

# Public Document Pack



**Cherwell**

DISTRICT COUNCIL  
NORTH OXFORDSHIRE

**Committee:** Budget Planning Committee

**Date:** Tuesday 17 January 2023

**Time:** 6.30 pm

**Venue:** Bodicote House, Bodicote, Banbury, Oxon OX15 4AA

## Membership

**Councillor Patrick Clarke  
(Chairman)**

Councillor Hugo Brown

Councillor John Donaldson

Councillor David Hingley

Councillor Angus Patrick

Councillor Fraser Webster

**Councillor Douglas Webb (Vice-Chairman)**

Councillor Phil Chapman

Councillor Donna Ford

Councillor Matt Hodgson

Councillor Chris Pruden

Councillor Sean Woodcock

## AGENDA

### 1. Apologies for Absence and Notification of Substitute Members

### 2. Declarations of Interest

Members are asked to declare any interest and the nature of that interest which they may have in any of the items under consideration at this meeting.

### 3. Minutes (Pages 5 - 10)

To confirm as a correct record the minutes of the meeting held on 6 December 2022.

### 4. Chairman's Announcements

To receive communications from the Chairman.

### 5. Urgent Business

The Chairman to advise whether they have agreed to any item of urgent business being admitted to the agenda.

6. **Capital and Investment Strategy 2023-24** (Pages 11 - 34)

Report of Assistant Director of Finance (Section 151 Officer)

**Purpose of report**

To consider the draft Capital and Investment Strategy for 2023-24.

**Recommendations**

The meeting is recommended to:

- 1.1 To recommend the draft strategy for 2023-24 to Executive.

7. **Reserve Strategy and Medium Term Reserves Plan 2023/24** (Pages 35 - 48)

Report of Assistant Director of Finance (Section 151 Officer)

**Purpose of report**

To update Budget Planning Committee (BPC) on the Review of Reserves that has taken place in preparation of the budget for 2023/24 and the Medium-Term Financial Strategy (MTFS) 2023/24 – 2027/28.

**Recommendations**

The meeting is recommended:

- 1.1 To note the outcome of the review of reserves and the forecast over the MTFS period.
- 1.2 To provide the Executive with feedback on whether the Committee supports the draft reserve allocations.

8. **Review of Committee Work Plan**

To review the Committee Work Plan.

**Councillors are requested to collect any post from their pigeon hole in the Members Room at the end of the meeting.**

**Information about this Meeting**

**Apologies for Absence**

Apologies for absence should be notified to [democracy@cherwell-dc.gov.uk](mailto:democracy@cherwell-dc.gov.uk) or 01295 221534 prior to the start of the meeting.

**Declarations of Interest**

Members are asked to declare interests at item 2 on the agenda or if arriving after the start of the meeting, at the start of the relevant agenda item.

## **Local Government and Finance Act 1992 – Budget Setting, Contracts & Supplementary Estimates**

Members are reminded that any member who is two months in arrears with Council Tax must declare the fact and may speak but not vote on any decision which involves budget setting, extending or agreeing contracts or incurring expenditure not provided for in the agreed budget for a given year and could affect calculations on the level of Council Tax.

### **Evacuation Procedure**

When the continuous alarm sounds you must evacuate the building by the nearest available fire exit. Members and visitors should proceed to the car park as directed by Democratic Services staff and await further instructions.

### **Access to Meetings**

If you have any special requirements (such as a large print version of these papers or special access facilities) please contact the officer named below, giving as much notice as possible before the meeting.

### **Mobile Phones**

Please ensure that any device is switched to silent operation or switched off.

### **Queries Regarding this Agenda**

Please contact Matt Swinford, Democratic and Elections Team [democracy@cherwell-dc.gov.uk](mailto:democracy@cherwell-dc.gov.uk), 01295 221534

**Yvonne Rees**  
**Chief Executive**

Published on Monday 9 January 2023

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## **Cherwell District Council**

### **Budget Planning Committee**

Minutes of a meeting of the Budget Planning Committee held at Bodicote House, Bodicote, Banbury, Oxon OX15 4AA, on 6 December 2022 at 6.30 pm

#### Present:

Councillor Patrick Clarke (Chairman)  
Councillor Douglas Webb (Vice-Chairman)  
Councillor Hugo Brown  
Councillor Phil Chapman (and also Portfolio Holder for Healthy Communities)  
Councillor John Donaldson  
Councillor Donna Ford  
Councillor David Hingley  
Councillor Angus Patrick  
Councillor Chris Pruden  
Councillor Fraser Webster  
Councillor Sean Woodcock

#### Substitute Members:

Councillor Andrew Crichton (In place of Councillor Matt Hodgson)

#### Apologies for absence:

Councillor Matt Hodgson

#### Also Present:

Councillor Nicholas Mawer - Portfolio Holder for Housing  
Councillor Adam Nell - Portfolio Holder for Finance  
Councillor Sandy Dallimore - Chairman of Overview and Scrutiny Committee

#### Also Present Virtually:

Councillor Barry Wood - Leader of the Council and Portfolio Holder for Policy and Strategy  
Councillor Ian Corkin - Deputy Leader and Portfolio Holder for Regeneration and Economy  
Councillor Colin Clarke - Portfolio Holder for Planning  
Councillor Richard Mould - Portfolio Holder for Corporate Services  
Councillor Eddie Reeves - Portfolio Holder for Safe Communities  
Councillor Dan Sames - Portfolio Holder for Cleaner and Greener Communities

Officers:

Stephen Hinds, Corporate Director Resources  
Michael Furness, Assistant Director Finance & S151 Officer  
David Peckford, Assistant Director Planning & Development  
Ed Potter, Assistant Director Environmental Services  
Nicola Riley, Assistant Director Wellbeing & Housing  
Shiraz Sheikh, Assistant Director Law, Governance & Democratic Services/Monitoring Officer  
Joanne Kaye, Strategic Finance Business Partner  
Natasha Clark, Governance and Elections Manager  
Matt Swinford, Democratic and Elections Officer

Officers Attending Virtually:

Yvonne Rees, Chief Executive  
Ian Boll, Corporate Director Communities  
Claire Cox, Assistant Director Human Resources  
Robert Jolley, Assistant Director Growth & Economy  
Andrew Low, Assistant Director Property Interim  
Shona Ware, Assistant Director Customer Focus  
Richard Webb, Assistant Director Regulatory Services & Community Safety  
Mark Duff, ICT & Digital Lead Consultant

17 **Declarations of Interest**

There were no declarations of interest.

18 **Minutes**

The Minutes of the meeting held on 25 October 2022 were agreed as a correct record and signed by the Chairman.

19 **Chairman's Announcements**

There were no Chairman's announcements.

20 **Urgent Business**

There were no items of urgent business.

21 **Budget Proposals 2023/24 - 2027/28**

The Assistant Director of Finance submitted a report which set out the capital bids and revenue savings proposals and budget pressures for Cherwell District Council (CDC) for the period 2023/24 to 2027/28. This was an opportunity for the Budget Planning Committee to consider the proposals and provide feedback to Executive to consider in finalising its budget proposals which would be presented to the 27 February 2023 Full Council meeting.

The Leader of the Council advised the Committee that the budget proposals were subject to a number of assumptions regarding the level of funding made to the council by Central Government. The Autumn statement had implied that there would not be any significant short-term reductions to local government funding, but provisional Local Government Finance Settlement for 2023/24, which sets out the specific funding levels for councils, was expected to be published in late December.

The Assistant Director of Finance presented an update on the council's Medium Term Financial Strategy (MTFS) and advised that inflation, funding assumptions, reserves movements, the impacts of Covid-19 and the delay in the business rates reset until 2025/26 had been included when updating the MTFS position.

The Assistant Director of Finance presentation also provided an update on the overall capital position advising that of the £18m capital bid total, £14m was funded from external contributions.

In response to Members' questions, the Assistant Director of Finance advised that it was expected that most of the grant schemes used to fund capital bids would be received as there had not been any announcement or indication from the Government that these would end.

Executive Portfolio Holders, Corporate Directors and Assistant Directors gave an overview of the pressures, proposed saving and capital bids by service area within each directorate and answered questions from the Committee.

