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Crawley Borough Council

Overview and Scrutiny Commission

Agenda for the **Overview and Scrutiny Commission** which will be held in **Committee Room C - New Town Hall**, on **Monday, 26 June 2023** at **7.00 pm**

Nightline Telephone No. 07881 500 227

Chief Executive

Statufel

Membership:

Councillors M L Ayling (Chair), H Hellier (Vice-Chair), J Charatan, K Khan,

R A Lanzer, T Lunnon, J Millar-Smith, A Pendlington, S Piggott,

S Raja and J Russell

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The order of business may change at the Chair's discretion

Part A Business (Open to the Public)

		Pages
1.	Apologies for Absence	
2.	Disclosures of Interest and Whipping Declarations	
	In accordance with the Council's Code of Conduct, councillors are reminded that it is a requirement to declare interests where appropriate.	
	Councillors must also declare if they are subject to their party group whip in relation to any items under consideration.	
3.	Minutes	5 - 10
	To approve as a correct record the minutes of the Overview and Scrutiny Commission held on 5 June 2023.	
4.	Public Question Time	
	To answer any questions or hear brief statements from the public which are relevant to the items on this agenda. The period will end after 15 minutes or later at the Chair's discretion.	
5.	Metcalf Way Depot Use Intensification	11 - 16
	To consider report DCE/016 of the Deputy Chief Executive.	
6.	Financial Outturn 2022/2023: Budget Monitoring - Quarter 4	17 - 38
	To consider report FIN/623 of the Head of Corporate Finance.	
7.	Treasury Management Outturn 2022 – 2023	39 - 56
	To consider report FIN/624 of the Head of Corporate Finance.	
8.	Update on K2 Crawley	
	To receive an update on K2 Crawley, followed by questions and answers.	
	Due to the nature of the discussions within the above item, should Councillors wish to scrutinise the financial issues or aspects of any of the contractual arrangements in specific detail this may be viewed as financially/commercially sensitive and as such the meeting may need to move to Part B. (That under Section 100A (4) of the Local Government Act 1972 the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act by virtue of the paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information)	

57 - 58

9. Cabinet Member Discussion with the Cabinet Member for Leisure and Wellbeing

Councillor Chris Mullins has been invited to attend the Commission for a general discussion on the Leisure and Wellbeing Portfolio and their duties. A copy of the Cabinet Member's responsibilities, as set out in the Council's Constitution is attached.

10. Establishment of and Appointments to Scrutiny Panels

It is the responsibility of the Commission to establish Scrutiny Panels as required and to appoint a Chair to each Panel (allowing the Panel Chair to confirm the terms of reference for their review).

Housing Associations Scrutiny Panel

In accordance with the Local Government and Housing Act 1989, the Commission is recommended to consider the establishment and nominations for a 'Housing Associations Scrutiny Panel' based on a 5 member Panel consisting of:

Councillors: Ayling, Hellier, Lunnon, Piggott, Pritchard, along with Councillor Hellier as a nomination for Chair.

The careful selection and prioritisation of review work is essential if the scrutiny function is to be successful, achieve added value and retain credibility. The work programme should also be realistic, flexible and retain spare capacity so that additional matters raised during the year can be addressed.

11. Health and Adult Social Care Scrutiny Committee (HASC)

To receive a brief update on the <u>Health and Adult Social Care</u> Scrutiny Committee (HASC) from its meeting on 14 June 2023.

12. Forthcoming Decision List - and Provisional List of Reports for the Commission's following Meetings

To consider any requests for future items.

13. Supplemental Agenda

Any urgent item(s) complying with Section 100(B) of the Local Government Act 1972.

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Crawley Borough Council

Minutes of Overview and Scrutiny Commission

Monday, 5 June 2023 at 8.00 pm

Councillors Present:

M L Ayling (Chair)

H Hellier (Vice-Chair)

J Charatan, K Khan, R A Lanzer, J Millar-Smith, A Pendlington, S Piggott, S Raja, J Russell and S Sivarajah

Also in Attendance:

Councillor I T Irvine and T Rana

Officers Present:

Carron Burton HR and OD Manager

Siraj Choudhury Head of Governance, People & Performance

Ian Duke Deputy Chief Executive

Heather Girling Democratic Services Officer

Nikki Hargrave Housing Options Manager (Strategic Housing)

Diana Maughan Head of Strategic Housing

Joe Mottershead HR Consultant

1. Disclosures of Interest and Whipping Declarations

The following disclosures were made:

Councillor	Item and Minute	Type and Nature of Disclosure
Councillor R A Lanzer	Appointments and Membership (Minute 6)	Personal Interest – Member of WSCC
Councillor R A Lanzer	Appointments and Membership (Minute 6)	Personal Interest – WSCC Cabinet Member for Public Health and Wellbeing

2. Minutes

The minutes of the meeting of the Commission held on 6 March 2023 were approved as a correct record and signed by the Chair.

3. Public Question Time

No questions from the public were asked.

4. Homelessness in Crawley

Commission Members considered report <u>SHAP/87</u> of the Head of Strategic Housing. In January 2023, the Commission had requested a report documenting the drivers of homelessness and how forecasts had been determined.

The Commission was informed that homelessness was a complex topic and driven by changes in personal circumstances created and impacted by many factors at both local and national level. These drivers could relate to the housing market (impacted by broader economic policy), living issues, national policy, changes to welfare benefit/taxation systems, global health and migration issues. Local housing authorities responded to these concerns depending on many factors, the most significant being the funding made available from central government and the supply of affordable housing. Demand outweighed supply, resulting in increased competition and pressure on all forms of housing, the use on temporary accommodation as well as other forms of use including hotels within the area. The Covid pandemic saw friends and family evictions escalate but also saw the local authority achieve success by liaising with many rough sleepers in a different way through the 'Everyone In' initiative. The cost of living pressures continued as households struggle with meeting accommodation expenses.

During the discussion, with the Head of Strategic Housing, Housing Options Manager, Deputy Chief Executive and the Cabinet Member for Housing the following points were expressed:

- Detailed information was provided on the modular housing scheme. Initial
 consultation was underway on one site and subject to Planning permission, (which
 would also include a consultation stage), the module units would be a rapid build.
 It was anticipated other modular projects would follow the same process. It was
 recognised that water neutrality had delayed the housing build programme,
 however the retrofitting scheme had allowed this to resume.
- Acknowledgement that there had been a reduction in the private landlord market due to a variety of reasons; new legislation, mortgages and disparity between local housing allowance and rents (which the council had previously lobbied against). The council worked with both landlords and tenants however it was noted that any incentivisation ultimately needed to be cost-effective.
- Noted that support was provided in relation to homelessness and cost of living in terms of the following: affordability of accommodation; funding applications; household support; multi-agency support involving Citizens Advice West Sussex providing debt advice.
- Recognition that the causes given for homelessness, both locally and nationally may differ from the drivers for homelessness.
- Clarification provided on the numbers of total households in temporary accommodation (application and associated household) and whilst some trends were apparent these tended to be for rough sleepers where the needs were of a complex nature over a slightly longer term.
- Confirmation that the percentage of properties allocated to homeless households via the housing register was not due to be increased as the system of using direct lets was being instigated.

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- Clarification that in terms of providing accommodation, the term 'settled accommodation' was defined in legislation as 'a reasonable prospect of being occupied of 6 months or more'. An individual can become homeless after 6 months for a different reason.
- Recognition that the council continued to undertake comparisons with other authorities to share best practice and the challenges faced. It was noted that from discussions there appeared to be no correlation between authorities with housing stock and those without in terms of the current challenges.
- Clarification was provided on the Housing Strategies and Policies. Confirmation
 that there were multi-faceted reasons for homelessness within the borough and
 there was a need to be creative, incentivise, look at acquisition along with
 regeneration sites, cross-boundaries and investigate every option available. It was
 noted there was a need to consult but also manage expectations of everyone
 involved in the process. It was highlighted that homelessness was the single
 biggest pressure on the authority and not within its overall control.
- As this was her last attendance at OSC, the Commission took the opportunity to record its thanks and gratitude to the Housing Options Manager, Nikki Hargrave for all her hard work and support she had provided not just the Commission but the Council as a whole, throughout her years of service.

RESOLVED

That the Commission noted the report, with the views expressed being acknowledged and documented by the officers.

5. Staff Health, Morale and Sickness Updates

Commission Members considered report <u>LDS/200</u> of the Head of Governance, People & Performance. In June 2021, Councillor Belben under the Scrutiny Procedure Rules had requested a report on staff sickness levels with Covid19 and the effects and impacts of working from home. Following this, it was subsequently recommended that the OSC receive an annual update on staff welfare, sickness and morale.

During the discussion, with the Head of Governance, People & Performance, the HR and OD Manager and HR Consultant, the following points were expressed:

- The Council continued to monitor sickness absence and during the first three quarters of 2022-2023. Covid continued to be within the top three reason for sickness absence. However, during Quarter 4 the Council had seen a decline in reported sickness relating to Covid.
- The Council had continued to see an increase from its workforce taking up the
 counselling service and there was slightly more office based staff using this
 service compared to outside workers. Many employees who took up this offer
 requested further sessions beyond the normal 6 sessions earmarked for an
 individual employee.
- The Council maintained the programme of reflective practise, the aim was to develop personal awareness, resilience, skills, and competence across professional, interpersonal, and relational domains that enhance the workplace. The initiative had supported individual teams to use a confidential reflective space in which they can reflect upon, and how they feel about what they do, particularly the impacts the pandemic has had upon them and the service providers they work with. The sessions cover many aspects including managing work boundaries, threats to resilience, coping with change and maintaining well-being. Feedback had been positive across the organisation.
- A wide range of workshop sessions were offered through the Council's Wellbeing Team:

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- Starting the year- be kind to yourself in 2023. A guide to taking care of your mental health Motivation for the year ahead-kick start 2023 with healthy eating habits
- ➤ NHS Heart Health Check Food waste- top tips to reduce food waste and how to plan weekly meals
- Other initiatives offered included:
 - Workplace Savings Scheme which enables staff to transfer money into a savings account directly from their salary
 - ➤ Pension Benefits, with the recently introduced AVC scheme for participants off the local government pension scheme
 - > Energy at home top tips on ways to make energy saving.
- Staff surveys continued to be carried out and the results from December 2022 remained positive, with a good response rate (60%). In all nine topic areas there were improvements since the previous survey. However, the survey indicated that there was still work to be done in some areas.
- It was recognised that whilst there was responsibility on the Council (as employer)
 to ensure it exercised its duty of care to staff there was also a need for staff to
 take responsibility for themselves, take advantage of the support and reach out
 when they were struggling.

