Nuneaton & Bedworth
United to Achieve

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Date: 21st July 2023

Dear Sir/Madam,

Cabinet – 26th July 2023

I refer to Item 12 'General Fund Revenue Outturn 2022/23' and item 16 'Annual Treasury Management Report' on the Agenda for Cabinet scheduled for Wednesday, 26th July 2023 which were marked 'To Follow' and attach copies of the appropriate reports.

Yours faithfully,

BRENT DAVIS

Chief Executive

Nuneaton & Bedworth
United to Achieve

Agenda item: 12

Cabinet

Report Summary Sheet

Date: 26 July 2023
Subject: General Fund Revenue Outturn 2022/23
Portfolio: Finance and Corporate (Councillor S. Croft)
From: Strategic Director – Finance & Governance

Summary: To provide the final revenue outturn position on the general Fund for 2022/23.
Recommendations: That the forecast outturn position and key variances are noted. That the earmarked reserve balances are approved.
Options: To accept the report or request further information on the outturn position.
Reasons: The Council is required to achieve a balanced budget each year.
Consultation undertaken with Members/Officers/Stakeholders Councillor Croft, Management Team and relevant officers

Subject to call-in:

Yes

Ward relevance:

None directly.

Forward plan:

Yes

Building a Better Borough Aim:

Work

Building a Better Borough Priority:

Grow a strong and inclusive economy.

Relevant statutes or policy:

Local Government Finance Act 1992

Equalities Implications:

None

Human resources implications:

None

Financial implications:

Detailed in the report.

Health Inequalities Implications:

None

Section 17 Crime & Disorder Implications: None
Risk management implications: The Council analyses risks as part of the budget setting process and ensures an appropriate level of reserves are in place.
Environmental implications: None
Legal implications: To achieve a balanced budget each year.

Contact details: Vicki Summerfield – Strategic Director - Finance & Governance Victoria.summerfield@nuneatonandbedworth.gov.uk

AGENDA ITEM NO. 12

NUNEATON AND BEDWORTH BOROUGH COUNCIL

Report to: **Cabinet - 26 July 2023**

From: **Strategic Director – Finance & Governance**

Subject: **General Fund Revenue Outturn 2022/23**

Portfolio: **Finance & Corporate (Councillor S Croft)**

Building a Better Borough Aim: Work

Building a Better Borough Priority: Grow a strong and inclusive economy

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1. Purpose of Report

1.1 To present the final outturn position for 2022/23 for the General Fund and approve the earmarked reserve balances at 31 March 2023.

2. Recommendations

2.1 That the 2022/23 outturn position for the General Fund be noted.

2.2 That the earmarked reserve balances as detailed in Appendix 2 are approved.

3.0 Body of the Report

3.1 The approved General Fund revenue net expenditure budget for 2022/23 of £13,178,460 was approved in February 2022 with a contribution expected to general reserve of £1,784. The final outturn position has resulted in net expenditure of £13,626,538 with no contribution to general reserve. Although this is a worse position than budgeted, the overall funding position of the Council was favourable therefore resulting in a nil balance outturn.

3.2 Cost and income pressures have been seen during the year and have been reported in the quarterly monitoring reports. Alongside the pressures however, savings and additional income have also been generated. A summary of the final outturn is listed in the following table with further detail included in Appendix 1.

General Fund Variances	£'000
Losses in housing benefit subsidy due to huge cost of temporary accommodation	669
Reduced cost recovery of homelessness	403
Reduced income for car parking and the bus depot	378
Loss in fee income across services, most of which is the Civic Hall due to vacation of the NHS	189
Increased agency and employment costs for service delivery	166
Increased cost of transport for refuse	160
Reductions in commercial rents and markets/street trading income	156
Increased utility costs	137
Increased audit fees for the external audit of 2020/21 accounts	96
Increased consultancy costs offset mainly by funding through earmarked reserves or additional income	86
Increased cost of general cost of services both operational and support	82
Increased cost of new supply and replacement bins	75
An increase in transaction costs for credit cards and banking	59
Increased insurance costs	44
Increased cost for Elections printing and postage	38
Delayed transfer of community centres - budget savings not achieved	29
Increased Costs / Losses in Income	2,767
Drawdown of reserves for specific service overspends and losses in income reported in year	-822
Increased planning application income	-388
Increased grant income mainly for economic development projects and homelessness	-384
Increase in Recycling income partially offset by marginal increases in contractual costs	-337
Increase in income from community recreation partially offset by contractual costs	-148
Reduced NNDR charges mainly within commercial properties	-78
Savings / Increases in Income	-2,157
Net Portfolio Variance	610
Increased contribution overall to bad debt provision after prudent review	564
Reduced Earmarked Reserve contribution plus reduced capital funding	-133
Increased funding mainly due to lower NNDR pooling payment	-447
Increased investment income partially offset by interest costs	-593
Net Variance	1

3.3 In addition to the Portfolio budgets, there are a number of budgets not allocated specifically to service areas. These budgets consist of interest income and expenditure, depreciation, transfers to and from reserves and provisions. These budgets and the outturn position are also included in Appendix 1 and the table above.

