FAREHAM
BOROUGH COUNCIL

Report to the Executive for Decision
01 July 2024

Portfolio:	Policy and Resources
Subject:	**Capital and Treasury Management Outturn 2023/24**
Report of:	Assistant Director (Finance and ICT)
Corporate Priorities:	A Responsive, Inclusive and Innovative Council

Purpose:
This report provides the Executive with details of the capital and treasury management outturn for 2023/24 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 2023/24 was £31,202,178 (£6.2 million in 2022/23) compared with the revised capital programme of £36,996,700. The overall variance was £5,794,522. A detailed analysis of the variations is given in Appendix A to this report.

Total savings from individual projects of £281,780 were achieved, additional expenditure of £58,989 on others was incurred and a total of £5,571,731 will be carried forward into 2024/25. Details of the various methods used to finance this expenditure are set out in this report.

In addition, a new capital scheme budget of £281,000 is requested for a new filtration system at Holly Hill Leisure Centre.

Full details of Treasury Management investment and borrowing activity in 2023/24 are also set out in this report and is summarised below:

	31 March 2023 Actual £'000	2023/24 Movement £'000	31 March 2024 Actual £'000
Total borrowing	61,336	3,253	64,589
Total investments	(24,832)	11,244	(13,588)
Net borrowing	**36,504**	**14,497**	**51,001**

Net interest received from investments in 2023/24 was £701,320 (£879,854 in 2022/23) and net interest paid on borrowing for the HRA was £1,906,955 (£1,670,992 in 2022/23).

The overall investment property portfolio decreased in value by £3.55 million and contracted income was approximately £4,500,000.

During 2023/24, 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 2023/24 be financed as set out in this report;

(b) agrees that the additional expenditure incurred, amounting to £58,989 be financed retrospectively from unallocated capital resources;

(c) agrees to add £281,000 to the capital programme for a new filtration system at Holly Hill Leisure Centre with the unfunded element of £64,325 to be funded from capital reserves; and

(d) notes the treasury management activity for 2023/24.

Reason:
To provide the Executive with details of the capital and treasury management outturn in 2023/24 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 2023/24 including the additional expenditure of £58,989 and funding for a new filtration system at Holly Hill Leisure Centre.

Appendices: **A:** Capital Expenditure 2023/24
B: Economic Commentary by Treasury Advisors, Arlingclose
C: Prudential and Treasury Indicators 2023/24

Background papers: None

Reference papers: Capital Programme and Capital Strategy 2024/25, Executive Committee, 8 January 2024

Finance Strategy, Capital Programme, Revenue Budget and Council Tax 2023/24, Executive Committee, 5 February 2024

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

CIPFA Code of Practice for Treasury Management

FAREHAM
BOROUGH COUNCIL

Executive Briefing Paper

Date:	01 July 2024
Subject:	Capital and Treasury Management Outturn 2023/24
Briefing by:	Assistant Director (Finance and ICT)
Portfolio:	Policy and Resources

INTRODUCTION

1. This report provides the Executive with details of the capital and treasury management outturn for 2023/24 to comply with the reporting requirements of the Code of Practice for Treasury Management.

GENERAL FUND CAPITAL OUTTURN REPORT 2023/24

2. The capital programme for 2023/24, approved in February this year for the General Fund was £36,996,700. The actual capital expenditure, detailed in Appendix A, was £31,202,178 (£6.2 million in 2022/23) giving an overall variation of £5,794,522. A summary, including savings and additional expenditure, is summarised in the table below.

