Appendix 19

# CAPITAL AND INVESTMENT STRATEGY

# 2025/2026

Cherwell
DISTRICT COUNCIL
NORTH OXFORDSHIRE

# CONTENTS

# A. Capital Strategy

## A1. Introduction

As part of its annual budgeting cycle, Cherwell District Council proposes a capital programme that sets out the capital expenditure that is expected to take place over the next 5 years. The programme is a series of projects undertaken by service departments for which there has been an identified business need.

Capital expenditure is money spent on acquiring and enhancing non-current assets that are used in the delivery of services and providing economic benefits to the council and its residents.

The council has had, and continues to put forward, an ambitious programme that seeks to deliver on its key corporate priorities as detailed in the 2025-26 Business plan, namely:

- Economic prosperity
- Community leadership
- Environmental stewardship
- Quality housing and place making

The council also incurs capital costs to facilitate the delivery of its support services and smooth running of council functions.

To ensure that the council can deliver upon these priorities, a medium to long-term view is taken of planned capital expenditure to ensure that the programme is prudent, affordable, sustainable, and deliverable.

Owing to the nature of capital spend, there are financial and non-financial factors that need to be evaluated and monitored to ensure council stakeholders and decision makers are kept fully informed, in line with the CIPFA Prudential Code for Capital Finance.

The Prudential Code for Capital Finance sets out that to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy. The capital strategy should set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Strategy must be approved by Full Council.

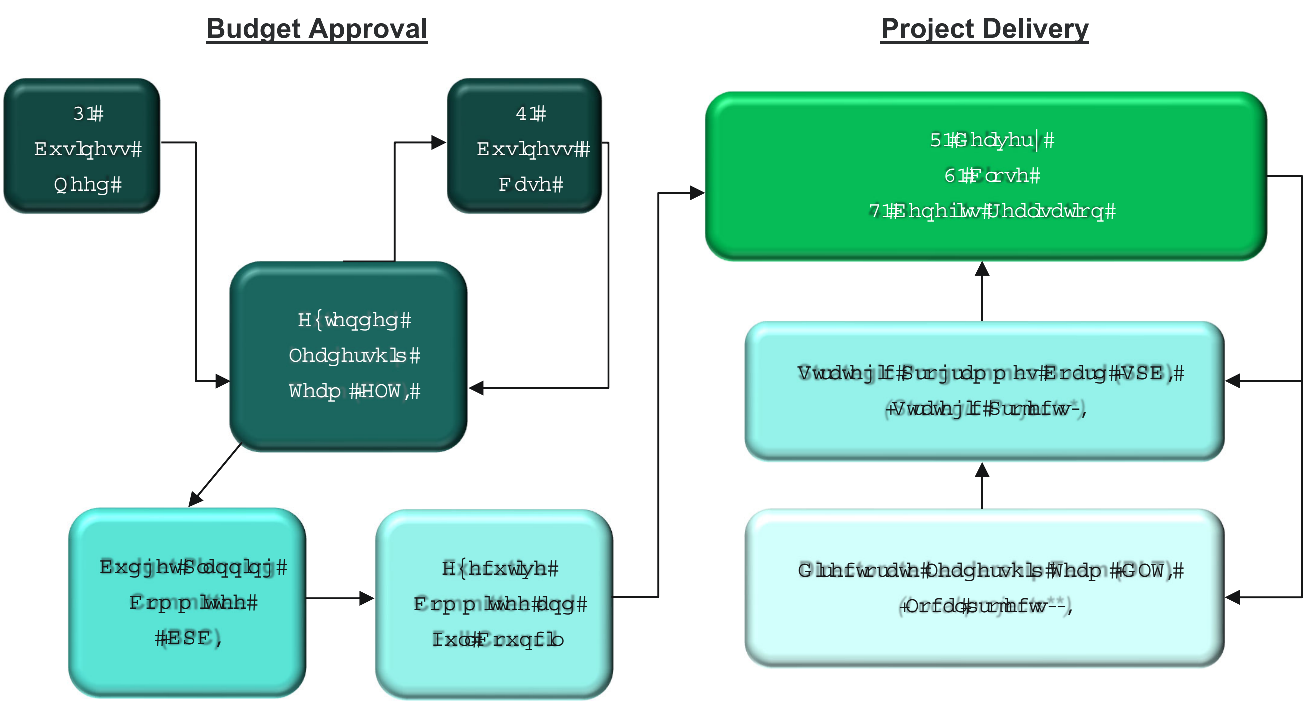
# A2. Capital Planning and Project Governance

Starting in the Spring of each new budget cycle for the next financial year, service managers are tasked with conceptualising and developing capital proposals that are linked to corporate or service priorities as part of the Budget & Business Planning process.

For the 2025/26 financial year, the council is adopting an enhanced project framework that seeks to provide improved governance and accountability for capital projects. It is expected that the framework will help to better define and manage the outputs, outcomes and benefits from projects within the capital programme. The framework will complement the capital budget setting process and will help the council to exert effective decision making to manage the financial and technical elements of projects.

In prior years, the Strategic Place Shaping, Transformation and Strategic Programme Boards provided oversight and scrutiny for the capital budget process. Whilst projects are encouraged to be brought to these boards initially, for 2025/26, responsibility for reviewing and progressing capital proposals has transferred to the Extended Leadership Team (ELT), with recommendations considered by the Corporate Leadership Team (CLT) alongside the Budget Planning Committee. Approval of capital projects and the capital programme is made by Full Council. Capital projects may occasionally be approved outside of the annual budget cycle in line with the Council's Financial Regulations but are subject to the same level of scrutiny and appraisal by ELT and CLT.

**Diagram A2.1: Capital Project Governance Framework**

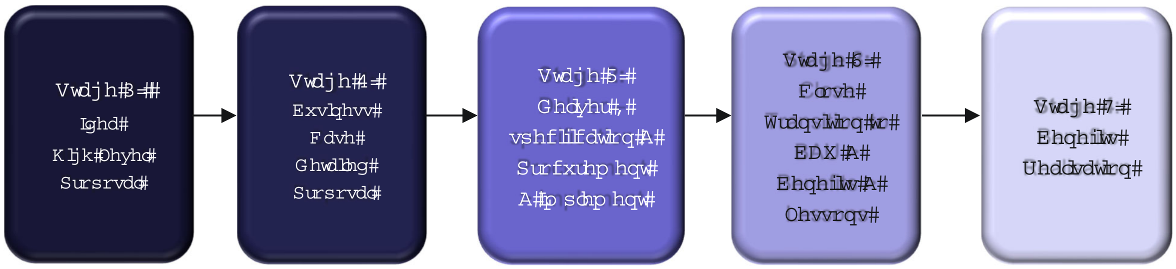



*__Strategic Projects__ are those that are identified to be key to achieving a strategic objective or be underpinned by significant financial investment or result in a change on a significant number of customers and/or staff. A project board will be responsible for appropriate project governance to oversee, ensure and support successful delivery.*

**__Local Projects__ are important to achieving the Council's strategic objectives, but carry less risk and therefore, responsibility for project governance and oversight will be within the directorate and relevant service area.*

The capital process has five stages which are depicted in the diagram below:

**Diagram A2.2: Capital Process**



## Stage 0 - Business Need – High Level Proposal

Capital proposals first and foremost, must have a demonstrable business need. Officers must put forward rationale for why undertaking a project is necessary, including the corporate priorities it aligns with and a high-level budget outline, estimating both capital and revenue impact and any identified sources of capital funding. Bids are first considered by the Directorate Leadership Team level (DLT) and then discussed at the Executive Leadership Team (ELT) meeting, which takes a decision on progression of the scheme to stage 1.

## Stage 1 - Business Case: Detailed Proposal

Progression through stage 1 requires the development of a more detailed business case which should include options for the scheme, ensuring that the council can deliver projects that offer value for money. The business case will include information that will assist officers in appraising the project. Within each option, an analysis of the benefits and drawbacks must be provided, alongside a summary of key risks, a project timeline and more detailed budget proposal. The business case must discuss carbon and climate impact, and any stakeholder engagement. ELT will consider business cases and provide feedback to officers, with recommendations made on progression of the project to stage 2. subject to consultation and formal approval by the Executive and Full Council. If the business case requires further work, the project may be paused and reworked for discussion at a future ELT, or postponed. As part of stage 1, finance officers conduct a review of the affordability of the project and prepare revenue budget figures for inclusion in the Medium-Term Financial Strategy (MTFS).

Projects proposed to be included in the Council's capital programme are consulted on externally via public consultation and appraised by the Budget Planning Committee which provides comments to the Executive on the proposals. The Executive then, taking into consideration any comments, propose which schemes to include in the Capital Programme ahead of the final capital programme being presented to Council in February each year. Once approved by Full Council, budgets are uploaded to the financial system and project officers can commence work on the approved schemes.

## Stage 2 – Delivery

Approved projects in the capital programme are overseen by project managers that are responsible for delivering projects on time and within budget. This responsibility extends to risk management and escalation of issues to ensure that projects remain on track. Project managers are required to report progress and escalate issues through the Strategic Programmes Board for Strategic level projects, and the Directorate Leadership Team for Local Projects. All capital projects and programmes are reviewed monthly as part of routine budget management, which provides an opportunity to review project costs against budget and escalate potential areas of concern with senior management. The outputs from routine budget management processes feed into the Finance Capital reporting to the Executive, this reporting includes narrative which provides non-financial updates on capital projects.

### Stage 3 – Close

When the project has delivered the expected outputs, the project can be closed. At stage 3, the project manager will produce a project closure report that includes a summary of delivery and outputs, a benefits realisation plan, lessons learnt and agreed outstanding actions. The project closure report will be presented to the relevant governance board/group to gain approval to close the project.

### Stage 4 - Benefits Realisation

Stage 4 covers benefits realisation. In some cases, projects deliver benefits that can only be measured post closure of the project, the details of which are included in the benefits realisation plan produced at stage 3.

## A3. Capital Expenditure

### Regulations

Local Authorities operate under a capital prudential framework and under a statutory legal environment through the Local Government Act 2003.

Expenditure can only be capitalised (i.e., recorded as an asset on the Council's balance sheet) under these regulations, if the spend is incurred in:

- Acquiring, constructing, or enhancing physical or intangible assets, such as land, buildings, plant, vehicles, and equipment
- Acquiring share capital in a third party
- Advancing a loan to a third party that would be for capital purposes if incurred by the council
- Granting of funds to a third party which is to be used for a capital purpose
- Purchasing or enhancing assets from which the council does not have the legal right to economic or service benefits from but would otherwise be capital if the council had those rights (Revenue Expenditure Funded by Capital Under Statute).

As part of the capital governance and approval process outlined in section A2, projects are appraised on whether proposed expenditure falls into the above categories. Proposed expenditure that does not meet capitalisation regulations as determined by the Capital Accountant and/or S151 Officer, is then considered as a potential revenue pressure as part of the revenue budget setting process.

Expenditure on assets that are capital in nature and in the same class, but do not aggregately meet the council's capital de minimis threshold of £10,000, are normally charged as a revenue expense. Occasionally the council may be required to capitalise expenditure below this threshold in order to comply with grant conditions.

