

URN 21-100

Subject Medium Term Financial Strategy 2022/23 to 2024/25

Report to Policy and Resources Committee – 30 November 2021
Council – 9 December 2021

Report by: Finance Director



SUBJECT MATTER/RECOMMENDATIONS

This report presents an update to the Council's Medium Term Financial Strategy (MTFS) and covers the period 2022/23 to 2024/25.

Recommendations:

It is recommended that Members consider and recommend to Council the following:

- 1) The updated Medium Term Financial Strategy (MTFS) and the key themes of the business strategy as outlined at Section 7;
- 2) The revised reserves statement as included at Appendix A to the MTFS;
- 3) The updated capital programme as included at Appendix B to the MTFS;
- 4) The allocation of £50,000 within the capital programme for the implementation of the Agile Working Policy;
- 5) The Capital Strategy and Investment Strategy 2021/22 as included at Appendix C and D.

1. Introduction and Background

- 1.1. There is legal requirement to prepare an annual budget and set the Council tax each year. There are a number of preparatory reports and pieces of work that are prepared in support of setting the annual budget each year. This report presents an update of the Council's Medium Term Financial Strategy for the period 2022/23 to 2024/25. The attached strategy document (MTFS) provides the framework for establishing and maintaining a stable and prudent financial position. The MTFS is one of a suite of key strategies and plans that sets out the current priorities that are aligned to the Corporate Plan for the delivery of services within the Borough.
- 1.2. The MTFS sets out the latest financial projections for the three years that are covered by the strategy which identifies an estimated budget gap of £900k for 2022/23, this is ahead of the provisional settlement announcement and the detailed work on the service budgets for 2022/23.
- 1.3. There continues to be significant uncertainties around funding for Local Government and policy including the following:
 - 1.3.1. Comprehensive Spending review
 - 1.3.2. The Fair Funding Review
 - 1.3.3. Business Rates Retention
- 1.4. As part of the funding reforms these include a move to a 75% business rates retention scheme, aligned to this will be a reset of business rate baselines. The impact of the reset is not yet known or the planned timescales. The purpose of a reset is to remove the disproportional gains and losses between Councils. An assessment of need from the fair funding review is also

key to the funding reforms, clearly as a significant receiver of Revenue Support Grant, the fair funding review will need to take account of these pressure to mitigate the net impact to the financial position of the Council.

2. Financial Forecasts

- 2.1. Due to the uncertainties around the 2021/22 budget and the impact of covid, a one year budget was set for 2021/22 only. The updated financial strategy provides indicative financial forecasts for the three-year period 2022/23 to 2024/25. Once the provisional finance settlement is published and updates to the planned changes to the funding for local government are announced the projections will be revised and the strategy updated accordingly.
- 2.2. The current forecasts are projecting a budget gap of £903,000 in 2022/23, increasing to £1.39m in 2023/24 and to £1.6m in 2024/25. This is before the detail on the budget is finalized for 2022/23 and these forecast will be updated as part of this work and also once the provisional settlement is announced in December.

3. Financial and Business Strategy

- 3.1. The MTFS outlines the following key themes for the business strategy:
 - 3.1.1.Strategic Asset Management
 - 3.1.2.Economic and Housing Growth
 - 3.1.3.Property Investment and Commercialisation
 - 3.1.4.Technological Investment
 - 3.1.5.Partnerships
 - 3.1.6.GYBC Operating model.
- 3.2. The above themes are presented in more detail within section 7 of the MTFS and savings and additional income proposals will be brought forward for consideration as part of the 2022/23 budget that are aligned to these key priorities. The updated forecast gap is still in the region of £900,000 for the general fund ahead of the detailed working on the budget for 2022/23. Work is currently ongoing regarding actions to mitigate the funding gap.

4. Housing Revenue Account

- 4.1. The priorities for the HRA investment plans are to continue to maintain and improve the housing stock and also the provision of new affordable council housing including replacing sales under the right to buy scheme. There continues to be similar challenges to the HRA for example in response to inflation costs and increased borrowing to fund the capital programme for the stock. The detail of the HRA business plan for 2022/23 is currently being worked upon and will be reported to Members in the new year.

5. Capital and Investment Strategy

- 5.1. The Policy and Resources Committee considered the following strategies in March 2021. As part of approving the MTFS these have been reviewed and are presented for approval by Council. These are attached at appendix C and D.
- 5.2. Capital Strategy – This strategy sets out the framework for capital investments made in respect of service and commercial investment, decisions in relation to specific investments

will be presented for approval through the decision-making process as per the constitution and the financial implications would be determined for the capital investments as part of the business case for approval.

- 5.3. Investment Strategy – This strategy focuses on the service and commercial investments for the Council that support local public services and earn investment income. This strategy does not cover the treasury management function which covers the treatment of surplus cash in its day to day activity and the borrowing strategy.
- 5.4. These two strategies are key to supporting the medium term financial strategy for the Council.

6. Financial Implications

- 6.1. The commentary with in the MTFS has highlighted the financial challenges that continue to face the Council. The current forecast gap for 2022/23 is projected to be in the region of £900,000, although this is before the detail of the 2022/23 budgets have been pulled together and consideration of savings proposals and targets that are being worked upon to bring forward as part of the approval of the 2022/23 budget.
- 6.2. The Council does continue to hold earmarked and general reserves that can be used to fund upfront costs as part of invest to save proposals. Regular review of reserves, both general fund, earmarked and Housing revenue Reserves are essential to inform the in-year decisions and also part of the budget setting report.

7. Risks

- 7.1. The risk and sensitivity section within the MTFS includes the more significant risks.

8. Conclusion

- 8.1. The continued uncertainty around the future of local government funding does make the medium to long term financial planning somewhat challenging. The Council remains committed to the ambitious plans for regeneration of the borough including the Future High Street and Towns Fund and the capital programmes have been updated as part of this report. These and the current approved capital programme of works including the re-provision of the Marina centre which will be completed in the summer of 2022 are essential to support the wider economic growth and regeneration of the borough.

9. Background Papers

- 9.1. 2021/22 Budget monitoring reports
- 9.2. 2020/21 outturn report and statement of accounts
- 9.3. Funding announcements and financial modelling

Area for consideration	Comment
Monitoring Officer Consultation	
Section 151 Officer Consultation	
Existing Council Policies	See background papers
Financial Implications eg within existing budgets or funding identified	
Legal Implications (including human rights)	
Risk Implications	
Equality Issues/EQIA assessment (if EQIA not required explain why)	

Details contained in strategy	
Crime & Disorder	
Every Child Matters	



Medium Term Financial Strategy 2022/23

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1. INTRODUCTION AND BACKGROUND

- 1.1. The Medium-Term Financial Strategy (MTFS) outlines the Council's budget strategy and framework to deliver the budget for the following year. The MTFS term is refreshed annually in response to changing pressures and opportunities and supports the preparation of the coming years budget.
- 1.2. The MTFS supports delivery of the Council's priorities by setting out the framework within which resources are available to the Council over the medium term. It provides high level financial projections taking into account known local and national factors, spending pressures and commitments, forecast of future funding reductions and the economic outlook
- 1.3. The MTFS is a strategic document that supports the delivery of the Corporate Plan The Plan 2020-2025 . Great Yarmouth Borough Council's sets out the Council's commitment to drive and facilitate in the following four strategic areas:
 - A strong and growing economy
 - Improved housing and strong communities
 - High-quality and sustainable environment
 - An efficient and effective council.
- 1.4. The MTFS along with the updated financial forecast outlines the demands on the capital programme of both ambition and resources, the impact on the revenue account (for both housing and non-housing) and on the level of reserves held by the Council. Furthermore, the longer term ambitions of the Town Deal and Future High Streets funding are significant investments that will support the delivery of the Corporate Plan and are also linked to the priorities of the MTFS.
- 1.5. Finally, the strategy addresses both the sustainability of the Councils financial position and examines the more significant risks inherent in the proposals.
- 1.6. There continues to be significant uncertainty around Local Government Funding and Policy, namely the fair funding review, the business rates retention review, comprehensive spending review along with the significant economic uncertainties as well as the ongoing impact and recovery of Covid.
- 1.7. The current year (2021/22) saw a further delay of these significant policy reviews and a one-year roll over settlement from the prior year. In September 2021 the Chancellor announced a three-year Spending Review 2021 (SR2021) covering the period 2022/23 to 2024/25. Further announcements were then made on 27 October 2021 when he presented his Autumn Budget and Spending Review (SR21). The announcements confirmed that core spending power for Local Government is estimated to increase by an average of 3% in real terms each year over the SR21 period.
- 1.8. The Chancellor also set out that the Government is providing Local Government with £4.8 billion of new grant funding over the SR21 period for social care and other services, however the detail of how the funding is to be allocated will not be published until December 2021. There is a risk that the larger share of the extra funding will be diverted to social care authorities.
- 1.9. The timing of this means that a draft Local Government Settlement is not likely to be announced until mid-December. Whether this will deliver a three-year finance settlements for local government is unknown, at best as a sector there is an expectation there will be a further one year settlement, again providing no certainty of funding longer term.

- 1.10. Until the detail of the spending review is known there is little certainty on what the future public spending envelope will look like. There continues to be significant pressures facing the economy for example the wider spending pressures in health and care, supply chain challenges and more recently the impact to the construction industry, energy prices and inflation. These challenges mixed with the lack of certainty of future funding for local government makes the annual budget setting and longer-term financial planning process ever more challenging. The outcome of a spending review will be balancing additional taxes, spending cuts and borrowing. Therefore, it remains important that the Council must continue to adopt a prudent approach for any medium-term financial strategy to set priorities that will support and deliver savings, additional income and efficiencies for the Borough Council.
- 1.11. For Local Government the funding outlook remains uncertain, for example will the new Homes Bonus scheme continue, will there be a further one-off allocation or a replacement incentive, changes to business rates retention and 100% pilots. The continued uncertainty further curtails the ability to provide accurate financial projections and forecasts over the medium term, for the purpose of the MTFS and the planning for the 2022/23 budget setting it has been assumed that there will be a further¹ roll forward of the 2021/22 finance settlement into 2022/23. Until announcements are made on the likely funding for Local Government estimates have been based on previous funding allocations, although for the period from 2022/23 onwards it would be prudent to plan for funding reductions and to ensure that the MTFS provides a sound framework for the business strategy moving forward that seeks to grow the income base and seeks efficiencies that will mitigate future funding gaps.
- 1.12. As part of the funding reforms these include a move to a 75% business rates retention scheme, aligned to this will be a reset of business rate baselines. The impact of the reset is not yet known or the planned timescales. The purpose of a reset is to remove the disproportional gains and losses between Councils. An assessment of need from the fair funding review is also key to the funding reforms, clearly as a significant receiver of Revenue Support Grant, the fair funding review will need to take account of these pressure to mitigate the net impact to the financial position of the Council.
- 1.13. Despite the national uncertainty, the refresh of the MTFS is required to inform the detailed budget setting process for the 2022/23 budget ahead of approval of the budget in February 2023.

¹ This would mean a third roll over of funding, 2021/22 and 2020/21 both saw settlement roll overs.

