

Title of Report	2023/24 QUARTER 3 GENERAL FUND FINANCE UPDATE	
Presented by	Councillor Nick Rushton Corporate Portfolio Holder PH Briefed <input checked="" type="checkbox"/>	
Background Papers	<p>Cabinet 19 September 2023: 2023/24 Quarter 1 General Fund and Housing Revenue Account (HRA) Finance Update</p> <p>Cabinet 21 November 2023: 2023/24 Quarter 2 General Fund and Housing Revenue Account (HRA) Finance Update</p>	<p>Public Report: Yes</p> <hr/> <p>Key Decision: Yes</p>
Financial Implications	Any financial implications of this report are detailed in the body of the report and the attached appendices.	
	Signed off by the Section 151 Officer: Yes	
Legal Implications	No legal implications arising from this report.	
	Signed off by the Monitoring Officer: Yes	
Staffing and Corporate Implications	Any staffing implications of this report are detailed in the body of the report and the attached appendices.	
	Signed off by the Head of Paid Service: Yes	
Purpose of Report	To provide Cabinet with an update on the financial position on the General Fund as at Quarter 3 2023/24.	
Reason for Decision	To update Cabinet on Quarter 3 and request approval for supplementary estimates as detailed in the recommendations below.	
Recommendations	<p>CABINET IS RECOMMENDED TO:</p> <ol style="list-style-type: none"> 1. NOTE THE FORECAST OVERSPEND ON GENERAL FUND FOR 2023/24 OF £333K BASED ON QUARTER 3 INFORMATION. 2. NOTE THE SPECIAL EXPENSES FORECAST 	

	<p>OUTTURN FIGURES FOR 2023/24 BASED ON QUARTER 3 INFORMATION.</p> <p>3. NOTE THE SUPPLEMENTARY ESTIMATES DETAILED ON APPENDIX 2 WHICH ARE BELOW £100K AND ARE EXTERNALLY FUNDED.</p> <p>4. APPROVE THE SUPPLEMENTARY ESTIMATES DETAILED ON APPENDIX 2 WHICH ARE ABOVE £100K AND ARE EXTERNALLY FUNDED.</p> <p>5. APPROVE ALL SUPPLEMENTARY ESTIMATES DETAILED ON APPENDIX 2 WHICH REQUIRE COUNCIL FUNDING.</p> <p>6. NOTE THAT THE SUPPLEMENTARY ESTIMATES DETAILED ON APPENDIX 2 WHICH ARE ABOVE £250K AND ARE EXTERNALLY FUNDED.</p> <p>7. NOTE THE REVISED GENERAL FUND CAPITAL PROGRAMME DETAILED IN APPENDIX 5.</p>
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1.0 PURPOSE OF THE REPORT

- 1.1 To inform Members of the spending position for the period 1 April 2023 to 31 December 2023 for the Council's General Fund focusing on the significant variances from the approved budgets. It should be noted that due to the ongoing implementation of the new finance system, the ongoing audit of the 2021/22 Statement of Accounts and the vacancies within the Finance team, the in-depth analysis of the figures which would usually be undertaken has not been possible. Therefore, the focus has been on reporting the major variances based on the information available and discussions between Finance and the budget holders.
- 1.2 To update Members on supplementary estimates requested and to request approval for those over £100k which are externally funded and for approval for those over £100k which are Council funded.
- 1.3 To update Members on the capital programme for the period 1 April 2023 to 31 December 2023 on the proposed resourcing of the capital programme and the level of Council capital resources available, including capital receipts.
- 1.4 To update Members on the changes to the capital programme and note the variations to scheme budgets and re-profiling of budgets to future years.
- 1.5 To provide Members with an update on the Council's Treasury Management activity during the period 1 April 2023 to 31 December 2023.

2.0 GENERAL FUND

2.1 General Fund Revenue

2.1.1 Table 1 below summarises the third quarter position summarised by Directorates. The current projections are that an overspend of £333k on the overall General Fund budget is expected to occur for 2023/24.

