FAREHAM
BOROUGH COUNCIL

Report to the Executive for Decision
05 September 2022

Portfolio:	Policy and Resources
Subject:	**Capital & Treasury Management Outturn 2021/22**
Report of:	Deputy Chief Executive Officer
Corporate Priorities:	

Purpose:
This report provides the Executive with details of the capital and treasury management outturn for 2021/22 to comply with the reporting requirements of the Code of Practice for Treasury Management. The report also seeks approval for the proposed methods of financing the General Fund capital programme.

Executive summary:
Actual capital expenditure on General Fund schemes in 2021/22 was £12,075,323 (£5.5 million in 2020/21) compared with the revised capital programme of £12,487,600. The overall variance was £412,277. A detailed analysis of the variations is given in Appendix A to this report.

Additional expenditure of £33,971 was incurred and a total of £445,978 will be carried forward into 2022/23. Details of the various methods used to finance this expenditure are set out in this report.

Full details of Treasury Management investment and borrowing activity in 2021/22 are also set out in this report and is summarised below:

	31 March 2021 Actual £'000	2021/22 Movement £'000	31 March 2022 Actual £'000
Total borrowing	55,967	(2,768)	53,199
Total investments	(18,625)	(3,564)	(22,189)
Net borrowing	**37,342**	**(6,332)**	**31,010**

Net interest received in 2021/22 was £637,078 (£661,684 in 2020/21) and net interest paid was £1,673,288 (£1,684,440 in 2020/21).

The investment property portfolio increased in value by £8 million mainly due to the recovery in the investment market following COVID 19 and contracted income was approximately £4,775,000.

During 2021/22, the Council complied with its legislative and regulatory requirements of the Prudential Code.

Recommendation:

(a) approves the General Fund capital programme for 2021/22 to be financed as set out in this report;

(b) agrees that the additional expenditure incurred, amounting to £33,971 be financed retrospectively from unallocated capital resources;

(c) a capital budget of £224,500 is allocated to fund short term asset management works at the Council Depot; and

(d) notes the treasury management activity for 2021/22.

Reason:
To provide the Executive with details of the capital and treasury management outturn in 2021/22 and to comply with the reporting requirements of the Code of Practice for Treasury Management.

Cost of proposals:
The necessary resources are available to finance the General Fund capital programme for 2021/22 including the additional expenditure of £33,971.

Appendices:
A: Capital Expenditure 2021/22
B: Economic Commentary by Treasury Advisors, Arlingclose
C: Prudential and Treasury Indicators 2021/22

Background papers: None

Reference papers:

Capital Programme and Capital Strategy 2021/22, Executive Committee, 4 January 2022

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

Finance Strategy, Capital Programme, Revenue Budget and Council Tax 2022/23, Executive Committee, 7 February 2022

Treasury Management Strategy and Prudential Indicators 2021/22, Council, 26 February 2021

CIPFA Code of Practice for Treasury Management

FAREHAM
BOROUGH COUNCIL

Executive Briefing Paper

Date:	05 September 2022
Subject:	Capital & Treasury Management Outturn 2021/22
Briefing by:	Deputy Chief Executive Officer
Portfolio:	Policy and Resources

INTRODUCTION

1. This report provides the Executive with details of the capital and treasury management outturn for 2021/22 to comply with the reporting requirements of the Code of Practice for Treasury Management.

GENERAL FUND CAPITAL OUTTURN REPORT 2021/22

2. The capital programme for 2021/22, approved in February this year for the General Fund was £12,487,600. The actual capital expenditure, detailed in Appendix A, was £12,075,323 (£5.5 million in 2020/21) giving an overall variation of £412,277. A summary, including savings and additional expenditure, is summarised in the table below.

Portfolio	Revised Budget £	Actual £	Savings £	Additional Expenditure £	Carry forward £
Health & Public Protection	40,000	30,575	0	0	9,425
Streetscene	94,000	110,950	0	0	(16,950)
Leisure & Community	4,646,900	4,820,124	0	4,893	(168,331)
Housing	1,708,200	1,562,350	0	0	145,850
Planning & Development	398,900	323,737	0	7,357	82,250
Policy & Resources	5,599,600	5,227,587	(270)	21,721	393,464
Total	**12,487,600**	**12,075,323**	**(270)**	**33,971**	**445,978**

ADDITIONAL EXPENDITURE

3. The schemes where additional expenditure of £33,971 was incurred were:

- Abbey Meadows Play Area - £4,893 due to additional drainage works, funded from developer contributions.
- Car Parks: New Machines and Control Room Upgrade - £7,357 due to new ANPR recording equipment at Osborn Multi-Storey Car Park.

