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Date: 10<sup>th</sup> February 2023

Dear Sir/Madam,

**Addendum Council – 13<sup>th</sup> February, 2023**

1. I refer to item no 9 on the agenda and attach the Cabinet report to Council that was marked to follow (**Page 4**)
2. I refer to item no.11c on the agenda and following the consideration of the item at Cabinet held on 8<sup>th</sup> February 2023, attach the General Fund Revenue Budget 2023/24 report that was marked to follow (**Page 7**). Cabinet agreed:
  - a) the forecast outturn position for the General Fund for 2022/23 be noted;
  - b) the Council Tax requirement for 2023/24 of £10,039,237, an increase of 2.99% on a Band D, is recommended to Council for approval in accordance with the Local Government Finance Act 1992;
  - c) the NNDR1 has been completed and submitted to the Department for Levelling Up, Housing and Communities (DLUHC) and included within the Budget for 2023/24 with a precept for Nuneaton and Bedworth Borough Council (NBBC) of £14,979,616 in 2023/24 be noted;
  - d) any increases in Fees and Charges for 2023/24 (see separate corrigendum to the report for Appendix 4) be approved;
  - e) the net General Fund revenue expenditure budget of £16,906,464 be agreed and recommended to Council for approval (Appendix 1 of the report);
  - f) delegated authority be given to the Director – Regeneration & Housing and the Head of Economic Development & Communities in consultation with the Portfolio holder for Business & Regeneration to undertake procurement activities to deliver against the 2023/24 priorities set out as part of the UK Shared Prosperity Fund (UKSPF);
  - g) delegated authority be given to the Director – Public Services in consultation with the Portfolio Holder for Public Services to formally accept, subject to confirmation of match funding from other relevant bodies, the award of the £750k revenue grant from Arts Council England to

**increase the level of cultural activity across the Borough and finalise contractor arrangements;**

**h) the existing Local Council Tax Support Scheme be approved for use in the financial year 2023/24;**

**i) Members' Allowances and Special Responsibility Allowances for the financial year 2023/24 not be increased; and**

**j) the report be not subject to call-in due to the timescales for setting the budget and Council Tax for 2023/24 as provided for in paragraph 15(f) of the Overview and Scrutiny Procedure Rules in Part 4 of the Constitution.**

3. I refer to item no. 11d on the agenda and following the consideration of the item at Cabinet held on 8<sup>th</sup> February 2023, attach the Housing Revenue Account Budget 2023/24 report that was marked to follow **(Page 26)**. Cabinet agreed:

**a) the forecast outturn position for the HRA for 2022/23 be noted;**

**b) the net budget of £254,232 for 2023/24 be agreed and recommended to Council for approval;**

**c) a rent increase on dwellings of 6.75%.be agreed and recommended to Council for approval;**

**d) the Homeless Hostel rents increase of 32% is agreed and recommended to Council for approval;**

**e) Fees and Charges for the HRA (Appendix 2 of the report) be recommended to Council for approval; and**

**f) the report be not subject to call-in due to the timescales for setting the budget and Council Tax for 2023/24 as provided for in paragraph 15(f) of the Overview and Scrutiny Procedure Rules in Part 4 of the Constitution.**

4. I refer to Item no 11e on the agenda and following the consideration of the item at Cabinet held on 8<sup>th</sup> February 2023, attach the Capital Budget 2023/24 report that was marked to follow **(Page 37)**. Cabinet agreed:

**a) the budget for 2023/24 be recommended to Council for approval.**

**b) the forecasted capital programme for 2022/23 be noted and the amended budget be recommended to Council for approval.**

**c) delegated authority be given to the Director – Housing & Regeneration to carry out procurement exercises in accordance with the Council's Contract Procedure Rules in order to deliver the capital programme for the HRA and General Fund.**

**d) the report be marked not subject to call-in due to the timescales for setting the budget and Council Tax for 2023/24 as provided for in paragraph 15(f) of the Overview and Scrutiny Procedure Rules in Part 4 of the Constitution.**

5. I refer to item no. 11g on the agenda and following the consideration of the item at Cabinet held on 8<sup>th</sup> February 2023, attach the Treasury Strategy and Budgetary Framework 2023/24 report that was marked to follow (**Page 52**). Cabinet agreed:

**a) the proposed Treasury Strategy and Budgetary Framework 2022/23, as detailed in Appendix J of the report (Page 95) be agreed and submitted to full council for approval including:**

- **Treasury Strategy**
- **Treasury and Prudential Indicators**
- **MRP Policy Statement**
- **Capital Resource Allocations**

**b) this report be marked not for call in on the grounds of urgency due to requiring full council approval on 13<sup>th</sup> February 2023.**

Yours faithfully,

BRENT DAVIS

Chief Executive

To: Members of the Council

## Cabinet Report to Council February 2023

### **1. Introduction**

This report deals with the Cabinet meetings held on 11<sup>th</sup> January 2023, and 1<sup>st</sup> February 2023.

It also includes details of any reports from the West Midlands Combined Authority Board, which have, or may have in the future, a direct impact on NBBC, namely the Board meeting held on 16<sup>th</sup> December 2022 and 13<sup>th</sup> January 2023.

### **2. 11<sup>th</sup> January 2023 - Cabinet Meeting**

#### **a) Procurement of Electricity – Finance and Corporate – Councillor S. Croft (Key Decision)**

The Cabinet agreed to award a new service contract with the Eastern Shires Purchasing Organisation (ESPO) which will allow the Council to benefit from the economies of scale as part of a consortia purchasing arrangement, obtaining fixed rates for each 12-month period and a comprehensive bill validation service for example. By securing a contract the council minimises a risk of non-supply or financial uncertainty.

#### **b) Water Safety Policy – Health and Environment – Councillor J. Gutteridge (Key Decision)**

Cabinet agreed the adoption of the Councils Water Safety Policy which will provide clarity to management, officers and contractors when undertaking water safety inspections and associated activities resulting from those findings.

#### **c) Arrangements for Short Notice Burials – Health and Environment – Councillor J. Gutteridge (Key Decision)**

Cabinet approved the adoption of the Arrangements for Short Notice Burials Policy which will provide clarity to the applicant, Cemetery's Officer and contractors when undertaking a Short Notice Burial.

#### **d) Bedworth Physical Activity Hub (BPAH) - Update – Public Services – Councillor S. Markham (Key Decision)**

Cabinet received a report providing an update in relation to the BPAH with the revised cost to deliver the project being £34M. To prevent the increased costs and, subsequent financial strain this would have placed on the council by extending prudential borrowing by a further £6/7M, Cabinet agreed the recommendation to delay any further work on BPAH at this time until appropriate funding could be sourced.

## **Other items considered**

- Recommendations from Civic Honours Sub-committee
- Recommendation from Business, Regeneration and Planning OSP

### **3. 1<sup>st</sup> February 2023 Cabinet Meeting**

#### **a) Implementation to the Election Act 2022 and Voter ID for Nuneaton and Bedworth Borough Council – Finance and Corporate – Councillor S. Croft (Key Decision)**

The report outlined to Cabinet the statutory changes that the Election Act 2022 legislation will bring. The report summarised the requirement of Voter ID at the polling station before being issued a ballot paper in addition to other key changes. Cabinet noted the progress made by the Electoral Services Team and the key information on the Election Act which will come into force May 2023.

#### **b) Buttermere Recreation Ground Redevelopment – Health and Environment – Councillor J. Gutteridge (Key Decision)**

Cabinet approved the release of the consultation report and enabled the next phase of the redevelopment project to commence. The play area is 28 years old and is reaching the end of its lifespan, the project is utilising s106 planning obligation funding specifically for improving the park as per the legal agreements.

### **4. West Midlands Combined Authority (WMCA)**

In terms of items which have, or may have in the future, a direct impact on NBBC the WMCA Board meeting of 16<sup>th</sup> December 2022 considered:

- A report providing the WMCA Board with an interim update on the progress of the review of the West Midlands Growth Company initiated by the Economic Growth Board on 23 September 2022 and seeking in-principle agreement for funding for 2023/24, subject to an approved business case and steps to ensure efficiency. The findings of the review will report to the WMCA Board in February 2023 to support final decisions over funding for 2023/24.
- A report setting out key decisions for the WMCA Board to take on the scoping of the Commonwealth Games (CWG) Legacy Fund – a £70m resource investment that WMCA will be granted by DCMS from 75% of the unallocated contingency funding in the CWG budget.
- A report recommending approval of a refreshed Single Assurance Framework (September 2022) which had been updated in accordance with annual review requirements mandated by Government. The updated SAF now meets the National Local Growth Assurance Framework requirements, published by the Department for Levelling Up, Housing & Communities (DLUHC) in September 2021.

The WMCA Board meeting of 13<sup>th</sup> January 2023 considered:

- A report presenting the Draft 2023/24 Budget for consideration by the West Midlands Combined Authority Board to allow for feedback to inform the Final 2023/24 Budget set to be approved in February 2023.
- A report providing an update on the Combined Authority's finances as at 30 November 2022.

## **5. Conclusion**

This report is presented on behalf of Cabinet, and, as always, my colleagues and I are only too happy to take any questions in relation to this report.

Councillor K. Wilson  
Leader of the Council on behalf of Cabinet

**Cabinet/Individual Cabinet Member Decision**

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**Report Summary Sheet**

**Date:8<sup>th</sup> February 2023**

**Subject: General Fund Revenue Budget 2023/24**

**Portfolio: Finance & Corporate**

**From: Director – Finance and Enterprise**

**Summary:** The report presents the draft General Fund budget for 2023/24 for consideration and submission to Council for approval. A forecast outturn for 2022/23 is also included in the report.

**Recommendations:**

- That the forecast outturn position for the General Fund for 2022/23 be noted.
- That the Council Tax requirement for 2023/24 of £10,039,237, an increase of 2.99% on a Band D, is recommended to Council for approval in accordance with the Local Government Finance Act 1992
- To note that the NNDR1 has been completed and submitted to the Department for Levelling Up, Housing and Communities (DLUHC) and included within the Budget for 2023/24 with a precept for Nuneaton and Bedworth Borough Council (NBBC) of £14,979,616 in 2023/24.
- That Cabinet approve any increases in Fees and Charges for 2023/24

- That the net General Fund revenue expenditure budget of £16,906,464 is agreed and recommended to Council for approval

**Options:**

To accept the report or request further information, having regard to the legal deadlines for setting of budgets.

**Reasons:**

To comply with regulations.

**Consultation undertaken with Members/Officers/Stakeholders**

Finance officers, budget holders and portfolio holders have been consulted on draft budgets.

**Subject to call-in: No**

**Ward relevance: All**

**Forward plan: Yes**

**Building a Better Borough Aim: Work**

**Building a Better Borough Priority: To grow a strong and inclusive economy**

**Relevant statutes or policy:**

Local Government Act 2003  
Local Government Finance Act 1992

**Equalities Implications:**



**(Does this require an Equalities Impact Assessment? If so please append.)**

None

**Human resources implications:**

**None**

**Financial implications:**

Detailed in the report

**Health Inequalities Implications:**

**None**

**Section 17 Crime & Disorder Implications:**

**None**

**Risk management implications:**

All budgetary decisions will need to be risk assessed to ensure they are achievable and to be fully aware of any implications.

**Environmental implications:**

None

**Legal implications:**

The Council must set a risk assessed balanced budget each year. In addition, the Cabinet must comply with the Budget & Policy Framework Procedure Rules set out in section 4C of the Council's Constitution.

**Contact details:**

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**AGENDA ITEM NO.11c**

**NUNEATON AND BEDWORTH BOROUGH COUNCIL**

**Report to: Cabinet - 8<sup>th</sup> February 2023**

**From: Director – Finance & Enterprise**

**Subject: General Fund Revenue Budget 2023/24**

**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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**1.0 Purpose of Report**

- 1.1 To present the General Fund revenue budget for 2023/24 for approval.
- 1.2 To provide an update on the General Fund Medium-Term Financial Plan (Appendix 3) taking account of the Local Government Finance Settlement for 2023/24.

**2.0 Recommendations**

- 2.1 That the forecast outturn position for the General Fund for 2022/23 be noted.
- 2.2 That the Council Tax requirement for 2023/24 of £10,039,237, an increase of 2.99% on a Band D, is recommended to Council for approval in accordance with the Local Government Finance Act 1992
- 2.3 To note that the NNDR1 has been completed and submitted to the Department for Levelling Up, Housing and Communities (DLUHC) and included within the Budget for 2023/24 with a precept for Nuneaton and Bedworth Borough Council (NBBC) of £14,979,616 in 2023/24.
- 2.4 That Cabinet approve any increases in Fees and Charges for 2023/24 (Appendix 4).
- 2.5 That the net General Fund revenue expenditure budget of £16,906,464 is agreed and recommended to Council for approval (Appendix 1).
- 2.6 That delegated authority is given to the Director – Regeneration and Housing and the Head of Economic Development and Communities in consultation with the Portfolio holder for Business and Regeneration to

undertake procurement activities to deliver against the 2023/24 priorities set out as part of the UK Shared Prosperity Fund (UKSPF).

- 2.6 That the report is not subject to call-in due to the timescales for setting the budget and Council Tax for 2023/24 as provided for in paragraph 15(f) of the Overview and Scrutiny Procedure Rules in Part 4 of the Constitution.

### **3.0 Forecasted Outturn 2022/23 as at December 2022**

- 3.1 The General Fund revenue net expenditure budget for 2022/23 of £13.2m was approved at full Council in February 2022 with an initial budget gap of £1.5m being closed by introducing savings targets, additional income from the Local Government Finance Settlement plus increased investment income and a favourable forecast on the Collection Fund. In addition to this, growth pressures totalling over £2.1m were also included.

- 3.2 Cost and income pressures have been seen during the year, some of which are a direct link to the Covid-19 pandemic. There has also been some additional income generation that was unbudgeted which has helped to mitigate some of the overspend.

- 3.3 The forecasted overspend against the budget for 2022/23 as at Q3 is approximately £905k which is a reduction of £30k from Q2. Full detail will be reported to Cabinet in March 2023. The main areas of concern are as follows:

- Car parking income has not recovered at the rate expected after the pandemic resulting in a £550k shortfall
- Homelessness and the resulting loss of subsidy through Housing Benefit has been a significant cost in year with an anticipated overspend of £560k
- External Audit fees have increased due to the delay to the 2020/21 audit completion (£100k)
- Markets income reduction due to loss in traders (£25k) plus a delay in rental of office space in the Town Hall (£40k)

- 3.4 As noted at 3.2, there has been some additional income generation that is helping to mitigate the overspend as follows:

- Recycling income is significantly higher than expected due to increased tonnage resulting in approximately £250k more income
- Planning fee income is higher than anticipated with some large applications being received within the last few months (£120k)
- Investment income is also likely to be higher than budget, but a full review of longer-term investments is underway and will be reported as part of the Q3 report.

3.5 The overspend against budget is to be funded from earmarked reserves set-aside for the ongoing impact of the pandemic and financial resilience.

