Agenda Item 3 a)

Budget Monitoring Report - Income & Expenditure Account
Quarter ending 31st December 2023

Summary

At the end of the 3rd quarter of the financial year, the Council's position is positive, generating a surplus on the general fund of £294k for the period, against a budget of £223k.

Service	Q3			Annual	
	Net Expenditure	Budgeted Net Expenditure	Variance Year to Date	Budgeted Net Expenditure	Forecast Outturn
Car Parks	(519,497)	(502,111)	(17,386)	(484,655)	(498,898)
Co-op	(16,417)	(18,975)	2,558	(23,800)	(21,242)
Boat Park	(28,718)	(29,054)	336	(40,500)	(13,545)
Public Conveniences	126,544	116,240	10,304	148,820	155,015
Burl Chine Chalets	0	0	0	(155)	(155)
Cemeteries	(14,932)	(21,010)	6,078	(26,700)	(20,622)
Parks and Operations	524,987	528,778	(3,791)	706,015	706,614
King George's Field Trust	(4,961)	(3,087)	(1,874)	(1,050)	0
CCTV	2,694	3,000	(306)	3,000	2,694
Beach Gardens	(2,133)	13,332	(15,465)	20,540	8,102
Downs/Misc Grounds/PAG	15,621	(5,864)	21,485	(7,935)	16,949
Beaches/Foreshore	129,774	156,365	(26,591)	161,875	153,009
Beach Chalets/Bungalows	(119,083)	(116,895)	(2,188)	(116,845)	(118,434)
Publicity/Tourism	191,647	190,670	977	244,520	258,332
Allotments	(4,954)	(4,200)	(754)	(6,050)	(6,804)
General Buildings (inc. Caravan park)	(33,457)	(32,625)	(832)	(57,505)	(46,759)
Central services to the public:	326,869	343,904	(17,035)	513,715	524,002
DRM	29,737	41,675	(11,938)	77,500	61,707
Corp Management	10,036	23,997	(13,961)	54,350	49,458
Net Cost of Services	613,757	684,140	(70,383)	1,165,140	1,209,423
Interest payable and similar charges	3,499	3,393	107	4,500	4,500
Interest and investment income	(226,211)	(141,500)	(84,711)	(185,000)	(295,000)
Net Operating expenditure	391,045	546,033	(154,987)	984,640	918,923
Other Movements on the General Fund	(48,355)	(133,120)	84,765	(82,120)	50,015
Amount to be financed:	342,690	412,913	(70,222)	902,520	968,938
Financed by:					
Precept on Purbeck District Council	(636,773)	(636,773)	0	(849,030)	(849,030)
Total Financing:	(636,773)	(636,773)	0	(849,030)	(849,030)
(Surplus)/Deficit for the Period	(294,082)	(223,860)	(70,222)	53,490	119,908
General Fund Balance Brought Forward					(865,558)
General Fund Balance Carried Forward					(745,650)

Car Parks

Car parking realised a net surplus of £519k against a budgeted surplus of £502k, a positive variance 0f £17k.

	Q3			Annual	
	Actual	**Budget**	**Variance**	**Budget**	**Forecast Outturn – Q3**
	£	**£**	**£**	**£**	**£**
Employee Costs	41,924	38,438	3,487	50,990	54,760
Expenditure	148,132	137,058	11,074	172,090	185,994
Income	(709,553)	(677,606)	(31,947)	(707,735)	(739,652)
Net Expenditure	(519,497)	(502,111)	(17,386)	(484,655)	(498,898)

As shown in the summary above, income has exceeded budget at the end of the 3rd quarter by £31k, with £25k of this being attributable to car parking income itself from all car parks, rather than ancillary revenue such as electricity recharges.

At the end of Q3, Main Beach income is £14k above budget, an increase of £8k from the position at the end of Q2. This is largely due to income received in October and December, with events at Swanage Railway being the main factor in the over average usage in this car park combined with good weather in early October. Likewise, the variance at Broad Road has increased by £6k during Q3, being £9k over budget at the end of the period. Again, this is due to higher than average usage during October and presumably weather driven. Mermond is over budget by £6k at the end of Q3, an increase of £5k from Q2. Again, the income relating to October and December are the contributing periods to this variance.

Expenditure is £11k over budget at the end of the 3rd quarter, with the only significant variance being electricity. This is largely due to the increased usage of the EV charging points, which is offset by income through Podpoint recharges.

Projecting forward to year-end, a surplus of £498k is anticipated against a budgeted surplus of £484k, a variance of £14k. This variance is subject to change with additional expenditure expected to be incurred with the implementation of the Off-Street Parking Order 2024, with costs due to be incurred for advertising, implementing tariff changes, relining of car parks and signage.

Boat Park & Fishers' Huts

	Q3			Annual	
	Actual	**Budget**	**Variance**	**Budget**	**Forecast Outturn – Q3**
	£	**£**	**£**	**£**	**£**
Employee Costs	15,081	16,510	(1,429)	17,080	16,520
Expenditure	11,608	11,146	462	14,900	41,112
Income	(55,406)	(56,710)	1,304	(72,480)	(71,176)
Net Expenditure	(28,718)	(29,054)	336	(40,500)	(13,545)

Income for the boat park has largely been as per budget at the end of the third quarter of the financial year, with a slight negative variance from budget, but with no significant variances to report.

Expenditure is marginally over budget in total, with no significant variances to report.

The year-end forecast shows an outturn of a £13k against a budget of £40k, a negative variance of £27k. This is due to customer improvements brought forward from 2022/23 of £5k, Appendix A: BF1 and these costs will be met from earmarked reserves (EMR). Further costs may also be incurred following an inspection of the jetty extension which is in need of repair, with a provision of £20k having been allocated to these works.

Public Conveniences

	Q3			Annual	
	Actual	**Budget**	**Variance**	**Budget**	**Forecast Outturn – Q3**
	£	**£**	**£**	**£**	**£**
Expenditure	132,694	127,371	5,323	162,495	168,709
Income	(6,150)	(11,131)	4,981	(13,675)	(13,694)
Net Expenditure	126,544	116,240	10,304	148,820	155,015

Expenditure overall is over budget year to date by £5k, with the inclusion of works at Burlington Chine which were deferred from 2022/23, Appendix A: BF2, £8.5k, the cost of which will be met from EMR. However, this is partially offset by lower than budgeted electricity costs, with an opposing variance in income from electricity recharges.