Commission Members then raised a number of queries. The issues raised and the key responses included:

- Recognition that whilst the recent staff survey had shown improvement, CMT would work on an action plan to focus on areas to identify issues of dissatisfaction and support employees moving forward.
- Acknowledged there was difficulty in recruitment to various professional roles due
 to a skill shortage. Work had been carried out in terms of marketing and adapting
 the current recruitment material. The new town hall was seen as an improved
 working environment and assisted in recruitment campaigns but in the interim it
 was acknowledged that a lack of recruitment added to existing pressures and
 morale in some areas.
- Explanation sought as to the details provided on the other initiatives and financial workshops offered by officers and the Wellbeing Team within the Council.
- Recognition that a high response rate was by hard copy and a review of different introductory communication methods may be beneficial prior to the next edition.
- It was noted that it would be beneficial for the Commission to analyse the baseline survey figures to scrutinise previous years. In addition it was recommended that the staff survey be conducted more frequently than every 3 years (or regular shorter spotlight reviews) in order to gauge staff views.
- Staff had previously been asked to have a presence in the office at least two days
 per week if full time and one day a week for part time staff in order to adapt to
 hybrid working coming out the pandemic. Since moving into the new town hall this
 hybrid approach continued with shared desks and open plan working. Each
 manager has been responsible for their own area and reported little resistance to
 the move and new ways of working.

RESOLVED

That the Commission noted the report and progress, with the views expressed being acknowledged and documented by the officers.

6. Appointments and Membership

It was noted that there was an error in report OSC/310 and it should read 'Health and Adult Social Care Scrutiny Committee (HASC)'.

RESOLVED

That the Commission noted and approved the following memberships and appointments:

Health and Adult Social Care Scrutiny Committee (HASC) It was moved by Councillor Charatan, seconded by Councillor Raja that Councillor K Khan be the Council's representative for HASC. There were no other nominations.

Councillor K Khan was appointed as the representative for the Health and Adult Social Care Scrutiny Committee.

West Sussex Joint Scrutiny Steering Group (JSSG)
Councillor Ayling was appointed as Chair of the Overview and Scrutiny Commission

7. Forthcoming Decision List - and Provisional List of Reports for the Commission's following Meetings

The Commission confirmed the following reports:

OSC 26 June 2023 Cabinet 28 June 2023

- 1. Financial Outturn 2022-2023 (Quarter 4)
- 2. Treasury Management Outturn 2022-2023
- 3. Metcalf Way Depot Use Intensification provisional referral

The Commission is also due to receive an update on K2 Crawley along with a Discussion from the Cabinet Member for Leisure & Wellbeing at this meeting.

Start Time of Overview and Scrutiny Commission

The Chair of the Overview and Scrutiny Commission proposed amending the start time of the meetings of the Overview and Scrutiny Commission to 7.30pm for the remainder of the municipal year 2023-2024. A discussion took place on the advantages and disadvantages for 7.00pm and 7.30pm start time, together with a flexible option and following a vote, the Overview and Scrutiny Commission will remain at 7.00pm.

The Scrutiny Procedure Rules within the Constitution document the order of business for agendas of ordinary meetings of the Commission (and Scrutiny Panel meetings). The Chair may decide to amend the order at the meeting.

All Councillors should inform Democratic Services of absence or lateness.

Agenda Item 3
Overview and Scrutiny Commission (6)
5 June 2023

Closure of Meeting

With the business of the Overview and Scrutiny Commission concluded, the Chair declared the meeting closed at 10.08 pm

M L Ayling (Chair)

Crawley Borough Council

Report to Overview and Scrutiny Commission 26 June 2023

Report to Cabinet 28 June 2023

Metcalf Way Depot Use Intensification

Report of the Deputy Chief Executive DCE/16

1. Purpose

1.1. It has been recognised for some time that Metcalf Way was under-utilised. This has increased in recent years with the move towards Neighbourhood Depots, which will be completed once Creasys Drive is in operation. Attempts to redevelop the site have for now been put on hold, and so the focus has shifted to increasing the use of the depot. This report sets out the proposed approach, along with financial considerations for the Cabinet to consider.

2. Recommendations

2.1. To the Overview and Scrutiny Commission:

That the Commission consider the report and decide what comments, if any, it wishes to submit to the Cabinet.

2.2. To the Cabinet:

The Cabinet is recommended to:

- a) Agree to the proposals as set out in Sections 5-6 of this report
- b) Approve the use of budget secured through HPS/31 to undertake the capital costs related to the implementation of the proposals set out in this report

3. Reasons for the Recommendations

- 3.1. It has been recognised for some time that the Metcalf Way Depot is under-utilised. This report sets out proposals to intensify its use moving forward and in doing so to modernise the working environment of the staff working there.
- 3.2. One reason for the under-utilisation is the move to Neighbourhood Depots, the final one being Creasys Drive. Creasys Drive will have running costs, but this has yet to be budgeted for. The intention is that greater utilisation of the Metcalf Way Depot will provide a revenue stream for this.
- 3.3. Crawley Homes utilises a range of dispersed and sub-optimal accommodation for the storage needs of its main contractors. This way of working is creating efficiencies in relation

to communication and logistics. This report proposes to utilise Metcalf Way Depot for these functions moving forward, leading to improved and more efficient working, and releasing the current assets for rent to residents and businesses.

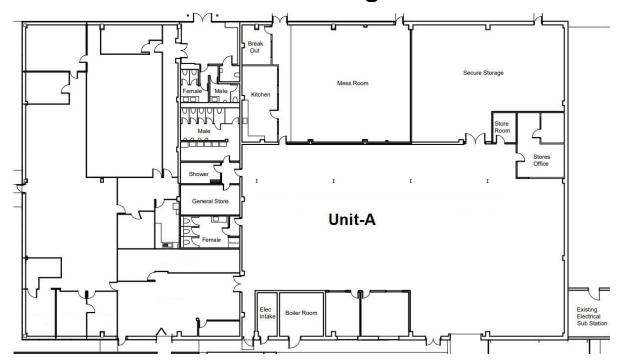
- 3.4. The report also proposes the relocation of the Crawley Homes Cleaning & Clearance Team from 51 Spencers Road. This releases a Council asset either for rental or for disposal. A decision on the future of this asset will be taken separately but the potential is considered as part of the rationale for this proposal.
- 3.5. The Council has recently secured Social Housing Decarbonisation Funding (SHDF) Wave 2 as part of its retrofitting of its Crawley Homes stock. This will require additional storage facilities that are currently not available. This report sets out the proposals for this, and how they align with the broader direction of travel but does not require approval and so there is no related recommendation.
- 3.6. The proposals as set out in this report also benefit the General Fund position, and the proposals have been developed with an eye to achieving this.

4. Background

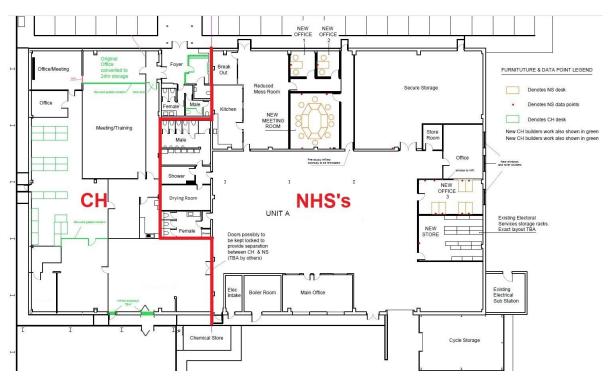
- 4.1. In March 2022, Cabinet agreed to explore the redevelopment of Metcalf Way Depot site with a view to developing the site for commercial rent (report HPS/31). This followed active interest from a high technology company looking to move to the town. It required the relocation of remaining services at the site. The Council subsequently increased the capital programme by £995k, with £300k to be transferred from the General Fund Reserve to the Transformation and Project Delivery reserve.
- 4.2. This proposal developed quite some way but ultimately had to be stopped. It became clear in the design stage that there was an energy supply issue to the site that would prevent the development moving forward. To have resolved this in the timeframes required, the Council would be required to partially fund the infrastructure required. The costs of doing so were prohibitive and would not allow for sufficient return on investment to justify the proposal.
- 4.3. The option to redevelop the site in future remains. It would provide an attractive future revenue stream. However, this is not an option until the electrical supply issues are resolved by those responsible for power infrastructure. In the meantime, the Council's focus has shifted to how to maximise the use of the site in the medium term.

5. Description of Issue to be Resolved

- 5.1. The proposals set out in this report provide a more effective use of the Council's assets, whilst improving income for the General Fund, increasing service efficiency, facilitating the delivery of housing retrofitting and improving the working environment for staff. The proposal centres around rationalising the space within the Depot used by Neighbourhood Services, to allow Crawley Homes to utilise the space that is vacated.
- 5.2. The below image shows a plan of the Depot in its current configuration:



5.3. The proposal is to reconfigure the space as follows (CH denotes Crawley Homes; NHS denotes Neighbourhood Services):



5.4. This proposal affects a number of services as follows:

Neighbourhood Services

Neighbourhood Services no longer requires the full space provided by the depot. Preparatory work has demonstrated that even prior to Creasys Drive being operational, Neighbourhood Services can rationalise into the eastern part of the building. To facilitate this new office space needs to be created, which also offers the opportunity to upgrade the office space, which is needed.

• Waste & Recycling

Within the western part of the building, there then only remains the Waste & Recycling Team. This team moved to the depot on a temporary basis when part of the old Town Hall was demolished. It had been expected that this team would move to the New Town Hall over time. However, being located close to Biffa has proven beneficial and the team has stated its preference to remain close by. Having explored a range of options, the decision has been taken to relocate this team into the Workshop. This will require some space rationalisation by the existing team within the Workshop, but this is seen as an opportunity to review their space requirements and this option is considered achievable if tight.

• Crawley Homes

Crawley Homes does not currently have a depot of its own. Instead, it uses a variety of assets for storage, office and meeting purposes, which is creating inefficiencies in the service. Capacity will also soon become an issue with the delivery of the SHDF Wave 2 project as part of the decarbonising our housing stock agenda.

Metcalf Deport and the adjacent Amenity Tip site, provide a unique and cost-effective opportunity to address this, bringing together Crawley Homes staff, contractors and storage into one space. The proposal is that this will include:

- o Cleaning & Clearance Team
- Crawley Homes contractors
- o SHDF Wave 2 Project Team

The Amenity Tip site is required for two purposes. The first is to provide sufficient parking space for Crawley Homes. Neighbourhood Services continues to need most existing space for vehicles as the South Patch team have yet to relocate to Creasys Drive. The second is to host container storage for the additional materials required to undertake SHDF Wave 2, a two-year project.

