Part B

Financial Performance Q2 2022/23

1 Introduction

1.1 The budget approved by Council in February 2022 was balanced over the medium term and was set based on a number of key assumptions including pay and cost inflation. Inflation had been calculated for premises and transport related costs including utilities, business rates and fuel based on latest market intelligence and CPI forecasts from Central Government. Whilst there were concerns about the rapidly rising levels of inflation, the advice at that time indicated a short term and sharp spike rise in inflation followed by a return to previously experienced levels by early spring.

1.2 The CPI has since nearly tripled which when coupled with the proportion of use and demand for consumables such as utilities, fuel, goods and services has created and continues to give rise to significant budgetary concerns.

UK CPI table

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2022	4.90%	5.50%	6.20%	7.80%	7.90%	8.20%	8.80%	8.60%	8.80%				
2021	0.70%	0.50%	0.70%	1.50%	2.10%	2.50%	2.00%	3.20%	3.00%	4.10%	5.10%	5.40%	**2.60%**
2020	1.80%	1.70%	1.50%	0.80%	0.60%	0.60%	1.10%	0.20%	0.60%	0.70%	0.40%	0.60%	**0.90%**

1.3 The Council operates Directorate cash limited budgets and Corporate Management Team/Directors are responsible for ensuring that appropriate action is taken to contain both revenue and capital spending in line with the directorate's overall budget limit. The challenges facing local residents as a result of the cost of living crisis are very real and very urgent. The council cannot singlehandedly resolve these complex and national level issues. There has been a wave of authorities at every level that have revealed their budget plans are in pieces due to the huge spike in costs since April 2022 and authorities across the country are not immune to the national financial pressures while facing increasing demand and increasing cost pressures.

1.4 Various authorities are dealing with a very difficult set of circumstances currently and face a real challenge to balance the budget this year, while forecasting a significant overspend with the main causes being record inflation levels, soaring energy prices, pay deal for staff, etc. This is the reality for councils across the country at the moment and it has been widely reported that inflation, energy costs and other current challenges are predicted to lead to £2.4bn in extra cost pressures to councils this year alone, rising to £3.6bn in 2024-25. Therefore, there might be a need for various authorities including this Council to lobby the Government for additional supports.

1.5 Another critical issue for the council is that its capital projects are facing an uncertain future due to the increase in material costs. It is too early to have a clear view of the impact of the inflationary pressures while the assumption is that stand-alone projects that are already in-progress will be delivered as planned but that future projects that have not yet started may need to be re-evaluated. In the same way households are struggling with rising costs, it is also becoming more and more expensive for the council to provide the services that people need. This comes at a time when the Council's budgets are already under immense strain, with savings already required due to the impacts of austerity and the pandemic.

1.6 Through the Priority Based Budgeting approach, each area of the Council's expenditure was scrutinised, and a range of ongoing budget reduction options were prepared for members' consideration. Some of the proposals will deliver a level of budget reduction in the current financial year, whilst others will yield savings, or increased income generation for years to come. Future budget setting will be taking into consideration current financial pressures and challenges due to ongoing inflation trajectory. The Council has a robust governance process for tracking delivery of agreed savings through the Recovery and Stabilisation Programme meetings, whilst work is still underway to assess developed savings plans.

1.7 The Council's overall annual revenue spend is managed and monitored across a number of areas and at Quarter 2, the budget holders are forecasting a risk of overspend of approximately £1.188m (as shown within the table below), which CMT should in the first instance set out in-service options for mitigation. Where these are considered undeliverable, or pressures cannot be contained across the directorate the budget monitoring/scrutiny process will be triggered and a request may be made for the Cabinet to consider granting a supplementary estimate redirecting funds from an alternative source.

1.8 Through careful planning and re-profiling during the 2021/22 year-end, the Council has been able to provide resilience by setting aside specific reserves to address ongoing Cost of living, Inflation, Fuel & Energy Cost and Bad debt along with carry forwards, £1.6m of these have been brought into the position as one-off funding to provide relevant immediate support.