2. RESOURCES

- 2.1. This section provides an overview of the financial resources available to the Council along with the assumptions to inform the updated financial projections. Internal resources are influenced by local decision making, for example council tax, sales, fees and charges to be levied, capital receipts from asset disposals and use of available reserves. External resources include government grants, business rates although whilst the Borough Council collects the rates, it does not set them and has very little discretion over reliefs that can be granted, however local decisions that support future growth in business rates will see a direct benefit returned to the council through the business rates retention scheme.
- 2.2. **REVENUE SUPPORT GRANT (RSG)** – RSG is a central government grant provided to Local Authorities to be used to finance revenue expenditure. The past two years have seen small inflationary increase in the RSG allocated due to the roll-over of previous grant allocations². The RSG allocation in 2021/22 was £2.074m. The Council continues to be one of the largest receivers of RSG compared to similar tiers of authorities, this is primarily due to the previous method of funding allocation for local government reflecting local characteristics of deprivation and spending. It is currently assumed that this grant will continue at existing levels for 2022/23 with inflationary increases pending the wider fair funding review.
- 2.3. **BUSINESS RATES RETENTION** – The current system of business rates retentions sees 50% of the rates collected locally is retained for the provision of services and has been in place since April 2013. Under the scheme business rates are shared between central and local government. The current splits are 50% local (40% Borough and 10% County) and 50% central government.
- 2.4. The localised scheme is not without risk and complications. Businesses have the right to appeal the valuation of their premises which if successful can be backdated. Local Authorities can mitigate some of the risks of the payment of successful appeals through the making of provisions against which payment of appeals are made. The risk is whether the provision raised is sufficient to cover refunds as they materialise. Business Rateable Values were re-valued from April 2017, resulting in further volatility in the system.
- 2.5. The current business rates system allows pooling whereby growth that would be paid to central government can be retained in the pool. Norfolk Local Authorities have operated a business rates pool since the introduction of business rates retention, albeit with varying membership over the years (GYBC has been a pool member since 2018/19). Due to the uncertainty of the impact of covid on business rates in 2021/22 the Norfolk pool (of all Norfolk authorities) was disbanded, with pooling planning to be re-commenced for 2022/23. The remainder of the business rates pool from 2020/21 has been agreed to be allocated across the Norfolk Authorities, this will see in the region of £675,000 to be allocated to the Borough Council, it is recommended that this is set aside to be used for projects that will deliver against the growth for the Borough.
- 2.6. The Government is still committed to implementing the Fair Funding Review and reforms to the Business Rate Retention Scheme (BRRS), although these continue to be delayed with an assumption now that they will be delivered in 2023/24.
- 2.7. Mandatory business rate reliefs and those introduced by the government which reduce the amount of business rates collected locally are normally reimbursed via a section 31 grant to compensate for the income that would have been collected.

² This was following the annual reduction in the RSG from 2016/27 to 2019/20 as part of the last multi year finance settlement.

- 2.8. Business rate information on reliefs and income received or expected is collected via the annual National Non-Domestic Rate (NNDR) returns submitted in January (projection) and May (actual). The business rates baseline funding and tariff is included in the annual finance settlement announcement and these increase by inflation each year.
- 2.9. **NEW HOMES BONUS (NHB)** – New homes bonus has been part of the funding for local government since 2011/12. The scheme was originally introduced to incentivise and reward Councils for building new homes in their areas. The grant is calculated by multiplying the national average council tax by the net additional homes growth (net of movements in long-term empty properties and demolitions), in addition there is an additional supplement of £350 per affordable dwelling. The system splits the grant between local authority tiers; 80% to the lower tier (GYBC) and 20% to the upper tier (NCC) with annual allocations of NHB Grant being announced as part of the finance settlement based on annual returns³.
- 2.10. The future of the scheme is not yet known, a review is long overdue. There is a fundamental flaw in the current system in that those authorities with fewer sites and low land values are disadvantaged even when meeting their local plan housing targets. There is a clear inequity in the current system due to the factors that drive the delivery of new homes, for example land value, number of housing developers operating in an area and local demographics that influence the number of homes that are delivered therefore creating significant inequity in the allocation of the bonus. The current system is heavily skewed towards, and therefore, benefits local authorities with higher land values and have numerous housing developers (especially volume house builders) actively providing new homes within their local areas. The borough is not one of these areas, over the 11 years of the current NHB system, within Norfolk the highest receiver of NHB i has received in the region of £38.7million compared to GYBC's £7.6million. The current system makes no allowances for those areas that have a higher-than-average proportion of lower council tax banded properties, such as Great Yarmouth, for example 68% of the properties in the borough are in bands A and B, compared to a national average of 41% and county average of 55%.
- 2.11. **COUNCIL TAX** – The current band D equivalent for the boroughs Council tax is £171.48. Alongside the annual Local Government Finance Settlement, the Government sets the annual increase in council tax above which would trigger a referendum. Council tax capping in recent years has meant that annual increases in council tax for borough and district authorities have been limited to the higher of 3% or £5 for a band D. Announcements on referendum limits for council tax increases are announced annually as part of the annual Local Government finance settlement, no changes to the limits are currently anticipated for 2022/23.
- 2.12. The Council tax base is an assessment of the number of dwellings expressed in Band D equivalents after allowing for non-collection, discounts, and new property growth. The tax base for 2021/22 is 28,910 which was a reduction of 138 compared to 2020/21, further due to the impact of Covid there was also a reduction in the collection rate and an increase in the level of discounts from local council tax support. Prior to this the MTFS had always allowed for increases in the tax base growth of 500 band D per annum. For 2022/23 the tax base has been assumed to increase to 29,344 which is positive for the MTFS purposes.
- 2.13. Covid support offered to Local Government in 2020/21 included the ability for collection fund deficits to be phased over three years. Local tax income (council tax and business rates) is collected by the billing authority and paid into the local collection funds. Where there is a shortfall in tax receipts in any financial year compared to the level expected, this can lead to a

³ Council Tax Base Returns submitted to government annual covering twelve months October to September. The calculation of the bonus does not take into account planning permissions or any other elements of the planning processes.

deficit on the collection fund which should usually be recovered the following financial year. The impact of collection fund deficits will fall to the main precepting bodies (County and Borough), Parish and Town Councils are protected from the impact of collection fund deficits as any deficit relating to the parish share is the responsibility of the billing authority.

- 2.14. The level of council tax discounts has a direct impact on the net collectable council tax and therefore income that is received in the general fund. The Local Council Tax Support Scheme (LCTS) is essentially a discount that supports those households and individuals that are on low income.
- 2.15. **SALES, FEES AND CHARGES** – Income from sales, fees and charges from the provision of services continue to be an essential source of funding for local authorities. These include income from a number of demand led services for example, car parking, planning and building control and waste services. The 2021/22 base budget assumed the recovery of incomes to pre pandemic levels, whilst there have been some fluctuations in the current year this continues to be an essential source of income for the provision of services. The forward financial projections allow for annual increases to fees and charges in line with the current fees and charges policy⁴. The general principles of the policy are annual increases of RPI plus up to 2% to cover the cost of service delivery. Current forecasts suggest annual increases in the fees and charges in line with the policy could be in the region of 4.9% to 6.9% for 2022/23.
- 2.16. The update financial forecasts will be informed by estimates of all the above financial resources, and this is included in section 4.

⁴ Fees and charges policy 2020/21 to 2024/25 [Policy Document](#)

3. FINANCIAL FORECAST UPDATE

- 3.1. The production of a detailed financial forecast from 2022/23 onwards is challenging due to the uncertainties around funding reviews and before any detail on how the additional £4.8bn for Local Government funding for the three year period 2022/23 to 2024/25 will be allocated.
- 3.2. The forecast update has been informed by the base budget for 2021/22 allowing for inflation increases and known commitments. The in-year financial monitoring has also informed the projections. The following provides an overview of the more significant items that have been used to inform the update of the financial forecast and assumptions for the three year period 2022/23 to 2024/25.
- 3.3. **INTEREST RECEIVABLE AND PAYABLE** – The Bank of England maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion. This has in return reduced the amount of investment income received on the Council’s investments. The forecast impact in the current financial year is expected to be a lower return than estimated and it would be prudent to assume that this will continue for 2022/23.
- 3.4. The borrowing requirements for the Council continue to be undertaken in line with the treasury management strategy and due to slippage in the capital programme some of the planned borrowing will be re-profiled to 2022/23 and 2023/24, this is therefore expected to reduce the forecast interest payments in 2022/23 and overall is expected to mitigate the impact of reduced interest receivable.
- 3.5. **MINIMUM REVENUE PROVISION (MRP** – allowance in the revenue account for the repayment of debt incurred for capital expenditure) – The MRP is set annually based on prior year and the forecast capital spend for the current year financed by borrowing. Future year’s MRP is estimated based on this, plus additional borrowing required within the capital programme approved as part of the budget setting. New capital receipts identified and generated serve to reduce the need for external borrowing for capital purposes to smooth the future MRP charges.
- 3.6. **EMPLOYEE COSTS** – The 2021/22 budget assumed an annual increase in the employee pay award of 2% per annum although this is yet to be agreed nationally. Forecasts for 2022/23 and onwards assume pay awards of 2% per annum. The Local Government Pension Scheme cost for the Council is made up of employer contributions payable on actual employee costs incurred in the year as well as a lumpsum element. The lumpsum element is set for three financial years, in line with the triennial valuation. 2022/23 is the final year of the current three year period for which there will be will growth of £171,000 compared to the 2021/22 base budget. The outcomes of the next triennial valuation will inform the forecasts for the period from 2023/24 and for the purposes of the forward projections, growth in line with previous years has been assumed.
- 3.7. Furthermore the increase of 1.25% to National Insurance Contributions announced recently as a method for funding adult social care will increase the employee costs, although whether the funding is passed down to mitigate the additional costs to Local Authorities, this is not yet clear. There is a further impact on third parties that provide services for the Council, for example joint ventures and contractors where the costs may fall to the council.
- 3.8. **COUNCIL TAX** – Annual tax base growth has averaged 570 over the past 5 years prior to 2021/22 which saw a reduction due to covid. This would have added in the region of £235,000 per annum of additional Council Tax revenue. Based on the latest tax base projections along with current collection and assuming the £5 band D Council increase, this would deliver approximately £220,000 additional resources to the general fund. The forward financial forecasts assume growth in the tax base of 500 per annum.

- 3.9. **EXTERNAL GRANT AND FUNDING** – The 2021/22 finance settlement was a roll-over of the prior year. The provisional settlement for Local Government is not expected until mid-December which will confirm RSG allocations and hopefully make announcements on the New Homes Bonus. Currently the forecast for 2022/23 is assuming £150,000 in additional grant compared to the current year⁵. The net impact is reduced by the removal of one-off funding received in 2021/22, largely in relation to the impact of covid which was allocated for one year only. The financial forecast does allow for some of this funding to be utilised in 2022/23.
- 3.10. **BUSINESS RATES** – Despite the challenges around collection of business rates due to covid, the latest forecast does assume an element of growth from the current year (in line with the forecast) and for the 2022/23 financial year. The Council has confirmed membership of the Norfolk Business rates pool which would see a return of growth from across the County being allocated to all the members. As in previous years the Council continues to hold an earmarked reserve that can be used to smooth the impact between financial years of fluctuations in business rates in the short term.
- 3.11. Due to the uncertainty of the future funding reforms to local government it is difficult to accurately project the future funding levels from business rates and grants. Therefore, for the purposes of the financial projections, it is assumed that funding levels will increase annually in line with inflation, as in previous years. Once the outcomes of the funding reforms are announced the MTFS projections will be updated accordingly.
- 3.12. **NET COST OF SERVICES (NCS)** – As part of the detailed budget work, the service budgets for income and expenditure will be informed by inflationary increases for both expenditure and income. Fees and charges income will be increased in line with the fees and charges policy which allows for annual increases of RPI plus up to 2% with the aim to recover costs. For 2022/23 the RPI rate of 4.9% has been used which could see increases in fees and charges of up to 6.9%. These are currently under review to be presented for approval as part of the 2022/23 budget. The detailed income estimates will inform the detailed budget workings to be presented as part of the budget report in February 2022.
- 3.13. At this stage the impact of inflation on expenditure is assumed to be greater than the increase in the corresponding income, resulting in anticipated net growth in the net cost of services. Further, other costs within the NCS are also impacted by inflation increases such as the GYBS services fee, additional waste disposal costs and the full year impact of the legal services provision.
- 3.14. **SUMMARY** – After allowing for the factors above the following table summarises the current forecast gap for 2022/23.

