

REDDITCH BOROUGH COUNCIL

EXECUTIVE COMMITTEE

6th February 2024

MEDIUM TERM FINANCIAL PLAN 2024/5 TO 2026/7 – Tranche 2

Relevant Portfolio Holder	Cllr. Luke Court, Finance and Enabling Portfolio Holder
Portfolio Holder Consulted	Yes
Relevant Head of Service	Bernard Ofori-Atta
Report Author	Job Title: Head of Finance & Customer Services email:Bernard.ofori-atta@bromsgroveandredditch.gov.uk Contact Tel:
Wards Affected	N/A
Ward Councillor(s) consulted	N/A
Relevant Strategic Purpose(s)	All
Non-Key Decision	
If you have any questions about this report, please contact the report author in advance of the meeting.	

1. SUMMARY OF PROPOSALS

- 1.1 The Council has set its budget in two Tranches this year as it did in the 2023/4 Medium Term Financial Plan (MTFP) process. The initial Tranche was published in the Autumn and approved of options at Council in January. This second Tranche is being considered now that the final Local Government Settlement figures are known. The final budget will be approved in February. The Housing Revenue Account (HRA) budgets will be combined in this Tranche 2 MTFP report.

2. RECOMMENDATIONS

Executive are asked to Recommend to Council:

- 1 The additional funding to the Council as per the Local Government Settlement on the 18th December 2023, including the estimated levels for 2024/5 and 2025/6.
- 2 The Tranche 2 growth and savings proposals, as set out in Sections 3.27 – 3.35, including an increase of Council Tax of 2.99% for 2024/5.
- 3 A proposed Council Tax Freeze in 2025/6, subject to financial requirements allowing this to be possible.
- 4 The updated five year Capital Programme 2024/5 to 2028/29 along with its ongoing revenue costs.
- 5 The levels of Earmarked Reserve being carried forward into future years.
- 6 The level of General Fund balances following additions from the 2024/5 MTFP.
- 7 The HRA budget as set out in Sections 3.48 to 3.55 is approved.

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- 8 Members take account of any feedback from the Tranche 2 consultation process undertaken.

Executive note:

1. Members understand and accept the implications set out in the S151 Officers Robustness (S25) Statement of this 2024/25 to 2026/27 Medium Term Financial plan in moving the Council to financial sustainability.

3. Background

Introduction

- 3.1 The Council sets a 3-year Medium Term Financial Plan every year, with the final Council Tax Resolution being approved by Council in February. This year's process has been more difficult due to the following factors:
- Starting the process with an initial small deficit amount from the 2023/24 MTFP.
 - The present cost of living crisis.
 - The fact that the Council is still to close its 2020/21 financial year and the ongoing cross sector issues in relation to Audit which are set out in the wider Finance Report.
 - The movement of the Government to funding projects for specific outcomes and the movement of this from a bidding process to an "allocations" process and the time limited nature of these funds and the pressure this puts on other deliverables.
 - Loss of key personnel, present vacancies rates, and staff retention – linked to the Workforce Strategy.
 - Business Rates and Council Tax Income – and associated collection rates and reliefs linked to the "cost of living" crisis and C-19 grants working their way through our system.
 - Inflation still not reducing as quickly as Government and Financial Market predictions.

As such, it is prudent to split the budget process into two tranches,

- Having an initial Tranche which seeks to close as much of the deficit as possible using information known as at the end of September and seeking approval for those savings to be implemented at Council in January,
- Having a second Tranche after the Christmas break, for which approval will be sought in February, that takes account of the Local Government Settlement whose final detail will not be known until early January.

- 3.2 This report will set out:

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- The approved Tranche 1 Position including base assumptions.
- The impact of the Local Government Settlement.
- Council Priorities
- Strategic Approach
- The final Tranche 2 three year balanced budget, including updated assumptions.
- Impact of Tranche 2 on Reserves and Balances.
- The 5 year Capital Programme.
- The Housing Revenue Account budget.
- The Risk Assessment
- The S151 Officers Robustness Statement
- Consultation Details.

The approved Tranche 1 Position including base assumptions

3.3 It is important to set out the base assumptions under which the budget is constructed. These assumptions can then be stress tested for various scenarios to test the robustness of the overall budget. The Tranche 1 base assumptions were:

- Council Tax – Figures assume the full 1.99% allowable increase over all years of the 3 year MTFP and no increase in numbers of properties.
- Business Rates Increases – business rates assume no growth in the base.
- New Homes Bonus/Government Grants – It is assumed that levels would be the same as previous years.
- Pension Fund assumptions takes account of the latest triennial valuation which was received in September 2022. It was noted that there is a significant risk is that the next revaluation will be actioned in 2026 and as such the 2026/7 figure could well change pending the outcome of that exercise.

3.4 The following “generic” pressures and savings were included in Tranche 1:

- The impact of the 2023/4 pay award has been considered. This was an estimated increase of £805k, however, we have already accounted for a pay award of 2% reduces this amount to £575k.
- The Councils 2024/5 pay award impact is set at 3% with the 2025/6 and 2026/7 pay awards assumed to be 2%.
- Although inflation is coming down, there is a 5% budget for inflationary increases.
- There were savings following budgets set in 23/4 not being required as inflation has reduced:
 - The utilities budget can reduce by £228k a year.
 - The Inflation budget of £260k could also be released.

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- The £1,140k utilities reserve was transferred to the General Fund.
- A 7% increase in fees and charges has been approved (apart from Dial a Ride where registration fees are reduced from £16.50 to £15, but journey fees increase by £1.
- Inflation on fees and charges is 2% in 2025/6 and 2026/7.

3.5 Departmental pressures are summarised in the following table:

Service Adjustments					
Reduction in Benefits Overpayments Target			200	200	200
Use of HVO Fuel by 100% of Fleet			20	20	20
Increase in HR Establishment			10	10	10
PRA Housing Licence Costs			15	15	15
Garden Waste Service			20	-27	-56
Interest Charges on Updated Capital Programme			82	102	121
MRP Increases on Capital Programme			22	140	153

Table 1 Departmental Pressures

- There is presently a target of £500k for the reclaiming of Benefit overpayments. With more accurate information and processes this amount will only now deliver £300k of income.
- The Council's Carbon pledge is to a carbon neutral position on the fleet over time. The £20k increase in budget allows for, prices dependent, a 30% use of HVO fuel and an estimated savings of 154 tonnes of greenhouse gases from the fleet.
- The HR structure reports into one post. This funding added a second senior post to relieve pressure in this service area.
- There is the new requirement for the monitoring of the Private Housing Sector. There is a capital bid of £30k for software to undertake this. The ongoing licensing costs are £15k a year.
- The setting up of a Redditch based Garden Waste service to build on service demand will deliver savings in years 2 and 3. The cost of the service to the resident would be £60 a year with a £20 initial setup cost.
- The revenue impact of the Capital Programme changes approved in Tranche 1 amount to £60k for interest charges and £119k for Minimum Revenue Provision requirements.

3.6 These departmental changes result in an overall £353k pressure in the 2024/5 financial year reducing to a deficit of £93k and then £72k in the following 2 years. The whole revenue budget is summarised in the table on the following page.

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Redditch Position Statement					
		2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Base Budget Position 22/23 MTFP					
Expenditure		10,290	10,428	10,661	10,661
Funding		-9,341	-9,595	-9,621	-9,621
Net		949	833	1,040	1,040
Revised Gap		949	833	1,040	1,040
Phase 1 Savings 2023/24 MTFP		-1,529	-1,849	-2,221	-2,221
Revised Position		-580	-1,016	-1,181	-1,181
Phase 1 Pressures 2023/24 MTFP		2,319	2,324	2,446	2,446
Phase 1 2023/24 MTFP Position		1,739	1,308	1,265	1,265
Local Government Settlement		-934	-700	-700	-700
Additional Savings (Phase 2)		-1060	-1060	-1060	-1060
Additional Pressures - Phase 2		566	519	432	432
Final 2023/24 MTFP Position		311	67	-63	-63
Known Changes					
23/4 Pay Award - 5% More than planned			575	575	575
Utilities Increases running at 60% - 40% Savings			-228	-228	-228
Existing Inflation Budget (unallocated)			-269	-274	-274
Inflation on Contracts - additional 5%			125	125	125
Additional 1% on 24/5 Pay Award - to 3%			100	100	100
Additional 2% pay Award for 2026/7					200
7% addition on Fees and charges			-238	-241	-243
Draft Opening Position 24/25		311	132	-6	192
Possible Adjustments					
Quarter 1 23/4 Overspend position		557			
Use of 23/4 Utilities Reserve		-557			
2% Council Tax 2025/6				-144	-144
2% Council Tax 2026/7					-147
Year 2 Fees and Charges Increase at 2%				-69	-70.5
Year 3 Fees and Charges Increase at 2%					-73.5
Government Grant at 23/4 Levels			-148	-148	-148
Draft Opening Position		311	-16	-367	-391
Service Adjustments					
Reduction in Benefits Overpayments Target			200	200	200
Use of HVO Fuel by 100% of Fleet			20	20	20
Increase in HR Establishment			10	10	10
PRA Housing Licence Costs			15	15	15
Garden Waste Service			20	-27	-56
Interest Charges on Updated Capital Programme			82	102	121
MRP Increases on Capital Programme			22	140	153
Revised Opening Position		311	353	93	72

Table 2 – Tranche 1 Approved MTFP Position

The impact of the Local Government Financial Settlement

- 3.7 Local Government is still in uncharted territory. C-19 has changed significantly the way Councils and the people they serve work, or expect to be served, and this is starting to be reflected in Service Plans and associated budgets.

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- 3.8 The War in Ukraine has still not been resolved. This has led to Inflationary increases that initially reached levels not seen since that late 1980's although they are now starting to reduce. This has however had a significant impact on our customers and stakeholders and is now labelled a "cost of living" crisis.
- 3.9 Councils have declared "Climate Emergencies" and have challenging carbon reduction targets to deliver by 2030, 2040 and 2050. At the moment plans are within existing budgets, but as we move through the next three-year period there will be the requirement for the prioritisation of resources and approval of additional funding on a scheme by scheme basis. These will need to be taken account of in future budgets, although a significant part of this budget spend will be Capital in nature.
- 3.10 As mentioned in the Risk section, the Government made 2 major announcements during the LGA Conference in July 2023, both of which will significantly affect budgeting.
- The first of these was the launch of the Office for Local Government. They will look at Council data to assess performance and try to predict if Councils are getting into difficulty.
 - The second was a movement from a bidding process for Funds to that of an allocation's method using data to inform those decisions (however there is no increase in the funds being allocated/bid for).
- 3.11 There are a number of other significant factors in looking at the 24/5 budget which are linked to the Local Government Finance Market. Presently:
- There are a number of Local Authorities who have now issued S114 Statements, including the largest Council in the Country Birmingham.
 - Redditch and Bromsgrove both still have accounts unaudited from 2020/21 and will not have the cash receipting backlogs cleared until the end of this calendar year (2023). As such, there is still a degree of uncertainty on the overall figures, until those years accounts have been finalised and audited.
 - That in the Local Government sector, there were still circa 900 Audits from 2015/16 that are still outstanding at the end of the summer. There is an issue with audit resources to deliver these audits. This has the possible implication of Council accounts being qualified due to capacity issues. It is unclear of the implications of this on Council stakeholder confidence.
- 3.12 The Chancellors Autumn Statement took place on the 22nd November and the Provisional Local Government Financial Settlement took place on Monday 18th December. The settlement was only a single year settlement.
- 3.13 The key outcomes for Local Government and Redditch from those announcements was:

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- An increase in spending power for Councils overall of 6.5% although Borough Council increases were on average 4.9%.
- This increase included the assumption that Council Tax would be increased by 2.99%
- The ability to increase Planning application charges by 25% for small applications and 35% for other applications.
- Extension of Business Rates relief for Retail Hospitality and Leisure for another year

3.14 Grant levels are set out in Appendix A.

3.15 Tranche 2 options will be presented to Executive on the 6th February and the full Budget approved by Council on the 26th February.

