COUNCIL CABINET
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Derby City Council

Report sponsors: Councillor Baggy Shanker
Leader of the Council and Cabinet Member for Strategy, Governance and Finance
Alison Parkin, Director of Finance

Report author: Elly Tomlinson, Group Accountant

APPENDIX 1

Treasury Management Mid-Year Report 2023/24

Purpose

1.1 The council is required for good practice under the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the "CIPFA TM Code") to approve treasury management mid-year and outturn reports.

1.2 This report includes the new requirement in the 2021 code, of quarterly reporting of the treasury management prudential and capital indicators. These indicators will be incorporated into future quarterly outturn reports presented to Cabinet.

1.3 This mid-year report outlines the Treasury Management activity and capital indicators for the period 1 April 2023 to 30 September 2023 for Council to note, comprising:

- Forecast Outturn 2023/24 including Qtr.2 update
- Summary of the Financial Markets to date in 2023/24
- Borrowing Activity
- Investment Activity
- Non Treasury Investments
- Treasury Performance
- Compliance Report
- Treasury Management Indicators
- Capital Expenditure Indicators.

Recommendation(s)

2.1 To note the forecast outturn balanced position.

2.2 To note the position statement on Treasury Management Activity and compliance with the Prudential Indicators for the period 1 April 2023 to 30 September 2023.

2.3 To note and recommend the Treasury Management Mid-Year Report to Full Council.

Reason(s)

3.1 In accordance with CIPFA Code of Practice for Treasury Management in Public Services (the “CIPFA TM Code”), it is considered good Treasury Management practice for members to note the progress and monitor performance quarterly. This report covers the progress of this activity as at Qtr. 2. In addition, the report is required to go to Cabinet in the first instance and then Council for approval.

3.2 The 2021 Treasury Management Code introduced a new requirement that monitoring of the treasury management and Capital indicators from 2023/24 should be reported quarterly (along with the other prudential indicators) as part of the Authority’s general revenue and capital monitoring.

This report includes the new requirement in the 2021 Code, mandatory from 1 April 2023, of quarterly reporting of treasury management and Capital prudential indicators.

Supporting information

4.1 **Forecast Outturn Summary**

4.2 The Council budgets for the net cost of its Treasury Activities (Borrowing and Investments) through its Treasury Management Budget. As at 30 September, the budget is forecasting a balanced position. Any variance will be managed within the treasury management reserve set up to smooth the ebbs and flows of the capital programme, borrowing and funding requirements.

4.3 At the end of September 2023, total debt is £420.572m and total investments are £46.298m compared to £359.449m and £16.697m as at 31 March 2023.

4.4 Treasury Management advice to the Council up to 30 September 2023 has been provided by Arlingclose. Their services include economic and interest rate forecasting, advice on strategy, portfolio structure, debt restructuring, investment policy and credit ratings and technical assistance on treasury matters as and when required.

4.5 **Background**

4.6 The Council’s Treasury Management Strategy (TMS) for 2023/24 was approved by Full Council on 27 February 2023. The Council has borrowed and invested substantial 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 are therefore central to the Council’s TMS.

TM Strategy 2023/24

4.7 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy which involves a summary document approved by Full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by Full Council on 27 February 2023.

MTFP Inc. Capital Strategy (Appendix 17)

4.8 **The Financial Markets to date in 2023/24**
(External Context provided by the Council's Treasury Management Advisors)

4.9 UK inflation has remained stubbornly high compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to these regions.

4.10 Economic growth in the UK has remained relatively weak. In calendar Qtr. 2 2023, the economy expanded by 0.2%.

4.11 July data showed 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.

4.12 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.

4.13 The Bank of England's Monetary Policy Committee – MPC, 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%.

4.14 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.

4.15 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.

4.16 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.

4.17 The information relating to the overall global position of the UK financial markets is provided by Arlingclose, our treasury advisors, who continue to update the Council with on-going market activity and interest rates.