3.4 The forecasted overspend in March 2023 was expected to be approximately £905k and was going to need earmarked reserve funding. The actual overspend is reported as £822k and is noted in the previous table as a drawdown in reserves.

3.5 During the pandemic, the Council received grants to help support services. The Council set-aside £500k in 2020/21 to help support any impact of the pandemic in future years and there has been a call on this reserve of £339k for the reduction of car parking income due to not returning to pre-Covid levels.

3.6 Due to the impact of increasing costs of homelessness and the loss of housing benefit subsidy, a draw down against new burdens of £70k, the financial resilience reserve of £313k and a number of smaller reserves that are no longer required totalling £97k have been utilised to fund the balance.

4.0 Core Funding

4.1 The Council receives funding to provide services through Business Rates, Council Tax and general Government Grants.

4.2 Income through Council Tax was better than budget due to the surplus transferred to the General Fund being set slightly lower during the budget round than that required after calculation. A deficit of £1.4m was created on the fund however after full review of the bad debt provision and age of the debtor.

4.3 Business rates appeals provision was reduced in year by £948k with over £1.8m being refunded to businesses for successful appeals. Bad debt provision was reviewed and an additional £299k was provided due to the levels and age of debt.

5.0 Earmarked Reserves

5.1 Earmarked reserves are held for specific purposes and transfers to and from reserves have been made in year for both revenue and capital purposes.

5.2 As at 31 March 2023, the Council held £11.1m in specific earmarked reserves, a reduction of £3.1m. Capital earmarked reserves total £2.6m with revenue reserves totalling £8.5m. A detailed list of all of the reserves held is listed in Appendix 2.

5.3 As part of the year-end closure of the Accounts, earmarked reserves have been reviewed to ensure they are relevant and adequate and have been adjusted where required.

6.0 Conclusion

6.1 It has been a challenging year for the Council, but additional grant income has assisted in the outturn position.

6.2 The rise in interest rates, continuing high inflation, and the ongoing challenges around homelessness are going to continue to add pressure to the General Fund and further pressures are likely to be seen as the new year progresses.

6.3 An updated medium-term financial strategy will be presented to Cabinet including the known risks and potential pressures in November 2023 as part of the budget setting process. Although the Council does have a level of reserves to call on, this cannot be utilised as a longer-term sustainable plan and caution must be taken when looking to commit to any future targets if they are not going to provide a financial benefit to the authority.

7.0 Appendices

7.1 Appendix 1 – General Fund Outturn 2022/23

7.2 Appendix 2 – General Fund Earmarked Reserves 2022/23

8.0 Background Papers (if none, state none)

8.1 General Fund and HRA Budget 2022/23 reported February 2022

APPENDIX 1

	BUDGET 2022/23 £000	OUTTURN 2022/23 £000	VARIANCE 2022/23 £000
<u>Portfolio Analysis:</u>			
Business & Regeneration	1,427	1,325	(102)
Finance & Corporate	4,059	4,978	919
Health & Environment	3,016	3,026	10
Housing & Communities	1,177	1,375	198
Planning & Regulation	(391)	(563)	(172)
Public Services	8,103	7,860	(243)
Portfolio Total	**17,391**	**18,001**	**610**
Central Provisions	335	899	564
Depreciation & Impairment	(3,097)	(3,097)	-
Transfers To/(From) Reserves	(3,244)	(3,065)	179
Financing Of Capital Expenditure	1,259	947	(312)
PWLB Premiums & Discounts	21	21	-
Investment Income	(460)	(1,082)	(622)
Minimum Revenue Provision	536	536	-
External Interest Paid	438	467	29
Council Net Expenditure	**13,179**	**13,627**	**448**
Financed by:			
NBBC Council Tax Precept	(9,744)	(9,744)	-
New Homes Bonus	(644)	(645)	(1)
Other Government Grants	(420)	(423)	(3)
NBBC Share of Council Tax Surplus	(18)	(50)	(32)
Business Rates Retention	(2,354)	(2,765)	(411)
Total Funding	**(13,180)**	**(13,627)**	**(447)**
2022/23 Transfer from/ (to) General Fund Balances	**(1)**	**(0)**	**1**

