FAREHAM
BOROUGH COUNCIL

Report to the Executive for Decision
03 July 2023

Portfolio:	Policy and Resources
Subject:	**Capital & Treasury Management Outturn 2022/23**
Report of:	Head of Finance and Audit
Corporate Priorities:	A dynamic, prudent and progressive Council

Purpose:
This report provides the Executive with details of the capital and treasury management outturn for 2022/23 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 2022/23 was £6,202,287 (£12.1 million in 2021/22) compared with the revised capital programme of £9,932,800. The overall variance was £3,730,513. A detailed analysis of the variations is given in Appendix A to this report.

Total savings from individual projects of £44,017 were achieved, additional expenditure of £5,803 on others was incurred and a total of £3,692,299 will be carried forward into 2023/24. 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 2022/23 are also set out in this report and is summarised below:

	31 March 2022 Actual £'000	2022/23 Movement £'000	31 March 2023 Actual £'000
Total borrowing	53,199	8,137	61,336
Total investments	(22,189)	(2,643)	(24,832)
Net borrowing	**31,010**	**5,494**	**36,504**

Net interest received from investments in 2022/23 was £879,854 (£637,078 in 2021/22) and net interest paid on borrowing was £1,876,270 (£1,673,288 in 2021/22).

The overall investment property portfolio increased in value by £1.67 million and contracted income was approximately £4,480,000.

During 2022/23, the Council complied with its legislative and regulatory requirements of the Prudential Code.

Recommendation:
It is recommended that the Executive:

(a) approves that the General Fund capital programme for 2022/23 be financed as set out in this report;

(b) agrees that the additional expenditure incurred, amounting to £5,803 be financed retrospectively from unallocated capital resources; and

(c) notes the treasury management activity for 2022/23.

Reason:
To provide the Executive with details of the capital and treasury management outturn in 2022/23 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 2022/23 including the additional expenditure of £5,803.

Appendices: **A:** Capital Expenditure 2022/23

B: Economic Commentary by Treasury Advisors, Arlingclose

C: Prudential and Treasury Indicators 2022/23

Background papers: None

Reference papers: Capital Programme and Capital Strategy 2023/24, Executive Committee, 6 February 2023

Finance Strategy, Capital Programme, Revenue Budget and Council Tax 2022/23, Executive Committee, 6 February 2023

Treasury Management Strategy and Prudential Indicators 2022/23, Council, 25 February 2022

CIPFA Code of Practice for Treasury Management

FAREHAM
BOROUGH COUNCIL

Executive Briefing Paper

Date:	03 July 2023
Subject:	Capital & Treasury Management Outturn 2022/23
Briefing by:	Head of Finance and Audit
Portfolio:	Policy and Resources

INTRODUCTION

1. This report provides the Executive with details of the capital and treasury management outturn for 2022/23 to comply with the reporting requirements of the Code of Practice for Treasury Management.

GENERAL FUND CAPITAL OUTTURN REPORT 2022/23

2. The capital programme for 2022/23, approved in February this year for the General Fund was £9,932,800. The actual capital expenditure, detailed in Appendix A, was £6,202,287 (£12.1 million in 2021/22) giving an overall variation of £3,730,513. 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	9,400	9,400	0	0	0
Streetscene	37,100	33,690	0	0	3,410
Leisure & Community	5,472,500	3,047,502	0	5,803	2,430,801
Housing	1,889,300	1,429,346	0	0	459,954
Planning & Development	118,000	103,929	(18,371)	0	(4,300)
Policy & Resources	2,406,500	1,578,420	(25,646)	0	802,434
Total	**9,932,800**	**6,202,287**	**(44,017)**	**5,803**	**3,692,299**

SAVINGS AND ADDITIONAL EXPENDITURE

3. Total savings of £44,017 were recognised for the following schemes:

- Salterns Recreation Ground Seawall Repairs - £18,371
- ICT Development Programme - £14,314
- Managed Hangarage at Solent Airport - £11,332

4. The scheme where additional expenditure of £5,803 was incurred was:

- Play Area Improvement Programme - £5,803 to be funded from the Community Infrastructure Levy.