Council Strategic Priorities

3.16 The Leader and Portfolio Holders with the support of the Corporate Management Team have reviewed the current priorities by undertaking two review sessions taking on board data from:

- Annual Community Survey 2022
- Community Priorities Survey
- Cost of Living survey
- Census
- [Office of National Statistics](#)
- Current priorities

3.17 Redditch Borough Council's current priorities are underpinned by a set of key themes. These are set out in the current Council Plan 2019 – 2023 [here](#) and in the Council Plan Addendum 2022/23. The 5 themes are:

- Run & grow a successful business.
- Finding somewhere to live.
- Aspiration, work & financial independence.
- Living independent, active & healthy lives.
- Communities which are safe, well-maintained, and green.

3.18 The council's vision, priorities and themes are connected using a 'green' thread:

“To enrich the lives and aspirations of all our residents, businesses and visitors through the provision of efficiently run and high-quality services, ensuring that all in need receive appropriate help, support and opportunities”.

3.19 Along with demonstrating what are identified as the community and organisational priorities:

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Community Priorities	Organisational Priorities
Economic Development & Regeneration	Financial Stability
Housing Growth	Sustainability
Skills	High Quality Services
Improved Health & Wellbeing	
Community Safety & Anti-Social Behaviour	

- 3.20 The council cannot deliver all priorities on its own. In some cases it can support, influence, or work collaboratively with other partner agencies to persuade them to take a particular course of action/undertake a particular project. Considerable support and input from partner organisations will be needed for priorities, to be successfully achieved.
- 3.21 Following consultation and taking other information on board, the Council's priorities are therefore proposed as:
- Housing
 - Parks & Green Spaces
 - Economy & Regeneration
 - Community Safety

Strategic Approach

- 3.22 The Council has come into the 2024/25 budget process with a number of conflicting issues. These include:
- An almost break even budget position from the 2023/24 MTFS.
 - The requirement to fund the 23/4 pay award which is 5% higher than planned at an average value of 7%.
 - Increases in Council Tax are limited at 3%, which is significantly lower than the present rates of inflation.
- 3.23 Following the significant higher pay awards over the past two years than was budgeted for the Council must move to financial sustainability over the time scale of this MTFS. The next section sets out the Tranche 2 position but in it the Council moves to a sustainable position over the 3 year planning period. The level of reserves and balances presently held suggest that although significantly more is held than the suggested 5% recommended level for the General Fund, that any calls on this amount for a significant emergency situation would reduce levels to almost 0.
- 3.24 The Council must adapt how it operates to take advantage of customer requirements, technology, available resources, and the economic and environmental conditions to remain a sustainable viable organisation. To ensure this happens there will be the need for future investment, efficiencies and possibly the requirement to fund redundancy (both from reserves and balances).

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- 3.25 As set out later in the Robustness Statement, in compiling Tranche1 of the budget, assumptions were based on the best information held now. Issues the Council is facing are not unique, they are being faced by almost all Councils. Tranche 2 of the budget will adjust for any funding that the Government will provide and also look at other options to close any deficit should the Government settlement not bridge any resultant gap.

The final Tranche 2 three year balanced budget, including updated assumptions

- 3.26 The Council Started Tranche of the Budget with the following financial deficits to close.

	2023/24	2024/25	2025/26	2026/27
	£000	£000	£000	£000
Revised Tranche 1 Position	311	353	93	72

Table 3 Tranche 1 Summary Position

- 3.27 The financial settlement has allowed the following opportunities for additional funding:

- Increasing Council Tax from 1.99% to 2.99% resulting in additional funding of £67,000
- Increasing planning fees for small applications by 25% and other applications by 35% will recoup £60,000 at present activity levels.
- Additional grant funding of £244k due to the overall Local Government Settlement.

- 3.28 Now that the Council fully understands the implications of the 2022/23 and 2023/4 pay awards, given the 2023/4 pay award was implemented in December, the following savings can be made:

- £100,000 can be released from the 2022/23 Pay Award contingency.
- £150,000 can be released from the 2023/4 Pay Award budget approved in Tranche 1 of this years MTFP process.

- 3.29 However there are additional pressures amounting to £261,000 that need to be accounted for. This includes:

- Increase in staffing numbers in Worcestershire Regulatory Services due to higher levels of Food Safety compliance testing requirements by the Food Standards Agency £40,000.
- Planning and Environmental Enforcement £45,000. A number of issues had been experienced by the Council in respect of Planning and Environmental enforcement in the past. These included difficulty in the

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recruitment of experienced and skilled officers. It is considered that WRS Officers had the necessary skills to provide effective enforcement on behalf of the Council. The service would include triaging of enforcement matters, proactive enforcement and legal and administrative support. In addition to this by utilising the expertise of WRS in enforcement matters, it would allow benefit from increased knowledge in areas such as injunctions and more skills in complex enforcement matters when multiple breaches had occurred; such as breaches that included both noise and importation of soil. There was currently a backlog in enforcement cases at the Council and this proposed extra resource would provide a means by which to reduce the backlog over a period of time. There would be an increase in resource allocated to 'enviro-crimes' such as fly-tipping and dog fouling, which were two areas of concern for both the Council and residents of the Borough.

- Play Audits and Investment Strategy starting at £10,000 rising to £50,000. These are the implications of the Play Audit report received and approved at Executive in January 2024.
- Housing Strategy Review £71,000. This covers an increase from 1.4 to 2.5 fte Private Sector Housing Officers. This is to account for the increased statutory duties that are being placed on Private Sector Housing Teams considering recent damp and mould issues raised nationally. In addition, the Renters Reform Bill will bring new duties and responsibilities to District Councils particularly in relation to improving renting standards. An additional post of Senior Housing Strategy Officer will increase the resource within housing strategy to meet the increasing impacts of homelessness and to ensure the effective use of resources to support the prevention of homelessness. A new Housing Strategy Apprenticeship post will support the wider team. This post will be introduced in 2025/26 to allow time for the service review to be embedded enabling a quality apprenticeship opportunity to be offered.
- Following the approach from Wyre Forest to disband the NWEDR service, Officers have been working on the exit agreement and ensuring that Redditch is protected from any claims brought as a result of the break-up of the service and any decisions made by NWEDR prior to the split. The Senior Management Team and the Head of Planning and Regeneration have been looking at how best the Council, in partnership with Bromsgrove, undertake Regeneration and Economic Development to meet the strategic purposes of both Councils and the wider priority of economic growth in the two council areas and ensure that the timescales agreed with Central Government for Levelling Up Fund (LUF) Programme at BDC and the Towns Fund (TF) Programme at RBC are met and that future government and regional funding is secured. A separate report is being brought to Cabinet on this, however the proposed increased costs for Redditch are £72,000.

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- 3.30 These departmental changes result in an overall £29k surplus in the 2024/5 financial year rising to a surplus of £165k and then £166k in the following 2 years. The whole revenue budget is summarised in the table on the following page.

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	2023/24	2024/25	2025/26	2026/27
	£000	£000	£000	£000
Base Budget Position 22/23 MTFP				
Expenditure	10,290	10,428	10,661	10,661
Funding	-9,341	-9,595	-9,621	-9,621
Net	949	833	1,040	1,040
Revised Gap	949	833	1,040	1,040
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Additional Pressures - Phase 2	566	519	432	432
Final 2023/24 MTFP Position	311	67	-63	-63
Known Changes				
23/4 Pay Award - 5% More than planned		575	575	575
Utilities Increases running at 60% - 40% Savings		-228	-228	-228
Existing Inflation Budget (unallocated)		-269	-274	-274
Inflation on Contracts - additional 5%		125	125	125
Additional 1% on 24/5 Pay Award - to 3%		100	100	100
Additional 2% pay Award for 2026/7				200
7% addition on Fees and charges		-238	-241	-243
Draft Opening Position 24/25	311	132	-6	192
Possible Adjustments				
Quarter 1 23/4 Overspend position	557			
Use of 23/4 Utilities Reserve	-557			
2% Council Tax 2025/6			-144	-144
2% Council Tax 2026/7				-147
Year 2 Fees and Charges Increase at 2%			-69	-71
Year 3 Fees and Charges Increase at 2%				-74
Government Grant at 23/4 Levels		-148	-148	-148
Draft Opening Position	311	-16	-367	-391
Service Adjustments				
Reduction in Benefits Overpayments Target		200	200	200
Use of HVO Fuel by 100% of Fleet		20	20	20
Increase in HR Establishment		10	10	10
PRA Housing Licence Costs		15	15	15
Garden Waste Service		20	-27	-56
Interest Charges on Updated Capital Programme		82	102	121
MRP Increases on Capital Programme		22	140	153
Revised Tranche 1 Position	311	353	93	72
Council Tax - Increase to 3%		-67	-67	-67
Planning Income (Base Budget £240k) at 25%		-60	-60	-60
22/23 Pay Award		-100	-100	-100
Actual Impact on budgets of Pay Award		-150	-150	-150
WRS Additional Food Safety		40	40	40
Planning and Environmental Enforcement		45	45	45
Play Audit - Revenue Implications		10	30	50
Housing Strategy Service		71	71	71
NWedR Structure		73	73	73
Changes in other Central Grants		-244	-140	-140
Updated Position Tranche 2		-29	-165	-166

Table 4 – Tranche 2 Budget

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- 3.31 Given the financial position, the Council proposes to “provisionally” freeze Council Tax in 2025/6. This would reduce the surplus by an ongoing £144k from 2025/6. By provisionally proposing this change, if financial requirements mean this is not possible then it will not be enacted. This would change the Tranche 2 financial position as per the table below. The Council would continue to be in a surplus position over the three year period and the General Fund Reserves would still be almost double the Government’s recommended minimum level.

	2023/24	2024/25	2025/26	2026/27
Updated Position Tranche 2		-29	-165	-166
2025/6 Council Tax Freeze		0	144	144
Revised Tranche 2 Position		-29	-21	-22

Table 5 Updated Tranche 2 Position

- 3.32 As set out in 3.18 above, the Council must continue to adapt and evolve to ensure it remains sustainable in medium term. Although reserves are above the recommended lower limits their effective use needs to be linked to tangible sustainable outcomes for the Council. The Council has undertaken an Establishment Review in the November and December and the outcomes of this review, linked to identified vacant positions and Agency posts covering those positions will be a starting point for future efficiencies. However, a key driver overall will be the effective use of data and ensuring we make it as easy as possible for the Customer to interact with ourselves, digitally and face to face.
- 3.33 Appendix B sets out the Departmental Budgets.
- 3.34 It should be noted that on the 23rd January the Government announced additional measures for Local Authorities worth £600m. As part of these measures, the Government are asking local authorities to produce productivity plans which will set out how they will improve service performance and ensure every area is making best use of taxpayers’ money. The Government will monitor these plans, and funding Settlements in future years will be informed by performance against these plans. The magnitude of these additional sums will not be confirmed by the Government until early February, however initial estimates indicate that Redditch would benefit by £103,000. This is not yet included in the amounts summarised in sections 3.27 to 3.30 as we need official confirmation from the Government of the final amount. This would increase base budgets in Table 5 to circa £120k surpluses.