In response to a question regarding Housing Assets pressures, the Assistant Director Wellbeing and Housing Services advised that it was not anticipated that Town Centre House would be shown in next year's budget pressures as the work required on the building was expected to be finished by the end of 2023.

Following further questions from Members', the Assistant Director Wellbeing and Housing Services advised that the proposed rent increase for affordable rent and shared ownership properties was in accordance with government guidance for social housing and consultation was currently underway on the rent increase cap. The Assistant Director Wellbeing and Housing undertook to provide details on the potential numbers of residents affected by rent capping.

In relation to the leisure facilities utility costs budget pressure, in response to questions from the Committee seeking clarity on how the figure was reached, the Assistant Director Wellbeing and Housing Services explained that the figure was based on the current energy usage figures over the last 15 months

and by taking into account the rate of the cost of energy. The Assistant Director Wellbeing and Housing Service also explained that no figures were listed in the budget for the energy created by the councils solar investments as the energy produced was being used in the facilities.

In a response to a query regarding the Sports Development saving to adopt a full cost recovery model for the council run holiday activities programme, the Portfolio Holder for Healthy Communities advised that it was intended that enough income would be generated to cover costs. Support would be provided to residents on an assessment of need basis.

In response to Members' questions regarding the car parking budget pressure, adjusting the car parks income budget from 2023/24, the Portfolio Holder for Safer Communities and the Assistant Director of Environmental Services explained that previous years budgets had assumed a recovery of lost income as a result of the covid pandemic. The pandemic and the change of retail offering in the two main towns in the district had had an impact on the usage of council owned car parks. The Assistant Director of Environmental Services advised that this was a national problem. The council's Parking Strategy was due for review and would consider long term options in relation to council owned car parks.

Following questions from Members' regarding council income from Pioneer Square car park in Bicester, the Portfolio Holder for Cleaner and Greener Communities advised that the car park was not owned by the council. The Assistant Director of Finance undertook to advise the Committee of the arrangement regarding the car park.

In response to questions regarding the payment machines in the council owned car parks, the Assistant Director of Environmental Services advised that the current contract with APCOA was coming to an end. Officers were looking at other arrangements and part of the Car Parking Strategy would be to ensure that it was easier for people to pay in car parks.

In response to Members' questions regarding Electric Vehicle (EV) charges being a potential revenue stream, the Assistant Director of Environmental Services advised that EV charging points have been installed in five council owned car parks as part of a countywide project. There had been no cost to the council for the infrastructure. EZ-Charge, which had funded the installation currently received profits from these charging points however after 10 years the infrastructure becomes the ownership of the council. CDC had signed up to the Oxfordshire EV Strategy and 7.5% of council owned car park spaces would have EV chargers, however it would not be a great income stream until the usage of electric vehicles increased.

In relation to Members' questions regarding the capital bid for the transformation of Market Square in Bicester (as part of the Reimagining Bicester Outline Plan), the Portfolio Holder for Regeneration and Economy explained that the grant being used was a grant it was possible to repurpose. Work was commencing on the plan for the transformation of Market Square



and the Portfolio Holder Regeneration and Economy assured the Committee that concerns regarding maintenance would be reported to officers.

In response to Members' questions regarding the budget pressure relating to investment properties reduced income, the Assistant Director of Property explained that this previous assumption included the recovery of service charges on a property which cannot be reclaimed.

In response to questions from the Members' regarding the proposal to increase the empty homes Council Tax premium, the Portfolio Holder for Finance explained that receiving information from third parties reduced enforcement costs.

Following additional questions from the Committee regarding Housing budget savings, the Assistant Director Wellbeing and Housing Services explained that there would be some costs for bringing the rent collecting in house however the figure shown was the net cost. In relation to Committee comments regarding the 5% proposed increase of House in Multiple Occupation (HMO) licences compared to the 7% rent increase for tenants and shared owners, the Assistant Director Wellbeing and Housing Services was to strike the balance between having a thorough licensing regime and business thriving.

In relation to the savings proposal to cut the grant to Banbury Museum, Members commented that it was a positive that the situation would be kept under review as the museum was important in Banbury. The Portfolio Holder for Finance advised the Committee that the Museum had been putting in place measures to become financially independent from the funding that they received from Cherwell District Council.

The Assistant Director of Finance advised the Committee of the key dates and next steps regarding the budget which would culminate in Council considering the budget at their 27 February 2023 meeting as recommended by Executive at their 6 February 2023 meeting.

The Chairman thank Portfolio Holders and Directors for attending the meeting and confirmed that the Committee had no specific comments to refer to Executive.

### **Resolved**

- (1) That, having given due consideration, Executive be advised that the Budget Planning Committee have no feedback, comments or recommendations in relation to capital bids, revenue savings proposals and budget pressures for inclusion as part of the 2023/24 budget proposal.

The Assistant Director of Finance gave a verbal update on the Budget Planning Committee Work Plan.

The Assistant Director of Finance advised that the Committee would consider the draft 2023/2024 capital and investment strategy and the 2023/2024 reserve strategy and reserves plan at their next meeting on 17 January 2023.

**Resolved**

(1) The verbal Committee Work Plan update be noted.

The meeting ended at 8.31 pm

Chairman:

Date:

## **Cherwell District Council**

### **Budget Planning Committee**

**17 January 2023**

### **Capital and Investment Strategy 2023-24**

#### **Report of the Assistant Director of Finance (Section 151 Officer)**

This report is public

#### **Purpose of report**

To consider the draft Capital and Investment Strategy for 2023-24.

#### **1.0 Recommendations**

The meeting is recommended:

- 1.1 To recommend the draft strategy for 2023-24 to Executive.

#### **2.0 Introduction**

- 2.1 The Capital and Investment Strategy was introduced for 2019-20, to sit alongside the Treasury Management Strategy. The Capital and Investment Strategy must be approved by Full Council annually and must satisfy the requirements of government legislation and CIPFA guidance.

#### **3.0 Report Details**

- 3.1 The **Capital Strategy** demonstrates how the council takes capital expenditure decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.
- 3.2 The **Investment Strategy** relates only to non-treasury management investments. The purpose of the strategy is to demonstrate how the council:
  - Makes investment decisions (governance, advice taken etc)
  - Demonstrates investments are tied to corporate objectives
  - Assesses and monitors risk
  - Assesses and monitors return
  - Ensures there is appropriate capacity, skills and culture to support its strategy

Investments which are covered by this strategy include such things as:

- Loans to third parties (e.g. subsidiaries, charities, businesses) [Service loans]
- Purchase of shares (in subsidiaries, businesses etc)
- Property

## **4.0 Conclusion and Reasons for Recommendations**

4.1 The Council has to establish and approve an updated Capital and Investment Strategy that complies with CIPFA's revised Prudential Code for Capital Finance in Local Authorities (2021 edition) and Prudential Code Guidance Notes for Practitioners (2021 edition), CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2021 edition) and revised Statutory Guidance on Local Government Investments (Third Edition). Guidance requires the Strategy to be approved by Full Council on an annual basis and, moreover, that any mid-year material changes to the Strategy must also be subject to Full Council approval.

## **5.0 Consultation**

5.1 None

## **6.0 Alternative Options and Reasons for Rejection**

6.1 There are no alternative options – this is a requirement placed upon all local authorities.

## **7.0 Implications**

### **Financial and Resource Implications**

7.1 There are no financial implications arising directly from any outcome of this report. The financial implications are incorporated into the draft budget 2023-24 and MTFS 2023-24 to 2027-28. Presentation of this report is in line with the CIPFA Code of Practice and Prudential Code.

Comments checked by:

Joanne Kaye, Strategic Finance Business Partner (D151)

[Joanne.Kaye@cherwell-dc.gov.uk](mailto:Joanne.Kaye@cherwell-dc.gov.uk), 01295 221545

### **Legal Implications**

7.2 The Local Authorities (Capital Finance and Accounting) Regulations 2003 provides operational detail and specifically states that Authorities must have regard to CIPFA's Prudential Code when setting and reviewing borrowing limits. Local Authorities must also have regard to the Investment Guidance issued by Secretary of State under section 15(1)(a) of the Local Government Act 2003.

