

FAREHAM

BOROUGH COUNCIL

Report to the Executive for Decision 11 December 2023

Portfolio:	Policy & Resources
Subject:	Treasury Monitoring & Capital Monitoring 2023/24
Report of:	Head of Finance and Audit
Corporate Priorities:	A dynamic, prudent and progressive Council

Purpose:

This report summarises the Council's borrowing and investment activity and capital expenditure up to 30 September 2023 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 treasury position is set out in the following table:-

	31 March 2023 Actual £'000	30 Sept 2023 Actual £'000
Total borrowing	61,336	61,256
Total investments	(24,832)	(18,192)
Net borrowing	36,504	43,064

The Council's net interest budget for 2023/24 is £612,000 with an actual of £239,671 at the end of September (£879,854 actual in 2022/23). With the Bank Rate at it's likely peak of 5.25%, the budget will be reviewed during the budget setting period to reflect the latest capital programme spending plans.

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

Capital Programme	Revised Budget 2023/24 £	Budget to 30 Sep 23 £	Actual to 30 Sep 23 £	Variation £
General Fund	39,713,200	24,797,100	21,508,704	-3,288,396
HRA	3,518,000	2,253,500	2,148,281	-105,219
Total	43,231,200	27,050,600	23,656,985	-3,393,615

Recommendation:

It is recommended that the Executive notes the Treasury Management and Capital Monitoring Report for 2023/24.

Reason:

To inform the Executive of the Council's borrowing, investment and capital programme activity up to 30 September 2023.

Cost of proposals:

Not applicable.

Appendices:

A: Economic Commentary and Outlook by Arlingclose
B: Treasury and Prudential Indicators 2022/23 half yearly performance

Background papers: None

Reference papers:

Treasury Management Strategy and Prudential Indicators 2023/24, Council, 24 February 2023

Finance Strategy, Capital Programme, Revenue Budget and Council Tax 2023/24, Executive, 6 February 2023

Housing Revenue Account 2023/24, Executive, 6 February 2023

Capital and Treasury Management Outturn 2022/23, Executive, 3 July 2023

Prudential Code for Capital Finance in Local Authorities (2021)

Treasury Management in the Public Services Code of Practice (2021)

FAREHAM

BOROUGH COUNCIL

Executive Briefing Paper

Date:	11 December 2023
Subject:	Treasury Monitoring and Capital Monitoring 2023/24
Briefing by:	Head of Finance and Audit
Portfolio:	Policy & 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).
2. The Council's Treasury Management Strategy for 2023/24 was approved by Full Council on 24 February 2023. 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 successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.
3. An economic commentary by the Council's Treasury Advisors, Arlingclose, can be found in Appendix A.
4. 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 for 2023/24 was also approved by Full Council on 24 February 2023.
5. This report also includes progress to 30 September 2023 on the Capital Programme.

BORROWING ACTIVITY

6. At 30 September 2023, the Council held £61 million of loans, (£80,000 less than the position at 31 March 2023). The Council expects to borrow up to an additional £5 million in 2023/24 to part fund the capital programme.
7. 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.

8. Borrowing activity to 30 September 2023 was:

	Balance on 31 March 2023 £'000	Balance on 30 Sept 2023 £'000	Average Rate
Long-term borrowing	48,000	48,000	3.55%
Short-term borrowing	10,000	10,000	5.20%
Portchester Crematorium	3,336	3,256	1.34%
Total Borrowing	61,336	61,256	

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

10. The Council's short-term borrowing is from other local authorities and long-term borrowing is from the Public Works Loan Board (PWLB). There has been a substantial rise in the cost of both short and long-term borrowing over the last 18 months due to rising Bank Rates. The Bank Rate rose by 1% from 4.25% at the beginning of April to 5.25% at the end of September and the Bank Rate was 2% higher than at the end of September 2022.

11. A new PWLB HRA rate which is 0.4% below the certainty rate was made available from 15th June 2023. This was initially available for a period of one year but was extended to the end of June 2025 in the Autumn Statement. This discounted rate is to support local authorities borrowing for the Housing Revenue Account.