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- 3.35 Any increases to the Parking SLA, which is to be discussed at the Executive meeting on the 6th February and at a maximum would be a £27k increase in costs. Given this, like the additional Government Grant, is still to be debated/agreed it is not included in Table 4. Table 6 includes the impact of the Parking and additional Government Support. Once confirmed, overall tables will be updated to reflect the position in Table 6.

	2023/24	2024/25	2025/26	2026/27
Updated Position Tranche 2		-29	-165	-166
2025/6 Council Tax Freeze		0	144	144
Revised Tranche 2 Position		-29	-21	-22
Provisional Additional Government Grant		-103	-103	-103
Parking increases (to be agreed)		27	27	27
Final Tranche 2 Position		-105	-97	-98

Table 6 Tranche 2 Position with provisional figures added

Impact of Tranche 2 on Reserves and Balances

- 3.36 The existing 23/24 MTFP saw general fund balances reduce by £315k over the three year period as the original plan moved the Council towards sustainability. In the 2023/4 budget, the Council was prudent and reviewed all its earmarked Reserves and reallocated a substantial amount to the General Fund and also a newly formed Utilities Reserve due to the significant pressure on budgets in that area. As we have moved into 2023/4 there have been pressures, although they have been due to staffing and the 2023/4 allocation of the Utilities Reserve has been used to mitigate these. Years 2 and 3 of this reserve are not required and have been transferred to the General Fund to bolster its position.
- 3.37 The projected 2024/5 to 2026/7 position, at Tranche 1, had £829k of pressures to mitigate. This has been mitigated in Tranche 2 to a £72k surplus. Presently the general Fund sits at a value of £3,786m (taking account of the Tranche 2 position and provisional Council Tax Freeze in 2025/6) at the 31st March 2017. This sum is approximately 9% of gross expenditure and above the 5% benchmark quoted by the Government a being a minimum requirement. If Housing benefit payments, which are passported through the Council are ignored than this percentage rises to 15% of expenditure.
- 3.38 The analysis in Table 7 sets out the effects on Council General Fund and Earmarked Reserves. Full detail is set out in Appendix C

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Reserves Position	2023/24	2024/25	2025/26	2026/27
General Fund Opening Positriion	2,686	2,575	3,744	3,764
General Fund Changes	-111	1,169	21	22
General Fund Closing Position	2,575	3,744	3,764	3,786
Earmarked Reserves	5,242	4,088	4,088	4,088

Table 7 Reserves Position

- In 2023/4
 - We start with £2.686m in the General Fund Reserve.
 - £200k will be moved into the it from the Rates Reserve
 - £311k was already being used to subsidise the base budget
 - This results in a closing 23/4 position of £2.575m
- In 2024/5
 - We start with £2.575m
 - We propose to transfer years 2 and 3 of the utilities reserve in as the view is that this is now not required - £1.140m.
 - There is a £29k surplus.
 - This results in a closing 24/5 position of £3.744m
- In 2025/6
 - the opening position is £3.744m.
 - There is a £21k surplus in the draft budget which will be transferred from the G/F.
 - This results in a closing 25/6 position of £3.765m.
- In 2026/7
 - the opening position is £3.765m.
 - There is a £22k surplus in the draft budget which will be transferred from the G/F.
 - This results in a closing 26/7 position of £3.787m.

The 5 Year Capital Programme

- 3.39 The Council over the past number of years has not spent its capital programme allocations in year. A review has been carried out of
- All schemes that have not started (both from 22/23 and from previous years)
 - Schemes that have started
- To assess deliverability and links to revised strategic priorities.
- 3.40 Present rationale is for any scheme not yet started (unless grant or S106 funded) to rebid for funds as part of the 2024/25 budget process. The Summary Capital Programme is set out in the following Table.

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Year	Total Programme	Council Funded	Grant Funded
2024/5	20,507,674	6,089,386	14,418,288
2025/6	5,956,180	2,302,316	3,653,864
2026/7	4,938,263	4,232,399	705,864
2027/8	2,200,918	1,495,054	705,864
2028/9	3,680,154	2,974,290	705,864

Table 8 – Draft Capital Programme

- 3.41 The priority in capital terms is for the Council to spend its grant funding. It has the following:

- Towns Funding of £17.2m
- UK Shared Prosperity Funding of £2.4m

This funding is time limited and must all be spent by 2026 (with UKSPF being 2025). Therefore, there is a question over what resources would be available to manage any significant capital spend above these schemes.

- 3.42 Appendix D sets out the present capital programme as agreed at Council in February.

- 3.43 A number of capital bids were approved in Tranche 1 of the budget. Given that we have now moved to a five year ongoing Capital Programme the key additions/changes are:
- Car Park maintenance being allocated at £150k a year for the full five years.
 - Footpath maintenance being allocated at £75k a year for the full five years.
 - An assumption that Disabled Facility Grants continue at a level of £700k.
 - Public Building maintenance budgets allocated at £250k a year, with an additional £150 for the initial three years due to the implications of ensuring that the Council meets its energy efficiency requirements by 2026.
 - Fleet replacement is backed up by a full listing of all assets. HRA fleet assets are dealt with separately.
 - Wheely bin purchases are set at £100k a year. This will be reviewed over the next financial year.
 - The acceleration of approved Arrow Valley Park works to maximise income.
 - HMO Grants and Home Repairs Assistance continue at their current levels of £25k and £40k respectively.

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- Significant investment is required in ICT to ensure this core enabling service is kept up to date. This includes updating networks, Hardware and ensuring Cyber Security is continually improved.
- The implication of the Play Audits, which have recently come to Executive are also reflected.

3.44 The significant Council spending continues to be the Fleet Replacement Programme although it is slipping into the future as we await the Governments final Environment Bill and confirmation of the type of vehicles required after 2030. There will be the need to extend the Towns Fund Projects, but that application process has not started yet. It is expected that this will take the same route as the Levelling Up Schemes that are due for completion a year before Towns Fund Schemes and are now being asked if extensions are required.

3.45 In terms of the larger initiatives:

- The work on the delivery of a Community Hub at the present Town Hall will take place in this calendar year. Seddon's have been approved as the Contractors and are now producing the final designs in liaison with the partners coming into the building. As part of this process, as works are carried out at the Town Hall Public Meetings will take place at either Oakenshaw Community Centre or the Arrow Valley Centre.
- Project Managers have been approved for the work on the Digital and Manufacturing & Innovation Centre (DMIC) and the new Town Square. The initial draft costs for the DMIC is over the DLUHC budgeted Grant sum and Greater Birmingham and Solihull LEP funding due to the Council is being used to cover this.
- The County Council will be delivering the Public Realm schemes and this will start in early 2024/5.

3.46 The Council is undertaking a review of all its assets, linked to the requirement of Council buildings to be at Level C Energy Efficiency. A report is expected early in the 24/5 financial year setting the Councils fixed asset approach.

3.47 The Capital Programme is very closely linked to the Asset Strategy, Treasury Management Strategy, Minimum Revenue Provision Policy and Asset Investment Strategy. These Strategies set out how the Council can invest and borrow funds and to whom. They are set out in Appendices E, F, G and H. These Strategies will be Recommended to Council by Audit, Governance and Standards Committee on the 25th January.

The Housing Revenue Account Budget

3.48 The 2024/5 Housing Revenue Account (HRA) budget has been constructed using the following assumptions:

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- The Consumer price index assumed at 2% from 2025/26 onwards.
 - Retail price inflation with is assumed at 5% for all years from 2024/25..
 - Pay inflation assumed to be 3% in 2024/25 and 2% then after.
 - No additional borrowing assumed in this Medium Term Financial Plan.
 - The Interest rate applied to Housing Revenue Account balances is 1.56%.
 - Rental Income assumes:
 - An average rent of £161 and £103.37 on a 48 week basis for affordable and social rent properties respectively.
 - New tenants will pay target/Formula rent which will increase by September CPI plus 1% in 2024/25.
 - Rent increase of 7% in 2024/25 in line with Government guidance and 3% (CPI +1%) thereafter.
 - Rent Loss from voids is assumed to be 1.2% of rental income per year.
 - Provision for bad debts assumed to be 2% of rental income per year.
 - A minimum HRA revenue reserve of £400 per property (£2.1m) will help to mitigate the risk of unforeseen circumstances. A prudent level of HRA balance reserve will be determined annually as part of the budget setting process.
 - Right to Buy (RTB) levels are assumed to be 40 sales per year.
 - Capital charges of £4.2m based on HRA total debt of £122.2m, this includes £98.9m taken out on a fixed interest only basis in 2012 to cover the self-financing settlement payment.
 - No debt repayment is assumed in this plan.
- 3.49 Self-financing placed a limit (Debt Cap) on borrowing for housing purposes at the closing position for 2011/12 at £122.2 million, however, the removal of the cap means that the HRA can borrow (within prudential limits) to pay for investment in our existing stock and provide new homes.
- 3.50 These assumptions result in the following revenue budgets with sums being transferred to Earmarked Reserves:

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	2023/24	2023/24	2023/24	2024.3	2025.3	2026.3	2027.3
	Budget	Revised budget	Forecast Outturn	Budget	Budget	Budget	Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
INCOME							
Dwelling Rents	25,658	25,658	25,645	27,443	28,221	29,021	29,844
Non-Dwelling Rents	572	572	573	613	631	650	669
Tenants' Charges for Services & Facilities	618	618	626	618	637	656	676
Contributions towards Expenditure	53	53	104	124	124	124	124
Total Income	26,901	26,901	26,947	28,798	29,613	30,450	31,313
EXPENDITURE							
Repairs & Maintenance	6,528	6,528	6,453	6,992	7,231	7,480	7,740
Supervision & Management	8,690	8,690	8,515	8,877	9,098	9,325	9,559
Rent, Rates, Taxes & Other Charges	259	259	527	576	593	610	628
Provision for Bad Debts	538	538	538	576	592	533	548
Depreciation & Impairment of Fixed Assets	6,259	6,259	6,259	6,487	6,776	7,078	7,394
Interest Payable & Debt Management Costs	4,179	4,179	4,179	4,179	4,179	4,179	4,179
Total Expenditure	26,453	26,453	26,471	27,687	28,469	29,206	30,048
Net Operating Expenditure	-448	-448	-476	-1,110	-1,144	-1,245	-1,265
Interest Receivable	-234	-234	-234	-234	-213	-201	-197
Transfer to/(from) general reserves	682	682	710	0	0	0	0
Transfer to/(from) Earmarked Reserves				1,344	1,357	1,446	1,462
(Surplus)/Deficit on Services	-0	-0	0	0	0	0	0
HOUSING REVENUE ACCOUNT BALANCE							
Forecast Balance as at beginning of year	2,466	2,466	2,466	3,176	3,176	3,176	3,176
Surplus/(deficit) for year	682	682	710	0	0	0	0
Forecast Balance as at end of year	3,148	3,148	3,176	3,176	3,176	3,176	3,176

Table 9 HRA Revenue Budgets

- 3.51 The HRA Capital investment ensures that existing HRA dwelling are kept to a decent home plus standard. In 2024/25, £8.8 will be spent on improvements to existing dwellings and £24m in the following 3 years of the plan.