Business & Regeneration	BUDGET 2022/23 £000	OUTTURN 2022/23 £000	VARIANCE 2022/23 £000	COMMENTS
Markets & Street Trading	179	276	98	* Increased salary costs £30k * Increased utility costs £7k * Reduced rental income £57k * Transfer to earmarked reserves £3k
Town Centre Management Inc. Markets	300	319	19	* Increased salary costs £8k * Increased utility costs £5k * Increased maintenance costs £6k
West Midlands Combined Authority	25	30	5	* Increased subscription cost
Car Parks	(216)	(187)	29	* Increased running and maintenance costs £16k * Reduced parking income £363k * Earmarked reserve drawdown £339k * Salary saving £11k
Public Passenger Transport	29	52	23	* Reduced income £15k * Increased utility costs £4k * Increased property and maintenance costs £4k
Public Conveniences	180	162	(18)	* Reduced cost as outsourced to NABCEL
Marketing, Promotions and Publicity	291	295	4	* Increased salaries £21k * Increased utility costs £4k * Unbudgeted grant income £21k
Economic Development	638	376	(262)	* Increased salaries £15k * Reduced contribution to WCC £20k * Unbudgeted grant income £257k
Business & Regeneration Total	1,427	1,325	(102)	

Finance & Corporate				
Rent Allowances	145	334	188	* Housing Benefit Subsidy losses £212k * Reduced grant income £52k * Increased salary costs £6k * Increased central support costs £4k * Increased audit fees £2k * Reduced bad debt provision £88k
Rent Rebates	1,128	1,596	469	* Housing Benefit Subsidy losses £457k * Increased salary costs £6k * Increased central support costs £6k
Electoral Registration	184	220	37	* Printing and postage £38k * Reduced salary costs £31k * ICT and Software support costs £19k * Increased central support costs £11k
Election Expenses	300	300	-	
Equal Opportunities	34	34	0	
Emergency Planning	28	49	21	* Shared service cost £15k * Increased central support costs £6k
Democratic Representation and Management	669	708	39	* Increased corporate costs £34k * Increased salary costs £5k
Revenues	698	707	9	* Reduced court fee income £47k * Increased salary costs £6k * Customer payment transaction costs £6k * Earmarked reserve drawdown £50k
Council Tax Benefits	297	315	18	* Increased salary costs £7k * Increased central support costs £11k

Corporate Management	539	680	141	* Increased audit fees £94k * Increased banking charges £53k * Reduced operational costs £6k
Mayoralty	38	36	(3)	
Finance & Corporate Total	4,059	4,979	919	
Health & Environment				
Environmental Protection	391	408	18	* Increased salary costs £1k * Increased central recharges £4k * Reduced fee income £13k
Food & Occupational Safety	344	372	28	* Increased salary costs £29k * Increased central recharges £5k * Increased fee income £6k
Health Promotion & Inequalities	7	9	2	* Increased central recharges
Footpath Lighting	13	9	(3)	* Reduced central recharges £1k * Reduced maintenance costs £2k
Environmental Projects	92	84	(7)	
Cemeteries	(59)	(65)	(6)	* Reduced fee income £16k * Reduced operational costs £15k * Reserve drawdown £8k
Allotments	1	1	0	
Parks	2,156	2,193	37	* Increased fee income £8k * Reduced operational costs £15k * Increased salary costs £19k * Increased utility costs £5k * Insurance claim costs £36k
Environmental Sustainability	71	13	(58)	* Reduced consultancy fees

Health & Environment Total	3,016	3,026	10	
Housing & Communities				
Housing Advice Centre	257	331	74	* Increased salary costs £42k * Increased grant income £158k * Earmarked reserve support £340k * Increased bad debt provision £81k * Increased homeless cost recovery £403k * Increased recharges £23k * Increase utilities £6k * Council Tax and NNDR charges £17k
Private Sector Grants	318	348	30	* Legal costs £16k * Increased recharges £14k
Housing Strategy	44	48	4	
Private Sector Housing Standards	231	329	98	* Increased salary costs £98k
Mobile Home Sites	(87)	(88)	(1)	
Community Development	24	21	(3)	
Voluntary Bodies	157	150	(7)	
Community Safety	232	236	3	
Housing & Communities Total	1,177	1,375	198	
Planning & Regulation				
Land Drainage Works	7	0	(7)	* Reduced operational costs £7k
Street Nameplates	19	21	2	
Building Control	49	68	19	* Reduced fees £3k * Increased recharges £16k