Cemeteries

	Q3			Annual	
	Actual	**Budget**	**Variance**	**Budget**	**Forecast Outturn – Q3**
	£	**£**	**£**	**£**	**£**
Expenditure	4,358	6,968	(2,609)	10,490	7,881
Income	(19,290)	(27,978)	8,688	(37,190)	(28,503)
Net Expenditure	(14,932)	(21,010)	6,078	(26,700)	(20,622)

Income is under budget year to date. This is a demand driven budget and variances should be expected.

Expenditure is under budget year to date, with no significant variances to report.

Parks & Operations

	Q3			Annual	
	Actual	Budget	Variance	Budget	Forecast Outturn – Q3
	£	£	£	£	£
Employee Costs	410,922	400,235	10,687	538,320	551,250
Expenditure	184,035	193,261	(9,226)	255,570	253,813
Income	(69,970)	(64,718)	(5,252)	(87,875)	(98,449)
Net Expenditure	524,987	528,778	(3,791)	706,015	706,614

At the end of the 3rd quarter the Parks & Operations department has a positive variance of £3.7k in total. Income received is over budget by £5k, with no single significant variance to report.

Overall expenditure is £9k under budget year to date being the cumulative total of both under and overspends over several budget headings. The significant variances are:

- Vehicles: two cabstars are £8k over budget in total, with repairs being carried out on these vehicles.
- Training expenses: £4.8k under budget
- Spa: Hired services is £5k over budget and relates to Appendix A: AD4
- Parks & Gardens: Tree works are £10k under budget
- Parks & Gardens: Accessibility works, Appendix A: 8 £5k deferred

The forecast outturn for the year is as per budget overall.

King George's Field Trust-Management Account

Due to changes in the administration of King George's Field, the income and expenditure associated with this have been separated out from the Parks & Operations department to a management account. The council will continue to account for the operation but will report separately.

	Q3			Annual	
	Actual	Budget	Variance	Budget	Forecast Outturn - Q3
	£	£	£	£	£
Expenditure	2,700	5,963	(3,263)	8,050	7,661
Income	(7,661)	(9,050)	1,389	(9,100)	(7,661)
Net Expenditure	4,961	3,087	(1,874)	(1,050)	0

Beach Gardens

	Q3			Annual	
	Actual	Budget	Variance	Budget	Forecast Outturn – Q3
	£	£	£	£	£
Employee Costs	26,259	23,560	2,699	23,560	27,250
Expenditure	27,713	32,942	(5,229)	40,530	37,757
Income	(56,105)	(43,170)	(12,935)	(43,550)	(56,905)
Net Expenditure	(2,133)	13,332	(15,465)	20,540	8,102

This department has realised a positive variance of £15k at the end of the 3rd quarter.

Income shows a positive variance of £12.9k, with c. £6.3k being attributable to changes in the VAT rate applied to leisure services and £3.7k due to kiosk purchases, being partially offset by higher expenditure on stock purchases.

Employee costs are over budget, with hours above the allocated budget being utilised. Expenditure is £5k under budget, with insignificant variances over several budget lines.

A deficit of £8k is now forecast against a budgeted deficit of £20k.

The Downs

	Q3			Annual	
	Actual	Budget	Variance	Budget	Forecast Outturn – Q3
	£	£	£	£	£
Expenditure	25,140	3,425	21,715	4,450	29,565
Income	(9,519)	(9,289)	(230)	(12,385)	(12,615)
Net Expenditure	15,621	(5,864)	21,485	(7,935)	16,949

Expenditure is £21k over budget year to date. This relates to Appendix A: BF 6, the balance of costs outstanding for services provided by WSP, £16k. This will be funded from EMR. Additional expenditure has also been incurred on wall repairs, although not significant.

Beaches & Foreshore

	Q3			Annual	
	Actual	Budget	Variance	Budget	Forecast Outturn – Q3
	£	£	£	£	£
Employee Costs	40,090	40,420	(330)	44,080	48,175
Expenditure	128,138	141,710	(13,572)	145,540	145,268
Income	(38,454)	(25,765)	(12,689)	(27,745)	(40,434)
Net Expenditure	129,774	156,365	(26,591)	161,875	153,009

At the end of the 3rd quarter of the financial year a positive variance of £26k has been seen in this department. This is partly due to the allocation of a Summer Demand grant to this department, £8,350, issued by Dorset Council to offset Seafront Advisor and waste collection costs.

Expenditure has a positive variance of £13k due to underspends on seaweed removal of £9k and repairs and maintenance, £4k, with repairs to the Quay and slipways under budget. However, due to the need to reinstate staging for the Private Sites at a cost of £13k this variance will be negated in Q4.

Overall, a revised year-end outturn of a net deficit of £153k against a budget of £161k is being projected at the end of the quarter.

Beach Huts

	Q3			Annual	
	Actual	**Budget**	**Variance**	**Budget**	**Forecast Outturn – Q3**
	£	**£**	**£**	**£**	**£**
Expenditure	36,309	36,305	4	45,955	45,959
Income	(155,392)	(153,200)	(2,192)	(162,800)	(164,393)
Net Expenditure	(119,083)	(116,895)	(2,188)	(116,845)	(118,434)

Beach hut income is £2k over budget at the end of the quarter. Expenditure is generally as per budget with only minor variances. Overall year-end projections have been revised to a surplus of £118k against a budgeted surplus of £116k. Expenditure may be reduced overall following the submission of a check & challenge to the VOA regarding the valuation basis for the Spa and Shore Road beach huts' business rates.

Publicity & Tourism

	Q3			Annual	
	Actual	**Budget**	**Variance**	**Budget**	**Forecast Outturn – Q3**
	£	**£**	**£**	**£**	**£**
Employee Costs	156,604	153,175	3,429	199,480	203,800
Expenditure	58,458	61,992	(3,535)	74,865	83,274
Income	(23,415)	(24,497)	1,082	(29,825)	(28,742)
Net Expenditure	191,647	190,670	977	244,520	258,332

At the end of Q3 net expenditure is as per budget overall. Income in total on budget with only minor variances and employee costs are marginally over budget by £3.4k.