Project officers are provided with guidance that outlines the requirement for expenditure being treated as capital. The below table demonstrates how the council typically treats expenditure that are related to capital projects:

**Table A3.1: Accounting Treatment of Project Expenditure***

| H{shqglwxuh#W\|sh# | Dffrxqwlqj#Wuhdwphqw# |
|---|---|
| Ihdvlelolw\|#Vwxglhv# | Uhyhqxh#H{shqvh# |
| Rswlrqv#Dssudlvdo# | Uhyhqxh#H{shqvh#0#h{shqglwxuh#lqfxuuhg#rq#wkh#rswlrq#wkdw#lv#surfhhghg# zlwk#pd\|#eh#fdslwdolvhg#h1j1/#li#wkuhh#rswlrqv#duh#dssudlvhg/#426#ri#wkh#frvw# pd\|#eh#fdslwdolvhg# |
| Lqwhuqdo#Vwdii#Frvwv# | Uhyhqxh#xqohvv#d#gluhfw#frqwulexwlrq#lv#pdgh#wr#wkh#surjuhvvlqj#ri#wkh# fuhdwlrq/#dftxlvlwlrq/#ru#hqkdqfhphqw#ri#dq#dvvhw1#Riilfhuv#duh#uhtxluhg#wr# frpsohwh#d#prqwko\|#wlphvkhhw#vljqhg#e\|#d#pdqdjhu#ru#Dvvlvwdqw#Gluhfwru1# |
| Lqwhuhvw#Frvwv#rq#Suxghqwldo#Eruurzlqj# | Uhyhqxh#H{shqvh# |
| Ghvljq/#Dufklwhfw#dqg#Hqjlqhhu#Frvwv# | Fdslwdo#H{shqvh# |
| Frqwudfwruv#Frvwv# | Fdslwdo#H{shqvh# |
| Ohjdo#Ihhv# | Fdslwdo#H{shqvh#h{fhsw#lq#uhodwlrq#wr#frqyh\|lqj#wkh#vdoh#ri#dq#dvvhw,# |

**This is not an exhaustive list of expenditure types*

It is therefore vital that project officers correctly classify spend for revenue and capital purposes to avoid unforeseen budget pressures. Aborted projects which no longer meet capitalisation requirements are subsequently charged to revenue.

## Capital Programme

The council has a sizeable capital budget with committed spend of £30m across the programme. Projects already in the existing capital programme, prior to the inclusion of 2025/26 proposals, include:

- Transforming Bicester Market Square - £4m
- S106 Community Infrastructure Projects across the District - £3.5m
- Construction of a New Waste Services Depot - £3.9m
- Vehicle Replacement Programme - £5.3m
- Development of Castle Quay - £1.8m

All projects exist to further the Council's delivery against its corporate objectives or to improve service delivery and council operations. A summary of planned capital spend in accordance with the corporate objectives is outlined in table A3.2 below:

**Table A3.2: Capital Programme across Corporate Priorities in £m**

| Frusrudwh#Sulrulw\|# | 5356257# Dfwxdo# | 5357258# Exgjhw# | 5358259# Exgjhw# | 535925:# Exgjhw# | 535:25;# Exgjhw# | 535;25<# Exgjhw# |
|---|---|---|---|---|---|---|
| Frppxqlw\|#Ohdghuvkls# | 2.3# | 2.5# | 0.9# | 1.7# | 1.2# | 0.0# |
| Uxqqlqj#wkh#Exvlqhvv# | 0.5# | 5.9# | 4.4# | 0.0# | 0.0# | 0.0# |
| Hqylurqphqwdo#Vwhzdugvkls# | 3.8# | 1.7# | 1.4# | 1.2# | 1.2# | 1.2# |
| Txdolw\|#Krxvlqj#dqg#Sodfh#Pdnlqj# | 14.8# | 5.3# | 2.2# | 1.7# | 1.7# | 1.5# |
| Hfrqrplf#Survshulw\|# | 0.4# | 1.8# | 1.3# | 3.8# | 0.4# | 0.4# |
| Wrwdo#Fdslwdo#H{shqglwxuh-# | 541;# | 4:15# | 4315# | ;17# | 718# | 615# |

**Not including pipeline projects for which funding has not yet been received*

As part of the 2025/26 budget setting process, Full Council is requested to approve additions to the capital programme to further progress against corporate objectives. For 2025/26 one project is proposed to be added to the programme:

£0.030m of Spatial Software Upgrades

The council also has projects in the pipeline which are being planned, but for which capital funding has not yet been fully identified or received.

This includes the development of a New Learner Pool at Bicester Leisure Centre (£5.2m) and the BMX Pump Track (£0.2m). It is expected that future S106 receipts will be received to fully fund these projects and enable progress to stage 2. These items are included in the capital programme but are not able to proceed until all funding has been identified for them.

### Statement on Leases and IFRS 16

As at the time of publication, the council is finalising its review of assets it has the right to use as a lessee as part of adopting International Financial Reporting Standard 16 (IFRS 16), which became mandatory in the 2024/25 financial year.

Under IFRS 16, all assets the council leases need to be brought on balance sheet unless they are of low value (the asset value is less than £10,000 over the term) or short-term in nature (less than 1 year in duration). The impact of this is that assets previously assessed as being an operating lease (revenue expenditure) under IAS17 become capital expenditure, and therefore transition from revenue into the Council's capital plans.

Practically, for existing leases identified within the revenue account that need to be brought on balance sheet, the revenue rental payments move from the service area's budget to the Council's corporate capital financing revenue budget. Payments are then split between interest (which may be implicit in the lease) and MRP (see A4 and Annex A) which acts as the financing of the principal balance of the lease. The resultant revenue impact of reclassification from revenue to capital is therefore nil.

The assessment made by finance officers on leases to date is that no material impact is expected on the Council's capital financing position. However, should any leases be identified as having a material impact on capital financing, revised prudential indicators will be published as part of the Council's Treasury Management reporting.

## A4. Capital Financing and Affordability

### Financing the Capital Programme

Capital expenditure included in the capital programme is financed from various sources – these sources can either be external (from third party contributions such as grants and Section 106 contributions) or internal (making use of reserves and capital receipts). Borrowing may be used as a temporary source of finance – as such the council may borrow externally within the prudential framework to acquire and enhance assets, including lease arrangements under IFRS16. Alternatively, it can borrow internally, making use of cash balances it holds in advance of expenditure to temporarily finance its capital spend. Internal borrowing is usually the preferred route - where possible - as interest payable on external borrowing is typically higher than interest receivable on surplus cash balances. A reduction in interest receivable will therefore be outweighed by the cost avoidance benefit in not borrowing externally. More information on this can be found in the Council's Treasury Management Strategy.

Borrowing results in an increase to the Council's Capital Financing Requirement (CFR) which needs to be carefully managed. Table A4.1 shows the expected use of receipts and the effects on the council's need to utilise borrowing as a temporary source of finance:

**Table A4.1: Sources of Capital Finance**

| Ilqdqflqj#Vrxufh# | 5356257# Dfwxdo# | 5357258# Exgjhw# | 5358259# Exgjhw# | 535925:# Exgjhw# | 535:25;# Exgjhw# | 535;25<# Exgjhw# |
|---|---|---|---|---|---|---|
| Fdslwdo#H{shqglwxuh# | 541;# | 4:15# | 4315# | ;17# | 718# | 615# |
| Capital Receipts# | (15.1)# | (0.4)# | (5.9)# | 0.0# | 0.0# | 0.0# |
| Grants# | (4.8)# | (2.0)# | (2.5)# | (4.9)# | (1.5)# | (1.5)# |
| S106 Grants# | (0.4)# | (2.0)# | (0.8)# | (1.6)# | (1.2)# | 0.0# |
| Grqdwhg#Dvvhwv# | (1.0)# | 0.0# | 0.0# | 0.0# | 0.0# | 0.0# |
| Wrwdo#Ilqdqflqj# | +5416,# | +717,# | +<16,# | +917,# | +51:,# | +418,# |
| Lqfuhdvh2+Ghfuhdvh,#lq#FIU#+ehiruh#PUS,# | 317# | 451:# | 31<# | 41<# | 41;# | 419# |

*Figures may not match between tables due to rounding.*

Capital receipts are a permanent source of finance i.e., it is funding the council controls and does not have to repay. Capital receipts typically arise from the disposal of a non-current asset. Examples of capital receipts include:

- Proceeds from the sale of land or a building
- Repayment of a capital loan from a borrowing entity
- Disposal of a financial interest in a capital asset, such as a re-sale covenant on a house

Once received, capital receipts can be used to finance new capital expenditure or applied to existing expenditure to reduce the council's need to borrow. The council's default position is to apply capital receipts arising from disposal of assets to the Capital Adjustment Account to reduce debt in the year of receipt. This reduces the Council's need to borrow and corresponding financing costs, which helps to reduce the capital financing burden on the taxpayer. This does not prevent the council from introducing new capital proposals but does ensure that the financial implications of each proposal are fully considered and understood. Application of capital receipts falls under the delegation of the S151 Officer as per the Council's Reserves Policy. Capital receipts may also be used to fund certain revenue costs that deliver ongoing savings or efficiencies under the flexible use of capital receipts direction as laid out by the Ministry of Housing, Communities and Local Government. The council does not currently have plans to use this flexibility, however if the S151 officer feels there would be a benefit to using this direction then a proposed strategy will be brought to Full Council to approve in line with the guidance.

Capital grants are generally received for a specific expenditure purpose and are recognised as a council resource when reasonable assurance has been received that the council will meet any conditions attached to the use of the funds. Capital grants are used for financing in the financial year the spend is incurred, with unspent balances transferred to capital reserves which can be used to finance spend in future years.

To finance capital expenditure that has no permanent source of finance such as capital receipts or grants, and that has utilised borrowing as a temporary source of finance, revenue resource must be provided for over the lifetime of the underlying asset or enhancement made. This is known as the Minimum Revenue Provision (MRP) and is a statutory requirement for councils that have utilised prudential borrowing. MRP is provided for annually and acts to reduce the council's need to borrow money, i.e., its CFR. The MRP charge must demonstrate prudence and be made with due regard to statutory guidance published by central government. The Council's MRP statement can be found in Annex A to this document. The Council's MRP forecast is outlined in table A4.2.

**Table A4.2: Minimum Revenue Provision Forecast**

| PUS#+˜p,# | 5356257# Dfwxdo# | 5357258# Iruhfdvw# | 5358259# Iruhfdvw# | 535925:# Iruhfdvw# | 535:25;# Iruhfdvw# | 535;25<# Iruhfdvw# |
|---|---|---|---|---|---|---|
| Plqlpxp#Uhyhqxh#Surylvlrq#+PUS,# | (4.4)# | (3.9)# | (4.4)# | (4.8)# | (5.0)# | (5.2)# |

### Capital Financing Requirement

The level of capital expenditure not yet permanently financed is measured through the Capital Financing Requirement (CFR). The CFR indicates the extent to which the council has needed to borrow (incur debt) and is calculated by taking the Council’s total spend for capital purposes and deducting capital grants, receipts and revenue resource applied against the expenditure. Forecasting the CFR is a vital part of revenue budget management as it determines the level of prudent MRP.

