

Annex A

Capital

The Authority measures and manages its capital expenditure, commercial and service investments with reference to the following indicators.

It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis.

Capital Expenditure: The Authority has undertaken and is planning capital expenditure as summarised below

	2022/23 actual	2023/24 budget	2023/24 forecast	2024/25 budget	2025/26 budget
General Fund services	15.29	14.44	9.44	7.01	3.89
Capital investments	0	0	0	5.00	5.00

The capital budget for 2023/24, including slippage, assumed £5m expenditure on Investment Recovery. The estimate for the current year has been reduced based on the lack of available projects that would cover the cost of capital given current high interest rates.

Capital Financing Requirement: The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure funded through either internal or external borrowing and reduces with Minimum Revenue Provision (set aside annually), loan repayments and capital receipts.

	31.3.2023 actual	31.03.2024 budget	31.3.2024 forecast	31.3.2025 forecast	31.3.2026 forecast
General Fund services	8.16	13.44	17.60	24.61	28.50
Capital investments	20.22	34.62	20.22	25.22	30.22
TOTAL CFR	28.38	48.06	37.82	49.83	58.72

Gross Debt and the Capital Financing Requirement: Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Authority has complied and expects to continue to comply with this requirement in the medium term as is shown below.

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	Debt at 30.6.2023
Debt (incl. PFI & leases)	0	0	5.00	10.00	0
Capital Financing Requirement	28.38	37.82	49.83	58.72	

Debt and the Authorised Limit and Operational Boundary: The Authority is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

	Maximum debt Q1 2023/24	Debt at 30.6.23	2023/24 Authorised Limit	2023/24 Operational Boundary	Complied? Yes/No
Borrowing	5.013m	0	55.06	50.06	Yes
PFI and Finance Leases	0	0	0	0	Yes
Total debt	5.013	0	0	0	Yes

The operational boundary is a management tool for in-year monitoring. It is not significant if the boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Net Income from Commercial and Service Investments to Net Revenue Stream: The Authority’s income from commercial and service investments as a proportion of its net revenue stream has been and is expected to be as indicated below.

	2022/23 actual	2023/24 budget	2023/24 forecast	2024/25 forecast	2025/26 forecast
Total net income from service and commercial investments	3.92m	6.63m	5.45m	6.98m	7.08m
Proportion of net revenue stream*	44.00%	59.14%	44.63%	57.16%	70.56%

*Net revenue stream is made up of income from Council Tax, Business Rates and Government Grants.

Net income estimates for 2023/24 have been reduced in line with Q1 reporting of Investment Property rents. The 2025/26 forecast includes the MTFs assumptions for the Business Rates Reset due to come into force in 2025/26 which will result in a significant loss of income to the Council. Any Government

compensation funding to smooth the effect of the Reset is not yet known.

Proportion of Financing Costs to Net Revenue Stream: Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

	2022/23 actual	2023/24 forecast	2024/25 forecast	2025/26 forecast
Financing costs (£m)	0.433	0.546	0.831	1.116
Proportion of net revenue stream	3.86%	3.92%	6.80%	11.12%

The Capital Strategy approved in February 2023 anticipated higher levels of capital expenditure of £30m in 2022/23 and £12m in each of 2023/24 & 2024/25. These estimates have been reduced based on the lack of available Investment Recovery strategy projects that would cover the cost of capital given that interest rates are currently high. The Capital, Treasury Management and Investment Strategy will be updated as part of the 2024/25 budget setting process.

Treasury Management

Table 1: Treasury Management Summary

	31.3.23 Balance £m	Movement £m	30.6.23 Balance £m	30.6.23 Rate %
Short-term borrowing	(5.013)	5.013	0.00	4.40
Total borrowing	(5.013)	5.013	0.00	4.40
Long-term investments	13.376	(0.210)	13.166	4.42
Short-term investments	0.064	(0.064)	0.00	
Cash and cash equivalents	8.159	0.476	8.635	4.83
Total investments	21.599	0.202	21.801	4.58

Net investments	16.586	5.215	21.801	
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Treasury Management

On 31st March 2023, the Authority had net investments of £16.586m arising from its revenue and capital income and expenditure. The treasury management position at 30th June and the change over the quarter is shown in the table below.