The Amenity Tip site currently has a tenant, and this arrangement is being ended to allow use by Crawley Homes. The option to secure another tenant on either the full site or part of the site will be considered at Crawley Homes reduces its use.

• Other service considerations

A number of other services have stored items at Metcalf. Work has been undertaken with those affected and adaptations made to allow this to continue within the Neighbourhood Services part of the building.

5.5. This proposal also impacts on a number of Council assets beyond the Metcalf Way Depot:

Crawley Homes Asset Base

By locating Crawley Homes at the deport, the Council has the opportunity to release a number of properties that are currently being used. This includes 51 Spencer Road (used by the Cleaning & Clearance Team), 20+ garages (that can then be let to residents), and a Tilgate Hut (to then be let for business or community use). Crawley Homes will also no longer need to hire venues such as the Charis Centre when undertaking larger meetings with contractor teams.

Creasys Drive

There is currently no budget to meet the running costs of the new Neighbourhood Depot at Creasys Drive. The intention is that this will be met through the surplus realised by this proposal. The estimated cost is £20k per year.

Town Hall

The Town Hall is currently host to approximately 10 staff from within Crawley Homes

that would through these proposals be instead located at the Metcalf Way Depot. The impact here is a financial one in that the Housing Revenue Account contributes to the running costs of the Town Hall at £4,800 per head, totalling £48,000. This needs to be accounted for within the financial considerations.

6. Information & Analysis Supporting Recommendation

- 6.1. There are three options available in relation to the Depot:
 - 1. Do nothing:
 - This leaves the depot under-utilised, does not improve working conditions at the depot, and retains the inefficiencies caused by Crawley Homes current asset base.
 - The Council would not incur any capital costs.
 - The General Fund would see £25k income achieved through the rental to Crawley Homes of 51 Spencers Road but would need to meet the running costs of Creasys Drive at £20k. This would achieve a net income to the General Fund of £5k.
 - The Housing Revenue Account spend would increase by £25k to pay the rent for 51 Spencers Road.
 - 2. Reduce the Neighbourhood Services footprint and rent out the western part of the depot:
 - This option would still improve working conditions for Neighbourhood Services but would not offer a solution to Crawley Homes' existing asset base.
 - Capital costs of up to £270k would be incurred by the General Fund.
 - The General Fund would benefit from £59k rent achieved through the western part
 of the depot, and £25k through the rental of 51 Spencers Road, with an outlay of
 £20k for Creasys Drive. The net position for the General Fund would be additional
 income of £64k.
 - The Housing Revenue Account spend would increase by £25k to pay the rent for 51 Spencers Road.
 - 3. Enact the proposals as set out in Section 5. This is the recommended approach. The financial detail for this is set out in Section 7. In summary:
 - This option improve working conditions for Neighbourhood Services and offers a solution to Crawley Homes' asset base.
 - The capital cost is £270k
 - This option achieves additional income for the General Fund of £15k
 - It creates an additional £7k income to the Housing Revenue Account
 - It also releases 51 Spencers Road for either rental (£25k per year) to an external body or to be considered as a housing site.
- 6.2. The reason for recommending Option 3, is that whilst Option 2 derives greater income for the General Fund and addresses the needs within Neighbourhood Services, it does not address the Crawley Homes needs as set out in Section 3 and requires additional Housing Revenue Account spend of £25k. Option 3 has the additional benefit of releasing 51 Spencers Road either for rental (generating £25k per year) or disposal potentially for housing (with a land value of £250k+).

7. Implications

Capital Costs

7.1. This project has, wherever possible, sought to secure furniture and equipment from the old Town Hall. This has reduced some of the costs that would otherwise be accrued. Phase 1 of this project would see Waste and Recycling move to the workshop. The cost of this is estimated to be £8,850. Phase 2 would see Neighbourhood Services complete the move to

the eastern part of the building. This requires some enabling works for Creasys Drive, construction of new office space, storage solutions and security work, totalling £152,159.

- 7.2. Phase 3 is when Crawley Homes would take on the remainder of the depot and take on The Amenity Tip site. Approximately £50k is required to adapt the Amenity Tip site, but this will be paid for out of SHDF Wave 2 funding. Works to the depot will include adaptations, additional furniture and security works and is currently forecast at £83,807 although this is expected to reduce.
- 7.3. Therefore, the total capital costs required including a 10% contingency are £270k. These costs would be funded through the remaining budget from HPS/31 as set out in 4.1. No further capital budget is required. As mentioned above any capital work required for the old Amenity Tip site will be funded from SHDF Wave 2 funding and are therefore not included in these totals.

Revenue

- 7.4. There is no change in costs relating to the Waste & Recycling team's move. By reducing its footprint, Neighbourhood Services will reduce its running costs by a net total of £24,000. £20,000 of this has been included for maintenance of the new Neighbourhood Services depot site at Creasys Drive. Crawley Homes will become liable for running costs of £24,000 and will also need to pay for the rental of the space which has been calculated at £59,000. The hire of the Amenity Tip site is also £16,750, although some of this will be offset through the SHDF Wave 2 funding for the during of the programme. Crawley Homes anticipates that the site will be required beyond the two years of the SHDF Wave 2 programme for ongoing retrofitting work.
- 7.5. There are also some savings. Crawley Homes has not been paying rent for 51 Spencers Road when it should have done and would be moving forward. This would be £25,000 per year. A saving of £33,777 is also achieved by not using the other assets currently utilised. Finally, as a result of reduced Crawley Homes footfall in the new Town Hall, the Town Hall recharge will decrease by £48,000. In total there is a small saving of £7,000 for the HRA.
- 7.6. The total benefit for the General Fund will be £15,000.

51 Spencers Road

7.7. The Crawley Homes Cleaning & Clearance Team is currently situated at 51 Spencers Road. This is a building owned by the Council (General Fund) and has a land value of £250k+ and has the potential to be developed for housing. Alternatively, the current building has an annual rental value of £25k, although the site has some restrictions that make it more difficult to find a tenant. This will be taken as a separate decision.

8. Background Papers

• HPS/31 Metcalf Depot and Workshop - Redevelopment

Report author and contact officer:

lan Duke, Deputy Chief Executive ian.duke@crawley.gov.uk 01293 438005

Crawley Borough Council

Report to Overview and Scrutiny Commission 26th June 2023

Report to Cabinet 28th June 2023

Financial Outturn 2022/2023: Budget Monitoring - Quarter 4

Report of the Head of Corporate Finance FIN/623

1. Purpose

1.1 The report sets out a summary of the Council's actual revenue and capital spending for the financial year to March 2023. It identifies the main variations from the approved spending levels and any potential impact on future budgets. The report also gives an update on useable reserves.

2. Recommendations

2.1 To the Overview and Scrutiny Commission:

That the Commission consider the report and decide what comments, if any, it wishes to submit to the Cabinet.

2.2 To the Cabinet:

The Cabinet is recommended to:

a) Note the outturn for the financial year 2022/2023 as summarised in this report.

The Cabinet is recommended to ask Full Council to:

- b) Agree to the transfers of reserves as outlined in section 10 of this report.
- c) Approve a supplementary capital estimate of £160,000 for the repair of 49/51 High Street to be funded from capital receipts (para 8.12).

3. Reasons for the Recommendations

3.1 To report to Members on the outturn for the year compared to the approved budget.

4. Background

- 4.1 As part of the Budget Strategy, the Council has in place robust budget monitoring systems to ensure that unapproved overspends are avoided. The Council also manages and analyses underspending to identify potential savings that could help meet current and future years' priorities.
- 4.2 Budget monitoring is undertaken on a monthly basis with budget holders. There are quarterly budget monitoring reports to Cabinet with the Corporate Management Team receiving monthly update reports on key areas and any other areas of concern. The Overview and Scrutiny Commission also has the opportunity to scrutinise expenditure.
- 4.3 This report outlines the outturn for 2022/2023.

5. Budget Monitoring Variations

5.1 **General Fund**

The table below summarises the variances in the relevant Portfolio at Quarter 4.

[F indicates that the variation is favourable, U that it is unfavourable]

	Variance at	Projected at	
	Quarter 4	Quarter 3	
	£'000's	£'000's	
Cabinet	181	327	U
Public Protection & Community Engagement	(96)	(56)	F
Environmental Services & Sustainability	256	152	U
Housing	1,624	1,365	U
Wellbeing	(60)	(98)	F
Planning & Economic Development	8	30	U
Resources	129	38	U
TOTAL (OURRELIE)/RESIGIT	0.040	4.750	
TOTAL (SURPLUS)/DEFICIT	2,042	1,758	U
large star and but a mark	(507)	(000)	_
Investment Interest	(507)	(636)	F
Lower Tier Services Grant	76	76	U
Levy Account Surplus	(31)	0	F
ADJUSTED (SURPLUS)/DEFICIT	1,580	1,198	U

Further details of these variances are provided in Appendix 1(i & ii) attached to this report.

Significant Quarter 4 variances over £20,000

5.1.1 **Cabinet**

Public Sector Audit Appointments (PSAA) have reviewed the audit fees submitted by EY for the 2020/21 audit and reduced the fee in the proposal. Along with additional grant received relating to the Redmond Review, the final position for audit fees is a £33,000 overspend compared with £127,000 projected at Quarter 3.

Procurement vacancies have been recruited to later than anticipated. The underspend for the year is £34,000.

5.1.2 Public Protection & Community Engagement

There have been vacancies with the Nuisance and Anti-Social Behaviour team which have been difficult to fill. There have now been some changes to the structure with the hopes this will aid recruitment. The total underspend is £60,000.

5.1.3 Environmental Services & Sustainability Services

Garden waste income is lower than projected by £38,000 due to an accounting adjustment and general vehicle repairs were overspent by £30,000 due to the ageing fleet.

The overspend resulting from lost Port Health income has reduced by £21,000 to £51,000, as a result of more shipments coming through Gatwick Airport than expected at Quarter 3.

Additional income was generated by Kingsgate in quarter four due to changes to the parking tariffs. This has however been offset by large utility costs and ongoing maintenance to the car park. Changes to the utility contract should mitigate these costs for 2023/24. The total overspend is £121,000.

5.1.4 **Housing Services**

Homelessness pressures continued to increase into quarter four with a gross spend (excluding fees and grants) of £1.4m. A total of over 19,500 nights of temporary accommodation were paid for in Q4, with over 65,000 nights being paid for during the full financial year. The total overspend is therefore £1.6m.

