South Downs
National Park Authority

Agenda Item 13

Report PR22/23-23

Report to	**Policy & Resources Committee**
Date	**24 November 2022**
By	**Chief Finance Officer**
Title of Report	**Budget Monitoring Report 2022/23: Month 6**
Note	

Recommendation: The Policy & Resources Committee is recommended to:

1. **Note the 2022/23 Revenue Forecast position as at month 6 of a net (£528,000) below budget variance.**
2. **Note the 2022/23 Capital Forecast position as at month 6 of a zero-budget variance.**
3. **Note the Reserves position as at month 6, as set out at Appendix 3.**
4. **Note the Treasury Management overview and position as at month 6, as set out at Appendix 4.**

1. Introduction

1.1 The South Downs National Park Authority (the Authority) approved the revenue and capital budget for the 2022/23 financial year on the 24 March 2022. In accordance with financial procedures, reports on the Authority's projected income and expenditure compared with the budget shall be submitted at least quarterly to Policy & Resources Committee. This report sets out the Authority's 2022/23 forecast financial position as at the end of month 6 (September).

1.2 The Treasury Management Policy Statement and Annual Investment Strategy were also approved by the Authority at its meeting on 24 March 2022. In accordance with financial procedures, the Policy & Resources Committee shall receive quarterly treasury management update reports. This report provides an overview of the current economic and treasury management position as at the end of month 6 (September) 2022/23.

2. Policy Context

2.1 The revenue and capital budget are developed to align with Corporate Plan priorities which have now been more tightly defined around Nature Recovery, Climate Action and a Park for All. The budget monitoring process reports on variances against approved budgets to identify changes and resource requirements at the earliest opportunity.

3. Issues for consideration

Revenue Forecast

3.1 The 2022/23 forecast revenue outturn as at month 6 is a net below budget variance of (£528,000), which represents a movement of (£259,000) from the month 4 net below budget forecast variance of (£269,000). The month 6 forecast has been developed following a review of current and anticipated changes in staffing, as well as other significant known variances. A summary of the forecast revenue position is provided by service area below and the revenue movement between budget and forecast and the key variances by service are provided in Appendix 1.

2022/23 Month 4 Variance £'000	Directorate	2022/23 Budget Month 6 £'000	2022/23 Forecast Month 6 £'000	Forecast Variance Month 6 £'000	Forecast Variance Month %
(4)	Corporate Services	3,964	3,818	(146)	(3.68%)
60	Seven Sisters Country Park	0	62	62	N/A
(185)	Countryside Policy and Management	3,681	3,499	(182)	(4.94%)
(140)	Planning	4,132	3,870	(262)	(6.34%)
0	Strategic Investment Fund	315	315	0	0.00%
(269)	**Total Directorate Budgets**	**12,092**	**11,564**	**(528)**	**(4.36%)**
	National Park Grant	(10,486)	(10,486)	0	0%
0	Contribution to/from Reserves	(1,606)	(1,606)	0	0%
(269)	**Total Authority Budget**	**0**	**(528)**	**(528)**	

3.2 **Planning Income:** At month 6 there is an anticipated net below budget variance of £25,000 on Planning Income fees. The variance has improved slightly from the month 4 position of an anticipated variance of £50,000. The variance has been offset by a reduction in delegated agreement payments, currently expected to be (£25,000) less than budgeted. This is a result of effective contract management and an example of 'payment per application' working within the agreements. There is also an anticipated (£15,000) above budget variance on CIL admin income due to more developments than anticipated for 2022/23. Note that the value of planning applications received is lower when compared to the same period last year by 3%, and the number of applications under £5,000 has also dropped by 7% when compared to same period last year.

3.3 **Salaries:** The approved salary budgets for 2022/23 include a 10% net turnover rate, which reduces the overall salary budget by (£120,000). Even after this adjustment the net salary forecast across all services is (£460,000) below budget at month 6 since there are currently 17 vacancies out for recruitment compared to a current headcount of approximately 132 staff (excluding casuals and externally funded posts). It should be noted that the forecast represents known staff vacancies at month 6 and further vacancies may well emerge. Recruitment of the current vacancies is the top priority for the HR team who are currently at capacity. The staffing structure is kept under continuous review and the creation of new posts are only agreed following Senior Management Team approval where there is a clear operational requirement and sufficient budget identified.