Table 1 – General Fund Revenue 2023/24 Quarter 3 Forecast Outturn Position

Directorate	Annual Budget	Forecast Outturn	Forecast Outturn Variance
	£'000	£'000	£'000
Chief Executive Directorate	2,672	2,721	49
Place Directorate	2,446	2,918	472
Communities Directorate	7,936	8,786	850
Resources Directorate	3,439	3,938	499
Corporate & Democratic Core (CDC) & Other Budgets	896	299	(597)
NET COST OF SERVICES	17,389	18,725	1,336
Net Recharges from General Fund	(1,694)	(1,835)	(141)
NET COST OF SERVICES AFTER RECHARGES	15,695	16,827	1,132
Corporate Items & Financing	1,444	760	(684)
NET REVENUE EXPENDITURE	17,139	17,587	448
Contribution to/(from) Balances/Reserves	(52)	(52)	0
NET EXPENDITURE (AFTER RESERVE CONTRIBUTIONS)	17,087	17,535	448

Financed By	Annual Budget	Forecast Outturn	Forecast Outturn Variance
	£'000	£'000	£'000
TOTAL FUNDING AVAILABLE	(17,087)	(17,202)	(115)

FORECAST (UNDERSPEND) / OVERSPEND	0	333	333
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2.1.2 Cabinet should note that the estimated overspend at quarter three is a forecast only and may reduce or increase. A considerable amount of work is still required between now and the end of the financial year to bring the ledger up to date. It is a top priority for Finance over the coming weeks to ensure this happens and the team are actively working on ways to improve current processes to prevent the backlog in transactions occurring next financial year. The Council's Section 151 Officer recognises the

urgency to address the current situation regarding the backlog in transactions. Despite this challenge, he is confident in the robustness of the financial forecasts. The Finance Team has been diligently working to process all transactions as swiftly as possible while maintaining accuracy and compliance with regulatory standards. The Council understand the importance of timely financial reporting and are committed to resolving these delays. In the interim, our forecasts have been carefully constructed by collaborating closely with officers from all departments.

2.1.3 There are a number of variances that make up the forecast outturn detailed above. Appendix 1a gives a more detailed analysis of the forecast outturn variances by service area along with Appendix 1b which provides a more detailed list of the major variances. It should be noted that there is considerable overspending detailed on employees against service areas but this is in part offset by the £651k budget held Corporately for the pay award for 2023/24.

2.1.4 A summarised analysis of the major factors are detailed below along with mitigating factors which service areas have identified to offset some of these areas of overspending:

Place Directorate £535k

- Property £376k – there is a forecast overspend in the region of £109k on the Courtyard development of which £28k is due to a significant leak in the roof which required emergency works - some of this should be claimed back from the insurers but the amount is unknown at the time of reporting. The remaining £81k on the Courtyard development is due to reduced income from vacant units, reduced rent periods and one unit which is under enforcement action but unlikely to recover the debt. The rent-free periods offered to two tenants was due to a leak which the Council are hoping to recover from our insurers and may total £28k. Whitwick Business Centre is forecasting an overspend of £218k due to repairs, business rates and loss of from vacant units.
- Planning £192k – this is largely due to a forecast overspend of £206k on additional agency costs. The service faces a challenge of balancing its budget and meeting its demand. One of the main reasons for the budget overrun is the high agency costs incurred due to the difficulty of filling key positions. Therefore, it is essential to invest in the recruitment and retention of qualified staff who can deliver the service effectively and efficiently. The Planning Service has been advised that two major and strategic applications for residential and employment development are expected to be submitted in Quarter 4 and if both applications are submitted the fee income received would likely be between £450-600k. There is a risk the fee income may not be received until the 2024/25 financial year.

Community Services Directorate £850k

- Leisure Services £230k – the majority of this overspend (£135k) relates to the leisure contract. As part of the leisure contract the contractor can claim additional funding to cover significant increases in the price and cost of electricity and gas, subject to a utility benchmarking exercise being undertaken. Any amount claimed in 2023/24 will depend on utility prices and the profitability of the leisure centres during the year. The forecast is based on the agreed figure for 2022/23.