4.18 **Local Context**

4.19 On 30 September, the Authority had forecast net borrowing of £460.355m, arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

Balance Sheet Summary	31-Mar-23 Actual £m	2023/24 Qtr. 2 Forecast £m
General Fund CFR	520.594	600.758
HRA CFR	208.272	208.272
Total CFR	**728.866**	**809.030**
Less: Other debt liabilities *	(76.118)	(71.214)
Borrowing CFR	**652.748**	**737.816**
Less: Usable reserves	(212.518)	(183.303)
Less: Working capital	(97.478)	(94.158)
Net borrowing Requirement**	**342.752**	**460.355**

*Finance leases, PFI liabilities and transferred debt that form part of the Council's total debt
**2023/24 Net borrowing position includes forecast borrowing requirement as per Q2 Capital programme.

4.20 The Council's strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing. This reduces risk by keeping interest costs low. This policy is consistent with the Council's Treasury Management Strategy.

4.21 The Treasury Management actual position at the 30 September 2023 and the change during the period is shown in Table 2 below.

Table 2: Treasury Management Summary

TM Summary	31-Mar-23 Balance £m	Movement £m	30-Sep-23 Balance £m
Long-term borrowing	325.450	4.646	330.096
Short-term borrowing	33.999	56.477	90.476
Total borrowing	**359.449**	**61.123**	**420.572**
Long-term investments	-	-	-
Short-term investments	(14.455)	(29.356)	(43.811)
Cash and cash equivalents	(2.242)	(0.245)	(2.487)
Total investments	**(16.697)**	**(29.601)**	**(46.298)**
Net Borrowing Position*	**342.752**	**31.522**	**374.274**

*30 Sep 23 Balance is the actual position at that point and does not include any forecast borrowing requirements as required as per the capital programme

4.22 Actual total borrowing increased by £61.123m during the last 6 months. Table 2 shows, that long term borrowing increased by a net £4.646m due to additional long term PWLB borrowing of £5m and (£0.354m) principal repayments. However short-term borrowing had a net increase of £56.477m, this is due to new loans arranged of £90m offset by repayment of short-term loans taken out during closedown period 2022/23 (£30m) and repayment of principal falling due within one year (£0.523m). This is in line with our current strategy to short term borrow to manage cash flows to avoid being tied into longer term costly rates in the current economic climate.

4.23 Available investment balances are generally low at the end of the financial year, this is as a result of profiling/utilising of income from government grants and local taxes. Council tax and Business rates is in the main paid over the first ten months of the year resulting in a reduction of cash at the end of the financial year, which can be further impacted due to the timing of large invoices processed for capital schemes in the last financial quarter.

4.24 Total investments between March 2023 and September 2023 increased from £16.697m in March 2023 to £46.298m in September, and thus represents a movement of £29.601m.

4.25 **Borrowing**

4.26 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

4.27 The council has not invested in assets primarily for financial return or that are not primarily related to the functions of the Authority. It has no plans to do so in the future.

4.28 **Treasury Borrowing Strategy and Activity**

4.29 As outlined in the treasury strategy, the council's chief 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 Authority's long-term plans change being a secondary objective. The council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

4.30 There was a substantial rise in the cost of both short- and long-term borrowing over the last 18 months. Bank Rate rose by 1% from 4.25% at the beginning of April to 5.25% at the end of September. Bank Rate was 2% higher than at the end of September 2022.

4.31 The Council has moved into a need to borrow position as planned and budgeted for in the MTFP. Regular review of current interest rates and regular monitoring of the councils cashflow position is being undertaken to ensure that we can strike an appropriately low risk balance between short-term borrowing to reduce the risk of being tied into high interest rates over the longer term and achieving cost certainty over the period for which funds are required wherever possible.

4.32 A new PWLB HRA rate which is 0.4% below the certainty rate was made available to Councils from 15th June 2023. Initially available for a period of one year, this discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans.

4.33 The council's treasury advisors reviewed our loans, and this provided an opportunity for the councils HRA-related borrowing. The council was able to refinance £5m relating to the HRA maturing during this time frame.

