income funds.
15. These funds have no defined maturity date but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Council's 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 period total returns will exceed cash interest rates.
16. Details on investment activity to 30 September 2021 are summarised in the table below:

| | Balance on 31 March 2021 £'000 | Balance on 30 Sept 2021 £'000 | Average Rate |
|------------------------------|--------------------------------------|-------------------------------------|-----------------|
| Long-term Pooled Funds | 11,475 | 11,773 | 3.23% |
| Banks and Building Societies | 1,750 | 4,000 | 0.16% |
| Money Market Funds | 5,400 | 6,000 | 0.01% |
| Total Investments | 18,625 | 21,773 | |

COMMERCIAL PROPERTIES

17. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return.
18. Since the Executive approval of a Commercial Property Investment Acquisition Strategy in January 2013, the Council has purchased 10 commercial investment properties as summarised below and is expected to generate rental income of £2.5 million during 2021/22.

| Property Type | Purchase Cost £'000 | Value at 31 March 2021 £'000 |
|-------------------------|---------------------------|------------------------------------|
| Retail | 27,783 | 19,545 |
| Commercial (Industrial) | 10,100 | 10,665 |
| Other (Healthcare) | 1,890 | 2,130 |
| Total | 39,773 | 32,340 |

19. The reduction in value is principally due to exposure in the retail sector. This sector has had well publicised difficulties due to structural change and the COVID-19 Pandemic. The Council's exposure to High Street retail is limited and the focus is out of town, which is performing slightly better. The most recent evidence since the valuation date suggests that this sector is now trending more strongly. Key lease events on these properties have also had an effect, reflecting the cyclical nature of property. Value has also been affected by the reduction in the Average Weighted Unexpired Lease Term of this portfolio.
20. Throughout the past 18 months debts have been managed carefully. Agreements have been reached with all COVID-19 debtors and it is not foreseen that any rent will need to be written off.
21. The Council's total investment property portfolio is shown below. This is more balanced, albeit retail holdings do increase with more exposure to the High Street. This is due to longstanding strategic ownerships, rather than pure investments.

| Property Type | Value at 31 March 2021 £'000 |
|---------------|---------------------------------------|
|---------------|---------------------------------------|

| | |
|--------------|---------------|
| Retail | 30,672 |
| Commercial | 19,675 |
| Other | 4,645 |
| Office | 4,000 |
| Leisure | 2,533 |
| Total | 61,525 |

BUDGETED INCOME AND OUTTURN

22. Our treasury advisor, Arlingclose, expects Bank Rate to rise in quarter 2 of 2022. They believe this is driven as much by the Bank of England's desire to move from emergency levels as by fears of inflationary pressure.
23. Investors have priced in multiple rises in Bank Rate to 1% by 2024. While Arlingclose believes Bank Rate will rise, it is by a lesser extent than expected by markets.
24. The Council's net interest budget for 2021/22 is £695,700 (£661,300 actual in 2020/21) and is currently on target to achieve this by year end.

COMPLIANCE WITH TREASURY AND PRUDENTIAL INDICATORS

25. The Council confirms compliance with its Treasury and Prudential Indicators for 2021/22, which was set on 25 February 2021 as part of the Council's Treasury Management Strategy.
26. Performance for the first half of the year is shown in Appendix B. During the financial year to date the Council has operated within the treasury limits and prudential indicators.

CAPITAL PROGRAMME

27. On 1 February 2021, the Executive approved the 2021/22 capital programme of £32.2 million for the General Fund and Housing Revenue Account (HRA).
28. Details of actual capital expenditure in 2020/21 were reported to the July Executive and a total carry forward of £1.6 million was added to the capital programme bringing the total to £33.8 million for 2021/22.
29. Since the capital programme was approved earlier in the year, a number of new schemes or amendments to scheme budgets have been added, giving a revised total of £36.1 million: -
 - Town Centre Housing Acquisitions - £1,575,000
 - Faraday Business Park - £600,000 additional budget
 - Local Authority Delivery Phase 2 Energy Efficiency - £150,000
30. The following table sets out the updated capital programme for 2021/22 and has been used as the basis for monitoring progress to 30 September 2021:-

| | Approved | 2020/21 | New/ Amended | |
|--|-----------------|----------------|-------------------------|--|
|--|-----------------|----------------|-------------------------|--|