CARRY FORWARDS TO 2023/24

5. There are a number of schemes still in progress and a total net budget of £3,692,299 will be carried forward to 2023/24.

6. This includes £3,769,436 of budget carry forwards and £77,137 of expenditure incurred ahead of budget which will be carried forward to reduce next year's budget.

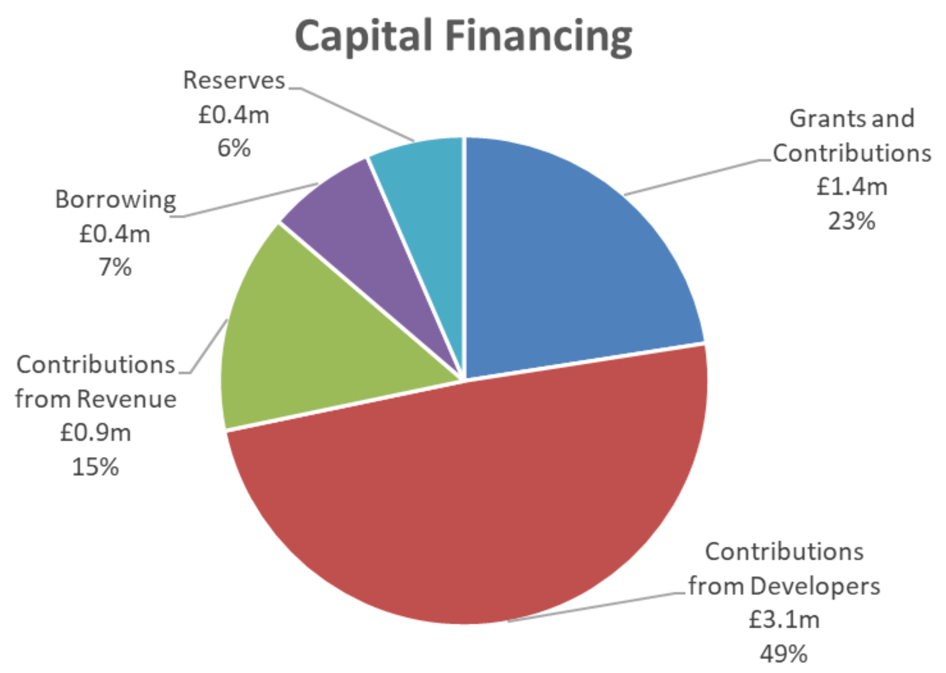
7. The largest budget carry forwards are for Fareham Live £2,380,991 and Disabled Facilities Grants £377,130.

CAPITAL PROGRAMME 2023/24 TO 2027/28

8. 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 2023/24 to 2027/28 will be presented to the Executive as part of the Finance Strategy for 2024/25.

CAPITAL FINANCING

9. The various methods used to finance the capital expenditure in 2022/23 are set out in the chart below.



10. The largest funding source for the capital programme was contributions from developers (49%) for Fareham Live, the Play Area Improvement Programme and Bus Shelters, totalling £3.1 million. Other grants and contributions funded a total of 23% of the programme, contributions from revenue 15%, borrowing 7% and capital reserves funded the remaining 6%.

SIGNIFICANT SCHEMES

11. Capital expenditure of £2,929,209 was incurred at **Fareham Live** during 2022/23. The construction project commenced in August 2022 and although the spend through 2022/23 wasn't in line with expectations the project is currently on track to be completed during the 2023/24 financial year.

12. A total of £674,043 has been spent on schemes at **Solent Airport at Daedalus**. Expenditure included £341,919 at Faraday Business Park for the fit out of Units 15 and 16, £187,057 for Aeronautical Ground Lighting and Performance Based Navigation and £93,668 on Managed Hangarage.

13. The **Vehicles and Plant Replacement programme** incurred expenditure of £363,968. This included two second-hand refuse vehicles, a ride on mower, a sweeper and fire truck for Solent Airport.

