REPORT OF THE AUDIT COMMITTEE No. 3, 2024/25

FULL COUNCIL 24 March 2025

Chair: Councillor Erdal Dogan Deputy Chair: Councillor Cathy Brennan

1. INTRODUCTION

1.1. The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management reports on a semi-annual and annual basis.

1.2. The Council's Treasury Management Strategy for 2024/25 was approved at a full Council meeting on 4 March 2024. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

1.3. This report provides an update to the Council on the Council's treasury management activities and performance quarters ending 31st December 2024, in accordance with the CIPFA Code.

TREASURY MANAGEMENT Q3 REPORT 2024/25

We considered the Treasury Management Q3 Report 2024/25 and discussed the following:

- When the Council set its budget each year, it was set for what the Council expected to borrow in the year. The Council did not actually borrow funds until it needed to (it would only borrow once other forms of financing had been utilised). The Council had spoken about its high levels of borrowing and how it needed to be reduced or needed to limit any increases in future years. In 2025/26, although the Council may set a budget, the Council should be trying to limit spending, given the high levels of debt. One way to do this was to continue to review the capital program through 2025/26. The Council had quite a significant capital program both for the general fund and also for the HRA. Another way was to consider the Exceptional Financial Support (EFS). The budget for 2025/26 was set based on the sum of £37 million EFS - £10 million of which was funded from capital receipts and £27 million from borrowing. The £37 million was the maximum sum anticipated to be needed. The emergency response arrangements put in place was an attempt to find savings where possible so this could reduce how much of the £37 million the Council utilised and therefore, reduce the amount needed to be borrowed.
- The Council had a cash flow model forecast for the whole year which would give the it an indication about when it needed to borrow. The Council always had a cash flow model in place. Over the last couple of weeks, the Council

had tried to tighten it to get a clearer picture around when the Council needed to borrow. It was important to understand how the Council's spending profile was for the capital program. It was not a case of simply trying to keep the capital program to a reasonable size.

- It was possible to take the strategy to not borrow until towards the end of the year so that borrowing was done at the latest possible time. However, this could result in the Council getting caught out and into a situation where the Council would pay a couple of percent more than it would need to. This could result in quite a significant debt.

- One way to fund Exceptional Financial Support was via capital receipts, as opposed to borrowing. However, the Council should refrain from disposing of valuable community assets just to fund EFS as directed by Central Government. This was expressly stated in the letter sent by Central Government which the Council published as part of the budget report. The assumption the Council had made was that the £10 million would be from capital receipts with the balance being from borrowing. At least £8 million of the capital receipts had already been received. With regard to the capital receipts, the cost to the Council was effectively lost opportunity costs as the receipts could have been used to fund other capital development. It should be noted that with borrowing to fund EFS, the Council was required to charge the Minimum Revenue Provision (MRP) as it would do with normal capital prudential borrowing. Not only does the Council have to budget for the borrowing cost at, say, 5%, the Council also had to budget for the MRP charge. The MRP charge was made so that the Council repaid borrowing over the deemed life of the asset, which, for EFS, was considered to be 20 years. The true cost to the revenue budget was probably closer to about 8%. This was the combination of MRP and finance costs. The Council should try to reduce as much as possible the amount of the £37 million it utilised. However, any spend through use of capital receipts was slightly better than borrowing.

- In terms of capitalisation, the Council did capitalise various revenue costs such as staffing for those involved in the assets or the capital schemes. The Council had to abide by counting rules in terms of what the Council could and could not capitalise. This needed to be kept under review. The budget had removed a number of significant schemes out of the capital program when it was agreed. The Council needed to just assure itself from an accounting perspective that it was capitalising the right amount of cost.

- The borrowing moved in line with the Council's capital financing requirement. Part of the capital financing requirement was internal borrowing. The Council would look to use this first before having to go out to the market. The two largest elements of the calculation would be internal borrowing, which was using reserves or capital receipt, a HRA scheme or other such avenues. These would be maximised for use before going out to the market.

- The Civic Centre was one of many schemes within the capital program. There was a business case that had been in existence for a number of years and was presented to Cabinet in recent months. There was an assumption in the capital program around the budget for the Civic Centre and that was part of the Council's borrowing requirement. The business case suggested that it was a self-financing scheme. The business case had a series of assumptions around the future of the Station Road sites that the Council would vacate when it moved to the Civic Centre. There would also be savings on the revenue cost and utility bills of the current sites. Although there was borrowing required, the revenue generation from the move covered the costs of the borrowing. This needed to be kept under review all the way through. This was also true of any of self- financing schemes.

5. RECOMMENDATIONS

Full Council is recommended:

1. To note the treasury management activity undertaken during the financial year to 31st December 2024 and the performance achieved which is attached as Appendix 1 to the report.

2. To note that all treasury activities were undertaken in line with the approved Treasury Management Strategy.

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