| | Programme £ | Slippage £ | Schemes £ | Total £ |
|--|-------------------|------------------|------------------|-------------------|
| Health and Public Protection | 40,000 | 0 | 0 | 40,000 |
| Streetscene | 0 | 0 | 0 | 0 |
| Leisure and Community | 6,218,600 | 437,800 | 0 | 6,656,400 |
| Housing | 610,000 | 27,300 | 0 | 637,300 |
| Planning and Development | 2,835,000 | 313,900 | 0 | 3,148,900 |
| Policy and Resources | 12,768,500 | 352,200 | 600,000 | 13,720,700 |
| Total General Fund | 22,472,100 | 1,131,200 | 600,000 | 24,203,300 |
| Housing Revenue Account | 9,734,900 | 440,900 | 1,725,000 | 11,900,800 |
| Updated 2021/22 Capital Programme | 32,207,000 | 1,572,100 | 2,325,000 | 36,104,100 |

MAJOR CAPITAL SCHEMES

31. The Council has a number of major capital schemes where budgeted expenditure for 2021/22 is in excess of £500,000. These schemes, with forecast budget to 30 September 2021, are detailed in the following table:-

| Capital Scheme | Budget 2021/22 £ | Budget to 30 Sep 21 £ | Actual to 30 Sep 21 £ | Variation £ |
|---|------------------------|-----------------------------|-----------------------------|----------------|
| Solent Airport at Daedalus Schemes | 8,882,600 | 3,500,000 | 3,298,831 | -201,169 |
| Leisure Centres Capital Investment | 4,291,900 | 2,300,000 | 2,257,122 | -42,878 |
| Civic Offices Improvements | 3,698,800 | 100,000 | 18,319 | -81,681 |
| HRA Improvements to Existing Stock | 2,817,000 | 900,000 | 810,713 | -89,287 |
| Osborn Road Multi-Storey Car Park | 2,750,000 | 0 | 0 | 0 |
| HRA Station Road New Build | 2,289,700 | 100,000 | 8,890 | -91,110 |
| HRA Sea Lane and Stubbington Lane New Build | 2,199,300 | 100,000 | 15,372 | -84,628 |
| Fareham Live | 1,970,600 | 100,000 | 10,856 | -89,144 |
| Town Centre Housing Acquisitions | 1,575,000 | 1,575,000 | 1,491,964 | -83,036 |
| HRA Highlands Road New Build | 1,077,100 | 360,000 | 376,914 | 16,914 |
| HRA Stock Repurchases | 991,800 | 0 | 0 | 0 |
| Disabled Facilities Grants | 549,100 | 225,000 | 68,307 | -156,693 |
| Vehicles and Plant | 505,800 | 200,000 | 19,667 | -180,333 |

32. Progress updates on the major schemes are detailed below:-

- The major scheme at **Daedalus** is the new industrial/business units at Faraday Business Park. The scheme has achieved practical completion on two of the units with additional works in progress on the other two units to install the infrastructure for a mezzanine floor.
- The majority of the **Leisure Centre Capital Investment** programme was completed mid-October and is now in the defects period. Outstanding works relate to lighting in the extended car park and an area of paving.
- Following the conclusions from the 'new ways of working project', a prioritisation of work for the **Civic Offices Improvement Programme** is being undertaken by the Property Team. It is likely there will be smaller

works next year with the majority of spend coming in 2023/24.