#### **4.0 Provisional Local Government Finance Settlement**

4.1 The provisional Local Government Finance Settlement was announced on 19<sup>th</sup> December 2022 and the budget has been updated.

4.2 The main points to note for the Council is that New Homes Bonus was payable in 2023/24 and the Lower Tier Services Grant payable as a one-off in 2022/23 was continued into 2023/24. In addition, shire district councils have had the referendum limits increased from 2% to 3% (or £5, whichever is higher) on Council Tax.

4.3 For the Council, the Settlement was favourable and has resulted in New Homes Bonus of £1,361k and Lower Tier Services Grant of £143k, neither of which were initially included in the draft budget.

4.4 In addition, the changes to the referendum limits has resulted in an increase of £100k in Council Tax for NBBC with a Band D of £255.94.

4.5 The funding streams are unlikely to change now in the current Parliament and therefore New Homes Bonus has been included within the MTFP for 2024/25. Detail on progress with the original Fair Funding Review - Needs and Resources is still unknown. Further detail regarding changes to the financial plan are included in section 6 of the report.

#### **National Non-Domestic Rates (NNDR)**

4.6 The return for NNDR forecasting the income position for 2023/24 has been submitted to DLUHC and a summary of the position included within the budget is included in the following table.

	2022/23 £	2023/24 £	Movement £
Income after Levy	14,661,580	16,170,563	1,508,983
Surplus / (Deficit)	-1,723,300	159,299	1,882,599
Tariff	-9,414,491	-11,045,830	-1,631,339
	3,523,789	5,284,032	1,760,243

4.7 Due to the pandemic, business rates was impacted significantly with much lower levels of income generation due to the Government introducing new business rates reliefs to support businesses through the periods of closure. This resulted in large deficits on the fund which local authorities were able to spread over a three-year period through legislation. The Council is now expecting to return a surplus in 2022/23, payable to the General Fund in 2023/24, due to growth.

4.8 A large increase in the provision for appeals has been included within the NNDR return as a revaluation of business rates has been implemented for 1<sup>st</sup> April 2023 and this will undoubtedly result in a peak in claims against the amended rateable values.

## 5.0 **Budget Position 2023/24**

5.1 The draft budget was presented to Cabinet in December 2022 and a deficit position of £2.5m was reported.

5.2 Work has been undertaken to bridge the budget gap with savings and income generation accompanied by the Local Government Finance Settlement have resulted in a balanced budget position for 2023/24.

5.3 Additional pressures were highlighted during the finalisation of the budget and a breakdown of the final position is summarised in the following table.

	2023/24 £'000
General Fund Draft Budget Deficit	2,518
Pay Award Assumption Increase to 5%	320
Benefit Subsidy Losses Provision	100
MRP Review	66
Leverage Funding - Arts Council	38
Council Tax Surplus reduction	32
Creative Explorer Project Manager Post	31
Provision for Additional Play Equipment	25
Cost Pressures	612
Third Sector Grants	-18
Council Tax Increase to 2.99%	-100
Financial Settlement Contribution	-200
Deletion of Vacant Posts	-292
Service Reviews and Restructures	-321
Fees and Charges Increases	-494
Expenditure Savings	-614
NNDR	-1,093
Savings/Income Generation	-3,133
Surplus	-3

5.4 The additional income received within the Settlement is not proposed to be included in full during 2023/24 with only £200k being utilised. The balance of £1.3m is to be earmarked for financial resilience and transformation projects to generate savings into the future. Savings will

be required into the future to ensure financial sustainability of the Council. Refer to section 6 and the detail around the MTFP.

- 5.5 Fees and Charges increases have been proposed (Appendix 4) and are expected to generate approximately £494k in 2023/24. This will be monitored closely throughout the year. The Council is aiming to move towards a cost recovery model and has reviewed the cost of delivering chargeable services. Further review will be undertaken throughout 2023/24.
- 5.6 As noted at 5.4, part of the Settlement is to be earmarked for transformation projects. It is expected that review of services will be undertaken which will generate further savings. There are restructures currently underway that are now built into the budget for 2023/24 and a review of vacant posts has been undertaken and these have been deleted where this is deemed appropriate.
- 5.7 Following full review of the expenditure budget, numerous savings have been put forward (Appendix 2). Where savings have been proposed, these have been fully reviewed prior to inclusion in the budget.
- 5.8 A review of third sector grant payments has been conducted. It is proposed to remove 50% of grant funding to two external bodies and consultation will be undertaken pending approval at Council.
- 5.9 The staff pay award was originally included as a 3% increase but after the settlement of the pay dispute late in 2022 being higher than anticipated and the current proposals being put forward by the unions have been considered, it is prudent to increase this provision.
- 5.10 Due to the impact of homelessness and the additional costs incurred by losses of benefit subsidy, additional provision has been built into the budget for 2023/24.
- 5.11 During the 2022/23 budget round it was identified that the replacement and renewal of parks and play equipment in the Borough requires additional investment. At this stage £50k was built into the base. It is proposed to increase this by a further £25k in 2023/24.
- 5.12 The Council has been successful in achieving a revenue grant from Arts Council of £750k for an increased level of cultural activity across the borough. This will benefit local communities as contributors, participants and audiences and will attract large visitor numbers into the borough. Nuneaton and Bedworth are the only council in the West Midlands to receive such an award. The contribution from the Council to carry out the requirements of the grant is £37.5k per annum and a 25 hour post will be required to manage the grant and events at a cost of £30k for a two year period. This has been built into the base budget.

- 5.13 Savings and income generation targets will be measured during 2023/24 and reported to Overview and Scrutiny at least bi-annually. It is key for longer term financial sustainability that the Council ensures proposed savings and income generation targets are realised.

## 6.0 **Medium-Term Financial Plan (MTFP)**

- 6.1 A revised Medium-Term Financial Strategy was reported to Cabinet in November 2022 and was noted in the report that the Plan that accompanies the Strategy will be updated and presented during the budget process.
- 6.2 The MTFP includes all of the updates considered within this report and shows that a small surplus has been generated in year. A level of reserves is still set to be drawdown in 2023/24 with contributions also being made for future capital and strategy works.
- 6.3 A summary of the anticipated position in future years is included below with detail contained in Appendix 3.

### GENERAL FUND MEDIUM-TERM FINANCIAL PLAN

	Budget 2022.23 £'000	Forecast 2023.24 £'000	Forecast 2024.25 £'000	Forecast 2025.26 £'000	Forecast 2026.27 £'000
Portfolio Expenditure	17,390	18,581	19,306	19,688	20,090
Central Provisions	-4,212	-2,974	-1,637	-175	512
Additional Pressures/Opportunities	905	0	14	-85	-85
Total Funding	-13,180	-15,610	-15,082	-13,893	-14,264
Deficit	903	-3	2,602	5,535	6,253

- 6.4 The in year overspend is to be funded through covid grants set-aside during 2020/21 and the financial resilience reserve.
- 6.5 £2.5m of proposed savings and income generation has been put forward as part of the budget setting process and detail is included within the report. Transformation processes have started, and it is expected that a number of savings will be generated during 2023/24 that will be embedded into the base budget in 2024/25 and going forwards. These potential savings have not yet been built into the forecast.
- 6.6 There is still an expectation that reserve drawdowns will be required during 2023/24 and throughout the life of the plan. Some of these drawdowns however are for projects already committed to and capital works. Overall, the Council's earmarked reserves position is set to reduce significantly during the coming years and therefore it is

essential that process reviews are undertaken to generate efficiencies and revised ways of working.

6.7 At this stage, it is still unknown how the Government will look to fund local authorities into the future and due to the lack of certainty, it is impossible to predict accurately the potential savings that may need to be generated. A summary of assumptions included within the Plan is listed below:

- 2.5% salary increase from 2024/25 going forwards
- Inflation but only where contractual obligations exist
- Council Tax referendums will reduce back to 2% or £5 on a Band D - £5 is built in for 2024/25 reducing to 1.99% from 2025/26
- A 1% tax base increase per annum on Council Tax
- NNDR is assumed to face a reset in 2025/26 in line with original assumptions within the Fair Funding Review
- New Homes Bonus will cease from 2025/26
- No core funding grant income from Government is included after 2023/24
- Planning fee income is assumed to remain at the same level although a review of potential opportunity is being undertaken

## **7.0 Reserves**

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

7.2 As at 31<sup>st</sup> March 2022, the Council held £14.2m in specific earmarked reserves and there is an expected drawdown of approximately £4.7m from reserves during 2022/23. This is due to commitments already approved, funding that is set-aside for specific purposes plus the anticipated overspend during 2022/23.

7.3 A summary of earmarked reserves by category and anticipated drawdown is shown in the following table.



## GENERAL FUND EARMARKED RESERVES

	B/fwd Mar- 22 £'000	Forecast Mar-23 £'000	Forecast Mar-24 £'000	Forecast Mar-25 £'000	Forecast Mar-26 £'000	Forecast Mar-27 £'000
Collection Fund Timing	3,064	1,341	0	0	0	0
Financial Planning	599	499	434	384	0	0
Risk Based Reserves	3,970	3,130	1,130	830	830	830
General Balances	3,989	2,878	3,516	3,016	2,716	2,416
Capital	2,585	1,621	1,291	961	631	301
	<u>14,207</u>	<u>9,469</u>	<u>6,371</u>	<u>5,191</u>	<u>4,177</u>	<u>3,547</u>

7.4 Reserve levels are expected to fall over the life of the forecast but work is being undertaken to mitigate this risk. As with the MTFP, it is currently difficult to forecast anything past the next 12 months due to the uncertainty of funding. It is however clear that the Council needs to review its cost base and income generation opportunities as a matter of urgency.

7.5 For the purposes of the budget round and moving into 2024/25, there are sufficient reserves to cover known issues and potential risks, but a robust plan needs to be put in place around future service delivery with reduced resources to ensure financial stability.

### **8.0 Financial Risk Analysis**

8.1 As part of determining whether the Council has financial stability, risk analysis regarding the financial position needs to be considered.

8.2 The Council faces financial risks from a number of sources, some of which are unforeseen and to ensure the authority is able to operate, specifically statutory obligations, it is essential to understand the risks and ensure mitigation is in place.

8.3 Full risk analysis has been undertaken and is included in Appendix 5.

### **9.0 Statement of the S151 Officer**

9.1 In their role as the Council's S151 Officer (Chief Finance Officer), the Director – Finance and Enterprise is required, under S25 of the Local Government Act 2003, to provide an opinion of the robustness of the estimates included in the budget for the forthcoming year and the adequacy of the Council's reserves.

- 9.2 The Council's financial position has not altered greatly in the last few years with a need to generate savings and income being key. The budget setting process for 2023/24 is no different.
- 9.3 An overspend in the current financial year is placing additional pressure on the longer-term financial position of the Council and the proposed savings for 2023/24 must be measured to ensure that these are achieved for sustainability.
- 9.4 The Local Government Finance Settlement was favorable for the Council and has provided opportunity to earmark income for projects aimed at saving money and creating efficiencies which should improve the future financial position of the Council.
- 9.5 An amendment to the referendum limits on Council Tax was welcomed and an increase of 2.99% has been proposed within the budget. If approved this will provide much needed financial resource to ensure a sustainable position.
- 9.6 As noted in section 7 of the report, the Council holds reserves for risks and analysis conducted suggests that these are robust and will enable to support the Council over the coming 12 months. The budget is balanced, and a plan is in place to deliver savings over the next 2 years.
- 9.7 Considering the above, together with the proposals within the report, it is the view of the Director – Finance & Enterprise that the estimates for 2023/24 are robust and the proposed level of reserves are adequate.

## **10.0 Conclusion**

- 10.1 That a balanced budget is proposed and that a robust level of reserves are in place to support the Council's services during 2023/24.

## **11.0 Appendices**

- 11.1 Appendix 1 – Detailed Budget Breakdown
- 11.2 Appendix 2 – Savings Summary by Portfolio
- 11.3 Appendix 3 – Medium-Term Financial Plan
- 11.4 Appendix 4 – Fees and Charges 2023/24
- 11.4 Appendix 5 – Risk Analysis

## GENERAL FUND BUDGET 2023/24

	2022/23 Current Budget	2023/24 Draft Budget	2023/24 Final Budget
	£	£	£
<b>Business &amp; Regeneration</b>			
MARKETS & STREET TRADING	178,770	214,975	181,399
TOWN CENTRE MANAGEMENT	212,610	257,796	245,296
CHRISTMAS DECORATIONS	87,540	98,050	98,050
WEST MIDLANDS COMBINED AUTHORITY	25,000	25,000	25,000
CAR PARKS	(216,210)	472,058	340,083
PUBLIC PASSENGER TRANSPORT	29,410	30,852	25,652
PUBLIC CONVENIENCES	180,400	143,588	143,588
MARKETING, PROMOTIONS AND PUBLICITY	290,790	338,212	291,912
ECONOMIC DEVELOPMENT	638,490	645,680	569,680
	1,426,800	2,226,211	1,920,660
<b>Finance &amp; Corporate</b>			
RENT ALLOWANCES	145,320	257,142	357,142
RENT REBATES	1,127,560	1,053,427	1,053,427
ELECTORAL REGISTRATION	183,520	183,870	181,820
ELECTION EXPENSES	299,670	299,720	299,720
EQUAL OPPORTUNITIES	34,050	34,050	34,050
EMERGENCY PLANNING	27,760	26,120	26,120
DEMOCRATIC REPRESENTATION AND MANAGEMENT	668,820	691,889	691,889
REVENUES	697,960	775,434	612,666
COUNCIL TAX BENEFITS	296,700	297,970	161,435
CORPORATE MANAGEMENT	539,080	1,230,933	1,070,875
NON DISTRIBUTED COSTS	0	0	0
MAYORALTY	38,420	38,420	38,420
	4,058,860	4,888,975	4,527,564
<b>Health &amp; Environment</b>			
ENVIRONMENTAL PROTECTION	390,830	397,017	388,928
FOOD & OCCUPATIONAL SAFETY	344,220	352,544	352,544
HEALTH PROMOTION & INEQUALITIES	7,220	7,220	7,220
FOOTPATH LIGHTING	12,520	12,570	12,570
ENVIRONMENTAL PROJECTS	91,750	94,200	94,200
CEMETERIES	(58,750)	113,649	(39,276)
ALLOTMENTS	640	640	464
PARKS	2,156,080	2,294,194	2,319,194
ENVIRONMENTAL SUSTAINABILITY	71,050	71,050	71,050
	3,015,560	3,343,084	3,206,894