Portfolio	Revised Budget £	Actual £	Savings £	Additional Expenditure £	Carry forward £
Streetscene	95,500	71,671	0	0	23,829
Leisure & Community	11,678,900	8,704,332	(5)	0	2,974,563
Housing	1,711,700	1,591,768	(30,700)	0	89,232
Planning & Development	128,200	0	0	0	128,200
Policy & Resources	23,382,400	20,834,407	(251,075)	58,989	2,355,907
Total	**36,996,700**	**31,202,178**	**(281,780)**	**58,989**	**5,571,731**

SAVINGS AND ADDITIONAL EXPENDITURE

3. Total savings of £281,780 were recognised. The main savings were for the following schemes:
   - Taxiway Maintenance at Solent Airport - £157,658
   - 166 Southampton Road Repairs - £82,610 – some of the costs of this scheme are subject to a dilapidations claim with Argos
   - Gordon Road Repairs - £30,700
   - Managed Hangarage at Solent Airport - £6,529

4. Additional expenditure of £58,989 was incurred on the following schemes:

- Fareham Shopping Centre - £52,986 to be funded from borrowing.
- Grounds Maintenance Facility at Solent Airport - £6,003 to be funded from developer contributions.

CARRY FORWARDS TO 2024/25

5. There are a number of schemes still in progress and a total net budget of £5,571,731 will be carried forward to 2024/25.

6. This includes £5,896,936 of budget carry forwards and £325,205 of expenditure incurred ahead of budget which will be carried forward to reduce next year's budget.

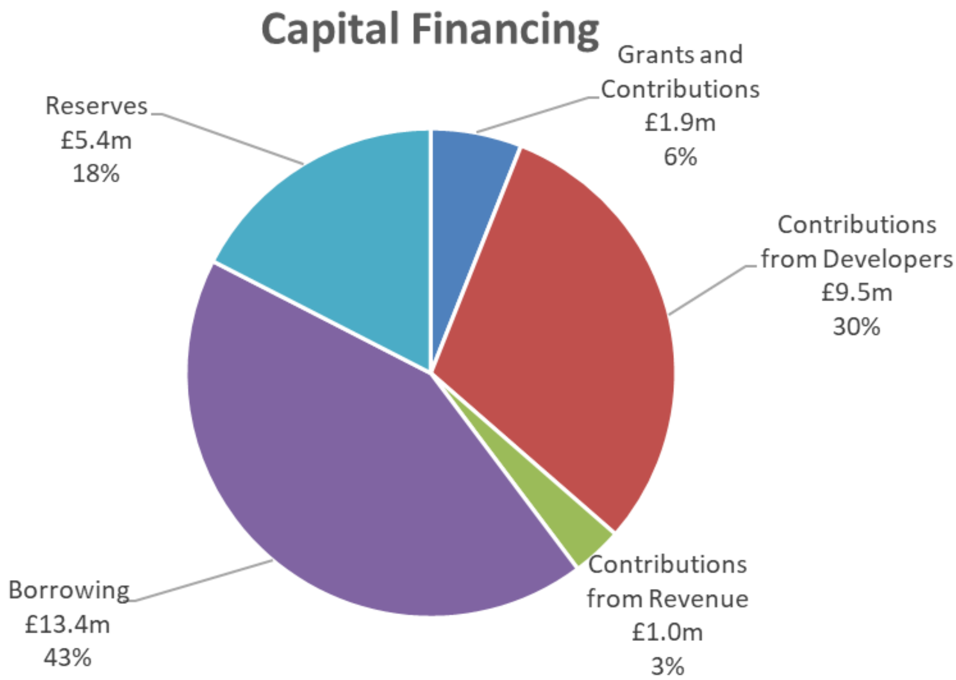
7. The largest budget carry forwards are for Fareham Live £2,556,624 and schemes at Solent Airport totalling £2,296,322.

CAPITAL PROGRAMME 2024/25 TO 2028/29

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 2024/25 to 2028/29 will be presented to the Executive as part of the Capital Strategy for 2025/26.

CAPITAL FINANCING

9. The various methods used to finance the capital expenditure in 2023/24 are set out in the chart below.



10. The largest funding source for the capital programme was from borrowing (43%) for Fareham Shopping Centre, followed by developer contributions (30%) for Fareham Live, the Play Area Improvement Programme and Bus Shelters. Capital reserves funded a total of 18% of the programme, other grants and contributions 6% and contributions from revenue funded the remaining 3%.