- Daedalus Gate Guardian - £21,721 due to additional ground works to ensure the safety of the sculpture, funded from developer contributions.

CARRY FORWARDS TO 2022/23

4. There are a number of schemes still in progress and a total net budget of £445,978 will be carried forward to 2022/23.

5. This includes £855,300 of budget carry forwards and £409,322 of expenditure incurred ahead of budget which will be carried forward to reduce next year's budget.

6. The largest budget carry forwards are for Faraday Business Park of £377,591 and Gordon Road Acquisition of £163,444.

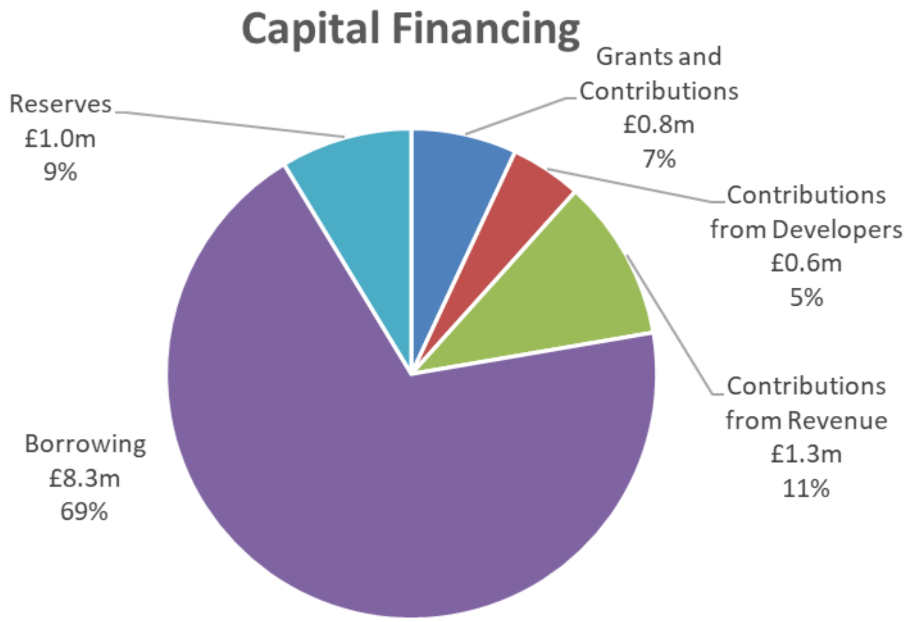
CAPITAL PROGRAMME 2022/23 TO 2026/27

7. The General Fund capital programme will be reviewed by officers in light of the slippage and re-phasing of works and an updated programme for 2022/23 to 2026/27 will be presented to the Executive as part of the Finance Strategy for 2023/24.

8. A new scheme is requested to be added to the capital programme for works at the Council's Depot. This is to deliver short term asset management works to ensure the safety and security of the site. A capital budget of £224,500 is requested to be funded from capital reserves.

CAPITAL FINANCING

9. The various methods used to finance the capital expenditure in 2021/22 are set out in the chart below.



10. The capital programme was predominantly funded by borrowing (69%) for the Leisure Centres Capital Investment and schemes at Daedalus, totalling £8.3 million. External

contributions funded a total of 12% of the programme and contributions from revenue and capital reserves funded the remaining 19%.

SIGNIFICANT SCHEMES

11. Capital expenditure of £4,474,821 was incurred at **Fareham Leisure Centre** during 2021/22. Works included the extension of the south elevation to provide larger gym facilities, climbing wall area and activity/function rooms. Also, internal refurbishment including the entrance area and café, swimming pool changing rooms, toilets, splash pool and electrical upgrades, and extension to the car park.

12. The four speculative units at the **Faraday Business Park** were completed in November 2021. Unit 14 is in the process of being sold whilst unit 17 has now been leased. Units 15 and 16 are on the market and will be fit out in conjunction with future tenants to provide a bespoke space.