4.34 At the 30 September 2023, the total external debt portfolio of the Council (including HRA debt and other long- term liabilities) was £492.014m. The analysis of external debt outstanding as at 30 September 2023 is shown in the Table 3 below:

Table 3: Treasury Borrowing Summary

External Borrowing	As at 31/03/23 £m	Movement	As at 30/09/23 £m
Borrowing:			
Fixed Rate PWLB	283.751	1.353	285.104
Fixed Rate Market	20.000	-	20.000
Local Authorities - Long Term	25.000	-	25.000
Local Authorities - Short Term	30.000	60.000	90.000
SALIX Energy Efficiency	0.231	(0.163)	0.068
University of Derby	0.467	(0.067)	0.400
Total Borrowing	**359.449**	**61.123**	**420.572**
Other Long-term Liabilities:			
- Transferred Debt from other Local Authorities	0.193	-	0.193
- PFI Financing	70.228	-	70.228
- Finance Lease Liabilities	1.021	-	1.021
Total Other Long-term Liabilities	**71.442**	**-**	**71.442**
Total Gross External Debt	**430.891**	**61.123**	**492.014**

4.35 The councils short-term borrowing cost has continued to increase with the rise in Bank Rate and short-dated market rates. The average rate on the councils' short-term loans at 30 September 2023 of £90m was 5.6%, this compares with 4.2% on £30m loans 6/7 months ago.

4.36 Short term borrowing is still a favourable position with interest rates remaining high the strategy is to borrow in the short term to alleviate any cash flow requirements – whist monitoring and taking advantage of longer term borrowing when rates are favourable.

4.37 The council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was and will be maintained.

4.38 **Treasury Investment Activity**

4.39 The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the council's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

4.40 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six-month period to 30 September 2023, the Council's daily investment balance ranged between £15.311m and £79.310m due to timing differences between income and expenditure. The investment position is shown in Table 4 below.

Table 4: Treasury Investment Summary

Counterparty	30/03/23 Balance £m	Net Movement £m	30/09/23 Balance £m
Banks & building societies (unsecured)	5.375	0.245	5.620
Local authorities	-	-	-
Money Market Funds	8.822	1.356	10.178
Debt Management Office	2.500	28.000	30.500
Total investments	**16.697**	**29.601**	**46.298**

4.41 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 Authority'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.

4.42 As demonstrated by the liability benchmark in this report section 4.55, the council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.

4.43 Bank Rate increased by 1%, from 4.25% at the beginning of April to 5.25% by the end of September. Short-dated cash rates rose commensurately, with 3-month rates rising to around 5.25% and 12-month rates to nearly 6%. The rates on the Debt Management Office deposits also rose, ranging between 4.8% and 5.4% by the end of June and Money Market Rates between 4.01% and 5.35%.

4.44 The investment activity to the 30 September 2023 together with a comparison for the previous year is summarised in Table 5 below:

Table 5: Treasury Investment Activity

Treasury Investment Activity	2022/23	30/09/2023 Up to Q2
Number of fixed-term deposits made	42	42
Number of instant access and money market accounts used	13	11
Number of deposits from money market funds/ call accounts	297	169
Number of withdrawals from money market funds/ call accounts	238	164
Value of deposits/ investments held	£14.455m	£43.811m
Average size of deposit/ investment portfolio	£43.147m	£39.919m
Average size of Lloyds Balance (operational)	£2.425m	£2.334m
Total interest earned on deposits/ investments (including Lloyds)	£0.729m	£0.848m
Average Return on deposits/ investment portfolio	3.49%	4.67%

4.45 The total interest earned on deposits/investment up to Qtr.2 shows an increase compared to last year due to economic conditions which have increased interest rates globally.

4.46 The credit risk and return metrics for the Council's investments extracted from Arlingclose's quarterly investment benchmarking is shown in Table 6.