- Waste Services £637k – there is an overspend of £216k from increased vehicle hire costs due to the delayed delivery of refuse vehicles and the cost of temporary vehicle hire for the replacement of ageing fleet vehicles. Agency staff costs are overspent by £118k due to high levels of sickness within the service (averaging 11%), an increase in overtime of £114k due to industrial action, the need to clear the backlog of work and repairs to ageing fleet. Salaries are forecast to be £78k overspent but this is offset by the corporately held pay award budget. The vacancy saving of £78k wasn't achieved due to the statutory nature of the service being provided. There are further additional overspends due to increased purchase of vehicle parts due to an ageing fleet and the loss of income £137k from the HRA empty homes contract as the service was halted due to union action. These overspends are partly offset by increased income of (£133k) from recycling. The figures will be reviewed before the final outturn report to try and further mitigate these overspends wherever possible.
- Strategic Housing (£296k) – this underspend has occurred due to Housing utilising external grant income received for the Rough Sleeping Initiative and Ukraine specific Homelessness Prevention Grant to fund expenditure already included within the revenue budget leading to this saving.

Resources Directorate £499k

- ICT £61k – this is largely due to costs relating to the Accommodation project in relation to cloud back up and storage. The wi-fi solution costs for the new sites cost more than originally budgeted as well as additional works at Stenson House for a backup network to support CCTV in the event of network outage. The backup line was not part of the original design.
- Finance £425k – there is an overspend on agency and recruitment costs of £313k (please see section 2.1.4 below). This overspend is partly offset by (£110k) recharged to the Housing Revenue Account (HRA). There is also an overspend on insurance premiums of £117k of which (£58k) has been recharged to the HRA.

Corporate, Financing and Other Budgets (£1,312k)

- Pay award (£651k) – the Council included 4% in the 2023/24 budget for the pay award which was held Corporately. The actual pay award received was £1,925 per full time equivalent. The overspend on the pay award is reflected within the service areas and the underspend on the Corporate cost centre which largely offsets the overspend, although not fully.
- Investment Income (£470k) – this increase is largely due to the further increases in interest rates by the Bank of England. Additionally, investment balances have been higher than expected due to a number of factors including delayed repayment of grants to central government, increased level of reserves, slippage in capital programmes and extended periods between receipts and payments.
- Financing Costs (£214k) - the original budget included the cost of £2.8m of external debt being required in 2023/24, however, due to slippage on the Capital Programme, careful cash management and higher than forecast

investment balances, this external debt has not been required, thereby reducing debt interest costs. Nonetheless, as we have had cash available and borrowing interest rates have not been favourable, we have not needed to take on any new external debt. The Council may at some point in the future have to convert some of the internal debt (currently £39.7m) into external debt, which will then increase the debt funding requirement.

- 2.1.5 There continues to be pressures within the Finance Team budget due to the continued delays in the production and audit of the Council's 2021/22 and 2022/23 Statement of Accounts. The Team is also experiencing issues with the recruitment and retention of key positions. These are currently being filled using interim support and are essential for getting the Finance Team back on track with both the new finance system, which was implemented on 1 April 2023 and the closedown of the Council's accounts, particularly as the end of the financial year for 2023/24 is also fast approaching. All additional costs will be offset against the increase in income from treasury management activities.
- 2.1.6 Although the overall forecast outturn detailed above is showing a £333k overspend, services are working to mitigate these areas of overspending, as detailed in the bullet points above, along with the potential of increased Planning fee income which would mitigate against the current overspend position. If this position is not recovered, the Council will need to fund the overspend from Council reserves.

2.2 Virements

- 2.2.1 A virement is where one or more budget(s) are reduced to fund an increase in another budget(s). There is no net change in the total budget agreed by Council arising from a virement.
- 2.2.2 New virement approval levels were approved as part of the constitution by Council in February 2023. These approval levels are detailed in Appendix 2(a).
- 2.2.3 There are no virements within quarter three which require approval by either Cabinet or Council.

2.3 Supplementary Estimates

- 2.3.1 Supplementary estimates are a new process that was also approved as part of the constitution by Council in February 2023 as per paragraph 2.2.2 above.
- 2.3.2 A supplementary estimate is an addition to the Council's agreed budget and should only be considered after all other options such as virements or savings have been considered.
- 2.3.3 Supplementary estimates include budgets fully funded by external grants or contributions.
- 2.3.4 All supplementary estimates which require Council funding require Cabinet approval whereas those fully externally funded are reported to Cabinet below £100k but require approval over £100k.
- 2.3.5 Appendix 2 details all supplementary estimates grouped by value and funding with details of the reasons for the requests. As can be seen from Appendix 2, the total

external funding to be included in the 2023/24 budgets is £975k (of which £156k is capital) and the total to be transferred from reserves is £107k (of which £42k is capital).