Housing & Communities			
HOUSING ADVICE CENTRE	256,670	292,217	158,217
PRIVATE SECTOR GRANTS	318,270	358,270	393,270
HOUSING STRATEGY	43,900	360,651	360,651
PRIVATE SECTOR HOUSING STANDARDS	231,400	241,711	241,711
MOBILE HOME SITES	(87,110)	(82,875)	(92,726)
COMMUNITY DEVELOPMENT	24,370	53,450	46,450
VOLUNTARY BODIES	157,090	157,130	157,130
COMMUNITY SAFETY	232,440	291,275	291,275
	1,177,030	1,671,829	1,555,978
Planning & Regulation			
LAND DRAINAGE WRKS	7,070	7,070	7,070
STREET NAMEPLATES	18,880	19,050	19,050
BUILDING CONTROL	49,060	49,060	49,060
DEVELOPMENT CONTROL	349,960	355,080	355,080
PLANNING POLICY & APPLICATIONS	390,700	407,948	542,948
COMMERCIAL PROPERTY	(1,042,260)	(1,024,824)	(1,025,324)
INDUSTRIAL ESTATES	(154,580)	(162,803)	(162,803)
LAND CHARGES	(10,010)	(10,010)	(10,010)
	(391,180)	(359,429)	(224,929)
Public Services			
REFUSE & CLEANSING	3,831,900	4,071,300	4,040,886
RECYCLING	1,515,920	1,597,847	1,268,101
COMMUNITY RECREATION	1,315,550	1,333,040	1,333,040
SPORTS DEVELOPMENT	237,310	237,076	182,076
CIVIC HALL	527,300	345,897	304,435
MUSEUM	441,890	445,963	307,463
ARTS DEVELOPMENT	13,030	13,030	51,030
LICENCES	34,210	41,728	41,728
COMMUNITY CENTRES	186,120	125,699	65,699
	8,103,230	8,211,580	7,594,458
Portfolio Total	17,390,300	19,982,250	18,580,625
Central Provisions	334,500	1,050,500	1,235,500
Depreciation & Impairment	(3,096,530)	(3,096,530)	(3,096,530)
Contributions To/From Reserves	(3,243,630)	(2,236,251)	(936,251)
Financing of Capital Expenditure	1,258,700	470,000	470,000
PWLB Premiums	21,120	21,120	21,120
Investment Income	(460,000)	(460,000)	(460,000)
Minimum Revenue Provision	536,000	592,000	654,000
External Interest	438,000	438,000	438,000
Total Council Net Expenditure	13,178,460	16,761,089	16,906,464
Council Tax	(9,743,704)	(9,939,000)	(10,039,237)
New Homes Bonus	(644,430)	0	(1,361,266)
General Government Grants	(420,100)	0	(143,405)

Business Rates Retention	(4,077,300)	(4,190,459)	(5,124,733)
NDR Collection Fund (Surplus)/ Deficit	1,723,300	0	(159,299)
Council Tax Collection Fund (Surplus)/ Deficit	(18,010)	(114,000)	(81,868)
Total Funding	(13,180,244)	(14,243,459)	(16,909,808)
(Surplus) / Deficit	(1,784)	2,517,630	(3,344)

## SAVINGS SUMMARY

## Appendix 2

	Pressure £'000	Saving £'000
<b>Business and Regeneration</b>		
Introduction of ANPR at Harefield and Ropewalk		40
Car Park savings due to closure		3
UKSPF funding for events		25
King's Coronation	20	
Queen's Jubilee		20
CCTV capital upgrade reducing annual revenue cost		10
Contributions towards one-off capital works		66
	20	164
<b>Finance &amp; Corporate</b>		
Freeze on Members Allowances		6
	0	6
<b>Housing and Communities</b>		
Hearing of Borough wide injunction	35	
	35	0
<b>Public Services</b>		
NNDR and cost savings at Museum		73
Increased income for Recycling		258
Refuse and Cleansing budget reductions		25
Increased budget for replacement bins	20	
Community Centre transfer to the community		60
Sport and Community cost savings		50
	20	467
<b>Central Services</b>		
IT software and hardware savings		53
	0	53
Total	75	689
		<u>614</u>
NET SAVING		

## GENERAL FUND MEDIUM-TERM FINANCIAL PLAN

	Budget 2022.23 £'000	Forecast 2023.24 £'000	Forecast 2024.25 £'000	Forecast 2025.26 £'000	Forecast 2026.27 £'000
<b>Portfolio</b>					
Business & Regeneration	1,427	1,921	1,976	2,034	2,093
Finance & Corporate	4,059	4,528	4,363	4,366	4,379
Health & Environment	3,016	3,207	3,267	3,329	3,392
Housing & Communities	1,177	1,556	2,142	2,209	2,277
Planning & Regulation	-391	-225	-189	-152	-115
Public Services	8,103	7,594	7,747	7,903	8,063
Portfolio Expenditure	17,390	18,581	19,306	19,688	20,090
<b>Accounting Adjustments</b>					
Depreciation	-3,097	-3,097	-3,097	-3,097	-3,097
Minimum Revenue Provision	536	654	675	651	644
Interest Payable	459	459	580	576	482
Interest Receivable	-460	-460	-368	-294	-236
Financing of Capital Expenditure	1,259	470	470	470	470
Contributions to/from reserves	-3,244	-2,235	-1,536	-536	-236
Central Provisions	335	1,235	1,640	2,056	2,484
Net Expenditure	13,178	15,607	17,669	19,513	20,602
<b>Provisions</b>					
Other Budget Pressures	65	0	0	0	0
Sherbourne Recycling	0	0	-107	-107	-107
Electoral Commission Review	0	0	21	22	22
Borough Election	0	0	100	0	0
External Audit Increase	100	0	0	0	0
Car Parking Income	550	0	0	0	0
Planning Income	-120	0	0	0	0
Recycling Savings	-250	0	0	0	0
Benefit Subsidy Losses	560	0	0	0	0
Additional Pressures	905	0	14	-85	-85
<b>Funding</b>					
NNDR	-2,354	-5,284	-4,734	-3,234	-3,284
Council Tax	-9,762	-10,121	-10,348	-10,659	-10,979
New Homes Bonus	-644	-1,361	-450	0	0
Lower Tier Services Grant	-165	-143	0	0	0
Set Aside for Transformation and Risk	0	1,300	450	0	0
Other Non-Specific Grants	-255	0	0	0	0
Total Funding	-13,180	-15,610	-15,082	-13,893	-14,264
Deficit	903	-3	2,602	5,535	6,253

## RISK ANALYSIS

Risk	Issue	Mitigation
Loss of Business Rate income	Business Rate appeals are a huge risk to the income base - the latest valuation alteration will increase this possibility in 23/24	An appeal of £5m is contained to cover the reduction in rateable value and £2m has been included in the forecast for future losses
Losses in other income	Reduction to core income through fees and charges due to less uptake from the public	No growth on core income such as planning fees has been included within the budget and known problems such as with car parking, has been built in
Recycling	Risk that the new recycling facility opening is delayed	Increased income in relation to the new recycling facility has not been included in the base budget un 2024/25
Local Council Tax Support Scheme	An increase in the uptake of the scheme could result in a loss on income for the Council and other Preceptors	The scheme can be reviewed and updated annually and close review of this area is regularly undertaken
Savings targets	Targets have been set and included within the detail of the budget to ensure a balanced position	The areas of saving have been thoroughly reviewed and are considered reasonable. A transformation programme is also underway to ensure achievement. Reports will be presented to OSP re progress



Uninsured losses	The Council holds a number of insurance policies but also self insures	There is a risk reserve in place of £670k to cover any potential issue
Inflation and interest rates	Inflation and interest is at an all time high currently	Inflation has been built into the base at a higher level for contractual obligations in 2023/24 and a pay award of 5% has also been factored in
Regeneration projects	The delay or increase in cost of projects can pose financial risks to the General Fund	Internal borrowing can be undertaken and there is no plan to borrow externally in 2023/24 for projects. Tenders are being fully reviewed and progress decided based on revised financial viability in the current climate

**Cabinet/Individual Cabinet Member Decision**

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**Report Summary Sheet**

**Date:** 8<sup>th</sup> February 2023

**Subject:** Housing Revenue Account Budget 2023/24

**Portfolio:** Finance & Corporate  
Housing & Communities

**From:** Director – Finance and Enterprise

**Summary:** The report presents the draft Housing Revenue Account budget for 2023/24 for consideration and submission to Council for approval. A forecast outturn for 2022/23 is also included in the report.

**Recommendations:**

- That the forecast outturn position for the HRA for 2022/23 be noted.
- That the net budget of £254,232 for 2023/24 is agreed and recommended to Council for approval.
- That a rent increase on dwellings of 6.75%. is agreed and recommended to Council for approval.
- That the Homeless Hostel rents increase of 32% is agreed and recommended to Council for approval.
- That Fees and Charges for the HRA are recommended to Council for approval.

**Options:**

To accept the report or request further information, having regard to the legal deadlines for setting of budgets.

**Reasons:**

To comply with regulations.

**Consultation undertaken with Members/Officers/Stakeholders**

Finance officers, budget holders and portfolio holders have been consulted on draft budgets.

**Subject to call-in: No**

**Ward relevance: All**

**Forward plan: Yes**

**Building a Better Borough Aim: Work**

**Building a Better Borough Priority: To grow a strong and inclusive economy**

**Relevant statutes or policy:**

Local Government Act 2003  
Local Government Finance Act 1992

**Equalities Implications:**

**(Does this require an Equalities Impact Assessment? If so please append.)**

None

<p><b>Human resources implications:</b> None</p>
<p><b>Financial implications:</b> Detailed in the report</p>
<p><b>Health Inequalities Implications:</b> None</p>
<p><b>Section 17 Crime &amp; Disorder Implications:</b> None</p>
<p><b>Risk management implications:</b> All budgetary decisions will need to be risk assessed to ensure they are achievable and to be fully aware of any implications.</p>
<p><b>Environmental implications:</b> None</p>
<p><b>Legal implications:</b> The Council must set a risk assessed balanced budget each year. In addition, the Cabinet must comply with the Budget &amp; Policy Framework Procedure Rules set out in section 4C of the Council's Constitution.</p>
<p><b>Contact details:</b>  Vicki Summerfield Victoria.summerfield@nuneatonandbedworth.gov.uk</p>

**NUNEATON AND BEDWORTH BOROUGH COUNCIL**

**Report to: Cabinet - 8<sup>th</sup> February 2023**

**From: Director - Finance & Enterprise  
Director - Housing & Regeneration**

**Subject: Housing Revenue Account Revenue Budget 2023/24**

**Portfolio: Finance & Corporate (Councillor S Croft)  
Housing & Communities (Councillor C Golby)**

**Building a Better Borough Aim: Work**

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

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**1.0 Purpose of Report**

1.1 To present the Housing Revenue Account (HRA) revenue budget for 2023/24 for approval.

**2.0 Recommendations**

2.1 That the forecast outturn position for the HRA for 2022/23 be noted.

2.2 That the net budget of £254,232 for 2023/24 is agreed and recommended to Council for approval.

2.3 That a rent increase on dwellings of 6.75%.is agreed and recommended to Council for approval.

2.4 That the Homeless Hostel rents increase of 32% is agreed and recommended to Council for approval.

2.5 That Fees and Charges for the HRA (Appendix 2) are recommended to Council for approval.

2.6 That the report is not subject to call-in due to the timescales for setting the budget and Council Tax for 2023/24 as provided for in paragraph 15(f) of the Overview and Scrutiny Procedure Rules in Part 4 of the Constitution.

### **3.0 Forecasted Outturn 2022/23 as at December 2022**

- 3.1 The HRA revenue budget for 2022/23 was approved by Cabinet and Council in February 2022. A deficit position was being budgeted of £1.3m.
- 3.2 During the year, cost pressures have been seen due to inflation and the pay award. The initial position six months into the year was assuming that the HRA may overspend by approximately £64k. This has now been revisited and with a review of rental income levels and a reduction on expenditure.
- 3.3 It is now assumed that an underspend of approximately £1m may be seen on the HRA. As noted earlier, expenditure is still higher than planned on materials and contractor costs due to inflation but underspends on consultancy and staffing are more than offsetting.
- 3.4 In addition, rental income is performing better than the budget assumption and capital expenditure is lower than planned which may result in a reduction of revenue contribution in year.
- 3.5 The full outturn position for Q3 has not been finalised and may alter from this assumption however, a surplus position is expected, and full detail will be reported to Cabinet in March.

### **4.0 Budget Position 2023/24**

- 4.1 The draft budget reported in December 2022 anticipated a deficit of £2,687k. After thorough review, savings have been put forward and updates have been made. The budget position is now a deficit of £254k. Detail is within Appendix 1.
- 4.2 Changes to the draft budget are listed in the following table.

	2023/24 £'000
Draft Budget Deficit Dec 2022	2,687
Repairs and Maintenance	290
Pay Award Provision increase to 5%	230
Cost Pressures	519
Recharge Savings due to General Fund Service Reviews	-60
Materials	-75
Consultancy Support	-240
Rental Income	-2,578
Savings / Income Generation	-2,953
Deficit	254

## **Budget Assumptions**

4.3 There have been a number of assumptions included within the budget as summarised below with further detail included within the proceeding commentary.

- A pay award provision of 5% for 2023/24
- The pension provision is in line with the latest triennial valuation finalised in November 2022
- An increase to contracted costs due to inflation
- Rental income has been increased at 6.75%
- Homelessness hostels are increased by 5%
- Utility costs have been increased in line with the Cabinet Addendum in December 2022
- Treasury budgets are in line with interest rate forecasts

4.4 Due to inflationary pressures, it is prudent to increase the budget for repairs and maintenance. This has been discussed with the relevant service managers and agreed as a sensible increase.

4.5 In line with the General Fund, the impact of the pay award in 2022/23 may well be another concern in 2023/24 and therefore the provision for the pay award has been increased from 3% to 5%.

4.6 A saving has been forecast on material spend as although inflation has impacted this area, the service managers are confident that the levels of materials required in 2023/24 can be contained within a smaller budget.

4.7 Due to service reviews being carried out on the General Fund, some of these savings will reduce internal recharges to the HRA so these have now been factored in.

4.8 A large consultancy budget has been included within the budget in previous years but has not been fully utilised. It is proposed to reduce this as no large projects that may require consultancy support are expected during 2023/24.

## **Rental Income**

4.9 The budget for 2022/23 was extremely prudent for rental income and a thorough review of the expected receipt has been undertaken. During 2022/23 it is expected that the HRA will be favourable on rental income.

4.10 Average rental income charges per week currently sit at £89.97 with an increase of 6.75% taking the average weekly charge to £96.04, an increase of £6.07 per week.

- 4.11 There are varying charges administered for housing rents due to the location of the dwelling, the size and type and whether the dwelling is classified as an affordable housing unit (generally new build properties).
- 4.12 In previous years, the Council has been able to increase rents by CPI + 1% but this was capped by the Government to a maximum of 7% for 2023/24 due to the increasing level of inflation. An increase of 6.75% has been proposed to ensure the risk posed to the HRA of rising costs due to inflation is reduced and longer-term financial sustainability is achieved.
- 4.13 Garage rent has been reduced by £15k due to the void levels and potential for development of sites. This reduction is included within the overall £2.5m increase in rents.
- 4.14 Increased income from homeless hostels has also been included in the rent increase noted in the table. The income generated from homeless hostels is fully recoverable from the Government through Housing Benefit.