3.4 **Review of the Business Model (Transition):** The salaries information above relates to normal variances including vacancies and turnover. However, as previously reported, the

Authority has also reviewed its business model in recognition of the need to put itself on a more sustainable financial footing over the medium term while ensuring it can build on its Corporate Plan priorities and deliver its projects and programmes. Overall, the review remains on track to exceed the full-year efficiency target of £1m which will be incorporated into the Authority's reported budget variances as and when restructuring is completed.

3.5 To support the process, the Authority approved the creation of a Transition Fund of £593,000 to manage, for example, redundancy and pension strain costs. However, the Authority's current revenue budget forecast is for a £0.528m below-budget variance and therefore, as all transition costs can legitimately be charged to the annual revenue budget, it is possible to utilise this underspend to meet transition costs as far as possible. This position will be kept under review. If this remains the situation at year-end (outturn), it is proposed to recommend to the Authority that the transition costs be met from the 2022/23 underspend and that any excess cost is met from the Transition Fund with the unused remainder of the Transition Fund being transferred to the Strategic Fund to support projects and priorities.

Capital Forecast

3.6 The Capital programme at month 6 is showing a zero variance for the year as detailed at **Appendix 2** to this report. The variance for the year-to-date is shown below to provide an indication of the progress of capital schemes.

Capital Budget	**Month 6**		
	Budget	**Actuals**	**Year-to-date Variance**
	£'000	**£'000**	**£'000**
New Vehicle	46	0	(46)
Seven Sisters Country Park	784	439	(345)
South Downs Trading Company – provision of equity	100	100	0
National Park Signage Project Phase 2	82	46	(36)
Total Capital Budget	**1,012**	**585**	**(427)**

- The first new vehicle, to replace an ageing pick-up, has now been ordered.
- The Phase 1 construction works for the Seven Sisters Country Park have been officially completed including the Dairy Barn construction works. The capital budget shown in the table above therefore relates to the approved Phase 1a works which will have a dominant focus on the Facilities Block and Foxhole cottages to provide a good accommodation offer for the Country Park. The Phase 1a budget includes the successful SELEP grant funding and the remaining balance of funding from the Phase 1. Phase 1a is well underway and is due to be completed in December 2022. The Pump barn works are also continuing although additional funding has been applied for from the original grant funders, SELEP, to cover cost increases due to inflation. If successful with the additional funding, the work will need to be completed by the end of March 2023.
- All signage is completed at Seven Sisters and Phase 2 of the entry signage for SDNP is also completed. Following a review of the Phase 1 signage, several signs were identified as needing repairs and the work is in progress.

Review of Reserves

3.7 A schedule of reserves held by the Authority is provided at Appendix 3, which gives the purpose, movement, and balance of each reserve. There are zero movements in reserves between the month 4 position and the Month 6 position from 2022/23.

3.8 The Reserve Table at Appendix 3 sets out reserves under headings that categorise the level of control and influence the Authority has over each type of reserve. The table shows that the Authority holds approved and recommended risk reserves of £953,000 which must be maintained to demonstrate financial prudence and resilience; Capital Reserves of £80,000 to manage the timing of capital payments across financial years, and £6,496,000 in relation to S106, CIL and other agreements over which the Authority does not have direct control. The reserves over which the Authority has direct influence and control are therefore the 'Earmarked Reserves', which currently stand at £1,563,000 to meet approved projects and programmes, and 'General Reserves' which have been fully allocated.

