

STRATFORD-UPON-AVON TOWN COUNCIL

FINANCE & AUDIT COMMITTEE

15 NOVEMBER 2022

TOWN CLERK'S OPEN REPORT

- 1) To receive the Management Accounts for the Period 1 April 2022 – 30 September 2022

- **To note the report**

The Management Accounts for the period 1 April 2022 – 30 September 2022 are attached as **Appendix 'A'**, together with a Management Accounts Review document as **Appendix 'B'**.

Members are requested to note the report.

- 2) Vehicle Replacement Designated Reserve

- **To consider the use of reserves for a further Open Spaces replacement vehicle**

Community Services Committee on 25 October 2022 considered the requirement of a second replacement vehicle following complaints from Councillors and Members of the public about the road worthiness of the vehicle and the following was minuted:

It was also noted that the purchase of a second cemetery vehicle be investigated as there has been complaints received around the road-worthiness of the current vehicle . It was discussed about increasing the vehicle expenses expenditure up to £20,000.

It was

AGREED: that quotes should be sourced, which included electric vehicle options.

Members will be aware that the other Open Spaces Vehicles was replaced in the Summer and the designated reserve was used for this.

An update will be provided at the meeting of the quotes received.

3) Draft Budget 2023-24

- **To review the financial implications arising from the initial budget reviews by the other Standing Committees**
- **To recommend any amendments that fall within the Finance & Audit remit that can be made to the draft budget to facilitate an acceptable precept level**

The Second Draft Budget is attached as **Appendix 'C'**, together with a Budget Review document as **Appendix 'D'**.

The Personnel Committee reviewed the first draft budget at their meeting on 4 October 2022. They noted the provision for cost of living pay awards for 2022-23 and 2023-24 (pending at the time of the meeting) and recommended that a strong training budget provision was maintained.

Following the cancellation of the meeting in September because of Queen Elizabeth II's funeral, the Finance & Audit Committee's first review of the budget requirements for 2023-24 subsequently took place at their meeting on 11 October 2022, when Members agreed that the budget strategy should be cautious, aiming to return to a balanced budget for 2023-24 after six years of deficits and a substantial reduction in reserves.

The Community Services (CS) Committee discussed their budget requirements at their meeting on 25 October 2022 and made some initial suggestions while deferring final decisions on their budget requirements until their next meeting in December (see the Budget Review document for more information). A possible requirement for another new vehicle for the Open Spaces team was also agreed to be followed up, which will have budget implications for the current financial year as well as 2023-24.

The Civic, Heritage & Events (CHE) Committee discussed their budget requirements at their meeting on 1 November 2022. The minutes were not available at the time of writing this report.

A verbal update on any proposed budget changes by these standing committees will be given at the meeting of the Finance & Audit Committee.

Members are advised that this version of the Draft Budget has NOT been updated to take account of any changes debated by the other standing committees.

Members are also requested to note the following:

1. The Budget will undoubtedly change over the next few months and the Tax Base will not be confirmed by the District Council until December, but Members should note that there is currently no provision in the budget for replenishing reserves to cover the higher-than-expected budget deficit from 2021-22 or the budget deficit for 2022-23.
2. An increase in the Annual Rate Charge per Household has been set at 2.5% as per the increase for 2022-23, but this is not intended to set an expectation and it is obviously a matter for Members to debate and recommend to Council. This percentage is well below the inflationary uplift of 12.2% applied to some of the values in the draft budget.
3. The latest draft budget makes no provision for the replenishment of the Cemetery Land & Building Reserve, which is already less than the sum estimated for project costs in the current financial year, assuming the purchase of the land from the District Council is completed before 31 March 2023.
4. The latest draft budget makes no provision for the replenishment of the Vehicle Replacement Reserve, which is likely to be used entirely in the current financial year for the Open Spaces team.
5. **Energy costs need to be reviewed / revisited. The latest bill for the electricity at the Cemetery shows an increase of over 300% as a result of the ending of the previous long term contract on 31 August 2022.**
6. Members should also be aware there is currently no specific provision for any new projects which may come from other standing committees or the various sub-groups, although some committee-specific designated reserves were created a few years ago and will be carried forward if unspent. Following the latest tranche of funds received in November 2021, there is over £40,000 available from Community Infrastructure Levy (CIL) contributions.