Comments checked by:  
Shiraz Sheikh, Assistant Director of Law & Governance (Monitoring Officer)  
[shiraz.sheikh@cherwell-dc.gov.uk](mailto:shiraz.sheikh@cherwell-dc.gov.uk), 01295 221651

### **Risk Management Implications**

- 7.3 There are no risk management implications arising directly from any outcome of this report. The Capital and Investment strategy demonstrates how the council manages capital and investment risk. Risks are escalated as and when necessary to the leadership risk register.

Comments checked by:  
Shona Ware, Assistant Director of Customer Focus  
[Shona.Ware@Cherwell-DC.gov.uk](mailto:Shona.Ware@Cherwell-DC.gov.uk), 01295 221652

## **8.0 Decision Information**

**Key Decision:** N/A

**Financial Threshold Met:** N/A

**Community Impact Threshold Met:** N/A

### **Wards Affected**

All wards are affected

### **Links to Corporate Plan and Policy Framework**

Links to all areas of Corporate Plan

### **Lead Councillor**

Councillor Adam Nell, Portfolio Holder for Finance

## **Document Information**

### **Appendix number and title**

- Appendix 1 – Capital and Investment Strategy 2023-24

### **Background papers**

None

### **Report Author and contact details**

Craig Northover – Finance Business Partner  
[Craig.Northover@cherwell-dc.gov.uk](mailto:Craig.Northover@cherwell-dc.gov.uk)  
01295 223720

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## Cherwell District Council

### Capital and Investment Strategy 2023/24

#### A. Capital Strategy (Including Minimum Revenue Provision (MRP) Statement)

##### A1. Introduction

- A1.1. The Prudential Code for Capital Finance sets out that to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy. The capital strategy should set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Strategy must be approved by full Council.
- A1.2. The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent, and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved. This strategy should be read alongside and in conjunction with the Treasury Management Strategy and the Investment Strategy.

##### A2. Capital Expenditure and Financing

- A2.1. Capital expenditure is where the Council spends money on assets, such as property or vehicles, which will be used for more than one year<sup>1</sup>. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year. In 2023/24, the Council is planning capital expenditure of £15.4m as summarised below:

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

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Services	14.0	1.0	0.0	0.0	0.0
Capital investments	25.1	17.3	15.5	8.6	2.4
<b>TOTAL</b>	<b>39.1</b>	<b>18.3</b>	<b>15.5</b>	<b>8.6</b>	<b>2.4</b>

- A2.2. The main capital projects across the period include the Vehicle Replacement Programme, East West Railways, and the new Bicester Depot.

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<sup>1</sup> For details of the Council's policy on capitalisation, see Financial Regulations

## Governance

- A2.3. Capital project bids linked to corporate or service priorities plus essential need are brought forward by Service Managers as part of the Budget & Business Planning process. These are considered by the senior officer leadership team, both in terms of priority and affordability. The Finance team undertake a calculation of the financing cost of proposals and recommend the level of investment based on affordability. Projects proposed to be included in the Council's capital programme are then considered and appraised by the Budget Planning Committee and provide comments to the Executive on the proposals. The Executive then, taking into consideration any comments, propose which schemes to include in the Capital Programme ahead of the final capital programme being proposed to Council in February each year.

*Table 2: Estimates of Capital Expenditure in line with the Council's corporate priorities in £ millions*

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Healthy, resilient, and engaged communities	0.5	0.7	3.2	0.2	0.0
An enterprising economy with strong and vibrant local centres	15.0	4.3	2.9	3.8	0.0
Supporting environmental sustainability	4.5	4.9	2.4	1.9	0.9
Housing that meets your needs	18.5	3.3	3.1	1.4	1.4
Support Services	0.7	5.1	3.8	1.3	0.1
<b>Total Capital Spend</b>	<b>39.1</b>	<b>18.3</b>	<b>15.5</b>	<b>8.6</b>	<b>2.4</b>

- A2.4. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves, and capital receipts) or debt (borrowing, leasing, and Private Finance Initiatives). The planned financing of the above expenditure is as follows

*Table 3: Capital financing in £ millions*

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
External sources	11.3	4.7	5.5	5.0	1.2
Own resources	1.3	7.1	0.2	1.2	0.0
Revenue resources	3.0	0.0	0.0	0.0	0.0
Debt	23.5	6.5	9.8	2.4	1.2
<b>TOTAL</b>	<b>39.1</b>	<b>18.3</b>	<b>15.5</b>	<b>8.6</b>	<b>2.4</b>



- A2.5. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is, therefore, replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). In addition, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

*Table 4: Replacement of debt finance in £ millions*

	<b>2021/22 actual</b>	<b>2022/23 forecast</b>	<b>2023/24 budget</b>	<b>2024/25 budget</b>	<b>2025/26 budget</b>
MRP	1.6	5.2	5.6	5.7	5.9

The Council's minimum revenue provision (MRP) statement is included at Appendix A below.

- A2.6. The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £4.2m during 2023/24.

Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

*Table 5: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions*

	<b>2021/22 actual</b>	<b>2022/23 forecast</b>	<b>2023/24 budget</b>	<b>2024/25 budget</b>	<b>2025/26 budget</b>
<b>TOTAL CFR</b>	<b>250.2</b>	<b>251.5</b>	<b>255.7</b>	<b>252.4</b>	<b>247.6</b>

### **Asset management**

- A2.7. To ensure that capital assets continue to be of long-term use, the Council has a property management strategy in place. This is a multi-level approach structured as follows:

- At a tenancy level the Comprehensive Asset Register (a database of key lease events) is being updated and used to identify forthcoming lease events such as expiries, rent reviews and breaks. These are allocated to specific asset managers to progress whose work schedules are reviewed periodically.
- At a property level this can comprise the preparation of asset specific management plans which are then subject to periodic review and updating. This process is ongoing and informs the portfolio strategy as a whole.

## **Asset Disposals**

- A2.8. When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2024/25. In addition, there are currently no plans to utilise capital receipts on services transformation projects for 2023/24. Receipts from capital grants, loan repayments and investments also generate capital receipts

## **A3. Treasury Management**

- A3.1. Treasury management is concerned with the management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council typically has surplus cash in the short-term as revenue income is received before it is spent, but insufficient cash in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing. At 30 September 2022 the Council had borrowings of £230m at an average interest rate of 1.72%, and £101m of investments at an average interest rate of 1.97%. The borrowing position is reported regularly to Accounts, Audit & Risk Committee as part of the Treasury Management reports.

### **Borrowing Strategy**

- A3.2. The Council's main objective when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. To meet this objective the Council must review the current market conditions alongside the long-term forecasts from Link to determine how to structure borrowings. Short term loans, which usually have lower interest rates and offer excellent flexibility, are suitable for stable market conditions or when interest rates are forecast to fall. Medium to long term loans offer a certain cost of finance but are generally more expensive and inflexible. The Council must therefore seek to strike a balance between short and medium to long term loans, to meet its objectives, by anticipating both its borrowing need and the forecast interest rates.
- A3.3. Projected levels of the Council's total outstanding debt (which comprises borrowing and leases) are shown below, compared with the capital financing requirement (see above).

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

	<b>31<sup>st</sup> March 2022 Actual</b>	<b>31<sup>st</sup> March 2023 forecast</b>	<b>31<sup>st</sup> March 2024 forecast</b>	<b>31<sup>st</sup> March 2025 forecast</b>	<b>31<sup>st</sup> March 2026 forecast</b>
Debt (incl. PFI & leases)	201.2	207.6	217.5	219.8	221.0
Capital Financing Requirement	250.2	251.5	255.7	252.4	247.6

- A3.4. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 5 above the Council expects to comply with this in the medium term.

#### **Affordable borrowing limit**

- A3.5. The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

*Table 7: Prudential Indicators: Operational boundary and Authorised limit for external debt in £m*

	<b>2022/23 limit</b>	<b>2023/24 limit</b>	<b>2024/25 limit</b>	<b>2025/26 limit</b>
Operational boundary total external debt	290	290	290	290
Authorised limit total external debt	310	310	310	310

Further details on treasury investments can be found in the treasury management strategy.