SIGNIFICANT SCHEMES

11. The purchase of **Fareham Shopping Centre** took place at the end of September, as part of a broader regeneration programme. Professional fees and services were higher than estimated resulting in an overspend of £52,986 on the £15.3 million scheme.

12. Despite some delays, the **Fareham Live** project is progressing well, and the building will be handed over to the Council towards the end of August 2024. In conjunction with the main build, Trafalgar Theatres has appointed Premier Interior Systems to carry out the bespoke fit out and work which will commence on 24 June and be complete by the end of August. Trafalgar Theatres are progressing well with the mobilization, with key staff either appointed or in the process of being appointed. Test events will be held in w/c 23 September with the first shows arranged for 1 October.

13. A contractor has been appointed to deliver the new surface car park (Fareham Live Car Park A) to replace the former **Osborn Road multi-story car park**. The multi-story car park has been demolished and works are underway to construct the new surface car park. All works are on programme prior to the opening to the public of Fareham Live in October 2024.

14. **Aeronautical Ground Lighting** works are progressing well despite difficult ground conditions and uncharted cables being discovered which has caused some delays. Civil engineering works should be completed shortly which will allow commencement of the electrical works i.e. pulling cables through the ducting and installation of the light fittings. Electrical works within the control tower to operate the system, together with the upgraded power supply should complete in July. Anticipated completion of main works and testing in August. There are some extra works required outside of the original scope that may delay full operational capacity.

15. Over the summer of 2023 a programme of **Solent Airport Taxiway Maintenance** works was completed. The works were £157,658 under budget.

16. The **Vehicles and Plant Replacement programme** incurred expenditure of £466,856. This included two second-hand refuse vehicles, two ride on mowers, two roller mowers with tipper attachments and a second-hand tractor. The majority of the vehicles purchased will be used for grounds maintenance and street cleansing.

17. A total of 175 **Disabled Facilities Grants** totalling £1,573,229 were awarded in the year. These were fully funded from government grants.

NEW SCHEME

18. There is an ongoing issue with the swimming pool filtration system at Holly Hill Leisure Centre and the cost to upgrade it to a more energy efficient and reliable system.

19. The current plant at Holly Hill Leisure Centre is a standard 'sand' filtration system. It is undersized in all areas and continually fails when sand leaks into the pipework and clogs up the pumps and UV and then settles in the pool tanks.

20. Upgrading the current system to a microfiltration system would alleviate the need to dump water to backwash the system and the Leisure Centre would have a system that was fit for purpose and energy efficient.

21. Upgrading the current filtration system would see a 4% decrease in the Leisure Centre’s total carbon footprint. This in turn would reduce the Council’s Scope 3 footprint by 0.8%

and will contribute to the Council’s carbon neutral target.

22. There would also be the following efficiency savings:

    - 90% water - this would be 90% of the water used to backwash the pools.
    - 50% Energy, this will be calculated based on the amount of backwashing the site team conduct per week, due to not having to backwash with the defender system, the energy consumption reduces.
    - 30% chemicals.

23. An application was made to the Sport England Swimming Pool Support Fund to upgrade the current plant filtration system and to install rooftop PV, but the bid was unsuccessful.

24. The cost to upgrade the system would be £281,000. There is £66,675 retention remaining from when Holly Hill Leisure Centre was built and it had previously been agreed that it should be reinvested back into the leisure centre, therefore leaving a shortfall of £214,325.

25. Everyone Active recognise that they will benefit financially in the short-term, whereas the Council will benefit in the longer-term because the life expectancy of the new system would be 20 years+ and there is only 11 years remaining on the contract.

26. Considering the financial benefit to Everyone Active, they are willing to allocate £150,000 towards the upgrade, leaving a shortfall of £64,325 to fund.

27. Officers have looked at other grant funding opportunities, however the upgrade of the filtration system is deemed ‘specialised’ and external funding is focusing on decarbonisation.

28. The cost to replace the current system with another sand filtration system and to undertake the necessary upgrades to the existing plant would be circa. £370,000.