2 General Fund

2.1 The General Fund projected out-turn for 2022/23 as at 30 September, quarter 2, is shown in the summary table 1 below, as an overspend against budget of £1.188m:

Table 1: Summary of projected out-turn as at Quarter 2	Budget 2022-23 £	Budget adjustments requested £	Actual & Committed £	Projected Outturn £	Projected Variance at year end (Quarter 2) £	Projected Variance at year end (Quarter 1) £
Corporate Services	3,824,350	0	5,848,184	3,992,909	168,559	24,100
Service Delivery	7,538,650	390,000	8,204,391	8,282,443	743,793	184,514
Regeneration and Planning	(51,850)	457,000	1,311,233	1,358,538	1,410,388	1,101,218
Tourism and Enterprise	2,203,550	755,622	790,575	2,152,228	(51,322)	49,078
Additional cost of payaward	0	0	0	469,000	469,000	0
Net Cost of Services	13,514,700	1,602,622	16,154,384	16,255,119	2,740,419	1,358,910
Other Operating Income & Expenditure	487,450	0	249,393	249,400	(238,050)	(250,000)
Capital Financing	2,103,400	0	1,952,283	750,300	(1,353,100)	(150,000)
Transfer from reserves	0	(1,602,622)	0		0	0
Net Budget	16,105,550	0	18,356,060	17,254,819	1,149,269	958,910
Financing	(16,105,550)	0	(8,851,061)	(16,066,762)	38,788	(85,262)
Over/ (under) budget	0	0	9,504,999	1,188,057	1,188,057	873,648

2.2 The projected out-turn for 2022/23, advised by budget holders as of 30 September 2022 is an overspend against budget of £1.188m.

Some of the provisions from 2021/22 were carried forward due to reprofiling and alignment of budget. Where applicable these have been incorporated into relevant budgets. These are for noting at this point and will be formerly updated as part of the mid-year revision and budget setting process.

The residual projected overspend of £1.188m, in the main is due to the anticipated impact of price inflation for energy costs, increased cost of goods and services, pressures in regeneration and planning and pressures in services due to rising volumes in the number of homeless and rough sleeper placements, which are explored further below. The additional cost of the April 2022 pay award agreed recently is estimated at £469k.

At the time of preparing this report, more detailed work on business rates shared benefits and retention value was taking place. Any further adjustments required as a result of this work will be reflected in the revised budget and quarter 3 monitoring report.

Inflation is currently (September 2022) at over 10% and the Bank of England recently increased base rates by 0.75% from 2.25% to 3%, the highest increase since 1989, impacting the cost of borrowing and mortgage interest rates.

The impact on consumer spending power, and bad debts is uncertain especially on income targets in areas such as Tourism, hospitality and Culture which are still recovering from the economic impact of Covid19 pandemic.

By setting aside targeted reserves at the 2021/22-year end, the council has been able to create greater financial resilience and additional capacity to bring into position £1.602m of one off funds to support the 2022/23 shortfall. This provision enables the authority to further develop and extend its recovery and stabilisation programme in order to mitigate inflationary impacts as follow:

- Tourism and Culture has been supported from £755k of one-off funds from earmarked reserves
- Service Delivery has been supported by £280k grant reserves.
- Planning have required reserves of £204k to afford the local plan which is required every 4 years.
- £90k of better care fund (BCF), £3k community environment partnership and £20k carry forward to fund litter and dog waste bins have been brought forward to support the service and bottom line; and
- £250k to support increased energy costs are shown in the position.

The budget includes savings targets of £3.294m, which have been incorporated to the relevant service.

Key variances are set out in the following table:

2.3 Corporate Services, adverse variation £168,559:

Corporate Services	Budget 2022-23 £	Budget adjustments requested £	Actual & Committed £	Projected Outturn £	Projected Variance at year end (Quarter 2) £	Projected Variance at year end (Quarter 1) £
Corporate Management Team	79,850	0	(895,321)	178,850	99,000	0
Financial Services	1,265,400	0	2,692,583	1,267,382	1,982	9,300
Human Resources	370,250	0	294,235	387,500	17,250	6,600
Total Information Technology	1,204,600	0	2,160,069	1,205,267	667	(29,600)
Total Legal	248,450	0	(241,216)	254,610	6,160	0
Total Local Democracy	741,550	0	509,068	785,050	43,500	37,800
Local Land Charges	(85,750)	0	(52,536)	(85,750)	0	0
Corporate Services	3,824,350	0	4,466,882	3,992,909	168,559	24,100

Corporate Services are showing an adverse variation of £168k due to:

- Corporate Management £99k - this relates to corporate projects £93k (of which £75k relates to the Eden project) and other net additional costs £6k.