**Table A4.3: Capital Financing Requirement Actuals and Estimates**

| #FIU#˘p ,# | 5356257# Dfwxdo# | 5357258# Iruhfdvw# | 5358259# Iruhfdvw# | 535925:# Iruhfdvw# | 535:25;# Iruhfdvw# | 535;25<# Iruhfdvw# |
|---|---|---|---|---|---|---|
| FIU# | 56717# | 57615# | 56<1;# | 5691k# | 5661:# | 56315# |

# A5. Treasury Management and Prudential Borrowing

### Prudential Borrowing

The council as a local authority can borrow for purposes that comply with the CIPFA Prudential Code for Capital Finance. As part of this capital strategy a series of indicators are provided to help demonstrate that borrowing is incurred in-line with the Prudential Code. Prudential indicators are provided in section A6 of this strategy.

Under the revised code, the council *cannot* borrow for commercial purposes i.e., make capital investments primarily for financial return. The council takes decisions on its capital programme with the fundamental principle that the capital project must deliver against corporate priorities as its primary objective. The council will therefore comply with this requirement.

### Treasury Management

Treasury management is concerned with the management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The council typically has surplus cash in the short-term as revenue income is received before it is spent and has borrowed cash for the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital borrowing requirements to reduce overall borrowing. At 30 November 2024 the Council had borrowings of £180m at an average interest rate of 2.54%, and £35m of investments at an average interest rate of 4.94%. The borrowing position is reported regularly to Accounts, Audit & Risk Committee as part of the Treasury Management reports.

### Borrowing Strategy

The Council’s main objective when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. To meet this objective the council must review the current market conditions alongside the long-term forecasts from its treasury advisors to determine how to structure borrowings. Short term loans, which usually have lower interest rates and offer excellent flexibility, are suitable for stable market conditions or when interest rates are forecast to fall. Medium to long term loans offer a certain cost of finance but are generally more expensive and inflexible. The council must therefore seek to strike a balance between short and medium to long term loans, to meet its objectives, by anticipating both its borrowing need and the forecast interest rates.

# A6. Prudential Indicators

Under the Prudential Code, the council is required to ensure that all capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so the council must take into account arrangements for the repayment of debt (including through MRP) and consideration of risk, and the impact and potential impact on the council's overall fiscal sustainability.

A series of prudential indicators are set each year as part of the Capital Strategy to demonstrate that the council has due consideration of these factors when determining its capital programme.

### A6.1 Debt and the CFR

The council can only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes. The council should ensure that gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and the next two financial years.
Projected levels of the Council's total outstanding debt (which comprises borrowing and leases) are shown below, compared with the capital financing requirement (see table A4.3)

| Wdeoh#D914=#Ghew#yv#FIU#~p,# | 5356257# dfwxdo# | 5357258# iruhfdvw# | 5358259# iruhfdvw# | 535925:# iruhfdvw# | 535:25;# iruhfdvw# |
|---|---|---|---|---|---|
| Jurvv#Eruurzlqj#+lqfo#SII#) #ohdvhv,# | 4;413# | 4;313# | 4:<13# | 4:;13# | 4:613# |
| Fdslwdo#Ilqdqflqj#Uhtxluhphqw# | 56717# | 57615# | 56<1;# | 5691<# | 5661:# |

As per the table, the council expects that its gross borrowing will not exceed its CFR across the MTFS period.

### A6.2 Borrowing Boundaries and Limits

The council is legally obliged to determine and keep under review an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" based on the council's estimate of the maximum level of external debt in the most likely scenario is also set. The operational boundary reflects the level above which the council does not expect to require borrowing based on current cashflow projections and capital programme, and so acts as a warning level should there be a sustained or regular trend of external debt above the boundary. The operational boundary and authorised limit set by the council are outlined in table A6.2 below:

| Wdeoh#D915=#Rshudwlrqdo#Erxqgdu\|#yv# Dxwkrulvhg#Olplw#~p,# | 5357258#olplw# | 5358259#olplw# | 535925:#olplw# | 535:25;#olplw# |
|---|---|---|---|---|
| Rshudwlrqdo#erxqgdu\|## | 5<313# | 53313# | 4<<13# | 4<;13# |
| Dxwkrulvhg#olplw## | 64313# | 64313# | 64313# | 64313# |

#

As part of the review of the capital and investment strategy for 2025/26 it was identified that the previous operational boundary of £290m was not reflective of the maximum external debt in the most likely scenario. The council has reviewed its approach to setting the operational boundary and has adopted an expected value approach to commitments (such as bonds, guarantees, revolving credit facilities) that are unlikely to materialise in the financial year. Instead of including the total potential liability in the worst case, as the previous approach had, the council estimates the likelihood of the commitment being called upon and the likely amount. An amount based on this assessment is included in the operational boundary to reflect that while it is very unlikely that all of these commitments be called upon in full, there is a likelihood that on average across all the commitments there may be some impact on the council's cashflows. This change to the operational boundary also does not change the council's ability to borrow. It is the most likely maximum level of borrowing based on the council's current capital programme and forecast cashflows. All future capital proposals will be considered on a case-by-case basis and the operational boundary will be reviewed each year to ensure it includes any borrowing required for new capital projects that are considered to be affordable. The authorised limit however remains unchanged.

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**A6.3 Financing Cost 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. Together these are referred to as financing costs and it is useful to compare this to the net revenue stream, i.e., the amount funded from Council Tax, business rates and general Government grants, to determine that capital financing costs are proportionate and affordable.

| Wdeoh#D916=#Ilqdqflqj#Frvw#wr#Qhw# Uhyhqxh#Vwuhdp#+˘p,# | 5356257# Dfwxdo# | 5357258# iruhfdvw# | 5358259# iruhfdvw# | 53592:# iruhfdvw# | 535:25;# iruhfdvw# |
|---|---|---|---|---|---|
| Lqwhuhvw#Sd\|deoh# | 713# | 71:# | 71k# | 718# | 717# |
| Plqlpxp#Uhyhqxh#Surylvlrq## | 717# | 61k# | 717# | 71;# | 813# |
| Wrwdo#Ilqdqflqj#Frvwv## | ;17# | ;19# | <15# | <17# | <17# |
| Qhw#Uhyhqxh#Vwuhdp## | 5<14# | 5:13# | 5915# | 5615# | 4<1k# |
| Wrwdo#Ixqglqj# | 5<14# | 5:13# | 5915# | 5615# | 4<1k# |
| Udwlr#ri#Ilqdqflqj#Frvwv# | 5;1k(# | 6513(# | 6815(# | 7316(# | 7:15(# |

This indicator shows that the ratio of financing costs to net revenue streams is high and increasing across the MTFS, which is primarily due to the forecast in reduction in revenue resources. What this ratio doesn't consider is that a large proportion of the Council's financing costs are offset by the interest from on-lending to the Council's subsidiaries, and income generated by assets acquired as part of the Council's regeneration programme. This "non-treasury investment" income is not included in the net revenue stream as it does not form part of the Council's core funding but is nonetheless a key resource for the council**.**

**A6.4 Net Income from Service Investment Income to Net Revenue Stream**

This Indicator shows the financial exposure of the authority to the loss of its non-treasury investment income, i.e., income from financial investments (e.g., share and loan capital in council subsidiaries) and income from property assets:

| Wdeoh#D917=#Udwlr#ri#Vhuylfh#Lqyhvwphqw# Lqfrph#wr#Qhw#Uhyhqxh#Vwuhdp#+˘p,# | 5356257# Dfwxdo# | 5357258# iruhfdvw# | 5358259# exgjhw# | 53592:# exgjhw# | 535:25;# exgjhw# |
|---|---|---|---|---|---|
| Qhw#Lqfrph#iurp#Ilqdqfldo#Lqyhvwphqw# | 718# | 71k# | 713# | 713# | 713# |
| Qhw#Lqfrph#iurp#Surshuw\|#Dvvhwv# | 719# | 818# | 91k# | :13# | :14# |
| Wrwdo#Vhuylfh#Lqyhvwphqw#Lqfrph## | <14# | 4316# | 431k# | 4413# | 4413# |
| Qhw#Uhyhqxh#Vwuhdp## | 5<14# | 5:13# | 5915# | 5615# | 4<1k# |
| Wrwdo#Ixqglqj# | 5<14# | 5:13# | 5915# | 5615# | 4<1k# |
| Udwlr#ri#Vhuylfh#Lqyhvwphqw#Lqfrph# | 6416(# | 6;16(# | 741:(# | 7:16(# | 8818(# |

Investment income represents a significant proportion of the net revenue stream and therefore the risks around loss of this income should be monitored closely. The council conducts regular reviews of projected levels of income as part of monthly budget management and provides regular updates to senior management via performance and aged debt reporting. Risks associated with income loss can therefore be identified early and plans can be implemented to mitigate the impact so the council can continue to deliver a balanced budget.

Whilst financing costs are high, the overall picture is incomplete without factoring the contribution investment income makes towards these costs. Deducting the ratio of net income from Service Investments from the Ratio of Financing costs reveals the affordability ratio, which demonstrates the net revenue impact to the taxpayer as a result of the Council's capital investment decisions.

### A6.5 Affordability Ratio

There is no established Local Authorities benchmark for this ratio as activities differ significantly. Interest earned on Treasury investment is not considered in either of the calculations and therefore it is not unexpected to see a positive percentage when the two are netted off against each other.

The affordability ratio shows that after taking into account the income relating to the capital expenditure that is being financed the council has an affordable net cost of capital financing:

| Wdeoh#D918=#Diirugdeldw\|#Udwlr | 5356257# Dfwxdo# | 5357258# iruhfdvw# | 5358259# exgjhw# | 535925:# exgjhw# | 535:25;# exgjhw# |
|---|---|---|---|---|---|
| Udwlr#ri#Ilqdqflqj#frvww# | 5;1k(# | 6513(# | 6815(# | 7316(# | 7:15(# |
| Udwlr#ri#Vhuylfh#Lqyhvwphqw#Lqfrph# | 6416(# | 6;16(# | 741:(# | 7:16(# | 8818(# |
| Diirugdeldw\|#udwlr# | 0518(# | 0916(# | 0918(# | 0:13(# | 0;16(# |

The Section 151 Officer is satisfied that the proposed capital programme is prudent, affordable, and sustainable.

The council will continue to monitor this ratio and report to senior management and members via its regular Treasury Management review. Should the affordability ratio move adversely, the council will need to review whether this is sustainable and what actions may be required to mitigate the impact to the taxpayer as part of its budget management and Medium-Term Financial Strategy.

## A7. Capital Health

To get an indication of the Council's overall capital health, it is useful to examine the ratio of the CFR to the Council's total long-term asset value to determine the extent to which the council's assets could clear its debt through asset disposals, if necessary.

