1. The Council's Capital Expenditure & Borrowing Requirement 2022/23

1.1. The Council undertakes capital expenditure on long-term assets. These activities may either be financed:

- through the application of capital or revenue resources (including capital receipts, capital grants, revenue contributions etc.) – this form of financing does not impact on the Council's borrowing need; or
- by external borrowing, where there is insufficient internal resource or where a decision is taken to finance expenditure externally.

1.2. Capital expenditure constitutes one of the required prudential indicators. The table below shows the provisional outturn on capital expenditure for 2022/23 and how this was financed:

	31st March 2022	**2022/23**	**31st March 2023**
	Actual	Budget	Provisional Outturn
General Fund	£4,442,258	£19,172,000	£15,769,161
Housing Revenue Account (HRA)	£6,234,763	£6,723,000	£5,816,615
Total Capital expenditure	**£10,677,021**	**£25,895,000**	**£21,585,776**
Financed by:			
Grants and contributions	£2,524,242	£8,980,000	£9,585,029
Reserves	£56,499	£0	£56,499
Capital Receipts	£549,128	£3,404,000	£1,037,124
Minimum Repairs Reserve (HRA)	£2,099,030	£2,099,000	£2,268,000
HRA contribution	£3,855,651	£4,544,000	£3,147,651
Unfinanced capital expenditure/ borrowing need	**£1,592,471**	**£6,868,000**	**£5,491,473**

1.3. The decrease in the provisional outturn and associated borrowing need of the capital expenditure compared to the budget is owing to Capital Programme projects across various service areas, which had been rescheduled at the February 2023 MTFP or were are behind schedule at the end of the year with funds carried forward or ringfenced as appropriate upon approval.

1.4. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). It represents the cumulative capital activity of the Council in the current and previous years which is as yet unfinanced, i.e. has not yet been paid for by revenue or other resources.

1.5. The 2022/23 capital expenditure (provisional outturn) is partly funded by external contributions, reserves, capital receipts and the HRA contribution; the remaining general fund expenditure has created a provisional outturn borrowing need of £5,491,473, which increases the CFR.

1.6. The Treasury Management team plans the Council's cash position to ensure sufficient cash is available to meet capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Public Works Loan Board or the money markets), or utilising temporary cash resources within the Council.

1.7. The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP) to reduce the CFR. This is effectively a repayment via revenue of the cumulative borrowing need.

1.8. The CFR can also be reduced by the application of additional capital financing resources, such as unapplied capital receipts; or charging more than the statutory revenue charge (MRP) through a Voluntary Revenue Provision (VRP).

1.9. The Council's 2022/23 MRP Policy was approved (as required by the Department of Levelling Up, Housing and Communities (DLUHC) guidance) as part of the Treasury Management Strategy Statement 2022/23 on 22nd February 2022.

1.10. The Council's CFR for the year is shown below, and represents a key prudential indicator.

	31st March 2022	**2022/23**	**31st March 2023**
Capital Financing Requirement	Actual	Budget	Provisional Outturn
Opening balance	£80,540,000	£80,205,000	£80,296,669
Unfinanced capital expenditure/ borrowing need	£1,592,471	£6,868,000	£5,491,473
Less MRP/VRP	-£1,835,802	-£1,690,000	-£1,326,825
Closing balance	**£80,296,669**	**£85,383,000**	**£84,461,317**

1.11. Borrowing activity is constrained by Prudential Indicators for gross borrowing and the CFR, and by the Authorised Limit. In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the current year (2022/23) plus the estimates of any additional CFR for the next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. The indicator allows the Council some flexibility to borrow in advance of its immediate capital needs.

1.12. The table below highlights the Council's borrowing position against the CFR and shows that the Council has complied with the prudential indicator, remaining in a forecast under borrowed position:

	31st March 2023	31st March 2024	31st March 2025
	Provisional	Forecast*	Forecast*
Gross borrowing position	£61,777,304	£65,777,304	£68,277,304
CFR	£84,461,317	£90,463,627	£89,917,315
Over/ (under) borrowed	**-£22,684,013**	**-£24,686,323**	**-£21,640,011**

1.13. The Authorised Limit is set in the Treasury Management Strategy in advance of each year, as required by s3 of the Local Government Act 2003; once set the Council does not have power to borrow above this level. The Operational Boundary, also set in the Treasury Management Strategy, is the expected borrowing position of the Council during the year. Periods where the actual position is either below or above the boundary are acceptable subject to the authorised limit not being breached. The table below shows the Council has maintained gross borrowing within its authorised limit and operational boundary.

1.14. The 'financing costs as a proportion of net revenue stream' is used as an indicator to identify the trend in the cost of capital (borrowing costs, net of investment income) against the net revenue stream of the Council.

	2022/23	31st March 2023
	Budget	Provisional Outturn*
Authorised limit	**£95,456,000**	**£95,456,000**
Maximum gross borrowing position during the year	£69,877,000	£63,077,304
Operational boundary	**£92,956,000**	**£92,956,000**
Average gross borrowing position	£66,477,000	£62,671,825
Financing costs as a proportion of net revenue stream	14%	8%
% reduced due to increased investment income and reduced borrowing costs		
HRA Ratio of financing costs to net revenue stream	17%	15%
% reduced due reduced borrowing costs from a smaller VRP payment		