29. Given that the filtration system is critical to the operation of the swimming pool it is recommended that the opportunity be taken to install a microfiltration system as a replacement for the current filtration system and the Council fund the shortfall.

30. It is recommended that the filtration system is added to the capital programme for 2024/25 and the shortfall in funding of £64,328 be funded from unallocated capital reserves.

TREASURY MANAGEMENT OUTTURN REPORT 2023/24

31. 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.

32. The Council's Treasury Management Strategy 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 identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

33. 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 latest Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 23 February 2024.

34. 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 2024 and the year-on-year change is shown in the table below.

	31 March 2023 Actual £'000	2023/24 Movement £'000	31 March 2024 Actual £'000
Long-term borrowing	48,000	4,333	52,333
Short-term borrowing	13,336	(1,080)	12,256
Total borrowing	**61,336**	**3,253**	**64,589**
Long-term investments	(10,632)	(156)	(10,788)
Short-term investments	(9,000)	9,000	0
Cash and cash equivalents	(5,200)	2,400	(2,800)
Total investments	**(24,832)**	**11,244**	**(13,588)**
Net borrowing	**36,504**	**14,497**	**51,001**

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.

35. 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

36. At 31 March 2024, the Council held £64.6 million of loans, an increase of £3.25 million on the previous year. The year-end borrowing position is shown in the table below.

	Balance on	Balance on	Average

	31 March 2023 £'000	31 March 2024 £'000	Rate
Long-term borrowing	48,000	52,333	3.69%
Short-term borrowing	10,000	10,000	5.68%
Portchester Crematorium	3,336	2,256	0.92%
Total borrowing	**61,336**	**64,589**	

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

38. 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.

39. Interest rates have seen substantial rises over the last two years, although these rises have now begun to plateau. Gilt yields have remained volatile, seeing upward pressure from perceived stickier inflation at times and downward pressure from falling inflation and a struggling economy at other times.

40. A new Public Works Loan Board (PWLB) HRA rate which is 0.4% below the certainty rate was made available from 15th June 2023. This rate will be available to June 2025. The discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans, providing a window of opportunity for HRA-related borrowing.

41. The Council took advantage of this low rate by taking out £5 million PWLB borrowing to fund the HRA capital programme in 2023/24 of £3.25 million, and the prior year of £1.75 million which was originally funded by internal borrowing.

INVESTMENT ACTIVITY

42. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2023/24 the Council's investment balances ranged between £12 million and £27 million due to timing differences between income and expenditure. The year-end position is shown in the table below.

	Balance on 31 March 2023 £'000	Balance on 31 March 2024 £'000	Average Rate
Externally Managed Pooled Funds	10,632	10,788	4.86%
Money Market Funds	5,200	2,800	5.29%
Banks	2,000	-	-
Local Authorities	7,000	-	-
Total Investments	**24,832**	**13,588**	

43. Total investments decreased by £11.2 million, mainly due to the purchase of Fareham Shopping Centre.

EXTERNALLY MANAGED POOLED FUNDS

44. £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 £527,000.

45. 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.

46. In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended until 31st March 2025, but no other changes have been made; whether the override will be extended beyond this date is unknown but commentary to the consultation outcome suggests it will not.

47. If the statutory override is removed, fair value gains and losses will be recognised as a profit or loss and will impact the General Fund. The Council will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

INTEREST RECEIVED AND PAID

48. Bank Rate increased by 1% over the period, from 4.25% at the beginning of April 2023 to 5.25% by the end March 2024.

49. The net interest received in 2023/24 was £701,320 (£879,854 in 2022/23) against a revised budget £430,200 for the General Fund. Net interest paid for the Housing Revenue Account was £1,906,955 (£1,670,992 in 2022/23) against a revised budget of £1,650,400.

COMMERCIAL PROPERTY INVESTMENTS

50. 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.