- (d) Expenditure for **HRA Improvements to Existing Stock** is on track. The Forward Plan for the year has been reviewed to take account of priorities and anticipated cost increases in areas such as fire doors and green initiatives and extensions, and the capital improvements budget will be revised to reflect this. A five-year contract has now been awarded for External Redecoration work which is included in the Plan.
- (e) Revised costings for the refurbishment of **Osborn Road Multi-Storey Car Park** are due mid-December and is likely to be higher than the current budget. The nature of the works is being reviewed and will be presented to members at a future Executive meeting.
- (f) **Station Road New Build.** There have been delays to the scheme due to the Highways S.278 agreement. Start on site is now scheduled for the middle of December.
- (g) **Sea Lane and Stubbington Lane New Build.** For Stubbington Lane, the Highways S.278 agreement has now been agreed and in the final stages of the legal process. Start on site may be before or after Christmas depending on when Hampshire County Council allow the road to be opened. Sea Lane has planning consent and now looking at drawing up plans and structural calculations for the entrance, parking and services to the plots.
- (h) **Fareham Live** is currently out to tender with returns due back in January. Subject to satisfactory prices, programme etc. construction is anticipated to start in April 2022 with completion in autumn 2023.
- (i) **Town Centre Housing Acquisitions.** Three properties were purchased in the town centre at the end of September. These properties will assist the Council in meeting its statutory duties to relieve and prevent homelessness through the provision of temporary and emergency self-contained accommodation.
- (j) **Highlands Road New Build.** Blocks C and D were completed in February with blocks A and B completed in July. The scheme is now in the 12 months defects period.
- (k) There have been no **HRA Stock Repurchases** in the first half of the year. The focus for spending the 1-4-1 capital receipts will be towards new builds as there is now less time pressure to spend the receipts which has increased from 3 years to 5 years.
- (l) The processing of **Disabled Facilities Grants** (DFGs) has been passed to Portsmouth City Council who facilitate the applications on our behalf. Since the last financial year, an Occupational Therapist has been seconded from Hampshire County Council and will be concentrating on DFGs in the Fareham area going forward which should see numbers increase after a slowdown in visits due to the COVID-19 pandemic. In the second half of the financial year grants of over £300,000 have been awarded to date.
- (m) Expenditure on **Vehicles and Plant** has been for an electric van for the

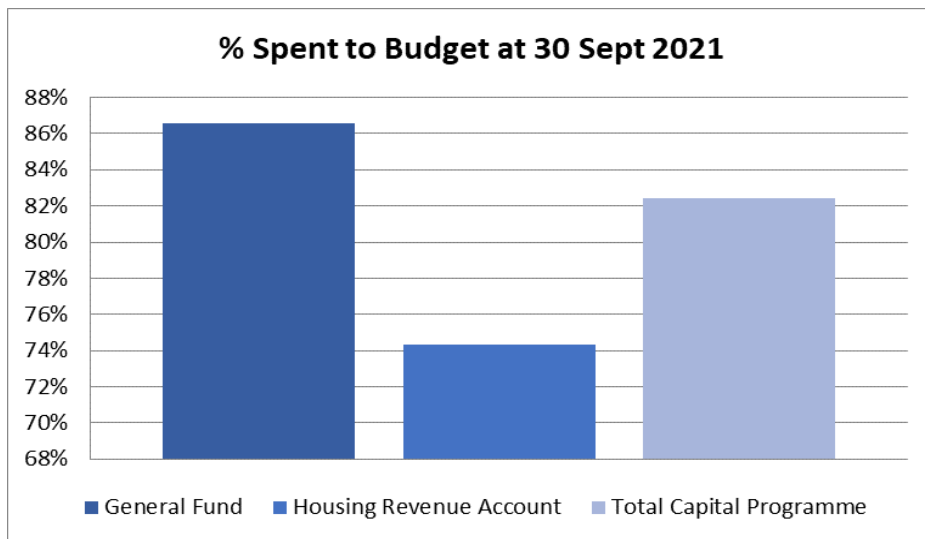
Environmental Health service. Other vehicle purchases including two secondhand refuse vehicles, a sweeper and a tractor will take place in the second half of the year and there is likely to be a small carry forward to next year.

CAPITAL MONITORING

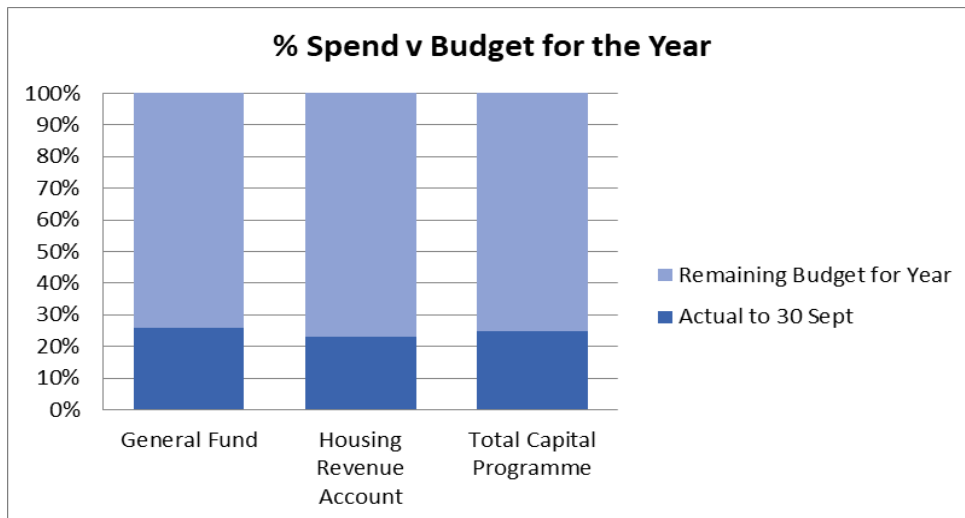
33. The following table provides summary information for the period to 30 September 2021, for all the schemes within each portfolio.