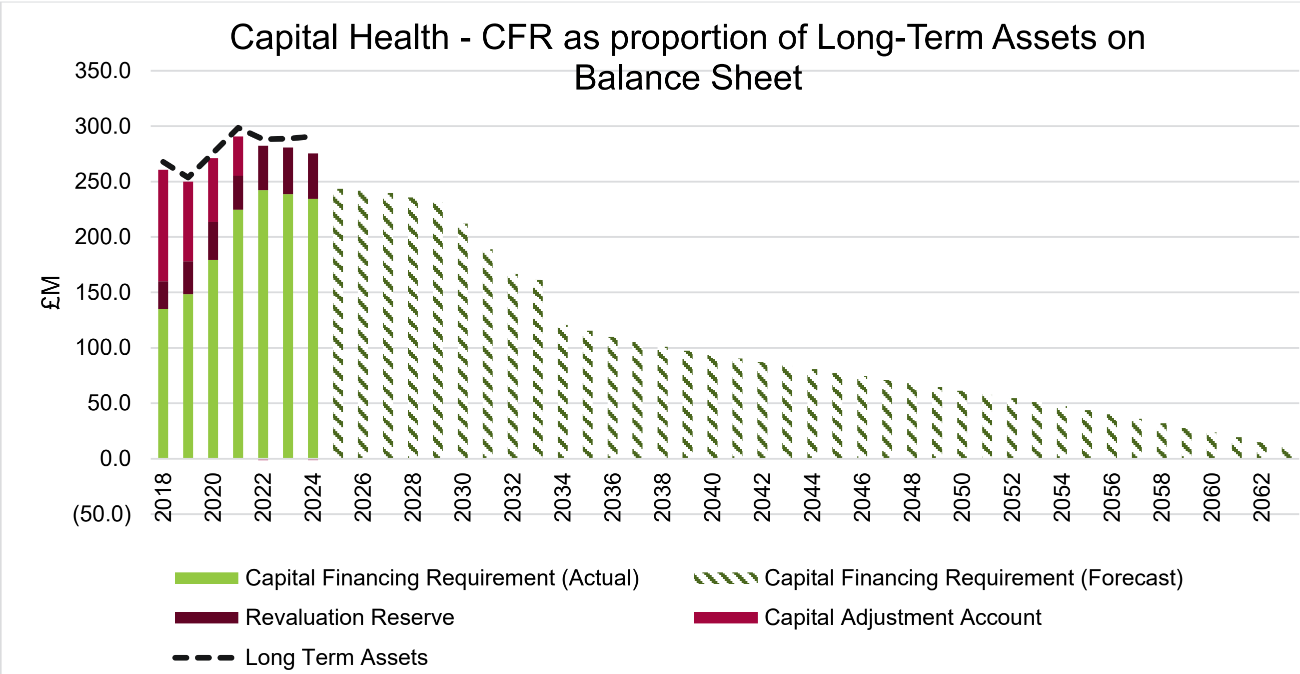
**Table A7.1 – Capital Health in £ millions**

| Fdslwdo#Khdowk#+˘p,# | 534:24;# | 534;24<# | 534<253# | 5353254# | 5354255# | 5355256# | 5356257# |
|---|---|---|---|---|---|---|---|
| Fdslwdo#Ilqdqflqj#Uhtxluhphqw## | 4671k# | 47;15# | 4:<15# | 5571;# | 57514# | 56;19# | 56717# |
| Orqj0Whup#Dvvhwv## +dv#shu#vwdwhphqw#ri#dffrxqwv,# | 59:1;# | 58619# | 5:81;# | 5<;19# | 5;;15# | 5;;1;# | 5<31:# |
| FIU#wr#Orqj0Whup#Dvvhw#Udwlr# | 83(# | 8;(# | 98(# | :8(# | ;7(# | ;6(# | ;4(# |

As of 31st March 2024, the Council's CFR amounted to 81% percent of the value of its total capital worth (Long-term asset value), demonstrating that the Council's total capital worth exceeds its borrowing requirement. It should be noted that under the CIPFA code, assets can be capitalised on balance sheet based on the long-term service potential they provide and not necessarily the economic value they generate on sale, particularly assets held at historical cost e.g. intangible assets. The CFR to Long-Term asset ratio should therefore only be treated as an indicator of capital health.

Figure A7.2 demonstrates how this has changed since the council began borrowing to fund its capital programme and includes a forecast of the Council's CFR up to 2063 based on the current 5-year capital programme and no future additions to this.

**Figure A7.2– Capital Health: CFR as proportion of Long-Term Assets**




The Council's capital assets are comprised of fixed assets, such as property, and financial assets, such as loan and share capital. Fixed assets and long-term financial assets are less liquid than treasury management investments, as loans and share capital have contractual arrangements and agreed repayment profiles in place, whilst property is utilised in the delivery of corporate priorities. It is important that the council continues to monitor the repayment profiles of loans and valuation of its property assets to ensure that the council can cover its debt obligations through asset sales if required to do so (e.g. in the unlikely event that PWLB refinancing of loans becomes unavailable).

Based on current forecasts, the CFR is expected to be cleared by 2064. This is mainly due to the effects of the annual minimum revenue provision set aside by the council and principal repayment of capital loans and share capital investments, which are to be treated as capital receipts and are expected to be used to clear the outstanding CFR balances associated with these assets. The council continues to ensure that wherever possible, new capital projects are fully funded by capital grants, capital receipts or S106 receipts, keeping additional borrowing requirements to a minimum level and on projects whether there is a demonstrable business need or statutory duty.

# A8. Asset Management and Commercial Risk

## Asset Management

To ensure that capital assets continue to be of long-term use, the council is in the process of preparing a revised Asset Review, where the purpose of each asset held, is challenged, and these properties will be underpinned by policy documents which detail how each category of property is managed. This is a multi-level approach structured as follows:

- At a property level this will comprise of the preparation of an asset management plan which are then subject to periodic review and updating. This process is ongoing and informs the property strategy as a whole.

- At a tenancy level the Comprehensive Asset Register (a database of key lease events) is being updated and used to identify forthcoming lease events such as expiries, rent reviews and breaks. These are allocated to specific Property Managers to progress whose work schedules are reviewed periodically.

When a capital asset is no longer needed, it may be sold to generate a capital receipt. Receipts from capital grants, loan repayments and investments also classed as capital receipts under Local Government accounting regulations.

## Commercial Risk

To drive leadership of place within Cherwell, stimulate growth, pursue economic regeneration and to generate income to support the revenue activity, the council holds commercial property assets that are subject to commercial risks. The council continues to make investments in enhancing and adapting these assets to ensure they remain fit for purpose and to maximise their service and economic potential in what has been a turbulent financial environment for commercial property nationwide in recent years.

The council recognises that the investments made in commercial property are higher risk than treasury investments. The principal risk exposures are listed below in table A8.1 together with an outline of how those risks are managed:

**Table A8.1 – Commercial Risk Management**

| | |
|---|---|
| Lltxlglw\|# | Wkh#frxqflo#dfnqrzohgjhv#oltxlglw\|#dv#d#ulvn#lq#surshuw\|#dqg#zklovw#lw#fdqqrw#eh#dyrlghg#wkh#ulvn#lv#plwljdwhg#e\|#wkh#iroorzlqj#vwudwhjlhv=#<br><br>d, Wkh#frxqflo#lqyhvwv#dfurvv#d#udqjh#ri#vhfwruv#dqg#lwv#dvvhwv#duh#glyhuvlÌhg#lq#whupv#ri#orw#vl}h1#<br>e, Vrph#ri#wkh#Frxqflo*v#lqyhvwphqwv#duh#qrw#zkdw#lv#whuphg#lqyhvwphqw#Judgh*/#exw#wkh\|#duh#ixqgdeoh#,#l1h1/#li#vrog#wkh\|#frxog#eh#vxlwdeoh#iru#ghew#edfnhg#lqyhvwruv1#<br>f, Wkh#Frxqflo*v#dvvhwv#duh#xqfkdujhg1#Lw#lv#riwhq#ohqghuv#zkr#uhtxluh#dvvhwv#wr#eh#vrog#dqg#zklovw#jhdulqj#ohyhov#qrw#lqfuhdvh#oltxlglw\|#shu#vh/#lw#fdq#h{srvh#lq#rzqhuv#wr#juhdwhu#ulvn#ri#vhoolqj#lq#oltxlg#dvvhwv#dw#dq#lqrssruwxqh#wlph1# |
| Whqdqw#ghidxow# | Wkh#frxqflo*v#sruwirolr#lqfoxghv#erwk#odujh#qdwlrqdo#frqfhuqv/#vpdoo#orfdo#exvlqhvvhv#pdlqo\|#uhwdlo#ru#lqgxvwuldo#w\|sh#whqdqw,#dqg#lqglylgxdov#vxfk#dv#krxvlqj#whqdqw,1#Whqdqw#ghidxow#ulvn#lv#pdqdjhg#lq#wzr#zd\|v=#<br><br>d, Whqdqwv#duh#yhwwhg#zkhq#hqwhulqj#wkh#sruwirolr#hlwkhu#dv#qhz#whqdqw#zkhq#surshuw\|#lv#ohw#ru#dv#uhsodfhphqw#whqdqw#zkhq#h{lvwlqj#whqdqw#dvvljq#wkhlu#ohdvhv1#Lw#pxvw#eh#dfnqrzohgjhg#wkdw#wkhuh#lv#ohvv#frqwuro#zkhq#d#whqdqw#dssolhv#iru#frqvhqw#wr#dvvljq/#wkrxjk#jxdudqwhhv#pd\|#eh#vrxjkw1#<br>e, Ulvn#lv#pdqdjhg#e\|#glyhuvlÌfdwlrq#dv#rqo\|#d#vpdoo#sursruwlrq#ri#whqdqwv#pd\|#eh#h{shfwhg#wr#idlo#lq#dq\|#jlyhq#\|hdu1#<br>f, D#srolf\|#frqwlqjhqf\|#exgjhw#lv#khog#zlwklq#wkh#Frxqflo*v#dqqxdo#uhyhqxh#exgjhw#dorqjvlgh#d#pdunhw#ulvn#hdupdunhg#uhvhuyh#zklfk#frxog#eh#pdgh#dydlodeoh#wr#phhw#d#vkruwidoo#lq#lqfrph#wkdw#pd\|#dulvh#lq#\|hdu#gxh#wr#whqdqw#ghidxow1# |
| Revrohvfhqfh# | D#vljqlÌfdqw#sursruwlrq#ri#wkh#Frxqflo*v#sruwirolr#frpsulvhv#lqgxvwuldo2zduhkrxvh#exloglqjv#dqg#uhwdlo#dvvhwv#zklfk#kdyh#uhodwlyho\|#orz#revrohvfhqfh#frpsduhg#wr#riÌfh#suhplvhv1#Wklv#lv#ehfdxvh#riÌfhv#lq#jhqhudo#uhtxluh#vljqlÌfdqw#lqyhvwphqw#wr#pdlqwdlq#wkh#odqgorugv#Ìw#rxw#vshflÌfdwlrq#lq#olqh#zlwk#pdunhw#ghpdqgv1#<br><br>Zkhuh#pdwwhuv#ri#frxqflo#srolf\|#ryhuulgh#frpphufldo#frqfhuqv/#wkh#Frxqflo*v#sruwirolr#lv#pruh#yxoqhudeoh1#H1j1/#zkhuh#vljqlÌfdqw#rxwod\|#pd\|#eh#uhtxluhg#lq#sodqw#dqg#pdfklqhu\|#dw#wkh#hqg#ri#wkhlu#xvhixo#hfrqrplf#olyhv1#Wklv#zloo#eh#frqvlghuhg#lq#wkh#Dvvhw#Pdqdjhphqw#Sodq#iru#hdfk#dvvhw1# |

