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O&SB Presentation
Capital
27th September 2023

Summary of these slides

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- The Approved Capital Programme – Setting out the planned capital spend over the next 5 years
- Capital Financing Costs – What it costs to finance both existing spend and planned capital spend
- Tri-Angulation process for updating Forecasts
- Latest CFR and Borrowing position and forecasts

The Capital Programme

The Capital Programme sets out the Council's capital plans over the medium term

Linked to this is the Capital Strategy which sets out how **capital expenditure, capital financing** and **treasury management** activity contribute to the provision of local public services along with an overview of how **associated risk** is managed and the implications for **future financial stability**

The Capital Programme & Strategy is underpinned by the **strategic aims** of the Council and is approved by Members each year as part of the budget setting process

5 year Capital Programme

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The Council has an extensive £1.8bn Capital Programme planned for the next 5 years of which £457m has already been spent.

This will deliver regeneration across the borough together with much needed new Housing through the HRA

	Historic Budget Amount	2023- 24 Budget	2024-25 Budget	2025-26 Budget and onwards	Total Budget	Borrowing	Revenue & Reserves	Capital Receipts	Grants & Other External Funding
People	40.162	19.695	19.389	39.743	118.989	(44.470)	(0.519)	(0.757)	(73.244)
Place	72.997	55.897	134.809	279.520	543.223	(288.977)	(0.336)	(205.858)	(48.053)
Resource	18.254	23.967	17.165	8.650	68.036	(35.448)	(6.709)	(25.633)	(0.247)
Total GF	**131.413**	**99.560**	**171.363**	**327.913**	**730.249**	**(368.894)**	**(7.563)**	**(232.248)**	**(121.543)**
HRA	326.299	145.933	131.817	462.855	1,066.904	(644.365)	(135.333)	(241.579)	(45.628)
Total HF & HRA	**457.712**	**245.493**	**303.180**	**790.768**	**1,797.153**	**(1,013.259)**	**(142.896)**	**(473.826)**	**(167.172)**

Financing the Capital Programme

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt.

Capital financing costs are the on-going revenue costs associated with borrowing money to finance the capital programme and comprises 2 elements: MRP and Interest

Repayment of Principal (MRP)

- This is the money set aside by the Council to repay the debt once the loan has matured and needs to be paid back.
- The amount of money set aside each year is governed by accounting regulations
- Typically asset lives used in the calculation of MRP are:

Infrastructure e.g. road resurfacing	25 years
Building work enhancements	40 to 50 years
Equity investments	20 years
Purchase of new vehicles or plant	5 years+
IT infrastructure and equipment	5 years