2.4 Section 106

2.4.1 Section 106 funds of £7.4m were held by the Council as at 31 March 2023. During the financial year, the Council has received an additional £0.45m contributions and £1.05m has been spent by several organisations including the Council as well as parish councils, health authorities etc. A breakdown of the £6.8m balance as at 31 December 23 is provided at Appendix 3.

2.4.2 Future quarterly reports will be developed to provide further detailed information to Members on the status of monies spent or held through S106 agreements and their expiry date where relevant.

2.4.3 For information, the figure provided on the reserves balance for S106 in Table 2 below will not reconcile to any figures in Appendix 3. This is because the S106 balances consist of both spent amounts, which are accounted for as a Council reserve, and unspent amounts, which are considered a liability as they could potentially be refunded to the payer.

2.5 General Fund Reserves

2.5.1 The Council holds reserves that are earmarked for a particular purpose and are set aside to meet known or predicted future expenditure in relation to that purpose. The reserves are monitored alongside the budget as part of budget monitoring.

2.5.2 Assuming that reserves are utilised in line with the timescales agreed as part of their approval, reserves represent an effective means of utilising surpluses and underspends and ensuring delivery of projects.

2.5.3 Best practice indicates that reserves, if set aside for specific purposes should be spent in accordance with projections. Finance clinics (this is a dedicated meeting between finance officers and Heads of Service/Team Managers) focus on ensuring that earmarked reserves are expended in a timely manner in line with the purposes in which they have been set aside.

2.5.4 Table 2 below summarises the forecasted position in respect of earmarked reserves and other reserves held by the Council. Full details by service can be found in Appendix 4.

Table 2 – Usable Reserves forecast at 31 March 2024

Reserves	Balance at 01/04/2023 £m	Forecast Spend £m	No longer required £m	Forecast balance at 31/03/2024 £m
General Fund General Fund Earmarked Reserves	6.605	(0.965)	(0.080)	5.560

Reserves	Balance at 01/04/2023 £m	Forecast Spend £m	No longer required £m	Forecast balance at 31/03/2024 £m
General Fund General Reserves (agreed minimum balance)	1.544	0.000	0.000	1.544
Medium Term Financial Plan (MTFP) Reserve	7.937	(0.10)	0.080	7.917
	16.086	(1.065)	0.000	15.021
<u>Other</u> S106 *	1.968	0.000	0.000	1.968
	18.054	(1.065)	0.000	16.989

* Balance at 01/04/23, please also see paragraph 2.4.3 above

2.6 General Fund Capital

2.6.1 Table 3 below details the quarter three position on the 2023/24 capital programme. Spend up to the end of quarter three was £4.5m, the three biggest areas of expenditure are in relation to Fleet Replacement, Accommodation Project and Marlborough Square Improvements. Full scheme-by-scheme analysis can be found in Appendix 5.

Table 3 – Quarter 3 2023/24 Outturn on the General Fund Capital Programme

Directorate	Original Budget	C/Fwd	In-Year Changes	Revised Budget	Expenditure as at Qtr 3	2023/24 Forecast Outturn	Variance	Carry Forward to Future Years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Place	2,843,155	7,444,583	- 5,764,108	4,523,629	2,237,613	4,299,620	224,009	6,281,470
Community	3,435,540	7,251,119	- 6,404,252	4,282,407	2,090,463	4,453,596	- 171,189	6,750,156
Resources	158,000	151,183	- 79,344	229,839	150,644	229,839	-	56,344
Total	6,436,695	14,846,885	- 12,247,705	9,035,875	4,478,720	8,983,055	52,820	13,087,970

2.6.2 The 2023/24 outturn is forecast to be £8.98m against revised budget of £9.04m. Schemes with the significant expenditure for the year include:

Accommodation Project – This is refurbishment works on Stenson House, a new customer service centre and Whitwick Business Centre. The works have now completed, and the buildings are all operational. Expenditure on the works this year is just over £1.82m

Marlborough Square improvement works – This is public realm works in Marlborough Square. Construction work is currently underway, and the works are due to complete in May 2024. Spend so far this year is just under £400k.

Fleet replacement programme – This is the purchase of environmentally-friendly vehicles to deliver council services. Spend on the programme so far this year is £1.60m.