Treasury Management Overview and Position

3.9 The 2022/23 Treasury Management Strategy (which includes the Annual Investment Strategy) was approved by full Authority on 24 March 2022. The 2022/23 Capital Strategy (approved at the same committee) identified a borrowing need in the Authority's capital programme. The Treasury management Strategy was updated to reflect the requirement to set borrowing limits and relevant prudential indicators. This section of the budget monitoring report now includes an update for the mid-year performance against the strategy and indicators in addition to the usual inclusion of a summary of the Authority's investment position.

Economic Overview

3.10 An overview of the economic landscape for the first half of 2022/23 is provided by Brighton & Hove City Council's Treasury Advisors, Link Asset Services, at Appendix 4.

Investments

3.11 The Authority's investment portfolio of £15.375m as at 30 September 2022 is made up of the following:

- £2.000m fixed deposit held with Santander UK plc;
- £3.000m sustainable fixed deposits held with Standard Chartered Bank;
- £3.000m fixed deposit held with Goldman Sachs International Bank
- The remaining balance is invested via Brighton & Hove City Council (£7.375m as at 30 September 2022)

3.12 The table at Appendix 4 summarises the performance of these investments to 30 September 2022. The actual average interest rate earned in months 5-6 was 1.50% (compared to 1.00% average for months 1-4), reflecting the increase in investment rates due to the increases in the Bank of England Base Rate.

3.13 The benchmark investment rate for the period (months 5-6) was 1.74%. The actual rate achieved of 1.50% therefore under-performed the benchmark rate by 0.24%. This is because there is a natural and expected delay between increases in the Bank of England Base Rate and the rate achieved on investments as we wait for investments to mature before we can take advantage of the improved rates. The average investment rate is expected to continue to improve through 2022/23.

3.14 The parameters for the Annual Investment Strategies were met in full in the first six months of the year with no breaches.

Capital Financing

3.15 The Authority's most significant capital investment relates to the programme of works set out in the Seven Sisters Country Park business case. In terms of financing the works, the Authority's Capital Strategy identified that the Seven Sisters capital investment could initially be met from internal borrowing; that is, avoiding the take up of external borrowing (loans) by utilising the Authority's available cash balances until such time as the cash is required for its intended purpose. An assessment of the Authority's cash flows at the time that the Seven Sisters project was first approved indicated that it may require external borrowing of up to £1.240m between 2021/22 and 2024/25, however, available cash balances have remained much more stable than forecast and therefore there is no anticipated need for external borrowing for at least this year or next. This position will continue to be closely monitored to ensure that cash balances remain at an appropriate level to meet the Authority's budget commitments.

3.16 Internally borrowing in this way effectively reduces the Authority's cash balances available for investment but clearly avoids the (higher) cost of external borrowing. Although this strategy currently carries interest rate risk, i.e. the risk of interest rates having risen by the time external borrowing is eventually required, the current and forecast level of the Authority's cash balances would not support external borrowing in advance of need and therefore internally borrowing remains an effective and appropriate strategy.

4. Options & cost implications

4.1 By continuously identifying and explaining variances against budgets, the Authority can identify risks, changes and new resource requirements at the earliest opportunity. A below budget variance at the end of the financial year could increase reserve levels and have implications for the Medium-Term Financial Strategy of the Authority.

5. Next steps

5.1 Annual budgets are approved by the National Park Authority (NPA). Budget monitoring is a key component of the Authority's overall performance monitoring and control framework and is reported at least quarterly to the Policy & Resources Committee.

6. Other implications

Implication	Yes*/No
Will further decisions be required by another committee/full authority?	No
Does the proposal raise any Resource implications?	Yes. Budget monitoring requires action plans to mitigate above budget variances to ensure that the Authority does not overspend on its available resources. A below budget variance at the end of the financial year could increase reserve levels and may have implications for the Medium-Term Financial Strategy of the Authority.
How does the proposal represent Value for Money?	Internal controls and governance are in place to ensure the economical, efficient, and effective use of resources.
Which PMP Outcomes/ Corporate plan objectives does this deliver against	None
Links to other projects or partner organisations	No
How does this decision contribute to the Authority's climate change objectives	None
Are there any Social Value implications arising from the	No

Implication	Yes*/No
proposal?	
Have you taken regard of the South Downs National Park Authority's equality duty as contained within the Equality Act 2010?	There are no implications arising directly from this report. The Authority's equality duty shall be considered in respect to all expenditure and programmes undertaken by the National Park Authority.
Are there any Human Rights implications arising from the proposal?	No
Are there any Crime & Disorder implications arising from the proposal?	No
Are there any Health & Safety implications arising from the proposal?	No
Are there any Data Protection implications?	No
Are there any Sustainability implications based on the 5 principles set out in the SDNPA Sustainability Strategy?	No None directly.