13. The **Vehicles and Plant Replacement programme** incurred expenditure of £436,101. This included an electric van for the Environmental Health service, two second-hand refuse vehicles, two ride on mowers, a sweeper and a tractor.

14. A total of 83 **Disabled Facilities Grants** totalling £793,467 were awarded in the year.

15. The acquisition of a property in **Gordon Road** in 2021/22, assisted the Council in meeting its statutory duties to relieve and prevent homelessness though the provision of temporary and emergency self-contained accommodation. The £163,444 carry forward will be used to undertake required works at the property in 2022/23.

16. A total of £449,449 has been spent on the **ICT Development Programme**. Expenditure included a new finance system, Teams telephony, PC upgrades and members laptops.

TREASURY MANAGEMENT OUTTURN REPORT 2021/22

17. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (the CIPFA Code) requires the Council to approve a treasury management annual report after the end of each financial year. This report fulfils the Council's legal obligation to have regard to the CIPFA Code.

18. The Council's Treasury Management Strategy 2021/22 was approved by full Council on 26 February 2021. 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. The identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

19. The 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, complying with CIPFA's requirement, was approved by full Council on 26 February 2021.

20. An economic commentary by the Council's Treasury Advisor, Arlingclose, can be found in Appendix B.

LOCAL CONTEXT

21. The treasury management position as at 31 March 2022 and the year-on-year change in shown in the table below.

	31 March 2021 Actual £'000	2020/21 Movement £'000	31 March 2022 Actual £'000
Long-term borrowing	40,000	-	40,000
Short-term borrowing	15,967	(2,768)	13,199
Total borrowing	**55,967**	**(2,768)**	**53,199**
Long-term investments	(11,475)	(414)	(11,889)
Short-term investments	-	-	-
Cash and cash equivalents	(7,150)	(3,150)	(10,300)
Total investments	**(18,625)**	**(3,564)**	**(22,189)**
Net borrowing	**37,342**	**(6,332)**	**31,010**

Note: the figures in the table are from the Balance Sheet in the Council's statement of accounts, but are adjusted to exclude operational cash, accrued interest and other accounting adjustments.

22. Lower interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low.

BORROWING ACTIVITY

23. At 31 March 2022, the Council held £53.2 million of loans, a decrease of £2.8 million on the previous year. The year-end borrowing position is shown in the table below.

	Balance on 31 March 2021 £'000	Balance on 31 March 2022 £'000	Average Rate
Long-term borrowing	40,000	40,000	3.50%
Short-term borrowing	13,000	10,000	0.65%
Portchester Crematorium	2,967	3,199	0.80%
Total borrowing	**55,967**	**53,199**	

24. The Council holds investments from Portchester Crematorium Joint Committee which are treated as temporary loans.

25. The Council's main objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

26. With short-term interest rates remaining much lower than long-term rates, it was more cost effective in the near term to use internal resources or borrow rolling temporary / short-term loans instead.

INVESTMENT ACTIVITY

27. The Council holds invested funds, representing income received in advance of

expenditure plus balances and reserves held. During 2021/22 the Council's investment balances ranged between £16 million and £28 million due to timing differences between income and expenditure. The year-end position is shown in the table below.

	Balance on 31 March 2021 £'000	Balance on 31 March 2022 £'000	Average Rate
Banks	1,750	1,300	0.01%
Money Market Funds	5,400	9,000	0.51%
Externally Managed Pooled Funds	11,475	11,889	3.41%
Total Investments	**18,625**	**22,189**	

28. 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 investments before seeking the highest 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 risk of receiving unsuitably low investment income.

29. Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles. 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 for 2021/22.

EXTERNALLY MANAGED POOLED FUNDS

30. £12 million of the Council's investments are invested in externally managed strategically pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular income and long-term price stability. These funds generated an average total return of £0.84 million (10.9%), comprising a £431,000 (3.4%) income return which is used to support services in year, and £413,000 (7.5%) of capital growth.