Expenditure is under budget in total, with positive and negative variances distributed over several budget lines. The most significant variance is the repairs and maintenance budget due to the additional costs for front of house alterations Appendix A: BF1 refers. An additional budget of £7k was approved by Council for costs relating to the website microsite and these costs are anticipated to be incurred in Q4. Further costs relating to the installation of LED lights of £3.9k is also anticipated in Q4.

A revised deficit of £258k is now forecast against a budgeted deficit of £244k.

Allotments

	Q3			Annual	
	Actual	Budget	Variance	Budget	Forecast Outturn – Q3
	£	£	£	£	£
Expenditure	1,692	2,775	(1,083)	3,250	2,167
Income	(6,645)	(6,975)	330	(9,300)	(8,970)
Net Expenditure	(4,954)	(4,200)	(754)	(6,050)	(6,804)

To date allotments have performed largely as per budget, with very little activity to report. The year-end out-turn has been revised to a net surplus of £6.8k against a budgeted net surplus of £6k.

General Buildings/Misc Areas (incl roads)

	Q3			Annual	
	Actual	Budget	Variance	Budget	Forecast Outturn – Q3
	£	£	£	£	£
Expenditure	14,933	18,750	(3,817)	19,000	25,746
Income	(48,389)	(51,375)	2,986	(76,505)	(72,505)
Net Expenditure	(33,457)	(32,625)	(832)	(57,505)	(46,759)

Year to date net expenditure is largely as per budget. The variance in income noted as being due to the loss of rent from the Taxi Office, pending a new lease agreement.

Expenditure is £3k under budget, with deferment of Appendix A: 2 , £7.5k being partially offset by an overspend attributable to works being required to be carried out on the station building (taxi office) property prior to being re-let.

Additional costs for a wall survey and the installation of a non-slip surface on Shore Road will contribute to a forecast of a year-end negative variance of £11k.

Central Services

	Q3			Annual	
	Actual	Budget	Variance	Budget	Forecast Outturn – Q3
	£	£	£	£	£
Employee Costs	224,823	253,375	(28,552)	343,980	304,000
Expenditure	119,608	99,554	20,054	186,935	247,439
Income	(17,562)	(9,025)	(8,537)	(17,200)	(27,437)
Net Expenditure	326,869	343,904	(17,035)	513,715	524,002

Employee costs are under budget year to date, due to vacancies experienced during the year with one post becoming vacant in Q4.

Expenditure is £20k overspent at the end of the 3rd quarter. £12k of this variance is due to costs associated with ongoing legal matters, a large proportion of which have been recharged. Repairs and maintenance costs are £3k over budget, with variances over many other budget headings being realised, but none being significant.

Income is over budget year to date, due to a recharge of costs. Income from rentals for weddings is below budget.

Appendix A, ref: 3 shows a budget allocation of £83k for repairs to the Town Hall, this is an uplift of £33k, with £50k originally having been approved. It is now likely that these works will run into the 2024/25 financial year so a variance at year-end is likely and this sum may be transferred to an EMR if that is the case. An additional budget of £7.4k has also been provided for the installation of LED lighting, Appendix A: AD7.

Corporate Management & Democratic Services

	Q3			Annual	
	Actual	**Budget**	**Variance**	**Budget**	**Forecast Outturn – Q3**
	£	**£**	**£**	**£**	**£**
Expenditure	40,073	65,672	(25,600)	131,850	111,465
Income	(300)	0	(300)	0	300
Net Expenditure	39,773	65,672	(25,900)	131,850	111,765

At the end of the 3rd quarter a variance of £25k has been realised.

The significant variances relate to:

- The implementation of website improvements has been deferred to 2024/25, £7k.
- £3k for the community bus which has not been required.
- Environmental projects Appendix A: 9 £5.5k and £2k of minor works have been deferred.
- Neighbourhood plan consultant fees, £8k

The forecast outturn is a £111k against a budget of £131k, a positive variance of £20k, which includes an additional budget approved to engage Dorset Coast Forum to undertake a public consultation on the Green Seafront Stabilisation and Enhancement Scheme, Appendix A: AD3, £9.5k.

Employee Costs

At the end of the 3rd quarter employee costs of £915k were seen against a budget of £925k, a positive variance of £10k.

	Q3			Annual	
	Actual	**Budget**	**Variance**	**Budget**	**Forecast Outturn – Q3**
	£	**£**	**£**	**£**	**£**
Car Parks	37,115	35,438	1,678	47,250	49,400
Market-CSA	4,809	3,000	1,809	3,740	5,360
Boat Park Attendant/CSA	15,081	16,510	(1,429)	17,080	16,520
Parks & Operations	410,922	400,235	10,687	538,320	551,250
Beach Gardens	26,259	23,560	2,699	23,560	27,250
Beaches - Cleaner	27,914	25,040	2,874	28,700	36,000
Beaches – Seafront Advisor	12,176	15,380	(3,204)	15,380	12,175
Tourism	156,604	153,175	3,429	199,480	203,800
Central Services	224,823	253,375	(28,552)	343,980	304,000
Total	915,704	925,713	(10,009)	1,217,490	1,205,755

In respect of the 2023/24 local government pay award, a flat rate of £1,925, c. 9% on lower grades was agreed in November 2023, backdated to April 2023. This was considerably above the flat rate of £770 included in the estimates. With the operations department holding the largest number of employees, this department was impacted greater than any other and has the largest negative variance. Central Services has a significant positive variance, with vacant posts seen during the course of the year.

Interest & Investment Income

	Q3			Annual	
	Actual	**Budget**	**Variance**	**Budget**	**Forecast Outturn – Q3**
	£	**£**	**£**	**£**	**£**
Net Expenditure	(226,211)	(141,500)	(84,711)	(185,000)	(295,000)

The variance between budgeted and actual investment income has continued to grow during the 3rd quarter of the year, with income from both strategic long-term investments and short-term investments being over budget.

It is usual that variances will occur from budget with fluctuations to interest rates from those assumed at budget setting, and the reprofiling of the capital programme during the course of the year. A Treasury Risk Management Reserve was established during the year with the purpose to hold any income received from investment activity above the budgeted sum. This was deemed prudent to mitigate against some of the risk in crystallising capital losses when redeeming strategic investments which would impact the general fund. At 31st December 2023, the council's strategic investments have an unrealised gain of £206k in total. However, this is split with two investments (M&G and Ninety-One) showing a combined loss of £186k and CCLA a gain of £392k.