7. Risks Associated with the Proposed Decision

7.1 There are no risks directly associated with this report as the recommendations are for noting only.

NIGEL MANVELL

Chief Finance Officer

South Downs National Park Authority

Contact Officer:	Nigel Manvell
Tel:	07841 805131
Email:	Nigel.Manvell@brighton-hove.gov.uk
Appendices	1. 2022/23 Revenue Key Variance by Service Area – Movement and Variances 2. 2022/23 Capital Forecast 3. 2022/23 Reserves Position 4. 2022/23 Treasury Management Performance 5. Explanation of Key Terms
SDNPA Consultees	Chief Executive; Director of Countryside Policy and Management; Director of Planning; Chief Finance Officer; Monitoring Officer; Legal Services, Interim Head of Business Service Manager.
External Consultees	None.

Background Documents	Information in this report is taken from audited Financial Management Information Systems maintained by the Corporate Financial Services provider, Brighton & Hove City Council. This report is presented in accordance with the Authority's Financial Regulations and Standard Financial Procedure.

2022/23 Revenue Key Variance by Service Area – Explanation of Movements since last Quarter

	Variance Month 4	Variance Month 6	Movement	
Service	**£'000**	**£'000**	**£'000**	**Explanation of Main Variance**
Corporate Services	(4)	(146)	(142)	The movement is due to (£150,000) net above budget variance on Investment Income, due to increase in interest rates.
Seven Sisters Country Park	60	62	2	Minor movement in Third Party Payments.
Countryside Policy & Management	(185)	(182)	3	Minor movement in Salaries.
Planning	(140)	(262)	(122)	The movement is due to a reduction of (£74,000) in salaries due to several vacant posts within the Planning team and changes to the organisational structure where some posts have been removed. The Planning Income fees forecast has improved by (£25,000) from the month 4 position. Delegated agreements are showing a net below budget variance of (£25,000) and there are other minor under and over of costs across supplies and services.
Strategic Investment Fund	0	0	0	
Totals	**(269)**	**(528)**	**(259)**	

2022/23 Revenue Key Variance by Service Area – Explanation of Main Variances

2022/23 Variance Month 6 £'000	Service Area	Explanation of Main Variances
(20)	Chief Executive's Service	Net variance due to a staff vacancy.
(134)	Business Services	(£48,000) below budget on salaries due to staff vacancies and a reduction of (£15,000) in Business Rates for the South Downs Centre in line with the new Business Rates relief scheme for 2022/23. (£150,000) net above budget variance on Investment Income, due to increase in interest rates. These are offset by a net above budget variance of £22,500 for Professional fees in relation to Water Ingress at Seven Sisters, £19,000 for new requirements specified under the Corporate Financial Services contract and £25,000 on Staff Advertising due to staff vacancies. There are other minor movement within supplies and services.
62	Seven Sisters Country Park	£60,000 for a feasibility study for the reed beds at Seven Sisters and other minor movements within third party payments.
57	Marketing and Income Generation	Net variance is due to an additional post (Funding Officer) that was not included in the original budget.
(49)	Governance and Support Services	Net variance due to a staff vacancy.
(84)	**Total Corporate Services Variance**	
(25)	Director of Countryside Policy and Management	The below budget variance is due to the recovery of costs for staff seconded from the Farmers in Protected Landscape project.