Table 6: Investment Benchmarking

Investment Benchmarking	Credit Score*	Credit Rating	Bail-in Exposure	WAM** (days)	Rate of Return
31/03/2023	4.85	A+	82%	1	3.69%
30/06/2023	4.83	A+	86%	1	4.27%
Similar LAs	4.72	A+	63%	47	0.88%
All LAs	4.65	A+	63%	11	2.34%

*Qtr. 2 data not yet available
** Weighted Average Maturity

4.47 The benchmarking shows that the Council's Weighted Average Maturity (WAM) for investments remained at an average on 1 day between 31 March 2023 and 30 September 2023. This is because the council has moved into its planned borrowing position and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments.

4.48 **Non-Treasury Investments**

4.49 The definition of investments in the Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return. The Council's Non-Treasury Investments are shown in Table 7:

<u>Table 7: Non-Treasury Investments as at 30 September 2023</u>

Type of investment	Investment value £m	Return £m	Rate of Return %
Directly owned investment property*	1.230	0.179	14.55%
Loans to local businesses	2.458	0.075	3.05%
Loans to subsidiaries (Derby Homes) **	2.733	0.147	5.39%
Total	**6.421**	**0.401**	**6.25%**

* Investment value and return taken from the 2022/23 statement of accounts as an indication of 2023/24.
**Interest repaid as at Qtr.2.
*** This is the full year position as an annual interest is charged.

4.50 **Compliance Report**

4.51 A number of Treasury Management Prudential Indicators are prescribed under the Council's Treasury Management Strategy 2023/24 which was approved by Full Council Cabinet on 15th February 2023, and within CIPFA's Prudential Code for Capital Finance in Local Authorities. All Treasury Management activities have been satisfied as at the 30 September 2023.

Compliance with specific investment limits is demonstrated in Table 8 below:

<u>Table 8: Investment Limits</u>

Investment Limits	2023/24 Maximum to date	30/09/23 Actual	2023/24 Limit	Complied
The Councils Banking Provider – Lloyds	£4m	£2.1m	£4m	✓
Any single organisation, except the UK Central Government (excluding the operational bank)	£7m	£0m	£7m	✓
Any group of pooled funds under the same management	£14m	£0.8m	£20m	✓
Money Market Funds (MMF)	£7m	£4m	£7m	✓

4.52 Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 9 below.

Table 9: Debt Limits

Debt Limits	2023/24 Maximum £m	30/09/23 Actual £m	2023/24 Operational Boundary £m*	2023/24 Authorised Limit £m	Complied
Borrowing	509.1	420.6	779.6	862.2	✓
PFI & finance leases	80.6	0.1	74.7	82.1	✓
Total debt	**589.7**	**420.7**	**854.3**	**944.3**	✓

*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.

4.53 **Treasury Management Indicators**

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

4.55 **Liability Benchmark:**
This new indicator compares the councils actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £15m required to manage day-to-day cash flow.

4.56 **Table 10: Liability Benchmark**

Liability Benchmark	31/03/23 Actual £m	31/03/24 Forecast £m	31/03/25 Forecast £m	31/03/26 Forecast £m	31/03/27 Forecast £m	31/03/28 Forecast £m
Loans CFR	652.7	735.8	780.4	792.0	796.6	806.9
External borrowing	(359.4)	(380.3)	(319.5)	(319.0)	(314.7)	(313.4)
Internal (over) borrowing	293.3	355.5	460.9	473.0	481.8	493.5
Balance sheet resources	(304.7)	(275.4)	(271.7)	(266.3)	(222.1)	(218.8)
Investments (new borrowing)	11.4	(80.1)	(189.2)	(206.7)	(259.7)	(274.7)

Treasury Investments	11.4	15.0	15.0	15.0	15.0	15.0
New borrowing	-	95.1	204.1	221.7	274.7	289.7

Net loans requirement	348.1	460.4	508.6	525.7	574.5	588.1

4.57 The benchmark assumes the following from 2023/24 to 2025/26:

- Capital Expenditure funded by borrowing of £167.4m as reported to Cabinet on 21 November in the Qtr.2 Outturn Report, a forecast is also included in future years for rolling programme schemes only
- Minimum Revenue Provision on new capital expenditure based on the Council’s MRP policy
- Decrease in internal resources of £85.8m
- Existing loans of £46m being repaid.