14. A total of 185 **Disabled Facilities Grants** totalling £1,272,870 were awarded in the year. These were fully funded from government grants.

15. A total of £298,084 has been spent on the **ICT Development Programme**. Expenditure included telephony upgrade, PC upgrades and laptops.

TREASURY MANAGEMENT OUTTURN REPORT 2022/23

16. 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.

17. The Council's Treasury Management Strategy 2022/23 was approved by full Council on 25 February 2022. 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.

18. 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 25 February 2022.

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

LOCAL CONTEXT

The treasury management position as at 31 March 2023 and the year-on-year change is shown in the table below.

	31 March 2022 Actual £'000	2022/23 Movement £'000	31 March 2023 Actual £'000
Long-term borrowing	40,000	8,000	48,000
Short-term borrowing	13,199	137	13,336
Total borrowing	**53,199**	**8,137**	**61,336**
Long-term investments	(11,889)	1,257	(10,632)
Short-term investments	0	(9,000)	(9,000)
Cash and cash equivalents	(10,300)	5,100	(5,200)
Total investments	**(22,189)**	**(2,643)**	**(24,832)**
Net borrowing	**31,010**	**5,494**	**36,504**

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.

20. 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.

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

BORROWING ACTIVITY

22. At 31 March 2023, the Council held £61.3 million of loans, an increase of £8.1 million on the previous year. The year-end borrowing position is shown in the table below.

	Balance on 31 March 2022 £'000	Balance on 31 March 2023 £'000	Average Rate
Long-term borrowing	40,000	48,000	3.55%
Short-term borrowing	10,000	10,000	2.58%
Portchester Crematorium	3,199	3,336	1.34%
Total borrowing	**53,199**	**61,336**	

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

24. As outlined in the treasury strategy, the Council's main objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

25. The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March around 2% to 4% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to

control this by raising interest rates.

26. A new HRA Public Works Loan Board (PWLB) rate of gilt yield plus 0.4% (0.4% below the currently available certainty rate) was announced on 15th March 2023. This discounted rate is to support local authorities borrowing for Housing Revenue Accounts and the delivery of social housing and is available from 15th June 2023, initially for a period of one year.

INVESTMENT ACTIVITY

27. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2022/23 the Council's investment balances ranged between £20 million and £42 million due to timing differences between income and expenditure. The year-end position is shown in the table below.

	Balance on 31 March 2022 £'000	Balance on 31 March 2023 £'000	Average Rate
Externally Managed Pooled Funds	11,889	10,632	3.83%
Money Market Funds	9,000	5,200	4.09%
Banks	1,300	2,000	3.73%
Local Authorities	0	7,000	4.30%
Total Investments	**22,189**	**24,832**	

28. In previous years, opportunities to invest with other local authorities were available which are seen as low risk investments with reasonable rates.

29. 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.

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 income return of £458,000.

31. 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.

32. The Department for Levelling Up, Housing & Communities (DLUHC) published a consultation on the International Financial Reporting Standard 9 (IFRS 9) pooled investment fund statutory override, for fair value gains and losses on pooled investment funds which was due to expire with effect from 2023/24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. The override will be extended for two years and therefore remain in place for the 2023/24 and

2024/25 financial years.

33. Under the Regulations, gains and losses resulting from unrealised fair value movements relating to treasury pooled investment funds, that otherwise must be recognised in profit or loss under IFRS 9, are not charges to the revenue account, and must be taken into an unusable reserve account. The Council therefore treats these gains and losses in accordance with these Regulations.

INTEREST RECEIVED AND PAID

34. Bank Rate increased from 0.75% at the beginning of the year to 4.25% at the end of March 2023.

35. The net interest received in 2022/23 was £879,854 (£637,078 in 2021/22) against a revised budget £828,000 for the General Fund. Net interest paid for the Housing Revenue Account was £1,670,992 (£1,673,288 in 2021/22) against a revised budget of £1,630,000.

COMMERCIAL PROPERTY INVESTMENTS

36. 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.