(19)	Countryside and Policy Central	(£15,000) below budget salary variance is due to the recovery of costs for staff seconded from the Farmers in Protected Landscape project and vacant Assistant Rangers post. Net minor movements in mileage costs.
(13)	Countryside and Policy Wealden Heath	Net variance due to a staff vacancy.
(63)	Countryside and Policy Eastern	(£59,000) below budget salary variance is due to the recovery of costs for staff seconded from the Farmers in Protected Landscape project and staff vacancy. Net minor movements in mileage costs.
(20)	Countryside and Policy Western	(£18,000) below budget salary variance is due to vacant post. Net minor movements in mileage costs.
(42)	Research and Performance	(£39,000) below budget salary variance is due to a staff post recruited at lower than originally budgeted cost and some staff not in the pension scheme, and a vacant post. Net minor movements in mileage costs.
(182)	**Total Countryside Policy and Management Variance**	
10	Director of Planning	Net variance is due to salary turnover target.
(117)	Planning Development Management	(£117,000) below budget variance on salaries due to several vacant posts within the service.
(50)	Performance and Technical Management	(£30,000) below budget variance on salaries due to staff vacancies. An anticipated net below budget variance of £25,000 on Planning Income fees; this is offset by a (£25,000) net below budget variance on Delegated agreements payments and (£15,000) net above budget variance on CIL admin income, due to more developments than anticipated for 2022/23. Net minor movements in mileage costs.

(105)	Planning Policy	(£105,000) below budget variance on salaries due to several vacant posts within the service.
(262)	**Total Planning Variance**	
0	Strategic fund Projects	Net Zero variance.
0	**Strategic Fund Projects**	
(528)	**Total Revenue Budget Variance**	

2022/23 Capital Forecast

Capital Project	2022/23 Month 6 Original Budget	2022/23 Month 6 Variation	2022/23 Month 6 Adjusted Budget	2022/23 Month 6 Forecast	2022/23 Month 6 Variance	2022/23 Month 6 Variance
	£'000	£'000	£'000	£'000	£'000	%
New Vehicle	46	0	46	46	0	0%
Seven Sisters Seven Sisters Country Park	784	0	784	784	0	0%
South Downs Commercial Operation – provision of equity	100	0	100	100	0	0%
National Park Signage Project Phase 2	82	0	82	82	0	0%
Total Capital Budget	**1,012**	**0**	**1,012**	**1,012**	**0**	**0.0%**

2022/23 Reserves Position

Reserve Type and Title	**Purpose of Reserve**	**2022/23 Month 4 £'000**	**Movement Between Reserves £'000**	**Contributions to/from Reserves £'000**	**2022/23 Month 6 £'000**
General Reserves:					
General Reserve	General Reserve representing the 2021/22 approved budget surplus	0	0	0	0
Approved Risk Reserves:					
Working Balance	Working Balance	595	0	0	595
Planning Reserve	To fund unforeseen planning inquiries, changes to future delegation arrangements, significant income falls and support for neighbourhood plans	358	0	0	358
Earmarked Reserves:					
Partnership Management Plan Reserve	To fund outcomes identified in the Partnership Management Plan	301	0	0	301
Strategic Fund	Reserve to hold unspent Strategic Fund allocations.	426	0	0	426
Affordable Housing	Funds to implement an Affordable Housing Strategy within the National Park	161	0	0	161
Transition Reserve	To support the work to adjust SDNPA's expenditure profile in line for future funding constraints.	593	0	0	593
Trading Company Borrowing Reserve	This will allow the company to borrow funds to purchase assets to allow operations at SSCP to begin	80	0	0	80
Climate Change Fund Reserve	Funds to support the Authority becoming a 'net-zero' organisation by 2030.	2	0	0	2