- Financial Services £2k– additional insurance premium costs £53k and bank charges £13k less saving from deleted post £26k and other recharge income £38k.

- Human Resources £17k – additional occupational health contract usage costs £50k and training costs £25k offset by savings in salary costs £58k.

- Democratic services £43k mainly due to a newly created role £38k and additional staffing costs £5k.

2.4 Service Delivery, projected overspend £743,793:

Service Delivery	Budget 2022-23 £	Budget adjustments requested £	Actual & Committed £	Projected Outturn £	Projected Variance at year end (Quarter 2) £	Projected Variance at year end (Quarter 1) £
Director of Service Delivery	15,700	0	49,114	25,339	9,639	(599)
Customer First	273,800	90,000	232,742	276,609	2,809	17,633
Customer Contact	671,400	0	322,584	609,505	(61,895)	9,188
Neighbourhood First	57,900	80,000	(291,903)	139,426	81,526	123,059
Case Management	345,800	0	275,917	436,056	90,256	46,877
Account Management	(37,800)	0	(37,467)	(41,580)	(3,780)	0
SA-Licensing,Cemeteries,Coast Protection	1,453,700	51,100	1,048,198	1,501,733	48,033	43,274
Specialist Advisory - Revenues	1,402,600	(51,100)	1,027,463	1,939,020	536,420	44,901
Specialist Advisory - Waste	4,426,450	(60,000)	4,435,575	4,423,533	(2,917)	(1,879)
Bereavement Services	(1,236,700)	0	(395,129)	(1,170,269)	66,431	4,586
Homes First - Solarbourne	(200,750)	0	(9,653)	(200,750)	0	0
Homes First - Head of Service	29,850	0	161,940	29,850	0	0
Homes First - Housing Strategy	3,000	0	49,295	3,000	0	0
Homes First - Customer Experience	0	0	79,484	0	0	0
Homes First - Housing needs and stand	333,700	0	1,513,730	590,971	257,271	(102,526)
Homes First - Housing Property Service	0	0	(257,498)	0	0	0
Transfer from Reserves	0	280,000	0	(280,000)	(280,000)	0
Service Delivery	7,538,650	390,000	8,204,391	8,282,443	743,793	184,514

The service is predicting overspends against staff costs, and pressure with cost of placements for homeless, details of which are shown below:

- Customer Contact favourable variation of £62k due to staff turnover and reduced agency costs.

- Neighbourhood First adverse variation of £82k due to additional staffing costs £176k offset by additional car park income £87k.

- Case Management adverse variation of £90k due to agency staff costs.

- Licensing, Cemeteries and Coastal Protection adverse variation of £48k mainly due to Ash die back.

- Specialist Advisors adverse variation of £536k.

    - The majority, £775k, is due to rising volumes in the number of Homeless placements (Statutory & Rough Sleeper) and the impact on housing benefit payments. This is offset in part (£320k) by an increase in the subsidy receivable on Private Tenant housing benefit.
    -
    - £97k is due to a downturn of 30% in Court Summons raised due to a reduction in staff resource to deal with work-tray backlog, less net other savings £16k.

- Bereavement Services adverse variation of £66k due to a reduction in crematorium income.

- Housing Needs and Standards adverse variation of £258k:

    - increased cost of rough sleepers' placements of £387k
    - increased spot purchase rates of B&Bs £50k
    - increased cost of agency and staffing £151k
    - cost of legal cases £20k
    - the above is being offset by anticipated one off £350k of Better Care Funding.

Please note the above position includes £20k of carry forward from 2021-22 which is to fund litter and dog waste bins, an allocation of £90k of Better Care Fund (BCF) carried forward from previous year and a contribution from grant of £280k.