7. The Final Draft Budget will be recommended to Town Council in January, so there is still plenty of time for items to be considered and figures to be adjusted.

The Second Draft Budget shows a potential budget deficit of over **£7,400** before any further changes are made.

Each budget section should be reviewed again to consider further changes. The endeavour is to ensure that the budget will be a true and accurate reflection of Council's projected costs for the forthcoming years and will, in turn, form the basis of the precept request from Stratford-on-Avon District Council.

It should be noted that further adjustments will be required once the Tax Base is confirmed by the District Council, which is expected to be in December and therefore before the next Finance & Audit Committee meeting on 17 January 2023.

In addition, as determined by the current Reserves Policy, Members should bear in mind the need to maintain General Reserves at a level equivalent to at least 25% of one year's Precept, or to amend the Reserves Policy or give a clear explanation for the exception if this is not going to be possible.

The Reserves Policy may need to be reviewed again when the Final Draft Budget is recommended to Council in January 2023.

The draft budget review should also include a review of Designated Reserve requirements.

The following items were reported at the previous meeting of the Finance & Audit Committee and are included again for ease of reference, as the points are still relevant and need to be considered:

- Following finalisation of the year end accounts for 2021-22, the General Reserve has already fallen below the level required by the Reserves Policy, namely 25% of Net Budgeted Expenditure. Using last year's budget, **the General Reserve is now £10,100 below what is required**, and this amount should be included in the budget for 2023-24. **This is in addition to any further deficit for 2022-23, which was originally budgeted at £26,895.** Admittedly, if there is a budget surplus rather than a deficit at the end of

the financial year 2022-23, this will offset some of this, but it is still too early in the financial year 2022-23 to be confident of the final results which will not be confirmed until May / June 2023.

- The purchase of additional land to extend the cemetery will be covered by the Cemetery Land & Building Maintenance Reserve, but **there will be further professional fees and costs in converting the land to use for burial purposes** and these are still to be confirmed. If these costs are incurred in the current financial year, they will need to be funded from the General Reserve. If the project to extend the cemetery is ongoing into 2023-24, further expenditure will need to be included in the budget and will likely lead to increased net expenditure in 2023-24, requiring the General Reserve to be increased if the current Reserves Policy is adhered to.
- As mentioned in a previous item, the lease costs for the new vehicle will require an increase in the budget for Cemetery vehicles in 2023-24.
- It is expected that expenditure on Salaries & Related Costs will increase in the current year and 2023-24, once the pay award has been confirmed for 2022-23. Additional costs have also been incurred as a result of replacing three officers since the start of the financial year.
- Energy costs are expected to rise substantially in the current financial year, as a result of the end of long term fixed price agreements for Cemetery chapel electricity on 31 August 2022 and Town Hall gas on 31 December 2022. The ongoing increases in energy costs which have been dominating the news for the last few months mean that new energy contracts will be at much higher prices. Latest forecasts suggest that the budget should allow for rises of at least 30% and possibly more. Fortunately, the Town Hall electricity contract is on a long term basis until 30 September 2024.
- Inflation has increased dramatically in 2022 and is expected to rise further into 2023. The budget should allow for price increases of at least 10%, with some forecasts suggesting inflation could remain higher throughout the next year.

Council is still fortunate to have a significant level of reserves and continue to receive an annual rise in the overall precept amount due to substantial housing development in Stratford-upon-Avon and the increase in the Tax Base as a result. However, Members should be mindful of the potential increase in the precept request which will be required to replenish these reserves.

Members should note that, using the Tax Base for 2022-23 of 13613.36 and based on the actual Band D Rate Charge of £40.86, a **1% increase in the Rate Charge** used as part of the Precept calculation would raise the income received by **£5,581** while an 'inflationary' **increase of 10%** would raise an additional amount of **£55,679**. While this latter figure appears to be a substantial amount, it is important to note that it would require an **increase of 6.65%** to raise a total amount of a total of **£36,997** just to replenish reserves to cover the General Reserve deficit of **£10,102** at the end of 2021-22, as determined by the Reserves Policy, and the budgeted deficit of **£26,895** for 2022-23, as approved in January 2022.