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	Outturn 2023/24	1 2024.25	2 2025.26	3 2026.27	4 2027.28
	£	£	£	£	£
Major Repairs Reserve					
Internal Refurbishment	1,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Boiler Replacements	850,000	750,000	750,000	750,000	750,000
High Trees Project	400,000	400,000	0	0	0
External Refurbishment	300,000	500,000	700,000	700,000	700,000
Electrical Upgrades	100,000	100,000	100,000	100,000	100,000
Door Entry and Security Upgrades	400,000	100,000	100,000	75,000	75,000
Smoke Detection Upgrades	300,000	300,000	300,000	100,000	100,000
Balcony Replacements	100,000	300,000	300,000	200,000	200,000
Major Voids	900,000	500,000	500,000	500,000	500,000
Energy Efficiency	750,000	750,000	750,000	750,000	750,000
Disrepair Cases	100,000	50,000	50,000	50,000	50,000
Fire Compartmentation	1,500,000	500,000	250,000	250,000	250,000
Garage Improvement Works	0	250,000	250,000	250,000	250,000
Structural Repairs	150,000	75,000	75,000	75,000	75,000
Asbestos General	100,000	100,000	100,000	100,000	100,000
Capitalised Salaries	600,000	500,000	500,000	500,000	500,000
Window Replacement	750,000				
FRA works	40,000				
	8,840,000	7,675,000	7,225,000	6,900,000	6,900,000
Capital Receipts					
Disabled Adaptations	700,000	500,000	250,000	250,000	250,000
HRA Stock - Remodelling	100,000	100,000	100,000	100,000	100,000
Estate & Environmental Improvements	150,000	250,000	250,000	250,000	250,000
Estates Parking and Paving	0	150,000	150,000	150,000	150,000
Stock Condition Survey Fees	125,000	150,000	150,000	150,000	150,000
Housing Management System	360,000				
	1,435,000	1,075,000	1,150,000	900,000	900,000
New Build/Acquisitions	1,800,000	3,000,000	3,000,000	3,000,000	3,000,000
	12,075,000	11,750,000	11,375,000	10,800,000	10,800,000

Table 10 HRA Capital Programme

- 3.52 Capital investment in our existing homes is funded primarily from the Major Repairs Reserve, which holds the yearly depreciation amount charged to the HRA and can be used purely to finance investment in existing stock and the repayment of HRA debt.
- 3.53 Capital receipts from Right to buy sales can also be used to finance the HRA capital investment programme, although some of these receipts can only be used to finance new homes to replace those that have been sold. Borrowing, which is no longer capped, can also be used to finance the capital programme providing that it is affordable and complies with the Prudential Code for

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Capital Finance in Local Authorities. No additional borrowing is assumed in the medium term.

- 3.54 Revenue surplus generated by the HRA is transferred to an earmarked capital reserve and this usable reserve is currently used as match funding for the new homes program but can also be used to repay HRA debt. Overall HRA Reserves are shown in the following Table:

	2023/24	2024.25	2025.26	2026.27	2027.28
	£	£	£	£	£
Major Repairs Reserve					
Balance 1st April	10,037,684	7,245,741	5,803,680	5,100,391	5,024,169
Contributions in year	6,048,057	6,232,939	6,521,711	6,823,778	7,139,748
Applied in year	-8,840,000	-7,675,000	-7,225,000	-6,900,000	-6,900,000
Balance 31st March	7,245,741	5,803,680	5,100,391	5,024,169	5,263,917
Capital Receipts					
Balance 1st April	3,999,563	3,644,007	3,687,075	3,682,350	3,955,411
Contributions in year	1,079,444	1,118,068	1,145,275	1,173,061	1,201,442
Applied in year	-1,435,000	-1,075,000	-1,150,000	-900,000	-900,000
Balance 31st March	3,644,007	3,687,075	3,682,350	3,955,411	4,256,854
Capital Receipts earmarked for replacement homes					
Balance 1st April	7,074,140	7,237,321	6,952,105	6,689,148	6,448,925
Contributions in year	883,181	914,783	937,043	959,777	982,998
Applied in year	-720,000	-1,200,000	-1,200,000	-1,200,000	-1,200,000
Balance 31st March	7,237,321	6,952,105	6,689,148	6,448,925	6,231,923
HRA Capital Reserve					
Balance 1st April	13,464,493	12,384,493	11,928,347	11,485,136	11,131,237
Contributions in year	0	1,343,854	1,356,789	1,446,101	1,462,095
Applied in year for capital	-1,080,000	-1,800,000	-1,800,000	-1,800,000	-1,800,000
Balance 31st March	12,384,493	11,928,347	11,485,136	11,131,237	10,793,331
	8,641,713	6,524,711	5,452,036	5,062,280	5,144,043
	3,821,785	3,665,541	3,684,713	3,818,881	4,106,132
	7,155,731	7,094,713	6,820,626	6,569,036	6,340,424
	12,924,493	12,156,420	11,706,742	11,308,186	10,962,284
Average Balances in year	32,543,721	29,441,385	27,664,116	26,758,384	26,552,884

Table 11 HRA Reserves

- 3.55 Based on current assumption the HRA Medium Term Financial plan ensures:

- Adequate level of balance reserves is maintained to help manage risk and mitigate the impact of unforeseen circumstances.
- A robust capital programme that is fully funded from available resources within the HRA.
- Surpluses are generated and transferred to a capital reserve and used to match fund the costs of replacement homes.

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- The council complies with the legal requirements and does not set a deficit budget for the HRA.

The Risk Assessment

- 3.56 As set out in this Report we are budgeting in a time of extreme uncertainty.
- 3.57 As per the Risk Reports that are reported to Audit, Governance and Standards and Committee which are:
- Resolution of the approved budget position.
 - Financial process rectification (in relation to the 2020/21 Accounts and subsequent years not being approved).
 - Decisions made to address financial pressures and implementing new projects that are not informed by robust data and evidence.
 - Adequate workforce planning.

In addition to these, the next Pension fund re-valuation which will impact the 2026/7 figures but this will not be known until November 2025.

- 3.58 There are the core risks of implementation of any Council financial plan in that:
- Any savings proposal must pass the S151 Officers tests for robustness and delivery. If items are not deliverable or amounts not obtainable, they cannot be included.
 - Implementation of savings to time and budget – there must be full implementation processes documented to ensure implementation within timescales.
 - Non delivery is a high risk - Savings tracking and ensuring implementation happens based on the plans and the assumptions will become part of the Council's core processes.
 - Loss of key personnel will be crucial in a number of proposals and mitigation plans will need to be drawn up.
 - Change of corporate direction/priorities.

The S151 Officers Robustness Statement

- 3.59 For Tranche 2, the opinion of the Interim Director of Finance is that the risks contained in the 2024/25 budget estimates have been minimised as far as is possible. Given that the last 2 years budgets have been delivered in an environment where inflation has been at rates not seen for over 20 years and interest rates which have increased to levels not experienced since 2008 planning, especially around employee costs, have been difficult. The Council had not budgeted for 2 years of 7% increases in staff cost and it has taken until this 2024/5 budget to bring the Council back to a sustainable ongoing position. Inflation is now falling and is 4%. This makes financial planning easier to deliver.

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- 3.60 Employee budgets, taking away the Housing Subsidy Grant, remain the largest single area of the revenue budget amounting to circa 45% of costs. The Council is still running at high levels of vacancy against establishment and using considerable agency resource to ensure services are maintained. This attracts additional short term cost and the Workforce Strategy, implemented in 2023, is designed to mitigate this. However, this remains the most significant financial risk to the Council.
- 3.61 The next most significant financial risk is the fact that the Council has not been able to present its 20/21 accounts (and subsequent years) for Audit, and the possible inaccuracy of opening balances used in budgetary data. This will be resolved with the delivery of Audited Accounts. It is understood that new legislation will be approved by Government which will require all accounts up to the 2022/23 year to be approved by the 30th September 2024.
- 3.62 The revenue budget and capital programme have been formulated having regard to several factors including:
- Funding Available.
 - Inflation.
 - Risks and Uncertainties.
 - Priorities.
 - Service Pressures.
 - Commercial Opportunities.
 - Operating in a Post C-19 environment.
- 3.63 The MTFP highlights that the current financial position has moved, following the Local Government Settlement to a position of sustainability.
- 3.64 In line with Section 25 of the Local Government Act 2003, this report of the Chief Financial Officer (CFO) sets out the robustness of estimates included in the budget and the adequacy of the Council's reserves.

The Chief Financial Officer's opinion is that the estimates are robust

- 3.65 Relevant budget holders are responsible for individual budgets and their preparation. All estimates are then scrutinised by Financial Services staff and the Corporate Management Team prior to submission to Members.
- 3.66 The two tranche 2024-5 budget process has ensured that all budget assumptions have been reviewed and reconsidered by Officers, and then Members, through the Finance and Budget Scrutiny Working Group, Executive and Council.
- 3.67 The budget is now sustainable over the medium term planning horizon but more work will need to be done to embed changes to ensure financial

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sustainability is embedded across the organisation. A provisional freeze of Council Tax is proposed for the 2025/6 financial year based on the present position which still leaves a surplus budget. If financial conditions change this would not be enacted. The S151 Officer's view is that although the Council would have a small surplus budget it is not prudent to freeze Council Tax for the longer term financial sustainability of the Council, even though General Fund Reserves are almost double the minimum recommended Government level.

Adequacy of Reserves

- 3.68 Budget and MFTP proposals forecast the level of General Fund balances at £3.8m as at 31st March 2027 which is almost double the recommended 5% of net level set out in the Reserves section.
- 3.69 Despite the present positive medium term financial position, given the possible issues with Opening Balances due to Accounts not being fully closed, it is prudent for the Council to build reserves as they are the Council's single source of funding for business change initiatives.
- 3.70 Further work will be undertaken to ensure that expenditure levels are sustainable and matched by income over the medium to long term. Plans are therefore in place to continue to review budgets and identify and accelerate further savings opportunities.

Collection Fund and Precepts

- 3.71 The Council Tax collection fund is anticipated to be in surplus based on December data by £0.745m, which will be distributed amongst the major preceptors using the prescribed formulae. The Council's share of the surplus payable as a one-off sum in the following financial year 13% of the total which amounts to £93k.
- 3.72 The precepts from Worcestershire County Council, Hereford and Worcester Fire Authority and the West Mercia Police and Crime Commissioner are due to set their precepts in the week commencing 8th February. This will enable the Council to set the Council Tax on 26th February 2024. The precepting bodies Council Tax requirements will be included in the formal resolutions which will be presented to Council on 26th February.

Consultation Details

- 3.73 Tranche Two of the budget will be consulted on following its publication on the 29th January. Any comments will be fed into Executive and Council on the 21st February 2024.

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- 3.74 The Council will raise awareness of the budget proposals via use of social media.

4. IMPLICATIONS

Financial Implications

- 4.1 Financial implications are set out in section 3.

Legal Implications

- 4.2 A number of statutes governing the provision of services covered by this report contain express powers or duties to charge for services. Where an express power to charge does not exist the Council has the power under Section 111 of the Local Government Act 1972 to charge where the activity is incidental or conducive to or calculated to facilitate the Council's statutory function.

Service / Operational Implications

- 4.3 Monitoring will be undertaken to ensure that income targets are achieved.

Customer / Equalities and Diversity Implications

- 4.4 The implementation of the revised fees and charges will be notified in advance to the customer to ensure that all users are aware of the new charges and any concessions available to them.
- 4.5 Initial Equalities Impact Assessments will be taken where required.

5. RISK MANAGEMENT

- 5.1 There is a risk that if fees and charges are not increased that income levels will not be achieved, and the cost of services will increase. This is mitigated by managers reviewing their fees and charges annually.