2.6.3 £13.1m capital budget is projected to be carried forward to future years. This is detailed in Table 4 below.

Table 4 – Reprofileing of budget to future years

Directorate	Reprofiled to 2024/25	Reprofiled to 2025/26	Reprofiled to 2026/27	Total
	£'000	£'000	£'000	£'000
Place	5,128,547	1,152,923	-	6,281,470
Community	6,750,156	-	-	6,750,156
Resources	56,344	-	-	56,344
Total	11,935,047	1,152,923	-	13,087,970

2.6.4 The two largest budgets that have been re-profiled is £3.8m in relation to fleet replacement and £2.4m in relation to Disabled Facilities Grants. The fleet replacement is mostly due to long lead-in times in sourcing appropriate environmentally vehicles. There is a review underway in relation to Disabled Facilities Grants and therefore the expenditure has been reprofiled to future years.

2.7 Changes to the Capital Programme

2.7.1 Schemes in the capital programme are grouped under two categories and these are:

Development Pool: These are schemes not yet fully costed or funding sources identified. A full business case is required to be prepared and presented to the newly implemented Capital Strategy Group for consideration before the scheme can go ahead.

Active Programme: Schemes in this category have been approved (by either Capital Strategy Group, Cabinet or Council), fully funded and are being delivered.

2.7.2 Table 5 below details schemes for Cabinet approval to move from the development pool to the active projects.

Table 5 – Scheme Movements and New Schemes

Scheme	Budget £'000	Reason for Movement
Existing Schemes moved from Development Pool to Active Programme		
UKSPF: National Forest	126,500	Considered by Capital Strategy Group and approved to transfer from development pool to active programme subject to Cabinet Approval.
UKSPF: Moira Furnace	100,000	Considered by Capital Strategy Group and approved to transfer from development pool to active programme subject to Cabinet Approval.
	226,500	
New Schemes		
Whitwick and Coalville LC - Solar Panels	246,759	Considered by Capital Strategy Group and approved to be added to the active programme subject to Council Approval.
Parks Depot Storage Facility	22,000	Considered by Capital Strategy Group and approved to be added to the active programme subject to Council Approval.
Hermitage 3G Pitch - Lighting Column	20,000	Considered by Capital Strategy Group and approved to be added to the active programme subject to Council Approval.
	288,759	

- 2.7.3 As detailed in Table 5, there are three new schemes to be added to the Capital Programme that require Council approval:

Whitwick and Coalville Leisure Centre – Solar Panels

The Council has been awarded potential funding of £242,259 from Sport England as part of the Swimming Pool Support Fund to install additional solar panels at Whitwick and Coalville Leisure Centre. Match funding of £4,500 was applied to the funding application meaning a total project value of £246,759. The project is very much in its infancy and a business case is being developed prior to seeking corporate approval to deliver the project. A further report will be taken to Scrutiny, Cabinet and Council for approval.

Park Depot Storage Facility

A storage building at the Parks Depot has recently been identified as structurally unsound and in need of urgent demolition and replacement. Due to the need to maintain the parks depot as a safe and active site, a decision was taken on Health and Safety grounds to proceed with the demolition as soon as arrangements could be made. Work has now commenced. A replacement shed building will also be required to replace the accommodation that will be lost. There is no budget provision in the capital programme to cover the cost of this work at the current time and therefore it is proposed that £22,000 needs to be transferred from the Business Rates Reserve to cover the necessary expenditure. Retrospective authority will be sought from Council.

Hermitage 3G Pitch – Lighting Column

During routine inspections it was identified that a column was dangerous and required urgent replacement. Due to the urgent need to replace the lighting column, a decision was taken on Health and Safety grounds to proceed with the works. There is no budget provision in the capital programme to cover the cost of this work at the current time and therefore it is proposed that £20,000 needs to be transferred from the Hermitage 3G Pitch replacement budget in the capital programme for 2024/25 to cover the necessary expenditure. Retrospective authority will be sought from Council.