51. 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 2023 £'000	Value at 31 March 2024 £'000
Retail	27,783	21,785	20,570
Commercial (Industrial)	10,100	11,740	11,160
Other (Childcare)	1,890	1,960	1,830
Total	**39,773**	**35,485**	**33,560**

52. Since March 2023 the value of this portfolio has decreased by 1.9 million. Contracted income during this financial year was £2,800,500 (compared to £2,393,000 in 2022/23)

53. The investment portfolio has reduced in value by 5.5%. Seven of the properties saw reductions in value, two properties saw moderate increases in value whilst one properties value remained the same. The increases and decreases were moderate and reflective of 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. An example of a lease event is a rent review with Pure Gym which increased the rent the tenant pays with effect July 2023.

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

55. The Council's total 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 the UK economy in the last year. Recently the price of utilities have reduced and the UK is now officially no longer in recession but the economic outlook remains unpredictable and uncertain.

56. Within this portfolio our retail exposure is limited on the High Street and focused on out-of-town locations, which generally are performing better. Our exposure to High Street retail has increased elsewhere given the acquisition of Fareham Shopping Centre which is not included in the portfolio as it has been purchased for regeneration.

57. The property type 'commercial' is predominantly made up of industrial premises and our industrial ground lease portfolio. Industrial remains the best performing commercial property sector, for example, occupational demand for our industrial properties remains good, however, the valuations undertaken this year show that increases in interest rates have affected the investment market, yields have therefore softened and freehold values have fallen. Overall, income flow has however increased which provides a significant contribution towards our revenue.

Property Type	**Value at 31 March 2023 £'000**	**Value at 31 March 2024 £'000**	**Movement £'000**
Retail	33,790	32,025	**(1,765)**
Commercial	25,245	23,756	**(1,489)**
Other	4,109	4,217	**108**
Office	5,370	4,925	**(445)**
Leisure	1,492	1,536	**44**
Total	**70,006**	**66,459**	**(3,547)**

58. The overall property portfolio (Investment and Commercial) has decreased in value by £3.55 million (increase of £1.67million in 2022/23). Contracted income was approximately £4,500,000 per annum (compared to £4,480,00 in 2022/23).

59. 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

60. During 2023/24, 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 2023/24.

SUMMARY

61. This report gives details of General Fund capital and treasury management outturn in 2023/24 in accordance with the reporting requirements set out in the CIPFA Code of Practice for Treasury Management.

RISK ASSESSMENT

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

ENVIRONMENTAL CONSIDERATIONS/CARBON IMPACT ASSESSMENT

63. The new filtration system at Holly Hill Leisure Centre would see a 4% decrease in the Leisure Centre’s total carbon footprint. This in turn would reduce the Council’s Scope 3 footprint by 0.8% and will contribute to the Council’s carbon neutral target.

Enquiries:

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

APPENDIX A

CAPITAL EXPENDITURE 2023/24

	Budget £	Actual £	Savings £	Additional Expenditure £	Carry over to 2024/25 £
STREETSCENE					
Bus Shelters	14,100	5,740			8,360
Play Area Safety Equipment and Surface Replacement	39,400	35,966			3,434
Streetscene Asset Management Plan	42,000	29,965			12,035
STREETSCENE TOTAL	**95,500**	**71,671**	**0**	**0**	**23,829**
LEISURE AND COMMUNITY					
Buildings					
Fareham Live	11,125,800	8,569,176			2,556,624
Leisure Centres Capital Investment	305,000	0			305,000
Community Buildings Review	105,000	0			105,000
	11,535,800	8,569,176	0	0	2,966,624
Play and Parks Schemes					
Play Area Improvement Programme	100,000	92,061			7,939
	100,000	92,061	0	0	7,939
Other					
Christmas Lights	43,100	43,095	(5)		0
	43,100	43,095	(5)	0	0
LEISURE AND COMMUNITY TOTAL	**11,678,900**	**8,704,332**	**(5)**	**0**	**2,974,563**
HOUSING					
Home Improvements					
Disabled Facilities Grants	1,628,800	1,573,229			55,571
	1,628,800	1,573,229	0	0	55,571
Enabling					
Gordon Road Repairs	30,700	0	(30,700)		0
Sea Lane, Stubbington - Self Builds	52,200	18,539			33,661
	82,900	18,539	(30,700)	0	33,661
HOUSING TOTAL	**1,711,700**	**1,591,768**	**(30,700)**	**0**	**89,232**
PLANNING AND DEVELOPMENT					
Car Parks					
Car Parks: Surfacing	128,200	0			128,200
	128,200	0	0	0	128,200
PLANNING AND DEVELOPMENT TOTAL	**128,200**	**0**	**0**	**0**	**128,200**
POLICY AND RESOURCES					
Replacement Programmes					
Vehicles and Plant Replacement Programme	649,900	466,856			183,044
ICT Development Programme	278,600	217,552	(4,278)		56,770
	928,500	684,408	(4,278)	0	239,814
Operational Buildings					
Civic Offices Improvement Programme	235,000	296,975			(61,975)
Depot Asset Management Works	46,000	29,479			16,521
	281,000	326,454	0	0	(45,454)
Property Developments					
Fareham Shopping Centre	15,302,000	15,354,986		52,986	0