	Q1	Q2	Q3	Q4	Total
Nights Paid	13,417	15,569	17,189	19,477	65,652
TA Spend	922,735	1,081,069	1,215,167	1,423,553	4,642,524

Reductions in the bad debt estimates for benefit overpayments to pre-covid levels has resulted in an underspend of £40,000 at year end.

5.1.5 Wellbeing

Community Centre income was £64,000 higher in quarter four due to unexpected demand by casual hirers. This means the total underspend for the year was £101,000. Future year budgets assume a higher income target, this year's target had been reduced as an estimate for lower usage due to Covid-19.

Playing Fields were overspent by £61,000 due to higher utility costs, rent reliefs being awarded, building repairs (inc. Legionella testing) being carried out and insurance costs.

Under the current deed of variation, the financial risk associated with K2 Crawley sits with the council. Despite improving membership sales and usage returning closer to pre pandemic levels, the market for gym memberships is now more competitive and Everyone Active have reduced their membership fees to ensure the number of members continue to grow. Utility costs are higher than previously projected and have resulted in a deficit of £13,500 in quarter 4, plus an unexpected equipment purchase of £10,300.

5.1.6 Planning & Economic Development

There have been no major variances to report this guarter.

5.1.7 Resources

HR vacancies are taking longer to fill than anticipated giving savings of £50,000.

The total overspend on the Town Hall is £120,000. This was due to: delays to lettings of the commercial floors (£197,000) and higher than anticipated utility costs (£116,000). These overspends were partially mitigated by a saving on business rates (£103,000) and delays to the requirement for staffing the new town hall (£69,000), as well as other minor variations.

Legal Sub-Contracted had significant spend on items outside of the team's expertise during quarter four including employee advice £26,000, traffic orders £3,300 and the leisure contract variation £12,000. The total overspend for the year is £114,000.

5.1.8 Investment Interest

Additional investment interest was £507,000 over budget compared with £636,000 at Quarter 3. Despite an increase in the Bank of England base rate from 3.50% to 4.00% on 2 February and then 4.25% on 23 March, there has been a fall in the interest recognised due to a sharp fall in house prices. The movement on shared equity properties are recognised in the interest line in the accounts, and so a fall in house prices has reduced the interest receivable.

5.1.9 Levy Account Surplus

The surplus on the Business Rates Levy Account was distributed to local authorities in the final quarter. The Council's share was £31,000.

6. Virements

- 6.1 Virements up to £50,000 can be approved by Heads of Service under delegated powers and reported to Cabinet for information.
- 6.2 The Head of Economy and Planning has agreed a virement in the capital programme of £25,300 from Cycle Paths to Towns Centre Western Boulevard (cycle improvements).

7. Council Housing (Crawley Homes) - Revenue

7.1 The table below provides details of the 2022/2023 HRA variances.

HOUSING REVENUE ACCOUNT QUARTER 4

Income Rental Income Other Income Interest Received on balances
Expenditure Employees Repairs & Maintenance Other running costs Support services
Net (Surplus) / Deficit Available to fund future investment in housing

Final Variation £000's		Q3 Variation £000's
(322) (318) (140) (780)	U F U F	(336) (207) (233) (776)
46 1,688 758 0 2,492	FUUFU	204 1,306 285 0 1,795
1,712	U	1,019
(1,712)		(1,019)

Further details of these variances are provided in Appendix 1(iii & iv).

7.2 Rental Income

There has been a small reduction in the additional income forecast at Q3 reducing the total underspend to £270,000. This is due to an increase in the number of days taken to turnaround void properties, 55 days in Q3 vs 61 days in Q4, resulting in the number of void properties rising to 73.

Additional income generated from Hostel rents has led to an underspend of £124,000. This is partly due to a substantial decrease in void periods. Additionally in 2021/22 The Orchard had been loaned to Crawley Open House as a response to Covid-19. This arrangement concluded before the beginning of 2022/23, meaning a full year of income was received in 2022/23.

7.3 Interest

Additional investment interest was £138,000 over budget compared with £233,000 at Quarter 3. Despite an increase in the Bank of England base rate from 3.50% to 4.00% on 2 February and then 4.25% on 23 March, there has been a fall in the interest recognised due to a sharp fall in house prices.

7.4 Employees

There has been an underspend of £77,000 on agency staff. The expectation is that this should not repeat moving forwards as there are several projects that will need specialist advice including retrofitting for water neutrality and net zero targets.

There have been several vacancies within Crawley Homes in quarter 4 which has reduced the previously reported £62,000 overspend on unmet vacancy provision to £0.

7.5 Repairs and Maintenance

The final overspend on repairs is £1,531,000. This is due to the previously reported reasons of high inflation leading to a substantial increase in cost per repair for our contractors Mears and Wates, in many cases the cost per repair has increased by 15% or more when compared with 2021/22.

There has been an increase in the amount of Section 20 (S20) works which take a long time to process due to the need to issue notices and consult residents. This has led to delays in external painting schedules resulting in an underspend of £238,000

Our principal Gas contractor has seen significant increases in sub-contracting prices, which combined with several gas engineers leaving their business has resulted in higher costs to ensure we maintained our gas compliancy obligations. The overspend is £138.000.

The overspend resulting from The Housing White Paper making housing providers responsible for identifying and rectifying asbestos issues has risen to £122,000. It is possible further properties may be identified in the future so this will be kept under review and if necessary, future budgets adjusted.

The overspend on fire risk assessments and remedial works where necessary was £39,000 higher than previously anticipated. This means the total overspend was £89,000.

There is an overspend of £55,000 on lightning protection works as a result of additional work that was required to ensure our buildings meet the required safety levels.

7.6 Other Running Costs

There is an overspend of £403,000 on electricity costs because of multiple unexpected increases on electricity bills. Bills that were previously lower than £1,000 a quarter were £15,000 or higher in quarter four. Further work is being done to understand why there has been such a sudden increase and further information will be provided in future monitoring reports.

As a result of high inflation rates there is an overspend on gas costs of £101,000.

There has been a further overspend of £43,000 on Council Tax paid by Crawley Homes because of void properties. This final overspend is £83,000.

8. Capital

8.1 The table below shows the 2022/23 capital outturn and proposed carry forward into 2023/24. Further details on the Capital Programme are provided in Appendix 2 to this report.

	Original Budget 2022/23 £000's	Revised Budget 2022/23 £000's	Outturn 2022/23 £000's	Under/ (over)spend £000's	Re-profiled to/(from) future years £000's
Joint Responsibility	5,910	6,330	7,442	(1,131)	19
Cabinet	500	311	428	0	(117)
Environmental Services & Sustainability	566	636	489	0	147
Housing Services	3,993	2,401	1,353	0	1,048
Planning & Economic Development	4,790	1,501	1,225	0	276
Resources	1,841	329	142	0	187
Wellbeing	1,095	1,084	615	0	469
Total General Fund	18,695	12,592	11,694	(1,131)	2,029
Council Housing	35,060	23,979	19,871	0	4,108
Total Capital	53,755	36,571	31,565	(1,131)	6,137

The original capital budget for 2022/23 was £53.76m which has been revised during the year and reduced to £36.57m and the changes being reported to Cabinet each quarter. The main reasons for the movement between the original budget and the revised budget are due to water neutrality causing delays within planning for the housing programme and delays within the Crawley Growth programme

The projected spend at Quarter 3 was £36.50m and the actual spend was £31.57m with the main variation of £1.20m due to delays in acquiring a temporary accommodation property and £2.98m reduced spend on the HRA programmed maintenance.

- 8.2 The New Town Hall redevelopment is £1,130,900 overspent which is linked to a change in Phase 2 (residential) of the development. A further report will come to a future meeting.
- 8.3 The Temporary accommodation budget has slipped £1,198,550 into 2023/24. The purchase of a property has been delayed due to taking longer to obtain vacant possession, contractual points and to progress through planning. The purchase is progressing and will be completed in 2023/24

- 8.4 Adventure Playgrounds slipped £130,975 into 2023/24 which has now been spent to deliver Millpond unsupervised playground.
- 8.5 Due to lead times in receiving the replacement chiller unit for K2 Crawley the budget of £155,000 has been slipped into 2023/24. This is now on scheduled to be delivered and fitted during the first quarter of 2023/24.
- 8.6 The HRA Improvement Programme has slipped a total of £2,981,713 due to increased number of Section 20 (S20) works as reported in para 7.5. The number of S20's resulted in delays to the delivery program due to the length of time taken to prepare S20 notices and the time taken to deal with the S20 consultation periods including feedback received from leaseholders. Going forward the new asset database will allow for a more accurate record and breakdown of costs and will issue the S20 notices more efficiently.
- 8.7 From the 1st April 2021 the reporting of the use of Right to Buy 1-4-1 receipts to the Department for Levelling Up, Housing & Communities (DLUHC) as moved to an annual return. Other changes are that these receipts now need to be used within 5 years of receipt instead of 3 years and can be used to fund up to 40% of new affordable homes including shared ownership dwellings. This was as a result to responses to Government consultation on Right to Buy receipts.
- 8.8 Within the fourth quarter of 2022/23 thirteen Council Houses have been sold through the Right to Buy scheme with a sale value of £2,457,050, compared to eighteen in the fourth quarter of last year. A proportion of these receipts will be paid over to the Government with the remainder being retained by the Council, being set aside as 1-4-1 receipts and general capital receipts. For 2022/23 and 2023/24, the amount paid over to the Government can be retained by the Council to give more flexibility to the 1-4-1 scheme. The values of each will be calculated within the annual return. [The 1-4-1 arrangement is one where the Council retains a larger proportion of right to buy receipts then they otherwise would, in return for a commitment to spend the addition receipts on building or acquiring properties.]

The total properties sold in 2022/23 was 50, compared to 51 in 2021/22.

- 8.9 The total cumulative 1-4-1 receipts retained is £48,687,808 which can be used to fund 40% of any expenditure on new affordable housing. It cannot be used on schemes supported by Homes and Community Agency (HCA) Funding.
- 8.10 To date, £35,843,348 of 1-4-1 receipts has been used to partially fund the purchase or construction of properties. Any 1-4-1 receipts that are unspent after 5 years are to be returned to the Government with interest. The risk of returning any unspent 1-4-1 receipts is managed by closely monitoring all affordable housing schemes.
- 8.11 49/51 High Street is a Grade 2 listed retail unit with office above property. It is of historical interest to the town given its age which dates back to the 1600's or earlier. The Council purchased the property in 2016 with the benefit of a long lease to Ask restaurants who had a full repairing and insuring lease. As a result of the pandemic Ask went in to administration and the business closed for good. The Council has managed to secure the sub tenant on the first floor as a direct tenant but the ground floor has remained unlet despite it being marketed for nearly two years.