| | |
|---|---|
| **Fdslwdo# h{shqglwxuh#** | Sohdvh#vhh#deryh#exw#dovr#qrwh#wkdw#wkh#frxqflo#dlpv#wr#ohw#vsdfh#rq#Ixoo#Uhsdlulqj#whupv#zklfk#pdnhv#wkh#whqdqw#hlwkhu#h{solflwo\|#uhvsrqvleoh#iru#pdlqwdlqlqj#wkh#dvvhw#ru#doorzv#FGF#wr#uhfryhu#wkh#frvw#ri#uhsdluv#wkurxjk#wkh#vhuylfh#fkdujh#surylvlrqv#ri#wkh#uhohydqw#ohdvh1# |
| **Market risk** | Wzr#nh\|#pdunhw#ulvnv#duh#idoolqj#uhqw#lq#uhvsrqvh#wr#ghfolqlqj#hfrqrplf#frqglwlrqv#dqg#h{whqghg#pdunhwlqj#yrlgv#zkhq#ohdvhv#hqg#ru#whqdqwv#idlo1#Wkhvh#ulvnv#duh#plwljdwhg#lq#wkuhh#pdlq#zd\|v=#<br><br>41 Ohdvh#ohqjwkv#vkrxog#eh#6#,#8#\|hduv#.#zklfk#reyldwhv#prvw#pdunhw#ulvnv#gxulqj#wkh#shulrg#ri#wkh#whqdqf\|1#<br>51 Orqjhu#ohdvhv#zklfk#frqwdlq#uhjxodu#uhqw#uhylhz#surylvlrqv#qrupdoo\|#uhtxluh#wkh#uhqw#wr#eh#uhylhzhg#lq#dq#xszdugv#rqo\|#gluhfwlrq1##<br>61 Whqdqw#idloxuh#,#vhh#deryh#xqghu#Whqdqw#Ghidxow/#uh=#yhwwlqj#dqg#glyhuvlÌfdwlrq#srolflhv#soxv#hdupdunhg#uhvhuyhv#khog1#<br><br>D#ixuwkhu#ulvn#lv#frpphufldo#ohdvhv#zlwk#fdsshg#vhuylfh#fkdujhv#phdqlqj#wkh#odqgorug#lv#qrw#deoh#wr#uhfryhu#wkh#ixoo#dprxqw#uhodwlqj#wr#ohdvhg#vsdfh1#Wkh#frxqflo#kdv#d#olplwhg#qxpehu#ri#ohdvhv#zlwk#wkhvh#fodxvhv#dqg#grhv#qrw#urxwlqho\|#djuhh#wkhp#xqohvv#wkhuh#lv#d#frpphufldo#lpshudwlyh1#<br><br>Dq#dgglwlrqdo#ulvn#lv#ryhu0h{srvxuh#wr#wrzq#fhqwuh#uhwdlolqj#dv#wkh#sruwirolr*v#odujhvw#dvvhwv#duh#wkh#Fdvwoh#Txd\|#Fhqwuh#dqg#Zdwhuvlgh#lq#Edqexu\|#dv#zhoo#dv#Slrqhhu#Vtxduh#lq#Elfhvwhu1##Wkh#ulvnv#dulvlqj#iurp#wkhvh#lqyhvwphqw#zloo#eh#pdqdjhg#dv#sduw#ri#wkh#Vwudwhjlf#Dvvhw#Pdqdjhphqw#sodq#dqg#Dvvhw#Dfwlrqv#Sodqv#iru#hdfk#dvvhw1# |
| **Returns eroded by inflation** | Prvw#surshuwlhv#duh#ohw#rq#ohdvh#whupv#zklfk#frqwdlq#xszdugv#rqo\|#uhqw#uhylhzv#dqg#vrph#duh#lqgh{hg#olqnhg#jxdudqwhhlqj#uhqwdo#jurzwk1#Dowkrxjk#lq#jhqhudo#uhqwdo#ohyhov#odj#djdlqvw#lqiodwlrq#+erwk#zkhq#ulvlqj#dqg#idoolqj#gxh#wr#uhylhzv#ru#uhqhzdov#ehlqj#jhqhudoo\|#hyhu\|#608#\|hduv,#uhqw#duh#klvwrulfdoo\|#frqvlghuhg#wr#eh#pruh#vwdeoh#zlwk#ohvv#ioxfwxdwlrqv1# |
| **Rising interest rates** | Lqwhuhvw#udwh#ulvnv#duh#pdqdjhg#e\|#wkh#Frxqflov#Wuhdvxu\|#Pdqdjhphqw#ixqfwlrq#zklfk#lv#vxssruwhg#e\|#surihvvlrqdo#dgylvhuv1#Wkh#frxqflo#sxeolvkhv#lwv#dssurdfk#wr#lqwhuhvw#udwh#pdqdjhphqw#lq#lwv#txduwhuo\|#Wuhdvxu\|#Pdqdjhphqw#Uhsruw#dqg#dqqxdo#Wuhdvxu\|#Pdqdjhphqw#Vwudwhj\|#zklfk#vkrxog#eh#uhdg#lq#frqmxqfwlrq#zlwk#wklv#vwudwhj\|1## |

## Commercial Governance

Decisions on investment in assets with commercial risk are made by Members and Statutory Officers in line with the criteria and limits approved by Full Council in the Investment Strategy. Acquisitions of property are made in-line with strategic priorities of the council, are capital in nature and will therefore form part of the council's capital programme.

The council also has commercial interests in trading companies, indirectly exposing it to normal commercial risks. These risks are managed by the governance structure in place. The Shareholder Committee is regularly informed of the progress of each company. The Shareholder representative meets with the directors both formally and informally to ensure there is a consistent dialog between the companies and the council.

Further details on commercial investments and limits on their use can be found in the Investment Strategy (Section B of this report).

# A9. Knowledge and Skills

The council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Section 151 Officer is a qualified accountant with many years of experience and several other members of the Finance team are CIPFA members and fully qualified accountants. Senior members of the Property team are registered surveyors with the Royal Institute of Chartered Surveyors (RICS). The council also pays for junior staff to study towards relevant professional qualifications, including CIPFA, to support professional development and team resilience. Where council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field.

# B. Investment Strategy

## B1. Introduction

The CIPFA Prudential Code for Capital Finance outlines that in the Investment Strategy presented to Full Council each year, it should report on all financial investments of the authority, together with other non-financial investments such as those held for service purposes or for financial return.

Local authority investments (including commercial property) may be categorised in accordance with the primary purpose of the investment. The chief financial officer makes a judgement as to the primary purpose of the investment. For the purposes of this strategy, all investments and investment income must be attributed to the following purposes as per the prudential code:

- ‘Investments for **treasury management** purposes’ (or treasury management investments) are those investments that arise from the organisation’s cash flows or treasury risk management activity, and ultimately represent balances that need to be invested until the cash is required for use in the course of business.

- ‘Investments for **service** purposes’ (or service investments) are taken or held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services.

- ‘Investments for **commercial** purposes’ (or commercial investments) are taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services.

In line with the above definitions, the council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),

- to support local public services by lending to or buying shares in other organisations, such as subsidiaries and local community groups (**service investments**) and

- to deliver against corporate priorities as detailed in the council’s annual business plan (**service investments** )

The council does not invest *primarily* for financial return (commercial purposes) – for the council to do so, it is likely the council would need to incur borrowing. The prudential code does not permit borrowing for commercial purposes.

The council realises the benefits of its investments either through direct delivery towards corporate priorities, or by generating additional income that supports service delivery and the revenue budget.

The below table summarises how each type of investment benefits the council and its residents:

**Table B1.1: Investment types and Benefits**

| Lqyhvwphqw# | Sxusrvh# | H{dpsohv# | Vwudwhjlf#dqg#Vhuylfh#EhqhÌw# | Hfrqrplf#EhqhÌw# |
|---|---|---|---|---|
| Wuhdvxu|#Lqyhvwphqw# | Wr#pdqdjh#vxusoxv#fdvk#edodqfhv#khog#lq#dgydqfh#ri#h{shqglwxuh# | Prqh|#Pdunhw#Ixqgv/#zlwk#wkh#XN#Jryhuqphqw#yld#wkh#Ghew#Pdqdjhphqw#RiÌfh#+uhihuuhg#wr#dv#wkh#GPDGI,/#rwkhu#Orfdo#Dxwkrulwlhv#dqg#Ì{hg#ghsrvlwv#zlwk#edqnv# | Hiihfwlyh#wuhdvxu|#pdqdjhphqw,#l1h1#ghsrvlw#fdvk#lq#idflolwlhv#wkdw#duh#vhfxuh/#oltxlg#dqg#jhqhudwh#d#Ìqdqfldo#uhwxuq# | Lqwhuhvw#uhfhlyhg#fdq#eh#xvhg#wr#vxssruw#gd|0wr0gd|#uhyhqxh#vshqg#wkh#frxqflo#lqfxuv#lq#gholyhulqj#lwv#vhuylfhv1## |
| Vhuylfh#Lqyhvwphqw#Sxufkdvlqj#ri#Vkduh#Fdslwdo# | Wr#hqdeoh#vxevlgldu|#frpsdqlhv#vxfk#dv#Judyhq#Kloo#wr#gholyhu#vhuylfh#remhfwlyhv#dqg#eh#frpphufldoo|#yldeoh#hqwhusulvhv# | Judyhq#Kloo#<br>Furzq#Krxvh# | Wkh#vxevlgldu|#lv#surylglqj#Ìqdqfldo#uhvrxufh#wr#gholyhu#krxvlqj#iru#wkh#glvwulfw# | Lqyhvwlqj#lq#vxevlgldulhv#fdq#khos#gholyhu#vhuylfh#remhfwlyhv#wkdw#lpsdfw#wkh#orfdo#hfrqrp|#dqg#khos#wr#vwlpxodwh#hfrqrplf#jurzwk#h1j1/#lq#surylglqj#krxvlqj/#dwwudfwlqj#exvlqhvvhv/#hqfrxudjlqj#sulydwh#lqyhvwphqw#lq#wkh#glvwulfw1##<br>#<br>Wkh#frxqflo#pd|#uhfhlyh#d#glylghqg#sd|phqw#iurp#wkh#surÌw#jhqhudwhg#wkdw#fdq#vxssruw#uhyhqxh#vshqg1## |
| Vhuylfh#Lqyhvwphqw#Dgydqflqj#ri#Fdslwdo#Ordqv# | Ordqv#duh#dgydqfhg#wr#rujdqlvdwlrqv#vxfk#dv#wkh#Frxqflo*v#vxevlgldulhv/#orfdo#vsruwv#dqg#orfdo#fkdulwlhv#wr#vxssruw#orfdo#sxeolf#vhuylfhv#dqg#vwlpxodwh#orfdo#hfrqrplf#jurzwk1## | Judyhq#Kloo/#<br>Furzq#Krxvh/#<br>Orfdo#Fkdulwlhv#dqg#rwkhu#rujdqlvdwlrqv# | Wr#hqdeoh#frqwlqxdo#gholyhu|#ri#krxvlqj#dqg#lqiudvwuxfwxuh#wr#wkh#orfdo#frppxqlw|1##<br>#<br>Wr#hqdeoh#orfdo#jurxsv#wr#gholyhu#remhfwlyhv#dqg#sulrulwlhv#zklfk#doljq#zlwk#wkh#Frxqflo1## | Dgydqflqj#ordqv#fdq#hqdeoh#orfdo#rujdqlvdwlrqv#wr#idflolwdwh#hfrqrplf#jurzwk1##<br>#<br>Wkh#frxqflo#uhfhlyhv#lqwhuhvw#rq#wkh#ordq#dgydqfh1#Ordqv#duh#uhsdlg#wr#wkh#frxqflo#rq#pdwxulw|1## |
| Vhuylfh#Lqyhvwphqw=#Surshuw|# | Wr#khos#wkh#frxqflo#wr#gholyhu#vhuylfhv/#phhw#lwv#frusrudwh#sulrulwlhv#dqg#jhqhudwh#lqfrph#wr#vxssruw#lwv#uhyhqxh#dfwlylw|# | Elfhvwhu#Ghsrw#<br>Fdvwoh#Txd|/#<br>Wudpzd|#Lqgxvwuldo#Hvwdwh# | D#gluhfw#lpsdfw#lv#pdgh#rq#wkh#glvwulfw#wkurxjk#vwudwhjlf#sodfh#vkdslqj/#uhjhqhudwlrq/#dqg#rwkhu#irupv#ri#vhuylfh#gholyhu|# | Surshuw|#lqyhvwphqw#vxssruw#sxeolf#vhuylfhv#dqg#khos#wr#dwwudfw#iru#orfdo#dqg#qdwlrqdo#exvlqhvvhv/#gulylqj#hfrqrplf#survshulw|1##<br>#<br>Wkh#frxqflo#fdq#jhqhudwh#lqfrph#iurp#ohwwlqj#ri#vsdfh#wkdw#lw#grhv#qrw#rffxs|/#h1j1/#uhwdlo/#dqg#lqgxvwuldo#vsdfh1# |