INVESTMENT ACTIVITY

12. 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 £24 and £31 million due to timing differences between income and expenditure.

13. 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.

14. 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 2023/24. The policy details the high quality and secure counterparty types the Council can invest with.

15. £12 million of the Council's investments is invested in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of -0.57%, comprising a 3.79% income return which is used to support services in year, and 4.36% of unrealised capital loss.

16. These funds have no defined maturity date but are available for withdrawal after a notice period, but it is intended to hold onto the funds longer term. 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.

17. Details on investment activity to 30 September 2023 are summarised in the table below:

	Balance on 31 March 2023 £'000	Balance on 30 Sept 2023 £'000	Average Rate
Long-Term Pooled Funds	10,632	10,492	3.79%
Money Market Funds	5,200	4,700	5.35%
Banks	2,000	0	0.00%
Local Authorities	7,000	3,000	4.00%
Total Investments	24,832	18,192	

18. The decrease in investments at the end of September is mainly due to the purchase of Fareham Shopping Centre.

COMMERCIAL PROPERTIES (NON-TREASURY INVESTMENTS)

19. The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return.
20. 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 £2.3 million during 2023/24.

Property Type	Value at 31 March 2022 £'000	Value at 31 March 2023 £'000
Retail	21,745	21,785
Commercial (Industrial)	11,730	11,740
Other (Healthcare)	2,210	1,960
Total	35,685	35,485

21. 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.
22. 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 2022 £'000	Value at 31 March 2023 £'000
Retail	34,045	33,790
Commercial	23,682	25,245
Other	4,388	4,109
Office	4,740	5,370
Leisure	1,481	1,492
Total	68,336	70,006

23. The overall investment property portfolio has increased in value by £1.67 million (increase of £8 million in 2021/22).
24. The Council purchased the leasehold of Fareham Shopping Centre at the end of September. The above table includes the freehold value only as at 31 March.
25. 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.

BUDGETED INCOME AND OUTTURN

26. Following the September Monetary Policy Committee meeting, our treasury advisor, Arlingclose, revised its interest forecast to reflect the view that 5.25% will now be the peak in Bank Rate.
27. The Council's net interest budget for 2023/24 is £612,000 with an actual of £239,671 at the end of September (£879,854 actual in 2022/23). The budget will be reviewed during the revised budget setting period to reflect the latest capital spending plans.

COMPLIANCE WITH TREASURY AND PRUDENTIAL INDICATORS

28. The Council confirms compliance with its Treasury and Prudential Indicators for 2023/24, which was set on 24 February 2023 as part of the Council's Treasury Management Strategy.
29. 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

30. On 6 February 2022, the Executive approved the 2023/24 capital programme of £24.5 million for the General Fund and Housing Revenue Account (HRA).
31. Details of actual capital expenditure in 2022/23 were reported to the July Executive and a total carry forward of £1.7 million was added to the capital programme bringing the total to £26.2 million for 2023/24.
32. Since the capital programme was approved earlier in the year, a number of new schemes or amendments to scheme budgets have been added to the 2023/24

year, giving a revised total of £43.2 million:-

- Streetscene Asset Management Plan - £276,800
- Removal of Crossfell Walk Development – £255,000
- Cams Alders Pavilion Roof and Masonry Repairs - £100,000
- Vehicle Replacement Programme (including HRA) - £288,200
- Revised Daedalus capital schemes - £740,000
- Purchase of Fareham Shopping Centre - £15,302,000
- Revised Osborn Road Car Park - £692,900

33. The following table sets out the updated capital programme for 2023/24 and has been used as the basis for monitoring progress to 30 September 2023:-

