Report of the Portfolio Holder for Resources and Personnel Policy

TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2022/23 MID – YEAR REPORT

1. Purpose of report

To provide a mid-year update Cabinet on the treasury management activity and the prudential indicators for 2022/23.

2. Recommendation

Cabinet is asked to CONSIDER and NOTE the Treasury Management and Prudential Indicators Mid-Year Report.

3. Detail

Regulations issued under the Local Government Act 2003 require the Council to fulfil the requirements of the Chartered Institute of Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities when undertaking its treasury management activities.

As well as the Treasury Management and Prudential Indicators annual report that is presented to Cabinet in July each year, there is a regulatory requirement for Members to receive a mid-year review. This is intended to enhance the level of Member scrutiny in these areas.

The CIPFA Code of Practice on Treasury Management requires the Deputy Chief Executive to operate the Treasury Management function in accordance with the Treasury Management Strategy approved by the former Finance and Resources Committee on 10 February 2022 and Council on 2 March 2022. Details of all borrowing and investment transactions undertaken in 2022/23 up to 30 November 2022, together with the balances at this date and limits on activity, are provided in appendix 1. There are no issues of non-compliance with these practices that need to be reported.

Under the CIPFA Prudential Code for Capital Finance in Local Authorities, the Council is required to prepare a number of prudential indicators against which treasury management performance should be measured. The Council has complied with its 2022/23 prudential indicators up to 30 November 2022 and details are provided in appendix 2.

4. Financial Implications

The comments from the Head of Finance Services were as follows:

This report meets the requirements of the CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities.

All treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice on Treasury Management and the approved Treasury Management Strategy. Further comments are incorporated in the narrative in the executive summary and appendices.

5. Legal Implications

The comments from the Head of Legal Services and Deputy Monitoring Officer were as follows:

Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance. This report demonstrates compliance with the legislative framework.

6. Human Resources Implications

There were no comments from the Human Resources Manager.

7. Union Comments

There were no comments from UNISON.

8. Data Protection Compliance Implications

There are no Data Protection issues in relation to this report.

9. Equality Impact Assessment

As there is no change to policy an equality impact assessment is not required.

10. Background Papers

Nil

APPENDIX 1

TREASURY MANAGEMENT

1. Borrowing

a) Debt activity during 2022/23

The loan debt outstanding as at 30 November 2022 compared to the opening position as at 1 April 2022 is shown below:

Loan Type	Amount Outstanding 01/04/22 £'000	Amount Outstanding 30/11/22 £'000
Short Term Loans:		
Bramcote Crematorium	544	624
Money Market Loans	5,000	2,000
Public Works Loan Board	4,514	4,508
Long Term Loans:		
Money Market Loans	3,000	3,000
Public Works Loan Board	82,643	82,643
Total	**95,701**	**92,775**

b) Short Term Loans

The short term money market loans are from other local authorities and public sector bodies. Details of the movement in these during the period are set out in the table below:

Lender	Balance 01/04/22 £'000	Start Date	End Date	Rate %	Balance 30/11/22 £'000
Vale of Glamorgan	2,000	24/03/22	22/12/22	0.95	2,000
Bedford Borough Council	1,000	28/03/22	28/06/22	0.75	-
Nottingham City Council	2,000	28/03/22	28/09/22	0.85	-
Total	**5,000**				**2,000**

A PWLB loan of £4.5 million is also due to mature on 28 March 2023. This will be replaced, at least in part, with other borrowing before 31 March 2023.

Short term loans at 31 March 2022 included PWLB annuities of £12,895. A sum of £6,280 was repaid on 13 September 2022 and the remaining £6,615 is due for repayment on 15 March 2023.

Short term loans at 31 March 2022 also included £544k that had been invested with the Council by Bramcote Crematorium. At 30 November 2022 Bramcote Crematorium had invested a further £75,000 (net) with the Council plus accrued interest. A distribution of £400,000 was made to the two constituent authorities on 1 October 2022.

The major element of the long-term loans from the PWLB is the loans totalling £66.4m taken out on 28 March 2012 to make the payment to the Department for Communities and Local Government (DCLG). This enabled the Council to exit the Housing Revenue Account (HRA) subsidy system and move to self-financing arrangements that allow local authorities to support their housing stock from their own HRA income. These loans were for maturity periods between 10 and 20 years and were at special one-off preferential rates made available by the PWLB for this exercise of 13 basis points above the equivalent gilt yield at the date on which the loans were taken out.