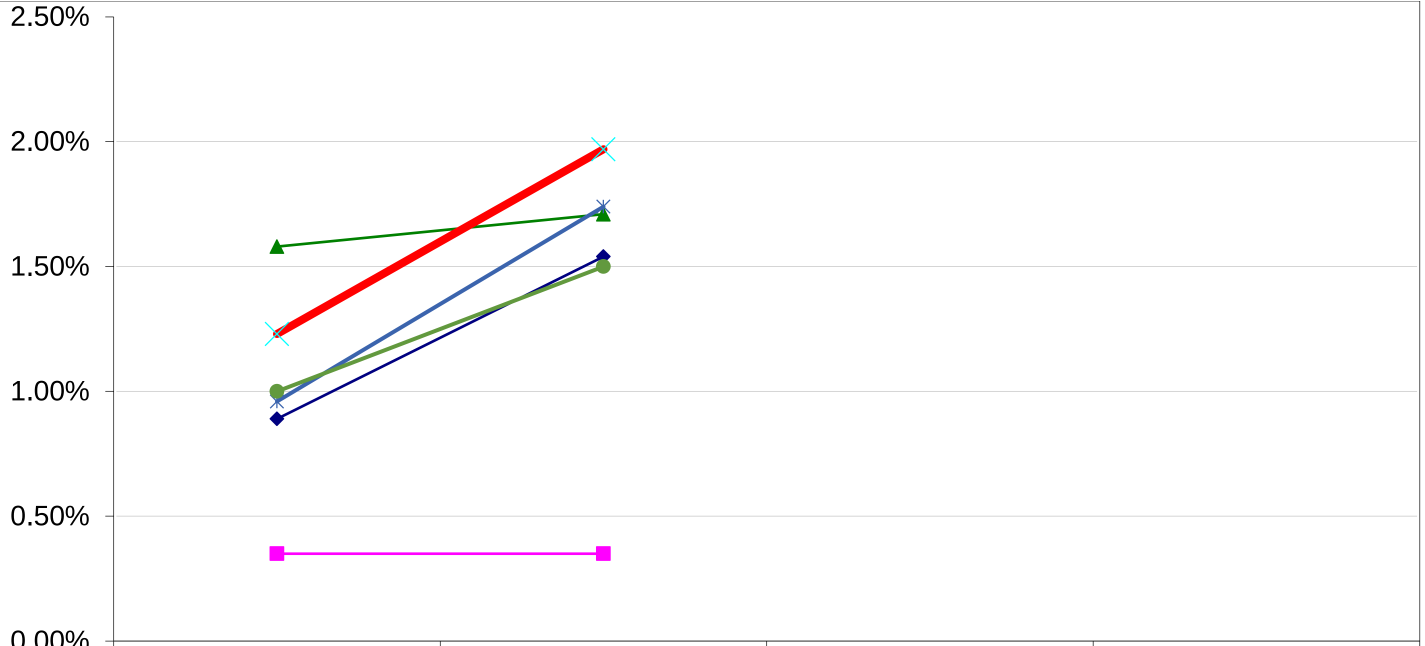
Reserve Type and Title	Purpose of Reserve	2022/23 Month 4 £'000	Movement Between Reserves £'000	Contributions to/from Reserves £'000	2022/23 Month 6 £'000
Funds held in lieu of Agreements					
South Downs Way	Funding transferred from South Downs Joint Committee	20	0	0	20
Section 106 Receipts Reserve	Receipts primarily used to develop infrastructure within the National Park	441	0	0	441
Section 106 Interest on Statutory Receipts		192	0	0	192
Community Infrastructure Levy Reserve*	Receipts to fund infrastructure in development areas	5,843	0	0	5,843
Capital (Timing) Reserves:					
Capital Receipts	Proceeds from disposal of assets available for use on capital expenditure	28	0	0	28
Estates Management Reserve	To support refurbishment of area offices.	50	0	0	50
Vehicle Repairs and Renewals	To fund purchase of replacement vehicles	2	0	0	2
Total Reserves Balance		**9,092**	**0**	**0**	**9,092**

**The value of the Community Infrastructure Levy reserve represents amounts receivable in accordance with Financial Regulations and the Town and County Planning Act 1990.*

The reserve value may not represent the value of actual income received due to agreed payment terms and profile of payments for some developments.