2.5 Regeneration and Planning projected overspend of £1,410,388

Regeneration and Planning	Budget 2022-23 £	Budget adjustments requested £	Actual & Committed £	Projected Outturn £	Projected Variance at year end (Quarter 2) £	Projected Variance at year end (Quarter 1) £
Service Management - Director	42,750	0	71,924	42,750	0	250
Business Planning and Performance	506,000	3,000	360,156	568,500	62,500	(16,500)
Planning	390,700	204,000	438,170	597,474	206,774	188,810
Asset Management	(1,260,150)	250,000	(96,336)	(494,283)	765,867	503,150
Housing Delivery	118,600	0	498,780	162,000	43,400	35,200
Facilities	(68,400)	0	(156,706)	279,150	347,550	315,500
Regeneration	218,650	0	195,246	202,947	(15,703)	74,808
Regeneration and Planning	(51,850)	457,000	1,311,233	1,358,538	1,410,388	1,101,218

Regeneration and Planning is anticipating significant pressures of £1.4m within its service delivery.

- Business Planning and Performance adverse variation of £62k pressure due to newly created procurement manager post (funded by Procurement savings).

- Planning adverse variation of £207k includes

    - Planning appeal costs £100k,
    - Salary pressure £85k
    - Loss of income £22k.

Please note £204k of consultancy costs to deliver the Local Development Framework is funded from reserves in the position.

- Asset Management adverse variation of £766k:

    - This includes increased energy costs of net £204k (after the transfer of gas costs of £250k to Sovereign Centre and release of £250k from reserves and carry forwards for energy cost pressures).

    - Net pressure of £597k are in relation to vacant properties within investment properties less £35k of additional income on downs water supply.

- Housing Delivery adverse variation of £43k due to staffing costs.

- Facilities adverse variation of £347k:

    - Grove Road £248k overspend is showing mainly due to £130k duplicate Recovery and Stabilisation savings target, £30k additional phone costs and £88k energy increase.

    - Town Hall £65k pressures including £25k unfunded security costs, reduced lettings income of £27k and increased maintenance costs £13k.

    - College Road Offices £34k on property related costs. Further investigation is ongoing to find solutions.

- Regeneration: £15k service savings including Christmas lights £9k and net other £6k.

Please note in addition to £204k of reserves to fund the local plan, there is a small carry forward of £3k for the community environment Partnership. In addition, there is a £250k transfer of gas costs to Sovereign Centre and a transfer from reserves of £250k to meet increased energy costs.

Tourism and Enterprise projected underspend of £51,322

Tourism and Enterprise	Budget 2022-23 £	Budget adjustments requested £	Actual & Committed £	Projected Outturn £	Projected Variance at year end (Quarter 2) £	Projected Variance at year end (Quarter 1) £
Towner	420,400	0	413,880	420,400	0	0
Tourism and Enterprise	795,450	2,500	244,501	784,050	(11,400)	(6,300)
Events	377,700	2,500	503,949	404,050	26,350	19,450
Theatres	59,950	27,800	(790,919)	422,300	362,350	352,700
Sports Delivery	605,900	27,800	159,835	547,550	(58,350)	2,750
Seafront	51,450	(27,800)	81,845	53,600	2,150	89,000
Heritage	67,400	(2,500)	69,323	102,950	35,550	35,250
Tourist Information	172,850	(27,800)	110,360	230,050	57,200	84,300
Catering	(347,550)	(2,500)	(2,200)	(57,100)	290,450	227,550
Transfer from Reserves		755,622	0	(755,622)	(755,622)	(755,622)
Tourism and Enterprise	2,203,550	755,622	790,575	2,152,228	(51,322)	49,078

Please note the favourable variation of £51,322 is after the transfer of £755,622, one off funding from earmarked reserves, to support the service against the impact inflation and reduced spending power of customers. Only the required amount will be drawn from reserves at year-end.

As above there are a few small variances both positive and adverse which should be manageable over the year however larger variances are as follows:

- Theatres adverse variance of £362k
    - Devonshire Park Theatre reduced audiences £179k
    - Winter Gardens reduced bookings £54k,
    - Staffing pressures £137k,
    - Welcome Building reduced letting income £45k,
    - Congress Theatre projected income surplus of £53k.

The savings target of £500k for VAT exemption is delayed and alternative options are in place to compensate against this delay.

- Sports Delivery £58k positive variance due to increased income for Sovereign centre.

- Seafront £2k adverse variance is due to ice-cream sales no achievable income of £35k, the closure of Redoubt Event with £28k of increased costs and bandstand £11k less increased income of £72k for Beach Huts.