	Approved Programme £	2022/23 Slippage £	New/ Amended Schemes £	Total £
Health and Public Protection	0	0	0	0
Streetscene	50,000	3,400	276,800	330,200
Leisure and Community	9,953,500	2,430,800	100,000	12,484,300
Housing	500,000	460,000	0	960,000
Planning and Development	132,500	-4,300	0	128,200
Policy and Resources	8,192,100	802,400	16,816,000	25,810,500
Total General Fund	18,828,100	3,692,300	17,192,800	39,713,200
Housing Revenue Account	5,706,000	-1,987,200	-200,800	3,518,000
Updated 2023/24 Capital Programme	24,534,100	1,705,100	16,992,000	43,231,200

MAJOR CAPITAL SCHEMES

34. The Council has a number of major capital schemes where budgeted expenditure for 2023/24 is in excess of £500,000. These schemes, with forecast budget to 30 September 2023, are detailed in the following table:-

Capital Scheme	Scheme Budget £	Budget 2023/24 £	Budget to 30 Sep 23 £	Actual to 30 Sep 23 £	Variation £
Fareham Shopping Centre	15,302,000	15,302,000	15,302,000	15,103,879	-198,121
Fareham Live	16,690,000	11,303,600	5,651,800	2,605,120	-3,593,140
HRA Improvements to Existing Stock	1,488,500	1,488,500	1,488,500	2,058,660	563,698
Solent Airport Aeronautical Ground Lighting	2,800,000	2,625,300	50,000	25,378	-24,622
Osborn Road Surface Car Park	2,500,000	2,347,100	50,000	15,502	-34,498
Solent Airport Taxiway Maintenance	1,700,000	1,679,900	1,679,900	1,458,184	-221,716
166 Southampton Road Repairs	1,193,500	1,153,100	1,153,100	462,776	-690,324
Disabled Facilities Grants	877,100	877,100	440,000	429,390	-10,610
HRA Ophelia Court New Build	2,387,000	771,100	385,000	960	-384,310
Vehicle & Plant Replacement Programme	764,700	764,700	382,000	123,781	-258,219

Civic Offices Improvements	600,800	600,800	300,400	139,414	-160,986
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35. Progress updates on the major schemes are detailed below:-

- (a) The purchase of **Fareham Shopping Centre** took place at the end of September, as part of a broader regeneration programme. The budget includes the acquisition cost, stamp duty and professional fees and services. Further professional fees and services will be payable in quarter three.
- (b) Construction of **Fareham Live** is progressing well with a focus now on making the building watertight. Construction is projected to be completed in Spring 2024. Trafalgar Theatres have been appointed to operate the venue and fit out. Mobilisation plans are being prepared to enable those activities between practical completion and opening to the public.
- (c) Expenditure for **HRA Improvements to Existing Stock** is overspent against the budget for the first 6 months. The budget includes carry forward overspends from 2022/23, however, the Forward Plan for the year has been reviewed to take account of priorities and anticipated cost increases in all areas and the capital improvements budget will be revised to reflect this.
- (d) The scheme to provide **Solent Airport Aeronautical Ground Lighting** has been designed, planning permission obtained and after a tendering process a contractor has been appointed. The contractor is now mobilising and is due to start work shortly.
- (e) The agreed design for the new **Osborn Road Surface Car Park**, has now received planning approval and works have been tendered. With a revised budget approved we are currently looking to appoint a contractor to allow the demolition of the existing multi storey car park, to be commenced shortly, and the new surface car park to be constructed during 2024.
- (f) Over the summer of 2023 a programme of **Solent Airport Taxiway Maintenance** works has been completed. The works will be approximately £170,000 under budget.
- (g) Works are complete at **166 Southampton Road** and B&M's lease commenced on 2 October. B&M are now fitting out the store and are due to open before Christmas.
- (h) The processing of **Disabled Facilities Grants** (DFGs) has been passed to Portsmouth City Council who facilitate the applications on the Council's behalf although some smaller works for house clearances are being managed in-house. In the second half of the financial year grants of over £600,000 have been awarded to date.
- (i) The start on site for **Ophelia Court New Build** was delayed due to utility issues and updated Building Regulations compliance but the contractor is now on site and works have commenced in quarter three.
- (j) Expenditure on **Vehicles and Plant** has been for a new sweeper, and three second-hand vehicles including one tractor and two sweepers. The greatest

spend will be in the final quarter of 23/24, however there is the risk of slippage into the next financial year if there are delays to procurement.