4.58 **Maturity Structure of Borrowing:**
This indicator is set to control the Council's exposure to refinancing risk. The indicator is calculated as the amount of projected borrowing that is maturing in each period expressed as a percentage of total projected borrowing. For each maturity period, an upper and lower limit is set.

The actual maturity structure of borrowing as at 30 September 2023 has been compared to the loan maturity limit profile that was approved in the Treasury Management Strategy 2023/24. Table 11 below shows that this all but one indicator has been met as follows:

4.59 **Table 11: Maturity Structure of Borrowing**

Number of Years to Maturity	Upper limit per 2023/24 Strategy	Actual position for 30/09/2023	Complied
	%	%	
Up to 1 year	10	23.9%	✗
Up to 2 years	20	0.7%	✓
Up to 5 years	30	1.7%	✓
Up to 10 years	50	12.4%	✓
Up to 20 years	70	7.0%	✓
Up to 30 years	80	28.2%	✓
Up to 40 years	95	25.9%	✓
Up to 50 years	100	0.2%	✓

The Up to 1 year limit was exceeded due to our need to borrow short term to avoid being tied into higher long term interest rates, this limit will be reviewed in the next TMS to ensure it meets our current position in line with the current economic outlook.

4.60 **Principal Sums Invested for Periods Longer than 365 days:**
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 were:

Table 12: Principal Sums Invested for Periods Longer than 365 days

Principal sums invested longer than 354 days	2023/24 £m
Actual principal invested for longer than 364 days	0
Limit on principal invested for longer than 364 days	20
Complied?	✓

The Council does not currently have any long-term investments.

4.61 **Security:**
The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score 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.

4.62 Local Authorities are unrated, therefore fixed term deposits with Local Authorities must be assigned a score. The score assigned is AAA=1, this means the investments are of the highest credit quality. This is due to Local Authorities not being subject to bail-in and having an insignificant risk of insolvency linked to its covenant strength.

4.63 Table 13 shows the target for the portfolio average credit score and the actual to 30 September 2023/24:

Table 13: Security Indicator - Portfolio average credit score

Security Indicator	Target	Actual
Portfolio average credit score	3	0.59

4.64 The actual credit score is below the target showing the exposure to credit risk for the year to date has been lower than the target set, due to higher credit quality investment being used over lower credit quality investment. This is as a result of using fixed term deposits with the DMO and high credit quality Money Market Funds (MMF's).

4.65 **Liquidity:**
The council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available in a rolling one-month period to meet unexpected payments each day, without additional borrowing.

Compliance with the daily cash available limit is demonstrated in the table below.

Liquidity risk indicator	2023/24 Target	30/09/23 Actual £m	Complied
Total cash available within one month	>£15m	46.361	✓

4.66 **Treasury Risks:**

Current Risk	Actions to reduce risks
That external borrowing might not be undertaken at the most advantageous rate	Treasury officers maintain regular contact with the council's advisors Arlingclose, who monitors movements in interest rates on our behalf. The aim is to drawdown loans when interest rates are at their lowest, the council's current strategy is to secure short-term borrowing to manage daily cash flows
Credit Risk - the risk that other parties may fail to pay amounts due, e.g., deposits with banks etc.	The Annual Investment Strategy sets the criteria through which the council decides with whom it may invest. The lending list is updated regularly to reflect changes in credit ratings.
Liquidity Risk - the council might not have sufficient funds to meet its commitments	Daily monitoring of cash flow balances. Access to instant access accounts such as MMF's to cover any short-term cash shortfall.
Refinancing and Maturity Risk - the risk that the council might need to renew a loan or investment at a disadvantageous interest rate	Monitoring of the maturing profile of debt to make sure that loans do not mature all in the same period. Monitoring the maturity profile investments to ensure there is sufficient liquidity to meet day to day cash flow needs.
Market Risk - losses may arise because of changes in interest rates	Maximum limits are set for exposure to fixed and variable interest rates. The Finance Team will monitor interest rates to limit exposure. All of the council's loans are fixed term loans to eliminate the risk of interest rate increases.