- Heritage £35k adverse variance is due to Beachy Head story reduced income.

- Tourist Information £57k adverse variance is due to increased staff costs.

- Catering £290k adverse variance:

    - The Pavilion is anticipating a loss in income of £62k;
    - Increased salary costs (Devonshire Park of £110k, Stage Door £50k, EDGC £48k, Congress theatre £20k).

2.6 Other Operating Income & Expenditure, Capital Financing and Reserves

Other Operating Income and Capital Financing & Reserve movments	Budget 2022-23 £	Budget adjustments requested £	Actual & Committed £	Projected Outturn £	Projected Variance at year end (Quarter 2) £	Projected Variance at year end (Quarter 1) £
Contingencies	250,000	0	0	0	(250,000)	(250,000)
Precepts and Levies	237,450	0	249,393	249,400	11,950	0
Other Operating Income & Expenditure	487,450	0	249,393	249,400	(238,050)	(250,000)
Capital Financing	2,103,400	0	1,952,283	750,300	(1,353,100)	(150,000)
Transfers from Reserves		0	0	0	0	0
Other						
Capital Finances and Reserves	2,103,400	0	1,952,283	750,300	(1,353,100)	(150,000)

Contingencies positive variation of £250k

- this budget has no commitments against it and has been fully released to support the bottom line.

Capital Financing positive variation of £1,353k

- external interest payments on loans are projected to save £587k when compared to the budget which is consistent with previous years.

- the recent increase in interest rates will result in additional interest receivable on investments by £155k.

- following their review, the Treasury Management advisors, Link Group, have advised that minimum revenue provision (MRP) can be reduced to nil in 2022-23 generating a saving of £611k

Transfer from Reserves

- Please note the transfer from reserves and carry forwards of £1,602k have been incorporated into relevant service budgets. These are for noting and will be formally updated as part of the mid-year revision and budget setting process.

3 Housing Revenue Account (HRA)

3.1 The performance on the HRA for quarter 2 is as follows:

The budget was set at a net £3.093m including a revenue contribution to HRA capital programme of £2.934m, which is fully funded from reserves.

The overall forecasted net position on the HRA, at quarter 2, is £0.003m overspend when compared to the budget.

HRA Summary Quarter 2	Original Budget £000's	Projected Outturn £000's	Q2 Variance £000's	Q1 Variance £000's
Income	(16,355)	(16,248)	107	1
Expenditure	14,797	15,148	351	(29)
Capital Financing	1,717	1,562	(155)	(2)
Contribution to Capital Expenditure	2,934	2,634	(300)	
Total	3,093	3,096	3	(30)

The two significant variations are as follows:-

- The adverse variation of £0.449m is due to an increase in depreciation charges based on 2021/22 outturn. Further work needs to be undertaken to establish the current level of depreciation charges following the revaluation of the housing stock.

- At the point of writing this report, further work is being undertaken to inform the delivery of the capital programme including HRA projects. Any change from the projected revenue contribution to capital assumed at £2.634m will be reported at quarter 3.

Details can be found at Appendix 1

4.0 Collection Fund

4.1 The Collection Fund records all the income from Council Tax and Business Rates and its allocation to precepting authorities.

4.2 The Collection fund for the year is as follows:

	Council Tax £'000	**Business Rates £'000**
Actual Balance 1 April 2022 - (Surplus) / Deficit	(890)	12,450
(Recovery) / Distribution of Prior Year Deficit or Surplus	908	(9,952)
Total Collectable Income for year*	(78,465)	(33,315)
Payments to Preceptors	76,440	34,202
Write offs, provisions for bad debts and appeals	888	733
Estimated Balance 31 March 2023 – (Surplus) / Deficit	**(1,119)**	**4,118**
Allocated to:		
Central Government	-	2,059
East Sussex County Council	(821)	371
Eastbourne Borough Council	(133)	1,647
Sussex Police & Crime Commissioner	(114)	-
East Sussex Fire Authority	(51)	41
Total	**(1,119)**	**4,118**

* This represents the latest total amount of income due for the year and allows for changes as a result of discounts, exemptions and reliefs, as well as changes in the Council Tax base and Business Rate yield.

4.3 The allocation to preceptors reflects the operation of the Collection Fund for Council Tax and Business Rates which are distributed on different bases under regulations. The distributions have now been finalised for 2022/23 in line with the above allocations.