Updated Financial Forecast 2021/22	£000
2021/22 Budget Gap	112
+ Removal of one-off funding in 21/22	886
+ Interest (Receivable and Payable) and Minimum Revenue Provision	610
+ Employee Costs (Pay award and Pensions)	327
+ Additional Inflationary pressures	320
- Council Tax	(220)
- Financial Settlement – Revised Forecasts	(720)
- Planned use of reserves	(412)
Forecast Financial Gap 2022/23	903

⁵ This has also been informed by the Pixel Financial Modelling service which the Council subscribe to.

- 3.15. The following table provides the high-level funding gap for the three year period 2022/23 to 2024/25. This position has been informed by the assumptions included above and reflects the known spending pressures and assumptions on funding over the next three years. This includes the forecast impact to the revenue account of regeneration schemes, such as the new Marina facility, forecast capital receipts and growth in business rates and council tax homes above the base budget assumptions.

	2022/23 £000	2023/24 £000	2024/25 £000
Forecast Gap	903	1,391	1,642
Year on Year Increase		488	250

- 3.16. The above summary shows an increasing budget gap for the next three years. As a guide if an annual savings target of £500,000 were to be added each year (i.e. £1.5m over the three years of new savings) this would reduce the funding gap to £403k in 2022/23, £391k in 2023/24 and £142k in 2024/25.
- 3.17. Detailed work on the 2022/23 budget has already commenced with the Management Team to critically review budgets and look at options to reduce the forecast gap for 2022/23. In addition, the key themes for the MTFS are included at section 7 and these will be the priorities to be taken forward for reducing the future budget gap.

4. HOUSING REVENUE ACCOUNT

- 4.1. Since the introduction of self-financing in 2012, the HRA business plan has continued to be challenged by several changes. Right to buy (RTB) discounts have increased, rent-setting policy has changed and other future new proposals affecting the HRA have been announced and developed. Recently, the impact of covid on the HRA has seen an increase to the level of arrears as the financial impact of covid continues to make debts more difficult to collect.
- 4.2. The recent strategy for the HRA has been to keep the HRA reserves levels sufficient to mitigate any loss of revenue. The Council continues to be prepared for further reductions in resources available to manage, maintain, improve, and add to its housing stock, as well as managing the implications from the stock condition survey.
- 4.3. Community Housing continues to review all its revenue spending to look at where savings and efficiencies can be made. The Capital programme, which is funded partly by contributions from revenue, is monitored regularly during the year and is reviewed in detail to update the position of the 2021/22 budget.
- 4.4. The HRA increased its capital programmes to address the increased need of the stock following a full stock condition survey in 2017/18. As a reflection of this, the stock condition has improved, and repairs and maintenance demand has greatly reduced. As part of the continuing review of the HRA stock condition, the HRA has budgeted for a second stock condition survey to take place in 2022/23.
- 4.5. Additional borrowing currently maintains the affordable housing programme to comply with the RTB agreement. The HRA's previous regulations instructed that receipts received from the sale of a Council dwelling were to be utilised within three years of a dwelling sale, to support up to 30% of the scheme cost of replacement homes. Following consultation, from 1 April 2021 the regulations around the use of Retained RTB receipts have been revised. New regulations allow RTB receipts to be used to support up to 40% of the scheme cost of replacement homes. Time restrictions have also been revised, detailing that sale receipts must now be utilised within five years from the sale of the dwelling.
- 4.6. Most fees and charges relating to the Housing Revenue Account have been increased in line with the corporate formula adopted by the Council, RPI + 2%, aiming to close the gap in terms of recovery of costs.
- 4.7. **RENT SETTING POLICY** - The Welfare Reform and Work Act 2016 introduced a 1% reduction per year for four years to social housing rents starting in April 2016, with 2019/20 being the final year subject to the reduction. From 2020/21 onwards, rent setting assumptions have been based on increases of CPI + 1%. For 2021/22 this equated to 1.5%, on both social and affordable rent in line with the new Rents for Social Housing policy for 2021/22. For 2022/23 this is currently being finalised but early indications suggest this will be in the region of 4.1 %, if applying CPI plus 1%.
- 4.8. **RIGHT TO BUY DISCOUNTS AND RETAINED RECEIPTS** - Right to buy discounts have increased since the introduction of Self Financing, the maximum discount increases each year based on the consumer price index (CPI). The business model has been amended to incorporate this change.
- 4.9. The HRA is still part of a retention agreement, where the HRA can retain receipts, to support up to 40% of the cost of replacement homes if incurred in a five-year period. If retained receipts are not used, the Council is liable for repayment of the receipt plus interest, sales and receipts are therefore closely monitored to mitigate any repayment liabilities.

- 4.10. The Council has set out a plan and ambition to use retained receipts to develop affordable council housing and to further increase the supply of affordable housing using a combination of four options:
- Grant contribution to Housing Association development
 - Development of new build homes
 - Purchasing empty homes on the open market
 - Purchase of suitable properties on the open market.
- 4.11. **HRA DEBT CAP SUMMARY** - In 2018 it was announced that to help solve the 'housing crisis', the Government would scrap the borrowing cap limitations on how much councils can borrow against their HRA Assets, this came into force on 30 October 2018. The Council's HRA had previously been subject to a borrowing cap limitation of £89 million. Following the removal of the borrowing cap, the Council is now able to borrow above its original borrowing limit but must ensure any borrowing is affordable.
- 4.12. The Council continues to actively review the best way to utilise the additional borrowing capacity within the HRA, to deliver further affordable homes within the Borough. The council plans to utilise revenue savings to finance additional borrowing within the HRA, along with the use of accrued 1-4-1 receipts, which may have otherwise been repaid to government along with the relevant interest.
- 4.13. Overall, the aim is to increase the levels of new housing within the existing housing stock, and to increase net rental income received. The HRA continues to model the implications to the housing business plan, as well as identifying potential sites for the delivery of additional housing. Increased borrowing for the HRA will need to be able to demonstrate affordability and informed decisions taken to understand the longer-term impact to the HRA funding.
- 4.14. There are two key strands to the Council's HRA investment plans:
- Maintaining and improving the housing stock;
 - New Affordable council housing, including new housing to replace sales under RTB in line with Government guidance.
- 4.15. The plans are prepared over the medium term and are reviewed and updated annually. Future investment decisions will be based on local decision making and local knowledge of the condition of the stock and the components.

5. RESERVES

5.1. This section provides an overview of reserves held by the Council. The Policy Framework for Reserves is reviewed annually alongside the setting of the annual budget. The reserves held by the Council fall within one of the following categories.

- General Reserve
- Earmarked Reserves (General Fund and Housing Revenue Account)
- Capital Receipts Reserve
- Housing Revenue Account Reserve.

5.2. The General Reserve is held for two main purposes - to provide a working balance to help cushion the impact of uneven cash flows to avoid temporary borrowing, and as a contingency to help cushion the impact of unexpected events or emergencies.

5.3. As part of setting the budget each year the adequacy of all reserves is assessed along with the optimum level of general reserve that an authority should hold. The optimum level of the general reserve takes into account a risk assessment of the budget and the context within which it has been prepared, including the following factors:

- sensitivity to pay and price inflation and fluctuations in interest rates;
- the level of savings that have been factored into the budget and the risk they will not be delivered as anticipated, both level and timing;
- potential legal claims where earmarked funds have not been allocated;
- emergencies and other unknowns;
- impact of demand led pressures which impact on both income and expenditure;
- future funding fluctuations;
- level of earmarked reserves held;
- a level of general reserve that is within 5% to 10% of net expenditure.

5.4. A financial assessment is made of all the factors to arrive at a recommended level for the general reserve, which for the 2021/22 financial year was assessed to be £3 million. The general reserve balance as at 1 April 2021 was £3.7million, based on the latest financial monitoring position, the balance at 31 March 2022 is expected to be £3.5million, so remaining within a reasonable tolerance of the recommended balance.

5.5. **EARMARKED RESERVES** provide a means of building up funds to meet known or predicted liabilities and are used to set aside sums for major schemes, such as capital developments or asset purchases, or to fund restructurings as part of invest to save proposals. These reserves are earmarked until the amounts are budgeted to be taken from the reserves. Earmarked reserves can also be held for service projects and business units, which have been established from surpluses to cover potential losses in future years, or to finance capital expenditure. Earmarked reserves also provide a mechanism to carry forward underspends at the year-end for use in the following financial year.

5.6. For each earmarked reserve several principles should be established:

- the reasons for, or the purpose of the reserve

- how and when the reserve can be used – short to long term
 - procedures for the reserve's management and control.
- 5.7. The planned use of earmarked reserves is reviewed during the year and as part of the budget setting and year end process. An updated reserves statement is included at Appendix A and reflects the latest position for the use of reserves in the current and future financial years where known. There is still some uncertainty around the exact timing of the use of some of the reserves, for which some are held as a contingency to mitigate a potential liability although the timing and likelihood of this is dependent upon future events.
- 5.8. The following provides a commentary on some of the more significant reserves that the Council currently holds and maintains:
- 5.9. **INVEST TO SAVE** – This earmarked reserve provides resources to fund one-off/upfront costs for projects that will deliver future savings. Examples include:
- officer restructures, where one-off redundancy or pension strain costs might be payable subject to a business case that delivers on-going revenue savings;
 - for an investment in IT hardware, software or equipment which will deliver savings through more efficient ways of working.
- The balance at the beginning of the year was £1.55m and the forecast balance at 31 March 2022 is £1.38million.
- 5.10. **COLLECTION FUND NATIONAL NON DOMESTIC RATES RESERVE** – This reserve is used to offset the fluctuation in the level of retained business receipts received in the year to mitigate the impact to the revenue account. The reasons for the fluctuations include timing of the outcome of appeals and actual collection of rates. The balance as at the 1 April 2021 was £1.978 million, the actual use of the reserve in the year will depend upon the business rates position at the year end. In addition there are still risks around the potential reset of the business rates baseline as part of the wider reforms, therefore there maybe a future call on the use of this reserve, depending on the outcomes of the reset.
- 5.11. **ASSET MANAGEMENT RESERVE** – This reserve was established to earmark funds that will support the provision of current and future assets, of the reserve £1.26m has been committed to smooth the impact to the revenue account of the new leisure facility, the current forecast unallocated balance is £540k.
- 5.12. **CAPITAL RECEIPTS RESERVE** - The Council also holds a reserve which includes the balance of receipts generated from asset disposals - capital receipts. Capital receipts can only be used to fund capital expenditure (so not for on-going revenue expenditure). The balance of capital receipts is used to fund the current approved capital programme. The balance as at 31 March 2021 was £1.633million.
- 5.13. All reserves, general and earmarked, will be reviewed over the coming months as part of setting the detailed budgets for 2022/23. Using reserves to finance one-off spend for example in relation to projects, and where the funds can be used to lever in other external funding enables flexibility and does not tie up in-year budget allocations. However utilising reserves to fund annual budget deficits, only provides a short-term measure to reduce the funding gap, and whilst it can be used to mitigate the impact in the short-term for example in response to changes to funding regimes and in response to unplanned impacts, this does not provide a sustainable solution in the medium to long term.