Treasury Management Summary

	31.3.23 Balance £m	Movement £m	30.6.23 Balance £m	30.6.23 Rate %
Short-term borrowing	(5.013)	5.013	0.00	4.40
Total borrowing	(5.013)	5.013	0.00	4.40
Long-term investments	13.376	(0.210)	13.166	4.42
Short-term investments	0.064	(0.064)	0.00	
Cash and cash equivalents	8.159	0.476	8.635	4.83
Total investments	21.599	0.202	21.801	4.58
Net investments	16.586	5.215	21.801	

Borrowing

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest purely for financial return and that it is not prudent for local authorities to make any investment or spending decisions that will increase the capital financing requirement and so may lead to new borrowing, unless 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.

The Authority has reviewed its capital programme in light of the Prudential Code 2021 requirements and PWLB lending arrangements to ensure that borrowing to invest purely for commercial return is no longer undertaken.

The Authority currently holds £51.3m in commercial investments that were purchased prior to the change in the CIPFA Prudential Code.

Treasury Investment Activity

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. The investment position at both 2022/23 year end and Q1 2023/24 is shown in the table below.

	31.3.23	Net	31.6.23	31.6.23
	Balance	Movement	Balance	Income
	£m	£m	£m	Return
				%
Banks & building societies (unsecured)	3.84	-0.84	3	4.25
Money Market Funds	4.3	1.335	5.635	4.35
Other Pooled Funds				
- <i>Equity & Multi Asset income funds</i>	8.838	-0.083	8.755	4.12
- <i>Bond income funds</i>	3.537	-0.116	3.421	3.75
- <i>Real Estate Investment Trusts</i>	1.00	-0.01	0.99	2.89
Total investments	21.515	0.286	21.801	4.58

The progression of risk and return metrics are shown in the extracts from our Treasury advisor's quarterly investment benchmarking in the Table below.

Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)*	Rate of Return %
31.03.2023	A+	A+	100%	1	4.09
30.06.2023	A+	A+	100%	1	4.58
Similar LAs	A+	A+	63%	11	4.32
All LAs					

*Weighted average maturity

Externally Managed Pooled Funds: £13.3m of the Authority's investments is invested in externally managed strategic pooled bond, equity, multi-asset and property funds with the objective of maximising revenue income. These investments are designed to be long term and are made in the knowledge that capital values will move both up and down over time.

Treasury Performance

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in the table below.

	Q1 Actual £m	2023_24 Budget £m	Over/ under	Actual %	LA's Average Benchmark %	Over/ under
Short-term investments	0.007	0.00	.007	4.83	4.44	0.39
MMF & Call Accounts	0.071	0.162	(0.091)	4.83	4.44	0.39
Strategic Funds	0.085	0.660	(0.575)	4.42	4.01	0.41
Other Long-term loans	0.008	0.280	(0.272)	3.50	n/a	n/a
Total treasury investments	0.171	1.102	(0.931)	4.58		

Compliance

The Chief Finance Officer reports that all treasury management activities undertaken during the quarter complied fully with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in the table below.

Investment Limits

	2023/24 Maximum £m	30.6.23 Actual £m	2023/24 Limit £m	Complied? Yes/No
Any single organisation, except the UK Government	3	0	5	YES
Any group of organisations under the same ownership	3	0	5	YES
Any group of pooled funds under the same management	0	0	5	YES
Limit per non-UK country	0	0	1	YES
Registered providers and registered social landlords	9.8	9.8	10	YES
Unsecured investments with banks	3	3	10	YES
Money Market Funds	15	5.635	25	YES
Strategic pooled funds	14	14	25	YES
Real Estate Investment Trusts	1	1	5	YES

Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in the table below.

Debt and the Authorised Limit and Operational Boundary

	Q1 2023/24 Maximum £m	30.6.23 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied? Yes/No
Borrowing	5.00	0	50.06	55.06	YES
Total debt	5.00	0	50.06	55.06	

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

Long-term Treasury Management Investments: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

	2023/24	2024/25	2025/26	No fixed date
Limit on principal invested beyond year end	£20m	£20m	£20m	£20m
Actual principal invested beyond year end	£14m	£14m	£14m	£14m
Complied	YES	YES	YES	YES

Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	2023/24 Target	30.6.23 Actual	Complied?
Portfolio average credit rating	A-	A+	YES