| | Budget 2021/22 | Budget to 30 Sep 21 | Actual to 30 Sep 21 | Variation |
|--------------------------------------|-------------------|------------------------|------------------------|-------------------|
| | £ | £ | £ | £ |
| Health and Public Protection | 40,000 | 0 | 0 | 0 |
| Streetscene | 0 | 0 | 28,655 | 28,655 |
| Leisure and Community | 6,656,400 | 2,700,000 | 2,447,392 | -252,608 |
| - Buildings | 6,302,500 | 2,500,000 | 2,267,978 | -232,022 |
| - Play and Parks | 337,600 | 200,000 | 179,414 | -20,586 |
| - Other Community Schemes | 16,300 | 0 | 0 | 0 |
| Housing | 637,300 | 250,000 | 73,421 | -176,579 |
| Planning and Development | 3,148,900 | 250,000 | 205,166 | -44,834 |
| - Osborn Road Multi-Storey Car Park | 2,750,000 | 0 | 0 | 0 |
| - Other Car Park Schemes | 378,900 | 250,000 | 205,166 | -44,834 |
| - Other | 20,000 | 0 | 0 | 0 |
| Policy and Resources | 13,720,700 | 4,000,000 | 3,477,686 | -522,314 |
| - Daedalus | 8,882,600 | 3,500,000 | 3,298,831 | -201,169 |
| - Civic Offices | 3,698,800 | 100,000 | 18,319 | -81,681 |
| - Vehicles and Plant | 505,800 | 200,000 | 19,667 | -180,333 |
| - ICT | 633,500 | 200,000 | 140,869 | -59,131 |
| Total General Fund | 24,203,300 | 7,200,000 | 6,232,320 | -967,680 |
| Housing Revenue Account | | | | |
| - New Build | 6,327,000 | 600,000 | 442,959 | -157,041 |
| - Improvements to Existing Stock | 2,967,000 | 900,000 | 810,713 | -89,287 |
| - Stock Repurchases | 991,800 | 600,000 | 0 | -600,000 |
| - Other HRA Schemes | 1,615,000 | 1,595,000 | 1,491,964 | -103,036 |
| Total Housing Revenue Account | 11,900,800 | 3,695,000 | 2,745,636 | -949,364 |
| Total Capital Programme | 36,104,100 | 10,895,000 | 8,977,956 | -1,917,044 |

34. The charts below show the actual expenditure to 30 September 2021 as a percentage of the programme for the equivalent period and for the whole year.
35. 82% of the capital programme has been spent compared to the profiled budget for the first half of the year.



36. 25% has been spent compared to the total budget for the year. The budgets will be reviewed again and re-phased where applicable as part of the forthcoming budget setting process.



RISK ASSESSMENT

37. In the current economic climate, there are continued risks that financial institutions holding Council investments could default and be unable to fulfil their commitments to repay the sums invested with them.
38. To help mitigate this risk, the Council maintains a list of approved institutions based on a grading system operated by the Council's treasury management advisors. Maximum limits are also set for investments with individual institutions.

Enquiries:

For further information on this report please contact Caroline Hancock (Ext 4589).

ECONOMIC COMMENTARY BY TREASURY ADVISORS ARLINGCLOSE – OCTOBER 2021

Economic background: The economic recovery from coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period over 48 million people in the UK had received their first dose of a COVID-19 vaccine and almost 45 million their second dose.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. While the Monetary Policy Committee meeting ended with policy rates unchanged, the tone was more hawkish.

Government initiatives continued to support the economy over the quarter but came to an end on 30th September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant.