The year-end outturn is based upon reprofiling of the Council's capital programme and an assumption that interest rates will continue to be c. 5% for short term investments. The anticipated variance of £110k will be appropriated to the Treasury Risk Management Reserve as per Reserves Policy.

Revenue Account - General Overview

At the end of the 3rd quarter of the council's financial year, net expenditure is favourable against budget with a surplus of £294k, with a positive variance of £70k at the end of the period.

Presently, a deficit on the general fund of £119k is forecast at year-end, against a budgeted deficit of £53k, a variance of £66k.

The shift from a positive variance of £70k at the end of Q3 to a forecast negative variance of £66k at year-end is primarily due to estimated additional expenditure for jetty repairs (£20k), staging for private sites (£13k), Town Hall repairs & maintenance (£40k), TIC website & promotions (£7k), LED lighting £20k) to be incurred in Q4.

Reserves and Balances held 31 December 2023

A summary of the reserves and balances held at 30th September 2023 is given below:

	Balance 31/03/2023 £	Movement in Year £	Balance 31/12/2023 £
General Fund	865,558	294,082	1,159,640
Earmarked Reserves	2,588,607	49,616	2,638,223
UCRR	2,192,260	0	2,192,260
Total	5,646,425	343,698	5,990,123

Detailed movements on the General Fund are shown on page 1 of the Q3 Budget Report.

Earmarked Reserves

The Council holds the following earmarked reserves:

	Actual 31/03/2023 £	Net Movement on Reserve £	Balance 31/12/2023 £
Vehicle & Plant Replacement	10,000	0	10,000
King Georges Play Area & Skate Park	57,097	0	57,097
Play Equipment-General Areas	21,406	0	21,406
Car Park Machines	39,248	0	39,248
Tennis Courts Refurbishment	12,312	4,728	17,040
Green Seafront Stabilisation Scheme	1,394,557	0	1,394,557
Community Sea Defence Project	450,000	0	450,000
Public Conveniences	115,000	0	115,000
Beach Huts Reserve	75,000	0	75,000
Football Club Facilities	4,443	(1,323)	3,120

De Moulham Back Roads	23,406	0	23,406
Insurance & Contingency Reserve	40,000	0	40,000
Community Infrastructure Levy	260,669	212	260,881
IT Equipment Reserves	23,164	0	23,164
Environmental Projects Reserve	17,000	0	17,000
C fwd Unspent committed expenditure	45,305	(38,711)	6,594
Treasury Risk Management Reserve	0	84,710	84,710
Total	**2,588,607**	**49,616**	**2,638,223**

Appendix A

Significant One Off Revenue Expenditure/Minor Works 2023/24

Ref:	Service Area	Project	Budget	Actual expenditure to date	Programmed	Status Update
	New projects for 2023/24					
1	**Roads/Misc Areas**	Station Approach-Planning & consultation	7,500	7,857	Q2	Reallocated budget of £2,500 from ref:2
2	**Roads/Misc Areas**	Panorama Road-Professional Advice	7,500	-	deferred	£2,500 of budget allocated to ref: 1
3	**Central Services**	Town Hall & Annexe external redecoration	83,000	2,940	Q4	Uplift of budget to £83k from £50k – possibly deferred to 24/25 (EMR)
4	**Vehicles & Equipment**	Front Loader	7,000	6,750	Q1	Completed
5	**Parks & Gardens**	Electricity-Parks & Gardens	10,000	-	deferred	c fwd to 24/25
6	**Beaches & Foreshore**	Quay & Slipway repairs	76,000	63,302	Q1/2	Completed
7	**Parks & Gardens**	Path Repairs - Recreation Ground	27,000	26,900	Q2	Completed
8	**Parks & Gardens**	Accessibility works	5,000	-	deferred	
9	**Environmental**	Cycle locker/signage & E-charge	5,500	-	deferred	
			223,000	**104,045**		
	Projects brought forward from 2022/23 to be financed from Earmarked Reserve					
BF1	**Boat Park**	Customer improvements agreed T&LE	5,000	-	Q3/4	
BF2	**Public Conveniences**	Burlington Chine	8,600	8,520	Q1	Completed
BF3	**TIC**	Front of house changes - on order	5,000	3,760	Q1/2	Completed
BF4	**Beaches & Foreshore**	Matting - on order	3,000	2,475	Q1	Completed
BF5	**DRM**	Website-balance on budget	7,000	-	deferred	c fwd to 24/25
BF6	**Peveril Point**	WSP -£30k approved – balance	16,705	20,956	Q2/3	Completed
BF7	**Corporate Management**	Consultancy Services-GSSS	.	3,000	Q3	Completed
			45,305	**38,711**		
	Additional projects for 2023/24					
AD1	**Car Parks**	Broad Road Wall Repairs	16,500	15,815	Q1	Approved Council meeting 13 March 23 Minute 174 b)
AD2	**TIC**	Microsite & Imagery	21,148	16,420	Q1/2	Budget increase of £7k approved: Council meeting 24th April 2023
AD3	**Corporate Management**	DCF Public Consultation	9,550	-	Q2	Approved: Special meeting 24th May 2023, Minute 31
AD4	**Spa**	Ground survey – 12 months	16,830	3652	-	Approved Council meeting 18th September 23 Minute 109 a)
AD5	**Various**	LED Lighting	20,215	-	Q4	Additional budget approved Council meeting 18th December 2023
AD6	**Beaches & Foreshore**	Private Sites Staging	13,300	-	Q4	Approved Council meeting 29th January 2024 Minute 187 b)
			97,543	**35,887**		