Osborn Road Multi-Storey Car Park	500,000	664,775			(164,775)
166 Southampton Road Repairs	1,153,100	1,040,490	(82,610)		30,000
	16,955,100	17,060,251	(82,610)	52,986	(134,775)
Solent Airport at Daedalus Schemes					
Site Wide Investment	100,000	198,455			(98,455)
Aeronautical Ground Lighting	2,625,300	858,123			1,767,177
Performance Based Navigation	187,600	0			187,600
Taxiway Maintenance	1,679,900	1,522,242	(157,658)		0
Managed Hangarage	25,000	18,471	(6,529)		0
Airport Fuel Supply Assets	165,000	0			165,000
Visual Control Room Improvements	75,000	0			75,000
Grounds Maintenance Facility	160,000	166,003		6,003	0
Purchase of Strategic Land	200,000	0			200,000
	5,217,800	2,763,294	(164,187)	6,003	2,296,322
POLICY AND RESOURCES TOTAL	**23,382,400**	**20,834,407**	**(251,075)**	**58,989**	**2,355,907**
GENERAL FUND TOTAL	**36,996,700**	**31,202,178**	**(281,780)**	**58,989**	**5,571,731**

APPENDIX B

ECONOMIC COMMENTARY BY TREASURY ADVISORS ARLINGCLOSE APRIL 2024

Economic background: UK inflation continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year headline consumer price inflation (CPI) had fallen to 3.4% in February, but was still above the Bank of England's 2% target at the end of the period. The core measure of CPI, i.e. excluding food and energy, also slowed in February to 4.5% from 5.1% in January, a rate that had stubbornly persisted for three consecutive months.

The UK economy entered a technical recession in the second half of 2023, as growth rates of -0.1% and -0.3% respectively were recorded for Q3 and Q4. Over the 2023 calendar year GDP growth only expanded by 0.1% compared to 2022. Of the recent monthly data, the Office for National Statistics reported a rebound in activity with economy expanding 0.2% in January 2024. While the economy may somewhat recover in Q1 2024, the data suggests that prior increases in interest rates and higher price levels are depressing growth, which will continue to bear down on inflation throughout 2024.

Labour market data provided a mixed message for policymakers. Employment and vacancies declined, and unemployment rose to 4.3% (3mth/year) in July 2023. The same month saw the highest annual growth rate of 8.5% for total pay (i.e. including bonuses) and 7.8% for regular pay growth (i.e. excluding bonuses). Thereafter, unemployment began to decline, falling to 3.9% (3mth/year) in January and pay growth also edged lower to 5.6% for total pay and 6.1% for regular pay, but remained above the Bank of England's forecast.

Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023 with a 3-way split in the Committee's voting as the UK economy appeared resilient in the face of the dual headwinds of higher inflation and interest rates. Bank Rate was maintained at 5.25% through to March 2024. The vote at the March was 8-1 in favour of maintaining rates at this level, with the single dissenter preferring to cut rates immediately by 0.25%. Although financial markets shifted their interest rate expectations downwards with expectations of a cut in June, the MPC's focus remained on assessing how long interest rates would need to be restrictive in order to control inflation over the medium term.

In the Bank's quarterly Monetary Policy Report (MPR) released in August 2023 the near-term projection for services price inflation was revised upwards, goods price inflation widespread across products, indicating stronger domestic inflationary pressure with second-round effects in domestic prices and wages likely taking longer to unwind than they did to emerge. In the February 2024 MPR the Bank's expectations for the UK economy were positive for the first half of 2024, with a recovery from the mild recession in calendar H2 2023 being gradual. Headline CPI was forecast to dip below the 2% target quicker than previously thought due to declining energy prices, these effects would hold inflation slightly above target for much of the forecast horizon.

Following this MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% remains the peak in Bank Rate and that interest rates will most likely start to be cut later in H2 2024. The risks in the short-term are deemed to be to the downside as a rate cut may come sooner than expected, but then more broadly balanced over the medium term.

The US Federal Reserve also pushed up rates over the period, reaching a peak range of between 5.25-5.50% in August 2023, where it has stayed since. US policymakers have maintained the relatively dovish stance from the December FOMC meeting and at the meeting in March, economic projections pointed to interest rates being cut by a total of 0.75% in 2024.

Following a similarly sharp upward trajectory, the European Central Bank hiked rates to historically high levels over period, pushing its main refinancing rate to 4.5% in September 2023, where it has remained. Economic growth in the region remains weak, with a potential recession on the cards, but inflation remains sticky and above the ECB's target, putting pressure on policymakers on how to balance these factors.

Financial markets: Sentiment in financial markets remained uncertain and bond yields continued to be volatile over the year. During the first half of the year, yields rose as interest rates continued to be pushed up in response to rising inflation. From October they started declining again before falling sharply in December as falling inflation and dovish central bank attitudes caused financial markets to expect cuts in interest rates in 2024. When it emerged in January that inflation was stickier than expected and the BoE and the Federal Reserve were data dependent and not inclined to cut rates soon, yields rose once again, ending the period some 50+ bps higher than when it started.

Over the financial year, the 10-year UK benchmark gilt yield rose from 3.44% to peak at 4.75% in August, before then dropping to 3.44% in late December 2023 and rising again to 3.92% (28th March 2024). The Sterling Overnight Rate (SONIA) averaged 4.96% over the period to 31st March.

Credit review: In response to an improving outlook for credit markets, in January 2024 Arlingclose moved away from its previous temporary stance of a 35-day maximum duration and increased its advised recommended maximum unsecured duration limit on all banks on its counterparty list to 100 days.

Earlier in the period, S&P revised the UK sovereign outlook to stable and upgraded Barclays Bank to A+. Moody's also revised the UK outlook to stable, Handelsbanken's outlook to negative, downgraded five local authorities, and affirmed HSBC's outlook at stable while upgrading its Baseline Credit Assessment. Fitch revised UOB's and BMO's outlooks to stable.

In the final quarter of the financial year, Fitch revised the outlook on the UK sovereign rating to stable from negative based on their assessment that the risks to the UK's public finances had decreased since its previous review in October 2022, the time of the mini- budget.

Moody's, meanwhile, upgraded the long-term ratings of German lenders Helaba, Bayern LB and LBBW on better solvency and capital positions, despite challenges from a slowing German economy and exposure to the commercial real estate sector. Moody's also upgraded or placed on review for an upgrade, Australian banks including ANZ, CBA NAB and Westpac on the back of the introduction of a new bank resolution regime.

Credit default swap prices began the financial year at elevated levels following the fallout from Silicon Valley Bank and collapse/takeover of other lenders. From then the general trend was one of falling prices and UK lenders' CDS ended the period at similar levels to those seen in early 2023. Earlier in the year some Canadian lenders saw their CDS prices rise due to concerns over a slowing domestic economy and housing market, while some German lenders were impacted by similar economic concerns and exposure to commercial real estate towards the end of the period, with LBBW remaining the most elevated.