Development Control	350	80	(270)	* Increased salary costs £83k * Earmarked contribution £35k * Increased planning fee income £388k
Planning Policy & Applications	391	401	11	* Increased salary costs £11k * Consultancy costs £124k * Earmarked draw down £124k
Commercial Property	(1,042)	(984)	58	* Reduced salary costs £31k * Reduced rental income £99k * Increased utilities £70k * Increased insurance £8k * Reduced NNDR costs £88k
Industrial Estates	(155)	(169)	(15)	* Reduced NNDR charge £7k * Reduced operational costs £8k
Land Charges	(10)	19	29	* Reduced fee income £21k * Increased salary costs £8k
Planning & Regulation Total	(391)	(563)	(172)	
Public Services				
Refuse & Cleansing	3,832	3,943	111	* Increased material and bin purchases £46k * Increased transport costs £160k * Increased fee and contribution income £65k * Reduced training costs £9k * Reduced operational costs £21k
Recycling	1,516	1,256	(260)	* Increased salary costs £48k * Increased bin and material purchases £29k * Increased fees and recycling credits £337k

Community Recreation	1,316	1,201	(114)	* Increased utility costs £34k * Increased fee and contribution income £148k
Sports Development	237	208	(29)	* Reduced salary costs £9k * Reduced operational costs £20k
Civic Hall	527	588	61	* Reduced salary costs £100k * Reduced income due to closure and NHS vacating £161k
Museum	442	381	(61)	* Reduced salary costs £82k * Increased income £20k * Consultancy costs £20k * Increased utilities £2k * Exhibition costs £19k
Arts Development	13	7	(6)	* Reduced project costs
Licences	34	59	25	* Reduced salary costs £6k * Reduced fee income £33k
Community Centres	186	216	29	* Savings not achieved as delayed transfer of community centres
Public Services Total	8,103	7,860	(243)	
Total All Portfolios	17,390	18,001	610	

Below the Line:

Central Provisions	335	899	564	Review of bad debt provisions undertaken and charges prudently increased
Depreciation & Impairment	(3,097)	(3,097)	(0)	
Transfers To/(From) Reserves	(3,244)	(3,065)	179	Due to a reduced contribution from capital and earmarked reserves
Financing Of Capital Expenditure	1,259	947	(312)	Reduced funding requirement
PWLB Premiums & Discounts	21	21	-	

Investment Income	(460)	(1,082)	(622)	Loss on CCLA property fund but significant returns on investment income
Minimum Revenue Provision	536	536	-	
External Interest Paid	438	467	29	No movement in PWLB borrowing - under budgeted
Council Net Expenditure	13,178	13,627	448	
Funding	(13,180)	(13,627)	(447)	Variance from budget due to reduced NNDR pool payment
2022/23 Transfer from/ (to) General Fund Balances	(2)	(0)	1	

APPENDIX 2

Earmarked Reserves Summary

GENERAL FUND	Opening Balance 2022/23 £'000	Net Movement 2022/23 £'000	Closing Balance 2022/23 £'000
Insurance Fund	-670	51	-620
Transforming Nuneaton	-295	0	-295
Borough Plan	-273	68	-204
Homelessness	-705	-11	-716
Leisure Consultancy / Feasibility	-256	81	-175
Financial Planning Support	-599	336	-263
Planning for the Future	-481	0	-481
New Burdens - Revenues and Benefits	-398	70	-327
Business Rates Retention	-2,354	-320	-2,674
HEART	-299	37	-262
NNDR Section 31 & TIG Timing Reserve	-3,064	2,803	-262
Covid Grants	-500	224	-276
Civic Hall	-91	0	-91
Skills & Development (Barratt)	-182	0	-182
LUF Funding	0	-291	-291
UKSPF	0	-109	-109
Towns Fund (Grant)	-127	90	-37
CWRT Loan Underwriting Reserve	-100	0	-100
Repossession Grants	-92	0	-92
Local Authority Mortgage Scheme (LAMS)	-89	0	-89
Private Sector Housing - Green Home/Enforcement	-116	0	-116
New Burdens - Young Persons	-78	15	-63
Contract Cost Provision	-89	0	-89
Other Reserves	-765	49	-716
REVENUE EARMARKED RESERVES	-11,622	3,093	-8,530
Computer Reserves	-373	124	-249
Target Hardening	-100	0	-100
COMF - WCC	-200	0	-200
CCTV Replacement Fund	-317	44	-273
Etone Astroturf	-159	-67	-226
Cemeteries Development Fund	-122	-4	-126
Skate Parks	-118	-8	-126
General Fund - Capital	-833	201	-632
Vehicle Replacement	-49	-344	-394
Other Reserves	-313	25	-288
CAPITAL EARMARKED RESERVES	-2,585	-28	-2,613
TOTAL GENERAL FUND RESERVES	-14,207	3,064	-11,143