6. APPENDICES

Appendix A – 2024/5 Grant Levels
Appendix B – Budgets by Department
Appendix C – Reserves
Appendix D – 5 Year Capital Programme
Appendix E – 2024/5 Capital Strategy

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Appendix F – 2024/5 Treasury Management Strategy

Appendix G – 2024/5 MRP Statement

Appendix H – 2024/5 Investment Strategy

6. BACKGROUND PAPERS

None.

7. KEY

None

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Appendix A – 2024/5 Grant Levels

Revenue Grant Levels	Redditch
New Home Bonus	28,000
Services Grant	14,000
Revenue Support Grant	108,000
Funding Guarantee	672,000
Estimated Values	
Housing Benefit	18,454,450
Housing Benefit Administration	91,364
Revs and Bens Costr of Collection	106,549
Homelessness Grant	
Homelessness Prevention Grant	330,067
Domestic Abuse Grant	35,222
New Government Grants	
Estimated Value (announced on 24 th January 2024 but to be confirmed in February)	103,000

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Appendix B – Budgets by Department

Summary 2024/5	Employees	ther Expenditu	Recharges	Recharges	Income	Net	Expenditure	Income	Net
BDC Regulatory Client	0	707,328	0	0	-230,290	477,038	85,000	-10,711	551,327
Business Transformation & Org Development	805,639	291,333	1,186,639	-318,174	-193,600	1,771,837	44,273	-819	1,815,291
Chief Executive	2,034,255	1,204,755	381,360	-247,917	-5,108,720	-1,736,267	145,196	-497,638	-2,088,709
Community & Housing GF Services	2,400,427	1,075,875	352,512	-703,121	-1,469,131	1,656,562	188,116	-49,364	1,795,315
Environmental Services	121,111	1,429,850	4,106,567	-42,486	-2,953,953	2,661,089	45,152	-108,435	2,597,806
Financial & Customer Services	4,063,883	19,460,191	0	-1,716,642	-19,940,024	1,867,408	372,881	-10,700	2,229,590
Legal, Democratic & Property Services	1,204,415	1,677,321	846,989	-569,019	-1,061,336	2,098,370	51,237	-34,806	2,114,801
Planning, Regeneration & Leisure Services	920,166	731,782	706,092	-480,093	-760,766	1,117,181	112,145	-82,528	1,146,798
RBC Rubicon Client	0	777,747	0	0	0	777,747	0	0	777,747
Total	11,549,896	27,356,182	7,580,159	-4,077,452	-31,717,820	10,690,965	1,044,000	-795,000	10,939,965
Corporate Financing	0	14,034,000	0	0	-24,657,965	-10,623,965	114,000	-459,000	-10,968,965
Financing						67,000			-29,000
Summary 2025/6	Employees	ther Expenditu	Recharges	Recharges	Income	Net	Expenditure	Income	Net
BDC Regulatory Client	0	720,328	0	0	-230,290	490,038	85,000	-14,852	560,186
Business Transformation & Org Development	817,426	291,333	1,202,533	-318,174	-193,600	1,799,518	44,148	-1,135	1,842,531
Chief Executive	1,983,450	1,209,755	387,455	-250,800	-5,120,162	-1,790,302	143,646	-497,885	-2,144,541
Community & Housing GF Services	2,449,155	1,075,875	356,596	-712,697	-1,469,765	1,699,164	188,313	-68,445	1,819,032
Environmental Services	122,909	1,384,350	4,185,574	-43,116	-2,993,899	2,655,818	45,135	-177,351	2,523,602
Financial & Customer Services	4,170,147	19,460,191	0	-1,717,541	-19,940,024	1,972,773	374,207	-14,836	2,332,145
Legal, Democratic & Property Services	1,230,355	1,677,321	689,119	-575,485	-1,461,336	1,559,974	51,398	-48,260	1,563,112
Planning, Regeneration & Leisure Services	937,251	726,782	706,092	-486,825	-760,766	1,122,534	112,154	-91,236	1,143,451
RBC Rubicon Client	0	777,747	0	0	0	777,747	0	0	777,747
Total	11,710,693	27,323,682	7,527,369	-4,104,638	-32,169,842	10,287,264	1,044,000	-914,000	10,417,264
Corporate Financing	0	13,714,583	0	0	-24,064,965	-10,350,382	272,000	-359,000	-10,437,382
Financing						-63,118			-20,118
	Employees	ther Expenditu	Recharges	Recharges	Income	Net	Expenditure	Income	Net
BDC Regulatory Client	0	720,328	0	0	-230,290	490,038	85,000	-18,273	556,765
Business Transformation & Org Development	817,426	291,333	1,202,533	-318,174	-193,600	1,799,518	60,217	-1,396	1,858,339
Chief Executive	1,983,450	1,209,755	387,455	-250,800	-5,120,162	-1,790,302	152,420	-498,089	-2,135,970
Community & Housing GF Services	2,449,155	1,075,875	356,596	-712,697	-1,469,765	1,699,164	236,460	-84,208	1,851,416
Environmental Services	122,909	1,384,350	4,185,574	-43,116	-2,993,899	2,655,818	47,551	-240,977	2,462,392
Financial & Customer Services	4,170,147	19,460,191	0	-1,717,541	-19,940,024	1,972,773	456,187	-18,252	2,410,708
Legal, Democratic & Property Services	1,230,355	1,677,321	689,119	-575,485	-1,461,336	1,559,974	75,585	-59,374	1,576,185
Planning, Regeneration & Leisure Services	937,251	726,782	706,092	-486,825	-760,766	1,122,534	130,579	-98,430	1,154,683
RBC Rubicon Client	0	777,747	0	0	0	777,747	0	0	777,747
Total	11,710,693	27,323,682	7,527,369	-4,104,638	-32,169,842	10,287,264	1,244,000	-1,019,000	10,512,264
Corporate Financing	0	13,714,583	0	0	-24,064,965	-10,350,382	324,000	-506,000	-10,532,382
Financing						-63,118			-20,118

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Appendix C – Reserves Position

	Balance at 31/3/23	Transfers in 2023/24	Transfers out 2023/24	Balance at 31/3/24	Transfers in 2024/25	Transfers out 2024/25	Balance at 31/3/25	Transfers in 2025/26	Transfers out 2025/26	Balance at 31/3/26	Transfers in 2026/27	Transfers out 2026/27	Balance at 31/3/27
General Fund	2,686	200	(311)	2,575	1,169		3,744	21		3,765	22		3,787
General Fund Earmarked Reserves:													
Business Rate grants	0			0			0			0			0
Business Rates Retention Scheme	1,332	(200)		1,132			1,132			1,132			1,132
Support for Commercialism	0			0			0			0			0
Community Development	74			74			74			74			74
Community Safety	232			232			232			232			232
Corporate Services	(1)			(1)			(1)			(1)			(1)
Customer Services	0			0			0			0			0
Economic Growth	330			330			330			330			330
Electoral Services	49			49			49			49			49
Environmental Vehicles	29		(15)	14		(14)	0			0			0
Equalities	0			0			0			0			0
Equipment replacement	0			0			0			0			0
Financial Services	87			87			87			87			87
General Risk reserve	0			0			0			0			0
Housing Benefit Implementation	140			140			140			140			140
Housing Support	978			978			978			978			978
Land Charges	9			9			9			9			9
Land Drainage	129			129			129			129			129
Leisure	0			0			0			0			0
Mercury Emissions	0			0			0			0			0
Parks & Open spaces	8			8			8			8			8
Planning Services	516			516			516			516			516
Public Donations - Shop mobility	0			0			0			0			0
Sports Development	9			9			9			9			9
Town Centre	7			7			7			7			7
Warmer Homes	16			16			16			16			16
Transformational Growth	100			100			100			100			100
Pensions	0			0			0			0			0
Regeneration Income	273			273			273			273			273
Utilities Reserve	1,710		(570)	1,140	(1,140)		0			0			0
Covid-19 (General)	0			0			0			0			0
Covid- 19 Sales Fees and Charges	0			0			0			0			0
Covid-19 (Collection Fund)	1,478		(1,478)	0			0			0			0
Total General Fund	7,504	(200)	(2,063)	5,242	(1,140)	(14)	4,088	0	0	4,088	0	0	4,088

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Appendix D – Capital Programme

Description	Department	Funding detail	2023/24 Total £	23/24 Spend Q3 £	2024/25 Total £	2025/26 Total £	2026/27 Total £	2027/28 Total £	2028/29 Total £	Council 24/25 £	Council 25/26 £	Council 26/27 £	Council 27/28 £	Council 28/29 £	3rd Party 24/25 £	3rd Party 25/26 £	3rd Party 26/27 £	3rd Party 27/28 £	3rd Party 28/29 £
Large Schemes																			
Towns Fund																			
- Innovation Centre	Planning, Regeneration & Leisure Services	Govt Grant	2,500,000		4,000,000	1,000,000									4,000,000	1,000,000			
- Innovation Centre	Planning, Regeneration & Leisure Services	LEP Grant				1,948,000													
- Library	Planning, Regeneration & Leisure Services	Govt Grant	2,000,000	611,449	1,700,000										0	1,948,000			
- Public Realm	Planning, Regeneration & Leisure Services	Govt Grant	1,500,000	18,574	1,000,000										1,700,000	0			
- Public Realm	Planning, Regeneration & Leisure Services	Borrowing			439,000					439,000	0				1,000,000	0			
Town Hall Redevelopment	Legal, Democratic and Property Services	Cap Receipts and Short Term Borrowing	1,000,000	45,490	5,100,000														
UK Shared Prosperity Fund															5,100,000	0			
- Capital Element	Planning, Regeneration & Leisure Services	Grant Funding		2,500											0	0			
- Revenue Element	Planning, Regeneration & Leisure Services	Grant Funding													0	0			
- Remainder (to be allocated)	Planning, Regeneration & Leisure Services	Grant Funding	607,294		1,591,109										1,591,109	0			
Schemes Agreed to Continue in Tranche 1																			
Car Park Maintenance	Environmental Services	Borrowing	150,000	26,248	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000					
Footpaths		Borrowing	75,000	66,444	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000					
Disabled Facilities Grant	Community & Housing GF Services	DFG grant	839,000	479,047	839,000	700,000	700,000	700,000	700,000						839,000	700,000	700,000	700,000	700,000
Energy & Efficiency Installs.	Community & Housing GF Services	Borrowing	55,000	10,350	55,000	0	0	0	0										
GF Asbestos	Finance & Customer Services	Borrowing	0	763	38,000	0	0	0	0	55,000	0								
Improvements at Business Centres	Planning, Regeneration & Leisure Services	borrowing/capital receipts	0	18,916	0	0	0	0	0	38,000	0								
Morton Stanley Play, Sport and Open Space Improvements (General)	Planning, Regeneration & Leisure Services	2016/131/OUT Land of Church Road, Webheath	0	4,579	8,000	0	0	0	0	0	0								
Public Building	Finance & Customer Services	Borrowing	250,000	102,591	250,000	250,000	250,000	250,000	250,000						8,000	0			
										250,000	250,000	250,000	250,000	250,000					