## **5.0 Reserves**

- 5.1 The HRA has many risks around inflation but also legislative changes for decent homes standards, welfare reform and the direction on rent increases plus the level of Right to Buy.
- 5.2 Significant underspends have been seen in recent years which has helped contribute to reserve balances but where planned works haven't been completed, this poses further risk to the cost base into the future.
- 5.3 The reserve position on the HRA is healthy but there are significant risks and so close management of the expenditure base is essential. As at March 2022 the HRA had a general reserve balance of £6,472k which is likely to be topped up due to underspends in year. Earmarked reserve balance of £5,291k which includes risks for the Housing and Planning Act.
- 5.4 A detailed review of the Business Plan will be conducted in the summer to assess risks and opportunities. A full breakdown of the financial plan and reserves will be reported to Cabinet in the Autumn.

## **6.0 Conclusion**

- 6.1 A thorough review of the Business Plan will be undertaken in the summer with detail reported to Cabinet. At this stage however, the HRA is in a sustainable position and will continue to be so during 2023/24 and into the medium-term.



## 7. Appendices

7.1 Appendix 1 – HRA Budget 2023/24

7.2 Appendix 2 – Fees and Charges 2023/24

.

## HRA BUDGET 2023/24

Service	2022/23 Current Budget	2023/24 Draft Budget	2023/24 Final Budget
	£	£	£
<b>SUPERVISION &amp; MANAGEMENT - GENERAL</b>			
HRA General Expenses	2,961,670	2,999,132	2,743,132
HRA Repairs Management	2,060,370	2,099,325	2,049,325
Resident Involvement	59,810	59,820	59,820
Debt Management Costs	135,940	135,940	135,940
Increase in Bad Debt Provision	485,360	485,360	485,360
HRA share of Corporate and Democratic Core	178,000	178,000	178,000
HRA share of Non-Distributed Costs	57,680	57,680	57,680
Housing System	113,280	113,330	113,330
Development Strategy	515,750	521,282	521,282
	6,567,860	6,649,869	6,343,869
<b>SUPERVISION &amp; MANAGEMENT - SPECIAL</b>			
HRA Special Expenses	108,250	111,728	117,214
Independent Living (Previously Warden Schemes)	1,963,520	2,229,941	2,539,624
Homeless Hostels	97,880	101,792	104,604
Bedworth Hostel	117,090	125,347	137,211
Other Housing Schemes (Flats)	700,820	787,553	882,539
Grounds Maintenance	409,420	418,490	418,490
	3,396,980	3,774,851	4,199,682
<b>REPAIRS &amp; MAINTENANCE</b>			
Reactive Repairs	2,319,790	2,424,729	2,349,729
Call Out	63,170	84,173	84,173
R. + M. - Dwellings	192,550	192,550	250,550
R. + M. - Estate Management	20,000	20,000	77,954
Asbestos	145,000	145,000	145,000
R. + M. - Homeless Hostels	4,920	4,960	62,914
R. + M. - Shops & Other Co.	1,000	1,000	58,954
Planned Works - Outside Contractors	1,852,770	1,912,770	1,970,724
Outside Contractors - Not Depot Monitored	308,710	308,710	308,710
R + M - Voids	672,850	685,697	685,697
	5,580,760	5,779,589	5,994,405
<b>CAPITAL FINANCING COSTS</b>			
Cost of Capital Charge	0	0	0
Depreciation	8,724,000	8,724,000	8,724,000
Interest Payable	1,945,200	1,791,050	1,791,050

	10,669,200	10,515,050	10,515,050
INCOME			
Council House & Hostels-Income HRA	(24,243,690)	(24,243,690)	(26,822,090)
Interest Receivable	(36,800)	(36,800)	(36,800)
Non-Dwelling Rents	(583,510)	(583,510)	(572,510)
Other Income - Independent Living Schemes	(1,412,610)	(1,412,610)	(1,416,610)
Other Income - Services And Facilities	(650,910)	(650,910)	(650,910)
Other Income - Rechargeable Repairs	(22,000)	(22,000)	(22,000)
	(26,949,520)	(26,949,520)	(29,520,920)
APPROPRIATIONS			
Appropriations to / (from) MRR	0	0	0
Capital Expenditure funded by HRA (CERA)	2,296,620	2,492,620	2,492,620
Appropriations to/ (from) Revenue Reserves	(275,000)	0	0
	2,021,620	2,492,620	2,492,620
Support Services (Pay Award Provision)	0	0	229,526
Total HRA	1,286,900	2,262,459	254,232

	2022/23 Fee	2023/24 Proposed	% Change
<b><u>HOUSING REVENUE ACCOUNT</u></b>			
Independent Living charges -based on a 52 week recharge			
Independent Living Service charge	12.94	13.65	6%
Independent Living Support Service charge	4.91	5.19	6%
Well Being Service Charge ( new tenants only)	3.09	3.27	6%
Lifeline Service charge	2.51	2.69	7%
Homeless Hostel Rent (per room per night)			
Rent	37.99	50.00	32%
Service Charge	2.46	2.46	0%
Garage Rents (per week on a 52 week basis)			
Tenants	7.73	10.00	29%
Non – Tenants includes VAT	9.28	20.00	116%
Visitor Accommodation in Sheltered Schemes (per room per night)	9.10	15.00	65%
Additional Charges			
Retrospective Permission for Ex-council Tenants Alterations	115.30	115.30	0%
Information Regarding Ex-council Properties i.e. construction types, improvements	115.30	115.30	0%
Removal of Covenants to Ex-council Properties/Land (carried out by legal)	427.50	427.50	0%
Key Cutting/Replacement Service Including Key Fobs	18.00	19.00	6%
Key Cutting/Replacement Service Including Key Fobs for Scooter Housing Buildings	52.70	55.50	5%
Court Action to Obtain Access into Council Properties	403.90	403.90	0%
Rechargeable Works			
Various amounts depending on what work has been carried out			
Works charged to lease hold properties	87.40	87.40	0%
Copy of lease for lease holders	41.55	41.55	0%

**Cabinet/Individual Cabinet Member Decision**

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**Report Summary Sheet**

<b>Date:</b>	<b>8<sup>th</sup> February 2023</b>
<b>Subject:</b>	<b>Capital Budget 2023/24</b>
<b>Portfolio:</b>	<b>Finance &amp; Corporate</b>
<b>From:</b>	<b>Director of Finance &amp; Enterprise</b>

<p><b>Summary:</b></p> <p>The report presents the draft General Fund and Housing Revenue Account Capital Programme for 2023/24 for consideration and submission to Council for approval. A forecast outturn for 2022/23 is also included in the report.</p>
<p><b>Recommendations:</b></p> <ul style="list-style-type: none"><li>• To note the forecast outturn for the Capital Budgets for 2022/23 per Appendix 1.</li><li>• That the General Fund and Housing Revenue Account Capital Budgets for 2023/24, as detailed at Appendix 2, be agreed and submitted to Full Council for approval.</li></ul>
<p><b>Options:</b></p> <p>To accept the report or request further information, having regard to the legal deadlines for setting of budgets.</p>

**Reasons:**

To comply with regulations.

**Consultation undertaken with Members/Officers/Stakeholders**

Finance officers, budget holders and portfolio holders have been consulted on draft budgets.

**Subject to call-in:** No

**Ward relevance:** All

**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

Local Government Finance Act 1992

**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:**

All budgetary decisions will need to be risk assessed to ensure they are achievable and to be fully aware of any implications.

**Environmental implications:**

None

**Legal implications:**

The Council must set a risk assessed balanced budget each year. In addition, the Cabinet must comply with the Budget & Policy Framework Procedure Rules set out in section 4C of the Council's Constitution.

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**NUNEATON AND BEDWORTH BOROUGH COUNCIL**

**Report to:** Cabinet 8<sup>th</sup> February 2023

**From:** Director - Finance & Enterprise  
Director - Housing & Regeneration

**Subject:** Capital Budget 2023/24

**Portfolio:** Finance & Corporate (Councillor S Croft)  
Housing & Communities (Councillor C Golby)

**Building a Better Borough Aim: Work**

**Building a Better Borough Priority: Grow a Strong & Inclusive Economy**

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**1.0 Purpose of Report**

1.1 To present the capital budget and forecast for 2023/24 to 2025/26 for both the General Fund and Housing Revenue Account (HRA).

**2.0 Recommendations**

- 2.1 That the budget for 2023/24 is recommended to Council for approval.
- 2.2 That the forecasted capital programme for 2022/23 is noted and the amended budget recommended to Council for approval.
- 2.3 That delegated authority be given to the Director – Housing & Regeneration to carry out procurement exercises in accordance with the Council’s Contract Procedure Rules in order to deliver the capital programme for the HRA and General Fund.
- 2.4 That the report is not subject to call-in due to the timescales for setting the budget and Council Tax for 2023/24 as provided for in paragraph 15(f) of the Overview and Scrutiny Procedure Rules in Part 4 of the Constitution.

**3.0 Forecasted Outturn 2022/23 as at December 2022**

3.1 Nuneaton and Bedworth Borough Council has a large capital programme to provide community value and improve facilities. The Q3 outturn position for 2022/23 will be presented in detail to Cabinet in March but it is expected to have a large underspend during the year.



#### 4. **Capital Programme**

- 4.1 The Council's capital programme covers many projects for both the General Fund and Housing Revenue Account.
- 4.2 General Fund projects are developed in line with strategies reported to Cabinet/Council and are funded through Section 106 developer contributions, grant funding (from the Government and other external providers), internal and external borrowing plus capital receipts generated through asset sales.
- 4.3 HRA projects are mainly for refurbishment of council houses, disabled adaptations to council housing plus new build. They are funded from HRA reserves, capital receipts from Right to Buy plus grant income.
- 4.4 The capital budget for 2022/23 of £61,597,696 was approved in February 2022 at Council with an updated budget position reported of £65,305,570 to Cabinet in September 2022.
- 4.5 A summary of the General Fund and HRA forecasted expenditure versus budget is below alongside financing of the programme with further detail included in Appendix 1.

<b>Expenditure</b>	<b>Forecast £'000</b>	<b>Budget £'000</b>	<b>Variance £'000</b>
Business & Regeneration	44,373	49,276	4,903
Finance & Corporate	632	632	0
Housing & Communities	5,948	6,117	169
Public Services	6,824	9,014	2,190
Planning & Regulation	67	67	0
Health & Environment	0	100	100
Miscellaneous Schemes	100	100	0
	<b>57,943</b>	<b>65,306</b>	<b>7,362</b>
HRA	20,563	25,119	4,556
<b>Total Expenditure</b>	<b>78,506</b>	<b>90,425</b>	<b>11,919</b>

<b>Funding</b>	<b>Forecast £'000</b>	<b>Budget £'000</b>	<b>Variance £'000</b>
Earmarked Reserves / Revenue	5,251	5,641	390
Grant Income	21,908	26,841	4,933
Major Repairs Reserve	8,724	8,724	0
Capital Receipts / Grants	5,170	5,270	100
Prudential Borrowing	37,385	43,841	6,456
S106	67	107	40
<b>Total Funding</b>	<b>78,506</b>	<b>90,425</b>	<b>11,919</b>

## **General Fund**

- 4.6 The 2022/23 budget for the capital programme was updated in September 2022 to include carry forward of underspends from 2021/22.
- 4.7 Projects are projected to underspend by £7.36m on the General Fund and £4.55m on the HRA. This will be monitored with carry forwards being requested if required as part of the budget round in February 2023.
- 4.8 The key projected underspends on the General Fund are detailed below:
- Bridge to Living – the tender exercise has now concluded and is the process of evaluation. Works on site are expected to progress more slowly than initially forecast and therefore the spend in 2022/23 will be closer to £2.80m. This is potential underspend in year of £4.90m that will need to be reprofiled into 2023/24.
  - Bedworth Physical Activity Hub – a tender exercise has concluded for this project, but a value engineering process has been underway due to the cost to complete being a significant amount higher than is included within the budget. Due to this delay, it is expected that an underspend in year of £1.76m is likely but will need reprofiling into 2023/24.
  - Homeless Hostel Conversion – the project has funding secured of £0.20m which will not be enough to progress, and additional funding is being source. This project is unlikely to be started during 2022/23.
- 4.9 The progress of all projects will be monitored during the year with further updates reported to Cabinet.
- 4.10 A three-year capital programme is included in Appendix 2. The proposed General Fund capital budget for 2023/24 is 82,209,352. This is significantly higher than prior years due to slippage resulting in reprofiling of spend, as detailed above.

## **HRA**

- 4.11 The capital budget for the HRA was approved as £22,938,120 in February 2022 but an updated budget position was reported to Cabinet in September 2022 of £25,119,120 to include carry forwards of underspends from 2022/23.
- 4.12 Management of the HRA capital programme is based on scheduled works and progression of new build and acquisition targets. The budget as a whole is utilised by need of the customer and the most efficient

use of resources to ensure value for money and will therefore fluctuate against the initial forecasted expenditure by line in any one year.

- 4.13 New build and acquisition one of the main underspend areas with projects not progressing as quickly as had anticipated in year. Another area expected not to progress until 2023/24 is the replacement of vehicles. The specification is complete but the lead in time from ordering to delivery will push this into next financial year.
- 4.14 A three-year capital programme is included in Appendix 2. The proposed Housing Revenue Account capital budget for 2023/24 is 24,418,500.

### Capital Reserves

- 4.15 Reserves are held by the Council for capital purposes either generated through sales of assets, setting aside sums from underspends and receipts of grants for capital purposes.
- 4.16 The Council's capital reserve position at the end of March 2022 is as follows.

	<b>2021/22</b>
	<b>£</b>
Capital Receipts	545,282
Capital Earmarked Sums	2,999,881
Capital Grants	5,776,950
<b>General Fund</b>	<b>9,322,113</b>
Capital Receipts	486,610
1-4-1 Receipts	1,449,507
Capital Earmarked Sums	4,062,534
Major Repairs Reserve	932
<b>HRA</b>	<b>5,999,583</b>
<b>Capital Resources</b>	<b><u>15,321,696</u></b>

- 4.17 Capital reserves are allocated against specific projects with no residual unallocated amount available. This poses risks to any movement in the projected capital expenditure as there is nothing available to cover any fluctuations in expenditure.

### 5. Conclusion

- 5.1 The capital programme is fully funded in its present form and for there is expected to be slippage on projects in 2022/23. The biggest risk to the Council at this stage is the current economic landscape with

soaring inflation and price increases for building supplies. Some of the capital projects are either in the process of a tender exercise or have yet to be tendered and although contingencies are built into the projections, they may well not be high enough.

- 5.2 At this stage, only one of the projects is known to have resulted in a larger cost through tender than included in the budget. A value engineering process has been undertaken but conclusions to this are still under review. There is likely to be risks around the final costs of other projects, but these will be reviewed individually.

## 6. **Appendices**

- 6.1 Appendix 1 – Q2 Forecasted Capital Outturn 2022/23  
Appendix 2 – Capital Budget 2023/24

## 7. **Background Papers**

- 7.1 None.