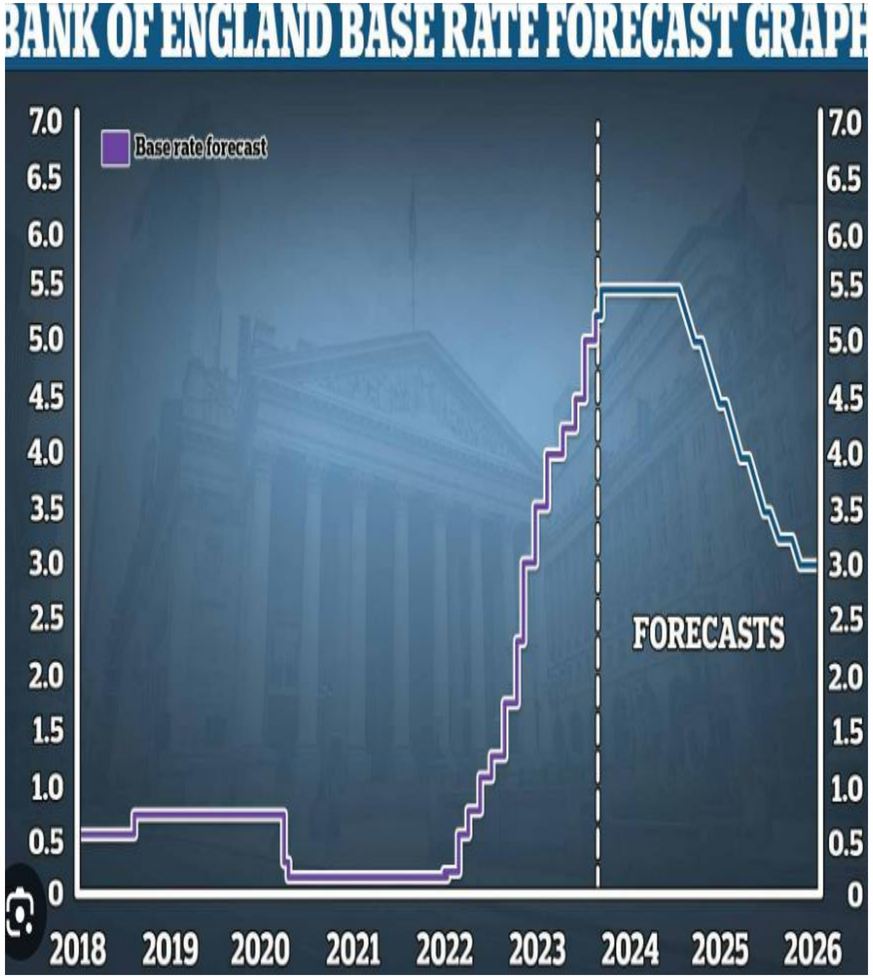
Capital Financing Costs 2

Interest
This is the annual interest costs associated with the borrowing of money. Whilst Councils can access cheaper money from central government (the Public Works Loan Board or PWLB) cheaper than say a private company can, there is still a cost of borrowing. Interest rates by the PWLB are set on daily basis and currently 25 year borrowing rates are around 5.55%*.

This is compared to 4.05%* 1 year ago and 1.90%* 2 years ago

In conjunction with our treasury adviser our treasury department continually monitor interest rate forecasts to ensure best possible timing of any new loans that are taken

*Rates include a discount of 0.20% given to Authorities that provide capital spending plans



Impact of Borrowing on Revenue

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Historic capital decisions of the council to finance capital spend through borrowing mean that the Council is committed to repaying the following per year in relation to it's capital financing costs:

- Minimum Revenue Provision = **£5.6M**
- General Fund Interest = **£2.9m**

This is expenditure that has already been incurred and is built into the base budget. Reducing the capital programme will not impact on these figures.

Future additional budget provision has been built into the 23/24 Budget and 24/28 MTFS to reflect the future assumed cost of borrowing and MRP as set out in the table below

	2023/24	2024/25	2025/26	2026/27	2027/28	4 Year Plan
	£m	£m	£m	£m	£m	£m
MRP	1.4	1.0	1.0	3.8	0.4	**6.2**
Borrowing	3.0	1.8	2.5	1.4	0.0	**5.7**
Underspend forecasted	-2.0					
Capital Financing	**2.4**	**2.8**	**3.5**	**5.2**	**0.4**	**11.9**

Impact of Borrowing on Revenue

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- The impact of borrowing on revenue is recalculated on a quarterly basis from information on timing of forecast spend obtained from the capital Project Managers (PM).

- From these latest forecasts provided by the PM's an updated capital financing requirement forecast is produced (the Authorities underlying need to borrow).

- Its important to distinguish between actual treasury borrowing undertaken by the Authority compared to it's CFR (or underlying need to borrow).

- Any difference between actual borrowing and the Authorities underlying need to borrow is often referred to as internal borrowing.

- Internal borrowing is effectively the Authorities temporary use of reserves held to finance the capital spend rather than physically borrowing the money

Decisions on Timing of new borrowing

Decisions on timing of any new borrowing are made during tri-angulation meetings between the treasury team, capital strategy manager and senior finance officers in conjunction with the authorities treasury advisers.

Some of the factors taken into account when making decision on timing are:

- Interest rate projections
- Cash flow projections
- Accuracy of forecasts
- Authorities existing cash balances
- Cost of carry (difference between borrowing rates and rates achieved on existing cash balances)
- Pre existing levels of internal borrowing
- Treasury adviser information/advice

Capital Financing Requirement (CFR)

A key factor in deciding on the amount of new borrowing is the Authority's Capital Financing Requirement (CFR)

The CFR measures the Council's underlying need to borrow for capital purposes, i.e. it's borrowing requirement. The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue.

Existing CFR Projections

Based on the latest period 3 forecasts the current Capital Financing Requirement (underlying need to borrow) projections are:

	General Fund	Regeneration	Total GF	HRA	Total
	£m	£m	£m	£m	£m
Actual CFR @ 31st March 2023	141.847	70.115	**211.962**	347.457	**559.418**
Forecast CFR @ 31st March 2024	160.827	87.604	**248.431**	440.061	**688.492**
Forecast CFR @ 31st March 2025	174.281	170.416	**344.697**	494.774	**839.471**
Forecast CFR @ 31st March 2026	180.536	287.522	**468.058**	542.034	**1,010.092**

*CFR is forecast to almost double over the next 3 years

Borrowing Position

Existing borrowing compared to the CFR (underlying need to borrow) for GF, Regen and HRA to show existing levels of internal borrowing are as follows:

	General Fund	Regeneration	Total GF	HRA	Total
	£m	£m	£m	£m	£m
Borrowing @ 31st March 2023	98.556	0.000	**98.556**	229.221	**327.777**
CFR @ 31st March 2023	141.847	70.115	**211.962**	347.457	**559.418**
Internal Borrowing Position	**43.291**	**70.115**	**113.406**	**118.236**	**231.641**

The primary risks of internal borrowing are:

- Higher interest costs when borrowing is undertaken
- Limited access to borrowing when it is needed
- Missed opportunity of interest received on cash balances

The primary benefits of internal borrowing are:

- Reduced borrowing costs
- Reduced exposure to investment risk