The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due to a base effect from a decline in average pay in the spring of last year associated with the furlough scheme.

Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The Office of National Statistics' (ONS') preferred measure of CPIH which includes owner-occupied housing was 3.0% year/year, marginally higher than expectations for 2.7%.

The easing of restrictions boosted activity in the second quarter of calendar year, helping push GDP up by 5.5% q/q (final estimate vs 4.8% q/q initial estimate). Household consumption was the largest contributor. Within the sector breakdown production contributed 1.0% q/q, construction 3.8% q/q and services 6.5% q/q, taking all of these close to their pre-pandemic levels.

The US economy grew by 6.3% in Q1 2021 (Jan-Mar) and then by an even stronger 6.6% in Q2 as the recovery continued. The Federal Reserve maintained its main interest rate at between 0% and 0.25% over the period but in its most recent meeting made suggestion that monetary policy may start to be tightened soon.

The European Central Bank maintained its base rate at 0%, deposit rate at -0.5%, and asset purchase scheme at €1.85 trillion.

Financial markets: Monetary and fiscal stimulus together with rising economic growth and the ongoing vaccine rollout programmes continued to support equity markets over most of the period, albeit with a bumpy ride towards the end. The Dow Jones hit another record high while the UK-focused FTSE 250 index continued making gains over pre-pandemic levels. The more internationally focused FTSE 100 saw more modest gains over the period and remains below its pre-crisis peak.

Inflation worries continued during the period. Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, than was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and a dearth of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instances, led to higher prices.

The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% on 30th September. Over the same period the 10-year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%. The Sterling Overnight Rate (SONIA) averaged 0.05% over the quarter.

Credit review: Credit default swap spreads were flat over most of the period and are broadly in line with their pre-pandemic levels. In late September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but are now falling back. The gap in spreads between UK ringfenced and non-ringfenced entities continued to narrow, but Santander UK remained an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 53bps and Lloyds Bank Plc the lowest at 32bps. The other ringfenced banks were trading between 37-39bps and Nationwide Building Society was 39bps.

Over the period Fitch and Moody's upwardly revised to stable the outlook on a number of UK banks and building societies on our counterparty list, recognising their improved capital positions compared to last year and better economic growth prospects in the UK.

Fitch also revised the outlooks for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable from negative. The rating agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

The successful vaccine rollout programme is credit positive for the financial services sector in general and the improved economic outlook has meant some institutions have been able to reduce provisions for bad loans. While there is still uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic slowdown, the sector is in a generally better position now compared to earlier this year and 2020.

2021/22 INDICATORS – HALF YEARLY PERFORMANCE

PRUDENTIAL INDICATORS

1) Level of Planned Capital Expenditure

ON TRACK

This prudential indicator is a summary of the Council's capital expenditure plans and shows how these plans are being financed by capital or revenue resources. The revised budget includes £1.6 million carried forward from 2020/21.

| Capital Expenditure and Financing | Revised Estimate £'000 | Actual to 30 Sept £'000 |
|-----------------------------------|---------------------------|----------------------------|
| Health and Public Protection | 40 | 0 |
| Streetscene | 0 | 29 |
| Leisure and Community | 6,656 | 2,381 |
| Housing | 637 | 73 |
| Planning and Development | 3,149 | 205 |
| Policy and Resources | 13,121 | 3,478 |
| Total General Fund | 23,603 | 6,166 |
| HRA | 10,176 | 1,223 |
| Total Expenditure | 33,779 | 7,389 |
| Capital Receipts | 2,588 | 18 |
| Capital Grants/Contributions | 4,656 | 358 |
| Capital Reserves | 7,973 | 1,405 |
| Revenue | 2,047 | 161 |
| Internal Borrowing | 16,515 | 5,447 |
| Total Financing | 33,779 | 7,389 |

Expenditure to 30 September is within the overall revised budget for the year. The budgets will be reviewed and re-phased where applicable as part of the forthcoming budget setting process.

2) The Council's Borrowing Need (Capital Financing Requirement)

ON TRACK

The Capital Financing Requirement (CFR) is 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 underlying borrowing need. Any capital expenditure financed by borrowing 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 borrowing in line with the asset's life.

| | Estimate £'000 | Actual to 30 Sept £'000 |
|---------------------|---------------------------|--|
| General Fund | 67,898 | 52,303 |
| HRA | 53,036 | 51,823 |
| Total CFR | 120,934 | 104,126 |

The CFR is lower than projected due to lower internal borrowing for the first 6 months of the year.