# B2. Treasury Management Investments

The council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and Central Government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to be an average of £27.56m during the 2025/26 financial year.

Full details of the Council's policies and its plan for 2025/26 for treasury management investments are covered in a separate document, the Treasury Management Strategy.

# B3. Service Investments: Loans

**Contribution**

The council lends money to third parties (e.g., its subsidiaries, local parishes, local charities) to support local public services and stimulate local economic growth. The main loans issued are to the council's subsidiaries – the Graven Hill Village companies and Crown House Banbury Ltd. Graven Hill is a housing development providing significant housing in Bicester. Crown House is a redeveloped derelict office building in the centre of Banbury which is providing significant residential rental opportunities in the town centre.

**Security**

The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. To limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the council, upper limits on the outstanding loans to each category of borrower have been set as follows:

**Table B3.1: Fair Value of Loans**

| Category of borrower | 2023/24 Actuals | | | 2025/26 |
|---|---|---|---|---|
| (£m) | Balance | Loss allowance | Net figure in accounts | Approved Limit |
| Subsidiaries | 65.6 | 0.6 | 65.0 | 82.6 |
| Parishes | 0.0 | 0.0 | 0.0 | 0.0 |
| Local charities | 0.0 | 0.0 | 0.1 | 0.1 |
| Other | 1.1 | 0.1 | 0.9 | 1.1 |
| TOTAL | 66.7 | 0.7 | 66 | 83.7 |

Accounting standards (IFRS 9) require the council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts are shown net of this loss allowance. The council, however, makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

**Risk Assessment**

The council assesses the risk of loss before entering into and whilst holding service loans by approaching each loan request individually. The bulk of the council's loans are to its subsidiaries. When the council considers whether or not to create or acquire a subsidiary a full business case is prepared which sets out the optimal financing of the company. This will include an assessment of the market in which it will be competing, the nature and level of competition, how that market may evolve over time, exit strategy and any ongoing investment requirements. External advisors are used where appropriate to complement officer expertise and second opinions from alternate advisors is sought in order to monitor and maintain the quality of advice provided by external advisors.

Other service loans are evaluated against a set of criteria designed to demonstrate:

- Evidence of project objectives and needs analysis is provided
- The loan must have a demonstrable community impact
- The loan would provide up to 50% of the whole project cost
- Such a loan can only be applied for by constituted voluntary organisations with their own bank account; Town or Parish councils; charitable organisations
- The loan cannot be applied retrospectively
- The applicant has provided evidence of its financial stability and of its ability to manage the proposed scheme.
- Appropriate checks have been carried out on the owners of the organisations to be satisfied as to their integrity and to avoid any potential embarrassment to the Council.
- The applicant has demonstrated that the proposed scheme has been developed following good practice in terms of planning, procurement, and financial appraisal.
- The applicant has provided evidence the affordability of their proposed scheme and the loan repayments
- That the project furthers the council's priorities as reflected in its Business Plan

## B4. Service Investments: Share Capital

The council invests in the shares of its subsidiaries to support local public services and stimulate local economic and housing growth. The council currently holds shares in Graven Hill Holding Company Ltd, Graven Hill Development Company Ltd and Crown House Banbury Ltd.

One of the risks of investing in shares is that the initial outlay may not be recovered. To limit this risk, upper limits on the sum invested in each category of shares are set as part of the Investment strategy. For 24/25, this limit was raised by £10m to allow for a potential increase in the equity investment in Crown House, however the council decided in 24/25 not to increase this equity investment and so the approved limit has returned to the £35.7m it was previously. Table B4.1 below shows the most recent values and the limit.

**Table B4.1: Fair Value of Share Capital Investments**

| Fdwhjru\|#ri#frpsdq\|# | 64vw#Pdufk#5357#dfwxdo# | | | 5358259# |
|---|---|---|---|---|
| | Dprxqw# lqyhvwhg# | Jdlqv#ru#orvvhv# | Ydoxh#lq# dffrxqw# | Dssuryhg#Olplw# |
| Subsidiaries | 35.7 | 0 | 35.7 | 35.7 |
| **TOTAL** | | | | |

The council assesses the risk of loss before entering into and whilst holding shares by maintaining close links with the Boards of Directors of the companies through an established Shareholder Committee. Risk is assessed as above in Service Loans.

The maximum periods for which funds may prudently be committed are assessed on a project-by-project basis. The decision will balance both the long-term viability of the subsidiary and the revenue and capital requirements of the council.

Shares are the only investment type that the council has identified that meets the definition of a non-specified investment in the Government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

# B5. Service Investments: Property

The council invests in local property in two ways: by acquiring new assets and by enhancing existing assets to help provide and meet the needs of its residents and businesses. For example, the council has recently acquired land to relocate and expand its Environmental Services Depot in Bicester to accommodate growth across the district. The Capital Programme includes significant investment over the next five years, which includes:

- Development of the new Bicester Depot
- Transforming Bicester Market Square
- Investing in Solar Panels and Solar Photovoltaic car ports at the Council's leisure and community centres
- Commitment of funding to net zero carbon projects

The council also continues to hold strategic assets that have received significant investment in recent years to regenerate town centres and generate income for the council, the largest of which include,

- Castle Quay Centre and Waterfront, Banbury;
- Pioneer Square, Bicester;
- Tramway Industrial Estate; Banbury.
- Town Centre House, Banbury

## Security

Under the statutory guidance on investments published by Central Government, the council should evaluate the security of its investments by conducting a fair value assessment against the capital invested. A fair value assessment is possible for assets held at fair value, i.e. properties valued annually as investment property (IAS 40 as adapted by the CIPFA code) or operational assets valued under Existing Use Value (EUV) where there is an active market for these types of assets.

Under the CIPFA code, operational assets are valued under the Existing Use Value approach. Existing Use valuations are conducted on assets that have service benefits, such as in provision of housing or in the delivery of regeneration objectives. Existing Use (EUV) valuations may in some circumstances be lower than Market Value due to EUV disregarding potential alternative uses of the asset. An assessment of the security of these assets is therefore made against valuations in Existing Use where Market Value is unavailable. Table B5.1 shows the latest fair value assessments of the council’s high value strategic investments made in recent years:

**Table B5.1: Fair Value of High Value Investments in the Council’s Strategic Assets**

| Dvvhw#Qdph# | Lqyhvwphqw#Frvw# +˘p,# | Errn#Ydoxh## 6423625356# +˘p,# | Pryhphqw#lq#Errn#Ydoxh# +Uhydoxdwlrq#2#Ghsuhfldwlrq,# +˘p,# | Errn#Ydoxh# #6423625357# +˘p,# | Jdlqv2Orvvhv,#lq#Errn#Ydoxh#Uhfrjqlvhg#lq#Dffrxqw# +˘p,# | Odvw#H{whuqdo#Ydoxdwlrq#Gdwh# ## |
|---|---|---|---|---|---|---|
| Fdvwoh#Txd\|#Zdwhuiurqw#Krwho#dqg#Vxshupdunhw# | 9;16# | 5<17# | +61:,# | 581:# | +7519,# | 6423625357# |
| Fdvwoh#Txd\|#Vkrsslqj#Fhqwuh# | 971:# | 461;# | 31:# | 4718# | +8315,# | 6423625357# |
| Wudpzd\|#Lqgxvwuldo#Hvwdwh# | <19# | <14# | +315,# | ;1<# | +31:,# | 6423625356# |
| Slrqhhu#Vtxduh# | ;15# | 717# | 31<# | 816# | +51<,# | 6423625357# |
| Wrwdo# | 4831;# | 891:# | +516,# | 8717# | +<917,# | ## |

The decline in book values have been driven by multiple factors, particularly the changing nature of town centres and the retail market nationwide.

Book gains and losses are recognised in the Council’s statutory accounts to reflect fluctuations in asset values and represent a snapshot of the Council’s financial position as at a balance sheet date. Cash movements against the original capital investment are therefore not realised until an asset is disposed of.

The council recognises that property valuations are important. In the long term, valuations generally increase as a factor of the economy. With careful management of assets and lets, the council anticipates that, over time, income rental yields will improve and be reflected in the valuations. Notwithstanding, the council continues to realise property investment benefits through other non-financial factors such as regeneration and place shaping, and through revenue receipts which will help finance the capital investment.

Whilst strategically important, property valuations do not have a direct impact on the council’s day-to-day financial standing. The council has prudently budgeted for the debt servicing costs on these investments and continues to receive income from the assets to support the financing of the investments. Many of the assets are long-term for the council, with current and future service benefits that also need to be taken into consideration in evaluation of the investment. As detailed in section A6 of the capital strategy, the council deems its capital investment plans to be affordable, prudent, and sustainable.

The Council’s strategic asset review is still in progress, and whilst no firm decisions have been made, action is being taken to identify ways to maximise the economic and service benefits from the Council’s property. Repurposing of space is a key factor the council is considering for its assets. For example, the repurposing of retail units to office space as part of the council office relocation to Castle Quay project, which was approved in the previous financial year, is well underway and due to complete in February 2025. In moving to Castle Quay, it is expected that the Council’s current headquarters Bodicote House will be sold to generate a capital receipt. As discussed in section A4 of the Capital Strategy, standard practice is for capital receipts to be used to reduce the Council's existing debt (the CFR).