**APPENDIX 1  
2022/23 ESTIMATED OUTTURN**

**GENERAL FUND CAPITAL PROGRAMME 2022/23**

	<b>Forecast £</b>	<b>Budget £</b>	<b>Variance £</b>	<b>Comments</b>
Transforming Bedworth	75,510	75,510	0	
Abbey Street Regeneration (Phase 1)	21,746,382	21,746,382	0	
Abbey Street Regeneration (Phase 2)	16,850,300	16,850,300	0	
Bridge to Living	2,800,000	7,703,240	4,903,240	Project re-profiled
Flood Alleviation	500,000	500,000	0	
Christmas Lights	4,500	4,500	0	
Towns Fund	2,247,835	2,247,835	0	
Towns Fund - Parks Revival	41,180	41,180	0	
Replacement CCTV Cameras	9,700	9,700	0	
CCTV Wireless Technology	52,957	52,957	0	
CCTV PSN Upgrade	44,408	44,410	2	
Vicarage Street	0	0	0	
<b>Business &amp; Regeneration</b>	<b>44,372,772</b>	<b>49,276,014</b>	<b>4,903,242</b>	
ICT Strategy Programme	398,540	398,540	0	
Business Continuity	34,540	34,540	0	
Changing Places	125,000	125,000	0	
Camp Hill Regeneration Scheme	73,480	73,480	0	
<b>Finance &amp; Corporate</b>	<b>631,560</b>	<b>631,560</b>	<b>0</b>	
HEART	4,520,000	4,520,000	0	
Empty Homes Works in Default	40,000	40,000	0	
Empty Property Loans	70,000	70,000	0	
Green Homes Phase 2	72,930	41,980	(30,950)	Project complete 100% funded by grant
Green Homes Phase 3	1,245,000	1,245,000	0	
Homeless Hostel Conversion	0	200,000	200,000	Project on hold until further funding can be identified
<b>Housing &amp; Communities</b>	<b>5,947,930</b>	<b>6,116,980</b>	<b>169,050</b>	
Major Repairs	365,750	365,750	0	
Vehicle & Plant Replacement	20,000	410,000	390,000	The 2 vehicles ordered will not be delivered until 2023/24
Sub-Regional Materials Recycling Facility	2,065,656	2,065,656	0	
Leisure Strategy	272,380	272,380	0	
Play & Teenage Provision	24,710	24,710	0	
Bedworth Physical Activity Hub	3,842,000	5,602,000	1,760,000	Aligned to LUF grant profile
Nomad Cameras	89,865	90,000	135	Project complete
Fly Tipping Cameras	5,000	5,000	0	
Pauls Land Pavilion	10,500	10,500	0	
Sandon Park/ Jack	27,870	27,870	0	

Whetstone Pavilion				
Preliminary Works - Riversley Park Bridge	0	40,000	40,000	Project forms part of Towns Fund Parks Revival which has been delayed
Cemetery Extension	100,000	100,000	0	
<b>Public Services</b>	<b>6,823,731</b>	<b>9,013,866</b>	<b>2,190,135</b>	
Town Hall - Fire Safety Works	67,150	67,150	0	
<b>Planning &amp; Regulation</b>	<b>67,150</b>	<b>67,150</b>	<b>0</b>	
Target Hardening Measures	0	100,000	100,000	Project needs a complete review prior to any procurement exercise as original scheme is now 3 years old
<b>Health &amp; Environment</b>	<b>0</b>	<b>100,000</b>	<b>100,000</b>	
<b>Miscellaneous Schemes</b>	<b>100,000</b>	<b>100,000</b>	<b>0</b>	
<b>TOTAL</b>	<b>57,943,143</b>	<b>65,305,570</b>	<b>7,362,427</b>	

## HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME 2022/23

	Forecast	Budget	Variance	Comments
	£	£	£	
Decent Homes	2,000,000	2,000,000	0	
Roof Coverings/Modifications	750,000	750,000	0	
Windows & Doors	700,000	700,000	0	
Door Entry Scheme	230,000	230,000	0	
New Properties (Construction)	1,300,000	1,987,510	687,510	Programme delays due to procurement and planning
Byford Court - Rebuild	630,000	1,498,610	868,610	Programme delays due to procurement and planning
Independent Living Unit - Remodelling	-	1,000,000	1,000,000	Hoping to start feasibility in the new year
Large Scale Improvement Feasibility	-	250,000	250,000	
Conversion of Homeless Hostel	50,000	50,000	0	
District Heating Works	335,000	335,000	0	
Fire Works (General Purpose)	2,875,000	2,875,000	0	
Acquisition of Properties	1,280,000	1,280,000	0	
Level Access Showers	500,000	500,000	0	
Aids & Adaptations	925,000	925,000	0	
Central Heating	900,000	900,000	0	
Slabs to Tarmac	100,000	100,000	0	
Lift Renewal Works	176,000	176,000	0	
PIR Electrical Works (Sheltered Housing & Communal)	550,000	550,000	0	
Voids	550,000	550,000	0	
Structural; Concrete Repairs/ Cladding	5,308,000	5,308,000	0	
Environmental Works	272,000	272,000	0	
Housing Management System	300,000	300,000	0	
CCTV Renewal - GP Flats	50,000	50,000	0	
Fire Damage Works	10,000	-	(10,000)	
Garages	50,000	50,000	0	
Replacement Vehicles	-	1,750,000	1,750,000	Specifications are complete and we are awaiting quotes. Orders will then be placed but there will be a lead in time which means the vehicles will not be delivered until 2023/24
Capital Salaries	572,000	572,000	0	
Contingency	150,000	160,000	10,000	
<b>TOTAL</b>	<b>20,563,000</b>	<b>25,119,120</b>	<b>4,556,120</b>	

**APPENDIX 2  
2023/24 BUDGETS**

**GENERAL FUND  
CAPITAL BUDGET  
2023/24**

	<b>Approved Budget 2022/23</b>	<b>Predicted Outturn 2022/23</b>	<b>Reprofiled into Future Years</b>	<b>2023/24 Proposed Budget</b>	<b>2024/25 Proposed Budget</b>	<b>2025/26 Proposed Budget</b>
	£	£	£	£	£	£
<b><u>Business &amp; Regeneration</u></b>						
Transforming Bedworth	75,510	75,510	0			
Abbey Street Regeneration Phase 1 & 2	21,746,382	9,000,000	12,746,382	34,000,000	19,859,092	
Bridge to Living	7,703,240	1,000,000	6,703,240	7,887,500	3,329,561	
Flood Alleviation	500,000	0	500,000	999,998		
Towns Fund	2,247,835	2,062,650	185,185	9,287,000	7,306,120	707,000
Towns Fund - Parks Revival	41,180	41,180	0	0	0	0
Christmas Lights	4,500	4,500	0	0	0	0
Replacement CCTV Cameras	9,700	9,700	0	0	0	0
CCTV Wireless Technology	52,957	52,957	0	0	0	0
CCTV PSN Upgrade	44,410	44,410	0	0	0	0
<b><u>Finance &amp; Corporate</u></b>						
ICT Capital Programme	398,540	398,540	0	140,000	100,000	100,000
Business Continuity	34,540	34,540	0	0	0	0
Changing Places	125,000	0	125,000	125,000	0	0
Camp Hill	73,480	73,480	0	0	0	0
<b><u>Housing &amp; Communities</u></b>						
Empty Homes - Works in Default	40,000	0	40,000	40,000	40,000	40,000
HEART	4,520,000	4,520,000	0	5,125,000	5,125,000	5,125,000
Empty Property Loans	70,000	0	70,000	100,000	100,000	100,000
Green Homes Phase 2	41,980	72,930	0	0	0	0
Green Homes Phase 3	1,245,000	1,245,000	0	0	0	0
Homeless Hostel Conversion	200,000	0	200,000	200,000	0	0
HUG2	0	0	0	733,000	1,002,000	0



Safer Streets - Stubbs Pool/The Dingle		92,000		38,000		
UKSPF Projects		96,000				
<b><u>Public Services</u></b>						
Major Repairs	365,750	365,750	0	250,000	250,000	250,000
Vehicle & Plant Replacement	410,000	25,000	385,000	270,000	683,000	674,000
Sub-Regional Materials Recycling Facility	2,065,656	2,200,000	0	439,854	0	0
Leisure Strategy	272,380	272,380	0	0	0	0
Play & Teenage Provision	24,710	24,710	0	0	0	0
Nomad Cameras	90,000	90,000	0	0	0	0
Fly Tipping Cameras	5,000	5,000	0	0	0	0
Bedworth Physical Activity Hub	5,602,000	602,000	5,000,000	21,898,000	4,711,860	0
Pauls Land Pavilion	10,500	10,500	0	0	0	0
Sandon Park/Jack Whetstone Pavilion	27,870	0	0	0	0	0
Preliminary Works - Riversley Park Bridge	40,000	0	0	0	0	0
Cemetery Extension	100,000	0	100,000	100,000	0	0
Play Area Improvements	0	61,000				
Stockingford Community Centre Grant		25,000				
Community Centre Grants				55,000		
Buttermere Recreation Ground Redevelopment		28,000		421,000		
<b><u>Planning &amp; Regulation</u></b>						
Town Hall - Fire Safety Works	67,150	67,150	0	0	0	0
<b><u>Health &amp; Environment</u></b>						
Target Hardening Measures	100,000	0	0	0	0	0
<b><u>General</u></b>						
MISC projects	100,000	0	0	100,000	100,000	100,000
<b>Totals</b>	<b>48,455,270</b>	<b>22,599,887</b>	<b>26,054,807</b>	<b>82,209,352</b>	<b>42,606,633</b>	<b>7,096,000</b>

**Summary of financing**

Earmarked Reserves (Revenue)	2,371,617	1,561,617	1,115,000	1,133,000	1,124,000
Grants & External Contributions	26,769,525	14,917,372	34,879,378	14,573,120	5,972,000
Capital Receipts	73,480	73,480	0	0	0
Borrowing	19,240,648	6,047,418	46,214,974	26,900,513	0
<b>Total</b>	<b>48,455,270</b>	<b>22,599,887</b>	<b>82,209,352</b>	<b>42,606,633</b>	<b>7,096,000</b>

**HOUSING REVENUE**  
**ACCOUNT CAPITAL BUDGET**  
**2023/24**

	Approved Budget 2022/23	Predicted Outturn 2022/23	Reprofiled into Future Years	2023/24 Proposed Budget	2024/25 Proposed Budget	2025/26 Proposed Budget
	£	£	£	£	£	£
Decent Homes	2,000,000	2,000,000		1,900,000	2,000,000	1,500,000
Roof Coverings/Modifications	750,000	750,000		750,000	750,000	750,000
Windows & Doors	700,000	700,000		700,000	700,000	700,000
Sheltered Alarm Call System	0	0		18,000	0	0
Door Entry Scheme	230,000	230,000		140,000	0	0
New Properties (Construction)	1,987,510	426,000	495,950	4,539,000	3,710,000	8,304,552
Byford Court - Rebuild	1,498,610	67,000	0	3,011,000	0	0
New Properties (Acquisition)	1,280,000	1,280,000		512,500	525,000	538,000
Independent Unit Living - Remodelling	1,000,000	0	0	150,000	4,000,000	4,000,000
Large Scale Improvement Feasibility	250,000	0	0	0	0	0
Conversion of Homeless Hostel	50,000	0	50,000	50,000	0	0
District Heating Works	335,000	265,000	60,000	310,000	310,000	200,000
Fire Works (General Purpose)	2,875,000	2,875,000		2,200,000	2,200,000	1,000,000
Level Access Showers	500,000	500,000		600,000	600,000	600,000
Aids & Adaptations	925,000	925,000		850,000	850,000	850,000
Central Heating	900,000	900,000		1,000,000	1,000,000	900,000
Slabs to Tarmac	100,000	100,000		60,000	60,000	60,000
Lift Renewal Works	176,000	176,000		30,000	100,000	100,000
PIR Electrical Works	550,000	550,000		400,000	400,000	400,000
Voids	550,000	550,000		760,000	760,000	550,000
Structural; Concrete Repairs/ Cladding	5,308,000	4,308,000	1,000,000	3,696,000	4,078,192	1,000,000
Environmental Works	272,000	202,000	70,000	70,000	70,000	70,000
Housing Management System	300,000	300,000		10,000	0	0
CCTV Renewal - GP Flats	50,000	50,000		10,000	0	0
Fire Damage Works	0	10,000		0	0	0
Garages	50,000	50,000		30,000	30,000	30,000
Replacement Vehicles	1,750,000	0	1,750,000	1,750,000	0	0
Stock Condition Survey				200,000	0	0
Contingency	160,000	100,000		200,000	200,000	100,000
Capital Salaries/ Fees	572,000	572,000		472,000	483,800	495,900
<b>Total Capital Programme</b>	<b>25,119,120</b>	<b>17,886,000</b>	<b>3,425,950</b>	<b>24,418,500</b>	<b>22,826,992</b>	<b>22,148,452</b>
<b>Financed by:</b>						
Major Repairs Reserve	8,724,120	8,724,120		8,895,155	9,128,418	9,281,720
Earmarked Reserves/ Revenue	4,478,000	2,748,400		2,599,620	1,603,449	733,854
Capital Receipts	1,200,000	1,200,000		1,230,000	1,270,000	1,290,000
Capital Receipts 1-4-1	200,000	200,000		205,000	210,125	215,378
Capital Grants/ Contributions	2,767,000	3,006,600		2,488,725	2,115,000	1,627,500
Borrowing	7,750,000	2,006,880		9,000,000	8,500,000	9,000,000
<b>Total</b>	<b>25,119,120</b>	<b>17,886,000</b>	<b>0</b>	<b>24,418,500</b>	<b>22,826,992</b>	<b>22,148,452</b>

**Cabinet/Individual Cabinet Member Decision**

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**Report Summary Sheet**

<b>Date:</b>	<b>8<sup>th</sup> February 2023</b>
<b>Subject:</b>	<b>Treasury Strategy &amp; Budgetary Framework 2023/24</b>
<b>Portfolio:</b>	<b>Finance &amp; Corporate</b>
<b>From:</b>	<b>Director of Finance &amp; Enterprise</b>

<p><b>Summary:</b></p> <p>The Local Government Act 2003 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services (the Code) require Councils to “have regard to” the Prudential Code and to set Prudential Indicators for the forthcoming 3 years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable. Regulations also require an Annual Investment Strategy, Treasury Management Strategy and Minimum Revenue Provision (MRP) Policy to be approved.</p>
<p><b>Recommendations:</b></p> <p>That the proposed Treasury Strategy and Budgetary Framework 2023/24, as detailed in <b>Appendix J</b>, be agreed and submitted to full Council for approval including:</p> <ul style="list-style-type: none"> <li>• Treasury Strategy</li> <li>• Treasury and Prudential Indicators</li> <li>• MRP Policy Statement</li> <li>• Capital Resource Allocations</li> </ul>

**Options:**

To accept the report or request further information, having regard to the legal deadlines for setting of budgets.

**Reasons:**

To comply with regulations and the CIPFA Code of Treasury Management.