Debt is kept under review in order to match the level of borrowing with the financing requirement for assets, based on analysis of the Council's balance sheet, with the aim of maintaining borrowing at the most efficient level in line with the prudential framework for capital finance.

The planned financing of the 2022/23 capital programme as at 30 November 2022 indicates that borrowing of £4,801,450 would be required to help fund the General Fund part of the programme. This borrowing has not, as yet, been fully undertaken as the availability of large investment balances has meant that there has been no specific need to undertake this borrowing thus far.

The Council will continue to adopt a cautious and considered approach to any borrowing that it may undertake. The Council's treasury advisors, Arlingclose, actively consult with investors, investment banks and capital markets to establish the attraction of different sources of borrowing and their related trade-off between risk and reward. The Council will liaise with its advisors before making any borrowing decisions and then report these to Members.

Arlingclose expects short-dated borrowing from the money markets to remain cheaper than long-term borrowing from the PWLB over the next 12-month period.

c) Debt rescheduling

In conjunction with the treasury management advisors, the Council continues to seek opportunities for the rescheduling of debt that could reduce its overall borrowing costs. No debt rescheduling has taken place to date in 2022/23.

Whilst the possibility of achieving savings by repaying a loan may initially appear attractive, if a replacement loan is taken out to facilitate this then the replacement loan will have to be replaced at some stage. There is a risk that, as interest rates rise, future loans could be more expensive and the initial decision to pursue the repayment of the original loan could turn out to be costly in the long term.

There may be opportunities in the future to achieve discounts by repaying loans using funds that are currently invested but the Council's primary concern will be to ensure that it has sufficient liquidity available to meets its liabilities and this represents a significant barrier to debt repayment activity.

Currently all of the Council's PWLB loans would attract a premium, i.e. a penalty, on premature repayment of between 5% and 99%. Those which have a higher probability of attracting a discount in the future were interest rates to rise (i.e. where the current premium is between 0% and 10%) are some loans that were taken out on 28 March 2012 at preferential rates as part of the move to exit the HRA subsidy system as referred to in 1(a) above.

The Council and its treasury management advisors will continue to monitor the situation and evaluate potential opportunities where appropriate. Debt rescheduling activity will only be undertaken when annual revenue savings can be achieved and both a stable debt maturity profile and suitable interest rate structure can be maintained.

d) Cost of borrowing and debt profile

i. Long term debt

The Council's long term debt had an average of 8.18 years to maturity at 30 November 2022 (31 March 2022 was 8.00 years). The average interest payable at that date was 3.11% (31 March 2022 was 3.07%).

ii. Short term borrowing

Short-term borrowing comprises the continuing loan from the Bramcote Crematorium Joint Committee and the loans outlined in 1(a) above.

The Council has, on occasion, taken advantage of exceptionally low interest rates for short-term loans that have been available from other local authorities and public sector bodies.

iii. PWLB Rate Changes and Future Borrowing

Most of the Council's long term debt is borrowed from the PWLB. The most recent PWLB Technical Note (published on 21 October 2021) shows the current Standard Rate for PWLB loans is 100 basis points above current gilt prices. Those local authorities who submit a Certainty Rate Return, which is primarily a high-level analysis of the authority's capital programme, capital financing and borrowing plans for the next three years, are eligible to borrow at the Certainty Rate. The Certainty Rate is 20 basis points below the Standard Rate.

Given that PWLB lending terms are currently competitive, PWLB will be considered, alongside other lenders, by the Council when looking to take out future long-term borrowing.

2. Investments

a) Investment Policy

The Council's investment policy is governed by guidance from Central Government, which was implemented in the Investment Strategy approved at the Finance and Resources Committee meeting on 10 February 2022 and then by Council on 2 March 2022. This gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

The Council only places investments with banks and building societies which are UK domiciled and have, as a minimum, the Long Term A- (or equivalent) rating from the Fitch, Moody's and Standard and Poors credit rating agencies.

The Council is also able to invest in Money Market Funds (MMF) that are AAA rated and with the UK government, as well as with other local authorities. The maximum permitted duration of investments is two years.

The investment activity during 2022/23 to date conformed to the approved strategy. The Council had no security or liquidity difficulties.

b) Interest Received

The total interest receivable for the period ended 30 November 2022 amounted to £254,851 at an average rate of 1.88% (compared to £101,300 at 0.96% to 31 October 2021). This was linked to the incremental increases in the Bank Rate from 0.75% to 3.00% (as at 30 November 2022) and the Council holding relatively high levels of cash due to the up-front receipt of the Council Tax Energy Rebate monies and capital grants. These surplus funds were included in short-term investments.