The above figures have been calculated assuming the Tax Base is unchanged from 2022-23. However, given the additional housing which is resulting from the Arden Heath, Bishopton and Shottery developments which are now under way, it is more likely that the Tax Base will rise and therefore increase the total level of precept funds received by the Town Council, regardless of whether the Rate Charge per Band D property is increased.

The use of Council's considerable reserves to fund large projects and to cover recent years' budget deficits needs to be reviewed very carefully. As already mentioned in this report, the General Reserve is now below the level required by the Reserves Policy and is expected to have fallen further by the end of the current financial year.

4) Investment Strategy

- **To review the Investment Strategy**

One long term investment is maturing in December 2022.

This is a 2 Year Fixed Rate Bond with Cambridge & Counties Bank which is maturing on 5 December 2022, with a current balance of £50,577 and further interest of approximately £600 expected on

maturity. This investment will have generated over £1,000 over 2 years with an interest rate of 1.15%.

In previous years, Council has been in the fortunate position of determining how much of the funds from maturing investments to re-invest in long term bonds to achieve a good rate of interest return. The Council's "rolling cycle" of investments has enabled Council to review their investments and consider options annually, which is important for allowing funding of future expenditure from Reserves while ensuring higher returns may be gained from long term investments. However, the deficit in the current financial year and the purchase of additional land to extend the cemetery will require further reserves to be used.

The latest forecast indicates total reserves at the end of the current financial year may fall below £380,000. With £250,000 invested in the CCLA Local Authorities Property Fund, and cashflow requirements for day-to-day spending and the cemetery extension land purchase, there is currently little scope for re-investing further funds for the long term.

Therefore, it is recommended that the maturing bond in December 2022 is not re-invested.

It is further suggested that any re-investment of funds in longer term options is reviewed after the year end accounts have been finalised in May/June 2023. If there is scope for re-investing funds because of a lower than expected deficit for 2022-23, the option to open a 2 Year Fixed Rate Bond will enable a new "rolling cycle" to be started. Current interest rate rises are expected to continue into 2023, but inflationary pressures on expenditure may prevent further long term investments.

Members are asked to note that the total funds from the maturing bond will be transferred back to the Town Council's bank account. These can then be transferred to a short term investment option such as the Cambridge & Counties Bank 31 Day Notice Savings account, which has seen interest rate increases over recent months and provides a better return than leaving the funds in the Barclays Bank current account.

The CCLA Investment Manager has previously advised that further sums of £10,000 or more can be invested in the Local Authorities' Property Fund (LAPF), which has consistently provided a dividend yield of around 4% despite the economic uncertainty over recent

years. While this fund has proved to continue to give a considerable boost to the Council's investment income over the last 6 years (over £60,000 in net dividends) and fund size has grown to over £1bn since Council's original investment, it is very much a long term option. Fund prices had recovered well after being adversely impacted by the coronavirus pandemic in 2020, and dividend yields have held up well. However, with further challenges expected in the months ahead because of ongoing economic uncertainty, and with at least three months to liquidate funds from this source, it is recommended that no further investment is undertaken at this time.

Members were recently advised that CCLA has had to impose an extended notice period on the withdrawal of funds from the LAPF. This is as a result of the huge financial uncertainty caused by the government's disastrous "mini budget" in September 2022. It will now take a minimum of six months to liquidate any of Council's investment in this fund. Fortunately, currently cashflow requirements indicate that there should be no need to call upon these funds and they can remain invested, in effect covering a large part of the funds held as Council's reserves.

The bulk of Council's income is "guaranteed" by receipt of the Precept every six months. The current level of reserves and short term investments should ensure there is no adverse impact on the Council's ability to fund its commitments over the next twelve months providing the funds from the maturing bonds are not re-invested in long term investments.

Based on the proposed draft budget and expectations of cash flow to cover "normal" expenditure over the course of the rest of the financial year, and as already reported above, it is recommended that no more funds are invested in long term options at this stage, to ensure sufficient funds are available to cover all expected expenditure over the second half of the financial year 2022-23 and over the first half of the financial year 2023-24. The annual review of the investment strategy in November 2023 may indicate other options are possible depending on the state of Council's finances at that time.

Members are asked to note the report and to confirm the recommendation to move the maturing fixed rate bond funds to the 31 Day Notice Business Savings Account.

Responsible Financial Officer
November 2022