37. 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 2022 £'000	Value at 31 March 2023 £'000
Retail	27,783	21,745	21,785
Commercial (Industrial)	10,100	11,730	11,740
Other (Healthcare)	1,890	2,210	1,960
Total	**39,773**	**35,685**	**35,485**

38. Since March 2022 the value of this portfolio has decreased by £0.2 million. Contracted income during this financial year was £2,393,000 per annum (compared to £2,715,000 in 2021/22).

39. The Investment portfolio has effectively maintained its value. Five of the properties saw moderate increases in value, whilst the other 5 saw moderate reductions in value. The upshot was a minimal decrease in the value of the entire portfolio. The cyclical nature of property and key lease events have had an effect on the value of the portfolio, but these are set against wider changes in the property market as commented on below. Examples of lease events are a new letting to B&M, of a previously vacant unit, which will commence following works to put the unit into repair.

40. Throughout the past 12 months any debts arising from the investment portfolio have continued to be managed closely.

41. The Council's total investment property portfolio is shown in the table below. Rising

interest rates, pressures of inflation, uncertainty in respect of future prices of utilities and the rising cost of living have all been features of a UK economy which has been unpredictable and uncertain in the last year. This has resulted in a softening of yields as the property market has deteriorated in the last year.

42. Our whole portfolio is relatively well-balanced and the general economic situation has had a different impact on the respective asset types. Our retail exposure is limited on the High Street and focused on out-of-town locations, with this performing better. The property type ‘commercial’ is predominantly made up of industrial premises and our industrial ground lease portfolio. The industrial sector remains strong, however, there has again been a softening of yields.

Property Type	**Value at 31 March 2022 £’000**	**Value at 31 March 2023 £’000**	**Movement £’000**
Retail	34,045	33,790	**(255)**
Commercial	23,682	25,245	**1,563**
Other	4,388	4,109	**(279)**
Office	4,740	5,370	**630**
Leisure	1,481	1,492	**11**
Total	**68,336**	**70,006**	**1,670**

43. The overall investment property portfolio has increased in value by £1.67 million (increase of £8 million in 2021/22). Contracted income was approximately £4,480,000 per annum (compared to £4,775,000 in 2021/22).

44. 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

45. During 2022/23, 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 2022/23.

SUMMARY

46. This report gives details of General Fund capital and treasury management outturn in 2022/23 in accordance with the reporting requirements set out in the CIPFA Code of Practice for Treasury Management.

RISK ASSESSMENT

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

Enquiries:

For further information on this report please contact Caroline Hancock (01329 824589).

APPENDIX A

CAPITAL EXPENDITURE 2022/23

	Budget £	Actual £	Savings £	Additional Expenditure £	Carry over to 2023/24 £
HEALTH AND PUBLIC PROTECTION					
CCTV Cameras	9,400	9,400			0
HEALTH AND PUBLIC PROTECTION TOTAL	**9,400**	**9,400**	**0**	**0**	**0**
STREETSCENE					
Bus Shelters	20,000	5,944			14,056
Play Area Safety Equipment and Surface Replacement	17,100	27,746			(10,646)
STREETSCENE TOTAL	**37,100**	**33,690**	**0**	**0**	**3,410**
LEISURE AND COMMUNITY					
Buildings					
Fareham Live	5,310,200	2,929,209			2,380,991
Community Buildings Review	80,000	30,190			49,810
	5,390,200	2,959,399	0	0	2,430,801
Play and Parks Schemes					
Play Area Improvement Programme	82,300	88,103		5,803	0
	82,300	88,103	0	5,803	0
LEISURE AND COMMUNITY TOTAL	**5,472,500**	**3,047,502**	**0**	**5,803**	**2,430,801**
HOUSING					
Home Improvements					
Disabled Facilities Grants	1,650,000	1,272,870			377,130
	1,650,000	1,272,870	0	0	377,130
Enabling					
Gordon Road Acquisition	163,400	132,746			30,654
Sea Lane, Stubbington - Self Builds	75,900	23,730			52,170
	239,300	156,476	0	0	82,824
HOUSING TOTAL	**1,889,300**	**1,429,346**	**0**	**0**	**459,954**
PLANNING AND DEVELOPMENT					
Car Parks					
Car Parks: Surfacing	20,000	24,300			(4,300)
	20,000	24,300	0	0	(4,300)
Coastal Protection					
Salterns Recreation Ground Seawall Repairs	98,000	79,629	(18,371)		0
	98,000	79,629	(18,371)	0	0
PLANNING AND DEVELOPMENT TOTAL	**118,000**	**103,929**	**(18,371)**	**0**	**(4,300)**