31. In light of the military invasion of Ukraine by Russia, Arlingclose contacted the fund managers of our money market funds and strategic funds and confirmed no direct exposure to Russian or Belarusian assets had been identified. Indirect exposures were immaterial. It should be noted that that any assets held by banks and financial institutions (e.g. from loans to companies with links to those countries) within money market funds and other pooled funds cannot be identified easily or with any certainty as that level of granular detail is unlikely to be available to the fund managers or Arlingclose in the short-term, if at all.

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

INTEREST RECEIVED AND PAID

33. The Bank Rate increased from 0.10% to 0.25% in December and then further increased

to 0.50% in February and 0.75% in March.

34. The net interest received in 2021/22 was £637,078 (£661,684 in 2020/21) against a revised budget £695,700 for the General Fund. Net interest paid for the Housing Revenue Account was £1,673,288 (£1,684,440 in 2020/21) against a revised budget of £1,697,000.

COMMERCIAL PROPERTY INVESTMENTS

35. The definition of investments in CIPFA's Treasury Management Code covers all the Council's financial assets as well as other non-financial assets which the Council holds primarily for financial return.

36. 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.

Property Type	Purchase Cost £'000	Value at 31 March 2021 £'000	Value at 31 March 2022 £'000
Retail	27,783	19,545	21,745
Commercial (Industrial)	10,100	10,665	11,730
Other (Healthcare)	1,890	2,130	2,210
Total	**39,773**	**32,340**	**35,685**

37. Since March 2021 the value of this portfolio has increased by £3.3 million. Contracted income during this financial year was £3,350,000 per annum.

38. This increase in value is principally due to a recovery in the investment market, following the COVID 19 Pandemic. This has been across most property sectors, albeit High Street retail remains problematic. The Council's exposure to this is limited and the focus is on out of town, which has performed much better. Key lease events have had a slightly negative effect on some of these properties, reflecting the cyclical nature of this type of investment. Value has also been affected by a reduction in the Average Weighted Unexpired Lease Term of this portfolio.

39. Throughout the past 12 months debts have continued to be managed carefully. Agreements have been reached with all COVID 19 debtors and no rent has been written off as a result of the pandemic.

40. 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	Value at 31 March 2022 £'000	Movement £'000
Retail	30,673	34,045	**3,372**
Commercial	19,675	23,682	**4,007**
Other	4,645	4,388	**(257)**
Office	4,083	4,740	**657**

Leisure	1,225	1,481	**256**
Total	**60,301**	**68,336**	**8,035**

41. The overall investment property portfolio has increased in value by £8 million (decrease of £2.5 million in 2020/21). Contracted income on this portfolio between 2021 and 2022 was approximately £4,775,000 per annum. Again, the increase in value is mainly due a recovery in the investment market following COVID 19.

42. Property valuations are undertaken annually, to ensure that the Council's balance sheet reflects the current opinion of the value of the Council's assets. Fluctuations in value do not represent actual gains or losses, but do indicate market sentiment, which is often linked to rental income levels and lease terms and conditions.

PRUDENTIAL AND TREASURY INDICATORS

43. During 2021/22, all treasury management activities complied fully with the CIPFA Code and the Council's approved Treasury Management Strategy. Appendix C shows the actual prudential and treasury indicators for 2021/22.

SUMMARY

44. This report gives details of General Fund capital and treasury management outturn in 2021/22 in accordance with the reporting requirements set out in the CIPFA Code of Practice for Treasury Management.

RISK ASSESSMENT

45. There are no significant risk considerations in relation to this report.

Enquiries:

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

APPENDIX A

CAPITAL EXPENDITURE 2021/22

	Budget £	Actual £	Savings £	Additional Expenditure £	Carry over to 2022/23 £
HEALTH AND PUBLIC PROTECTION					
CCTV Cameras	40,000	30,575			9,425
HEALTH AND PUBLIC PROTECTION TOTAL	**40,000**	**30,575**	**0**	**0**	**9,425**
STREETSCENE					
Bus Shelters	6,000	0			6,000
Play Area Safety Equipment and Surface Replacement	88,000	110,950			(22,950)
STREETSCENE TOTAL	**94,000**	**110,950**	**0**	**0**	**(16,950)**
LEISURE AND COMMUNITY					
Buildings					
Fareham Live	50,000	35,098			14,902
Leisure Centres Capital Investment	4,291,900	4,474,821			(182,921)
	4,341,900	4,509,919	0	0	(168,019)
Play and Parks Schemes					
Play Area Improvement Programme	205,000	205,312			(312)
Abbey Meadows Play Area	100,000	104,893		4,893	0
	305,000	310,205	0	4,893	(312)
LEISURE AND COMMUNITY TOTAL	**4,646,900**	**4,820,124**	**0**	**4,893**	**(168,331)**
HOUSING					
Home Improvements					
Disabled Facilities Grants	700,000	793,467			(93,467)
	700,000	793,467	0	0	(93,467)
Enabling					
Gordon Road Acquisition	920,000	756,556			163,444
Sea Lane, Stubbington - Self Builds	88,200	12,327			75,873
	1,008,200	768,883	0	0	239,317
HOUSING TOTAL	**1,708,200**	**1,562,350**	**0**	**0**	**145,850**
PLANNING AND DEVELOPMENT					
Car Parks					
Car Parks: Surfacing	105,000	42,480			62,520
Car Parks: New Machines and Control Room Upgrade	273,900	281,257		7,357	0
	378,900	323,737	0	7,357	62,520
Coastal Protection					
Salterns Recreation Ground Seawall Repairs	20,000	0			20,000
	20,000	0	0	0	20,000
PLANNING AND DEVELOPMENT TOTAL	**398,900**	**323,737**	**0**	**7,357**	**82,520**

	Budget £	Actual £	Savings £	Additional Expenditure £	Carry over to 2022/23 £
POLICY AND RESOURCES					
Replacement Programmes					
Vehicles and Plant Replacement Programme	505,800	436,101			69,699
ICT Development Programme	387,700	449,449			(61,749)
	893,500	885,550	0	0	7,950
Operational Buildings					
Osborn Road Multi-Storey Car Park	0	47,923			(47,923)
Civic Offices Improvement Programme	50,000	18,319			31,681
	50,000	66,242	0	0	(16,242)
Solent Airport at Daedalus Schemes					
Faraday Business Park	4,237,500	3,859,909			377,591
Site Wide Investment	70,000	45,835			24,165
Gate Guardian	68,600	90,321		21,721	0
	4,376,100	3,996,065	0	21,721	401,756
Land Acquisitions					
Purchase of Land at Mill Lane	280,000	279,730	(270)		0
	280,000	279,730	(270)	0	0
POLICY AND RESOURCES TOTAL	**5,599,600**	**5,227,587**	**(270)**	**21,721**	**393,464**
GENERAL FUND TOTAL	**12,487,600**	**12,075,323**	**(270)**	**33,971**	**445,978**

APPENDIX B

ECONOMIC COMMENTARY BY TREASURY ADVISORS ARLINGCLOSE – APRIL 2022

Economic background: The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% y/y from 4.4%.

The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

With the fading of lockdown – and, briefly, the 'pingdemic' – restraints, activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

GDP growth in the euro zone increased by 0.3% in calendar Q4 2021 following a gain of 2.3% in the third quarter and 2.2% in the second. Headline inflation remains high, with CPI registering a record 7.5% year-on-year in March, the ninth successive month of rising inflation. Core CPI inflation was 3.0% y/y in March, was well above the European Central Bank's target of 'below, but close to 2%', putting further pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at a downwardly revised annualised rate of 6.9% in Q4 2021, a sharp in increase from a gain of 2.3% in the previous quarter. In its March 2022 interest rate announcement, the Federal Reserve raised the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months. The Fed also repeated it plan to reduce its asset purchase programme which could start by May 2022.

Financial markets: The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.

The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

Credit review: In the first half of FY 2021-22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September, spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The 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 was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

APPENDIX C

PRUDENTIAL, TREASURY AND COMMERCIAL INVESTMENT INDICATORS 2021/22

PRUDENTIAL INDICATORS

1) Capital Expenditure

The Council's capital expenditure and financing is summarised as follows:

Capital Expenditure and Financing	2021/22 Revised £'000	2021/22 Actual £'000	Difference £'000
Health & Public Protection	40	31	9
Streetscene	94	111	(17)
Leisure & Community	4,647	4,820	(173)
Housing	1,708	1,562	146
Planning & Development	399	324	75
Policy & Resources	5,600	5,228	372
Total General Fund	**12,488**	**12,076**	**412**
HRA	**6,762**	**5,152**	**1,610**
Total Expenditure	**19,250**	**17,228**	**2,022**
Capital Receipts	2,500	1,932	568
Capital Grants/Contributions	1,644	1,838	(194)
Capital Reserves	3,832	4,076	(244)
Revenue	1,459	999	460
Borrowing	9,815	8,383	1,432
Total Financing	**19,250**	**17,228**	**2,022**

2) Capital Financing Requirement

The Council's Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

£'000	2020/21 Actual	2021/22 Revised	2021/22 Actual	2021/22 Difference
General Fund	52,303	59,700	59,451	(249)
HRA	51,823	53,109	51,823	(1,286)
Total CFR	**104,126**	**112,809**	**111,274**	**(1,535)**

The CFR increased by £7,148 year on year as capital expenditure financed by debt was higher than the in-year minimum revenue provision payment (MRP).

Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement. This is a key indicator of prudence.

£'000	2021/22 Revised	2021/22 Actual	Difference
Capital Financing Requirement	112,809	111,274	(1,535)
Less: Gross Debt	62,967	53,199	9,768
Under/(Over) Borrowing	**49,842**	**58,075**	**8,233**

Total debt remained below the Capital Financing Requirement during the period.

3) Operational Boundary and Authorised Limit for External Debt

The **operational boundary** is based on the Council's estimate of the most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

The **authorised limit** is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

£'000	2021/22 Revised	2021/22 Actual	Complied
Operational Boundary	128,000	56,255	✓
Authorised Limit	136,000	56,255	✓

4) Financing Costs as % of Net Revenue Stream

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.

	2021/22 Revised	2021/22 Actual	Difference
General Fund	4%	5%	1%
HRA	14%	13%	-1%

TREASURY MANAGEMENT INDICATORS

The Council measures and manages its exposures to treasury management risks using the following indicators.

1) Principal Sums Invested for longer than a year

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. The limits on the long-term principal sum insured to final maturities beyond the period end were:

£M	2021/22 Revised	2021/22 Actual	Complied
Principal sums invested > 364 days	14	12	✓

2) Maturity Structure of Borrowing

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

Maturity structure of borrowing	Upper Limit	2021/22 Actual	Complied
	%	%	
- Loans maturing within 1 year	50	25	✓
- 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	75	✓

3) Housing Revenue Account (HRA) Ratios

As a result of 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.

	2021/22 Revised	2021/22 Actual	Difference
HRA Debt £'000	49,268	49,268	-
HRA Revenues £'000	12,510	13,183	673
Number of HRA Dwellings	2,422	2,398	-24
Ratio of Debt to Revenues %	3.94	3.74	-0.20
Debt per Dwelling £	£20,340	£20,548	£208
Debt Repayment Fund £'000	£5,700	£5,700	-

COMMERCIAL INVESTMENT INDICATORS

The Council measures and manages its exposures to commerical investments using the following indicators.

1) Proportionality

The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the proportion of expenditure funded by investment income.

£'000	2020/21 Actual	2021/22 Revised	2021/22 Actual
Gross service expenditure	46,686	45,620	49,432
Investment income	4,645	5,779	5,654
Proportion	**9.9%**	**12.7%**	**11.4%**

2) Total Risk Exposure

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

Total Investment Exposure	2020/21 Actual £'000	2021/22 Revised £'000	2021/22 Actual £'000
Treasury Management Investments	18,625	12,000	22,189
Commercial Investments	61,525	64,068	68,336
Total	**80,150**	**76,068**	**90,525**

The variation in the revised to actual is due to a higher level of investments held than anticipated at year end partly due to unspent business grants.

3) How Investments are Funded

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 Actual £'000	2021/22 Revised £'000	2021/22 Actual £'000
Treasury Management Investments	0	0	0
Commercial Investments	31,042	30,272	30,272
Total	**31,042**	**30,272**	**30,272**

4) Rate of Return Received

This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested.

Investments Net Rate of Return	2020/21 Actual	2021/22 Revised	2021/22 Actual
Treasury Management Investments	3.3%	3.5%	3.2%
Commercial Investments	5.2%	5.6%	5.0%
Total	**4.7%**	**5.1%**	**4.6%**