**Consultation undertaken with Members/Officers/Stakeholders**

None

**Subject to call-in:** No

**Ward relevance:** All

**Forward plan:** Yes

**Building a Better Borough Aim:**

Work

**Building a Better Borough Priority:**

Grow a strong and inclusive economy

**Relevant statutes or policy:**

CIPFA Code of Practice on Treasury Management 2021

Local Government Act 2003

**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:**

Any investment and borrowing decisions will be based on the approved strategy and with approved counterparties.

**Environmental implications:**

None

**Legal implications:**

The CIPFA Code on Treasury Management requires Local Authorities to report to their full Council a forward view of treasury and prudential indicators and a MRP policy statement for approval.

**Contact details:**

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**AGENDA ITEM NO. 11g**

**NUNEATON AND BEDWORTH BOROUGH COUNCIL**

**Report to :** Cabinet – 8<sup>th</sup> February 2023

**From :** Director of Finance and Enterprise

**Subject :** Treasury Strategy & Budgetary Framework 2023/24

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

**Building a Better Borough Aim: Work**

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

**1. Purpose**

- 1.1 The Local Government Act 2003 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services (the Code) require Councils to “have regard to” the Prudential Code and to set Prudential Indicators for the forthcoming 3 years to ensure that the Council’s capital investment plans are affordable, prudent, and sustainable. Regulations also require an Annual Investment Strategy, Treasury Management Strategy and Minimum Revenue Provision (MRP) Policy to be approved.

**2. Recommendations**

- 2.1 That the proposed Treasury Strategy and Budgetary Framework 2023/24, as detailed in **Appendix J**, be agreed and submitted to full Council for approval including:
- Treasury Strategy
  - Treasury and Prudential Indicators
  - MRP Policy Statement
  - Capital Resource Allocations
- 2.2 That as the recommendations from this report require Council approval on 13<sup>th</sup> February 2023, this report be marked not for call-in on the grounds of urgency.

### **3. Background**

- 3.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.
- 3.3 The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 3.4 CIPFA defines treasury management as:

*“The management of the local Council’s borrowing, investments and cash flows, including 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.”*

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

### **3.5 Reporting requirements**

#### **3.5.1 Capital Strategy**

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services



- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the strategy is to ensure that all the Council's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

### 3.5.2 Treasury Management Reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

**a. Prudential and treasury indicators and treasury strategy (this report) –**

The first, and most important report is forward looking and covers: -

- the capital plans, (including prudential indicators)
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
- the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an Annual Investment Strategy, (the parameters on how investments are to be managed)

**b. A mid-year treasury management report –** This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Council will receive quarterly update reports.

**c. An annual treasury report –** This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

#### Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the Audit and Standards Committee.

**Quarterly reports –** In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Audit and Standards Committee. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

**3.6 The revised CIPFA Code on Treasury Management (2021) will have the following implications:**

- A requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- Clarify what CIPFA expects a local Council to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- Require implementation of a policy to review commercial property, with a view to divest where appropriate;
- Create new Investment Practices to manage risks associated with non-treasury investments
- Ensure that any long-term treasury investment is supported by a business model;
- A requirement to effectively manage liquidity and longer-term cash flow requirements;
- Amendment to the knowledge and skills register for individuals involved in the treasury management function – to be proportionate to the size and complexity of the treasury management conducted by each Council;
- A new requirement to clarify reporting requirements for service and commercial investment.

### 3.7 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers two main areas:

- **Capital issues**
  - ◆ The capital expenditure plans and the associated prudential indicators
  - ◆ The Minimum Revenue Provision (MRP) policy
- **Treasury management issues**
  - ◆ the current treasury position
  - ◆ treasury indicators which limit the treasury risk and activities of the Council
  - ◆ prospects for interest rates
  - ◆ the borrowing strategy
  - ◆ policy on borrowing in advance of need
  - ◆ debt rescheduling
  - ◆ the investment strategy
  - ◆ creditworthiness policy; and
  - ◆ the policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, Department for Levelling Up, Housing and Communities (DLUHC) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

### 3.8 Training

The training needs of treasury management officers are periodically reviewed with our treasury advisors providing courses on changes to the Code and refresher updates for key staff. These courses are included within the contract provisions with Link Asset Services.

### 3.9 Treasury Management Consultants

The Council uses Link Asset Services as its external treasury management advisors and recognises that responsibility for treasury management decisions remain with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

## 4. The Capital Prudential Indicators 2023/24 – 2025/26

4.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of these plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### 4.2 Capital Expenditure and Financing

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts, which includes the latest budget re-profiling estimates into 2023/24 for schemes slipping from 2022/23:

<b>Capital expenditure £m</b>	<b>2021/22 Actual</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>
Non-HRA	15.63	22.60	82.21	42.61	7.10
HRA	17.39	17.89	24.42	22.83	22.15
<b>Total</b>	<b>33.02</b>	<b>40.49</b>	<b>106.63</b>	<b>65.44</b>	<b>29.25</b>

4.3 Full details of the proposed capital programmes for 2023/24 are included within the General Fund and HRA Budget setting reports on this agenda.

- 4.4 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

<b>Financing of capital expenditure £m</b>	<b>2021/22 Actual</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>
Capital receipts	3.66	1.47	1.44	1.48	1.51
Capital grants	11.64	17.92	37.37	16.68	7.60
Capital reserves/revenue	17.72	21.10	67.82	47.28	20.14
<b>Net financing need for the year</b>	<b>33.02</b>	<b>40.49</b>	<b>106.63</b>	<b>65.44</b>	<b>29.25</b>

#### 4.5 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR also includes any other long-term liabilities (e.g. finance leases and Private Finance Initiative (PFI) schemes). Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council does not envisage any such schemes within the CFR.

The Council is asked to approve the CFR projections below:

<b>£m</b>	<b>2021/22 Actual</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>
<b>Capital Financing Requirement</b>					
Non-HRA	19.81	51.90	74.29	77.41	82.83
Housing	83.47	91.22	98.47	106.97	114.46
<b>Total CFR</b>	<b>103.28</b>	<b>143.12</b>	<b>172.76</b>	<b>184.38</b>	<b>197.29</b>
<b>Movement in CFR</b>	<b>9.21</b>	<b>39.84</b>	<b>29.64</b>	<b>11.62</b>	<b>12.91</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	9.70	40.38	30.29	12.32	13.65
Less MRP/VRP and other financing movements	(0.49)	(0.54)	(0.65)	(0.70)	(0.74)
<b>Movement in CFR</b>	<b>9.21</b>	<b>39.84</b>	<b>29.64</b>	<b>11.62</b>	<b>12.91</b>

#### 4.6 Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

**There are four components to the LB: -**

1. **Existing loan debt outstanding:** the Council's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement:** this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.

Please refer to **Appendix G** for the Liability Benchmark charts for the Council.

The Council's forward projections for borrowing are summarised below.

External borrowing £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Treasury Management	72.71	80.71	122.21	154.71	164.71

#### 4.7 Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Fund balances / reserves	26.97	18.30	17.83	16.60	16.23
Other	16.20	18.23	17.53	16.53	16.17
<b>Total core funds</b>	<b>43.17</b>	<b>36.53</b>	<b>35.36</b>	<b>33.13</b>	<b>32.14</b>
Working capital*	19.99	12.38	9.69	11.54	11.29
Under/over borrowing**	(30.57)	(20.91)	(18.05)	(19.67)	(19.43)
<b>Expected net investments</b>	<b>32.59</b>	<b>28.00</b>	<b>27.00</b>	<b>25.00</b>	<b>24.00</b>

\*Working capital balances shown are estimated year-end; these may be higher mid-year

#### 4.8 Minimum Revenue Provision (MRP) Policy Statement.

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision – MRP), although is it allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP).

DLUHC regulations have been issued which require the full Council to approve **a MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the MRP Statement as detailed in **Appendix A**.

#### 4.9 Affordability Prudential Indicators.

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators.

Ratio of financing costs to net revenue stream: This indicator identified the trend of cost of capital (borrowing and other long term obligation costs net of investment income) against the revenue stream:

%	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Non-HRA	4.4%	4.1%	3.5%	3.9%	4.0%
HRA	7.3%	7.9%	8.1%	8.1%	8.3%

#### 4.10 HRA Ratios

As part of the self-financing regime, it is considered best practice to include indicators to reflect the level of debt that the HRA holds and compare to its revenues and number of dwellings held. The following table provides this information as at the end of each financial year. The estimates below are based on the assumption of no further borrowing being undertaken in 2023/24 and will be updated again in the 2024/25 Treasury Strategy.

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
HRA Debt	63.96m	55.96m	48.46m	38.46m	36.46m
HRA Revenues (rental income)	23.44m	24.24m	24.80m	26.02m	26.26m
Ratio of debt to revenues	272%	231%	195%	148%	146%
Number of dwellings (average)	5,660	5,623	5,581	5,569	5,620
Debt per dwelling	£11,300	£9,952	£8,683	£6,906	£6,488

## 5. Borrowing

The capital expenditure plans set out in Section 4 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

### 5.1 Current portfolio position

The overall treasury management portfolio as at 31<sup>st</sup> March 2022 and the position as at the end of January 2023 are shown below for both borrowing and investments:

	TREASURY PORTFOLIO		
	actual	actual	current
	<b>31.3.22</b>	<b>31.3.22</b>	<b>31.1.23</b>
<b>Treasury investments</b>	£m	%	£m
Instant Access (Bank & Money Market Funds)	9.88m	25%	22.33m
Notice Accounts and Fixed-Term Deposits	28.00m	70%	24.00m
Property Funds	2.19m	5%	2.37m
<b>Total treasury investments</b>	<b>40.07m</b>	<b>100%</b>	<b>48.70m</b>
<b>Treasury external borrowing</b>			
PWLB	70.71m	97%	62.21m
LOBOs	2.00m	3%	2.00m
<b>Total external borrowing</b>	<b>72.71m</b>	<b>100%</b>	<b>64.21m</b>
<b>Net treasury investments / (borrowing)</b>	<b>(32.59m)</b>		<b>(15.51m)</b>

- 5.2 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

£m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
<b>External Debt</b>					
Debt at 1 April	72.71	80.71	122.21	154.71	164.71
Expected change in Debt	(8.50)	41.50	32.50	10.00	(12.00)
Actual gross debt at 31 March	<b>64.21</b>	<b>122.21</b>	<b>154.71</b>	<b>164.71</b>	<b>152.71</b>
The Capital Financing Requirement	<b>103.28</b>	<b>143.12</b>	<b>172.76</b>	<b>184.38</b>	<b>197.29</b>
Under / (over) borrowing	<b>(39.07)</b>	<b>(20.91)</b>	<b>(18.05)</b>	<b>(19.67)</b>	<b>(44.58)</b>

- 5.3 Latest cash flow forecasts and interest rate predictions indicate that it is affordable in the short term to maintain the Council's under-borrowed position. This position will be closely monitored throughout the year to ensure that the Council is not exposed to financial risks (i.e. re-financing and interest rate risks)
- 5.4 Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its 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 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.
- 5.5 The Director of Finance and Enterprise reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

## 6. Treasury Indicators: Limits to Borrowing Activity

**The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be higher or lower depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt	141.12	170.76	182.38	194.81
Other long-term liabilities	2.00	2.00	2.00	2.00
Total	143.12	172.76	184.38	196.81

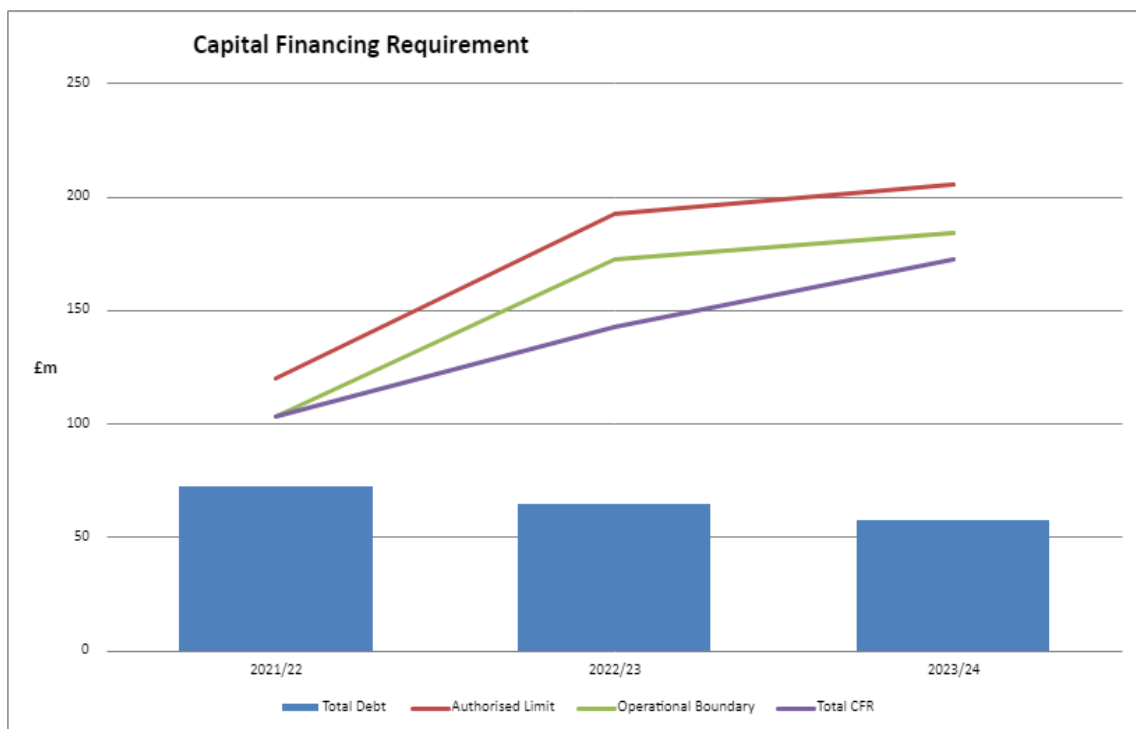


**The Authorised Limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The Council is asked to approve the following Authorised Limit:

Authorised Limit £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt	156.12	188.76	201.38	214.84
Other long-term liabilities	4.00	4.00	4.00	4.00
Total	160.12	192.76	205.38	218.84



## 7. Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 19.12.22. These are forecasts for certainty rates, gilt yields plus 80 bps.

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
<b>BANK RATE</b>	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

Our central forecast for interest rates was updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in H1 2023.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure, now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy, and rent/mortgage payments.

### **PWLB Rates**

- The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

### **The balance of risks to the UK economy: -**

- The overall balance of risks to economic growth in the UK is to the downside.

**Downside risks to current forecasts for UK gilt yields and PWLB rates include:**

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- **The Bank of England** acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

**Upside risks to current forecasts for UK gilt yields and PWLB rates: -**

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.
- **The Government** acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.
- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term **US treasury yields** rise strongly and pull gilt yields up higher than currently forecast.
- Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields consequently.