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Description	Department	Funding detail	2023/24 Total £	23/24 Spend Q3 £	2024/25 Total £	2025/26 Total £	2026/27 Total £	2027/28 Total £	2028/29 Total £	Council 24/25 £	Council 25/26 £	Council 26/27 £	Council 27/28 £	Council 28/29 £	3rd Party 24/25 £	3rd Party 25/26 £	3rd Party 26/27 £	3rd Party 27/28 £	3rd Party 28/29 £
Fleet Replacement new line		Borrowing	843,000		2,663,000	854,000	3,092,500	546,000	1,995,000										
										2,663,000	854,000	3,092,500	546,000	1,995,000					
Removal of 5 weirs through Arrow Valley Park	Planning, Regeneration & Leisure Services	borrowing £213k / Contributions	414,000		0	0	0	0	0	0	0								
										0	0								
Sports Contributions to support improvements to Outdoor facilities at Terry	Planning, Regeneration & Leisure Services	\$106 - 2014/311/FUL	0		3,000	0	0	0	0						3,000	0			
Wheelie Bin purchase	Environmental Services	Borrowing	100,000	18,468	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000					
New Digital Service	Community & Housing GF Services	Borrowing	50,502	124,780	0	0	0	0	0	0	0								
										0	0								
Improvement Holly trees childrens centre	Community & Housing GF Services	\$106	0		6,000	0	0	0	0						6,000	0			
Greener Homes	Community & Housing GF Services	Grant Income	0	156,026	0	0	0	0	0										
															0	0			
															0	0			
Bomford Hill Pathway							0	0	0										
Grassland Mitigation measures- recreating and monitoring grassland habitats in MS and AVCP	Planning, Regeneration & Leisure Services	\$106 - 2016/118/OUT Green Lane, Redditch	0		5,864	5,864	5,864	5,864	5,864						5,864	5,864	5,864	5,864	5,864
Hedgerow Mitigation measures by restoration and hedge laying with associated fencing and gates at AVP SHM and AVP North	Planning, Regeneration & Leisure Services	\$106 - 2016/118/OUT Green Lane, Redditch	0		21,500	0	0	0	0						21,500	0			
HMO Grants	Community & Housing GF Services	Borrowing	25,000	13,500	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000					
Home Repairs Assistance	Community & Housing GF Services	Long Term Debtors	40,000		40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000					
Improvement to original Pump Track at AVCP	Planning, Regeneration & Leisure Services	2014/096/OUT Jolly Farmer	0	7,285	60,606	0	0	0	0						60,606	0			

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Description	Department	Funding detail	2023/24 Total £	23/24 Spend Q3 £	2024/25 Total £	2025/26 Total £	2026/27 Total £	2027/28 Total £	2028/29 Total £	Council 24/25 £	Council 25/26 £	Council 26/27 £	Council 27/28 £	Council 28/29 £	3rd Party 24/25 £	3rd Party 25/26 £	3rd Party 26/27 £	3rd Party 27/28 £	3rd Party 28/29 £
Replacing 3 fuel pumps and upgrading tank monitoring equipment	Environmental Services	borrowing/capital receipts	25,000		0	0	0	0	0		0								
Fleet Management Computer System	Environmental Services	borrowing/capital receipts	0		0	0	0	0	0	0	0								
Cisco Network Update	Business Transformation and Organisational Development	Borrowing	5,463		0	47,339	50,000	50,000	50,000	0	47,339	50,000	50,000	50,000					
Server Replacement Est(Exact known Q2 2022)	Business Transformation and Organisational Development	Borrowing	2,000	78,451	177,500	18,500	60,000	60,000	60,000	177,500	18,500	60,000	60,000	60,000					
Laptop Refresh	Business Transformation and Organisational Development	Borrowing	25,000	11,542	150,000	5,000	30,000	30,000	30,000	150,000	5,000	30,000	30,000	30,000					
Ipsley Church Lane Cemetery	Environmental Services	Borrowing	125,000		0	195,000	0	0	0	0	195,000								
Provide the Crossgate Depot site with a new and Compliant Deisel Fuel	Environmental Services	Borrowing	56,000		0	0	0	0	0		0								
Widen access road to Arrow Valley Country park	Planning, Regeneration & Leisure Services	Borrowing	0		26,634	0	0	0	0	0	0				26,634				
Lifeline Improvements					120,000	0	0	0	0	120,000									
PRS Housing ICT System					30,000	0	0	0	0	30,000									
Play Areas - Surface Replacement					10,000	10,000	7,500	0	0	10,000	10,000	7,500							
AVCP - Parking Bays near Visitor Centre					12,000	0	0	0	0	12,000									
AVCP - Car Park Extension 25 Spaces					95,000	0	0	0	0	95,000									
Morton Stanley Park - Footpaths					16,500	0	0	0	0	16,500									
Ipsley Road Cemetery			-125,000		125,000	0	0	0	0	125,000									
Increased Building Mainenance Costs	Legal, Democratic and Property Services				150,000	150,000	150,000	0	0	150,000	150,000	150,000							
Arrow Valley park Visitor Centre Improvements	Legal, Democratic and Property Services				350,000	100,000	0	0	0	350,000	100,000	0							

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Description	Department	Funding detail	2023/24 Total £	23/24 Spend Q3 £	2024/25 Total £	2025/26 Total £	2026/27 Total £	2027/28 Total £	2028/29 Total £	Council 24/25 £	Council 25/26 £	Council 26/27 £	Council 27/28 £	Council 28/29 £		3rd Party 24/25 £	3rd Party 25/26 £	3rd Party 26/27 £	3rd Party 27/28 £	3rd Party 28/29 £
Fleet Costs					585,000	26,000	0	0	0	585,000	26,000									
Play Area Changes - Pre Audit			227,000		155,000	0	0	0	0	155,000										
Final Play Area Changes					263,386	191,477	137,399	144,054	174,290	263,386	191,477	137,399	144,054	174,290						
Movement of ICT Cyber Capital Works Forward			50,000		-50,000	0	0	0	0	-50,000										
Hedge and Shrub Removal	Environmental Services				40,000	40,000	40,000	0	0	40,000	40,000	40,000								
Cyber security updates					25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000						
Forge Mill and Bordelsey Open Space Improvements	Planning, Regeneration & Leisure Services	S106 - 2016/109/FUL	0	38	3,000	0	0	0	0							3,000	0			
MUGA at Greenlands Sports Pitches. 2018/169/FUL Land	Planning, Regeneration & Leisure Services	S106 - 2018/169/FUL Land	0	115,571	21,000	0	0	0	0							21,000	0			
Play Area improvements at Birchfield Road,/Headless Cross Rec Ground. 17/00737/FUL	Planning, Regeneration & Leisure Services	S106 Forge Mill Public House - Healdless Cross, Evesham Road	0		7,575	0	0	0	0							7,575	0			
Play area (£34,583.39), Open space (£12,001.36) and Sport (£8,516) improvements at Mayfields Park. 11/019/FUL	Planning, Regeneration & Leisure Services	S106 Mayfields Development. 11/019/FUL	0	550	0	0	0	0	0							0	0			
Improvement to Sports Pitches infrastructure in Morton Stanley Park	Planning, Regeneration & Leisure Services	2012/207/OUT - Football Pitch improvement works	0	20,802	25,000	0	0	0	0							25,000	0			
Fire compartmentation works in Corporate buildings	Legal, Democratic and Property Services	Borrowing	100,000	28,248	0	0	0	0	0											
Total			10,939,259	1,968,507	20,507,674	5,956,180	4,938,263	2,200,918	3,680,154	6,089,386	2,302,316	4,232,399	1,495,054	2,974,290	0	14,428,288	3,653,864	705,864	705,864	705,864

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Appendix E – Capital Strategy 2024/5

Introduction

- 1.1 This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.
- 1.2 Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Capital Expenditure and Financing

- 1.3 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.
- 1.4 In 2024/25, the Authority is planning capital expenditure of £6.59m for General Fund projects £13.02 for HRA work and £13.12m for regeneration work, most of which is related to Towns Fund grant. This is summarised below:

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Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2022/23 actual	2023/24 forecast	2024/25 budget *	2025/26 budget	2026/27 budget
General Fund services	1.09	6.78	6.59	2.77	4.38
Council housing (HRA)	10.27	11.73	13.02	11.48	11.12
Regeneration	1.13	11.80	13.12	3.65	0.71
TOTAL	12.49	30.31	32.73	17.90	16.21

The Council is still to finalise work required for the adoption of IFRS16 linking to the accounting for leases which must be implemented by the 2025/26 financial year.

- 1.5 The main General Fund capital projects include Towns Fund regeneration schemes (Innovation Centre, Town Square and Public Realm) totalling £16m to be spent by 2026 and UK Shared Prosperity Funding to be spent by 2025. Following a change in the Prudential Code, the Authority no longer incurs capital expenditure on investments.
- 1.6 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately.
- 1.7 **Governance:** Service managers bid annually in January to include projects in the Authority's capital programme. Bids are collated by corporate finance who calculate the financing cost (which can be nil if the project is fully externally financed). The Audit Standards and Governance Committee and then the Cabinet appraises all bids based on a comparison of strategic priorities against financing costs and makes recommendations to Council. The final capital programme is then presented to Cabinet in February and to Council in February each year.

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- For full details of the Authority's capital programme, including the project appraisals undertaken, see Tranche 2 of the 2024/25 Medium Term Financial Plan.

- 1.8 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2022/23 actual	2023/24 forecast	2024/25 budget *	2025/26 budget	2026/27 budget
External sources	0.92	10.17	9.29	3.65	0.71
Own Resources	10.70	12.93	15.64	11.13	10.8
Debt	0.87	7.21	7.80	3.12	4.70
TOTAL	12.49	30.31	32.73	17.90	16.21

- 1.9 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned [MRP / repayments] and use of capital receipts are as follows:

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Table 3: Replacement of prior years' debt finance in £ millions

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Minimum revenue provision	0.90	1.00	0.90	1.20	1.36
Capital Receipts	0.00	0.00	0.00	0.00	0.00

➤ The Authority's full minimum revenue provision statement is available within the body of this report.

1.10 The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £6.9m during 2024/25. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget *	31.3.2026 budget	31.3.2027 budget
General Fund & Regeneration	22.6	28.8	34.5	37.3	40.6
HRA	122.2	122.2	123.39	122.6	122.6
TOTAL CFR	144.8	151.0	157.9	159.8	163.2

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1.11 **Asset management:** To ensure that capital assets continue to be of long-term use, the Authority has an asset management strategy in place. Within this strategy, individual properties and associated land will be further evaluated to determine:

- The operational necessity and benefit.
- Projected costs of ensuring all elements of the buildings continue to meet legislative requirements and performance standards.
- Planned and cyclical maintenance costs for elements nearing the end of their 'life' expectancy, ensuring service provision is maintained without unnecessary interruption. Costs associated with meeting future EPC rating minimum requirements.
- Rent levels (and net costs for each building) and revised leases.
- Alternative or rationalised portfolio or joint enterprises for service delivery.

By evaluation of all factors cited above, informed decisions can be made to determine which assets are:

- No longer cost effective to run, where outlay exceeds earning potential
- No longer viable for effective service delivery
- Surplus to requirements

Asset considerations will be presented to Cabinet on a half yearly basis for approval for disposal, unless there is an urgent requirement for a decision.

1.12 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Authority is currently also permitted to spend capital receipts "flexibly" on service transformation projects until 2024/25 although nothing is presently planned. Repayments of capital grants, loans and investments also generate capital receipts. The Authority plans to receive £5.6m of capital receipts in the coming financial year as follows:

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Table 5: Capital receipts receivable in £ millions

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Asset sales	1.8	4.7	5.6	1.7	1.7
Loans etc repaid	0	0	0	0	0

Treasury Management

- 1.13 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 1.14 Due to decisions taken in the past, the Authority currently has no external long term (over 1 year) borrowing and £15m treasury investments at an average rate of 5.2%.
- 1.15 **Borrowing strategy:** The Authority's main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.
- 1.16 The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

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- 1.17 Projected levels of the Authority's total outstanding debt (which comprises borrowing, PFI liabilities, leases and transferred debt) are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

Gross Debt	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
HRA (incl. PFI & leases)	103.9	104.77	108.79	115.89	118.59
General Fund (incl. PFI & leases)	0	4.02	7.1	2.7	4.7
Capital Financing Requirement	144.8	151.0	157.9	159.8	163.2

- 1.18 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Authority expects to comply with this in the medium term.
- 1.19 **Liability benchmark:** To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £2m at each year-end. This benchmark is currently £4.8m and is forecast to rise to £6.6m over the next three years.