Nuneaton & Bedworth
United to Achieve

Agenda item: 16

Cabinet

Report Summary Sheet

Date: **26 July 2023**
Subject: **Annual Treasury Management Report 2022/23**
Portfolio: **Finance and Corporate (Councillor S. Croft)**
From: **Strategic Director – Finance & Governance**

Summary: To report the results of the Council's Treasury Management activities for 2022/23 as required by the Prudential Code.
Recommendations: That it be recommended to Council that: • The actual 2022/23 Treasury and Prudential Indicators detailed in this report and summarised in Appendix 1 be approved. • The Annual Treasury Management Report for 2022/23 be noted.
Options: None

Reasons:

It is a requirement of the CIPFA Prudential Code for the Treasury Outturn to be reported to Council annually following review by the Cabinet.

Consultation undertaken with Members/Officers/Stakeholders

N/A

Subject to call-in:

No – Statutory requirement for report to be submitted to Cabinet and Council prior to end of October.

Ward relevance:

None directly

Forward plan:

Yes

Building a Better Borough Aim:

Work

Building a Better Borough Priority:

Grow a strong and inclusive economy.

Relevant statutes or policy:

Local Government Act 2003
CIPFA Code of Practice on Treasury Management
CIPFA Prudential Code for Capital Finance in Local Authorities

Equalities Implications:

None

Human resources implications: None
Financial implications: As detailed within the report.
Health Inequalities Implications: None
Section 17 Crime & Disorder Implications: None
Risk management implications: Investment and borrowing decisions have been based on the approved Treasury Strategy 2022/23 and with approved counterparties.
Environmental implications: None
Legal implications: Statutory requirement to report to Council per the Local Government Act 2003 and the CIPFA Prudential Code.

Contact details: Vicki Summerfield – Strategic Director – Finance & Governance Victoria.summerfield@nuneatonandbedworth.gov.uk

AGENDA ITEM NO. 16

NUNEATON AND BEDWORTH BOROUGH COUNCIL

Report to: **Cabinet - 26 July 2023**

From: **Strategic Director - Finance & Governance**

Subject: **Annual Treasury Management Report 2022/23**

Portfolio: **Finance & Corporate (Councillor S. Croft)**

Building a Better Borough Aim: Work

Building a Better Borough Priority: Grow a strong and inclusive economy.

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1. Purpose of Report

1.1 This Council is required through regulations issued under the Local Government Act 2003 to produce an Annual Treasury Report reviewing the treasury management activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 This report summarises the following:-

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

2. Introduction

2.1 During 2022/23 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Council: 14th February 2022);
- A mid-year treasury update report (Council: 14th December 2022);

- An annual review following the end of the year describing the activity compared to the strategy (this report).

2.2 The regulatory environment places a much greater onus on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

2.3 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Cabinet before they were reported to the full Council.

3. <u>Recommendations</u>

3.1 That it be recommended to Council that:

- The actual 2022/23 Treasury and Prudential Indicators detailed in this report and summarised in Appendix 1 be approved.
- The Annual Treasury Management Report for 2022/23 be noted.

4. <u>The Economy and Interest Rates</u>

4.1 UK Economy

The war in the Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending. Central Bank rhetoric and actions remained consistent with combatting inflation.

Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

Following the decision by the UK government to reverse some of the support to household energy bills announced previously, further support in the form of a cap on what energy suppliers could charge households was announced in the March Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April.

Starting the year with CPI at 5.5%, this rose strongly throughout the year, peaking at 11.1% in October 2022. It is expected that the CPI measure of inflation will drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%. RPI has followed a similar trajectory during the year peaking at 14.2% in October. RPI was 13.8% in February 2023.

The labour market remained tight albeit there was evidence of some potential loosening by the end of the period. The UK unemployment rate fell through 2022 to a 48-year low of 3.6% from July to September quarter, rising to 3.7% for the period October to February.

Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

The £ has remained resilient, recovering from a record low of $1.035 up to $1.23. 2023 however is likely to see a housing correction as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

4.2 **World Economy**

USA. After reaching 9.1% in June, inflation slowed for eight consecutive months to 6% in February 2023. The Federal Reserve continued raising interest rates over the period taking rates to a range of 4.75% - 5.00%.

EU. The Eurozone inflation rate has fallen to 6.9%, from a peak of 10.6% in October. The European Central Bank increased interest rates over the period with the deposit facility rate to 3.0% and the refinancing rate to 3.5% in March 2023. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

4.3 **IFRS 9 fair value of investments**

Following the consultation undertaken by the Department of Levelling Up, Housing and Communities [DLUHC] on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

In 2022/23, the Council made a £362k loss on the movement in fair value of the investment held with CCLA (pooled property fund), with the net impact held in an unusable reserve as per the statutory override.

4.4 **IFRS 16 leases**

The implementation of IFRS16 which brings currently off-balance sheet leased assets onto the balance sheet has been delayed until 2024/25.

5. Treasury Position as at 31st March 2023

5.1 The Council’s treasury management debt and investment position is organised by the treasury management service to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2022/23 the Council's treasury position was as follows:

DEBT PORTFOLIO	31.3.22 Principal	Rate/ Return	31.3.23 Principal	Rate/ Return
Fixed rate funding:				
-PWLB	£70.71m	3.15%	£62.21m	3.20%
-Market	£2.00m	4.10%	£2.00m	4.10%
Total debt	**£72.71m**	**3.17%**	**£64.21m**	**3.22%**
CFR	**£103.28m**		**£99.54m**	
Over / (under) borrowing	**(£30.57m)**		**(£35.33m)**	
Total investments	**£40.12m**	**0.53%**	**£26.62m**	**3.67%**
Net debt	**£32.59m**		**£37.59m**	

The Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources (£m)	**31.3.22**	**31.3.23**
Balances	£7.81m	£7.47m
Earmarked reserves	£19.16m	£16.45m
Grants and contributions	£11.64m	£16.81m
Usable capital receipts	£2.50m	£3.43m
HRA Major Repairs Reserve	£2.06m	£2.02m

6. <u>The Strategy for 2022/23</u>

6.1 **Investment strategy and control of interest rate risk**

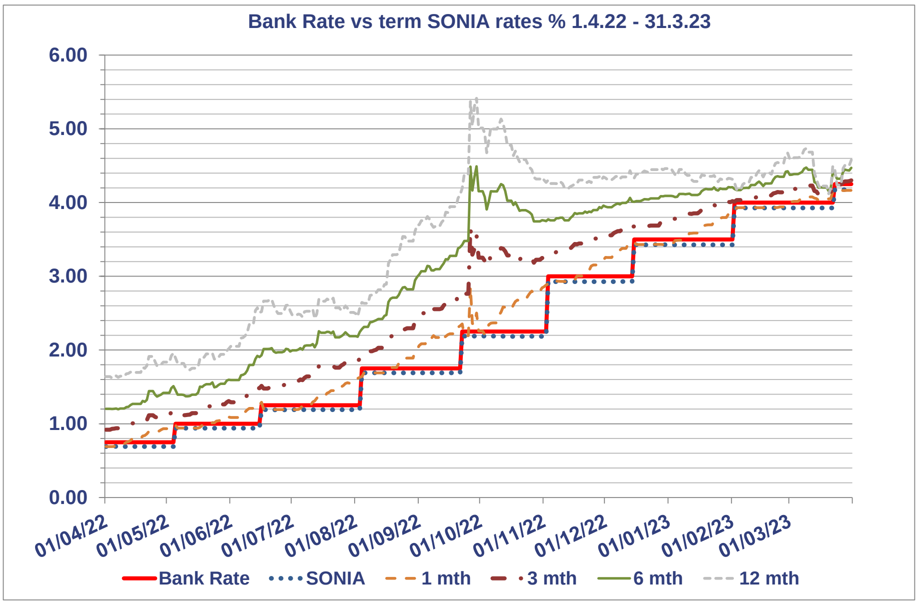
Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield.

The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
Bank Rate has increased from 0.75% at the beginning of the year to 4.25% at the end of March 2023. Short dated cash rates, which had ranged between 0.7% - 1.5% at the beginning of April, rose by around 3.5% for overnight/7-day maturities and 3.3% for 6-12 month maturities.