Capital Programme – Monitoring Report 2023/24

Project Ref:	Project	2023/24 Budget	Forecast Outturn for the year	Actual Expenditure Year to Date	Status
		£	£	£	
Approved Projects-2023/24 Estimates					
1	**Play Areas/Skate Park** King Georges Skate Park	15,000	0	0	Ongoing
2	**Parks** Days Park- Footpath Lighting Installation	37,000	57,763	57,763	Completed
3	**Station Approach** Infrastructure Improvements	50,000	0	0	Ongoing
4	**Downs** Peveril Point Stabilisation Scheme	95,000	50,000	0	Ongoing
5	**Depot** External Shelter	15,750	15,750	0	Ongoing
6	**Spa** Stabilisation & Regeneration	300,000	0	0	Ongoing
7	**Environmental** Carbon Neutral 2030 Implementation	50,000	50,000	0	Ongoing
8	**Capital Grants** S&PDT - Football Club redevelopment	70,000	39,722	0	Ongoing
9	**Vehicles** Electric Flatbed Truck	45,000	50,000	0	Ongoing
10	**Car Parks** Main Beach- Phase 3 & EVCP Installation	20,000	0	0	Ongoing
	Subtotal	**697,750**	**263,235**	**57,763**	
Projects brought forward from 2022/23					
BF1	**Roads** Panorama Rd/Quarry Close & Cow Lane-Upgrade/Improvement		54,520	0	Ongoing
	Expenditure B fwd Subtotal		**54,520**	**0**	
	Total Capital Expenditure	**697,750**	**317,755**	**57,763**	

Project Updates:

1: Play Areas/Skate Park: King Georges Equipment Replacement

Discussions with the ‘Friends’ group are ongoing. Due to the requirement for external funding, it is now anticipated that this project will be deferred to the 2024/25 financial year.

Ongoing. Financing- Earmarked reserves (EMR).

2: Parks-Days Park Footpath & Lighting Installation

This project commenced in 2022/23 with a budget of £70,000 having been approved at the Council meeting held 17 October 2022, Minute 104. However, due to inclement weather, the works were delayed and continued into 2023/24, with actual costs of £24,492 having been incurred in the 2022/23. Works were completed in October 2023 and a total expenditure of £57,763 has been incurred in this financial year. **Completed. Financing -EMR (CIL Reserve).**

3: Station Approach-Infrastructure
Project deferred to 2024/25. **Ongoing. Financing -UCRR.**

4: Downs-Peveril Point Stabilisation Scheme
The Finance & Governance Committee considered an uplift in the budget of £95k on 1 November 2023. A budget of £200k was recommended to Council, which was approved on 11 December 2023, Minute 134 and to proceed to tender via contracts finder with the additional £105k to be funded from the CIL reserve. Discussions with Dorset Council are ongoing regarding the Project Management of this scheme.

Costs for preliminaries are now anticipated to be incurred in 2023/24 with the works expected to be carried out in the 2024/25 financial year. **Ongoing. Financing -UCRR**

5: Depot-External Shelter
Quotes were received for these works, and contracts awarded as approved by Council on 29 January 2024, Minute 187 c). **Ongoing. Financing -UCRR.**

6. Spa & Seafront-Stabilisation and Regeneration (Green Seafront Scheme)
At its meeting held 29 January 2024, Minute 180, Council agreed to commission the development of a proposal for taking forward the Green Seafront Scheme as a joint project with Dorset Council, to be presented to a relevant Council or Committee meeting in spring 2024. It was acknowledged that Dorset Council would have additional access to resources and could offer more officer time and expertise to progress the project.

A cost analysis of the financial estimates provided by WSP, for both the enhanced and essential schemes, will also be undertaken to provide more precise project costings, and a report will be provided to a future Council meeting.
Ongoing. Financing -EMR/UCRR

7: Environmental- Carbon Neutral 2030 Implementation
A grant application has been submitted to Low Carbon Dorset for match funding towards the installation of PV solar panels on some of the Council's buildings.

Procurement of the design, supply and installation of the PV panels was undertaken via Contracts Finder with a closing date for submissions of 20 November 2023. Council considered the recommendations made by officers and Low Carbon Dorset at its meeting held 18 December 2023 and a decision is currently awaited from the grant giving body.
Ongoing. Financing -UCRR/Grant funding

8: Capital Grants – Football Club - Swanage & Purbeck Development Trust

A budget of £70,000 was provided in 2023/24 for a grant to the Swanage & Purbeck Development Trust to progress the redevelopment of the Football Club facilities. The project has developed and is now to be led by Swanage & Herston Football Club itself. At its meeting on 29 January 2024, Council approved an initial drawdown of £13,200, Minute 181 refers. A further £26,522 may be released subject to confirmation that the project is deliverable. **Ongoing – Financing – UCRR**

9. Vehicles-Electric Flatbed Truck

A suitable procurement framework is being researched, with an order expected to be issued in February 2024.

Ongoing: Financing-UCRR/GFB

10. Car Parks – Phase 3 & Electric Vehicle Charging Point Installation

Alternative ways of delivering these facilities at nil cost to the Council have been researched as part of Dorset Council's 'Charging Ahead' project.

Ongoing: – Financing EMR

BF1: Roads

a) Panorama Road/Quarry Close– Upgrade/Improvement Scheme

The works to Panorama Road/Quarry Close have been completed, final billing yet to be received. **Ongoing. Financing -UCRR**

Alison Spencer - Finance Manager
Martin Ayres-Town Clerk
Gail Percival-Assets and Compliance Manager
February 2024

Finance and Governance Committee – 21 February 2024 **Item 4)**

To review the Council's Strategic Investment Portfolio

During a recent meeting between officers, Members and representatives from Arlingclose (the Council's treasury advisors), the importance of reviewing the Council's strategic investment portfolio was raised. As stated in the H1 2023/24 Treasury Report, the Council will be looking to redeem the majority of its strategic investments over the next 2-4 years to fund its capital programme and it would, therefore, be prudent to start managing this exit in the near term, so as to mitigate against any unforeseen obstacles to redeeming funds in a timely manner.

In reviewing the councils' portfolio, set out in **Appendix A**, it is acknowledged that the council is heavily weighted towards the CCLA LAMIT property fund and that it would be prudent to review these holdings in the first instance. This fund currently holds £2.5m of the council's funds (cash value), with £1.5m being held in two other strategic funds.

The value of the units held with CCLA at 31 December 2023 was £2,892,561, book value £2.5m. The council purchased units with CCLA in two tranches:

- Dec 2010: 829,772 units (241.03p per unit) - £2,000,000
- April 2013: 223,754 units (223.46p per unit) - £500,000

The income return, as shown in Appendix A, for the 1 year period to 31 December 2023 was 4.74%. As any withdrawn funds would not be required immediately, they would be placed in a short-term investment. Currently short-term interest rates are above this rate, averaging 5.1% at 31 December 2023, although it should be noted that these rates are expected to fall over this period.