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Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
Forecast Outstanding borrowing - GF	0	4.0	7.1	2.7	4.7
Liability benchmark	-0.3	5.9	12.1	14.9	18.2

- 1.20 The table shows that the Authority expects to remain borrowed below its liability benchmark. This is because cash outflows to date have been below the assumptions made when the loans were borrowed.
- 1.21 **Affordable borrowing limit:** The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2023/24 limit £m	2024/25 limit £m	2025/26 limit £m	2026/27 limit £m
Authorised limit – borrowing	180	185	190	190
Authorised limit – PFI and leases	1.5	1.5	1.5	1.5
Authorised limit – total external debt	181.5	186.5	191.5	191.5
Operational boundary – borrowing	170	175	180	180

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Operational boundary – PFI and leases	1.5	1.5	1.5	1.5
Operational boundary – total external debt	171.5	176.5	181.5	181.5

- 1.22 **Treasury investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.
- 1.23 The Authority's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Authority may request its money back at short notice.

Table 9: Treasury management investments in £millions

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
Near-term investments	35	30	20	20	35
Long-term investments	0	0	0	0	0
TOTAL	35	30	20	20	35

➤ Further details on treasury investments are in the Treasury Management Strategy part of this appendix.

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- 1.24 **Risk management:** The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.
- The treasury management prudential indicators are in the treasury management strategy which are part of these appendices.
- 1.25 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and staff, who must act in line with the treasury management strategy approved by Council. Quarterly reports on treasury management activity are presented to Cabinet. The Audit, Standards and Governance Committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

- 1.26 The Authority makes investments to assist local public services, including making loans to local service providers, local small businesses to promote economic growth, and the Authority's subsidiaries that provide services to stakeholders. Total investments for service purposes are currently valued at £0m.
- 1.27 **Risk management:** In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs. A limit of £2.5m is placed on total investments for service purposes to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.
- 1.28 **Governance:** Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme. The relevant service director and the Director of Finance are responsible for ensuring that adequate due diligence is carried out before investment is made.

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Further details on service investments are in the Treasury Management Strategy.

Liabilities

- 1.29 In addition to debt of £104m detailed above, the Authority is committed to making future payments to cover its pension fund deficit (valued at £5.2m). It has also set aside £0.4m to cover risks of Insurance Claims.
- 1.30 **Governance:** Decisions on incurring new discretionary liabilities are taken by Heads of Service in consultation with the Director of Finance. The risk of liabilities crystallising and requiring payment is monitored by the corporate finance team and reported biannually to Cabinet. New liabilities exceeding £0.5m are reported to full council for approval/notification as appropriate.

Revenue Budget Implications

- 1.31 In addition to debt of £104m detailed above, the Authority is committed to making future payments to cover its pension fund deficit (which is in a deficit position of £5.2m and the backlog will be cleared by 2037). It has also set aside £2.8m for Business Rates Appeals via a reserve.

Table 10: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 actual	2023/24 forecast	2024/25 budget *	2025/26 budget	2026/27 budget
Financing costs (£m)	1.10	1.05	0.90	1.20	1.36
Proportion of net revenue stream	10.1%	9.8%	9.1%	11.5%	12.4%

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- 1.32 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Director of Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable because of the Medium Term Financial Plan (MTFP) forecasts which show that the Council is financially sustainable over that period.

Knowledge and Skills

- 1.33 The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Finance and Head of Service are qualified accountants with significant experience. The Authority pays for junior staff to study towards relevant professional qualifications including CIPFA and AAT.
- 1.34 Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisers and Bruton Knowles as property consultants. This approach is more cost effective than employing such staff directly and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.
- Further details on staff training can be found in the HR Employee Development section of the website.

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Appendix F – Treasury Management 2024/5

Introduction

- 2.1 Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and 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.
- 2.2 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 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 legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.
- 2.3 Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

External Context

Economic background:

- 2.4 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.
- 2.5 The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November. 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%.
- 2.6 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 near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

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- 2.7 Office for National Statistics (ONS) figures showed CPI inflation was 6.7% in September 2023, unchanged from the previous month but above the 6.6% expected. Core CPI inflation fell to 6.1% from 6.2%, in line with predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling, declining to around 4% by the end of calendar 2023 but taking until early 2025 to reach the 2% target and then falling below target during the second half 2025 and into 2026.
- 2.8 ONS figures showed the UK economy grew by 0.2% between April and June 2023. The BoE forecasts GDP will likely stagnate in Q3 but increase modestly by 0.1% in Q4, a deterioration in the outlook compared to the August MPR. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.
- 2.9 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 remained strong, with regular pay (excluding bonuses) up 7.8% over the period and total pay (including bonuses) up 8.1%. Adjusted for inflation, regular pay was 1.1% 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.
- 2.10 Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve paused in September and November, maintaining the Fed Funds rate target at this level. It is likely this level represents the peak in US rates, but central bank policymakers emphasised that any additional tightening would be dependent on the cumulative impact of rate rises to date, together with inflation and developments in the economy and financial markets.
- 2.11 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 as the impact from higher rates is felt in the coming months, a weakening of economic activity is likely. Annual CPI inflation remained at 3.7% in September after increasing from 3% and 3.2% consecutively in June and July.
- 2.12 Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.9% in October 2023. Economic growth has been weak, and GDP was shown to have contracted by 0.1% in the three months to September 2023. In line with

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other central banks, the European Central Bank has been increasing rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

Credit outlook:

- 2.13 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.
- 2.14 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.
- 2.15 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.
- 2.16 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.
- 2.17 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.
- 2.18 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 (November 2023):

- 2.19 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 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. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

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- 2.20 Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, 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.
- 2.21 Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.
- 2.22 A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.
- 2.23 For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 5.3%, and that new long-term loans will be borrowed at an average rate of 4.5% to 5.5%.

Local Context

- 2.24 On 19th January 2024, the Authority had £103.9m borrowing (carrying amount) and £24.5m of treasury investments. This is set out in further detail in this report. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

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Table 1: Balance sheet summary and forecast

	31.3.23 Actual £m	31.3.24 Estimate £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
Capital financing requirement	22.6	28.8	34.5	37.3	40.6
Less: External borrowing **	0.0	4.0	7.1	2.7	4.7
Internal (over) borrowing	22.6	24.8	27.4	34.6	35.9
Less: Usable Reserves	-20.0	-20.0	-19.5	-19.5	-19.5
Less: Working Capital	-4.9	-4.9	-4.9	-4.9	-4.9
Treasury investments (or New borrowing)	2.3	0.1	-3.0	-10.2	-11.5

** shows only loans to which the Authority is committed and excludes optional refinancing

- 2.25 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The Authority has an increasing CFR due to the capital programme, but minimal investments and will not need to borrow in the short term to finance its capital programme until 2025/26.
- 2.26 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2024/25.
- 2.27 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £0.2m at each year-end to maintain sufficient liquidity but minimise credit risk.
- 2.28 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an

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estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability benchmark

	31.3.23 Actual £m	31.3.24 Estimate £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
CFR – GF & Regeneration	22.6	28.8	34.5	37.3	40.6
Less: Usable Reserves	-20.0	-20.0	-19.5	-19.5	-19.5
Less: Working Capital	-4.9	-4.9	-4.9	-4.9	-4.9
Net loans requirement	-2.3	3.9	10.1	12.9	16.2
Plus: Liquidity allowance	2.0	2.0	2.0	2.0	2.0
Liability benchmark	-0.3	5.9	12.1	14.9	18.2

- 2.29 Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £2m average a year, minimum revenue provision on new capital expenditure based on a 25 year asset life and income, expenditure and reserves all increasing by inflation of 2.5% a year.

Borrowing Strategy

- 2.30 The Authority currently holds £104 million of loans (carrying amount), as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority does expect to borrow in 2024/25. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.
- 2.31 **Objectives:** The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.
- 2.32 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the

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debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

- 2.33 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of **internal and short-term** borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 2.34 The Authority has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.
- 2.35 Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 2.36 In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.
- 2.37 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:
- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
 - UK Infrastructure Bank Ltd
 - any institution approved for investments (see below)
 - any other bank or building society authorised to operate in the UK
 - any other UK public sector body
 - UK public and private sector pension funds (except **[your local]** Local Government Pension Scheme)
 - capital market bond investors
 - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

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- 2.38 **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- leasing
 - hire purchase
 - Private Finance Initiative
 - sale and leaseback
- 2.39 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.
- 2.40 **Short-term and variable rate loans:** These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).
- 2.41 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Treasury Investment Strategy

- 2.42 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 treasury investment balance has ranged between £2 and £15 million, and similar levels are expected to be maintained in the forthcoming year.
- 2.43 **Objectives:** The CIPFA Code requires the Authority to invest its treasury 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

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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.

- 2.44 **Strategy:** As demonstrated by the liability benchmark above, 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.
- 2.45 The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Authority may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.
- 2.46 **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.
- 2.47 **Business models:** Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
- 2.48 **Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

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Table 3: Treasury investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3 m 5 years	£3m 20 years	£3m 50 years	£3m 20 years	£1m 20 years
AA+	£3m 5 years	£3m 10 years	£3m 25 years	£3m 10 years	£1m 10 years
AA	£3m 4 years	£3m 5 years	£3m 15 years	£3m 5 years	£1m 10 years
AA-	£3m 3 years	£3m 4 years	£3m 10 years	£3m 4 years	£1m 10 years
A+	£3m 2 years	£3m 3 years	£3m 5 years	£3m 3 years	£1m 5 years
A	£3m 13 months	£3m 2 years	£3m 5 years	£3m 2 years	£1m 5 years
A-	£3m 6 months	£3m 13 months	£3m 5 years	£3m 13 months	£1m 5 years
None	£1.5m 6 months	n/a	£3m 25 years	£1m 5 years	£500k 5 years
Pooled funds and real estate investment trusts		£2.5m per fund or trust			

- 2.49 * **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.

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- 2.50 For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £500,000 per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.
- 2.51 **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.
- 2.52 **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.
- 2.53 **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.
- 2.54 **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.
- 2.55 **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. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.
- 2.56 **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

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after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

- 2.57 **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.
- 2.58 **Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.
- 2.59 **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 £2.0m 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.
- 2.60 **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. The credit rating agencies in current use are listed in the Treasury Management Practices document. 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 "negative watch") 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.

- 2.61 **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

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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.

- 2.62 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, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.
- 2.63 **Investment limits:** The Authority's revenue reserves available to cover investment losses are forecast to be £19 million on 31st March 2024 and £18 million on 31st March 2025. In order that no more than 25% of available reserves will 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 £5 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.
- 2.64 Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £2m in operational bank accounts count against the relevant investment limits.
- 2.65 Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. 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.

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	Cash limit
Any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£5m per country
Registered providers and registered social landlords	£2.5m in total
Unsecured investments with building societies	£2.5m in total
Loans to unrated corporates	£1m in total
Money market funds	£20m in total
Real estate investment trusts	£2.5m in total

- 2.66 **Liquidity management:** The Authority uses detailed spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.
- 2.67 The Authority will spread its liquid cash over at least four 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.