## **A4. Commercial Activities**

- A4.1. To drive leadership of place within Cherwell, stimulate growth, pursue economic regeneration and helping to return confidence to the local economy through investment and facilitating inward investment, the Council invests in commercial property which may also provide some financial gain and generate income to support the Council's revenue activities.
- A4.2. From a financial perspective, the Council recognises that commercial investments can be higher risk than treasury investments. The principal risk exposures are listed below together with an outline of how those risks are managed:

Illiquidity:	<p>The Council acknowledges illiquidity as a risk in property and whilst it cannot be avoided the risk is mitigated by the following strategies:</p> <ul style="list-style-type: none"> <li>a) The Council invests across a range of sectors and its assets are diversified in terms of lot size.</li> <li>b) Some of the Council's investments are not what is termed 'Investment Grade', but they are fundable – i.e., if sold they could be suitable for debt backed investors.</li> <li>c) The Council's assets are uncharged. It is often lenders who require assets to be sold and whilst gearing does not increase illiquidity per se, it can expose an owner to greater risk of selling an illiquid asset at an inopportune time.</li> </ul>
Tenant default:	<p>The Council's portfolio includes both large national concerns and small local businesses (mainly retail or industrial type tenants). Tenant default risk is managed in two ways:</p> <ul style="list-style-type: none"> <li>a) Tenants are vetted when entering the portfolio either as new tenants when property is let or as replacement tenants when existing tenants assign their leases. It has to be acknowledged that there is less control when a tenant applies for consent to assign, though guarantees may be sought.</li> <li>b) Risk is managed by diversification as only a small proportion of tenants will fail in any given year.</li> <li>c) A commercial risk earmarked reserve is held to meet any shortfall in income which may arise in year due to default.</li> </ul>
Obsolescence:	<p>A significant proportion of the Council's portfolio comprises industrial / warehouse buildings and retail assets which have relatively low obsolescence compared to office premises which require significant investment to maintain the landlords fit out specification in line with market demands. Where the Council has offices a sinking / replacement fund is put in place with annual sums collected from tenants to put towards high-cost items such as the replacement of lifts or air conditioning.</p> <p>Where matters of Council policy override commercial concerns, the Council's portfolio is more vulnerable. E.g., where significant outlay may be required on plant and machinery at the end of their useful economic lives. This is considered in the Asset Management plan for each asset.</p>
Capital expenditure	<p>Please see above but also note that the Council aims to let space on Full Repairing terms which makes the tenant either explicitly responsible for maintaining the asset or allows CDC to recover the cost of repairs through the service charge provisions of the relevant lease.</p>

Market risk:	<p>Two key market risks are falling rents in response to declining economic conditions and extended marketing voids when leases end or tenants fail. These risks are mitigated in three main ways:</p> <ol style="list-style-type: none"> <li>1. Lease lengths should be 3 – 5 years + which obviates most market risks during the period of the tenancy.</li> <li>2. Longer leases which contain regular rent review provisions normally require the rents to be reviewed in an upwards only direction.</li> <li>3. Tenant failure – see above under Tenant Default, re: vetting and diversification policies plus earmarked reserves held.</li> </ol> <p>An additional risk is over-exposure to town centre retailing as the portfolio's largest assets are Castle Quay Shopping Centre in Banbury and Pioneer Square in Bicester. The risks arising from these investments are managed as part of the Strategic Asset Management plan and Asset Actions Plans for each asset.</p>
Returns eroded by inflation:	<p>Most properties are let on lease terms which contain upwards only rent reviews and some are indexed linked guaranteeing rental growth. Although in general rental levels lag against inflation (both when rising and falling due to reviews or renewals being generally every 3-5 years) rents are historically considered to be more stable with less fluctuations.</p>
Rising interest rates:	<p>The portfolio is ungeared and therefore un-mortgaged.</p>

### Governance

- A4.3. Decisions on commercial investments are made by Members and Statutory Officers in line with the criteria and limits approved by Council in the Investment Strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

Further details on commercial investments and limits on their use can be found in the Investment Strategy (Section B of this report).

- A4.4. The Council also has commercial activities in trading companies, exposing it to normal commercial risks. These risks are managed by the governance structure in place. The Shareholder Committee is regularly informed of the progress of each company. The Shareholder meets with the directors both formally and informally to ensure there is a consistent dialog between the companies and the council.

## A5. Revenue Budget Implications

- A5.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The annual charge is known as financing costs; this is compared to the net revenue stream i.e., the amount funded from Council Tax, business rates and general Government grants.

*Table 8: Prudential Indicator: Proportion of financing costs to net revenue stream*

	<b>2021/22 actual</b>	<b>2022/23 forecast</b>	<b>2023/24 budget</b>	<b>2024/25 budget</b>	<b>2025/26 budget</b>
Financing costs (£m)	3.8	8.7	9.4	9.4	9.4
Revenue funding (£m)	22.4	23.5	31.0	25.4	14.0
Proportion of net revenue stream	17%	37%	30%	37%	67%

Further details on the revenue implications of capital expenditure are in the 2023/24 revenue budget.

### Sustainability

- A5.2. Due to the very long-term nature of capital financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future, which aligns with the attached MRP Statement. The Section 151 Officer is satisfied that the proposed capital programme is prudent, affordable, and sustainable.

## A6. Knowledge and Skills

- A6.1. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Section 151 Officer is a qualified accountant with many years' experience. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA and RICS.
- A6.2. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field.

The Council currently employs Link Group as treasury management advisers and a range of property advisors as follows:

- Banbury based surveyors White Commercial, Wild Property Consultancy and Bankier Sloane provide advice on the local property market, and assistance with new lettings, lease renewals, smaller valuations and rent reviews.
- Where specialist advice is required, the Council will ask for competitive quotes.
- Montagu Evans supply asset management and facilities management in respect of Castle Quay Shopping Centre.

- Avison Young supply specialist accounting services in respect of Castle Quay Shopping Centre and Waterfront.
- Montagu Evans and Colliers both provide property valuation services
- BWD and Jackson Criss assist with Castle Quay lettings
- Gardiner Theobald provide project management, QS, CDM and Design services on Castle Quay Waterfront
- Broomfield Property Consultants Ltd and Prime Project Management Ltd provide services relating to Castle Quay and other property related projects

This approach is more cost effective than employing such staff directly and ensures that the Council has up to date access to market knowledge and skills commensurate with its risk appetite.

## Appendix A – Minimum Revenue Provision (MRP) Statement

1. Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). The Council is required by statute to charge an amount of MRP to the General Fund Revenue account each year for the repayment of debt. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers.
2. Legislation requires local authorities to draw up a statement of their policy on the annual MRP, for full approval by Council before the start of the financial year to which the provision will relate.
3. The Council is recommended therefore to approve the following statement:

For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years unless the Council determines an alternative useful life to be more appropriate whilst continuing to be prudent.
4. For capital expenditure incurred in the provision of loans to third parties, MRP will not be charged until the Department for Levelling Up, Housing and Communities has completed its MRP consultation and published revised guidance. This is expected to be completed and ready for implementation by April 2024. Repayments of loan principal received by the council will be treated as capital receipts and used to reduce the CFR or avoid future additional borrowing, thus reducing future annual MRP charges.
5. Where the Council acquires an asset under a finance lease arrangement, MRP will be charged at an amount equal to the rent paid to reduce the balance sheet liability in year.
6. Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25.



## **B. Investment Strategy 2022/23**

### **B1. Introduction**

B1.1. The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- to support local public services by lending to or buying shares in other organisations (service investments), and
- to deliver against its strategic priorities as outlined in its Business Plan (investments in service and commercial property). Such assets may contribute to the delivery of service objectives and generate commercial income.

B1.2. The investment strategy was a new report introduced for 2019/20, meeting the requirements of statutory guidance issued by the Government in January 2018, and focuses on the second and third of these categories.

### **B2. Treasury Management Investments**

B2.1. The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and Central Government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to be an average of £11.8m during the 2023/24 financial year.

#### **Contribution**

B2.2. The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

#### **Further details**

B2.3. Full details of the Council's policies and its plan for 2023/24 for treasury management investments are covered in a separate document, the treasury management strategy.