4.4 Council Tax has a forecast surplus for the year of £1,119k as at Q2 September (£808k Q1 June). The Council's share of the estimated surplus is £133k (£96k Q1). With the cost of living crisis and the country facing a longer recession, bad debt provisions are currently under review and will be updated at Q3.

4.5 Business Rates has a forecast deficit for the year of £4.118m as at Q2 September (£3.633m Q1 June). The Council's share of the estimated deficit is £1.647m (£1.453m Q1). Section 31 grant received from central government, as compensation for additional reliefs provided, can be used to offset the deficit position.

4.6 The estimated year end positions for Council Tax and Business Rates, used for budget setting purposes, will be formalised and agreed in January 2023.

5 Capital Expenditure

5.1 The capital programme provides an analysis of spend for quarter 2 (Q2) compared to the updated Q2 budget for 2022/23 and the total spend for each scheme as at 30 September 2022. The current Q2 expenditure totals £5.5m against the latest programme of £32.8m, which has been updated to take into account ongoing projects that were due to be completed in 2023/24 and the programmes have been reprofiled accordingly. Additional comments are provided for each scheme within the attached Appendix 2.

Summary - Capital Programme	Original 2022-23	Q2 Updated 2022-23	Q2 Spend 2022-23	Q2 variance to updated Q2 budget
	£000	£000	£000	£000
Housing Revenue Account	18,210	16,553	3,535	-13,018
Other Housing	1,460	3,053	529	-2,524
Community Services	2,145	3,248	317	-2,931
Tourism & Leisure	150	107	4	-103
Corporate Services	3,381	2,629	554	-2,075
Regeneration	6,371	4,092	19	-4,073
Asset Management	3,765	3,190	505	-2,685
Total Capital Prog.	**35,482**	**32,872**	**5,463**	**-27,409**

5.2 As per the previous quarter, Members are reminded that the construction sector is under pressure from rising prices for materials and labour shortages. It should be noted that the year-end forecasts have been provided against a backdrop of economic uncertainty, regarding supply chain challenges, building cost inflation and other factors outside of the control of those delivering the projects. Consequently, whilst based on best known information at Quarter 2, there are likely to be changes to forecasts in the next Capital Programme monitoring report.

5.3 At the end of Quarter 2 the spend against 2022/23 programme was very low and it is too soon to accurately forecast what level of slippage we might anticipate into future years, but it is unlikely that all aspects of the programme will be deliverable this year. This will be kept under continuous review by the Capital Programme Overview Board (CPOB), in the light of the whole capital programme currently being reviewed following Q2 outcome.

6 Treasury Management

6.1 The Annual Treasury Management and Prudential Indicators were approved by Cabinet and Council in February.

Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2022/23 which includes the Annual Investment strategy, was approved by the Full Council on Wednesday, 9 February 2022. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity;
- Yield.

Approved limits within the Annual Investment Strategy were not breached during the period ending 30 September 2022, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 11 days during the period.

6.2 The Council's debt and investment position is organised by staff within Financial Services in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.

6.3 In a relatively short period since the onset of the COVID-19 pandemic, the global economic fallout was sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, businesses, and individuals.

6.4 **Fixed Term Deposits which have matured in the reporting period**

The table below shows the fixed term deposits which have matured between 1 July to 30 September 2022, in maturity date order. It is important to note that the table includes sums reinvested.

Counterparty	Date From	Date To	Day s	Principal £'000	Int. Rate %	Long-term rating
					%	
DMO	01/07/2022	01/08/2022	31	3,000,000	1.05	*
DMO	06/07/2022	08/08/2022	33	2,000,000	1.11	*
DMO	08/07/2022	29/07/2022	21	2,000,000	1.05	*
DMO	15/07/2022	19/07/2022	4	2,500,000	1.05	*
DMO	27/07/2022	29/07/2022	2	5,000,000	1.05	*
DMO	01/08/2022	04/08/2022	3	7,000,000	1.14	*
DMO	04/08/2022	08/08/2022	4	2,000,000	1.40	*
DMO	09/08/2022	22/08/2022	13	6,000,000	1.55	*
DMO	15/08/2022	22/08/2022	7	1,000,000	1.55	*
DMO	01/09/2022	12/09/2022	11	4,000,000	1.55	*
DMO	13/09/2022	20/09/2022	7	2,000,000	1.55	*
DMO	20/09/2022	23/09/2022	3	5,000,000	1.62	*

UK Government body and therefore not subject to credit rating

6.5 **Use of Deposit accounts**

In addition to the fixed term deposits, the Council has made use of the following interest-bearing accounts in the period covered by this report, with the average amount held being £2.56m generating interest of approximately £7.2k.