Heightened market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

APPENDIX C

PRUDENTIAL, TREASURY AND COMMERCIAL INVESTMENT INDICATORS 2023/24

PRUDENTIAL INDICATORS

1) Capital Expenditure

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

Capital Expenditure and Financing	2023/24 Revised £'000	2023/24 Actual £'000	Difference £'000
Streetscene	96	72	24
Leisure & Community	11,679	8,704	2,975
Housing	1,712	1,592	120
Planning & Development	128	0	128
Policy & Resources	25,382	20,834	4,548
Total General Fund	**38,997**	**31,202**	**7,795**
HRA	**7,800**	**8,377**	**(576)**
Total Expenditure	**46,797**	**39,579**	**7,218**
Capital Receipts	8,108	5,588	2,520
Capital Grants/Contributions	15,236	12,969	2,267
Capital Reserves	4,428	3,611	817
Revenue	2,005	830	1,175
Borrowing	17,020	16,581	439
Total Financing	**46,797**	**39,579**	**7,218**

2) Capital Financing Requirement

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

£'000	2022/23 Actual	2023/24 Revised	2023/24 Actual	2023/24 Difference
General Fund	55,234	67,295	67,025	270
HRA	53,118	54,531	56,390	(1,859)
Total CFR	**108,352**	**121,826**	**123,415**	**(1,589)**

The CFR increased by £15,063 year on year as capital expenditure financed by debt was higher 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	2023/24 Revised	2023/24 Actual	Difference
Capital Financing Requirement	121,826	123,415	1,589
Less: Gross Debt	61,300	64,589	(3,289)
Under/(Over) Borrowing	**60,526**	**58,787**	**1,700**

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	2023/24 Revised	2023/24 Actual	Complied
Operational Boundary	164,000	64,589	✓
Authorised Limit	173,000	64,589	✓

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.

	2023/24 Revised	2023/24 Actual	Difference
General Fund	3%	6%	3%
HRA	12%	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	2023/24 Revised	2023/24 Actual	Complied
Principal sums invested > 364 days	12	10	✓

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	2023/24 Actual	Complied
	%	%	
- Loans maturing within 1 year	50	19	✓
- Loans maturing within 1 - 2 years	50	3	✓
- Loans maturing within 2 - 5 years	50	0	✓
- Loans maturing within 5 - 10 years	50	10	✓
- Loans maturing in over 10 years	100	68	✓

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.

	2023/24 Revised	2023/24 Actual	Difference
HRA Debt £'000	49,268	49,268	-
HRA Revenues £'000	14,392	14,681	289
Number of HRA Dwellings	2,410	2,382	(28)
Ratio of Debt to Revenues	3.42:1	3.36:1	(0.06)
Debt per Dwelling £	£20,445	£20,686	£240
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	2022/23 Actual	2023/24 Revised	2023/24 Actual
Gross service expenditure	51,245	51,190	47,815
Investment income	5,668	5,063	5,263
Proportion	**12.3%**	**9.9%**	**11.0%**

2) Total Risk Exposure

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

Total Investment Exposure	2022/23 Actual £'000	2023/24 Revised £'000	2023/24 Actual £'000
Treasury Management Investments	24,832	15,000	13,588
Commercial Investments	70,006	82,506	66,459
Total	**94,838**	**97,506**	**80,047**

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	2022/23 Actual £'000	2023/24 Revised £'000	2023/24 Actual £'000
Treasury Management Investments	0	0	0
Commercial Investments	29,479	41,965	28,663
Total	**29,479**	**41,965**	**28,663**

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	2022/23 Actual	2023/24 Revised	2023/24 Actual
Treasury Management Investments	4.4%	7.3%	10.2%
Commercial Investments	5.1%	4.6%	5.6%
Total	**5.0%**	**5.1%**	**6.6%**

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