The return of Money Market Funds (net of fees) increased during the period up to 30 November 2022, with current rates at 3.04%.

The Council's treasury advisors, Arlingclose, continues to expect Bank Rate to peak at 4.25%, with further incremental rises in December, February, March and May 2023. It is expecting that the Bank of England Monetary Policy Committee will cut rates in the medium term to stimulate a stuttering UK economy, but will be reluctant to do so until wage growth eases. Arlingclose is anticipating rate cuts in the first half of 2024. Gilt yields are expected to remain broadly steady over the medium term, with continued volatility across shorter time periods. This will influence capital investment and prudential borrowing decisions.

SONIA (Sterling Overnight Index Average) is an interest rate published by the Bank of England, which can be seen as the average interest rate at which a selection of financial institutions lends to one another in sterling (GBP) with a maturity of 1 day (overnight). SONIA is a benchmark rate. The SONIA average 1-day rate over the period was 1.57%.

The LIBOR interest rate is the average interbank interest rate at which a large number of banks on the London Money Market are prepared to lend one another in unsecured funds denominated GBP. The LIBOR rate is available in seven maturities, from overnight to 12-months and serves as a base rate for all sorts of other products such as savings accounts, mortgages and loans. The 1-month LIBOR average rate over the period was 1.56%.

The Council has a total of four long term investment totalling £8.0m and these along with the average interest income received per quarter are as follows:

- CCLA Local Authority Property Fund (LAPF) – £2.0m (£20,000)
- CCLA Diversified Income Fund (DIF) – £2.0m (£15,850)
- Royal London Enhanced Cash Plus Fund – £2.0m (£5,350)
- Ninety-One Diversified Income Fund – £2.0m (£6,500)

The £2.0m invested in the CCLA Local Authorities' Property Fund (LAPF) had a dividend yield of 3.67% during the period whilst the £2.0m invested in CCLA Diversified Income Fund had a dividend yield of 2.39%. The Royal London Cash Plus and Ninety-One Diversified Income Funds have dividend yields that generally average around 3.52%. The average total income return for the period is 3.10%. Further details of these long-term investments are set out in 3(v).

There has been a change in the redemption terms for the CCLA Local Authorities Property Fund with investors required to give at least six months' notice for redemptions (up from 90 calendar days). Whilst the Fund continues to enjoy the support of a wide-base of long-term investors, with requests for redemptions being relatively low and the prevailing liquidity in the Fund being appropriate, the degree of current uncertainty in the property market merits further caution. Property as an asset class is not liquid and where the Fund do sell properties, it wants to be able to do this in an orderly fashion, focusing on those assets which we believe have become less attractive and less well placed to support the Fund's income and capital growth over the long term. The Council considers this to be a reasonable approach for this type of long-term investment.

c) Investments Placed

A summary of all investments (either short or long term) made and repaid from 1 April to 30 November 2022 is set out in the following table:

Investments	Balance 01/04/22 £000	Invests Made £000	Invests Repaid £000	Balance 30/11/22 £000	Move-ment £000
UK Banks/Building Societies					
Barclays	-	-	-	-	-
Santander UK	-	16,210	(16,210)	-	-
BOS 32 Day Notice Acct	-	3,430	(3,430)	-	-
Other Local Authorities	-	-	-	-	-

Investments	Balance 01/04/22 £000	Invests Made £000	Invests Repaid £000	Balance 30/11/22 £000	Move-ment £000
Money Market Funds					
LGIM MMF	-	32,946	(28,606)	4,340	4,340
Aberdeen MMF	5,000	1,600	(1,600)	5,000	-
Federated MMF	1,730	12,600	(9,330)	5,000	3,270
Public Sector Deposit Fund	5,000	-	-	5,000	-
Long Term Funds					
LA Property Fund	2,000	-	-	2,000	-
Royal London Enhanced Cash Plus	2,000	-	-	2,000	-
CCLA Diversified Income Fund	2,000	-	-	2,000	-
Ninety One Diversified Income Fund	2,000	-	-	2,000	-
Total	**19,730**	**66,786**	**(59,176)**	**27,340**	**7,610**

The Money Market Funds (MMF) are set up as individual accounts where funds can be placed short-term, often overnight, and monies withdrawn as and when required. This has a major impact upon the number of investments made with these institutions during the period above.