The need for funds to remain relatively liquid over the course of the Green Seafront Stabilisation Scheme was also raised during this meeting. Any delays in being able to redeem funds, or the closure of funds to withdrawals, could be costly and may result in necessitating short term borrowing. Another factor is that CCLA has a 6 months' notice period for the redemption of units, with the bid price on the redemption date being applied. The bid price value at 31 January was 274.00p per unit, well above the purchase price.

Members may wish to consider drawing down 1/5th of the units held every six months, in advance of the spending requirement, or may wish to consider withdrawal at the Finance & Governance Committee on an ongoing basis.

Decision required:

- To determine whether to give notice to CCLA to redeem units held in the CCLA LAMIT property fund; and
- To determine the number of units to redeem if withdrawal is approved.

Alison Spencer
Finance Manager

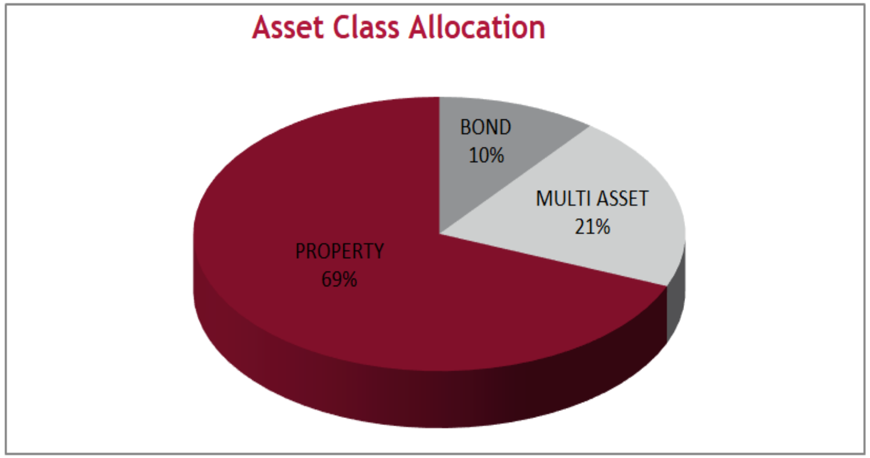
February 2024

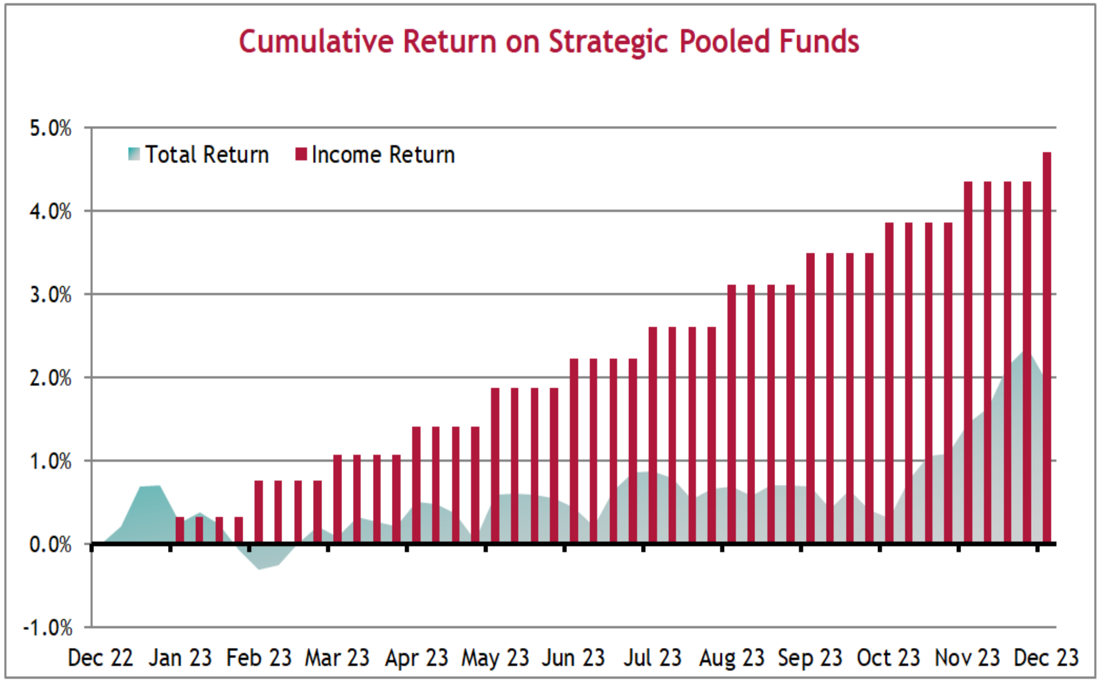
Appendix A – Strategic investment Portfolio – 31 December 2023

STRATEGIC POOLED FUND PORTFOLIO	SWANAGE	From:	31/12/2022	To:	31/12/2023

FUND NAME	ASSET CLASS	No of Units Held in Period	Current Value £	Capital Growth £	Dividends Earned £	Holding Period (yrs)	Capital Return	Income Return	Total Return	Volatility
CCLA - LAMIT PROPERTY FUND	PROPERTY	1,053,526	2,892,561	-156,238	144,544	1.0	-5.12%	4.74%	-0.38%	1.4%
M&G STRATEGIC CORPORATE BOND FUND	BOND	494,241	442,692	24,959	19,855	1.0	5.97%	4.75%	10.73%	7.1%
NINETY ONE (INVESTEC) DIVERSIFIED INCOME FUND	MULTI ASSET	955,126	871,016	11,751	39,144	1.0	1.37%	4.56%	5.92%	3.7%
GRAND TOTAL			4,206,269	-119,528	203,543	1.0	-2.76%	4.71%	1.94%	1.7%

Unrealised capital gain since purchase:	203,769	Annualised income return:	4.71%
		Average Bank Rate:	*4.67%*





Agenda Item 5

Swanage Town Council

Draft Treasury Management and Investment Strategy Statement 2024/25

Contents:

Appendices

1. General Overview

This strategy has been prepared in accordance with the Statutory Guidance on Local Government Investments 3rd Edition hereafter known as 'the Guidance', which has been issued under section 15(1)(a) of the Local Government Act 2003. Under that section of the act local authorities are required to "have regard" to "such guidance as the Secretary of State may issue".