- (k) As part of the **Civic Offices Investment Plan** investigations continue into a number of programmes of work to maintain the fabric, plant and equipment of the Civic Offices. This includes areas such as the roof, walls, windows, heating, ventilation, electrical systems and lifts.

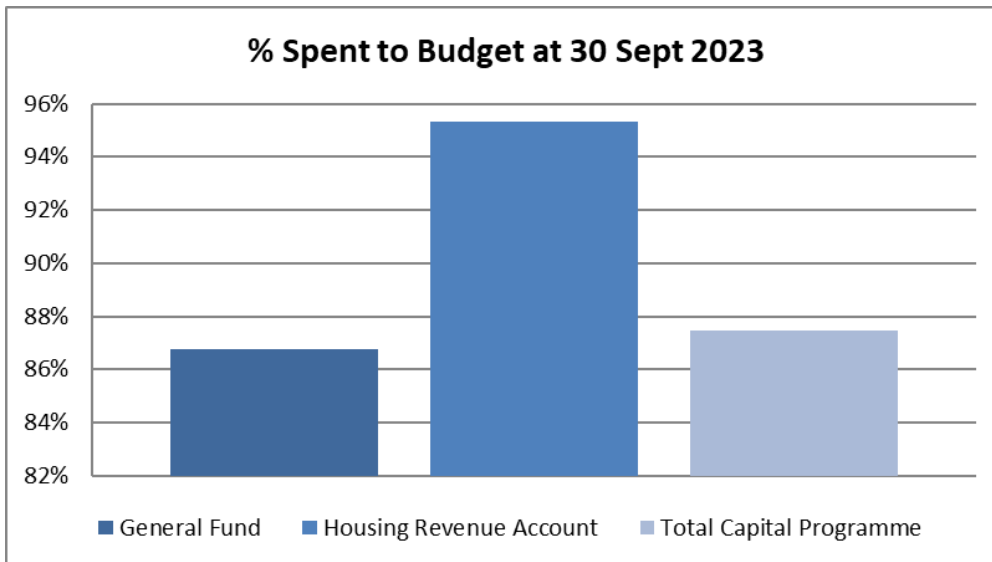
CAPITAL MONITORING

36. The following table provides summary information for the period to 30 September 2023, for all the schemes within each portfolio.