Given the risk of short-term unsecured bank investments, the Authority has diversified into higher yielding asset classes (CCLA fund) and continues to hold £2m in the pooled property fund.

While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis.

Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.



6.2 **Borrowing Strategy and control of interest rate risk**

During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement) was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered.

A cost of carry generally remained in place during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns. As the cost of carry dissipated, the Council sought to avoid taking on long-term borrowing at elevated levels.

The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this has been kept under review to avoid incurring higher borrowing costs in the future when this Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Finance & Enterprise therefore monitored interest rates in financial markets.

Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. Currently the CPI measure of inflation is still above 10% in the UK but is expected to fall back towards 4% by year end.

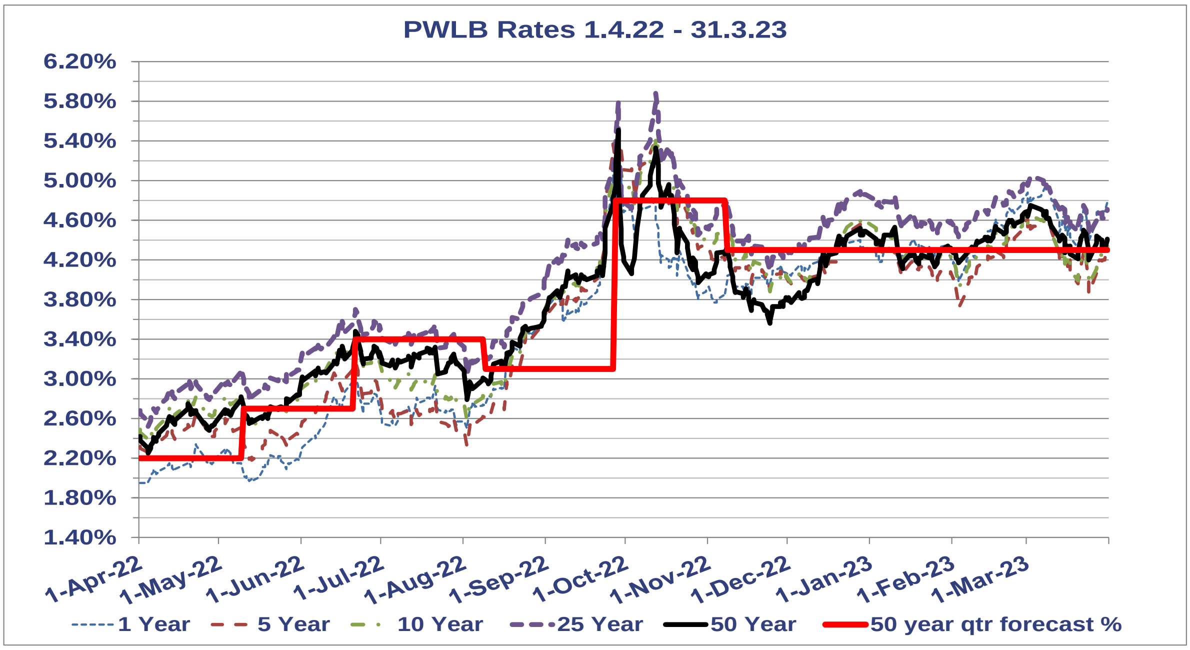
Interest rate forecasts at the time of compiling the 2022/23 Strategy were as follows:

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

The 12-month period to December 2022 has shown significant increases in interest rate forecasts.

Link Group Interest Rate View 19.12.22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields.



Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years.

In recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly.

Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently, yields are broadly range bound between 3% and 4.25%.

At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the Consumer Price Index measure) moves closer to the Bank of England's 2% target.

7. The Borrowing Requirement and Debt

7.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The following summarises the CFR position, split between General Fund and the HRA:

CFR (£m): General Fund	31.3.22 Actual	31.3.23 Actual
Opening balance	14.96	19.81
Add unfinanced capital expenditure	5.34	4.91
Less MRP/VRP*	0.49	0.50
Closing balance	19.81	24.22

CFR (£m): HRA	31.3.22 Actual	31.3.23 Actual
Opening balance	79.11	83.47
Add unfinanced capital expenditure	4.36	0.36
Less VRP	0	8.50
Closing balance	83.47	75.32

8. Borrowing Outturn

8.1 Treasury Borrowing at the end of 2022/23 amounted to a total of £62.21m. Due to investment concerns, both counterparty risk and comparatively low investment returns, no borrowing was undertaken during the year.