6. CAPITAL

6.1. This section provides an overview of the current capital programme and resources available to it for the financing of current and new capital schemes. The capital programme has been updated to reflect the Town deal and Future High Streets projects. A copy of the current capital programme is included at Appendix B.

6.2. **GENERAL FUND CAPITAL PROGRAMME** - The following tables provide a summary of the current capital programme for 2021/22, together with current forecasts for 2022/23 ahead of consideration of new capital proposals.

2021/22	Forecast Expenditure	Borrowing	Grants & Contributions	Revenue/ Earmarked Reserves	Capital Receipts
Service Area:	£'000	£'000	£'000	£'000	£'000
Executive	418	112	276	30	0
Communities	145	145	0	0	0
Customer Services	655	655	0	0	0
Inward Investment	20,943	11,379	8,349	20	1,195
Housing	2,992	1,798	1,008	100	86
ICT	750	750	0	0	0
Property & Asset Management	5,945	2,503	3,213	20	209
Environmental Health	26	26	0	0	0
Total	31,874	17,368	12,846	170	1,490

2022/23	Forecast Expenditure	Borrowing	Grants & Contributions	Revenue/ Earmarked Reserves	Capital Receipts
Service Area:	£'000	£'000	£'000	£'000	£'000
Executive	500	500	0	0	0
Communities	0	0	0	0	0
Customer Services	0	0	0	0	0
Inward Investment	31,842	12,481	19,310	50	0
Housing	3,945	1,045	1,175	840	884
ICT	680	650	0	30	0
Property & Asset Management	5,729	5,394	120	215	0
Environmental Health	0	0	0	0	0
Total	42,694	20,070	20,606	1,135	884

6.3. The capital programme currently includes £6.7m of borrowing against Future high Street Fund (FHSF) projects in 2022/23. However, it is anticipated that this borrowing would be predicated on business cases being produced to show that this be offset by either the generation of capital receipts or revenue from future income generation as part of the development of the FHSF projects.

6.4. The current capital programme is funded from the following sources of finance:

- Capital Receipts – generated from asset disposals (both new and existing within the capital receipts reserve). As part of the ongoing work and review of the asset management plan, there will be opportunities to generate capital receipts that can be used to reduce the need to rely on external borrowing to finance the capital programme;
- Grants and contributions received from external sources including third parties and government, these include the allocations of Future High Street and Towns Fund;
- Revenue – by means of making a revenue contribution to capital;
- Prudential Borrowing – by means of loans made to the council by PWLB and other sources;
- Internal Borrowing – by using of the council’s cash balances as opposed to borrowing externally.

6.5. Prudential borrowing to fund capital expenditure can only be undertaken when an authority can demonstrate the need to borrow. The need to undertake prudential borrowing is demonstrated through its Capital Financing Requirement, which is driven by the balance sheet of the authority and takes into account reserves (including general and earmarked). Financing costs of the borrowing are charged to the revenue account and therefore any decision to undertake external borrowing would need to take account of the debt costs including interest and the Minimum Revenue Provision (MRP) and overall demonstrate affordability.

6.6. As an example, if a £5m capital project is approved the revenue impact from an MRP charge to the revenue account will be made in line with the current MRP Policy – probably over the useful life of the asset – which would amount to £200,000 per annum (assuming a 25 year life).

6.7. If a decision is to be taken to use revenue reserves or capital receipts to finance the expenditure, no MRP charge would be necessary, as the expenditure would be financed immediately by a revenue contribution to capital. When considering the financing of the capital programme, the most financial beneficial approach to the financing of the spend will be taken. Furthermore, as future capital receipts are generated, this provides an opportunity to reduce the revenue costs of borrowing.

6.8. **HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME** - The following provides a summary of the 2021/22 and 2022/23 capital programmes for the HRA along with the financing of these programmes.

	Budget Expenditure	Borrowing	Revenue	Capital Receipts
	£'000	£'000	£'000	£'000
2021/22	13,694	4,148	7,319	2,227
2022/23	9,295	1,100	6,543	1,652

6.9. As part of the 2022/23 budget process capital bids will be considered for approval. Bids will be prioritised in line with the priorities of the business strategy and those that report the delivery of future efficiencies, savings and growth. In addition, as flagged earlier the digital strategy remains a priority and therefore these proposals will be considered internally via the IT Investment group ahead of releasing the funds from the IT capital programme.

7. FINANCIAL AND BUSINESS STRATEGY

- 7.1. This section outlines the short to medium term priorities to reduce the forecast deficit. Despite the lack of certainty around future funding levels, the Council's strategy must continue to look for opportunities to maximise income and at the same time, continue to ensure that it is operating in the most efficient way to identify and deliver saving opportunities. The following outlines in more detail the **key themes of the financial and business strategy that** should be continued over the short to medium term. Each of the themes should not be seen in isolation and where applicable should support other themes in the overall delivery:
- 7.2. **STRATEGIC ASSET MANAGEMENT** – The Council must ensure that it is utilising its assets in the most efficient way. The Council holds a significant property base that needs to be managed via the asset management plan to ensure that assets held are beneficial to the Council and assets are disposed of in a considered manner. Some assets, for example, commercial properties deliver a return to the Council from rentals and lease payments. In the same way that these properties are reviewed in terms of the financial return to the Council, other assets that are utilised in the delivery of services should be reviewed to ensure that they too support the delivery of services and the wider priorities within the corporate plan. Regular review of all the Council's asset holdings to ensure that income streams are being maximised and costs minimised should be a continued focus to identify development opportunities, new investment or recognise assets which are under performing for potential disposal, with a view to adding value to strategic assets. **The key aim is to identify the most efficient way to utilise the Council's assets and maximise the benefit that the Council receives from them.** Delivery of this theme is informed by the Asset Management Strategy and will also cover opportunities to grow the asset base and demonstrate linkages with external funding opportunities and grants.
- 7.3. **ECONOMIC AND HOUSING GROWTH** – Income from homes and businesses within the borough provides an essential source of income to fund the provision of local services. **A key aim must be to maximise income from housing and business rates through enabling growth and retaining existing baselines.** With an expected greater reliance on income from business rates in the future it is important to enhance and protect this funding. There needs to be opportunities to encourage new growth in the Borough, including the enterprise zones and other areas. The Council already has mechanisms in place to support the priority to maximise housing growth, both within its own stock through the Housing Revenue Account and the wider delivery of homes through its companies, Equinox Enterprises Ltd and Equinox Property Holdings. Optimising the Council tax base continues to be how Council Tax income can be maximised. This could be through growth in property numbers, increased collection, and reductions in discounts as well as through proactive work to ensure that all eligible council tax properties are identified.
- 7.4. **PROPERTY INVESTMENT AND COMMERCIALISATION** – This theme is closely linked to the strategic Asset management priority, but also seeks to identify other external opportunities for investment in properties to achieve either an income stream or improved returns on investment. These would not necessarily be for investment purposes alone but seeks to regenerate areas which may require up front regeneration funding interventions, with a wider opportunity and growth potential. Opportunities could be indirect through treasury management property investments or direct delivery by the Council or through an appropriate vehicle. These could support, for example, regeneration within the Borough to deliver growth and linkages to the economic growth theme as detailed above. Any direct investment would be subject to a business case, considering all risks and the full revenue implications (including borrowing costs). Currently these opportunities are identified as part of the current asset management plan or proposals taken forward by the appropriate decision making process.

- 7.5. **TECHNOLOGICAL INVESTMENT** – The Council approved its digital strategy in October 2019, the strategy continues to be a live document and contains three strategic aims of **Digital Services, Digital Communities and Digital Workforce**. The three aims are supported by the following objectives:
- A. *To make our service provision more efficient via automation, reducing duplication of effort and reducing manual intervention.*
 - B. *To increase the quality of our service, by increasing speed, reliability, and consistency.*
 - C. *Increase data sharing across services*
 - D. *Create a single view of residents, land, and property*
 - E. *To promote Great Yarmouth as a great place to live, work, do business and visit.*
 - F. *To improve the accessibility and availability of our services.*
 - G. *To provide up to date always available information online for our customers*
 - H. *To have a workforce that has the right information, equipment, systems, training, and confidence to do their job in a digital workplace.*
- 7.6. Current system reviews are included within the strategy to ensure that the current service system software supports the efficient delivery of services, during the current and next year the housing system is being updated to enable improvements in the service delivery and linkages between systems, this is one of a number of key software systems that will be reviewed and updated as part of the digital strategy. Furthermore, the continued use of Microsoft teams as a default method of holding meetings has created efficiencies in relation to officer time, however the impact of the managing of diaries and greater accessibility to schedule meetings does need to be managed to ensure that time outside of meetings is available for delivery.
- 7.7. **PARTNERSHIPS** - Creating efficiencies through collaborative working with others. Identifying opportunities must continue at a local level with partners and other organisations, ensuring that realistic and deliverable benefits are achieved. In addition, strengthening approaches to working with communities and partners in the voluntary sector to:
- Drive better outcomes for local residents;
 - Reduce avoidable demand on council services;
 - Secure investment to drive new partnerships with partners and communities to deliver corporate ambitions;
 - Make better use of council assets and resources to offer greater social value to local communities and to develop a partnership approach with public sector partners to working with communities across the borough.
- 7.8. **GYBC OPERATING MODEL** – It is essential that the Council provides services in the most effective and efficient way, ensuring value for money and the ability to challenge where necessary. The key to this is the operating model by which the services are delivered to the residents and businesses of the borough including the use of technology. There are various strands to considering what the right operating model is for the Council and how these can drive efficiency and savings:
- **Organisational Development Strategy** – This work is ongoing and provides an opportunity to continue to review service delivery and the strategic capacity of the organisation. This focuses on the people resource and ensures that the Council has the right people with the right skills and empowering staff to challenge and drive forward transformation initiatives, whilst being clear on the benefits they will bring and being accountable for their delivery. The Council recently approved its Agile Working Policy⁶ which provides a framework for ways of working which have

⁶ Approved by Policy and Resources Committee 27 July 2021

become more common following the pandemic. At that time work on the action plan for the resources to deliver the policy including investment in equipment was underway, an assessment of equipment requirements has now been completed as part of the MTFs it is recommended that £50,000 be included in the capital programme to roll out further equipment to implement the policy.

- **Digital Strategy** – Whilst technological investment is a key theme in itself, the digital strategy provides the framework that will support the wider investment. With an ambition to become more efficient via automation, reducing duplication of effort and manual intervention the action plan supports this work to provide on-line services for residents, businesses and visitors that is supported by a seamless transfer of data in the back office and ensuring that staff can work in the most effective way with the appropriate tools, support joined-up working, and mobile solutions. The digital strategy had previously highlighted the need for some of the back-office system upgrades and reviews for example the housing system for which the implementation is underway
- **Procurement and Contract Management** – The council has in place several contracts/arrangements for the provision of services. These make up a considerable element of both the day to day and capital spend for the Council. Therefore, there needs to be robust arrangements in place for managing these contracts (whether this is through a joint venture or formal contract management), ensuring key governance principles are adopted including the establishment of clear specifications for service delivery under contract arrangement, pro-active budget and contract management of the service, and ensuring value for money is being challenged and achieved.