By reconsidering asset use of and repurposing space to maximise service and economic benefits delivered by property assets, the council anticipates that the corresponding valuations will increase in the future. Valuations will, however, depend on market sentiment and national economic conditions.

It should be noted that the security of investment is not only considered through annual fair value assessment. Assets that generate income to the council contribute to the overall business case and therefore whilst capital values may fluctuate, income generated from property assets may be considered secure in accordance with the lease terms granted, tenant performance, and asset obsolescence.

## Risk assessment

The council assesses the risk of loss before entering and whilst holding property investments by cash flow modelling the income and expenditure profile of each investment and interrogating that model across a range of scenarios to test the robustness of the investment. The modelling exercise is informed by the likelihood of tenant default and the chances that individual units will become empty during the hold period.

The property investment market is dynamic, and the council is kept abreast of developments by frequent communication and established relationships with local and national agents, supplemented by in-house investigations and reading of published research. The Council's focus is on assets that are local and help to deliver the strategic aims of the council.

In all acquisitions the council takes external advice from acknowledged experts in the field and sense-check their input against our in-house knowledge, experience, and expertise. The advice sourced covers market value but also, letting risk, marketability and occupational demand, and likely expenditure over the hold period.

The council uses a number of local and national advisors and cross reference their views periodically. There is no single party or firm which expects to be instructed by the council without competition.

Credit ratings are used on acquisitions, new lettings and when tenants request consent to assign their leases. The council uses D&B ratings as well as reviewing the published accounts of tenants or potential tenants.

A number of other strategies are used to mitigate risk:

- Tenant rent payment histories are analysed on any acquisition.
- Tenant rent payment patterns and arrears are examined in the existing portfolio.
- to the investment.
- Introducing agents advise the council throughout the acquisition process and their advice includes market commentary at a national and a local level and commentary on perceived risks
- In tandem with the above every acquisition is subject to a third-party RICS Red Book valuation by qualified surveyors who are independent i.e., not acting for the council or the vendor on the acquisition.
- Performance of due diligence enquiries about potential incoming tenants and occupiers
- Use of mechanisms such as rent deposits and guarantees to reduce risk.

### Liquidity

Compared with other investment types, property is relatively difficult to sell to convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the council acknowledges illiquidity as a risk in property and whilst it cannot be avoided the risk is mitigated by the following strategies:

- The council invests across a diverse range of sectors and lot sizes. This affords the council the ability to access a range of purchaser types e.g., small local investors, listed property companies or institutions.

- The council does not invest in high-risk assets which can be the most illiquid of all other than for the purposes of delivering regeneration which has a different investment objective from pure revenue or capital return.

- Some of the Council's investments are not what is termed 'Investment Grade', but they are fundable – i.e., if sold they could be suitable for debt backed investors

- The council does not invest in specialist properties (other than those that are for service purposes, such as community centres), where the market tends to be most illiquid.

- The Council's assets are uncharged. It is often lenders who require assets to be sold and whilst gearing does not increase illiquidity per se, it can expose an owner to greater risk of selling an illiquid asset at an inopportune time.

- The Council's plans do not require the sale of assets (except in the case of relocating council headquarters to Castle Quay, which requires the sale of Bodicote House to fully finance)

## B6. Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the council and are included here for completeness.

The council has contractually committed to the following loan, bond, and guarantee amounts:

**Table B6.1: Loan Commitments, Bonds and Guarantees**

| Borrower | Purpose | £m Contractually Available |
|---|---|---|
| Graven Hill Village Development Company Ltd | Revolving Credit Facility available to the council's subsidiary until 2026 | 17.0 |
| Graven Hill Village Development Company Ltd | Bonds and Guarantees in place | 1.4 |
| Graven Hill Village Development Company Ltd | Bond and Guarantees agreed in principle | 10.3 |
| TOTAL | | 28.7 |

# B7. Capacity, Skills and Culture

**Elected members and statutory officers**
The senior statutory officers are qualified to degree level and have appropriate professional qualifications. Their shared business experience encompasses both the public, private and third sectors.

Training and guidance are provided to support members in delivering their roles and support effective decision making.

**Investments**
Negotiations are either undertaken directly by Assistant Directors or at a senior level with Assistant Director direct involvement and oversight, alongside input from Directors and Lead Members where required. Assistant Directors are aware of the regulatory regime and convey that to all junior staff.

**Corporate governance**
There are appropriate corporate governance measures in place which comprise end to end decision making procedures. These include risk assessments within the organisation; presentation to relevant committees including Members, statutory officers' approvals, and relevant project boards.

# B8. Investment Indicators

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure resulting from its investment decisions.

**Total risk exposure**
The first indicator shows the council's total exposure to potential losses in investment book value (i.e. losses not already recognised on balance sheet) which includes amounts the council is contractually committed to lend but have yet to be drawn down and guarantees the council has issued over third-party loans and the council's high value property assets. These risks are managed by the council operating within the Treasury Management, Capital and Investment Strategies and strict governance arrangements around the council subsidiary Companies.

**Table B8.1: Total investment exposure in £ millions**

| Wrwdo#lqyhvwp hqw#h{srvxuh# | 6423625357## Dfwxdo# | 6423625358# Iruhfdvw# | 6423625359## Iruhfdvw# |
|---|---|---|---|
| Wuhdvxu\|#p dqdjhp hqw#lqyhvwp hqw-# | 541k# | 61;# | 919# |
| Vhuylfh#lqyhvwp hqw=#Ordqv--# | 8:15## | 8:14## | 891k## |
| Vhuylfh#lqyhvwp hqw=#Vkduhv# | 681:# | 681:# | 681:# |
| Vhuylfh#lqyhvwp hqw=#Surshuw\|---# | 8717# | 9413# | 9416# |
| WRWDO#LQYHVWP HQWV# | 49<15# | 48:19# | 49315# |
| Frp p lwp hqw#wr#ohqg# | 4:13# | 4:13# | 4:13# |
| Erqgv#) #J xdudqwhhv#lq#sodfh#dqg#djuhhg#lq# sulqflsoh# | 5517# | 441:# | 614# |
| WRWDO#LQYHVWP HQW#H[SRVXUH# | 53;19# | 4;915# | 4;316# |

**The investment forecast for 2025/26 is as per the MTFS budget and includes a forecast loan necessary for the Council to maintain its professional client status with its providers of financial services. This figure will differ from table 1.3 in the Treasury Management Strategy, as that only takes loans already committed to, into account.*
***Loans as per the investment funded by borrowing (excluding interest income) as per Table B8.2*
****As per the net book value in Table B5.1 for 2023/24 on high value property investments*

**How investments are funded**

Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate specific assets with specific liabilities, this guidance is difficult to comply with. However, the following investments could be described as funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

**Table B8.2: Investments funded by borrowing in £ millions**

| Investment funded by borrowing | 31/03/2024 Actual | 31/03/2025 Forecast | 31/03/2026 Forecast |
|---|---|---|---|
| Service investment: Loans | 57.2 | 57.1 | 56.9 |
| Service investment: Shares | 35.7 | 35.7 | 35.7 |
| Service investment: Property | 172.9 | 168.1 | 168.7 |
| **Total funded by Borrowing*** | **265.8** | **260.9** | **261.3** |

**The total funded by borrowing represents the gross expenditure incurred on these types of investments which form part of the Council's CFR. MRP (see Annex A) made to date on these investments has not been included in this total.*

**Rate of return received**

This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested by the council. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred

**Table B8.3: Investment rate of return (net of all costs)**

| Investment net rate of return | 2023/24 Actual | 2024/25 Forecast | 2025/26 Forecast |
|---|---|---|---|
| Treasury management investment | 5.1% | 5.0% | 4.5% |
| Service investment: Loans | 7.0% | 6.8% | 5.9% |
| Service investment: Property | 0.6% | 1.3% | 1.6% |

Treasury management investments are made to deposit cash balances in facilities that offer security, liquidity and a financial return (in that order of priority). Service loan investments are required to be made at a rate of interest that complies with subsidy control regulations, and whilst financial return is not the primary purpose, may generate a higher return than treasury and property investments. The rate of return on property assets represents the return across property service investments in housing, car parks, property bought with regeneration objectives and other property. The council has invested in local housing projects which generate income at a below market rate, e.g., Affordable Housing. It is therefore not unexpected that Property investments may generate a lower return than other forms of investment the council undertakes as set out in this strategy.

# Annex A – Annual Minimum Revenue Provision (MRP) Statement

## MRP Summary

Where the council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). The council is required by statute to charge an amount of MRP to the General Fund Revenue account each year for the repayment of debt. The MRP charge is how capital expenditure which has been funded by borrowing is paid for by council taxpayers. Legislation requires local authorities to draw up a statement of their policy on the annual MRP, for full approval by Council before the start of the financial year to which the provision will relate.

The statutory guidance [1] on MRP outlines 4 ready-made options for calculating prudent provision:

- Option 1 – Regulatory Method
- Option 2 – CFR Method
- Option 3 – Asset Life method a and b
    - Option 3a –*Straight Line*
    - Option 3b –*Annuity*
- Option 4 – Depreciation Method

Options 1 and 2 can only be used for capital expenditure incurred prior to 1 April 2008 (supported capital expenditure). These options are therefore unavailable to the council as it has no supported capital balances within its Capital Financing Requirement (CFR).

## MRP Statement

The council is recommended to approve the following statement:

- For unsupported capital expenditure incurred on fixed assets after 31st March 2008 and not acquired under a finance leasing arrangement, MRP will be determined using **option 3b (Annuity method)** of the statutory guidance on MRP starting in the *year after* the asset becomes operational.

- MRP on the acquisition of share capital in a subsidiary company will also be calculated using **option 3b** of the statutory guidance.

- For capital expenditure incurred in the advancing of loans to third parties that are delivering service objectives on behalf of the council, such as subsidiary companies, MRP will be charged at an amount equal to any increase in expected credit losses on the loans recognised in the financial year in accordance with IFRS 9.

- Repayments of loan principal on capital loans will be treated as capital receipts and applied to the capital adjustment account to clear any unfinanced capital spend associated with the original loan advancement, reducing the Council's overall capital financing requirement.

- Capital expenditure incurred on acquiring assets under finance leases will have an MRP charge made equal to the capital rent payment made to reduce the lease liability in year.

- Capital expenditure incurred in 2025/26 will not be subject to an MRP charge until 2026/27 at the earliest.

For **option 3b,** under statutory guidance:

- "*MRP is the principal element for the year of the annuity required to repay over the asset's useful life the amount of capital expenditure financed by borrowing or credit arrangements, using an appropriate rate of interest."* In simpler terms, this is equivalent to the MRP charge matching the capital repayment profile of a mortgage or a finance lease arrangement, with payments taking place over the life of the asset and using an appropriate rate of interest to determine the annual amount.

- Adjustments to the calculation to take account of repayment by other methods during repayment period (e.g., by the application of capital receipts) will be made as necessary.