### **B3. Service Investments: Loans**

#### **Contribution**

B3.1. The Council lends money to its subsidiaries, local parishes, local charities to support local public services and stimulate local economic growth. The main loans issued are to the council's subsidiaries – the Graven Hill Village companies and Crown House Banbury Ltd. Graven Hill is a housing development providing significant

housing in Bicester. Crown House is a redeveloped derelict office building in the centre of Banbury which is providing significant rental opportunities in the town centre.

### Security

- B3.2. The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the council, upper limits on the outstanding loans to each category of borrower have been set as follows:

*Table 1: Loans for service purposes in £ millions*

Category of borrower	31.3.2022 actual			2023/24
	Balance	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	70.39	(0.90)	69.49	85.90
Parishes	0.08	0.00	0.08	0.10
Local charities/Other	1.10	(0.09)	1.01	1.15
<b>TOTAL</b>	<b>71.57</b>	<b>(0.99)</b>	<b>70.58</b>	<b>87.15</b>

*\* including accrued interest*

- B3.3. Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts are shown net of this loss allowance. The Council, however, makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

### Risk assessment

- B3.4. The Council assesses the risk of loss before entering into and whilst holding service loans by approaching each loan request individually. The bulk of the council's loans are to its subsidiaries. When the council considers whether or not to create or acquire a subsidiary a full business case is prepared which sets out the optimal financing of the company. This will include an assessment of the market in which it will be competing, the nature and level of competition, how that market may evolve over time, exit strategy and any ongoing investment requirements. External advisors are used where appropriate to complement officer expertise and second opinions from alternate advisors is sought in order to monitor and maintain the quality of advice provided by external advisors.
- B3.5. Other service loans are evaluated against a set of criteria designed to demonstrate:
- Evidence of project objectives and needs analysis is provided
  - The loan must have a demonstrable community impact

- The loan would provide up to 50% of the whole project cost
- Such a loan can only be applied for by constituted voluntary organisations with their own bank account; Town or Parish councils; charitable organisations
- The loan cannot be applied retrospectively
- The applicant has provided evidence of its financial stability and of its ability to manage the proposed scheme.
- Appropriate checks have been carried out on the owners of the organisations to be satisfied as to their integrity and to avoid any potential embarrassment to the Council.
- The applicant has demonstrated that the proposed scheme has been developed following good practice in terms of planning, procurement and financial appraisal.
- The applicant has provided evidence the affordability of their proposed scheme and the loan repayments
- That the project furthers the council's priorities as reflected in its Business Plan

#### **B4. Service Investments: Shares**

- B4.1. The council invests in the shares of its subsidiaries to support local public services and stimulate local economic and housing growth. The council currently holds shares in Graven Hill Holding Company Ltd and Crown House Banbury Ltd.
- B4.2. One of the risks of investing in shares is that they can fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

*Table 2: Shares held for service purposes in £ millions*

Category of company	31.3.2022 actual			2023/24
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries	35.65	0	35.65	38.26
<b>TOTAL</b>	<b>35.65</b>	<b>0</b>	<b>35.65</b>	<b>38.26</b>

- B4.3. The Council assesses the risk of loss before entering into and whilst holding shares by maintaining close links with the Boards of Directors of the companies through an established Shareholder Committee. Risk is assessed as above in Service Loans.

- B4.4. The maximum periods for which funds may prudently be committed are assessed on a project-by-project basis. The decision will balance both the long-term viability of the subsidiary and the revenue and capital requirements of the Council.
- B4.5. Shares are the only investment type that the council has identified that meets the definition of a non-specified investment in the Government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

## **B5. Service and Commercial Investments: Property**

- B5.1. The Council invests in local commercial and residential property with the intention of regenerating the local economy, and for place shaping which forms a key part of its strategic priorities. The generation of income to support the provision of local public services, whilst a factor, serves as a secondary objective to that of the strategic priorities. The Council's asset portfolio comprises a cross-section of retail, office, and industrial assets together with a health centre which are held to ensure the delivery of services to the local community. Investments made in recent years which the Council continues to hold include:
- Castle Quay, Banbury; a covered shopping centre and newly developed retail complex
  - Pioneer Square, Bicester; a modern retail parade of shops
  - Franklins House, Bicester; a mixed-use complex comprising offices, hotel, business centre and public library
  - Tramway Industrial Estate
- B5.2. These assets are all town centre properties and afford the Council an opportunity to influence the amenity and environment of its two principal strategic centres. Castle Quay will, in particular, allow the development of a new leisure orientated focal point to help revitalise Banbury town centre.

These assets also contribute an aggregate £6.1m gross income to the council's revenue budget.

The major component parts of the asset portfolio are described below:

*Table 3: Investments in Property held for service and commercial purposes in £ millions\**

Property	Actual	31.3.2022 Actual			31.3.2023 Expected	31.3.2024 Expected
	Purchase /Development Costs	Net Book Value in accounts 31.3.2021	Expenditure, Gains or (losses)	Net Book Value in accounts 31.3.2022	Net Book Value in accounts	Net Book Value in accounts
Castle Quay Shopping Centre	63.5	21.6	(6.2)	15.4	17.6	18.7
Castle Quay Waterfront, Hotel and Supermarket*	66.4	56.4	(24.4)	32.0	33.6	34.1
Pioneer Square	8.2	4.4	(0.3)	4.2	4.2	4.2
Tramway Industrial Estate	9.6	9.3	1.4	10.7	10.7	10.7
Other properties valued under £5m	13.1	10.0	(0.9)	9.1	9.1	9.1
<b>TOTAL</b>	<b>160.8</b>	<b>101.7</b>	<b>(30.4)</b>	<b>71.4</b>	<b>75.2</b>	<b>76.8</b>

\*The properties in table 3 are currently held as investment property for the purposes of publication in the Council's financial statements. The categorisation of such assets is reviewed annually to ensure that they meet the criteria for classification in line with the CIFPA Code on Local Authority Accounting.

### Security

B5.3. The Council considers a property investment to be secure where tenant performance, lease duration and property obsolescence are deemed to be at an acceptable level.

### Risk assessment

B5.4. The Council assesses the risk of loss before entering into and whilst holding property investments by cash flow modelling the income and expenditure profile of each investment and interrogating that model across a range of scenarios to test the robustness of the investment. The modelling exercise is informed by the likelihood of tenant default and the chances that individual units will become empty during the hold period.

B5.5. The property investment market is dynamic, and we are kept abreast of developments by frequent communication and established relationships with local and national agents, supplemented by in-house investigations and reading of published research. The market is, at present, competitive in most asset sectors and our focus is on assets that are local and help to deliver the strategic aims of the Council.

B5.6. In all acquisitions we take external advice from acknowledged experts in the field and sense-check their input against our in-house knowledge, experience and expertise. The advice sourced covers market value but also, given the purpose of the investment, letting risk, marketability and occupational demand, and likely expenditure over the hold period.

- B5.7. The Council uses a number of local and national advisors and cross reference their views periodically. There is no single party who expects to be instructed by the Council without competition.
- B5.8. Credit ratings are used on acquisitions, new lettings and when tenants request consent to assign their leases. The Council uses D&B ratings as well as reviewing the published accounts of tenants or potential tenants.
- B5.9. A number of other strategies are used to mitigate risk:
- Tenant rent payment histories are analysed on any acquisition.
  - Tenant rent payment patterns and arrears are examined in the existing portfolio.
  - Introducing agents advise the council throughout the acquisition process and their advice includes market commentary at a national and a local level and commentary on perceived risks to the investment.
  - In tandem with the above every acquisition is subject to a third-party RICS Red Book valuation by qualified surveyors who are independent i.e., not acting for the council or the vendor on the acquisition.

### **Liquidity**

- B5.10. Compared with other investment types, property is relatively difficult to sell in order to convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the council acknowledges illiquidity as a risk in property and whilst it cannot be avoided the risk is mitigated by the following strategies:
- The Council invests across a diverse range of sectors and lot sizes. This affords the Council the ability to access a range of purchaser types e.g., small local investors, listed property companies or institutions.
  - The Council does not invest in high-risk assets which can be the most illiquid of all other than for the purposes of delivering regeneration which has a different investment objective from pure revenue or capital return.
  - Some of the Council's investments are not what is termed 'Investment Grade', but they are fundable – i.e., if sold they could be suitable for debt backed investors
  - The Council does not invest in specialist properties, where the market tends to be most illiquid.
  - The Council's assets are uncharged. It is often lenders who require assets to be sold and whilst gearing does not increase illiquidity per se, it can expose an owner to greater risk of selling an illiquid asset at an inopportune time.