3.0 SPECIAL EXPENSES

- 3.1 Table 6 below summarises the forecast outturn position for Coalville Special Expenses and Other Special Expense areas. Further information is contained within Appendix 6 which provides a more detailed analysis.
- 3.2 At the end of the third quarter, Coalville Special expenses are forecast to be £5k over budget, Hugglescote Special Expenses on budget and Whitwick Special Expenses £9k over budget, with Other Special expense areas forecasting minor variances. It is forecast that budget shortfalls will be funded from balances available.
- 3.3 The total Special Expenses net revenue forecast for 2023/24 is £606k which is funded through Council Tax £586k, Grants of £16k, earmarked reserves (EMR) no longer required and returned to balances of £8k and a contribution to reserves of £4k.

Table 6 - Special Expenses 2023/24 Q3 Monitoring & Forecast Outturn Position

SPECIAL EXPENSES	Approved Budget	Forecast Outturn	Variance
	£'000	£'000	£'000
Annual Recurring Expenditure	591	606	15
Expenditure Requirement	591	606	15
Precept	586	586	0
Localisation of Council Tax Support Grant	16	16	0
EMR's not required – returned to balances	0	8	(8)
Transfer from/(to) reserves	(11)	(4)	7

3.4 The major variances are summarised in table 7 below:

Table 7 – Special Expenses Major Variances

Special Expenses - Major Variances	£'000
<u>Coalville</u>	
Events - Summer Event net saving	(3)
Cemetery - reduced burial & monument fees	9
Cemetery, Parks, Recreational Grounds, Open Spaces - reduced Grounds Maintenance recharges	(20)
Parks, Recreational Grounds, Open Spaces - increased repairs & maintenance	16
<u>Hugglescote</u>	
Cemetery - reduced burial fees	2
Cemetery - reduced Grounds Maintenance recharges	(2)
<u>Whitwick</u>	
Cemetery - reduced burial fees	10
Cemetery - reduced Grounds Maintenance recharges	(2)

3.5 The provisional balances as at 1 April 2023 and the forecast outturn as at 31 March 2024 are shown in table 8 below. As can be seen from the table, three of the Special Expense areas are forecast to be in a deficit position. This is not a sustainable position but following the review of the Special Expenses Policy it's anticipated these deficits will be recovered over future years to ensure that a minimum of 10% balances are retained.

Table 8 - Forecasted Special Expense Balances 2023/24

SPECIAL EXPENSE BALANCES	Provisional Balances 01.04.23	Forecast Contribution to/(from) Balances	Forecast Balances 31.03.24 Surplus/ (Deficit)
	£	£	£
Coalville	19,150	991	20,141
Whitwick	7,664	(8,499)	(835)
Hugglescote/Donington Le Heath	17,851	5,480	23,331

Coleorton	1,274	429	1,703
Lockington/Hemington	1,272	1,014	2,286
Measham	1,107	833	1,940
Oakthorpe & Donisthorpe	(17,250)	1,646	(15,604)
Ravenstone	492	912	1,404
Stretton	(1,501)	(219)	(1,720)
Appleby Magna	844	1,764	2,608

- 3.6 A list of the Special expense earmarked reserves as at the end of December 2023 are shown in table 9 below. Appendix 7 gives a more detailed analysis.

Table 9 - 2023/24 Special Expenses Earmarked Reserves

EARMARKED RESERVES	Balances 01.04.23	Spend to date	Forecast Spend	Reserves no longer required	Forecast Balance as at 31.03.24
	£	£	£	£	£
Coalville	92,999	(5,297)	(81,775)	(8,223)	3,001
Hugglescote	28,720	-	(11,210)		17,510
Whitwick	9,088	-	(3,088)		6,000
	130,807	(5,297)	(96,073)	(8,223)	26,511

4.0 TREASURY MANAGEMENT

- 4.1 The following outlines the Treasury position and variance to budget of the Council's Treasury management function. The Council's treasury management strategy for 2023/24 was approved at a Council meeting on 23 February 2023. The Council has invested substantial sums of money and is, therefore, exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.
- 4.2 Table 10 shows the progression of budgets as at 31 December 2023 for Treasury Management elements.