Use continues to be made of MMF due to their ability to provide a secure and highly liquid place in which to invest and the reduced number of other potential counterparties available as outlined in 2(g) below.

d) Credit Risk

Security of capital has remained the Council's main investment objective. The Council aims to achieve a score of '7' or lower in order to reflect its overriding priority of maintaining the security of any sums invested. This equates to the minimum credit rating threshold of A- for investment counterparties as set out in the 2022/23 investment strategy.

Counterparty credit quality has been maintained at an appropriate level during 2022/23 as shown by the credit score analysis in the following table:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2022	5.05	A+	5.05	A+
30/09/2022	4.99	A+	4.99	A+

No investments were made with institutions where the credit rating exceeded a score of 7 (i.e. lower than A-). All deposits were made with institutions achieving an average score of 5.0 or better. As such, counterparty credit quality has been maintained at an appropriate level during the period.

The table below shows how credit risk scores relate to long-term credit ratings:

Rating	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
Score	1	2	3	4	5	6	7	8	9	10

e) Risk Benchmarking

The Investment Strategy 2022/23 to 2024/25 contained a number of security, liquidity and risk benchmarks to allow officers to monitor the current and trend positions and incorporate these within investment decisions. The benchmarks have been met in full for the period to 30 November 2022 such that:

- the Council's maximum average credit risk score has been less than 7;
- a bank overdraft limit of £1.0m has been maintained;
- liquid short-term deposits of at least £0.5m have been available within one week;
- the average weighted life of investments has been below a maximum of six months; and
- returns on investment have been above the SONIA average 1-day interest rate and the 1-month LIBOR average rate over the period.

f) Counterparty Update

The Deputy Chief Executive maintains a counterparty list based upon criteria set out in the Investment Strategy. Any proposed revisions to the criteria will be submitted to Cabinet for formal approval as set out in 2(g) below.

The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For example, if an institution is rated by two agencies and one meets the Council's criteria and the other does not, the institution will fall outside the lending criteria.

Creditworthiness information is provided by the treasury management advisors, Arlingclose, on all counterparties that comply with the criteria set out in the Investments Strategy. Any counterparty failing to meet the criteria is removed from the counterparty list.

g) Changes to the Investments Strategy

Due to the level of uncertainty in financial markets, it is important that there is sufficient flexibility to enable changes to be made to the Investments Strategy at short notice should they be considered necessary by the Deputy Chief Executive.

Any such changes to the Investments Strategy will be made by the Chief Executive Exercising Standing Order 32 powers following consultation with the Leader of the Council and the Portfolio Holder for Resources and Personnel Policy. A report setting out the detail behind these changes would then be presented to Cabinet at the next available opportunity.

h) Regulatory Update

In July 2018, the Government (through the MHCLG at the time) consulted on statutory overrides relating to the introduction of the IFRS 9 Financial Instruments accounting standard from 2018/19. It has since decided to introduce a statutory override for fair value movements in pooled funds for at least five years until 31 March 2023.

MHCLG accepted arguments made in the consultation responses that the un-amended adoption of IFRS 9 could result in unwarranted volatility for the General Fund and impact unnecessarily upon Council Tax and/or service expenditure. The subsequent statutory override, while requiring IFRS 9 to be adopted in full, requires fair value movements in pooled investment funds to be taken to a separate unusable reserve instead rather than directly to the General Fund.

MHCLG accepted that the three-year statutory override suggested in the consultation was too short a period and committed to keeping the override in place for five years. It will keep under review a decision whether permitting the override to lapse in March 2023 will have a detrimental impact on balanced budget calculations in subsequent years. This is expected to be extended.

The override will apply to all collective investment schemes and not just to pooled property funds. As set out above, in order to promote transparency, the guidance requires a separate unusable reserve to be used to hold the fair value movements rather than the Financial Instruments Adjustment Account.

i) Prudential and Treasury Management Code Changes

The Prudential Code requires the production of a high-level Capital Strategy report to full Council covering the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit are included in this report

The definition of investments in the Treasury Management Code now covers all of the Council's financial assets as well as other non-financial assets that are held primarily for a financial return. This is replicated in the Government's Investment Guidance in which the definition of investments is further broadened to include all such assets held partially for financial return. The Council has no such assets at present.

3. Treasury Management Indicators

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

i) Security

The Council 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.