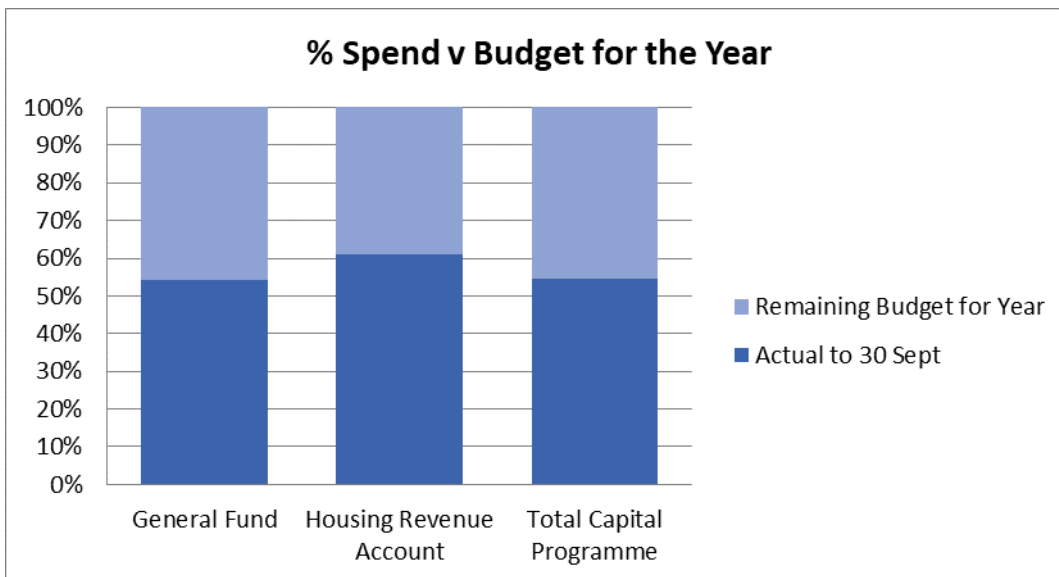
	Budget 2023/24	Budget to 30 Sep 23	Actual to 30 Sep 23	Variation
	£	£	£	£
Streetscene	330,300	0	0	0
Leisure and Community	12,484,300	5,050,000	3,356,889	-1,693,111
- Buildings	12,118,000	5,000,000	3,354,492	-1,645,508
- Play and Parks	350,000	50,000	2,397	-47,603
- Other Community Schemes	16,300	0	0	0
Housing	960,000	480,000	430,638	-49,362
Planning and Development	128,200	0	0	0
Policy and Resources	25,810,400	19,267,100	17,721,177	-1,545,923
- Fareham Shopping Centre	15,302,000	15,302,000	15,103,879	-198,121
- Daedalus	5,177,200	2,000,000	1,675,463	-324,537
- 166 Southampton Road Repairs	1,153,100	1,153,100	462,776	-690,324
- Osborn Road Car Park	2,347,100	50,000	15,502	-34,498
- Civic Offices Improvements	600,800	200,000	140,576	-59,424
- Vehicles and Plant	764,700	382,000	123,781	-258,219
- Depot Asset Management Works	207,200	50,000	25,752	-24,248
- ICT	258,300	130,000	173,448	43,448
Total General Fund	39,713,200	24,797,100	21,508,704	-3,288,396
Housing Revenue Account				
- New Build	1,529,500	765,000	96,083	-668,917
- Improvements to Existing Stock	1,488,500	1,488,500	2,052,198	563,698
- Stock Repurchases	500,000	0	0	0
Total Housing Revenue Account	3,518,000	2,253,500	2,148,281	-105,219
Total Capital Programme	43,231,200	27,050,600	23,656,985	-3,393,615

37. The charts below show the actual expenditure to 30 September 2023 as a percentage of the programme for the equivalent period and for the whole year.

38. 87% of the capital programme has been spent compared to the profiled budget for the first half of the year.



39. 55% 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

- 40. 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.
- 41. 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 (01329 824589)

ECONOMIC COMMENTARY AND OUTLOOK BY ARLINGCLOSE – OCTOBER 2023

Economic background: UK inflation remained stubbornly high over much the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.4%, beating expectations of a 0.2% increase. However, monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.

Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.

The Bank of England's Monetary Policy Committee continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.

Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to 5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.

Following the September MPC meeting, Arlingclose, the authority's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, the GfK measure hit -21 in September, it is likely this will reverse at some point. Higher rates will also impact business and according to S&P/CIPS survey data, the UK manufacturing and services sector contracted during the quarter with all measures scoring under 50, indicating contraction in the sectors.

The US Federal Reserve increased its key interest rate to 5.25-5.50% over the period, pausing in September following a 0.25% rise the month before, and indicating that it may have not quite completed its monetary tightening cycle.

Having fallen throughout 2023, annual US inflation started to pick up again in July 2023, rising from 3% in June, which represented the lowest level since March 2021, to 3.2% in July and then jumping again to 3.7% in August, beating expectations for a rise to 3.6%. Rising oil prices were the main cause of the increase. US GDP growth registered 2.1% annualised in the second calendar quarter of 2023, down from the initial estimate of 2.4% but above the 2% expansion seen in the first quarter.

The European Central Bank increased its key deposit, main refinancing, and marginal lending interest rates to 4.00%, 4.50% and 4.75% respectively in September, and hinted these levels may represent the peak in rates but also emphasising rates would stay high for as long as required to bring inflation down to target.