Table 10 – Treasury Management Forecast Outturn 2023/24

Element	Original Budget	Variance	Revised Forecast
	£'000	£'000	£'000
Investment Interest Income:			
<i>Deductions</i>	(189)	(185)	(374)
<i>GF</i>	(423)	(382)	(805)
<i>HRA</i>	(369)	(557)	(926)
Total	(981)	(1,124)	(2,105)

Element	Original Budget	Variance	Revised Forecast
Borrowing Interest Expenditure	2,228	0	2,228
Borrowing Principal Repaid	2,734	3,507	6,241
Total	3,981	2,383	6,364

- 4.3 The Borrowing Principal Repaid will now increase from the Original Budget due to the repayment of the Authority's Lender Option Borrower Option (LOBO) loan with Commerzbank. The loan was repaid on 8 February 2024, following the lender taking up its option to increase the interest rate on the loan from 4.80% to 5.80%. The decision to repay the loan was taken to avoid locking into a high long term interest rate when cash was available to repay the loan. The saving on debt interest more than covers the loss of investment income which could be earned on the funds. The Council has no further LOBO loans.
- 4.4 Table 11 shows a summary of the Council's external investments and borrowing along with the rate of return/borrowing of both. The movements from 31 March 2023 are shown in Table 15 below:

Table 11 – Treasury Summary

	31.3.23 Balance £m	Movement £m	31.12.23 Balance £m	31.12.23 Rate %
Long-term borrowing	59.8	0.0	59.8	3.72%
Short-term borrowing	2.7	(2.1)	0.6	2.30%
Total borrowing	62.5	(2.1)	60.4	3.60%
Long-term investments	0.0	0.0	0.0	0.00%
Short-term investments	39.0	(3.0)	36.0	5.30%
Cash and cash equivalents	4.1	14.2	18.3	5.28%
Total investments	43.1	11.2	54.3	5.29%
Net borrowing	19.5	(13.3)	6.2	

- 4.5 Further information on the Council's borrowing and investments can be found on Appendix 8.
- 4.6 One of the investments held by the Council was a loan of £5m to Birmingham City Council. On 5 September 2023, Birmingham issued a Section 114 notice, stating that they lack the necessary resources to balance their budget. This shortfall primarily arises from their inability to meet sustainable liabilities linked to increasing equal pay claims. It's important to emphasise that the Council's funds were secure, as they are backed by central government support. The Council's treasury advisors at Arlingclose have confirmed this, expressing full confidence that the investments would be repaid in full at maturity. Previous instances of Section 114 notices at other local authorities have not led to investments going unpaid. The investment itself was £5m, at a 4% interest rate, with a one- year duration. The investment matured, and was repaid in full on 25 January 2024, having commenced on the 26 January 2023.

Policies and other considerations, as appropriate	
Council Priorities:	A well run Council.
Policy Considerations:	None
Safeguarding:	None
Equalities/Diversity:	None
Customer Impact:	None
Economic and Social Impact:	The Council plans to invest up to £3.5m in town centre regeneration and public realm works in the current financial year.
Environment and Climate Change:	The Council plans to invest up to £3.1m retrofitting Council homes to make them carbon neutral. Up to £0.5m is forecast to be spent on purchasing environmentally friendly vehicles and installing electric vehicle charging points throughout the district in the current financial year.
Consultation/Community/Tenant Engagement:	This report will be considered by Corporate Scrutiny Committee on 23 May 2024.
Risks:	<p>High levels of inflation can undermine the Council's financial reserves. As inflation rises, the real purchasing power of the Council's reserves steadily erodes, meaning the same amount of money can purchase progressively fewer goods and services. This erosion of value poses a challenge to the organisation's ability to maintain financial stability and achieve its long-term financial objectives.</p> <p>Furthermore, the Council has opted to allocate its increased interest earnings (resulting from increased base rate) towards funding its base revenue budget rather than reinvesting them into reserves. This strategic choice, combined with the inflationary pressure, leads to an overall devaluation of reserves. Essentially, this practice leaves the organisation with reduced financial resilience, as it does not adequately account for the eroding effect of inflation on its reserves.</p> <p>Although the current high levels of inflation are causing problems, reserves might be expected to grow with more moderate levels of inflation over the long term. Real returns (i.e. after inflation) are and have been negative despite investment returns rising. So even if the Council changed its policy to add interest earnings to reserves it still would not solve the whole problem. Indeed, very few investment returns are beating inflation and in general if you wanted higher returns you'd need to invest for a longer period and/or with riskier assets,</p>

	<p>which the Council has decided not to do.</p> <p>The budgets will continue to be monitored throughout the year to ensure the Council remains within its funding envelope.</p>
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