Credit Risk Indicator	Target 2022/23
Portfolio Average Credit Rating	A-

The Council has complied with this indicator by achieving an average credit rating of A+ for its investment portfolio between 1 April and 30 November 2022.

ii) Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity Risk Indicator	Target 2022/23
Total cash available within 3 months	£10.0m

The Council has complied with this indicator by maintaining an average of £25.4m in cash available to meet unexpected payments within a rolling three-month period from 1 April to 30 November 2022.

iii) Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates for 2022/23 are:

Interest rate risk indicator	Target Limit 2022/23
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.0m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1.0m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

Even after the incremental increases in the Bank Rate from 0.75% to 3.00% (as at 30 November 2022), the target limits for 2022/23 have been complied with for the mid-year period.

iv) Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. It is intended to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Lower Limit %	Upper Limit %	Fixed Rate Borrowing 30-Nov-22	Level %	Compliance with Set Limits
Under 12 months	0	50	6,513	7	Yes
12 months to 2 years	0	50	7,414	8	Yes
2 years to 5 years	0	50	25,003	27	Yes
5 years to 10 years	0	75	39,181	43	Yes
10 years to 20 years	0	100	6,046	7	Yes
20 years to 30 years	0	100	2,000	2	Yes
30 years to 40 years	0	100	3,000	3	Yes
40 years to 50 years	0	100	0	0	Yes
50 years and above	0	100	3,000	3	Yes

Investments are limited to a maximum of two years as set out earlier. As suggested in the CIPFA Code, fixed rate investments of less than 12 months and fixed rate borrowing with less than 12 months to maturity are regarded as variable rather than fixed rate investments and borrowings as their replacement could be subject to movements in interest rates. This principle has been applied in calculating the fixed and variable interest rate exposures on debt and investments. However, the borrowing with less than 12 months to maturity at 30 November 2022 is shown as fixed rate borrowing in the maturity structure.

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

v) Principal Sums Invested for Periods 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 invested to final maturities beyond the period end will be:

Risk Indicator	Target Limit 2022/23
Upper limit on principal invested beyond year end	£8.0m

The upper limit for this indicator was set at 50% of the estimated in-year average of total investments of £16.0m for 2022/23. The Council has complied with the limit during the period to 30 November 2022.

The Council had £8.0m in long term investments as at 30 November 2022 consisting of:

- £2.0m invested in the CCLA Local Authorities' Property Fund (LAPF). Although the Council can theoretically redeem part or all of its holding in the fund by giving 6 months' notice as set out in 2(c), this is intended to be a long term investment.

- £2.0m invested in the CCLA Diversified Income Fund. Whilst this is intended to be a long term investment, two days' notice is required should this investment need to be repaid to the Council.

- £2.0m invested in the Royal London Enhanced Cash Plus Fund. Whilst this is intended to be a long term investment, should the Council require this to be repaid then it can be done with one day's notice.

- £2.0m invested in the Ninety-One Diversified Income Fund. The minimum recommended period for such an investment is 3-5 years. However, should this need to be repaid to the Council then it can be done with three days' notice.

APPENDIX 2

PRUDENTIAL INDICATORS

1. Introduction

The Local Government Act 2003 requires local authorities to comply with the Prudential Code for Capital Finance in Local Authorities when carrying out their capital budgeting and treasury management activities. Fundamental to this is the calculation of a number of prudential indicators, which provide the basis for the management and monitoring of capital expenditure, borrowing and investments. The indicators are based on the Council's planned and actual capital spending.

2. Capital Expenditure and Financing 2022/23

The Council undertakes capital expenditure on assets which have a long term value. These activities may either be:

- financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resulting impact upon the Council's borrowing need; or

- if insufficient financing is available or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

Actual capital expenditure forms one of the required prudential indicators. The following table shows the 2022/23 capital programme as at 30 November 2022 compared with the original estimate for the year across each committee:

	2022/23 Original Estimate £000	**2022/23 Estimate at 30/11/22 £000**
Housing (HRA/GF) (including Housing Delivery Plan)	11,833	14,728
Jobs and Economy (including Stapleford Towns Fund)	5,695	5,902
Leisure and Health	0	28
Environment and Climate Change	974	1,631
Community Safety	0	95
Finance and Resources	245	3,391
Total	**18,747**	**25,775**

The change to the original estimate is largely accounted for by the carry forward of unspent capital budgets totalling £8,053,650 from 2021/22 plus additional budget allocated to schemes including £100,000 allocated to the Refurbishment of Argos Block (Beeston Square Phase 3) less the net movement in the budget profile for the Housing Delivery Plan reported to Cabinet on 19 July 2022.