## B6. Loan Commitments and Financial Guarantees

- B6.1. Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the council and are included here for completeness.

The council has contractually committed to the following loan amounts which have yet to be drawn upon (as at 31/3/22)

*Table 4: Loan Commitments and Guarantees*

<b>Borrower</b>	<b>Purpose</b>	<b>£m Contractually Available</b>
Graven Hill Village Development Company Ltd	Revolving Credit Facility available to the council's subsidiary until 2026	£17m
Graven Hill Village Development Company Ltd	Facility Agreement that has been in place since 2014 to deliver the project.	Nil
Graven Hill Village Development Company Ltd	Loan Note instruments to enable the company to deliver its objectives	Nil
<b>TOTAL</b>		<b>£17m</b>

The Council has also provided bonds and guarantees to the value of £45.34 million to Oxfordshire County Council (OCC) on behalf of Graven Hill Village Development Company Ltd in respect of the Company's obligations to OCC under s.106, s.278 and s.38 agreements.

## B7. Capacity, Skills and Culture

### **Elected members and statutory officers**

- B7.1. The majority of senior statutory officers are qualified to degree level and have appropriate professional qualifications. Their shared business experience encompasses both the public and private sectors.

Training and guidance are provided to support members in delivering their roles and support effective decision making.

### Commercial Investments

- B7.2. Negotiations are either undertaken directly by Assistant Directors or at a senior level with Assistant Director direct involvement and oversight, alongside input from Directors and Lead Members where required. Assistant Directors are aware of the regulatory regime and convey that to all junior staff.

### Corporate governance

- B7.3. There are appropriate corporate governance measures in place which comprise end to end decision making procedures. These include risk assessments within the organisation; presentation to relevant committees including Members, statutory officers' approvals, and relevant project boards. The annual Corporate Investment Strategy provides the reference point against which investment decisions are undertaken.

## B8. Investment Indicators

- B8.1. The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

### Total risk exposure

- B8.2. The first indicator shows the council's total exposure to potential investment losses. This includes amounts the council is contractually committed to lend but have yet to be drawn down and guarantees the council has issued over third-party loans.

*Table 5: Total investment exposure in £ millions*

<b>Total investment exposure</b>	<b>31.03.2022 Actual</b>	<b>31.03.2023 Forecast</b>	<b>31.03.2024 Forecast</b>
Treasury management investments	52.15	16.97	10.00
Service investments: Loans	71.57	72.11	65.62
Service investments: Shares	35.65	35.65	35.65
Service and Commercial investments: Property	139.68	141.23	141.23
<b>TOTAL INVESTMENTS</b>	<b>299.05</b>	<b>265.96</b>	<b>252.50</b>
Commitments to lend	0.00	0.00	0.00
<b>TOTAL EXPOSURE</b>	<b>299.05</b>	<b>265.96</b>	<b>252.50</b>



### How investments are funded

- B8.3. Government guidance is that these indicators should include how investments are funded. The Council's investments are funded by usable reserves, income received in advance of expenditure and borrowing.

The peak identified exposure (£299m) in table 5 is within the authorised limit of £310m (see section A3.2) which the council deems to be manageable.

### Rate of return received

- B8.4. This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

*Table 6: Investment rate of return (net of all costs)*

<b>Investments net rate of return</b>	<b>2021/22 Actual</b>	<b>2022/23 Forecast</b>	<b>2023/24 Forecast</b>
Treasury management investments	0.11%	1.92%	3.50%
Service investments: Loans	1.5% - 12%	1.5% - 12%	1.5% - 13%
Service and Commercial investments: Property	Variable	Variable	Variable

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## **Cherwell District Council**

### **Budget Planning Committee**

**17 January 2023**

### **Reserve Strategy and Medium Term Reserves Plan 2023/24**

### **Report of the Assistant Director of Finance (Section 151 Officer)**

This report is public

### **Purpose of report**

To update Budget Planning Committee (BPC) on the Review of Reserves that has taken place in preparation of the budget for 2023/24 and the Medium-Term Financial Strategy (MTFS) 2023/24 – 2027/28.

### **1.0 Recommendations**

The meeting is recommended:

- 1.1 to note the outcome of the review of reserves and the forecast over the MTFS period.
- 1.2 to provide the Executive with feedback on whether the Committee supports the draft reserve allocations.

### **2.0 Introduction**

- 2.1 The Council undertakes a review of its reserves at least annually. The reserves are divided into the following strategic pots:
  - General Balances
  - Earmarked Reserves
  - Revenue Grant Related Reserves
  - Capital Reserves

This report delivers the outcome of the review for 2022/23 for inclusion in the Budget and Medium-Term Financial Strategy 2023/24 – 2027/28 report which will be taken to the Executive and Council in February 2023.

### **3.0 Report Details**

- 3.1 Council approved the Reserves Policy (attached at Appendix 1 for reference) at its meeting in February 2021 and since then the Executive has been consulted on proposed movements to and from reserves regularly as part of the monthly

performance reporting. A further review has taken place to consider the forecast use of reserves to ensure the Council retains a prudent level of reserves over the medium term.

- 3.2 The review was carried out in a number of stages:
1. understanding what plans there were to spend reserves that were held over the next five years
  2. considering what level of general balances CDC should hold, based on a risk assessment
  3. identifying those reserves that are ringfenced as they have specific grant objectives to deliver
  4. considering what strategic earmarked reserves CDC should hold
- 3.3 After carrying out a risk assessment, it is proposed that the Council retain its current minimum level of general balances at £6m. This will be achieved by making a transfer between earmarked and general reserves in the event of an overspend at the end of 2022/23. The forecast overspend as at the end of November (period 8) is an overspend of £0.097m. Additional contributions to Strategic reserves are also included in the draft budget for 2023/24:
- Transformation implementation Reserve - increase of £2.386m to fund future transformation as necessary.
  - Capital Reserve - increase of £0.5m to fund capital expenditure.

A summary of the outcome of the reserves review can be seen in Table 1 and the detailed reserves anticipated to be held by the Council can be seen at Appendix 2.

Table 1: Overview of reserves

	Actual Balance 1 April 2022 (Unaudited)	Forecast Transfer FROM reserves	Forecast Transfer TO Reserves	S151 Review of Reserves	Forecast Balance 1 April 2023	2023/24	2024/25	2025/26	2026/27	2027/28	Expected Balance 1 April 2028
General Balances	(5.950)	0.000	(0.500)	0.000	(6.450)	0.000	0.000	0.000	0.000	0.000	(6.450)
Earmarked Reserves	(23.692)	7.057	(5.550)	(1.264)	(23.449)	(2.356)	(0.191)	(0.684)	(1.161)	0.227	(27.613)
Revenue Grants	(16.214)	13.207	(0.049)	1.264	(1.793)	0.711	0.007	0.007	0.007	0.007	(1.054)
Capital Reserves	(8.049)	2.918	0.000	0.000	(5.131)	0.000	0.000	0.000	0.000	0.000	(5.131)
<b>Sub-TOTAL RESERVES</b>	<b>(53.905)</b>	<b>23.181</b>	<b>(6.100)</b>	<b>0.000</b>	<b>(36.823)</b>	<b>(1.644)</b>	<b>(0.184)</b>	<b>(0.677)</b>	<b>(1.154)</b>	<b>0.234</b>	<b>(40.249)</b>
Revenue Grants relating to cashflow timing	(10.587)	10.324	0.000	0.000	(0.263)	0.000	0.000	0.000	0.000	0.000	(0.263)
<b>TOTAL RESERVES</b>	<b>(64.491)</b>	<b>33.505</b>	<b>(6.100)</b>	<b>0.000</b>	<b>(37.086)</b>	<b>(1.644)</b>	<b>(0.184)</b>	<b>(0.677)</b>	<b>(1.154)</b>	<b>0.234</b>	<b>(40.511)</b>

- 3.4 It should be noted that the uses of reserves for the 2023/24 budget and MTFS are still being finalised so figures may be updated in the final budget proposals.