The Guidance, which is applicable to all local authorities in England, states:

> This guidance applies to parish councils......providing their total investments exceeds, or are expected to exceed, £100,000 at any time during the financial year. Where a parish council….expects its total investments to be between £10,000 and £100,000, it is encouraged to adopt the principles in this guidance.

2. Capital Expenditure and Financing

Capital expenditure underpins the Authority's treasury management and investment strategy.

Decisions made to approve capital expenditure will have major consequences for the Council's investment capacity and implications for future financial sustainability. Capital expenditure, capital financing and treasury management activity contributes to the Council's provision of services.

Capital expenditure is where the Authority spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Authority has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

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

In 2024/25, the Authority is planning capital expenditure of £490,000 as summarised below:

Table 1: Estimates of Capital Expenditure in £, Swanage Town Council Budget Book 2024/25

	2022/23 actual	**2023/24 forecast**	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**
Capital Receipts	64,024	229,270	235,000	750,445	977,545
Earmarked Reserves	52,490	30,000	150,000	1,756,555	396,405
Community Infrastructure Levy	30,492	57,765	105,000	-	155,880
Grants/Contributions	26,374	64,000	-	-	-
Borrowing/Capital Gain	-	-	-	-	526,575
General Fund	29,667	5,000	-	10,000	8,595
TOTAL	**203,047**	**386,035**	**490,000**	**2,517,000**	**2,065,000**

For the years 2024/25 & 2025/26 the capital programme is expected to be financed from the Authority's own resources. In 2026/27 it is anticipated that a borrowing requirement may materialise due to the estimated costs of the Green Seafront Stabilisation Scheme (GSSS). However, the financing requirement for this scheme is subject to change pending further cost analysis.

Debt is only a temporary source of finance, since loans must be repaid, being financed from revenue. Alternatively, proceeds from selling capital assets (known as capital receipts) and any realised gain from the redemption of strategic investments may be used to replace debt financing.

Treasury Management and Investment Strategy 2024/25

An Authority may invest its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as ***treasury management investments***),
- to support local public services by lending to or buying shares in other organisations (***service investments***), and
- to earn investment income (known as ***commercial investments*** where this is the main purpose).

Investments made by local authorities can be classified into one of two main categories:

- Investments held for treasury management purposes; and
- Other, non-treasury, investments.

As such it has been deemed appropriate to separate this strategy into two sections; the treasury management strategy recommended by CIPFA and the non-treasury investment strategy required by the Department for Levelling Up, Housing and Communities (DLUHC).

a) Treasury Management Investments

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority typically receives its income in cash (e.g. from taxes and services) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy.

The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management. The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Treasury risk management at the Authority is conducted with due regard to the Chartered Institute of Public Finance and Accountancy's *Guidance for Smaller Public Organisations on the Application of the CIPFA Code of Practice for Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's obligation to have regard to the CIPFA Code and any other appropriate guidance.

In accordance with DLUHC Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large, unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.

i) External Context

Economic background: The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy for 2024/25.

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. In December 2023, members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with upside risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

ONS figures showed the UK economy contracted by 0.1% between July and September 2023. The BoE forecasts GDP will likely stagnate through 2024. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth has remained strong, but has showed some signs of easing; regular pay (excluding bonuses) was up 7.3% over the period and total pay (including bonuses) up 7.2%. Adjusted for inflation, regular pay was 1.4% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve appears now to have concluded the hiking cycle. It is likely this level represents the peak in

US rates following a more dovish meeting outcome in December 2023. US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But the impact from higher rates has started to feed into economic activity and growth will weaken in 2024. Annual CPI inflation was 3.1% in November.

Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.4% in November 2023. Economic growth has been weak and GDP contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has increased rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

Credit outlook: Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (December 2023): Although UK inflation and wage growth remain elevated, the Authority's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

A more detailed economic and interest rate forecast provided by Arlingclose is in **Appendix A.**

ii) Local Context

On 31st December 2023, the Authority held investments with a book value of £6.3m (current value of £6.6m). This is set out in further detail at **Appendix B**. Forecast changes in these sums are shown in Table 2 below.

Table 2: Reserves - Summary and Forecast

	Actual 31-Mar-23 £m	Estimated 31-Mar-24 £m	Estimated 31-Mar-25 £m	Estimated 31-Mar-26 £m	Estimated 31-Mar-27 £m
General Reserves	0.86	0.79	0.79	0.77	0.58
Earmarked reserves	2.59	2.67	2.47	0.78	0.27
Capital Receipts	2.19	1.96	1.73	0.98	0.00
Reserves	5.64	5.44	4.99	**2.53**	0.85

iii) Borrowing Strategy

Local Council borrowing is governed by Schedule 1 to the Local Government Act 2003. Parish & town councils in England have to apply and receive approval from the Secretary of State before taking up any borrowing. Certain temporary borrowings do not require borrowing approval. The amount that an individual town council will be authorised to borrow will normally be limited to a maximum of £500,000 in any single financial year. However, DLUHC/DAPTC have indicated that this amount could be higher based upon a robust business plan being approved. Borrowing may only be entered into for a purpose that would be capital expenditure as defined in section 16 of the Local Government Act 2003 and the decision to borrow must be made by full council.

As indicated in Table 2, although the Authority is currently debt free, its capital expenditure plans imply an external borrowing requirement in 2026/27. Council has previously affirmed that external borrowing would only be considered where it has been identified that the cost of the loan will have a nil effect on the precept requirement i.e. the annual revenue cost of a loan repayment can be met from additional income generated by the asset financed by the loan. This assertion may need to be reviewed during the next few years leading up to the approval of the GSSS.

Consideration may also be given to other sources of debt finance, which although they are not classed as borrowing, but may be classed as other debt liabilities. These are:

- leasing
- hire purchase

Any potential future capital financing options will be assessed so as to minimise the costs to revenue.

The Responsible Financial Officer may from time to time authorise the use of a temporary bank overdraft facility to facilitate cash flow throughout the financial year.

iv) Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £5.8m and £6.5m (book value) and £6.1m and £6.7m (current value). The funds that the Council holds for investment purposes are expected to decrease in the forthcoming year due to the financing of the Council's capital programme.