**Borrowing advice:** Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed Local Authority to Local Authority monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps as follows: -

Average earnings in each year	
2022/23 (remainder)	4.00%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

## 8. The Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the remainder of 2022 and the first half of 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Director of Finance and Enterprise will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be

drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

The overall debt strategy for 2023/24 is to monitor the existing under-borrowed position and replace, in-part with new debt at the most advantageous time (i.e. minimal cost of carry implications in the medium term) should forecasts indicate a rapid increase in borrowing costs.

Furthermore, the large increase in borrowing need for both the General Fund and the HRA will require debt to be taken from either PWLB or other markets to fund the significant investment the Council is proposing to regenerate the borough and build new properties.

8.1 **Other sources of funding:** Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

8.2 **Maturity Structure of Borrowing** – These gross limits are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicator and limits:

<b>Maturity structure of fixed interest rate borrowing 2023/24</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	30%
12 months to 2 years	0%	35%
2 years to 5 years	0%	50%
5 years to 10 years	0%	75%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

### **8.3 Policy on Borrowing in Advance of Need**

The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### **8.4 Rescheduling**

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

If rescheduling is to be undertaken, it will be reported to the Cabinet / Council at the earliest meeting following its action.

The reasons for any rescheduling to take place will include:

- The generation of cash savings and/ or discounted cash flow savings;
- Helping to fulfil the treasury strategy;
- Enhance the balance of the portfolio (amend the maturity profile and/ or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

Any rescheduling will be reported to the Audit and Standards Committee as part of the monitoring reports and to the Cabinet and Council as part of either the mid-year review or annual treasury outturn reports.

### **8.5 Approved Sources of Long and Short-term Borrowing**

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

<b>On Balance Sheet</b>	<b>Fixed</b>	<b>Variable</b>
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock Issues	●	●
Local Temporary	●	●
Local Bonds	●	
Local Council Bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance Leases	●	●

## **9. Annual Investment Strategy**

### **Investment Policy – Management of Risk**

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Council's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider “laddering” investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix E under the categories of ‘specified’ and ‘non-specified’ investments.

**Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

**Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of 10m.
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in **Appendix E**. Investments in non-UK banks or institutions that meet the criteria above will be



limited to £6m in any one country within an overall maximum of £8m of the investment portfolio.

7. **Transaction limits** are set for each type of investment in **Appendix E**.
8. This Council will set a limit for its investments which are invested for **longer than 365 days**. See **Appendix E**.
9. Investments will only be placed with counterparties from countries with a specified **minimum sovereign credit rating of AA-** from Fitch. Ethical factors will be taken into consideration before a country is included within the final approved counterparty list. See **Appendix F**.
10. This Council has engaged **external consultants** to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.
12. As a result of the change in accounting standards for 2022/23 under IFRS 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, DLUHC concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. At the current juncture it has not been determined whether a further extension to the override will be agreed by Government.

However, this Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

#### **Changes in risk management policy from last year.**

The above criteria are unchanged from last year.

Investment instruments identified for use in the financial year are listed in **Appendix E** under the 'specified' and 'non-specified' investments categories.

## **10. Creditworthiness Policy**

This Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

- "watches" and "outlooks" from credit rating agencies;
- CDS spreads that may give early warning of changes in credit ratings;

- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands.

- Yellow - 5 years \*
- Dark pink - 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink - 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple - 2 years
- Blue - 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange - 1 year
- Red - 6 months
- Green -100 days
- No colour - not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Council uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

### **Creditworthiness**

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Council will not set a minimum rating for the UK

### **CDS prices**

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

## **11. Investment Strategy**

**In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

### **Investment returns expectations**

The current forecast for Bank Rate is to reach 4.5% in Q2 2023.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

<b>Average earnings in each year</b>	
2022/23 (remainder)	4.00%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

**Investment treasury indicator and limit** – total principal funds invested for greater than 365 days. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year end.

The Council is asked to approve to approve the treasury indicator and limit:

<b>Upper limit for principal sums invested for longer than 365 days</b>			
<b>£m</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Principal sums invested for longer than 365 days	£7.00m	£6.00m	£6.00m

### **Investment Performance / Risk Benchmarking**

This Council will use an investment benchmark to assess the investment performance of its investment portfolio with reference to SONIA.

The security benchmark for each individual year is: -

	1 year	2 years	3 years	4 years	5 years
<b>Maximum</b>	<b>0.04%</b>	<b>0.09%</b>	<b>0.17%</b>	<b>0.25%</b>	<b>0.34%</b>

Note: This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment.

## **12. End of Year Investment Report**

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

## **13. Scheme of delegation.**

**Appendix H** of this report details the scheme of delegation proposed for this Council.

## **14. Role of the Section 151 Officer.**

**Appendix I** gives details of the Treasury Management role of the Section 151.

## **15. Conclusion**

The Head of Financial Services, with the support of the Treasury Management section and Link Asset Services, will monitor economies in the UK and overseas, regularly review the debt portfolio and the creditworthiness of individual institutions, utilising a methodology which does not rely solely on credit ratings to ensure that any investments made are with countries and institutions that are deemed of high credit quality to reduce the risk of loss of principal invested.

# **APPENDICES**

- A. MRP strategy**
- B. Prudential and Treasury Indicators**
- C. Interest rate forecasts**
- D. Economic background**
- E. Treasury Management Practices (TMP1) – Credit and Counterparty Risk Management**
- F. Countries credit ratings for investments**
- G. Liability Benchmark**
- H. Treasury management scheme of delegation**
- I. The Treasury Management Role of the Section 151 Officer**
- J. Treasury Strategy and Budgetary Framework 2023/24**

## **APPENDIX A – Agenda Item**

### **Minimum Revenue Provision – an introduction**

#### **What is a Minimum Revenue Provision?**

Capital expenditure is generally expenditure on assets which have a life of more than one year e.g. buildings, vehicles, machinery etc. Where this expenditure is financed by borrowing it would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred. Therefore, such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and is now determined under Guidance.

DLUHC regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

#### **MINIMUM REVENUE PROVISION POLICY STATEMENT 2023/24**

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision – MRP), although it is allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP).

The MRP Policy Statement for 2023/24 is:

- For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, MRP will follow existing practice outlined in former DLUHC regulations.

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

- From 1<sup>st</sup> April 2008 for all unsupported borrowing (including PFI and finance leases), MRP will be based on the estimated life of the assets once operational, in accordance with proposed regulations. Therefore, no MRP will be charged to the General Fund for capital expenditure funded through unsupported borrowing until the year following the asset becoming operational.

The annuity method will be utilised for calculation of the MRP amount and will reference the appropriate PWLB rate at 31<sup>st</sup> March.

This option provides for a reduction in the borrowing need over approximately the assets life.

- No revenue charge is currently required for the HRA. However, under HRA reform the HRA will be required to charge depreciation on its assets, which will have a revenue effect.
- Repayments included in finance leases are applied as MRP.

**MRP Overpayments** – A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision, voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up to 31 March 2022, the total VRP overpayments for the General Fund was nil.



## APPENDIX B – Agenda Item

### PRUDENTIAL AND TREASURY INDICATORS

#### Prudential Indicators

Capital expenditure £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Non-HRA	15.63	22.60	82.21	42.61	7.10
HRA	17.39	17.89	24.42	22.83	22.15
<b>Total</b>	<b>33.02</b>	<b>40.49</b>	<b>106.63</b>	<b>65.44</b>	<b>29.25</b>

Capital Financing Requirement £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
<b>Capital Financing Requirement</b>					
Non-HRA	19.81	51.90	74.29	77.41	82.83
Housing	83.47	91.22	98.47	106.97	114.46
<b>Total CFR</b>	<b>103.28</b>	<b>143.12</b>	<b>172.76</b>	<b>184.38</b>	<b>197.29</b>
<b>Movement in CFR</b>	<b>9.21</b>	<b>39.84</b>	<b>29.64</b>	<b>11.62</b>	<b>12.91</b>

External borrowing £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Treasury Management	72.71	80.71	122.21	154.71	164.71

Ratio of financing costs to net revenue stream %	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Non-HRA	4.4%	4.1%	3.5%	3.9%	4.0%
HRA	7.3%	7.9%	8.1%	8.1%	8.3%

#### Treasury Management Indicators

Operational Boundary £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt	141.12	170.76	182.38	194.81
Other long-term liabilities	2.00	2.00	2.00	2.00
<b>Total</b>	<b>143.12</b>	<b>172.76</b>	<b>184.38</b>	<b>196.81</b>

Authorised Limit £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt	156.12	188.76	201.38	214.84
Other long-term liabilities	4.00	4.00	4.00	4.00
<b>Total</b>	<b>160.12</b>	<b>192.76</b>	<b>205.38</b>	<b>218.84</b>

Upper limit for principal sums invested for longer than 365 days			
£m	2023/24	2024/25	2025/26
Principal sums invested for longer than 365 days	£7.00m	£6.00m	£6.00m

<b>Maturity structure of fixed interest rate borrowing 2023/24</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	30%
12 months to 2 years	0%	35%
2 years to 5 years	0%	50%
5 years to 10 years	0%	75%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

## APPENDIX C – Agenda Item

### INTEREST RATE FORECASTS 2022-2025

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
<b>BANK RATE</b>	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 forecasts are based on PWLB certainty rates.

## APPENDIX D – Agenda Item

### ECONOMIC BACKGROUND

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	<b>UK</b>	<b>Eurozone</b>	<b>US</b>
<b>Bank Rate</b>	3.5%	2.0%	4.25%-4.50%
<b>GDP</b>	-0.2%q/q Q3 (2.4%/y/y)	+0.2%q/q Q3 (2.1%/y/y)	2.6% Q3 Annualised
<b>Inflation</b>	10.7%/y/y (Nov)	10.1%/y/y (Nov)	7.1%/y/y (Nov)
<b>Unemployment Rate</b>	3.7% (Oct)	6.5% (Oct)	3.7% (Nov)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

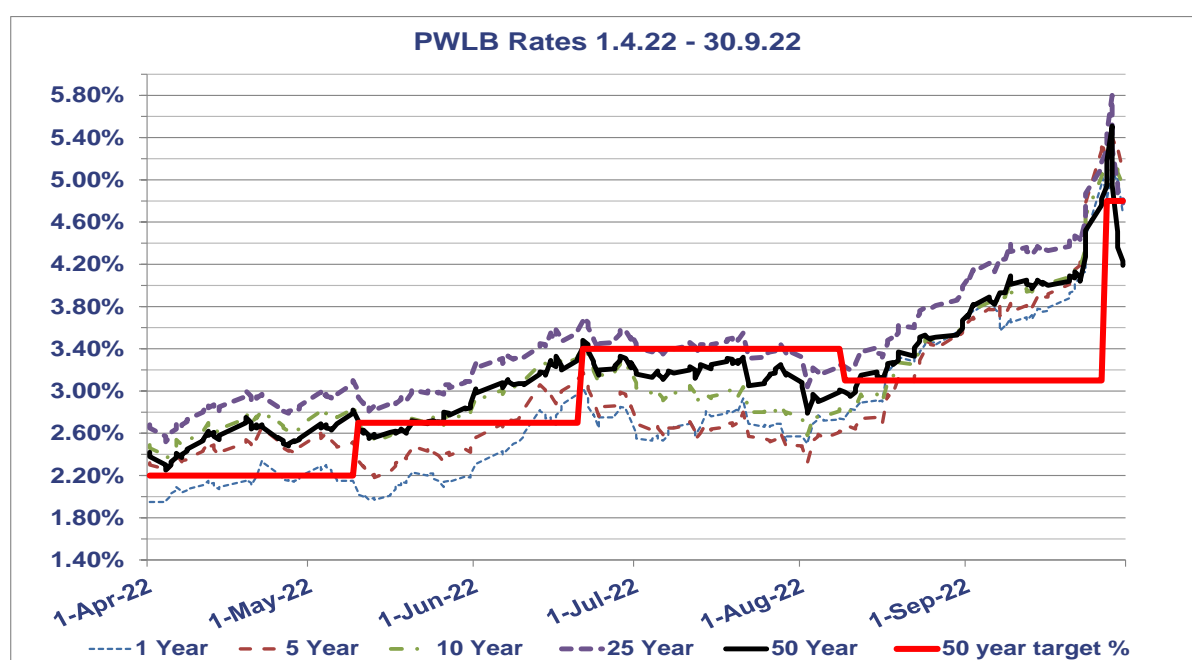
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17<sup>th</sup> November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have almost completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one, if not more, quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of \$1.035, on the Monday following the Truss government's "fiscal event", to \$1.22. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28<sup>th</sup> September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	1.95%	2.18%	2.36%	2.52%	2.25%
<b>Date</b>	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
<b>High</b>	5.11%	5.44%	5.35%	5.80%	5.51%
<b>Date</b>	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
<b>Average</b>	2.81%	2.92%	3.13%	3.44%	3.17%
<b>Spread</b>	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

## **CENTRAL BANK CONCERNS – DECEMBER 2022**

In December, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

Having said that, the sentiment expressed in the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

## APPENDIX E – Agenda Item

### Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

**Non-Specified Investments:** These are any investments which do not meet the Specified Investment criteria. A maximum of £10m will be held in non-specified investments.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

**Specified Investments:** All such investments will be sterling denominated with maturities up to a maximum of 1 year and meeting the minimum ‘high’ rating criteria where applicable. (This will include the UK and all other countries that meet the minimum investment rating specification).