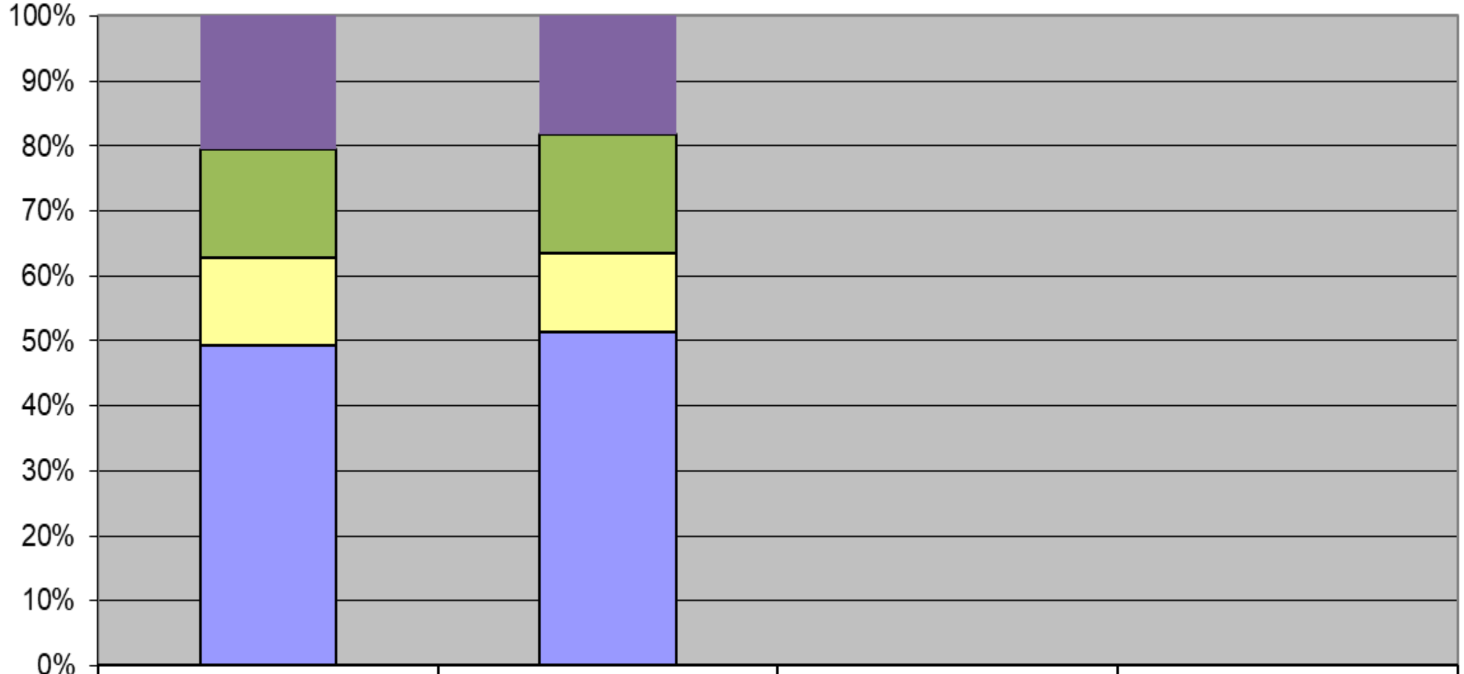
2022/23 Treasury Management Performance

Average Interest rate achieved on Investments compared to Benchmark (7 Day-LIBID)



	April to July 2022/23	August to September 2022/23	October to December 2022/23	January to March 2022/23
Investment in BHCC	0.89%	1.54%		
Investment in Santander (Average)	0.35%	0.35%		
Investment in Goldman Sachs	1.58%	1.71%		
Investment in Standard Chartered	1.23%	1.97%		
Benchmark rate	0.96%	1.74%		
Average for period	1.00%	1.50%		

Average amount invested (weighted by amount per day)