Although continuing to decline steadily, inflation has been sticky, Eurozone annual headline CPI fell to 5.2% in August while annual core inflation eased to 5.3% having stuck at 5.5% in the previous two months. GDP growth remains weak, with recent data showing the region expanded by only 0.1% in the three months to June 2023, the rate as the previous quarter.

Financial markets: Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.

Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%. The Sterling Overnight Rate (SONIA) averaged 4.73% over the period.

Credit review: Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period.

During the second quarter of the period, Moody's revised the outlook on Svenska Handelsbanken to negative from stable, citing concerns around the Swedish real estate sector.

Having put the US sovereign rating on Rating Watch Negative earlier in the period, Fitch took further action in August, downgrading the long-term rating to AA+, partly around ongoing debt ceiling concerns but also an expected fiscal deterioration over the next couple of years.

Following the issue of a Section 114 notice, in September Arlingclose advised against undertaking new lending to Birmingham City Council, and later in the month cut its recommended duration on Warrington Borough Council to a maximum of 100 days.

Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and although no changes were made to recommended durations over the period, Northern Trust Corporation was added to the counterparty list.

Heightened 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.

2023/24 INDICATORS – HALF YEARLY PERFORMANCE

PRUDENTIAL INDICATORS

1) Capital Expenditure and Financing

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 £1.7 million carried forward from 2022/23.

Capital Expenditure and Financing	Revised Estimate £'000	Actual to 30 Sept £'000
Streetscene	330	0
Leisure and Community	12,484	3,357
Housing	960	431
Planning and Development	128	0
Policy and Resources	25,811	17,721
Total General Fund	39,713	21,509
HRA	3,518	2,148
Total Expenditure	43,321	23,657
Capital Receipts	8,160	3,952
Capital Grants/Contributions	16,135	4,035
Capital Reserves	2,762	2,255
Revenue	1,643	483
Internal Borrowing	14,531	12,932
Total Financing	43,231	23,657

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)

NEEDS REVISING

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	56,192	67,779
HRA	53,713	53,118
Total CFR	109,905	120,897

The CFR is higher than projected due to internal borrowing for the purchase of Fareham Shopping Centre.

3) 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	Actual to 30 Sept
Debt at 1 April	52,200	61,256
Capital Financing Requirement (CFR)	109,905	120,897

4) 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	159,000	61,256
Authorised Limit	167,000	61,256

Total debt at 30 September was £61 million. During the first half of 2023/24 the Authorised Limit of £167 million was not breached at any time.

5) 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%	5%
HRA	12%	13%

TREASURY INDICATORS

6) 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	10

£10 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.

7) 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	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

The £40m HRA loans represent 65% of loans maturing in over 10 years. The Council holds investments from Portchester Crematorium which is treated as a temporary loan and £10 million short-term loans. These represent 22% of loans maturing within 1 year.

8) 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	13,208	13,208
Number of HRA dwellings	2,419	2,419
Ratio of debt to revenues	3.73	3.73
Debt per dwelling £	£20,369	£20,369
Debt repayment fund £'000	£7,980	£7,980

INVESTMENT INDICATORS

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	2023/24 Budget	Actual to 30 Sept
Gross service expenditure	46,524	17,335
Investment income	4,222	2,868
Proportion	9.1%	16.5%

10) Total Risk Exposure

ON TRACK

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

Total Investment Exposure	2023/24 Forecast £'000	Actual to 30 Sept £'000
Treasury Management Investments	15,000	18,192
Commercial Investments	68,336	70,006
Total	83,336	88,198

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	2023/24 Forecast £'000	Actual to 30 Sept £'000
Treasury Management Investments	0	0
Commercial Investments	28,663	28,663
Total	28,663	28,663

12) Rate of Return Received

ON TRACK

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	2023/24 Estimate	Actual to 30 Sept
Treasury Management Investments	3.1%	2.4%
Commercial Investments	3.7%	4.4%
Total	4.7%	3.9%