Objectives & Risk Management: The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: The Authority expects to be a long-term investor and treasury investments will therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services.

ESG policy: : Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Approved Counterparties: The Authority may invest its surplus funds with any of the counterparty types in Table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£1m	Unlimited
Secured investments *	25 years	£1m	Unlimited
Banks (unsecured) *	13 months	£1m	£2m
Building societies (unsecured) *	13 months	£0.5m	£1m
Registered providers (unsecured) *	5 years	£0.5m	£1m

Money market funds *	n/a	£0.5m	£1m
Strategic pooled funds	n/a	£4m	£6m
Real estate investment trusts	n/a	£1m	£1m

Minimum Credit Rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. The Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational bank accounts: The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

Reputational aspects: The Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022 this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment Limits: In order to minimise the amount of reserves that would be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £4million. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers and foreign countries. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

	Cash limit
Any group of organisations under the same ownership	£4m per group
Any group of pooled funds under the same management	£4m per manager
Foreign Countries	£1m per country

Liquidity management: The Authority will invest prudently in the short term to ensure the liquidity of funds, to minimise the risk of the Authority not being able to meet its financial commitments.

The Authority will spread its liquid cash over at least three providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

v) Treasury Management Prudential Indicators

The Authority will measure and manage its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**
Portfolio average credit rating	A

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£0.75m

vi) Financial Implications

The budget for investment income in 2024/25 is £240,000, based on an average investment portfolio of £5.7million at an interest rate of 4.2%. If actual levels of investments, or actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, then the revenue excess will be transferred to a treasury risk management reserve to cover the risk of capital losses in future years.

b) Non-treasury Investments

The Guidance focuses on non-treasury investments including:

- loans made for service purposes
- shares in companies bought for service purposes
- loans to and shares in subsidiaries, irrespective of the purpose of the company
- non-financial assets (e.g. property) held primarily or partially to generate a profit

i) Service Investments: Loans

Contribution: Supplemental to Section 12 of the Local Government Act 2003 or Section 24 of the Local Government Act 1988, under the General Power of Competence, Section 1 of the Localism Act 2011, the authority may choose to make loans to local enterprises, local charities or community organisations, wholly owned companies and joint ventures as part of a wider strategy for local economic growth even though these loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

The Council does not currently lend money directly to any local businesses, local charities or community organisations, or housing associations. However, this has not been precluded from any potential future transactions.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due.

Risk assessment: Should the Council be approached to make a loan to support local public services and as part of a wider strategy to stimulate local economic growth it may consider applications. The Authority will assess the risk of loss before entering into any service loan, while having regard to the Guidance and must be able to demonstrate that:

- Total financial exposure to these type of loans are proportionate;

- They must use an allowed “expected credit loss” model for loans as set out in the “International Financial Reporting Standard (IFRS) 9 Financial Instruments” as adopted by proper practices to measure the credit risk of the loan portfolio;
- There are appropriate credit control arrangements to recover overdue repayments in place and;
- The Authority must formally agree the total level of loans by type that it is willing to make and that the total loan book is within self-assessed limits.

ii) <u>Service Investments: Shares</u>

Contribution: The Council does not currently invest in the shares of any local businesses.

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered.

Risk assessment: Any application received to invest in shares from another party will be assessed on its own merits and must be able to demonstrate a benefit to local public services and stimulate local economic growth. Although the investment in shares has not been precluded, it is unlikely that the Council would approve this type of investment due to the high level of risk that this category of investment carries.

Non-specified Investments: Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

iii) <u>Commercial Investments: Property</u>

Contribution: The Council does not currently invest directly in commercial property with the intention of making a profit that will be spent on local public services.

Security: In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

Risk assessment: The Authority will assess the risk of loss before entering into and whilst holding property investments, should this type of investment be considered at a future date.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. As such the Council will only enter into the purchase of property through pooled funds, a treasury management investment, unless the Council is able to demonstrate that the purchase of commercial property would be a benefit to local public services and/or stimulate local economic growth.

4. <u>Related Matters</u>

Policy on Use of Financial Derivatives: In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options).

Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Borrowing in Advance of Need: The Council recognises that the borrowing of money purely to invest is ultra vires and the Council will not engage in this activity.

Markets in Financial Instruments Directive: The Authority has retained retail client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a smaller range of services but with the greater regulatory protections afforded to individuals and small companies. Presently, given the size and range of the Authority's treasury management activities, this is the only status that the Authority can adopt.

Retail Client Suitability Report: As a retail client, the council is obliged by its treasury advisors, Arlingclose, to complete a Retail Client Suitability Report, which will be reviewed at least annually to ensure it is still fit for purpose. The report summarises the Council's financial position, its investment objectives and constraints, acknowledges risk and gives a recommendation as to the suitability of the Council's investment portfolio in achieving its objective.

5. Capacity, Skills and Culture

Elected members and statutory officers: The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers.

Staff attend training courses, seminars and conferences provided by Arlingclose. Elected members are also encouraged to engage in investment decisions and are invited to attend strategy meetings held with Arlingclose.

Corporate governance: The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Finance & Governance Committee and for the execution and administration of treasury management decisions to the Responsible Finance Officer who acts in accordance with the organisation's policy statement and TMPs.

The Finance & Governance Committee is responsible for ensuring effective scrutiny of the treasury management strategy, policies and investment decisions.

Appendix A – Arlingclose Economic & Interest Rate Forecast – December 2023

Underlying assumptions:

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium- term level for Bank Rate.
- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in December. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.
- Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
UK Infrastructure Bank Rate = Gilt yield + 0.40%

Appendix B – Existing Investment Portfolio Position

Investment Portfolio	31/12/23 Actual Portfolio (Book Value) £s	31/12/23 Actual Portfolio (Current Value) £s
Banks and building societies (unsecured)	54,561	54,561
Money Market Funds	750,000	750,000
Government	1,550,000	1,550,000
Investments in Pooled Funds:		
Property Fund	2,500,000	2,895,561
Diversified Income Fund	1,000,000	871,016
Corporate Bond Fund	500,000	442,692
TOTAL INVESTMENTS	**6,354,561**	**6,563,830**