7.9. SAVINGS AND ADDITIONAL INCOME - As part of the annual budget work Management Team are requested to critically review their budgets and put forward savings and additional income proposals. These will be presented for approval as part of the budget reports in January and February 2022. It is too early to put monetary amounts against the individual savings proposals as this work is still to be concluded. However a total indicative target of £500,000 to £700,000 would be reasonable at this time, although these may require some lead in time ahead of the full savings targets being factored into the base budget. These proposals will be worked upon in the coming months ahead of consideration by Members as part of the budget reports.

7.10. SUSTAINABILITY STRATEGY – It is recommended that sustainability be added as a key theme to support the financial strategy. Whilst this strategy is at early stages of development, it should be an important priority within the financial strategy moving forward.

7.11. USE OF RESERVES AND INVEST TO SAVE - Use of reserves to balance a budget provides only a short-term solution as the funds can only be used once. Reserves can however be used to smooth the impact of funding reductions and fluctuations in funding over the short to medium term and to allow for planning and implementing projects and work streams that will deliver a longer-term financial benefit through reduced costs or additional income.

7.12. Similarly, reserves can be used to fund one-off costs for projects that will deliver a longer-term benefit, for example the invest to save reserve. The use of the reserves in this way will be considered as part of the full business case for individual project proposals, taking into account the payback period of the project along with indirect financial implications.

7.13. **PARISH COUNCIL SUPPORT** – As part of the 2020/21 budget setting, Council agreed for a review to be undertaken on the level of concurrent function grants awarded to Parish Councils. The Borough Council is currently providing concurrent function grants totalling £142,000 to parish councils to in the form of grants annually. The concurrent function grants have remained the

same since 2016/17. Concurrent functions are discretionary services that can be carried out by the Borough Council but can also be undertaken by parish councils where these exist. They cover services that are provided in some parts of the borough by the borough council and in other areas by the parish councils and can result in parish taxpayers being charged twice – double taxation. The payment of grants to the parishes seeks to contribute to the costs to mitigate this. Further review of this area of spend is to be undertaken and at this time the financial forecasts assume a continued freeze on the grant.

- 7.14. **KEY ACTIONS** – The details of the 2022/23 budgets are currently being worked on. As projects that are aligned to the business themes are progressed, the associated savings/additional income will be quantified and factored into the budget and will be brought forward to members for approval as part of the setting of the 2022/23 budget.
- 7.15. The continued uncertainty on the future local government funding and the short-term nature of this funding presents a significant challenge. Whilst the budget challenge work is still to be completed looking to reduce the forecast gap for 2022/23, it is expected that a transfer from reserves in 2022/23 will still be needed. The longer term financial position does need to be critically reviewed to ensure that the budget remains achievable in the medium term.
- 7.16. **SUMMARY** - The updated position above is prior to the detailed work on the budget for 2022/23 being completed, which is currently in progress to be presented to Members in February. Work is continuing with services to identify further options to reduce the forecast gap in the short to medium term.

8. RISK AND SENSITIVITY

- 8.1. The medium-term financial planning process at a time when there continues to be spending pressures along with the lack of certainty of future funding reforms presents significant risks to the sector of Local government.
- 8.2. Many factors may impact on the financial forecast and overall financial position and these have been highlighted in the respective sections. Most significant are the potential revisions of Local Government finance policy, including review of business rates, revisions to the New Homes Bonus system and continuing pressures on income levels. It is not known what extent this would have on Great Yarmouth.
- 8.3. The continued effects the pandemic will have on the strategy cannot be underestimated. Continuing uncertainty and risk, in particular to significant areas of income such as property income, car parking fees and planning fees that are linked directly to economic demand, as well as tax income.
- 8.4. Despite the risks, the Council must continue to respond to the challenges and take a proactive approach to the economic growth and regeneration of the Borough to deliver growth to tax bases for domestic and business properties to deliver direct income. The significant investment that is underway in the borough from the Marina centre, future high streets and towns fund coupled with partner and external investment through the County Council should continue to be a medium to long term priority to support the financial position for the authority and to meet its priorities and provide the best possible services to the borough residents and businesses.
- 8.5. There is a legal requirement to set a balanced budget annually and must be set in an informed manner and may propose changes to service levels, which may require upfront investment. Alongside approval of the budget, the level of reserves and robustness of the estimates are factors that are considered in full ahead of approving the budget and the council tax for the coming year. Whilst reserves can be used to mitigate one-off funding gaps, the use of the reserves cannot be seen as a longer-term sustainable option to delivering robust budget and financial management.
- 8.6. The updated financial forecasts are dependent upon a number of key assumptions at a point in time, which are outside the control of the Council. The most significant of these are detailed below along with the sensitivities to the financial projections.
- 8.7. **EMPLOYEE COSTS** – As mentioned above the forecasts assume an annual pay award of 2%, the Council is part of a national pay agreement and as a guide for GYBC, 1% equates to approximately £90,000 annually. The base budgets allow for a turnover element from staffing costs, which equate to approximately 2% per annum.
- 8.8. **INFLATION** – The Council has a significant investment programme including the projects to be delivered through the Town Deal and Future High Streets funds along with the Wintergardens. Whilst all project budgets will include an element of contingency the increases to construction costs and the demand for materials provides further risks to the programme of delivery. The projects are closely managed, and the Council does hold a number of reserves that can be used in the short term to mitigate costs, the impact to the capital programme will be considered as part of the full budget report to be presented to members in February 2022.
- 8.9. **BUSINESS RATES GROWTH** – Within the Local Government Finance Settlement, the Business Rates Baseline funding is assumed to increase annually in line with inflation. Actual increases (or reductions) will impact the level of income retained locally. As a guide a 1% movement each year would result in approximately £50,000 additional income per annum being retained.

- 8.10. **COUNCIL TAX BASE GROWTH AND NEW HOMES BONUS** – The current budget and projections allow for one further year of NHB allocation for 2022/23. Increases in the tax base generate increases in the locally collected element of the council tax, this is also dependent upon the level of collection.
- 8.11. **REVENUE SUPPORT GRANT** – The current assumptions assume a rollover of the 2021/22 funding plus inflation, as a significant received of RSG until the outcome of the fair funding review is known this remains a risk for future funding.
- 8.12. **FUTURE FUNDING AND BUSINESS RATES** – Local Authority funding from central government continues to be under pressure with the continued shift from central government grant (from revenue support grant) to locally generated resources including retained business rates to fund the provision of local services. There are several inherent risks, which are borne locally including, the status of properties changing, for example business premises becoming empty and the impact of appeals and the resulting outcomes which can result in backdating of refunds. The Council holds an earmarked reserve which can be used to mitigate any adverse impact to the Council in the short to medium term.
- 8.13. **SAVINGS AND ADDITIONAL INCOME OPPORTUNITIES** – The Council is continuing to deliver against a programme of savings and additional income from current and previous budget decisions. Delivery of the savings at the levels budgeted along with the identification of new opportunities is vital to delivery of the overall budget and achieving a sustainable future financial position. The delivery of these savings is closely monitored by ELT and Members as part of the ongoing budget monitoring process.
- 8.14. **SERVICE DEMAND AND INCOME** – Demand led service continue to be a significant income earner for the Council, eg car parking, planning and building control. The importance of maintaining general and earmarked reserves remains essential to mitigate short term impacts of reduced income.
- 8.15. **INTEREST AND MRP** - The revenue budget takes account of the planned borrowing and financing of the current approved capital programmes. Slippage of capital schemes will impact on the level of borrowing required along with the associated financing costs. As new schemes and projects are approved the revenue implications will need to be considered as part of the options appraisal and business case.
- 8.16. **FAIR FUNDING REVIEW AND SPENDING REVIEW** – When the timescales for the fair funding review are announced these will inform the future financial forecasting for Local Government. The timing of such changes is still unclear. For planning purposes, it has been assumed that the 75% Rates Retention scheme will be implemented in 2023/24. It is currently anticipated that the change will be offset other adjustments in the funding reforms to mitigate the impact.
- 8.17. **HRA** – Maintenance of the existing housing stock remains a priority for the HRA along with the ambitions for new housing within the borough. Additional borrowing must still be able to demonstrate affordability and modelling and scenario planning will be undertaken to inform future decisions.
- 8.18. The extent to which the above factors will have an impact on the ongoing financial projections and funding gap will vary. Some will have an ongoing impact and some may be more short term. The above risks will be considered as part of the annual budget setting process.

Appendix A - General Fund Reserves Schedule		Opening Balance 01/04/21	Budgeted Movement 2021/22	Committed Expenditure 2021/22	Actual Movement (inc forecast) 2021/22	Updated Closing Balance 31/03/22	Budgeted Movement 2022/23	Updated Closing Balance 31/03/23	Budgeted Movement 2023/24	Updated Closing Balance 31/03/24	Budgeted Movement 2024/25	Updated Closing Balance 31/03/25
Summary and Purpose of Reserve		£	£	£	£	£	£	£	£	£	£	£
Planning Delivery Grant	The reserve is planned to be used to provide service improvements in Planning, and deliver the Local Development Framework.	136,389		0	0	136,389	0	136,389	0	136,389	0	136,389
Insurance Fund	The Council budgets for a level of excess being charged to the Service Accounts annually. Any under provision is met from the Insurance Fund, and any surplus is transferred to the fund.	574,290		0	(4,114)	570,176	0	570,176	0	570,176	0	570,176
DFG top-up capital loans and grant fund	The Council will utilise this funding for capital expenditure incurred in the Wellesley Rd, Sandown Rd, Euston Rd & Paget Rd areas.	400,000		(50,000)	0	350,000	(50,000)	300,000	(50,000)	250,000	(50,000)	200,000
Restricted use grant	This reserve holds unspent grants received for specific purposes for which the spend has not yet been incurred.	608,431	(3,946)	(175,965)	(37,426)	395,040	(54,000)	341,040	(40,515)	300,525	(20,000)	280,525
Invest to Save	To be used to fund one-off costs associated with projects that will deliver future efficiencies and savings including costs associated with restructures.	1,553,339		(170,681)	0	1,382,658	0	1,382,658	0	1,382,658		1,382,658
Specific budget	This reserve is utilised as expenditure is incurred.	139,327	1,563	0	1,563	140,890	(59,142)	81,748	(47,590)	34,158		34,158
Repairs and Maintenance	This reserve is utilised as expenditure is incurred.	340,788		0	(49,150)	291,638	0	291,638	0	291,638		291,638
Waste Management	This reserve is utilised as expenditure is incurred in relation to the service.	25,170	(11,375)	0	(11,375)	13,795	(11,375)	2,420	(2,420)	(0)		(0)
Collection Fund (Business Rates)	Earmarked to mitigate the fluctuations in business rate income between years.	1,976,810	(100,000)	0	(100,000)	1,876,810	0	1,876,810	0	1,876,810		1,876,810
Community Housing Fund	This represents grants previously received to assist with the delivery of Community Housing.	563,872	(30,000)	0	(30,000)	533,872	(30,000)	503,872	(30,000)	473,872	(30,000)	443,872
Enforcement	Earmarked for enforcement related works to address issues and bring properties back into use.	41,570		0	(7,500)	34,070	0	34,070	0	34,070		34,070
Special Project Reserve	Earmarked for projects and for use as matched funding as appropriate to access external funding, Includes capital and revenue projects.	836,124	(118,316)	(152,514)	(206,340)	477,270	(79,978)	397,292	(25,900)	371,392		371,392
Benefits/Revenues Reserve	This reserve is held to mitigate year on year fluctuations of investment income received.	599,025		0	0	599,025	0	599,025	0	599,025		599,025
Homelessness	To be utilised for service expenditure for the reduction in homelessness.	430,959	(164,963)	0	(164,963)	265,996	(13,905)	252,091	0	252,091		252,091
Treasury Management reserve	Earmarking of grants and underspends to be used for the service and mitigation of subsidy impacts.	300,000		0	0	300,000	0	300,000	0	300,000		300,000