4.67 **Capital Indicators**
The Authority measures and manages its capital expenditure, borrowing and commercial and service investments (if applicable) with references to the following indicators.

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

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

Capital Programme by Service Area	Qtr. 2 Actuals	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
	£m	£m	£m	£m
Schools	7.386	21.736	21.155	2.270
HGF	2.875	7.997	3.630	2.788
Property	7.623	19.373	7.459	7.126
Flood Defence	(0.017)	0.235	0.381	0.250
H&T	8.022	47.809	29.973	9.549
VPE	37.755	46.351	1.302	0.731
Regeneration	15.403	56.313	83.350	38.929
ICT	2.890	5.677	1.590	0.915
Corporate	(0.500)	1.477	2.557	7.746
Total General Fund	**81.437**	**206.968**	**151.398**	**70.305**
HRA	1.992	26.439	46.387	43.751
Total	**83.428**	**233.406**	**197.785**	**114.056**

4.69 The 3 year capital programme in the table above includes the following planned spend for the major schemes:

General Fund 2023/24 to 2025/26 Budgets of £428.7m include:

- Our City Our River £82.4m
- Transforming Cities Fund (TCF) £57.4m
- Becketwell Performance Venue £40.5m
- Schools – New Builds/extensions £35m
- Highways and Transport £29.9m
- Planned Property Maintenance £21.2m
- Market Hall Phase 2 £18m
- Football Foundation Hub £11.1m
- Disabled Facilities Grant £7.6m

HRA Capital expenditure of £116.6m includes:

- The building of 332 new homes over the forecast period.

4.70 **Capital Financing Requirement:**
The councils cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with minimum revenue payments (MRP) and other financing sources used to replace debt, such as capital receipts and grant funding.

4.71 The actual CFR is calculated on an annual basis.

The Table below shows the updated CFR forecast at 30th September 2023.

CFR	31/03/2023 Actual £m	31/03/2024 Forecast £m	31/03/2025 Budget £m	31/03/2026 Budget £m
General Fund Services	520.594	600.758	648.872	651.261
Council Housing (HRA)	208.272	208.272	208.272	208.272
Total CFR	**728.866**	**809.030**	**857.144**	**859.533**

**31/03/2024 forecast is based on Qtr. 2 forecast position*
***HRA forecast CFR as at 2022/23 as dependent on year-end adjustments to finalise figure.*

4.72 **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 council has complied and expects to continue to comply with this requirement in the medium term as is shown in the table below:

Gross Debt and CFR	31/03/2023 Actual £m	31/03/2024 Forecast £m	31/03/2025 Budget £m	31/03/2026 Budget £m	Debt as at 30/09/2023 £m
Debt (inc. PFI & Leases)	430.891	502.439	571.289	583.195	492.014
CFR	728.866	809.030	857.144	859.533	

4.73 **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 / loans fund repayments 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.

Proportion of Financing Costs to Net Revenue Stream	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget
Financing Costs £m	8.246	14.918	18.254	21.240
Proportion of net revenue stream	3%	5%	6%	7%

Public/stakeholder engagement

5.1 None arising directly from this report.

Other options

6.1 None arising directly from this report.

Financial and value for money issues

7.1 As described in report.

Legal implications

8.1 None arising directly from this report.

Climate implications

9.1 None arising directly from this report.

Socio-Economic implications

10.1 None arising directly from this report.

Other significant implications

11.1 None arising directly from this report.

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal	Olu Idowu, Head of Legal Services	14/11/2023
Finance	Toni Nash, Head of Finance	07/11/2023
Service Director(s)	Alison Parkin, Director of Financial Services	09/11/2023
Report sponsor	Alison Parkin, Director of Financial Services	09/11/2023
Other(s)	Liz Moore, Head of HR	

Background papers:	Elly Tomlinson, Group Accountant elly.tomlinson@derby.gov.uk
List of appendices:	