The property is in poor condition and, given its Grade 2 status and historical interest, must be repaired to preserve the building. The Council has a duty both as a landlord and as the local authority to ensure that an important historical building is preserved

for the future. The costs of repairs are estimated at £160,000 which will be funded from capital receipts.

The full repair of the building will also improve the likelihood of finding a tenant who might otherwise have avoided the possibility of having to contribute towards extensive repair work.

Recommendation 2.2(c): Approve a supplementary capital estimate of £160,000 for the repair of 49/51 High Street to be funded from capital receipts.

9. Reserves

9.1 A full breakdown of the reserves is given in the Treasury Management Outturn report elsewhere in this agenda (FIN/264). A summary of the transfers is shown in the table below:

Reserves	Transfer to	Use of
	£'000	£'000
Vehicles and Plant	594	(123)
Capital Programme	209	0
ICT Replacement	100	0
Specialist Equipment at K2 Crawley and The Hawth	100	(45)
Insurance Fund	0	(266)
Risk Management	94	0
Local Development Framework	99	(15)
Health & Wellbeing Grant	38	(9)
Worth Park HLF	0	(15)
Welfare Reform	137	(113)
Transparency	8	0
Tilgate Park Investment	78	(35)
New Museum	13	(2)
Town Centre 75 th Entertainment	0	(5)
EU Exit Funding	0	(41)
Tree Maintenance	160	(24)
Business Rates Pool Cycling	0	(30)
Homeless Accommodation Acquisition	0	(585)
Town Funds	0	(42)
Covid-19 LA Support Grant	0	(817)
Transformation and Project Delivery	0	(301)
Woodland Trust Forestry Work	14	0
Climate Emergency	0	(7)
DEFRA Environment Health	0	(13)
Biodiversity Net Gain Grant	27	0
Learning and Development	50	0

6 0
4 0
0
7 0
3 0
7 0
1 (66)
(41)
(2,962)
1 (1,273)
(6,830)

10. Background Papers

<u>Budget Strategy 2023/24 – 2027/28 FIN/583</u>

2022/2023 Budget Monitoring - Quarter 1 FIN/586

2022/2023 Budget Monitoring - Quarter 2 FIN/594

2022/2023 Budget Monitoring - Quarter 3 FIN/607

2022/2023 Budget and Council Tax FIN/549

Treasury Management Strategy 2022/23 FIN/557

Treasury Management Outturn for 2021/22 FIN/575

Treasury Management Mid-Year Review 2022-2023 FIN/593

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Direct Line: - 01293 438693

Appendix 1 (i)

REVENUE MONITORING SUMMARY 2022/23 GENERAL FUND

	Latest Budget	Outturn	Variance
	£000's	£000's	£000's
Cobinet	(4.077)	(0.000)	404
Cabinet	(4,077)	(3,896)	181
Public Protection & Community Engagement	1,431	1,335	(96)
Environmental Services & Sustainability	5,939	6,195	256
Housing	3,457	5,081	1,624
Wellbeing	10,509	10,449	(60)
Planning & Economic Development	1,965	1,973	8
Resources	3,356	3,485	129
	22,580	24,622	2,042
			T
Depreciation & Impairment	(4,757)	(4,757)	0
Renewals Fund	832	832	0
NET COST OF SERVICES	18,655	20,697	2,042
Investment Interest	(441)	(949)	(508)
MRP	791	791	0
Interest Paid	0	1	1
Council Tax	(7,850)	(7,850)	0
RSG	(63)	(63)	0
NNDR	(3,974)	(3,974)	0
New Homes Bonus	(606)	(606)	0
Service Grant	(251)	(251)	o
Lower Tier Services Grant	(272)	(196)	76
Levy Account Surplus	0	(31)	(31)
Year End Financing	(4,025)	(4,025)	0
Net contribution from / (-to) Reserves	1,964	3,544	1,580

Main Variations identified for 2022/23 - General Fund Appendix 1 (ii)

	Q4 Variation £'000s	Q3 Projected Variation £'000s
<u>Cabinet</u>		
Pay Award (£1,925 per banding)	800	800
Additional Garage Income	(216)	(197)
National Insurance reversal Additional Insurance costs	(58) 63	(58)
Increased Audit Fees	33	63 127
Investment & Operational Properties Agreed Back-Rent	(421)	(414)
Crawley Live Print & Mailing	23	23
Procurement Vacancies	(34)	0
Minor Variations	(9)	(17)
Willion Variations	(3)	(17)
	181	327
Public Protection & Community Engagement		
NASB Team Vacancies	(60)	(29)
Minor Variations	(36)	(27)
	(96)	(56)
Environmental Services & Sustainability		
Public Conveniences Business Rates	(20)	(20)
Community Warden Vacancies	(48)	(65)
Refuse Waste Vehicles & Income	68	0
Port Health Income	51	72
Environmental Health Vacancy Provision	45	39
Kingsgate works	121	80
Minor Variations	39	46
	256	152
Housing		
Homelessness Pressures	1,634	1,364
Benefit Overpayment Bad Debt	(40)	Ô
Minor Variations	30	1
	1,624	1,365
Wellbeing Play Vegeneins	(0.4)	(2.4)
Play Vacancies Tree Centract	(34)	(34)
Tree Contract Playing Fields & Facilities Utilities	(68) 61	(68) 0
Community Centres Reduction in Expected Shortfall	(101)	
K2 Crawley Increase/(Reduction) in Expected Shortfall	15	(37) (13)
Minor Variations	67	54
Tanadono		0 -1

	(60)	(98)
Planning & Economic Development		
Property Built Environment Vacancies and Operational Savings	(87)	(78)
Building Control	51	48
Minor Variations	44	60
	8	30
Resources		
Contact Centre software savings	(20)	(30)
Elections Reduced Staffing Requirement	(8)	(11)
HR Vacancies	(50)	0
Town Hall	120	0
Legal Sub-Contracted	114	83
Minor Variations	(27)	(4)
	129	38
TOTAL GENERAL FUND VARIANCES	2,042	1,758
Investment Interest	(507)	(636)
Levy Account Surplus	(31)	0
Lower Tier Services Grant	76	76
TOTAL VARIANCES	1,580	1,198

Appendix 1 (iii)

QUARTER 4

HOUSING REVENUE ACC	OUNT		
Expenditure Description	Latest Estimate	Outturn	Variation
	£'000s	£'000s	£'000s
Income			
Rental Income	(48,002)	(48,324)	(322)
Other Income	(2,714)	(3,032)	(318)
Interest received on balances	(305)	(445)	(140)
Total income	(51,021)	(51,801)	(780)
Even and iture			
Expenditure Employees	4,165	4,211	46
Repairs & Maintenance	13,488	15,176	1,688
Other running costs	2,119	2,877	758
Support services	3,096	3,096	0
	22,868	25,360	2,492
Net (Surplus) / Deficit	(28,153)	(26,441)	1,712
Use of Reserves:			
Ose of Neserves.			
Debt Interest Payments	8,309	8,307	(2)
Depreciation, Revaluation & Impairment	8,192	8,192	0
Financing of Capital Programme & Transfer to Housing		,	
Reserve for Future Investment	11,652	9,942	(1,710)
Total	28,153	26,441	(1,712)

Appendix 1 (iv)

Main Variations Identified - Housing Revenue Account

<u>Main variations identified - Housing Revenue</u>	Account	
	Q4	Q3
	Variation	Projected
	variation	Variation
	£'000s	£'000s
Income		
Forgewood properties additional rents	(270)	(336)
Interest income	(138)	(233)
Service charges to Leaseholders	(129)	(116)
Hostel rents	(124)	0
Insurance reimbursement for fire damage	(84)	(84)
Minor variations	(35)	(7)
Thin variations	(780)	(776)
Employees	(100)	(110)
	225	225
Anticipated pay award	0	62
Unmet vacancy provision		
Policy & Engagement Manager vacancy	(50)	(32)
External Agency Staff	(77)	0
Vacancies in the programmed maintenance team	(36)	(26)
National Insurance reversal	(11)	(11)
Minor variations	(5)	(14)
	46	204
Repairs & Premises Costs		
Repairs contract	1,531	1,150
External decorations	(238)	0
Gas contract	138	0
Legislative change - Housing providers responsible for identifying asbestos issues	122	95
Fire protection expenditure	89	50
Lightning protection works	55	0
Minor variations	(9)	11
Willion Variations		
Other Punning Costs	1,688	1,306
Other Running Costs	102	20
Electricity Con on a result of high inflation rates	403 101	30
Gas as a result of high inflation rates	101	0
Increase in the amount of Council Tax paid as a result of an increasing number of voids	83	40
Licence costs as a result of the delay to new IT system	56	75
Housing Ombudsman subscription		
· ·	39	39
Insurance costs due to higher build value Increasing number of disrepair claims being made as a result of "no win no	37	37
fee" offers	26	38
Minor variations	13	26
IVIII IVI VAIIAUUI IS		
	758	285
TOTAL VARIANCES	1,712	1,019

2022/23 Qtr. 4 Capital

Note – Slippage is moving budgets between years. If the figure is not in brackets then we are moving the budget to future years, if it is in brackets we are bringing it forward from later years.