Appendix A - General Fund Reserves Schedule		Opening Balance 01/04/21	Budgeted Movement 2021/22	Committed Expenditure 2021/22	Actual Movement (inc forecast) 2021/22	Updated Closing Balance 31/03/22	Budgeted Movement 2022/23	Updated Closing Balance 31/03/23	Budgeted Movement 2023/24	Updated Closing Balance 31/03/24	Budgeted Movement 2024/25	Updated Closing Balance 31/03/25
Summary and Purpose of Reserve		£	£	£	£	£	£	£	£	£	£	£
Asset Management reserve	This reserve is held to mitigate the impact of fluctuations between financial years from income received from Council assets and properties, in addition it includes re-allocation from other reserves to be used for investments in Council assets including current and future asset enhancements.	1,798,257	(257,300)	(754,379)	(257,300)	786,578	(204,753)	581,826	(204,753)	377,073		377,073
Coast Protection	Funds set aside for match funding and to mitigate one-off costs in relation to coast protection.	74,275		(34,275)	0	40,000	0	40,000	0	40,000		40,000
Empty Business Property Incentive Fund	Earmarking of funds to be used for incentivising bringing properties back into use.	100,000		0	0	100,000	0	100,000	0	100,000		100,000
Covid	This reserve is utilised as expenditure is incurred and represents the covid funding received in the final quarter of 2020/21 for which spend has not been incurred but is committed.	1,030,222		(221,687)	(808,535)	0	0	0	0	0		0
Collection fund income compensation	To be utilised to fund deficit in collection fund. Significant movement in 2020/21 reflects the collection fund adjustment account in respect of Covid to be utilised in 2021/22.	10,297,273		(10,297,273)	0	(0)	0	(0)	0	(0)		(0)
Other Reserves	These Reserves are budget carry forwards to be used in future years	2,285,470	(47,621)	(36,836)	(429,528)	1,819,106	(24,742)	1,794,364	(28,917)	1,765,447	(13,912)	1,751,535
Total GF Earmarked Reserves		24,111,590	(731,958)	(11,893,610)	(2,104,668)	10,113,312	(527,895)	9,585,417	(430,095)	9,155,323	(113,912)	9,041,411
General Fund Reserve	Current recommended balance of £3 million (as at Feb 2021)	3,713,398	(215,000)	(15,000)	(203,151)	3,495,247	0	3,495,247	0	3,495,247	0	3,495,247
Total GF Reserves		27,824,988	(946,958)	(11,908,610)	(2,307,819)	13,608,559	(527,895)	13,080,664	(430,095)	12,650,570	(113,912)	12,536,658
Excluding the Business Rates Adjustment		13,814,317		(1,596,337)	(2,104,668)	10,113,312						

Services & Projects	Updated 21/22 Budget	2021/22 Expenditure £000		21/22 Forecast Financing - £000				2022/23 Expenditure £000	22/23 Forecast Financing - £000			
		Actuals to 30-10-21	Forecast 21/22	Borrowing	Grants & Contributions	Revenue/ Earmarked Reserves	Capital Receipts	Total 2022-23 Forecast	Borrowing	Grants & Contributions	Revenue/ Earmarked Reserves	Capital Receipts
Equinox Property Holdings	500	-	-	-	-	-	-	500	500	-	-	-
CCTV Upgrade - Town Centre	76	76	76	76	-	-	-	0	-	-	-	-
Safer Streets Round 2	111	-	111	15	96	-	-	-	-	-	-	-
Safer Streets Round 3	210	-	210	-	180	30	-	-	-	-	-	-
Human Resources Job Evaluation system	21	16	21	21	-	-	-	0	-	-	-	-
Total: Executive	918	92	418	112	276	30	-	500	500	-	-	-
Childrens Playground Refurbishment	86	0	86	86	-	-	-	-	-	-	-	-
Wellesley CCTV	-	-	-	-	-	-	-	-	-	-	-	-
Wellesley Track	59	25	59	59	-	-	-	0	0	-	-	-
Total: Communities	146	26	145	145	-	-	-	0	0	-	-	-
St Nicholas Minster West Boundary Wall	95	-	95	95	-	-	-	0	-	-	-	-
St Nicholas car park north Boundary Wall	25	-	25	25	-	-	-	-	-	-	-	-
Crematorium Office Roof Works	22	-	22	22	-	-	-	0	-	-	-	-
Crematorium Main Roof Works	60	-	60	60	-	-	-	-	-	-	-	-
Crematorium Tearooms	453	3	453	453	-	-	-	0	-	-	-	-
Total: Customer Services	655	3	655	655	-	-	-	0	-	-	-	-
Health and Leisure (Marina) Centre	19,699	7,394	15,000	11,379	2,426	-	1,195	4,699	4,649	-	50	-
The Waterways	4	-	4	-	4	-	-	0	-	-	-	-
Phoenix Pool & Gym car park extension	130	-	-	-	-	-	-	130	130	-	-	-
Town Deal	1,110	1	1,110	-	1,090	20	-	12,153	1,000	11,153	-	-
Future High Street Fund	3,737	-	3,737	-	3,737	-	-	14,537	6,702	7,835	-	-
Heritage Action Zone (HAZ)	432	-	432	-	432	-	-	323	-	323	-	-
Different Light	635	156	635	-	635	-	-	0	-	-	-	-
Heritage Action Zone	25	-	25	-	25	-	-	0	-	-	-	-
Total: Inward Investment	25,772	7,551	20,943	11,379	8,349	20	1,195	31,841	12,481	19,310	50	-
Disabled Facilities Grants	2,257	396	1,000	-	1,000	-	-	1,257	-	1,175	-	82
Better Care Fund Projects	8	4	8	-	8	-	-	-	-	-	-	-
Empty Homes	510	-	250	250	-	-	-	260	232	-	-	28
DFG Top-up Grants	250	-	-	-	-	-	-	250	-	-	250	-
DFG Top-up Loans	150	-	-	-	-	-	-	150	-	-	150	-
Norfolk & Waveney Equity Loan Scheme	164	-	36	-	-	-	36	128	-	-	-	128
Equity Home Improvement Loans	631	-	50	-	-	-	50	581	-	-	-	581
HMOs /Guesthouse Purchase & Repair Scheme	1,239	32	1,000	1,000	-	-	-	239	239	-	-	-
Housing First Scheme (*)	341	-	341	341	-	-	-	-	-	-	-	-
Acquisition of property for transitional housing (*)	847	44	207	207	-	-	-	640	574	-	-	65
Community Housing Fund Loans	540	-	100	-	-	100	-	440	-	-	440	-
Total: Housing	6,937	476	2,992	1,798	1,008	100	86	3,945	1,045	1,175	840	884
ICT Investment to deliver GYBC ICT Strategy	1,430	322	750	750	-	-	-	680	650	-	30	-
Total: IT, Communications & Marketing	1,430	322	750	750	-	-	-	680	650	-	30	-

Services & Projects	Updated 21/22 Budget	2021/22 Expenditure £000		21/22 Forecast Financing - £000				2022/23 Expenditure £000	22/23 Forecast Financing - £000			
		Actuals to 30-10-21	Forecast 21/22	Borrowing	Grants & Contributions	Revenue/ Earmarked Reserves	Capital Receipts	Total 2022-23 Forecast	Borrowing	Grants & Contributions	Revenue/ Earmarked Reserves	Capital Receipts
Public Toilet Refurbishment Programme	45	46	46	46	-	-	-	-	-	-	-	-
Footway Lighting	511	41	380	380	-	-	-	231	231	-	-	-
External Redecoration & Repair of the Wellesley Grandstand	74	-	74	74	-	-	-	-	-	-	-	-
Esplanade Resurfacing	246	-	150	150	-	-	-	96	96	-	-	-
Phoenix Pool car park soakaway	40	1	40	40	-	-	-	-	-	-	-	-
Beach Huts	209	93	209	-	-	-	209	0	-	-	-	-
Council Chamber relocation	153	-	153	153	-	-	-	0	-	-	-	-
Claydon Pavilion	393	-	393	10	363	20	-	0	-	-	-	-
Replacement Lighting in the Assembly Rooms	25	-	-	-	-	-	-	25	25	-	-	-
Beacon Park Projects	500	-	100	100	-	-	-	400	280	120	-	-
Market Place Redevelopment	4,102	1,099	3,800	950	2,850	-	-	302	302	-	-	-
North Quay Redevelopment	2,351	-	500	500	-	-	-	1,851	1,851	-	-	-
Winter Gardens	1,080	-	-	-	-	-	-	1,080	864	-	215	-
Energy Park - South Denes	1,845	-	100	100	-	-	-	1,745	1,745	-	-	-
Total: Property & Asset Management	11,573	1,280	5,945	2,503	3,213	20	209	5,729	5,394	120	215	-
Noise Meter Replacement	11	10	11	11	-	-	-	0	-	-	-	-
Mobile CCTV	15	-	15	15	-	-	-	-	-	-	-	-
Total: Environmental Health	26	10	26	26	-	-	-	0	-	-	-	-
Overall Total	47,455	9,760	31,874	17,368	12,846	170	1,490	42,695	20,070	20,606	1,135	884

* borrowing only released on confirmation of Homes England funding

Capital Strategy 2021/22

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CAPITAL STRATEGY 2021/22

1. 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.

2. CAPITAL EXPENDITURE AND FINANCING

- 2.1. Capital expenditure is where the Authority spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Authority has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year. Further details of the capital accounting policies of the Council are provided as part of the Statement of Accounts which are available at <https://www.great-yarmouth.gov.uk/article/2466/Budgets-and-spending>
- 2.2. In 2021/22, the Authority is planning capital expenditure of £35.86m as summarised below:

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

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
General Fund services	4.80	10.53	22.93	11.80	3.82
Council housing (HRA)	13.30	12.71	12.43	9.31	10.93
Capital investments	1.10	0.00	0.50	0.00	0.00
TOTAL	19.20	23.24	35.86	21.11	14.75

- 2.3. The main General Fund capital projects include:
 - The new Health & Leisure Centre £26m over 4 years (2019/20 to 2022/23)
 - Share purchase in Council's company, Equinox Property Holdings
 - North Quay Redevelopment £2.4m
 - Market Redevelopment £4.5m.
- 2.4. The Council has developed Town Deal and Future High Street Funding proposals looking to regenerate the Great Yarmouth town centre which incorporates the North Quay and market redevelopment projects which are already in progress. Initial funding has been confirmed but the final details on costs, plans and timing of the projects within the funding envelope available have not been finalised at this time. The schemes projects have an estimated funding of £34m

(from Future High Streets and Town Deal) at this time. Only the details for the projects in progress are included within the detail of this report. The capital programme will be updated during the year as these projects develop. The Authority also plans to incur £0.5m of capital expenditure on investments, which are detailed later in this report in Table 1.