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

#### Non Specified Investments:

	Minimum Credit Criteria / Link Asset Services Colour Band	Maximum Maturity Period	Max % of Total Investments / £ Limit per Institution or Fund
Council's own banker <i>(should their credit rating not meet the criteria for specified investments)</i>	No colour	Liquid	£2m
Term deposits with Banks & Building Societies	Yellow Purple	5 years 2 years	£10m £10m
Certificates of Deposit or Corporate Bonds with Banks & Building Societies	Yellow Purple	5 years 2 years	£10m £10m
UK Government Gilts	UK Sovereign Rating	5 years	100%
UK Local Authorities	n/a	5 years	100%
Gilt Funds	UK Sovereign Rating	5 years	100%
Corporate Bonds/ Floating Rate Notes	A	2 years	£4m
Covered Bonds/ Covered Floating Rate Notes	Initial Rating AAA (minimum subsequent rating A)	5 years	£4m
Property Funds			£5m
Housing Associations	Yellow Purple	5 years 2 years	£4m £4m

## Specified Investments:

	Minimum Credit Criteria / Link Asset Services Colour Band	Maximum Maturity Period	Max % of Total Investments / £ Limit per Institution or Fund
DMADF – UK Government	n/a	6 months	100%
UK Government Gilts	UK Sovereign Rating	1 year *	100%
UK Government Treasury Bills	UK Sovereign Rating	1 year	100%
Bonds issued by Multilateral Development Banks	AAA	12 months	£8m
Money Market Funds CNAV	AAA	Liquid	£8m
Money Market Funds LVNAV	AAA	Liquid	£8m
Money Market Funds VNAV	AAA	Liquid	£8m
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	Liquid	£8m
Ultra-Short Dated Bond Funds with a credit score of 1.50	AAA	Liquid	£8m
UK Local Authorities	n/a	1 year *	100%
Term deposits, notice accounts or instant access cash accounts with Banks & Building Societies	Yellow	1 year *	£10m
	Purple	1 year *	£10m
	Blue	1 year	£10m
	Orange	1 year	£10m
	Red	6 months	£8m
	Green	100 days	£8m
Gilt Funds	UK Sovereign Rating	Liquid	100%
Certificates of Deposit or Corporate Bonds with Banks & Building Societies	Yellow	1 year *	£10m
	Purple	1 year *	£10m
	Blue	1 year	£10m
	Orange	1 year	£10m
	Red	6 months	£8m
	Green	100 days	£8m
Corporate Bonds	A	1 year *	£3m
Covered Bonds	Initial Rating AAA (minimum subsequent rating A)	1 year *	£3m
Housing Associations	Yellow	1 year *	£10m
	Purple	1 year *	£10m
	Blue	1 year	£10m
	Orange	1 year	£10m
	Red	6 months	£8m
	Green	100 days	£8m

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour



## **APPENDIX F – Agenda Item**

### **APPROVED COUNTRIES FOR INVESTMENTS**

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

#### ***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-**

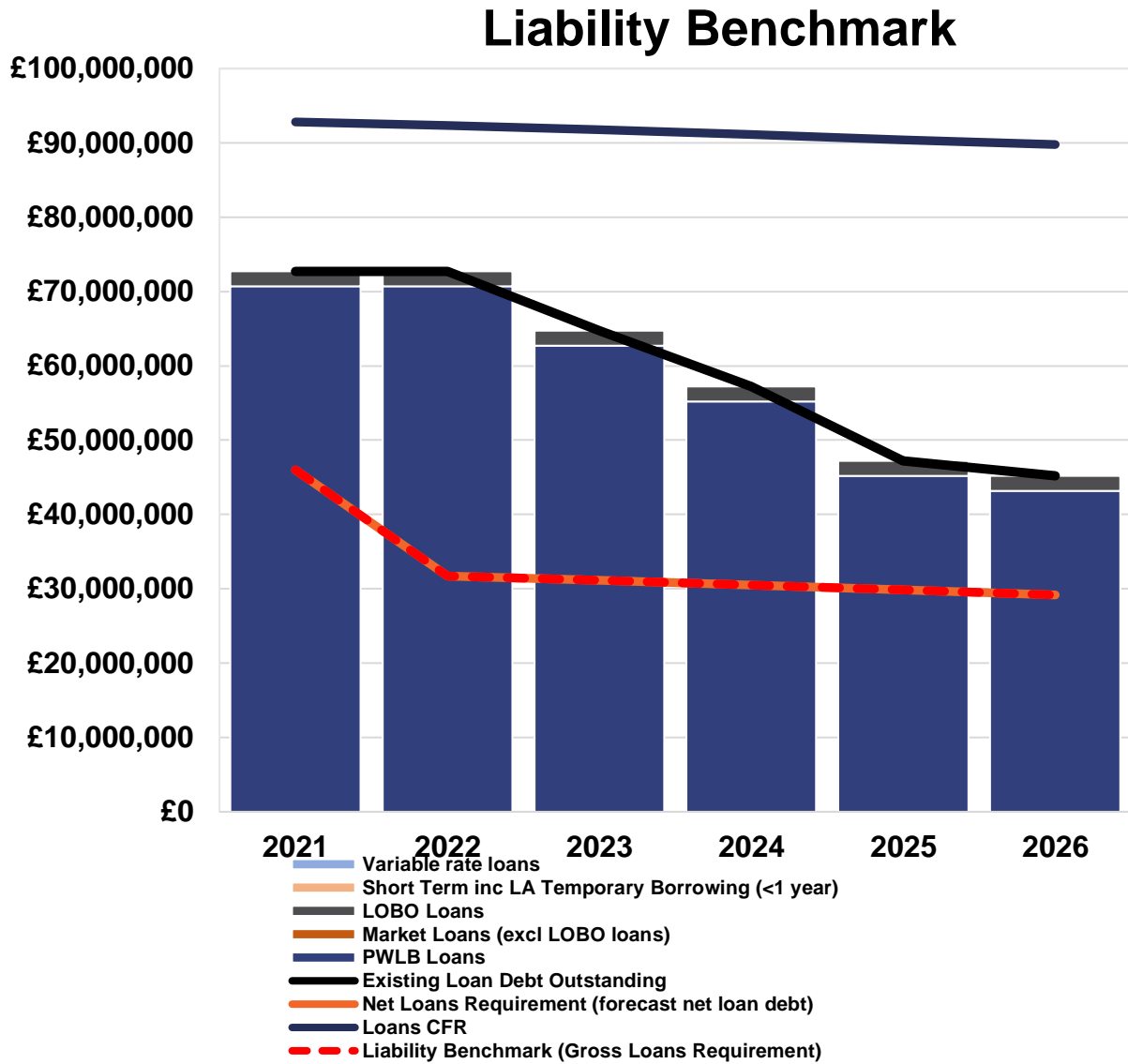
- Belgium
- Qatar
- U.K.

***THIS LIST IS AS AT 19.12.22***

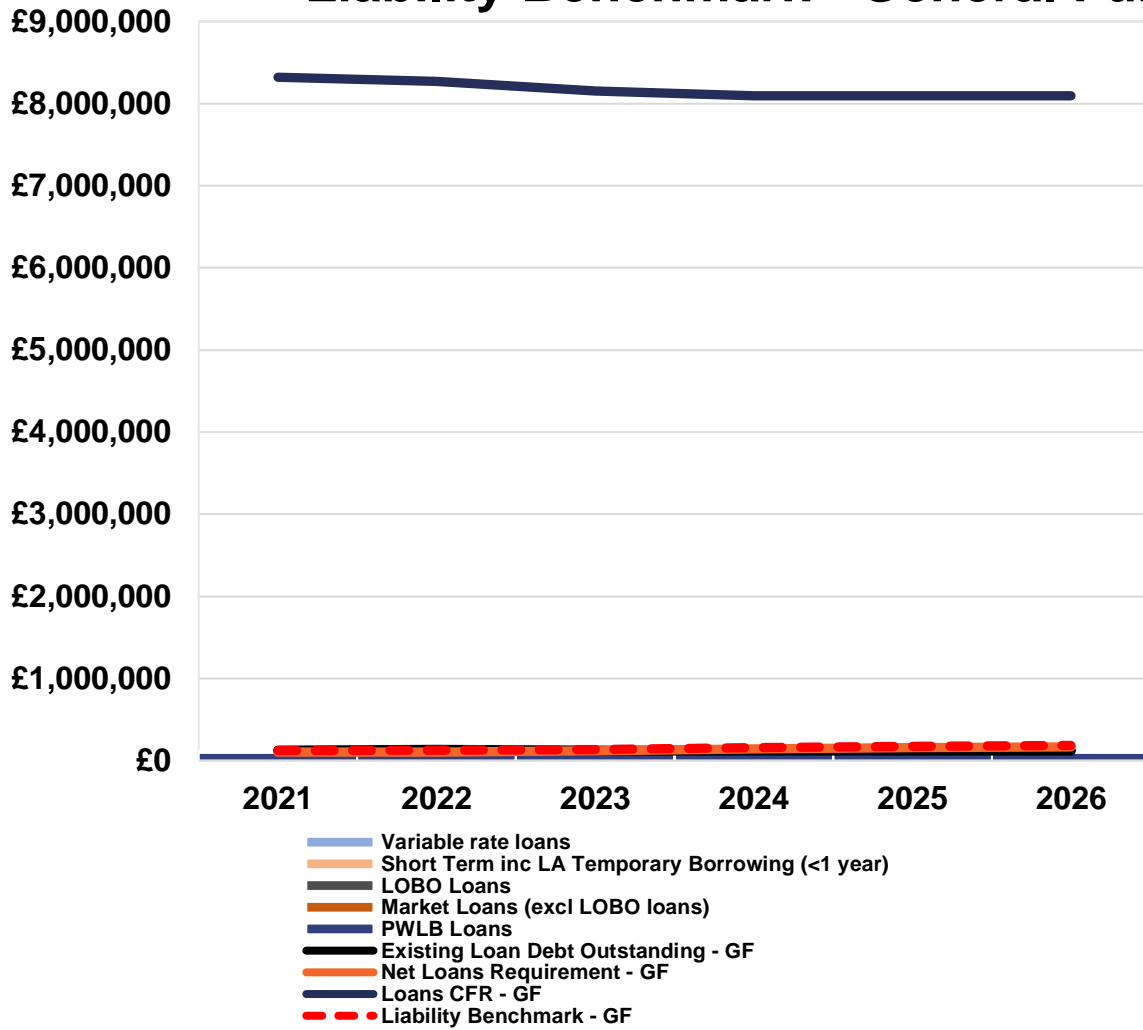
Note: Other ethical factors will be taken into consideration before a country is included in the Council's final counterparty list.

APPENDIX G – Agenda Item

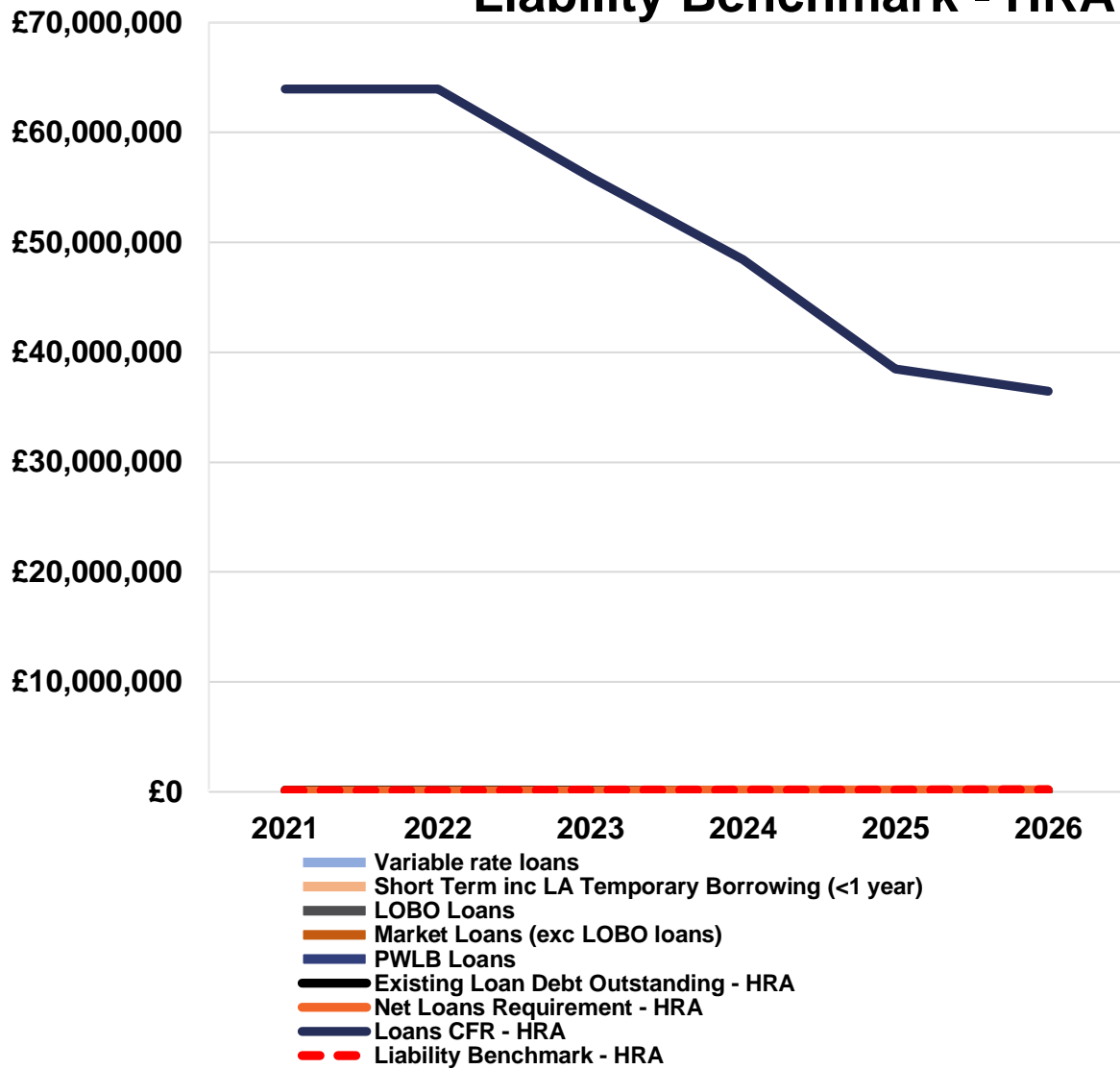
Liability Benchmark



# Liability Benchmark - General Fund



## Liability Benchmark - HRA



## **APPENDIX H – Agenda Item**

### **Treasury Management Scheme of Delegation**

#### **(i) Full Council**

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of annual strategy.
- Budget approval.

#### **(ii) Body with responsibility for scrutiny - Cabinet**

- Approval of/ amendments to the treasury management policy statement and treasury management practices.
- Budget consideration and approval
- Approval of division of responsibilities.
- Receiving and reviewing reports and acting on recommendations.
- Approving the selection of external service providers and agreeing terms of appointment.

#### **(iii) Body with responsibility for receiving monitoring reports - Audit and Standards Committee**

- Reviewing the quarterly treasury activity reports.
- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

## **APPENDIX I – Agenda Item**

### **The Treasury Management Role of the Section 151 Officer**

#### **The S151 (responsible) officer – Director for Finance and Enterprise**

- Recommending clauses, treasury management policy/ practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers.
- Ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Council.
- Ensure that the Council has appropriate legal powers to undertake expenditure on non-financial assets and their financing.
- Ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources.
- Ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- Provision to members of a schedule of non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees.
- Ensuring that members are adequately informed and understand the risk exposures taken on by the Council
- Ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above
- Creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out.

## **APPENDIX J – Agenda Item**

### **Treasury Strategy & Budgetary Framework 2023/24**

- a) Cabinet be delegated to increase the approved revenue budgets for the General Fund and the Housing Revenue Account for 2023/24 subject to the minimum working balances of £1m each being maintained and having regard to the reserves risk assessment included within the budget report.
- b) Capital resources of £82.21m and £24.42m be approved for the General Fund and the Housing Revenue Account respectively (which includes the latest estimate of re-profiled expenditure from 2022/23).
- c) Any unused capital allocation from 2022/23 as at 31<sup>st</sup> March 2023, and still required, be carried forward into 2023/24 and added to the capital budgets.
- d) The Minimum Revenue Provision (MRP) Policy Statement (Appendix A to the 8<sup>th</sup> February 2023 Cabinet report) be adopted.
- e) The Prudential and Treasury Indicators (Appendix B to the 8<sup>th</sup> February 2023 Cabinet report) be adopted.
- f) The Treasury Management Strategy (as detailed in the 8<sup>th</sup> February 2023 Cabinet report) including the borrowing and investment strategies for 2023/24 be adopted.