	Budget £	Actual £	Savings £	Additional Expenditure £	Carry over to 2023/24 £
POLICY AND RESOURCES					
Replacement Programmes					
Vehicles and Plant Replacement Programme	494,700	363,968			130,732
ICT Development Programme	399,700	298,084	(14,314)		87,302
	894,400	662,052	(14,314)	0	218,034
Operational Buildings					
Civic Offices Improvement Programme	200,000	79,654			120,346
Depot Asset Management Works	224,500	17,252			207,248
	424,500	96,906	0	0	327,594
Property Developments					
Osborn Road Multi-Storey Car Park	100,000	105,000			(5,000)
166 Southampton Road Repairs	100,000	40,419			59,581
	200,000	145,419	0	0	54,581
Solent Airport at Daedalus Schemes					
Faraday Business Park	352,700	341,919			10,781
Site Wide Investment	279,900	31,265			248,635
Aeronautical Ground Lighting and Performance Based Navigation	150,000	187,057			(37,057)
Taxiway Maintenance	0	20,134			(20,134)
Managed Hangarage	105,000	93,668	(11,332)		0
	887,600	674,043	(11,332)	0	202,225
POLICY AND RESOURCES TOTAL	**2,406,500**	**1,578,420**	**(25,646)**	**0**	**802,434**
GENERAL FUND TOTAL	**9,932,800**	**6,202,287**	**(44,017)**	**5,803**	**3,692,299**

APPENDIX B

ECONOMIC COMMENTARY BY TREASURY ADVISORS ARLINGCLOSE APRIL 2023

Economic background: The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.

Following the decision by the UK government under Rishi Sunak and Jeremy Hunt to reverse some of the support to household energy bills announced under Liz Truss, further support in the form of a cap on what energy suppliers could charge household was announced in the March Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April.

The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate 3mth/year eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December. The most recent information for the period December-February showed an unemployment rate of 3.7%.

The inactivity rate was 21.3% in the December-February quarter, slightly down from the 21.4% in the first quarter of the financial year. Nominal earnings were robust throughout the year, with earnings growth in December-February at as 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for inflation, however, both measures were negative for that period and have been so throughout most of the year.

Despite household budgets remaining under pressure, consumer confidence rose to -36 in March, following readings of -38 and -45 in the previous two months, and much improved compared to the record-low of -49 in September. Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. For the October-December period was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Q4 was 0.6%.

The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and

February and then 25bps in March, taking Bank Rate to 4.25%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

After reaching 9.1% in June, annual US inflation slowed for eight consecutive months to 6% in February. The Federal Reserve continued raising interest rates over the period with consecutive increases at each Federal Open Market Committee meetings, taking policy rates to a range of 4.75%- 5.00% at the March meeting.

From the record-high of 10.6% in October, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in March, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.

Financial markets: Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

Credit review: In June Fitch revised the outlook on the UK sovereign to negative from stable. Moody's made the same revision to the UK sovereign, following swiftly after with a similar move for a number of local authorities and UK banks including Barclays Bank, National Westminster Bank (and related entities) and Santander.

During the last few months of the reporting period there were only a handful of credit changes by the rating agencies, then in March the collapse of Silicon Valley Bank (SVB) in the US quickly spilled over into worries of a wider banking crisis as Credit Suisse encountered further problems and was bought by UBS.

Credit Default Prices had been rising since the start of the period on the back of the invasion of Ukraine, and in the UK rose further in September/October at the time of the then-government's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the period as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.