	Balance at 30 September 2022 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	3,000	4,227	0.96
Lloyds Bank Corporate Account	642	1,820	0.01
Lloyds Bank Call Account	300	1,632	0.15

6.6 **TM Borrowing – Q2 2022/23**

In taking borrowing decision, the Council carefully considered achieving best value, the risk of having to borrow at higher rates at a later date, the carrying cost of the difference between interest paid on such debt and interest received from investing funds which would be surplus until used, and that the Council could ensure the security of such funds placed on temporary investment.

- **Rescheduling** – no debt rescheduling was carried out during the quarter as there was no financial benefit to the Council.
- **Repayment** – none between 1 July and 30 September 2022

6.7 **Borrowing** – The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. No new loans were drawn down from PWLB (Public Works Loan Board) during the quarter to fund the net unfinanced capital expenditure and/or to replace maturing loans. Various temporary loans were taken to cover cash flow requirements. All loans drawn were for fixed rate as detailed within the table below.

Lender - Temp Debt	£m	Start Date	End Date	Rate
Loans held:				%
West Midlands Combined Authority	10,000	21/01/2022	20/01/2023	0.25
Hyndburn BC	2,000	28/02/2022	27/02/2023	0.70
Northern Ireland Housing Executive	10,000	20/06/2022	19/06/2023	1.20
West Yorkshire Combined Authority	5,000	23/05/2022	09/05/2023	1.20
West Yorkshire Combined Authority	10,000	25/07/2022	27/06/2023	1.80
Solihull MBC	5,000	20/09/2022	20/12/2022	2.35
Loans repaid:				
Middlesbrough Council	5,000	11/03/2022	29/07/2022	0.79
Greater Manchester Pension Fund	5,000	21/03/2022	22/08/2022	0.70

6.8 **Interest Rate Forecast**

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 27th September sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but its job is that much harder now.

Links current and previous PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities.

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

Link Group Interest Rate View	09.08.22												
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	2.25	2.50	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.00
3 month ave earnings	2.50	2.80	3.00	2.90	2.80	2.50	2.40	2.30	2.30	2.30	2.20	2.20	2.20
6 month ave earnings	2.90	3.10	3.10	3.00	2.90	2.80	2.70	2.60	2.50	2.50	2.40	2.30	2.30
12 month ave earnings	3.20	3.30	3.20	3.10	3.00	2.90	2.80	2.70	2.40	2.40	2.40	2.40	2.40
5 yr PWLB	2.80	3.00	3.10	3.10	3.00	3.00	2.90	2.90	2.80	2.80	2.80	2.70	2.70
10 yr PWLB	3.00	3.20	3.30	3.30	3.20	3.10	3.10	3.00	3.00	3.00	2.90	2.90	2.80
25 yr PWLB	3.40	3.50	3.50	3.50	3.50	3.40	3.40	3.30	3.30	3.20	3.20	3.20	3.10
50 yr PWLB	3.10	3.20	3.20	3.20	3.20	3.10	3.10	3.00	3.00	2.90	2.90	2.90	2.80

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous forecasts, Links money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- Links forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

6.9 A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

The forecast for interest rates was previously updated on 9th August and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the “fiscal event” has complicated the picture for the MPC, who will now need to double-down on counteracting inflationary pressures stemming from the government’s widespread fiscal loosening.

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

The CPI measure of inflation will peak at close to 10.4% in November 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. Regarding the “provisional” plan to sell £10bn of gilts back into the market each quarter, this is still timetabled to take place but not until October at earliest. In the upcoming months, the forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the government over its fiscal policies, but the on-going conflict between Russia and Ukraine.

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

7 Appendices

7.1
- Appendix 1 – Housing Revenue Account
- Appendix 2 – Capital Programme