- 2.5. 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 and includes the building and acquisition of new homes over the forecast period to replace sales under Right to Buy in line with government guidance. Programmed capital expenditure is also driven to maintaining and improve the overall stock currently held by the HRA, this is prepared over the medium term and reviewed and updated annually.
- 2.6. Capital investments include loans and shares made for service purposes and property to be held primarily for financial return in line with the definition in the *CIPFA Treasury Management Code*.
- 2.7. **Governance:** Heads of Service bid annually in October to include projects in the Council's capital programme. Bids are collated by finance who calculate the financing cost (which can be nil if the project is fully externally financed). The Council's Executive Leadership Team appraises all bids based on a comparison of service priorities against financing costs and identifies projects to be put forwards as part of the annual budget setting and those that will be considered separately via a subsequent business case. The final capital programme is then presented to the Policy and Resources Committee and Council in February each year as part of the approval of the budget for the coming financial year.
- 2.8. For full details of the Authority's capital programme, including the project appraisals undertaken, see: <https://www.great-yarmouth.gov.uk/article/2466/Budgets-and-spending>.
- 2.9. It should be noted that other capital projects may be brought forward during the financial year as business cases which are initially appraised by Executive Leadership Team before being passed for approval to the Policy and Resource Committee. Those capital projects costing over £100,000 would then go onto to Council for final approval. The business cases put forward to Executive Leadership Team have been considered for affordability by Finance and, if relating to an IT project, the IT Investment Group.
- 2.10. 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

General Fund	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
External sources	1.30	1.68	6.54	2.45	1.20
Own resources	0.30	0.17	0.53	0.40	0.73
Debt	4.30	8.68	16.36	8.95	1.90
Total	5.90	10.53	22.43	11.80	3.82

Housing Revenue Account	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
External sources	0.00	0.10	0.10	0.10	0.10
Own resources	10.40	8.81	8.23	7.11	6.83
Debt	2.90	3.80	4.10	2.10	4.00
Total	13.30	12.71	12.43	9.31	10.93
TOTAL	19.20	23.24	35.86	21.11	14.75

2.11. 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 and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £ millions

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
Own resources	1.25	1.41	1.56	1.83	2.64

2.12. The Authority's full minimum revenue provision statement is available here as part of the budget for the year: <https://www.great-yarmouth.gov.uk/article/2466/Budgets-and-spending>

2.13. 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 £18.8m during 2021/22. 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

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
General Fund services	56.0	64.5	78.6	86.3	85.6
Council housing (HRA)	85.0	88.7	92.9	95.0	99.0
Capital investments	1.1	0.0	0.5	0.0	0.0
TOTAL CFR	142.1	153.2	172.0	181.3	184.6

2.14. **Asset management:** To ensure that capital assets continue to be of long-term use, the Authority has an asset management strategy in place. The primary aim of the asset management strategy is to support the corporate priorities, achieve service requirements and comply with statutory

duties by setting out the vision to improve the management and utilisation of the Council's land and buildings. The strategy provides the basis for developing a more robust and integrated approach to asset management across the Council.

- 2.15. The asset management strategy promotes collaboration and visibility of resources as well as embedding a culture of scrutiny that will challenge the use, effectiveness and retention of the land and building assets of the council. The strategy outlines the vision and long-term approach to improve the recognition, management and utilisation of land and buildings.
- 2.16. The Council's asset management strategy can be found here: [Corporate Asset Management Strategy 2018-2022](#)
- 2.17. **Asset Management Working group:** The purpose of the group is to monitor and manage asset projects for the Council. The group meets on a monthly basis. The group undertakes to review assets in relation to opportunities, developments and disposal ensuring the assets of the Council are used to the best effect. Any recommendations from the group are then formulated into report or business cases for the Consideration by the Executive Leadership team and then by the appropriate Committee.
- 2.18. **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 on service transformation projects until 2022/23. Repayments of capital grants, loans and investments also generate capital receipts. The Authority plans to receive £4.2m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts receivable in £ millions

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
General Fund Asset sales	0.2	0.1	1.9	0.1	0.1
General Fund Loans etc repaid	0.1	0.1	0.1	0.1	0.1
Housing revenue Account Asset sales	1.6	1.9	2.2	1.7	2.3
TOTAL	1.9	2.1	4.2	1.9	2.5

3. TREASURY MANAGEMENT

- 3.1. 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.

- 3.2. Due to decisions taken in the past in relation to capital and financing decisions with the General Fund and the Housing Revenue Account, the Council currently has £137.2m borrowing at an average interest rates between 0.05% to 4.4% of and £36.9m treasury investments at an average rate of 0.38%.
- 3.3. **Borrowing strategy:** The Authority's main objectives when borrowing are 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 cheap short-term loans (currently available at around 0.05% to 1.45%) and long-term fixed rate loans where the future cost is known but higher (currently 3.15 to 4.44%).
- 3.4. Projected levels of the Authority's total outstanding debt (which comprises borrowing, leases and transferred from local government reorganisation) are shown below, compared with the capital financing requirement (see above).

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

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
Debt (incl. leases)	285.0	248.2	163.9	129.5	93.4
Capital Financing Requirement	142.2	153.2	172.2	181.4	184.6

- 3.5. 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.
- 3.6. **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 £12m at each year-end plus any plans the Council has for any longer-term investments. This benchmark is currently £173.0m and is forecast to fall to £36m over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
Outstanding borrowing	£119.0	£134.2	£82.6	£82.6	£82.4
Liability benchmark	£157.1	£173.0	£49.0	£38.8	£36.0

- 3.7. The table shows that the Authority expects to remain borrowed above its liability benchmark. This is because cash outflows to date have been below the assumptions made when the loans were borrowed.
- 3.8. **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.

- 3.9. These affordable borrowing limits and operational boundaries and further details on borrowing are included within the treasury management strategy at: <https://www.great-yarmouth.gov.uk/policies>
- 3.10. **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.
- 3.11. 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 investments to buy and the Authority may request its money back at short notice.

Table 8: Treasury management investments in £millions

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
Near-term investments	11.3	12.00	12.00	12.00	12.00
Longer-term investments	3.11	3.22	3.72	3.72	3.72
TOTAL	14.42	15.22	15.72	15.72	15.72

- 3.12. Further details on treasury investments are in the treasury management strategy <https://www.great-yarmouth.gov.uk/policies>.
- 3.13. The near-term investment balance incorporates the £10m investment balance that needs to be held to ensure the Council maintains its professional client status under the Markets in Financial Instruments Directive (MiFID II) requirements.
- 3.14. **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.
- 3.15. **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Section 151 Officer and staff, who must act in line with the treasury management strategy approved by Council. The Section 151 Officer assesses our investment levels to ensure we retain our status as a professional client under MiFID II in order to provide security of capital, access to better investment returns and borrowing rates.
- 3.16. Bi-annual reports on treasury management activity are presented to Policy and Resource Committee. The Policy and Resource Committee is responsible for scrutinising treasury management decisions.

4. INVESTMENTS FOR SERVICE PURPOSES

- 4.1. The Council makes investments by providing discretionary loans to local charities and home improvement loans.
- 4.2. Details of the Council's discretionary Home Improvement loans are given with the Private Sector Housing Adaptation and Improvement (2019) policy which is available at [Private Sector Housing Adaptation and Improvement \(2019\) policy](#)
- 4.3. Home Improvement loans made are equity loan agreements, so the Council obtains a share of the equity of the borrower's home as collateral. This reduces the risk of the Council not recovering the loan amount from the borrower.
- 4.4. Discretionary loans to charities are decided by the Policy and Resources Committee if the spend is below £100,000 or Council if over this amount. These loans incur interest charges which are set at a market rate to reflect the costs and the level of risks. These loans are equity loans to again to reduce the risk of a borrower defaulting on payment in line with the loan agreement.
- 4.5. Total investments for service purposes are currently valued at £3.3m with the largest being the loans to Great Yarmouth Preservation Trust totalling £0.7m providing a net return after all costs of in the region of 3.6%.

5. COMMERCIAL ACTIVITIES

- 5.1. Through its significant asset base, the Council has invested historically in commercial property for financial gain and to support regeneration and lends to its subsidiaries Equinox Enterprise Limited and Equinox Property Holdings Limited for the same reason as well as the wider benefits to the borough. Total commercial property investments are currently valued at £50.7m which provide a net return after all direct costs of £2.6m (as reported in the 2019/20 Statement of Accounts Note 15).
- 5.2. With central government financial support for local public services declining, this is an area that is included in the Councils current business strategy as an opportunity to mitigate reductions in funding at the same time as support the wider regeneration within the borough.
- 5.3. With financial return being one of the main objectives, the Council can accept a higher risk on commercial investment than with treasury investments. The principal risk exposures include:
 - vacancies;
 - fall in capital value;
 - lessee not complying with repairs and maintenance terms of lease agreement;
 - changes in demand for property types (e.g. offices, industrial)
- 5.4. These risks are managed by the Councils Property and Asset Management service and finance.
- 5.5. **Governance:** Decisions on commercial investments are made following consideration of robust business cases for approval in line with the current decision-making governance arrangements. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.
- 5.6. The Authority also has commercial activities in its subsidiary companies Equinox Enterprises Limited (EEL) and Equinox Property Holdings Limited (EPH). The companies aim is to increase, regenerate and improve the standard of housing across the borough. The Council receives a margin of earned debt interest from the loan facilities with EPH and EEL. All loans for EPH are secured against the properties purchased by the company. The Council will also receive a return on equity invested which reflects profits back from the company's operation of property sales

and market rental income from housing acquired. This return is through dividends paid to the Council once profits and reserves of the companies allows. For EEL a dividend payment is due in 2021/22, and this has been recognised in the revenue budget for 2021/22 at £0.6m.

- 5.7. Both Equinox companies regularly review risk using Corporate and Project Risk Registers. The company boards hold bi-monthly meetings throughout the financial year.
- 5.8. Equinox Enterprises Limited and Equinox Property Holdings Limited are required to agree their respective Business Plans annually. They also provide the Council as shareholder's quarterly update reports as presented to the Policy & Resources Committee.

6. LIABILITIES

- 6.1. In addition to debt of £163.9m detailed above, the Authority is committed to making future payments to cover its pension fund deficit (valued at £61.2m). It has also set aside £1.9m to cover risks of Non-domestic Rate appeals (as at 31st March 2020). The Council currently has no contingent liabilities.
- 6.2. **Governance:** Decisions on incurring new discretionary liabilities are taken by Head of Service in consultation with the S151 Officer. The risk of liabilities crystallising and requiring payment is monitored by Finance and where significant would be reported as part of budget monitoring reports present quarterly to Policy and Resource Committee, if relating to General Fund, and Housing and Neighbourhoods Committee if in relation to the Housing Revenue Account. New liabilities exceeding £1m are reported to full council for approval/notification as appropriate.
- 6.3. Further details on liabilities and guarantees are included within the 2019/20 statement of accounts at <https://www.great-yarmouth.gov.uk/article/2466/Budgets-and-spending>

7. REVENUE BUDGET IMPLICATIONS

- 7.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
Financing costs (£m)	2.0	2.7	2.8	2.7	3.5
Proportion of net revenue stream	16.4%	20.9%	22.7%	23.3%	28.4%

- 7.2. Further details on the revenue implications of capital expenditure are included in the 2021/22 revenue budget at <https://www.great-yarmouth.gov.uk/article/2466/Budgets-and-spending>
- 7.3. **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 Section 151 Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable because current and new capital funding decisions have been made in the context of the associated revenue implications.