## 4.0 Conclusion and Reasons for Recommendations

- 4.1 The proposed allocations of reserves will retain flexibility in how the Council uses its reserves in the future and also puts in place mitigations for risks the Council may face in the future.

## 5.0 Consultation

None

## 6.0 Alternative Options and Reasons for Rejection

- 6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: Do nothing. This would leave resources in earmarked funds that have been funded in alternative ways and reduce the Council's strategic flexibility with its reserves.

## 7.0 Implications

### Financial and Resource Implications

- 7.1 There are no immediate financial implications associated with this report. The Reserves Policy and proposed changes to reserves will be considered by the Executive and uses of/contributions to reserves agreed by Council as part of the 2023/24 budget.

Comments checked by:

Michael Furness, Assistant Director of Finance, 01295 221845, [michael.furness@cherwell-dc.gov.uk](mailto:michael.furness@cherwell-dc.gov.uk)

### Legal Implications

- 7.2 The Local Government Act 2003 (Section 25) requires that when a local authority is agreeing its annual budget and precept, the Chief Finance Officer must report to it on the following matters:  
the robustness of the estimates made for the purposes of the calculations; and  
the adequacy of the proposed financial reserves.  
The authority must have due regard to the report when making decisions on the budget and precept.

Comments checked by:

Shiraz Sheikh, Assistant Director Law & Governance, Monitoring Officer, 01295 221651, [Shiraz.Sheikh@Cherwell-DC.gov.uk](mailto:Shiraz.Sheikh@Cherwell-DC.gov.uk)

### Risk Implications

- 7.3 The move to retain general balances at their current level and more strategic reserves will help the Council to manage financial risks that materialise in the future. This will be managed within service operational risk, and the Leadership Risk Register, as and when deemed necessary.

Comments checked by:

Celia Prado-Teeling, Performance and Insight Team Leader, 01295 221556  
[Celia.Prado-Teeling@Cherwell-DC.gov.uk](mailto:Celia.Prado-Teeling@Cherwell-DC.gov.uk)

## 8.0 Decision Information

**Key Decision** N/A

**Financial Threshold Met:** N/A

**Community Impact Threshold Met:** N/A

### Wards Affected

All

### Links to Corporate Plan and Policy Framework

All

## Document Information

### Appendix number and title

- Appendix 1 – Reserves Policy
- Appendix 2 – Reserves Forecast

### Background papers

None

### Report Author and contact details

Joanne Kaye, Strategic Finance Business Partner, 01295 221545,  
[joanne.kaye@cherwell-dc.gov.uk](mailto:joanne.kaye@cherwell-dc.gov.uk)

## CHERWELL DISTRICT COUNCIL RESERVES POLICY

### 1. Background

- 1.1. The purpose of this policy is to set out how Cherwell District Council (CDC) will determine and review its overall level of reserves and how it uses them.
- 1.2. Sections 31A and 42A of the Local Government Finance Act 1992 require authorities to have regard to the level of balances and reserves needed for meeting estimated future expenditure when calculating the council tax requirement.
- 1.3. CDC has usable reserves and unusable reserves on its Balance Sheet. The unusable reserves are as a result of accounting adjustments and are not therefore available to spend. This policy will concentrate on usable reserves.

### 2. General Policy

- 2.1. Usable reserves can be split into the following categories:
  - General Balances
  - Earmarked Reserves
  - Revenue Grant Related Reserves
  - Capital Reserves
- 2.2. CDC maintains usable reserves primarily for the following reasons:
  - The need to put aside sums in case of unexpected or unplanned events or emergencies.
  - To smooth out the impact of payments on the revenue account
  - To cover timing differences such as grant money received in any given year where expenditure takes place in a later year
  - To provide pump prime funding for projects to deliver changes in working practices on an invest to save basis. Any approved use on this basis must include an agreed repayment plan
  - A means of building up funds to meet known or predicted liabilities
- 2.3. Reserves can only be used on a one-off basis which means that their application does not offer a permanent solution to delivering savings or reductions in the level of expenditure.

### 3. Usable Reserves

#### 3.1. General Balances

- 3.1.1. These are funds that do not have restrictions as to their use. CDC can use them for any purpose within the General Fund. The purpose of general

reserves is to manage the impact of exceptional emergencies and unforeseen events. Without such reserves the potential financial impact of these unforeseen events could cause a financial deficit in the General Fund, which would be severely disruptive to the effective operation of the authority.

### 3.2. Earmarked Reserves

3.2.1. Earmarked Reserves enable CDC to set aside sums to meet specific future anticipated liabilities. Funds could be set aside for items such as (but not limited to):

- cyclical maintenance,
- cyclical events such as elections,
- income generated that must be spent on specific purposes,
- managing market volatility (e.g. commercial rent)
- insurance.

3.2.2. Earmarked reserves should not be held for a sustained period of time as they are held for a specific purpose<sup>1</sup>. Where earmarked reserves are no longer required for their original purpose or are not expected to be spent over the medium term they should be reviewed and a decision made on using for alternative purposes.

3.2.3. In line with financial regulations, where a service has generated a service underspend as part of its day to day running, this should not be requested to be set aside as an earmarked reserve without a specific purpose; it should contribute to the overall benefit of CDC's financial position and the achievement of its corporate objectives.

3.2.4. The request to use earmarked reserves, create new earmarked reserves or contribute to existing earmarked reserves (where not approved as part of the budget) must be approved by the Executive. The allocation of Earmarked Reserves will be made when services can demonstrate that the funding is required for that particular purpose.

### 3.3. Revenue Grant Related Reserves

3.3.1. These reserves relate to the unused element of grant support for which the conditions of the grant are expected to be met. The reserves will be used to meet future years' expenditure for the service for which the grant was awarded. These reserves are managed by Directors.

3.3.2. CDC holds various Section 106 reserves which were contributed by private companies to improve the local community. The fund must be used for the specific scheme and within the agreed timescale. If funds are not used they need to be returned back to the contributors.

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<sup>1</sup> with the exception of insurance reserves held to manage risk for which it is difficult to forecast when they will be called upon



3.3.3. Use of these reserves should be planned as part of the budget setting process. Use of these reserves during the financial year requires approval by the Section 151 Officer.

#### 3.4. Capital Reserves:

3.4.1. These are reserves that have been set aside to finance capital schemes and cannot be used to support revenue expenditure without the consent of the Secretary of State for Local Government. These reserves comprise:

- Capital Receipts Reserve reflects the income received from the disposal of capital assets prior to being used to fund future capital expenditure or for the redemption of debt. Capital receipts cannot be used to fund revenue expenditure except where allowed by statute. CDC will allocate resources from the Capital Receipts Reserve in line with its priorities
- Capital Grants Unapplied reflects the unused element of capital grants or capital contributions awarded to CDC, for which the conditions of the grant support are expected to be met or for which there are no conditions. The reserve will be used to meet future years' capital expenditure in a way which best fits with CDC's priorities.

#### 4. **Determining the Level of General Balances and Earmarked Reserves**

4.1. CDC must maintain sufficient general balances and earmarked reserves to cover the key financial risks and contingencies.

4.2. Section 25 of the Local Government Finance Act 2003 requires that when a local authority is agreeing its annual budget and council tax precept, the Chief Finance Officer must report on the adequacy of the proposed financial reserves

4.3. As part of the budget setting process the Section 151 Officer will consider and assess the level of general balances and earmarked reserves. Consideration will be given to the strategic, operational and financial risks facing CDC.

4.4. Major factors to be considered when evaluating the level of general balances and earmarked reserves, include but are not limited to the following:

<b>Budget Assumptions</b>	<b>Issues to Consider</b>
Inflation and interest rate volatility	The overall financial standing of CDC
Scale of budget gap over the medium term	The trend of CDC's financial management and the robustness of the MTFS – i.e. is it balanced over the medium term and delivered annually?