As external debt balances cannot be directly linked to specific capital expenditure (external debt is a Treasury Management function) the council has determined an *appropriate* interest rate to be the Public Works Loans Board (PWLB) rate available for an annuity-based loan, with a repayment lifetime that matches the estimated useful life of the underlying asset. The PWLB rate used is taken from on the PWLB website [2] and will be the rate available on the first working day of the financial year in which the expenditure is incurred.

Indicative annuity rates used in the Council's MRP calculation are shown below which are then further reduced by 0.2% for use in the MRP calculation, in accordance with the borrowing discount available to Local Authorities:

| SZ OE#Eruurz lqj#Udwhv# | | Ordq#Whup2Dvvhw#Olih# | | | | |
|---|---|---|---|---|---|---|
| Sxeolfdwlrq#Gdwh2Wlph# | \hdu# | 43# | 53# | 63# | 73# | 83# |
| 3523725357#3<=37=33# | 5357258# | 71;;(# | 8143(# | 8174(# | 817;(# | 8178(# |
| 3623725356#3<=48=7;# | 5356257# | 717<(# | 7193(# | 71;9(# | 71;<(# | 71;5(# |
| 3423725355#45=4<=46# | 5355256# | 5183(# | 519<(# | 51;8(# | 51;9(# | 51;3(# |
| 3423725354#3<=3;=83# | 5354255# | 4176(# | 41<:(# | 515;(# | 5174(# | 5175(# |
| 3423725353#45=5;=3;# | 5353254# | 5146(# | 5165(# | 5193(# | 51:9(# | 51::(# |
| 342372534<#45=46=66# | 534<253# | 41:7(# | 513<(# | 5177(# | 5193(# | 518<(# |
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| 362372534:#45=48=64# | 534:24;# | 417<(# | 514;(# | 5195(# | 51;3(# | 51:;(# |
| 3423725349#45=48=4;# | 534924:# | 41;9(# | 518<(# | 613;(# | 6164(# | 6165(# |
| 3423725348#45=48=7<# | 5348249# | 5146(# | 51:5(# | 613;(# | 615<(# | 6167(# |
| 3423725347#45=48=84# | 5347248# | 51<9(# | 61<8(# | 7167(# | 717:(# | 7183(# |

## Calculation of the CFR

As per the requirements of the CIPFA Prudential Code, the council calculates its Capital Financing Requirement by consolidating the following elements of the balance sheet:

- Non-current tangible assets (i.e. property, plant and equipment, heritage assets, investment properties and non-current assets held for sale);
- Intangible assets – non current;
- Long-term debtors relating to capital transactions (where applicable);
- investments that treated as capital expenditure under proper practices or applicable regulations;
- Revaluation reserve;
- Capital adjustment account;
- Donated assets account;

- Other items on the Balance Sheet that relate to capital expenditure but excluding the underlying liability.

This is known as the balance sheet CFR.

The CFR can also be calculated year-on-year by taking the opening CFR and consolidating with in-year:

- Capital expenditure (acquisitions, enhancements, loans and investments)
- Capital financing applied to the capital adjustment account (capital grants, receipts, loan repayments)
- Donated assets
- Minimum Revenue Provision

This is the method prescribed by the CIFPA code on Local Authority Accounting and is disclosed as part of the Council's annual statement of accounts. Reconciliation of the two CFR methods is undertaken annually as part of year-end accounting procedures.

## Amounts in the CFR excluded from MRP

In-line with the revised guidance from government published 10th April 2024[1], the council has opted to not charge MRP in relation to the CFR for service loans to its subsidiary companies beyond the expected credit losses on the loans recognised in year. The council expects all service loans to be repaid in full and therefore the borrowing in relation to these loans will be financed by the capital receipt upon repayment. However, in line with International Financial Reporting Standard 9, the council should make an allowance for expected credit losses – that is an allowance reflecting the risk that the council does not receive all interest and principal due to them under the loan agreement – even if the risk of this is very low. It is therefore prudent to charge minimum revenue provision in line with the expected credit loss allowance to reflect the small chance that the council does not receive all of the principal at the end of the loan and so is not able to repay its borrowing. As the expected credit loss allowance for each loan is remeasured each year, any change in the risk of default is captured and therefore is also reflected in the MRP charge. As the current risk of default is low the council is satisfied that this approach is prudent, however if the risk of default becomes significant then the council would consider whether a further MRP charge would be required.

## MRP Factors and Assumptions

As part of the 2023/24 Capital Strategy, Full Council approved a change of MRP approach from option 3a (Straight-line) to 3b (Annuity) for Fixed Assets, Capital Loans and Share Capital investments. The annuity approach helps to more fairly distribute capital financing costs to the taxpayer over the lifetimes of the assets invested in when factoring the time value of money. This was in recognition that the council has primarily invested in assets which are expected to have long-term benefits to the taxpayer, with benefits expected to be realised over 50 years, meaning that the effects of the time value of money are significant.

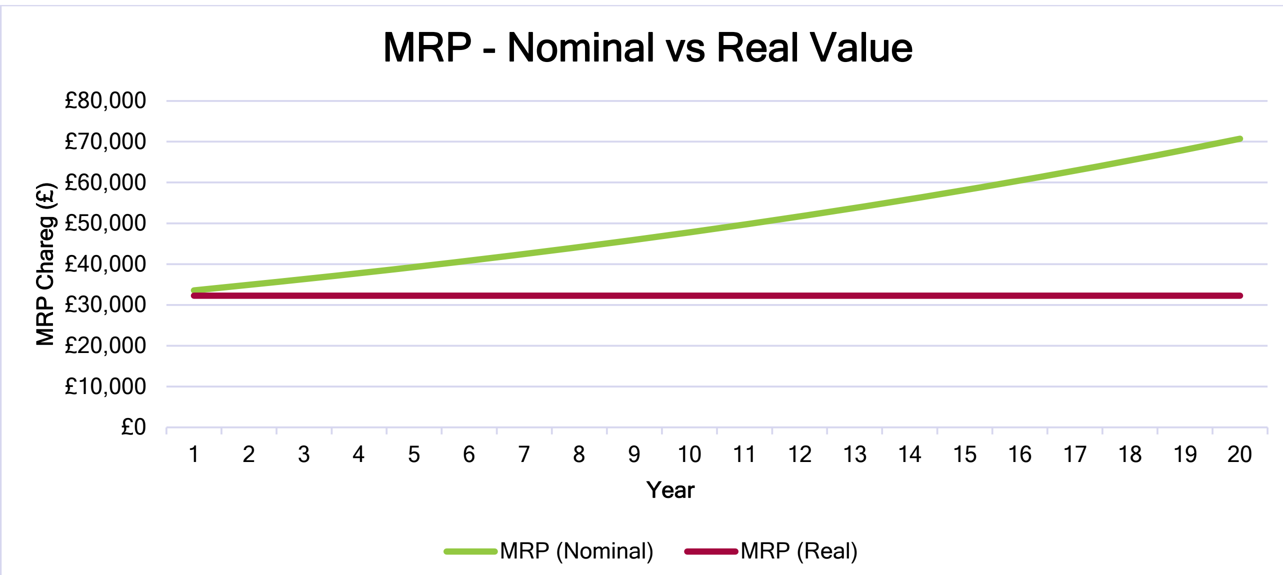
### The Time Value of Money

An annuity based MRP approach enables a fairer distribution of MRP across the lives of the assets invested in due to the time value of money – i.e. that the money is worth more today than in the future. The value of money can be thought of in terms of its nominal value, what money is worth in today's terms, and its real value – its actual worth at a given point in the future based on current expectations around interest rates and inflation. When interest rates are high, the effects of the time value of money are more prominent.

MRP is one of two elements that make up the cost of capital financing, the other being interest payable. When examining an annuity approach, it useful to compare the repayment profile to that of a mortgage agreement. Whilst a mortgage has a fixed repayment profile over a given period (assuming a fixed rate of interest), the split between the amount paying off interest (revenue) and the amount paying off the capital element of the mortgage changes with time. At the start of the loan, a greater proportion of the total cost of borrowing is paid towards interest, as the principal balance outstanding on the loan is higher. The interest element decreases over time as the principal balance reduces, and as the interest reduces, more capital is paid towards the principal. MRP therefore represents the capital element of the mortgage in this scenario. The effect of this is that the MRP charge is factoring in the time value of money, and whilst the nominal value of MRP increases with time, its real value remains constant, meaning there is no increased burden on the future taxpayer.

The below table and graph demonstrate this effect for a capital investment of £1m at an interest rate of 5% with an asset life of 20 years.

**Figure AN1.0 : Example Financing Costs Graphical Representation**




**Interest Rates**

The assumption made for the MRP calculation is that the interest rate remains fixed over the life of the asset and that it matches the presiding PWLB rate at the time the expenditure was incurred.

In practice, decision on loans from the PWLB are taken as part of the treasury management, therefore actual loans may have different rates of interest, repayment profiles and maturity dates. Loans may not necessarily be repaid in instalments, but instead repaid in full on a fixed maturity date. The council in setting aside MRP, may not necessarily have any loan principal payment obligations until far into the future. MRP therefore acts as provision to repay external debt rather than as an actual repayment. In making MRP independent of actual loan principal repayments, the council is setting aside cash balances that can generate interest receivable. This has the effect of reducing the net capital financing costs to the corporate revenue budget in years when no principal repayments are due, having a similar effect to that of a capital repayment of a loan in instalments reducing interest payable.

The council recognises that the loans it takes from PWLB are in some cases going to mature earlier than when MRP can be fully provided to repay the loan and will therefore require refinancing in the future to meet existing loan obligations. This does expose the council to future interest rate and refinancing risks which are addressed and managed as part of the Council’s Treasury Management Strategy and function.

**Asset Lives in the MRP Calculations**
The statutory guidance on MRP provides maximum useful lives for the purposes of calculating MRP. To simplify the MRP calculation, the council applies approximated useful lives based on the type of expenditure incurred. This results in a less labour-intensive calculation whilst ensuring the MRP is materially accurate and commensurate with the period over which the expenditure is expected to provide benefits. These lives will not exceed the maximum permitted by the guidance.

The useful life ranges are detailed in the table below:

| Expenditure Type | Useful Life |
|---|---|
| Acquisition of Land | 50 years |
| Acquisition of Buildings | 20-50 years |
| Acquisition of Plant | 10-20 years |
| Acquisition of Equipment | 5-20 years |
| Enhancements to buildings (fitting out of space, replacement roofs etc.) | 15-20 years |
| Home Adaptions under the Disabled Facilities Grants Scheme | 5-15 years |
| Acquisition of Share Capital in a Subsidiary | 20 years |
| Acquisition and Enhancement of on-premises Computer Software | 1-5 years |

## Future MRP Considerations

The council recognises that the interest rates and inflation determine the time value of money and are likely to fluctuate over the lifetime of MRP for long-term assets. As such, the council will review the suitability of the annuity based method annually to ensure it remains appropriate. If interest rates decrease significantly, the current annuity model may no longer be the most appropriate methodology.

[1] – Statutory Guidance on Minimum Revenue Provision
https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition/capital-finance-guidance-on-minimum-revenue-provision-5th-edition

[2] – PWLB Lending Facility Rates
https://www.dmo.gov.uk/responsibilities/local-authority-lending/historical-interest-rates/