	April to July 2022/23	August to September 2022/23	October to December 2022/23	January to March 2022/23
Investment in Standard Chartered	3,000	3,000		
Investment in Goldman Sachs	2,422	3,000		
Investment in Santander (Average)	2,000	2,000		
Investment in BHCC	7,187	8,422		

Economic Update – provided by Link Asset Services on 07/10/22

The second quarter of 2022/23 saw:

- GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being.
- Signs of economic activity losing momentum as production fell due to rising energy prices.
- CPI inflation ease to 9.9% y/y in August, but domestic price pressures showing little sign of abating in the near-term and September CPI up to 10.1%.
- The unemployment rate falls to a 48-year low of 3.6% due to a large shortfall in labour supply.
- Bank Rate rise by 100bps (1%) over the quarter, taking Bank Rate to 2.25% with further rises to come.
- Gilt yields surge and sterling fall following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September which is now appears to be recovering following their recent replacement.
- There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.
- The fall in manufacturing output points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.
- The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February), but a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. In July, the 3month y/y rate of average earnings growth rose from 5.2% in June to 5.5%.
- CPI inflation eased from 10.1% in July to 9.9% in August, but then rose again to 10.1% in September. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, we would expect to see fuel prices fall further in the coming months.

- However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.
- Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.
- The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.
- The combination of the tight labour market and underlying inflationary pressures means we expect the MPC to raise interest rates further through November to March. However, Market expectations for what the MPC will do are volatile. If Bank Rate climbs to high levels (e.g. 5%) the housing market looks very vulnerable, which is one reason why we are forecasting a peak below 5.50% - 5.75% priced into the financial markets at present.
- Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharp at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.
- Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%. The advent of a new PM and Chancellor has further calmed the situation.
- There is a possibility that the Bank continues with QE at the long end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.
- After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite

Explanation of Key Terms

Key Term	Explanation
Above budget Variance	Difference between budgeted and actual/forecasted activity which would have an adverse impact on the Authority's financial position, e.g. expenditure in excess of available budget, or less income than budgeted.
Below budget variance	Difference between budgeted and actual/forecasted activity which would have a favourable impact the Authority's financial position, e.g. less expenditure than budgeted, or more income than budgeted.
Budget Carry Forward	Unspent revenue budgets to be moved from one financial year to another where circumstances mean that it is not possible to spend budgets in the current financial year.
Capital Expenditure	Expenditure involving the acquisition or enhancement of assets with a long term value to the Authority, such as land, buildings, and major items of plant, equipment or vehicles.
Capital Programme	Approved budgets for capital expenditure over the Medium Term Financial Strategy period which supports priorities informed by the Members' Budget Workshops and outcomes identified in the PMP.
Capital Reprofile	Unspent capital budgets to be moved from one financial year to another where circumstances mean that it is not possible to spend capital budgets in the current financial year.
Financial Procedures	Approved procedures which set out the responsibilities of Members and officers of how Financial Regulations are to be applied in practice.

Financial Regulations	Approved responsibilities of Members, directors, statutory officers and managers in looking after the financial affairs of the Authority. It seeks to ensure high standards of financial conduct, and probity in dealing with public money.
Medium Term Financial Strategy (MTFS)	Planned use of resources over a five year period taking into consideration assumptions for anticipated changes in commitments, savings and grant income.
Movement	Changes in actual/forecasted activity compared to previously reported forecasts.
Non-Grant Funded Budgets	Expenditure budgets that are not funded by grants from external bodies
Provisional Outturn Position	The anticipated year-end financial position of the Authority subject to any required approvals and assessment from external auditors.
Reserves	Funds retained to provide for future services and activities, usually earmarked for specific purposes, subject to maintaining prudent levels and any statutory limitations
Revenue	Expenditure and income required to meet ongoing day-to-day activities of the Authority. Examples include salaries, wages, material, supplies and services.
Ringfenced Grants	Financial assistance from external bodies to fund specific activity, where conditions exist to repay the grant should it not be used to fund the specified activity.
Unringfenced Grants	Financial assistance from external bodies to fund activity, where no conditions exist to repay the grant.