Excluded from the original 2022/23 capital programme were schemes totalling £703,000 that were on a 'reserve list' to be brought forward for formal approval to proceed once a source of funding was identified.

The table below shows the planned capital expenditure up to 30 November 2022 and how this will be financed:

	Original Estimate 2022/23 £000	Original Estimate at 30/11/22 £000
General Fund	7,712	12,472
HRA	11,035	13,303
Total Capital Expenditure	**18,747**	**25,775**
Financed by:		
Capital Receipts	748	1,564
Capital Grants	7,566	9,167
Revenue	5,997	6,874
Unfinanced Capital Expenditure	**4,436**	**8,170**

The increase in the estimated use of capital receipts in 2022/23 is primarily due to schemes carried forward from 2021/22 and to the further use of HRA capital receipts to assist the financing of capital schemes in the Housing Delivery Plan.

The increase in the estimated use of capital grants in 2022/23 is largely attributable to schemes carried forward from 2021/22 and potential opportunities with securing Homes England Grants in delivering the Housing Delivery Plan.

It is anticipated that the schemes on the 'reserve list' will be financed from capital receipts received at a future date. Unfinanced capital expenditure will be met from additional borrowing as set out above.

2. Overall Borrowing Need

The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position and represents net capital expenditure that has not yet been paid for by revenue or other resources.

Part of the treasury management activity seeks to address this borrowing need, either through borrowing from external bodies or utilising temporary cash resources within the Council.

As set out in 1(a) in appendix 1, the Council has not fully taken out the anticipated borrowing of £8,170,000 in respect of the planned capital expenditure for 2022/23 shown as unfinanced above. It is likely that some of this borrowing will be delayed until 2023/24 if there is significant slippage in the capital programme from 2022/23 into the following year. Any additional borrowing to be undertaken will seek to align the Council's overall borrowing level with the CFR. As at 30 November 2022, the Council has a short term loan totalling £2.0 million with other local authorities that will mature on 22 December 2022. A PWLB loan of £4.5 million is also due to mature on 28 March 2023. This will be replaced, at least in part depending upon cash flows, with other borrowing before 31 March 2022

The Council has reduced its position on short-term loans in the period as the Council sought to stabilise its level of investments in order to reduce credit risk.

The Council's CFR will next be calculated as at 31 March 2023 when the financing of actual capital expenditure incurred in 2022/23 will be undertaken. This will be reported to Cabinet in July 2023.

3. Prudential Indicators and Compliance Issues

Some of the prudential indicators provide either an overview or specific limits on treasury management activity. These are as follows:

i) Gross Borrowing Compared to the Capital Financing Requirement (CFR)

In order to ensure that borrowing levels are prudent over the medium term, the Council's external borrowing must only be for a capital purpose. Gross borrowing should not therefore, except in the short term, exceed the CFR. This indicator will be calculated at the end of 2022/23 and the result reported to Cabinet in July 2023. It is presently anticipated that the Council will comply with this indicator.

ii) Authorised Limit

This is the statutory limit determined under section 3(1) of the Local Government Act 2003 and represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which could be afforded in the short term to maximise treasury management opportunities and cover temporary cash flow shortfalls, but is unlikely to be sustainable over the longer term. The table below demonstrates up to 30 November 2022, the Council has maintained gross borrowing within its authorised limit.

iii) Operational Boundary

This indicator is based on the probable external debt during the course of the year. The operational boundary is not a limit and actual borrowing can vary around the levels shown for short times. The operational boundary should act as an indicator to ensure the authorised limit is not breached and is a key management tool for in year monitoring of treasury management activities by the Deputy Chief Executive.

	Values £000
Authorised Limit for Borrowing	138,900
Operational Boundary for External Debt	111,100
*Maximum Gross Borrowing (April to November 2022)	95,977

The maximum external debt in the period from April to November 2022 represents the gross borrowing figures as set out in 1(a) and includes the loan received from Bramcote Crematorium during this period.

iv) Ratio of Financing Costs to Net Revenue Stream

This indicator compares net financing costs (borrowing costs less investment income) to net revenue income from revenue support grant, business rates, housing revenue account subsidy, council tax and rent income. The purpose of the indicator is to show how the proportion of net income used to pay for financing costs is changing over time. The indicator will be calculated for 2022/23 at the end of the financial year and reported to Cabinet in July 2023.