8.2 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

8.3 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

8.4 During 2022/23, £8.5m in repayments of principal were made and interest of £2.2m was paid across both the General Fund and HRA.

9. Investment Outturn

9.1 **Investment Policy**

The Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 14th February 2022. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

9.2 **Investments held by the Council**

- The Council maintained an average balance of £38.10m of internally managed funds.
- The internally managed funds earned an average rate of return of 1.24%.
- Total investment income was £1,082k compared to a budget of £497k.

10 Conclusion

10.1 As is highlighted within this report, 2022/23 has seen a marked change in the financial markets but with no beneficial opportunities for rescheduling or repayment of debt.

10.2 Despite these difficulties, all the prudential limits and indicators are reported with no breaches during the year.

Appendix 1: Prudential and Treasury Indicators

During 2022/23, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	**31.3.22 Actual**	**31.3.23 Actual**
Capital Expenditure • General Fund • HRA • Total	 £21.60m £14.80m £36.40m	 £18.79m £16.46m £35.25m
Capital Financing Requirement: • General Fund • HRA • Total	 £19.81m £83.47m £103.28m	 £24.22m £75.32m £99.54m
External debt	£72.71m	£64.21m
Investments	£40.12m	£26.62m
Net debt (debt less investments)	£32.59m	£37.59m

Capital Financing Requirement

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2022/23 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

The Council's (non HRA) 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 of the non-Housing Revenue Account (HRA) borrowing need, (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total 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) each year through a Voluntary Revenue Provision (VRP).

The Council's 2022/23 MRP Policy, (as required by DLUHC Guidance), was approved as part of the Treasury Management Strategy Report for 2022/23 on 14th February 2022.

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 capital financing requirement in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2022/23. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31.3.22 Actual	31.3.23 Actual
Gross borrowing position	£72.71m	£64.21m
CFR	£103.28m	£99.54m
(Under) / over funding of CFR	(£30.57m)	(£35.33m)

The authorised limit

The authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2022/23 the Council has maintained gross borrowing within its authorised limit.

The operational boundary

The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

	2022/23 Original	2022/23 Outturn
Authorised limit	£160.12m	£120.28m
Operational boundary	£143.12m	£99.54m
Maximum gross borrowing position during year		£72.71m
Average gross borrowing position during year		£66.40m

Debt and investments

DEBT PORTFOLIO	31.3.22 Principal	Rate/ Return	31.3.23 Principal	Rate/ Return
Fixed rate funding:				
-PWLB	£70.71m	3.15%	£62.21m	3.20%
-Market	£2.00m	4.10%	£2.00m	4.10%
Total debt	**£72.71m**	**3.17%**	**£64.21m**	**3.22%**
CFR	**£103.28m**		**£99.54m**	
Over / (under) borrowing	**(£30.57m)**		**(£35.33m)**	
Total investments	**£40.12m**	**0.53%**	**£26.62m**	**3.67%**
Net debt	**£32.59m**		**£37.59m**	

The maturity structure of the £64.21m debt portfolio was as follows:

	31.3.22 actual	**31.3.23 actual**
Under 12 months	£8.50m	£7.50m
12 months and within 24 months	£7.50m	£10.00m
24 months and within 5 years	£32.00m	£34.75m
5 years and within 10 years	£16.71m	£3.96m
Over 10 years	£8.00m	£8.00m

Debt	**31 Mar 2022 Actual**	**31 Mar 2023 Actual**
Under 12 months	12%	12%
12 months to 2 years	10%	16%
2 to 5 years	44%	54%
5 to 10 years	23%	6%
10 to 20 years	5%	6%
20 to 30 years	-	-
30 to 40 years	3%	3%
40 to 50 years	-	-
Over 50 Years	3%	3%

The maturity structure of the investment portfolio was as follows:

INVESTMENT PORTFOLIO	31.3.22 Actual £m	31.3.22 Actual %	31.3.23 Actual £m	31.3.23 Actual %
Instant Access (Bank & Money Market Funds)	£9.93m	26%	£4.79m	18%
Notice Accounts and Fixed-Term Deposits	£28.0m	69%	£20.0m	75%
CCLA Property Fund	£2.19m	5%	£1.83m	7%
TOTAL TREASURY INVESTMENTS	£40.12m	100%	£26.62m	100%

Appendix 2: Approved countries for investments as at 31.03.2023

Based on lowest available rating

AAA
- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+
- Canada
- Finland
- U.S.A.

AA
- Abu Dhabi (UAE)
- France

AA-
- Belgium
- Qatar
- U.K.