Scheme Description	Budget 2022/23	Outturn for 2022/23	Under / (Over Spend)	Slippage	Budget 2023/24	Budget 2024/25	Budget 2025/26	Future Years
	£	£	£	£	£	£	£	£
New Town Hall Redevelopment - Joint responsibility	6,160,470	7,291,369	(1,130,900)	0	0	100,000	0	0
Town Centre Fund					355,000			
Transformation Schemes (including Project Jupiter)	170,000	150,625		19,375	693,538			
Joint responsibility	6,330,470	7,441,994	(1,130,900)	19,375	1,048,538	100,000	0	0
ט	•							
© arages	310,571	427,957		(117,387)	332,613	338,897	300,000	
abinet	310,571	427,957	0	(117,387)	332,613	338,897	300,000	0
ω	<u>.</u>	,						
Phvironmental Services and Sustainability								
Muslim Burial Ground Cemetery	322,380	252,865		69,514	69,514			
Cycle Paths						25,300		
District Heat Network Phase 2	137,834	93,250		44,584	186,651			
Flooding Emergency Works	52,384	44,212		8,172	84,976			
Leat Stream Ifield Flood Alleviation	7,215	7,215						
Tilgate Lake Bank Erosion	30,000	4,056		25,944	145,944			
Water Course Work	86,578	86,578						
Waste Vehicle 2023					3,000,000			
Climate Change Initiative		872		(872)	59,128			
TOTAL ENVIRONMENTAL SERVICES & SUSTAINABILITY PORTFOLIO	636,391	489,048	0	147,342	3,546,213	25,300	0	0
							•	
Housing Enabling (General Fund)								

Scheme Description	Budget 2022/23	Outturn for 2022/23	Under / (Over Spend)	Slippage
	£	£	£	£
Temp Accommodation Acquisitions	1,809,600	611,050		1,198,550
Affordable Housing Town Hall		100,000		(100,000)
Longley House				
Disabled Facilities Grants	575,000	629,231		(54,231)
Improvement/Repair Loans	16,704	13,152		3,552
TOTAL HOUSING (GENERAL FUND) PORTFOLIO	2,401,304	1,353,433	0	1,047,871

Budget 2023/24	Budget 2024/25	Budget 2025/26	Future Years
£	£	£	£
8,937,208			
	3,038,250		
415,000	1,200,000		1,700,000
1,280,306			
18,552			
10,651,066	4,238,250	0	1,700,000

Planning and Economic Development				
Crawley Fusion Innovation Centre	250,000	171,254		78,746
7				
<u>@rawley Growth Programme</u>				
Gueensway	16,083	12,570		3,513
wn Centre Signage and Wayfinding	1,955	1,955		
Town Centre General				
Manor Royal Cycle Improvements				
Town Centre Western Boulevard (cycle improvements)	100,000	140,783		(40,783)
Manor Royal Super Hub				
Station Gateway	116,767	102,134		14,632
Town Centre Super Hub				
Town Centre Commercial Space Development	98,153	63,153		35,000
Three Bridges Station	37,856	64,450		(26,594)
Total Crawley Growth Programme	370,814	385,045	0	(14,232)
Towns Fund				
Manor Royal Business Environment Improvement Programme	350,000	185,060		164,940

3,498,151	859,710		
103,513			
9,532			
71,100			
1,775,935			
819,524			
263,028			
66,500	3,060,000	3,520,000	247,374
		74,231	
1,035,000	4,901,847		
160,000	300,000	857,458	69,936
4,304,132	8,261,847	4,451,689	317,310
664,940	500,000	150,000	

Scheme Description	Budget 2022/23	Outturn for 2022/23	Under / (Over Spend)	Slippage	Budget 2023/24	Budget 2024/25	Budget 2025/26	Future Years
	£	£	£	£	£	£	£	£
Green Business Infrastructure Grants Pillar 1	150,000			150,000	510,000	320,000	170,000	
Green Business Infrastructure Grants Pillar 2	50,000	9,767		40,233	690,233	300,000		
Manor Royal Gigabit	13,495	13,495						
Crawley Homes Green Retrofitting	303,700	447,848		(144,148)	1,087,952	1,232,100	1,232,100	
Invest in Skills	12,569	12,569			3,202,431	1,185,000		
TOTAL PLANNING & ECONOMIC DEVELOPMENT PORTFOLIO	1,500,578	1,225,038	0	275,539	13,957,839	12,658,657	6,003,789	317,310
Panavirana								
Resources Gigabit					1,350,000			
TigT Capital - Future Projects	+				1,350,000			
ew Website And Intranet					52,406			
PCT Transformation Future					25,000			
T Cloud	82,000	3,650		78,350	296,374			
Income Management System	60,000	47,220		12,781	12,781			
Commercial Property System	16,686	16,686		1_,: 0:	1,1.01			
Sharepoint	50,000	22,528		27,472	27,472			
Agile Working	70,000	51,351		18,649	121,328			
Channel Shift					61,000			
Benefits Online and Documentation System					210,000			
Hardware Renewals	50,000			50,000	100,000			
TOTAL RESOURCES PORTFOLIO	328,686	141,435	0	187,252	2,361,761	0	0	0
Wellbeing								
Vehicle Replacement Programme	177,246	199,197		(21,951)	225,303			
Refurb Playgrounds Future Schemes					239,360			
Skate Park Equipment					46,000			

Scheme Description	Budget 2022/23	Outturn for 2022/23	Under / (Over Spend)	Slippage	Budget 2023/24	Budget 2024/25	Budget 2025/26	Future Years
	£	£	£	£	£	£	£	£
Memorial Gardens Improvements					33,400			
Tilgate Park	4,769			4,769	4,769			
Nature & Wildlife Centre	45,905	35,340		10,565	10,565			
Allotments	58,000	17,905		40,095	67,095			
Adventure Playgrounds	161,904	30,928		130,975	308,402			
Memorial Gardens Play Improvements	16,933			16,933	16,933			
Meadowlands					71,565			
Southgate Playing Fields	50,851	6,267		44,584	44,584			
Perkstead Court Play Area Bewbush					22,115			
Park Tennis	271,850	232,429		39,421	39,421			
Nalley Close Play					16,610			
©urteys Walk Play		705		(705)	15,905			
Brideake Play					18,812			
(Makehams Play		1,410		(1,410)	53,590			
Puffin Road Play					19,818			
Browness Close Play					19,818			
Plantain Crescent Play					16,610			
K2 Crawley Replacement Chiller	155,000			155,000	155,000			
Broadfield 3G Lighting	45,000	44,777		223	223			
Changing Places	97,000	46,825		50,175	50,175			
K2 Crawley 3G Pitch Lighting					45,000			
TOTAL WELLBEING PORTFOLIO	1,084,458	615,783	0	468,674	1,541,073	0	0	0
TOTAL GENERAL FUND	12,592,458	11,694,688	(1,130,900)	2,028,666	33,439,103	17,361,104	6,303,789	2,017,310
Housing - HRA (Crawley Homes)								
Improvements -								

Scheme Description	Budget 2022/23	Outturn for 2022/23	Under / (Over Spend)	Slippage
	£	£	£	£
Decent Homes	7,877,903	6,477,902		1,400,000
Renovations	860,472	773,157		87,315
Insulation	1,416,272	755,223		661,049
Renewable Technology/Carbon Efficiency	33,400	109,558		(76,158)
Compliancy Works	1,671,791	880,411		791,381
Boilers & Heating	950,000	975,274		(25,274)
Electrical Test & Inspection	366,889	512,116		(145,228)
Adaptations For The Disabled	900,200	613,604		286,596
Hostels	10,000	7,968		2,032
TOTAL HRA IMPROVEMENTS	14,086,927	11,105,213	0	2,981,713
D	<u>.</u>			
Tither HPA (Crawley Homes)				

Budget 2023/24	Budget 2024/25	Budget 2025/26	Future Years
£	£	£	£
5,429,076	6,500,000	6,500,000	
559,772	650,000	650,000	
3,819,890	1,800,000	1,200,000	
409,062	250,000	250,000	
2,584,576	1,450,000	1,450,000	
1,105,222	1,200,000	1,500,000	
762,232	800,000	850,000	
2,056,967	1,300,000	1,300,000	
280,024	100,000	100,000	
17,006,821	14,050,000	13,800,000	0

Sther HRA (Crawley Homes)			
PRA Database	293,273	240,222	53,051
quisition Of Land Or Dwellings	2,000,000	1,260,752	739,248
Forge Wood		436	(436)
Telford Place Development	74,628	74,106	522
Forge Wood Phase 2	2,566,791	2,493,006	73,785
Forge Wood Phase 3	4,277	4,277	
Forge Wood Phase 4			
Purchase Of Properties	2,680,165	2,680,165	
5 Perryfields	13,500	13,447	53
Carey House	99,999	108,248	(8,248)
Fairlawn House			
Milton Mount Major Works	1,606,870	1,576,131	30,739
Breezehurst Phase 2	161,005	15,013	145,993
Orchards Hostel			
Water Neutrality	170,000	121,124	48,876

53,051			
11,857,333			
12,413	1,235,389	1,128,115	743,013
234,179	1,150,000	10,020,000	9,168,971
73,785			
4,034,751	4,121,344	4,277,787	
188,053	372,076	33,042	
91,752			
207,134			
30,739			
4,703,250	8,789,182	1,028,653	199,916
		338,485	
448,876	500,000		

Scheme Description	Budget 2022/23	Outturn for 2022/23	Under / (Over Spend)	Slippage
	£	£	£	£
Contingencies				
Prelims	221,788	178,675		43,114
Lifeline Digital Switchover				
TOTAL OTHER HRA	9,892,296	8,765,602	0	1,126,697

Budget 2023/24	Budget 2024/25	Budget 2025/26	Future Years
£	£	£	£
1,137,311	222,191		
245,949			
60,000	60,000		
23,378,576	16,450,182	16,826,082	10,111,900

TOTAL HRA	23,979,223	19,870,815	0	4,108,410
TOTAL CAPITAL PROGRAMME	36 571 681	31 565 503	(1 130 900)	6 137 076

40,385,397	30,500,182	30,626,082	10,111,900
73,824,500	47,861,286	36,929,871	12,129,210

FUNDED BY

Tapital Receipts	(7,615,934)	(8,038,142)	(1,130,900)	(452,276)
apital Reserve				
Better Care Fund (formally DFGs)	(575,000)	(629,231)		(54,231)
External Funding	(3,072,947)	(1,593,146)		(1,627,754)
HRA Revenue Contribution	(11,429,526)	(8,387,451)		(3,042,074)
Replacement Fund/Revenue Financing	(1,771,890)	(1,446,801)		(325,089)
Section 106	(331,685)	(146,029)		(185,656)
1-4-1	(3,076,682)	(2,626,686)		(449,996)
Borrowing	(8,698,017)	(8,698,017)		
TOTAL FUNDING	(36,571,681)	(31,565,503)	(1,130,900)	(6,137,076)

(73,824,500)	(47,861,286)	(36,929,871)	(12,129,210)
(11,676,000)			
(7,998,605)	(7,741,568)	(6,581,822)	(4,044,761)
(1,189,223)	(886,000)	(64,766)	(109,312)
(4,593,243)	(338,897)	(300,000)	
(26,358,503)	(24,484,927)	(24,044,260)	(6,067,140)
(12,714,187)	(8,427,859)	(4,999,040)	
(1,280,306)			
(1,946,569)	(314,000)		(586,000)
(6,067,864)	(5,668,035)	(939,983)	(1,321,997)

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Agenda Item 7 Crawley Borough Council

Report to Overview and Scrutiny Commission 26 June 2023

Report to Cabinet 28 June 2023

Treasury Management Outturn 2022-2023

Report of the Head of Corporate Finance – FIN/624

1. Purpose

- 1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.2 During 2022/23 the minimum reporting requirements were that the Full Council should receive the following reports:
 - an Annual Treasury Strategy in advance of the year (Council 23/02/2022, FIN/557)
 - a mid-year treasury update report (Council 14/12/2022, FIN/593)
 - an annual review following the end of the year describing the activity compared to the Strategy (this report)
- 1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
- 1.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Overview and Scrutiny Commission before they were reported to the Full Council.