3) Financing Costs as % of Net Revenue Stream

ON TRACK

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

| | Estimate | Actual to 30 Sept |
|---------------------|-----------------|------------------------------|
| General Fund | 7% | 1% |
| HRA | 13% | 13% |

4) Housing Revenue Account (HRA) Ratios

ON TRACK

Due to the HRA Reforms in 2012, the Council moved from a subsidy system to self-financing and was required to take on £49.3 million of debt. The table below shows additional local indicators relating to the HRA in respect of this debt.

| | Estimate | End of Year Forecast |
|----------------------------------|-----------------|---------------------------------|
| HRA debt £'000 | 49,268 | 49,268 |
| HRA revenues £'000 | 12,353 | 12,479 |
| Number of HRA dwellings | 2,422 | 2,403 |
| Ratio of debt to revenues | 3.99:1 | 3.95:1 |
| Debt per dwelling £ | £20,340 | £20,501 |
| Debt repayment fund £'000 | £5,700 | £5,700 |

TREASURY INDICATORS

5) Investments - Principal Sums Invested for Periods Longer than a year

ON TRACK

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

| £M | Estimate | Actual |
|---|----------|--------|
| Limit on principal invested beyond year end | 15 | 12 |

£12 million is placed with externally managed strategic pooled diversified income funds which are long-term investments. The remaining investments are currently placed for less than a year to allow cash to be available for schemes in the capital programme that require internal borrowing.

6) Borrowing - Gross Debt and the Capital Financing Requirement

ON TRACK

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. The indicator shows that total debt is expected to remain below the CFR.

| £'000 | Estimate £'000 | Actual to 30 Sept £'000 |
|-------------------------------------|-------------------|-------------------------------|
| Debt at 1 April | 72,700 | 55,967 |
| Capital Financing Requirement (CFR) | 120,934 | 104,126 |

7) Borrowing - Limits to Borrowing Activity

ON TRACK

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

| £'000 | Limit | Actual to 30 Sept |
|----------------------|---------|----------------------|
| Operational Boundary | 144,000 | 55,967 |
| Authorised Limit | 152,000 | 55,967 |

Total debt at 30 September was £56 million. During the first half of 2021/22 the Authorised Limit of £152 million was not breached at any time.

8) Maturity Structure of Borrowing

ON TRACK

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

| Maturity structure of borrowing | Upper Limit % | Actual % |
|-----------------------------------|---------------|----------|
| Loans maturing within 1 year | 50 | 29 |
| Loans maturing within 1 - 2 years | 50 | 0 |
| Loans maturing within 2 - 5 years | 50 | 0 |

| | | |
|------------------------------------|-----|----|
| Loans maturing within 5 - 10 years | 50 | 0 |
| Loans maturing in over 10 years | 100 | 71 |

The £40m HRA loans represent 71% of loans maturing in over 10 years. The Council holds investments from Portchester Crematorium which is treated as a temporary loan and £13 million short-term loans. These represent 21% of loans maturing within 1 year.

9) Commercial Investments - Proportionality

ON TRACK

The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Strategy.

| £'000 | 2021/22 Budget | Actual to 30 Sept |
|---------------------------|-------------------|----------------------|
| Gross service expenditure | 45,281 | 16,591 |
| Investment income | 4,308 | 2,718 |
| Proportion | 9.5% | 16.4% |

10) Total Risk Exposure

ON TRACK

This indicator shows the Council's total exposure to potential investment losses.

| Total Investment Exposure | 2020/21 Forecast £'000 | Actual to 30 Sept £'000 |
|---------------------------------|------------------------------|-------------------------------|
| Treasury Management Investments | 12,000 | 21,733 |
| Commercial Investments | 64,068 | 61,525 |
| Total | 76,068 | 83,258 |

11) How Investments are Funded

ON TRACK

Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

| Investments funded by borrowing | 2020/21 Forecast £'000 | Actual to 30 Sept £'000 |
|------------------------------------|------------------------------|-------------------------------|
| Treasury Management Investments | 0 | 0 |
| Commercial Investments | 30,272 | 30,272 |
| Total | 30,272 | 30,272 |