Treasury Management Prudential Indicators

- 2.68 The Authority measures and manages its exposures to treasury management risks using the following indicators.
- 2.69 **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average 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.

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Credit risk indicator	Target
Portfolio average credit [rating / score]	A

- 2.70 **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	2.5m

- 2.71 **Interest rate exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£500,000
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£500,000

- 2.72 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

- 2.73 **Maturity structure of borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
Th5 years and within 10 years	50%	0%
10 years and above	100%	0%

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- 2.74 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment
- 2.75 **Long-term treasury management investments:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	2024/25	2025/26	2026/27	No fixed date
Limit on principal invested beyond year end	£1.5m	£1.0m	£0.5m	

- 2.76 Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Related Matters

- 2.77 The CIPFA Code requires the Authority to include the following in its treasury management strategy.
- 2.78 **Financial derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
- 2.79 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 2.80 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in

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the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

- 2.81 In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.
- 2.82 **Housing Revenue Account:** On 1st April 2012, the Authority notionally split each of its long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheets resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk.
- 2.83 **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. Given the size and range of the Authority's treasury management activities, the Director of Finance believes this to be the most appropriate status.

Financial Implications

- 2.84 The budget for investment income in 2024/25 is £0.75 million, based on an average investment portfolio of £15 million at an interest rate of 5%. The budget for debt interest paid in 2024/25 is £4 million based on an average general fund debt portfolio of £104 million at an average interest rate of 3.6%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.
- 2.85 Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then 50% of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

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Other Options Considered

2.86 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance, having consulted the Cabinet Member for Finance and Enabling, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

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Appendix 1 – Arlingclose Economic & Interest Rate Forecast – November 2023

Underlying assumptions:

- UK inflation and wage growth remain elevated but, following a no-change MPC decision in November, Bank Rate appears to have peaked in this rate cycle. Near-term rate cuts are unlikely, although downside risks will increase as the UK economy likely slides into recession and inflation falls more quickly.
- The much-repeated message from the MPC is that monetary policy will remain tight as inflation is expected to moderate to target slowly. In the Bank's forecast, wage and services inflation, in particular, will keep CPI above the 2% target until 2026.
- The UK economy has so far been relatively resilient, but recent data indicates a further deceleration in business and household activity growth as higher interest rates start to bite. Global demand will remain soft, offering little assistance in offsetting weakening domestic demand. A recession remains a likely outcome.
- Employment demand is easing, although the tight labour market has resulted in higher nominal wage growth. 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 spending will therefore be weak. Higher interest rates will also weigh on business investment and spending.
- 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 policy loosening in the future to boost activity.
- Global bond yields will remain volatile, particularly with the focus on US economic data and its monetary and fiscal policy. Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.
- There is a heightened risk of geo-political events causing substantial volatility in yields.

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Forecast:

- The MPC held Bank Rate at 5.25% in November. 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 remain on the upside, but these diminish over the next few quarters and shift to the downside before balancing out, due to the weakening UK economy and dampening effects on inflation.
- Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply.

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	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	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	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	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	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	0.50	0.70	0.70	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.28	4.35	4.30	4.25	4.10	4.00	3.75	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.55	-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	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.32	4.40	4.35	4.30	4.25	4.15	4.00	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.55	-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	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.78	4.70	4.65	4.55	4.45	4.35	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.55	-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	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.38	4.30	4.25	4.20	4.15	4.15	4.10	4.10	4.10	4.10	4.10	4.10	4.10
Downside risk	0.00	-0.55	-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%

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Appendix 2 – Existing Investment & Debt Portfolio Position

	Actual Portfolio £m	Average Rate %
External borrowing: Long-Term Loans (carrying amount)	103.9	3.59
Total gross external debt	103.9	3.59
Total treasury investments	24.5	5.2
Net debt	79.4	

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Appendix G – MRP Policy 2024/5

- 3.1 Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The *Local Government Act 2003* requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.
- 3.2 The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
- 3.3 The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.
- For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate of 4%, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
 - For assets acquired by leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
 - Where former operating leases have been brought onto the balance sheet due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.
 - For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with

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the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred on the loan is fully funded over the life of the assets.

- There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial year.
- Where the council makes a capital contribution or loan to another entity or where responsibility for a council asset with borrowing attached is transferred to a third party, then no MRP will be set aside if:
 - the payments are appropriately covered by assets
 - there are detailed plans demonstrating that all the expenditure will be recovered in an appropriately short time frame
- To ensure that this remains a prudent approach the Council will review the expenditure and income regularly to determine if the income or asset values have decreased to the point that MRP needs to be provided for. Should evidence emerge which suggests the expenditure will no longer be recovered, MRP will be provided for.
- Where the council uses internal borrowing and receipts of rental income are greater than the MRP calculated then as there are sufficient revenues to repay the capital cost, no MRP will be set aside.

3.4 Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until 2025/26 or later.

3.5 Based on the Authority's latest estimate of its capital financing requirement (CFR) on 31st March 2023, the budget for MRP has been set as follows:

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	31.03.2024 Estimated CFR £m	2024/25 Estimated MRP £m
Capital expenditure before 01.04.2008		
Supported capital expenditure after 31.03.2008		
Unsupported capital expenditure after 31.03.2008	28.8	0.87
Leases and Private Finance Initiative		
Transferred debt		
Loans to other bodies repaid in instalments		Nil
Voluntary overpayment (or use of prior year overpayments)	n/a	
Total General Fund	28.8	0.87
Assets in the Housing Revenue Account	23.3	
HRA subsidy reform payment	98.9	
Total Housing Revenue Account	122.2	
Total	151.0	0.87

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Appendix H – Investment Strategy 2024/5

Introduction

- 4.1 The Authority invests its money for three broad purposes:
- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
 - to support local public services by lending to or buying shares in other organisations (**service investments**), and
 - to earn investment income (known as **commercial investments** where this is the main purpose).
- 4.2 This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

- 4.3 The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £2m and £15m during the 2024/25 financial year.
- 4.4 **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

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- 4.5 **Further details:** Full details of the Authority's policies and its plan for 2024/25 for treasury management investments are covered in a separate document, the treasury management strategy, which is part of these appendices.

Service Investments: Loans

- 4.6 **Contribution:** The Council will lend money to its subsidiaries, local businesses, local charities and housing associations to support local public services and stimulate local economic growth.
- 4.7 **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. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2023 actual			2024/25
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit £m
Subsidiaries	0	0	0	1.0
Local businesses	0	0	0	0.5
Local charities	0	0	0	0.5
Housing associations	0	0	0	1.0
TOTAL	0	0	0	3.0

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- 4.8 Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.
- 4.9 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding service loans by using specialist advice to understand the market and the potential future demands of the market and the customers in it. It will also use benchmarking data from the market to determine future potential risks which need to be planned for. External advice is only sought from credible sources eg acknowledged experts in their fields and officers ensure that they fully understand any information given to them before decision or advice is taken.

Commercial Investments: Property

- 4.10 **Contribution:** The Council has Towns Fund Funding of over £15m to regenerate the Town Centre and deliver an Innovation Centre. Although these schemes will generate an income stream at the end of the process their main purpose, as per the Grant requirements, is for regeneration. As set out in the Capital Strategy, it invested in offices at Oak Tree Part in 2019 for regenerative purposes (See Asset Strategy). Fully let, these premises will generate £76k per annum. The Council does not invest in property for commercial gain.

Table 2: Property held for investment purposes in £ millions

Property [type]	Actual	31.3.2023 actual		31.3.2024 expected	
	Purchase cost	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
N/A	0	0	0	0	0
TOTAL	0	0	0	0	0

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- 4.11 **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.
- 4.12 *Where value in accounts is at or above purchase cost:* A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2023/24 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.
- 4.13 *Where value in accounts is below purchase cost:* The fair value of the Authority's investment property portfolio is no longer sufficient to provide security against loss, and the Authority is therefore taking mitigating actions to protect the capital invested.
- 4.14 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding property investments by involving specialist advisors with expertise in the type of property being purchased, looking at historic data and speaking to other councils undertaking similar activities.
- 4.15 **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. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Council ensures that properties purchased are in an active market where there is demonstrable demand to ensure that the authority does not purchase assets which it will not be able to sell on at a later date.

Loan Commitments and Financial Guarantees

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

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Proportionality

- 4.17 The Council does not plan to become dependent on profit generating investment activity to achieve a balanced revenue budget.

Borrowing in Advance of Need

- 4.18 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Council would only not follow this guidance if interest rate forecasts and treasury advisor guidance set out that it was more cost effective, **in terms of significantly reduced debt interest charges**, for the Council to borrow for the **Approved 3 year capital programme** at a point of time rather than when that expenditure is taking place over that 3 year period. It is unlikely that this will happen however the option should not be closed off. Funds would be invested. The Council's policies in investing the money borrowed, including management of the risks, would be as per normal short term Treasury Investments.

Capacity, Skills and Culture

- 4.19 **Elected members and statutory officers:** Member training will take place annually as part of the induction process. External advisors will provide reports to support investment decisions with officers ensuring that they fully understand them and can relate them to the strategic objectives and risk profile of the Council.
- 4.20 **Commercial deals:** Significant work has been undertaken using external advisors and relevant training courses have been attended to ensure that officers are fully aware of the code and statutory requirements of a local authority which is investing.
- KPMG have developed a modelling tool for the Council to use when assessing potential purchases as a precursor to engaging with external consultants to ensure that potential purchases are likely to make sense from the perspective of the authority

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before incurring advisor costs. However, following an internal review of the policy, it has been decided that the Council may wish to make purchases which do not make a financial return or may indeed make a loss in the short term. On these occasions a business case will be developed which specifies the non-financial benefits of the investment. These are likely to be regenerative schemes for the greater good of the area with an intended long term impact. The regenerative and redevelopment benefits which will flow from the investment will be taken into account in the development of the business case, so if the net investment yield falls below 0.75% it can still proceed if these benefits are deemed to outweigh the lower than target yield.

- 4.21 **Corporate governance:** when investment decisions are to be made, they are to be led by the Council's Director of Finance in consultation with the Corporate Management Team. They will assess the potential investment opportunity using the KPMG finance appraisal model and should they decide it presents a strong opportunity for the Council and complies with the relevant criteria a conditional offer can be made. A business case will then be developed and presented ensuring that once greater detail is included, it makes a satisfactory income yield and/or economic redevelopment and regeneration impact. When the business case is completed, if it is still compliant with the Council criteria, it will be presented to Cabinet for approval before purchase is completed. Once a purchase has been made the Director of Finance will provide quarterly reports in line with financial and monitoring reports on the status of the investment.

Investment Indicators

- 4.22 The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.
- 4.23 **Total risk exposure:** The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

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Table 3: Total investment exposure in £millions

Total investment exposure	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
Treasury management investments	21.7	20	20
Service investments: Loans	0	0	0
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	0
TOTAL INVESTMENTS	0	0	0
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	0	0	0

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

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Table 4: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
Treasury management investments	0	0	0
Service investments: Loans	0	0	0
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	0
TOTAL FUNDED BY BORROWING	0	0	0

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

Table 5: Investment rate of return (net of all costs)

Investments net rate of return	2022/23 Actual	2023/24 Forecast	2024/25 Forecast
Treasury management investments	1.8	4.9	5.2
Service investments: Loans	0	0	0
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	0
ALL INVESTMENTS	1.8	4.9	5.2

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