On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

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

Local authorities remain under financial pressure, but Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree caution is merited with certain authorities.

APPENDIX C

PRUDENTIAL, TREASURY AND COMMERCIAL INVESTMENT INDICATORS 2022/23

PRUDENTIAL INDICATORS

1) Capital Expenditure

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

Capital Expenditure and Financing	2022/23 Revised £'000	2022/23 Actual £'000	Difference £'000
Health & Public Protection	9	9	0
Streetscene	37	34	3
Leisure & Community	5,473	3,048	2,425
Housing	1,889	1,429	460
Planning & Development	118	104	14
Policy & Resources	2,406	1,578	828
Total General Fund	**9,932**	**6,202**	**3,730**
HRA	**7,292**	**9,279**	**(1,987)**
Total Expenditure	**17,224**	**15,481**	**1,743**
Capital Receipts	1,349	1,383	(34)
Capital Grants/Contributions	8,543	5,584	2,959
Capital Reserves	4,023	5,428	(1,405)
Revenue	1,177	893	284
Borrowing	2,132	2,193	(61)
Total Financing	**17,224**	**15,481**	**1,743**

2) Capital Financing Requirement

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

£'000	2021/22 Actual	2022/23 Revised	2022/23 Actual	2022/23 Difference
General Fund	60,245	55,513	55,234	279
HRA	51,054	52,733	53,118	(385)
Total CFR	**111,299**	**108,246**	**108,352**	**(106)**

The CFR decreased by £3,053 year on year as capital expenditure financed by debt was lower than the in-year minimum revenue provision payment (MRP) and transfers from capital receipts.

3) 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	2022/23 Revised	2022/23 Actual	Difference
Capital Financing Requirement	108,246	108,352	(106)
Less: Gross Debt	50,200	61,336	(11,136)
Under/(Over) Borrowing	**58,046**	**47,016**	**(11,242)**

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

4) 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	2022/23 Revised	2022/23 Actual	Complied
Operational Boundary	135,000	61,336	✓
Authorised Limit	143,000	61,336	✓

5) 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.

	2022/23 Revised	2022/23 Actual	Difference
General Fund	5%	6%	1%
HRA	13%	16%	3%

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	2022/23 Revised	2022/23 Actual	Complied
Principal sums invested > 364 days	14	11	✓

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	2022/23 Actual	Complied
	%	%	
- Loans maturing within 1 year	50	22	✓
- 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	78	✓

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.

	2022/23 Revised	2022/23 Actual	Difference
HRA Debt £'000	49,268	49,268	-
HRA Revenues £'000	14,228	13,819	(409)
Number of HRA Dwellings	2,419	2,401	(18)
Ratio of Debt to Revenues	3.46:1	3.57:1	0.11
Debt per Dwelling £	£20,369	£20,520	£151
Debt Repayment Fund £'000	£6,840	£6,840	-

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	2021/22 Actual	2022/23 Revised	2022/23 Actual
Gross service expenditure	46,686	45,915	46,245
Investment income	4,645	4,463	5,668
Proportion	**9.9%**	**9.7%**	**12.3%**

2) Total Risk Exposure

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

Total Investment Exposure	2021/22 Actual £'000	2022/23 Revised £'000	2022/23 Actual £'000
Treasury Management Investments	22,189	15,000	24,832
Commercial Investments	68,336	68,336	70,006
Total	**90,525**	**83,336**	**94,838**

The variation in the revised to actual is due to a higher level of investments held than anticipated at year end, partly due an increase in capital receipts.

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	2021/22 Actual £'000	2022/23 Revised £'000	2022/23 Actual £'000
Treasury Management Investments	0	0	0
Commercial Investments	30,272	29,479	29,479
Total	**30,272**	**29,479**	**29,479**

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	**2021/22 Actual**	**2022/23 Revised**	**2022/23 Actual**
Treasury Management Investments	3.2%	4.1%	4.4%
Commercial Investments	5.0%	3.5%	5.1%
Total	**4.6%**	**3.7%**	**5.0%**