Savings delivery	Size, scale, complexity and pace of the savings programme and risks around slippage or non-delivery.
The availability of other funds to deal with major contingencies and the adequacy of provisions	The adequacy of CDC's arrangements to cover major unforeseen risks.
Income streams	Volatility in levels of income
Government funding	Political landscape and approach to allocating funding across local government

## 5. Governance and Review

- 5.1. The Council recognises the need to hold and maintain adequate reserves that meet the needs of the organisation. However, there is an opportunity cost as a result of the Council allocating resources away from other potential uses. It is therefore essential for the Section 151 Officer to regularly review the purpose and level of reserves.
- 5.2. All anticipated use of reserves should be understood and recognised as part of the budget setting process and agreed when Council approves the budget.
- 5.3. Any identified use of, or contribution to, reserves after the budget has been set should be approved by the Executive, or the Section 151 Officer in the case of grant reserves, prior to the budget being changed. Uses should be for specific purposes for which reserves have been set aside and not to address savings non-delivery or budget pressures. Contributions to reserves should be for specific costs expected to be incurred in the future.
- 5.4. The reserves position is reported quarterly as part of the revenue monitoring process. The planned usage of reserves is also included as part of the budget setting process. In addition the level and use of reserves is reported and reviewed during the closedown process.
- 5.5. The reserves policy will be reviewed annually as part of the budget setting process.

## 6. Use of Reserves Approval

- 6.1. Table 1 below shows the level of approval required to use or contribute to usable reserves.

Table 1 Level of approval required for requested use of or contribution to reserves

<b>Type of Reserves</b>	<b>Level of Approval Required</b>
General Reserves and Balances	Executive*
Earmarked Reserves	Executive*
Revenue and Capital Grant Related Reserves	Section 151 Officer
Capital Reserves**	Executive*

\* Unless previously approved by Full Council as part of approval of the budget

\*\* Approval required for contribution from reserves only

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Appendix 2 - Forecast use of earmarked reserves

Category	Title	Owner	Opening	Forecast 22/23			Closing	Forecast use over MTFS Period					Forecast Balance at end of Period	
			Actual Closing Balance 31 March 2022	Transfer FROM Reserve 2022/23	Transfer TO Reserve 2022/23	S151 Review of Reserves	Forecast Closing Balance as at 31 March 2023	2023/24	2024/25	2025/26	2026/27	2027/28		
	<b>General Balances</b>													
General Balances	General Fund Balance	Michael Furness	(5.950)	-	(0.500)	-	(6.450)	-	-	-	-	-	-	(6.450)
	<b>Earmarked Reserves</b>													
Earmarked Reserves	Building Control	Ian Boll	(0.024)	0.024	-	-	-	-	-	-	-	-	-	-
Earmarked Reserves	Country Park Reserve	Ian Boll	(0.100)	0.075	-	-	(0.025)	0.025	-	-	-	-	-	(0.000)
Earmarked Reserves	Elections	Yvonne Rees	(0.208)	0.138	-	-	(0.070)	-	-	-	-	-	-	(0.070)
Earmarked Reserves	Licensing	Ian Boll	(0.161)	0.040	-	-	(0.121)	0.070	-	-	-	-	-	(0.051)
Earmarked Reserves	Local Plan Charges	Ian Boll	(0.343)	0.140	-	-	(0.203)	0.125	-	-	-	-	-	(0.078)
Earmarked Reserves	Planning Control	Ian Boll	(0.259)	0.050	-	-	(0.209)	-	(0.050)	-	-	-	-	(0.259)
Earmarked Reserves	Pensions Deficit	Michael Furness	(1.729)	-	(1.675)	(0.701)	(4.105)	0.252	0.252	0.252	0.252	0.252	-	(2.845)
Earmarked Reserves	Bicester reserve	Ian Boll	(0.148)	-	-	-	(0.148)	-	-	-	-	-	-	(0.148)
Earmarked Reserves	Transformation Reserve	Yvonne Rees	(3.796)	0.335	-	1.461	(2.000)	-	-	-	-	-	-	(2.000)
Earmarked Reserves	Health & Safety - Public Food	Ian Boll	(0.060)	0.050	-	-	(0.010)	-	-	-	-	-	-	(0.010)
Earmarked Reserves	Bicester Depot	Ian Boll	(0.015)	0.015	-	-	-	-	-	-	-	-	-	-
Earmarked Reserves	Cherwell Lottery - Revenue	Yvonne Rees	(0.018)	0.018	-	-	-	-	-	-	-	-	-	-
Earmarked Reserves	Dilapidations	Stephen Hinds	(0.450)	0.175	-	-	(0.275)	(0.025)	(0.025)	(0.025)	(0.025)	(0.025)	(0.025)	(0.400)
Earmarked Reserves	Capital Reserve	Michael Furness	(3.277)	1.200	-	(0.423)	(2.500)	(0.500)	-	-	-	-	-	(3.000)
Earmarked Reserves	Projects	Michael Furness	(3.185)	0.362	(1.036)	(0.087)	(3.945)	0.045	-	-	-	-	-	(3.900)
Earmarked Reserves	Transformation Implementation Reserve	Michael Furness	(0.828)	-	(0.250)	(0.922)	(2.000)	(2.386)	-	-	-	-	-	(4.386)
Earmarked Reserves	Market Risk Reserve	Michael Furness	(4.404)	-	-	(0.592)	(4.996)	-	(0.462)	(0.916)	(1.388)	-	-	(7.762)
Earmarked Reserves	Growth Deal	Ian Boll	(0.555)	0.204	-	-	(0.351)	-	-	-	-	-	-	(0.351)
Earmarked Reserves	M&S Surrender Premium	Michael Furness	(3.500)	4.171	(2.573)	-	(1.902)	-	-	-	-	-	-	(1.902)
Earmarked Reserves	DOVECOTE MILCOMBE	Ian Boll	(0.032)	-	-	-	(0.032)	-	-	-	-	-	-	(0.032)
Earmarked Reserves	Bicester Youth Bus	Yvonne Rees	(0.030)	0.010	-	-	(0.020)	0.008	0.008	0.005	-	-	-	0.000
Earmarked Reserves	Sport and Physical Activities	Yvonne Rees	(0.055)	-	-	-	(0.055)	-	0.055	-	-	-	-	-
Earmarked Reserves	Courtyard Youth Arts	Yvonne Rees	(0.009)	0.003	-	-	(0.006)	0.003	0.003	-	-	-	-	0.000
Earmarked Reserves	Housing Reserve	Yvonne Rees	(0.322)	-	-	-	(0.322)	-	-	-	-	-	-	(0.322)
Earmarked Reserves	Home Improvement Agency	Yvonne Rees	(0.100)	0.021	-	-	(0.079)	0.028	0.029	-	-	-	-	(0.022)

Page 45



			Opening	Forecast 22/23			Closing	Forecast use over MTFS Period					Forecast Balance at end of Period
Category	Title	Owner	Actual Closing Balance 31 March 2022	Transfer FROM Reserve 2022/23	Transfer TO Reserve 2022/23	S151 Review of Reserves	Forecast Closing Balance as at 31 March 2023	2023/24	2024/25	2025/26	2026/27	2027/28	
Revenue Grants	North Oxfordshire Schools Sports partnership	Yvonne Rees	(0.015)	0.015	-	-	-	-	-	-	-	-	-
Revenue grants	Hanwell Fields S106 funding revenue	Ian Boll	(0.081)	-	-	-	(0.081)	-	-	-	-	-	(0.081)
<b>Capital Reserves</b>													
Capital Reserves	Disabled Facilities Grants	Yvonne Rees	(0.104)	-	-	-	(0.104)	-	-	-	-	-	(0.104)
Capital Reserves	Capital Receipts Reserve	Michael Furness	(0.100)	-	-	-	(0.100)	-	-	-	-	-	(0.100)
Capital Reserves	Cherwell Local Lottery - Play Well in Cherwell	Yvonne Rees	(0.165)	-	-	-	(0.165)	-	-	-	-	-	(0.165)
Capital Reserves	Capital Grants & Contributions	Michael Furness	(7.633)	2.918	-	-	(4.715)	-	-	-	-	-	(4.715)
Capital Reserves	Hanwell Fields S106 funding capital	Ian Boll	(0.046)	-	-	-	(0.046)	-	-	-	-	-	(0.046)
			(53.905)	23.181	(6.100)	0.000	(36.823)	(1.644)	(0.184)	(0.677)	(1.154)	0.234	(40.249)

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