8. KNOWLEDGE AND SKILLS

- 8.1. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Section 151 Officer is a qualified accountant with over 15 years' experience and the Finance Manager is a qualified accountant with over 10 years' experience. The Councils' Property and Asset Management team includes 3 Charter Surveyors (MRICS) who are also registered valuers each with over 10 years' experience. The Council pays for relevant staff to study towards relevant professional qualifications including MRICS, ACCA and AAT.
- 8.2. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and PS Tax as VAT and tax advisors. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Investment Strategy Statement 2021/22

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INVESTMENT STRATEGY 2021/22

1. INTRODUCTION

- 1.1 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).
- 1.2 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.

2. TREASURY MANAGEMENT INVESTMENTS

- 2.1 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 during 2021/22, with an average investment of £21m anticipated for the financial year.
- 2.2 **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.
- 2.3 **Further details:** Full details of the Authority's policies and its plan for 2021/22 for treasury management investments are covered in a separate document, the treasury management strategy, available here: <https://www.great-yarmouth.gov.uk/policies>

3. SERVICE INVESTMENT LOANS

- 3.1 **Contribution:** The Council lends money to its subsidiaries (Equinox Enterprises Limited and also once it is operational Equinox Property Holdings), local charities, local businesses, and local residents (in the form of home improvement loans), to support local public services and stimulate local economic growth.
- 3.2 The loans made to Equinox Enterprises Limited and when established Equinox Property Holdings, as the subsidiaries of the Council, form part of investment in the company to provide an initial cash injection to enable the company to become established. The purpose of Equinox Enterprises Limited is to develop housing for sale (including affordable homes) and the purpose of Equinox Property Holdings is to provide quality rental housing in the borough. This supports the Council's objective within the Corporate Plan 2020-2025 to provide a mix of attractive good quality housing for all sectors of the workforce and community that is fit for purpose for all and meet both the borough's existing and future needs.
- 3.3 Discretionary loans are granted to local charities and businesses, this will be following a decision by the Policy and Resources Committee and /or Council as applicable. In line with the Corporate Plan 2020-2025 these loans are granted to support the local charities and businesses that assist in improving the communities and facilities in the borough. The rates for service loans will be set at appropriate rates that reflect counterparty risks and duration.
- 3.4 The Council has a responsibility to address private sector housing that is in poor condition or needs adaptations to meet the needs of those with disabilities. The Council also has an

objective within the Corporate Plan 2020-2025 to provide help early, when people need public health and care, to prevent avoidable problems and to help more people to help themselves as well as tackling challenges within communities. Home improvement loans help residents to redress housing issues that impact on their health. The home improvement loans are made from a recycling pot following repayment of loans made as part of prior year capital programme allocations.

- 3.5 **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			31/3/20 Actuals	2021/22
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries: Equinox Enterprises Limited and Equinox Property Holdings	6.2	0.00	6.2	7.00
Local charities	0.40	0.0	0.40	1.00
Local Businesses	0.00	0.00	0.00	1.00
Local residents (Home Improvement Loans)	2.51	0.02	2.48	3.00
TOTAL	9.11	0.02	9.08	10.00

*loans, except for those to local residents, granted in 2021/22 will be subject to Council/Committee approval during the year.

- 3.6 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. It should be noted that both the loans to local charities and local residents are equity loan agreements, so the Council obtains a share of the equity of the borrower's property as collateral. This reduces the risk of the Council not recovering the loan amount from the borrower and occasionally generates a small surplus depending on the agreement type used. On occasions where a loan to a local business would clearly meet the service objectives of the council, loans would be given on market terms. These loans will be made with due attention to the risk to the council, and the rate of interest charged on the loan will be commensurate with the security provided, the duration of the loan and the risk of default (i.e. non-repayment).
- 3.7 **Risk assessment:** The Authority assesses the risk of loss before entering, and whilst holding service loans by undertaking due diligence proportionate to the level of the loan being granted to mitigate as far as possible any risks of non-recovery. This will also include taking external advice as applicable, such as discussion with NP Law as part of the loan agreement process.

4. SERVICE INVESTMENTS: SHARES

- 4.1 **Contribution:** The Council has shares in Equinox Enterprises Limited and will have shares in Equinox Property Holdings when it is established in 2021/22 as its subsidiaries. The Council invests in its subsidiaries to enable them to develop affordable and quality housing within the borough and with the aim of them providing a return on the investment.
- 4.2 **Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes in £ millions

	31/3/20		Actuals	2021/22
Category of company	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Equinox Enterprises Limited (Subsidiary)	2.23	0.00	2.23	2.50
Equinox Property Holdings (Subsidiary)	0.00	0.00	0.00	0.50

- 4.3 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding shares by undertaking the appropriate due diligence. As further contracts and opportunities are considered, the company's performance will inform the risk assessment.
- 4.4 **Liquidity:** Any new investment proposal will be considered for approval via the appropriate decision-making route in line with the council's Constitution.
- 4.5 **Non-specified Investments:** Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

5. COMMERCIAL INVESTMENTS: PROPERTY

- 5.1 **Contribution:** The council owns a varied portfolio of commercial properties including seafront concessions, warehouses, workshops, offices and industrial units across the borough. These form a significant element of the council's asset management plan which is available here: <https://www.great-yarmouth.gov.uk/article/3222/Plans-and-performance>

Table 3: Property held for investment purposes in £ millions

Property	31/3/20	Actual	31/3/21	Expected
	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
Offices	(0.21)	5.72	0.00	5.72
Corporate Estates	2.58	39.80	0.20	40.00
Seafront Concessions	(0.08)	4.63	0.00	4.63

Market	(0.26)	0.56	0.00	0.56
TOTAL	2.03	50.71	0.20	50.91

5.2 **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.

5.3 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 2020/21 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.

5.4 **Risk assessment:** The Council's internal Property and Asset Management team includes members of the Royal Institution of Chartered Surveyors (MRICS) and they assess the risk of loss before entering into and whilst holding property investments. They do this in a number of ways including engaging external advisors, agents and reference to quality financial/property press when required. In doing this they assess the market that the investment will be competing in, the nature and level of competition, along with expectations on how the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements. The strategic objectives of the Commercial Investment Strategy are designed to mitigate risk by:

- The Council's fundamental aim of an income rather than capital return (although the latter is part of the strategy).
- Adopting a portfolio approach to avoid concentration of risk in any one property, tenant or risk type.

Currently the Council has not invested in commercial properties outside of the borough. If the Council were to invest elsewhere then risk assessments would be extended to national advice and any other relevant specialist advice dependent on the type of property to be acquired.

5.5 **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 Authority do not rely on capital receipts to finance the capital programme. Any capital receipts received will be used to reduce the borrowing requirement within the financial year they are received.

6. LOAN COMMITMENTS AND FINANCIAL GUARANTEES

6.1 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.

6.2 The Authority has committed to make up to £7.0m of loans to its subsidiaries, Equinox Enterprise Limited and Equinox Property Holdings if required. The Council does not have any financial guarantees, nor does it intend to make any.

7. PROPORTIONALITY

- 7.1 The Authority achieves a balanced revenue budget incorporating surpluses generated from investment activity. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or the level that the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Plan. Should it fail to achieve the expected net profit, the Authority's contingency plans for continuing to provide these services would be to undertake further review of the delivery and potential savings or to use reserves in the short-term.

Table 4: Proportionality of Investments

	2019/20 Actual	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget
Gross service expenditure	68.72	68.74	70.58	71.00	71.00
Investment income	3.16	1.87	2.55	2.08	2.08
Proportion	4.6%	2.7%	3.6%	2.9%	2.9%

8. BORROWING IN ADVANCE OF NEED

- 8.1 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 Authority would not follow this guidance if it was financial advantageous and only after undertaking due diligence to consider risks involved. Currently the Council has not borrowed in advance of need.

9. CAPACITY, SKILLS AND CULTURE

- 9.1 **Elected members:** Elected members are provided with annual investment training by our external advisors, Arlingclose. The Treasury Management Strategy and the Mid-year Treasury Management Strategy are presented to members during the financial year and should any queries arise these would be responded to by officers or advisors as applicable.
- 9.2 **Statutory officers:** Regular meetings are held throughout the year with our external advisors, Arlingclose. Officers working on a daily basis with investment decisions attend courses offered by both Arlingclose and CIPFA throughout the year. Arlingclose provide daily updates of changes in the market as well as providing staff with a contact for queries that arise.
- 9.3 **Commercial deals:** Commercial proposals would be subject to a robust business case and decision making process, including consideration by officer groups ahead of approval via the appropriate decision-making process, ie to Policy and Resources Committee and/or Council. Where applicable the Council would seek to engage external professional advisors, for example financial, property and legal advice as applicable.
- 9.4 **Corporate governance:** The Asset Working Group consider initial property investment decisions. The group is made up of both finance and property and asset management officers who consider initial investment opportunities and obtain regular progress reports on any investment taken forward.
- 9.5 Business cases are completed for property investments, including undertaking due diligence and considering risks, and these form the basis for reports presented to the Policy and Resources Committee for approval.
- 9.6 Other investment decisions are based on the Treasury Management Strategy, with any changes reported for approval as required to Policy and Resources Committee.

10. INVESTMENT INDICATORS

- 10.1 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.
- 10.2 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.

Table 5: Total investment exposure in £millions

Total investment exposure	31.03.2020 Actual	31.03.2021 Forecast	31.03.2022 Forecast
Treasury management investments	12.20	13.00	13.00
Service investments: Loans	9.08	11.00	11.00
Service investments: Shares	2.23	2.23	2.72
Commercial investments: Property*	50.71	50.91	51.00
TOTAL INVESTMENTS	74.22	77.14	77.72
Commitments to lend	0.00	0.00	0.00
TOTAL EXPOSURE	74.22	77.14	77.72

* Through its significant asset base, the Council has invested historically in commercial property for financial gain and to support regeneration.

- 10.3 **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.

Table 6: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2020 Actual	31.03.2021 Forecast	31.03.2022 Forecast
Treasury management investments	0.00	0.00	0.00
Service investments: Loans	0.00	0.34	0.33
Service investments: Shares	2.23	2.23	2.73
Commercial investments: Property *	15.75	15.61	15.46
TOTAL FUNDED BY BORROWING	17.98	18.18	18.52

* Commercial Investments – The majority of the asset portfolio that relates to commercial investment properties are historic assets which the Council own or has an interest in for which it is not possible to quantify the level of funding by borrowing. The figures quoted relate to the investments made since 2008/09

- 10.4 **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 7: Investment rate of return (net of all costs)

Investments net rate of return	2019/20 Actual	2020/21 Forecast	2021/22 Forecast
Treasury management investments	1.77%	0.51%	0.35%
Service investments: Loans	5.77%	3.41%	0.16%
Service investments: Shares	N/A	N/A	14.06%
Commercial investments: Property	4.52%	2.72%	3.33%
ALL INVESTMENTS	12.07%	6.64%	17.89%

- 10.5 The treasury management investments returns above reflect the current low interest rates that are expected to continue in the short to medium term. The fall seen in the loan return in the table reflects the repayment of the £6.2m loan to Equinox Enterprises Limited during 2020/21. Equinox Enterprises Limited are expected to pay the first dividend on the Authority's shares in the company in 2021/22. Finally, the commercial investments reflect an anticipated fall in income due to the current economic climate as a result of the Covid-19 pandemic.

Table 8: Other investment indicators

Indicator	2019/20 Actual	2020/21 Forecast	2021/22 Forecast
Debt to net service expenditure ratio	6.22%	4.19%	8.19%
Commercial income to net service expenditure ratio	34.94%	33.00%	29.41%