2. Recommendations

2.1 To the Overview and Scrutiny Commission:

That the Commission consider the report and decide what comments, if any, it wishes to submit to the Cabinet.

2.2 To the Cabinet

The Cabinet is recommended to:

- a) To approve the actual 2022/23 Prudential and Treasury Indicators as set out in the report;
- b) To note the Annual Treasury Management Report for 2022/23.

3. Reasons for the Recommendations

3.1 The Council's financial regulations, in accordance with the CIPFA Code of Practice for Treasury Management, requires an annual review following the end of the year describing the activity compared to the Strategy. This report complies with these requirements.

4. The Council's Capital Expenditure and Financing

- 4.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:
 - Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions, etc.), which has no resultant impact on the Council's borrowing need; or
 - If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
- 4.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund £'000	2021/22 Actual	2022/23 Budget	2022/23 Actual
Capital expenditure	31,416	18,845	11,739
Non-financial investments	0	0	0
Financed in year	31,416	13,345	11,695
Unfinanced capital expenditure	0	5,500	44

HRA £'000	2021/22 Actual	2022/23 Budget	2022/23 Actual
Capital expenditure	13,927	35,060	19,871
Financed in year	13,927	35,060	11,173
Unfinanced capital expenditure	0	0	8,698

5. The Council's Overall Borrowing Need

5.1 On 31st March 2023, the Council had net borrowing of £151.300m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in the table below.

£'000	31 March 2023 Actual
CFR General Fund	18,029
CFR HRA	249,325
Total CFR	267,354
External borrowing	249,325

£'000	31 March 2023 Actual
Under borrowing	18,029
Less: Usable reserves	86,245
Less: Working capital	11,780
Net borrowing	151,300

- 5.2 The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.
- 5.3 **The authorised limit** the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2020/21 the Council has maintained gross borrowing within its authorised limit.
- 5.4 **The operational boundary** the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.
- 5.5 **Actual financing costs as a proportion of net revenue stream** this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

General Fund £'000	2022/23
Authorised limit	1,000
Maximum gross borrowing position during the year	769
Operational boundary	1,000
Average gross borrowing position	2
Financing costs as a proportion of net revenue stream	-1.33%

HRA £'000	2022/23
Authorised limit	270,325
Maximum gross borrowing position during the year	260,325
Operational boundary	260,325
Average gross borrowing position	260,204
Financing costs as a proportion of net revenue stream	15.31%

6. Treasury Position as at 31 March 2023

6.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

6.2 **Security**

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Actual 31 March 2023	2022/23 Target	Complied?	
Portfolio average credit rating	A+	Α	✓	

6.3 **Liquidity**

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	Actual 31 March 2023	2022/23 Target	Complied?
Total cash available within 3 months	£63.0m	£3m	✓

6.4 Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Interest rate risk indicator	Actual 31 March 2023	2022/23 Target	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£0.878m	£1m	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	£(0.878)m	£(1)m	✓

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

6.5 Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31 March 2022 Actual £000	2022/23 Original Limits	31 March 2023 Actual £000	Complied?
Under 12 months	11,000 (4%)	10%	12,000 (5%)	✓
12 months and within 24 months	12,000 (5%)	10%	13,000 (5%)	✓
24 months and within 5 years	41,000 (16%)	20%	44,000 (18%)	✓
5 years and within 10 years	92,000 (35%)	40%	98,000 (39%)	✓
10 years and within 20 years	104,325 (40%)	55%	82,325 (33%)	✓
20 years and within 30 years	0 (0%)	10%	0 (0%)	✓
30 years and within 40 years	0 (0%)	10%	0 (0%)	✓
40 years and within 50 years	0 (0%)	10%	0 (0%)	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

6.6 Principal sums invested for periods longer than a year

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities greater than one year beyond the period end were:

	2022/23	2023/24	2024/25
Actual principal invested beyond year end	£5m	£0m	£0m
Limit on principal invested beyond year end	£20m	£20m	£20m
Complied?	✓	✓	✓

6.7 The treasury management position at 31st March 2023 and the change during the year is shown in the table below.

Treasury Management Summary	31.3.22 Balance £000	Movement £000	31.3.23 Balance £000	31.3.23 Rate %
Long-term borrowing	249,325	(12,000)	237,325	3.2
Short-term borrowing	11,000	1,000	12,000	2.7
Total borrowing	260,325	0	249,325	3.2
Long-term investments	9,996	(4,996)	5,000	0.50
Short-term investments	98,893	(30,597)	68,296	1.33
Cash and cash equivalents	20,056	4,673	24,729	3.06
Total investments	128,945	(30,920)	98,025	1.72
Net borrowing	131,380	19,920	151,300	

7. Borrowing Update and Outturn for 2022/23

- 7.1 The Council was not planning to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code.
- 7.2 At 31st March 2023 the Council held £249.325m of loans, a decrease of £11m to 31st March 2022, which was all for the HRA self-financing settlement.
- 7.3 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

- 7.4 The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March around 2% 4% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Particularly dramatic rises were seen in September after Liz Truss' 'mini-budget' included unfunded tax cuts and additional borrowing to fund consumer energy price subsidies: over a twenty-four-hour period some PWLB rates increased to 6%. Rates have now fallen from September peaks but remain volatile and well above recent historical norms. The PWLB 10 year maturity certainty rate stood at 4.33% at 31st March 2023, 20 years at 4.70% and 30 years at 4.66%.
- 7.5 A new HRA PWLB rate of gilt yield plus 0.4% (0.4% below the currently available certainty rate) was announced on 15th March 2023. This discounted rate is to support local authorities borrowing for Housing Revenue Accounts and the delivery of social housing and is expected to be available from June 2023, initially for a period of one year.
- 7.6 In keeping with these objectives, no new borrowing was undertaken.

8. Investment strategy and control of interest rate risk

- 8.1 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.
- 8.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £97.6 and £150.9 million due to timing differences between income and expenditure. The investment position is shown in the table below.

INVESTMENT PORTFOLIO	Actual 31 March 2022 £000	Net Movement £000	Actual 31 March 2023 £000	31 March 2023 Income Return %	31 March 2023 Weighted Average Maturity Days
Treasury investments					
UK Banks	556	(177)	379	1.50%	3
Government	17,189	(5,893)	11,296	2.31%	138
Local authorities	91,700	(29,700)	62,000	1.08%	122
Money Market Funds	9,500	4,850	14,350	4.09%	3
Cash plus funds	10,000	0	10,000	1.65%	5
TOTAL TREASURY INVESTMENTS	128,945	(30,920)	98,025	1.60%	177

8.3 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and

- return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 8.4 Bank Rate has increased from 0.75% at the beginning of the year to 4.25% at the end of March 2023. Short-dated cash rates, which had ranged between 0.7% 1.5% at the beginning of April, rose by around 3.5% for overnight/7-day maturities and 3.3% for 6-12 month maturities.
- 8.5 By the end of March 2023, the rates with the Debt Management Account Deposit Facility (DMADF) ranged between 4.05% and 4.15% depending on the deposit maturity. The return on the Council's sterling Low Volatility Net Asset Value (LVNAV) Money Market Funds ranged between 0.44% 0.69% in early April and between 3.83% and 4.12% at the end of March
- 8.6 The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in the table below.

Investments managed in-house	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2022	4.39	AA-	8%	192	0.27
31.03.2023	4.91	A+	17%	104	1.72
Similar Las	4.74	A+	63%	56	3.55
All LAs	4.71	A+	59%	12	3.66

- 8.7 **Externally Managed Pooled Funds**: £10m of the Council's investments is invested in externally managed strategic pooled cash plus funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of £0.165m (1.65%), which is used to support services in year, and £0.074m (0.74%) of unrealised capital loss.
- 8.8 The negative correlation between bonds and equities, which had featured for some years, turned positive in 2022 as both bonds and equities sold off simultaneously against an outlook of sticky inflation and high interest rates. Simultaneously, tighter financial conditions, higher bond yields and challenges in some segments of commercial real estate (e.g. offices post-COVID, high street shops and shopping centres) saw commercial property values fall during 2022, with a large fall in the final calendar quarter.

Dividends continued to be received from the Council's cash plus funds, the payout increasing for most funds in the portfolio.

The change in the Council's funds' capital values and income earned over the 12-month period is shown in 8.2.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move

both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

8.9 The DLUHC published a consultation on the IFRS 9 pooled investment fund statutory override for English authorities for fair value gains and losses on pooled investment funds which was due to expire with effect from 2023/24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. The override will be extended for two years and therefore remain in place for the 2023/24 and 2024/25 financial years. Under the Regulations, gains and losses resulting from unrealised fair value movements relating to treasury pooled investment funds, that otherwise must be recognised in profit or loss under IFRS 9, are not charges to the revenue account, and must be taken into an unusable reserve account.

9. Non-Treasury Investments

9.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

9.2 The Council held £44.841m of commercial investments in directly owned properties.

A full list of the Council's commercial investments is in the table below:

	Purchase Cost £000	Fair Value as at 31/03/2023 £000	Income for year 2022/23 £000	Rate of return %
Atlantic House	4,633	3,574	89	2.49
49-51 High Street	1,576	1,145	12	1.08
Ashdown House	7,915	8,085	386	4.78
Others	N/A	4,896	108	2.20
Sub-total	14,124	17,700	595	3.36
The Create Building	29,582	27,141	0	
TOTAL	43,706	44,841	1,083	

The Create Building was completed in year but currently has no tenants.

- 9.3 The Council also held £52.568m of service investments in
 - directly owned property £52.268m
 - loan to The Hawth £0.3m

Service investments are not held primarily for financial return and support service objectives of the Council.

10. Investment Outturn for 2022/23

- 10.1 Investment Policy the Council's investment policy is governed by Government guidance, which was been implemented in the annual investment strategy approved by the Council on 23 February 2022. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data such as rating outlooks and credit default swaps.
- 10.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 10.3 **Resources** the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows.

Balance Sheet Resources (£'000)	31 March 2022	31 March 2023
General Fund Balance	5,457	6,000
HRA Balance	3,198	3,237
Earmarked reserves (Appendix 3)	20,056	16,918
Major Repairs Reserve	27,007	36,746
Usable capital receipts	19,831	23,344
Working capital	53,396	11,780
Total	128,945	98,025

10.4 **Investments held by the Council** - the Council maintained an average balance of £137,906,525 of internally managed funds. The internally managed funds earned an average rate of return of 1.05%. See appendix 2 for a list of investments held at 31 March 2023. Revisions of the capital programme in the year (see 4.2) led to higher investment balances than budgeted.

11. Implications

11.1 The financial and legal implications are addressed throughout this report. The Council's investments were managed in compliance with the Treasury Management Code and the Prudential Code through the year.

12. Background Papers

<u>Treasury Management Strategy for 2022/2023 – Cabinet, 2 February 2022 [FIN/557 refers]</u>

<u>Treasury Management Mid-Year Review 2022/23 – Cabinet, 23 November 2022</u> [FIN/593 refers]

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Economic background

The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.

Following the decision by the UK government under Rishi Sunak and Jeremy Hunt to reverse some of the support to household energy bills announced under Liz Truss, further support in the form of a cap on what energy suppliers could charge household was announced in the March Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April.

The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate 3mth/year eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December. The most recent information for the period December-February showed an unemployment rate of 3.7%.

The inactivity rate was 21.3% in the December-February quarter, slightly down from the 21.4% in the first quarter of the financial year. Nominal earnings were robust throughout the year, with earnings growth in December-February at as 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for inflation, however, both measures were negative for that period and have been so throughout most of the year.

Despite household budgets remaining under pressure, consumer confidence rose to -36 in March, following readings of -38 and -45 in the previous two months, and much improved compared to the record-low of -49 in September. Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. For the October-December period was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Q4 was 0.6%.

The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February

and then 25bps in March, taking Bank Rate to 4.25%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

After reaching 9.1% in June, annual US inflation slowed for eight consecutive months to 6% in February. The Federal Reserve continued raising interest rates over the period with consecutive increases at each Federal Open Market Committee meetings, taking policy rates to a range of 4.75%- 5.00% at the March meeting.

From the record-high of 10.6% in October, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in March, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.

Financial markets

Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

Credit review

Early in the period, Moody's affirmed the long-term rating of Guildford BC but revised the outlook to negative. The agency also downgraded Warrington BC and Transport for London.

In July Fitch revised the outlook on Standard Chartered and Bank of Nova Scotia from negative to stable and in the same month Moody's revised the outlook on Bayerische Landesbank to positive. In September S&P revised the outlook on the Greater London Authority to stable from negative and Fitch revised the outlook on HSBC to stable from negative.

The following month Fitch revised the outlook on the UK sovereign to negative from stable. Moody's made the same revision to the UK sovereign, following swiftly after with a similar move for a number of local authorities and UK banks including Barclays Bank, National Westminster Bank (and related entities) and Santander.

During the last few months of the reporting period there were only a handful of credit changes by the rating agencies, then in March the collapse of Silicon Valley Bank (SVB) in the US

quickly spilled over into worries of a wider banking crisis as Credit Suisse encountered further problems and was bought by UBS.

Credit Default Prices had been rising since the start of the period on the back of the invasion of Ukraine, and in the UK rose further in September/October at the time of the thengovernment's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the period as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.

On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remains under constant review.

Local authorities remain under financial pressure, but Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree caution is merited with certain authorities.

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Counter Party	Deal Ref	Issue	Maturity	Days to Mature	Interest Rate	Nominal (£m)	Total (£m)	Limit (£m)	Rating
UK BANKS									
Lloyds Bank plc	20		01/04/2023	3	1.500%	0.379	0.379	10.000	A+
CENTRAL GOVERNMENT									
DMADF Cash Account	2783	31/03/2023	05/04/2023	5	4.050%	6.300	6.300	Unlimited	
United Kingdom Gilts	2672	18/06/2021	31/01/2024	306	0.125%	5.000	4.996	15.000	AA-
LOCAL AUTHORITIES									
Aberdeenshire Council	2729	18/11/2022	01/08/2023	123	1.200%	5.000	5.000	15.000	AA-
Blaenau Gwent County Borough Council	2702	08/04/2022	06/04/2023	6	0.280%	2.000			
	2703	27/05/2022	26/05/2023	56	0.280%	3.000	5.000	15.000	AA-
Brentwood Borough Council	2710	27/10/2022	25/08/2023	147	1.300%	3.000	3.000	15.000	AA-
Cambridgeshire CC	64	22/07/2022	22/01/2024	297	1.000%	5.000	5.000	15.000	AA-
Derbyshire County Council	2721	31/10/2022	31/05/2023	61	1.000%	2.000	2.000	15.000	AA-
Eastleigh Borough Council	2732	16/01/2023	17/04/2023	17	1.120%	5.000	5.000	15.000	
Guildford Borough Council	2734	02/12/2022	03/04/2023	3	0.970%	5.000	5.000	15.000	
Kirklees Metropolitan Council	2698	01/04/2022	02/04/2024	368	0.500%	5.000	5.000	15.000	
Lancashire CC	2749	01/11/2022	01/11/2023	215	2.500%	2.000	2.000	15.000	
City of Liverpool	2727	30/11/2022	31/05/2023	61	1.150%	5.000	5.000	15.000	AA-
North Lanarkshire Council	2752	15/09/2022	19/07/2023	110	2.250%	5.000	5.000	15.000	
Royal Borough of Windsor & Maidenhea	d 2717	30/09/2022	29/09/2023	182	1.200%	5.000	5.000	15.000	
Rotherham Metropolitan Borough Counc		18/06/2021	16/06/2023	77	0.450%	5.000	5.000	15.000	
Stockport MBC	2725	11/11/2022	11/05/2023	41	1.100%	5.000	5.000	15.000	AA-
MONEY MARKET FUNDS									
Aberdeen Liquidity Fund	5		01/04/2023	3	4.055%	3.550	3.550	6.000	AAA
The Public Sector Deposit Fund	6		01/04/2023	3	4.122%	4.950	4.950	5.400	AAA
Deutsche Managed Sterling Fund	3		01/04/2023	3	4.080%	5.000	5.000	6.000	AAA
Federated Prime Rate Cash Man	1		01/04/2023	3	4.092%	0.850	0.850	6.000	AAA
STRATEGIC FUNDS									
Royal London	2714		01/04/2023	5	1.650%	10.000	10.000	10.000	A+
				94			98.025		
				94			98.025		

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Counter Party	Deal Ref	Issue	Maturity	Days to Mature	Interest Rate	Nominal (£m)	Total (£m)	Limit (£m)	Rating
INVESTMENT PROPERTIES									
Ashdown House 49-51 High Street Atlantic House The Create Building Others						-	8.085 1.145 3.574 27.141 4.896		
							44.841		
							142.866		

Earmarked Reserves

Earmarked Reserves	Deleves of	Tuenefere	Tuenefere	Deleves of
	Balance at 31 March	Transfers Out	Transfers In	Balance at 31 March
	2022	2022/23	2022/23	2023
	£'000	£'000	£'000	£'000
General Fund:				
Capital Programme	2,293	-	209	2,502
Restructuring Impact Reserve	400	-	-	400
Vehicles and Plant	1,632	(123)	594	2,103
Insurance Fund	378	(266)	-	112
ICT Replacement	260	-	100	360
Specialist Equipment at K2 Crawley and Hawth	266	(45)	100	321
Risk Management	265	-	94	359
Heritage Strategy	18	-	-	18
Pathfinder	24	-	-	24
Local Development Framework	423	(15)	99	507
Health & Wellbeing Grant	223	(9)	38	252
Connecting Communities	48	-	-	48
Homeless grant	141	-	-	141
Town Centre and Regeneration Reserve	254	-	-	254
Waste Collection	226	-	-	226
Worth Park HLF	33	(15)	-	18
Grant to voluntary organisations	58	-	-	58
Welfare Reform	397	(113)	137	421
Transparency	1	-	8	9
Shore gap fund	7	-	-	7
Tilgate Park Investment	268	(35)	78	311
New Museum	59	(2)	13	70
Town Centre 75 th Entertainment	5	(5)	-	-
EU Exit Funding	91	(41)	-	50
Park Improvement Fund	87	(24)	160	223
Business Rates Pool Cycling	102	(30)	-	72
Homeless Accommodation Acquisition	1,529	(585)	-	944
Queen Square	381	-	-	381
Supported Accommodation	120	-	-	120
Town Funds	45	(42)	-	3
Covid-19 LA Support Grant	817	(817)	-	-
HMO Licenses	46	-	-	46

	Balance at 31 March 2022 £'000	Transfers Out 2022/23 £'000	Transfers In 2022/23 £'000	Balance at 31 March 2023 £'000
Transformation and Project Deliver	500	(301)	-	199
Woodland Trust Forestry Work	27	-	14	41
Climate Emergency	7	(7)	-	-
DEFRA Environment Health	17	(13)	-	4
Biodiversity Net Gain Grant	10	-	27	37
Garage maintenance	169	-	-	169
Learning and Development	55	-	50	105
Town Hall Equalisation	150	-	206	356
Licensing New Burdens	14	-	4	18
Election new burden	-	-	10	10
Town fund – Innovation centre	-	-	97	97
Town fund – Cultural Quarter	-	-	63	63
Cost of living	-	-	307	307
CBC Earmarked Reserves	11,846	(2,488)	2,408	11,766
Business Rates Equalisation*	7,962	(2,962)	-	5,000
Covid Grants*	167	(66)	11	112
Council Tax Income Guarantee*	81	(41)	-	40
Total Earmarked Reserves	20,056	(5,557)	2,419	16,918

Other Information

Revised CIPFA codes, Updated PWLB Lending Facility Guidance: In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. The Council has opted to defer until 2023/24.

To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version. The Council will follow the same process as the Prudential Code, i.e. delaying changes in reporting requirements to the 2023/24 financial year.

IFRS 16: The implementation of the new IFRS 16 Leases accounting standard has an optional delay until 2024/25. The Council have opted to adopt IFRS 16 from 1st April 2022.



THE "EXECUTIVE" FUNCTION (THE LEADER AND THE CABINET)

Cabinet Member for Leisure and Wellbeing

Service Area Responsibilities: They will carry out responsibilities with regards to the following service areas:

- a) Health and Wellbeing (local and strategic issues).
- b) Sport and fitness.
- c) Parks, gardens and open spaces (including allotments, trees and recreational space).
- d) Play service.
- e) Community centres.
- f) The Hawth and K2 Crawley/ Bewbush Centre

Policy and Strategy Responsibilities: They will oversee, and where applicable, approve the development of plans, statutory notices and policies within the above service areas, ensuring appropriate consultation occurs on all such proposals, including:

a) Implementation of the Green Space Strategy (formulation of this Strategy remains with the Cabinet Member for Planning and Economic Development).

Specific Delegations: They do not currently hold any specific delegations.

Outside Bodies: They will be a member of the following Cabinet appointed outside body:

a) Gatwick Greenspace Partnership.

NB. All Cabinet Members may be substitute for another Cabinet Member on any of the Cabinet appointed outside bodies

