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CABINET

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To: Councillors Bailey, Baines, Barkley (Deputy Leader), Bokor, Harper-Davies, Mercer, Morgan (Leader), Poland, Rattray and Rollings (for attention)

All other members of the Council
(for information)

You are requested to attend the meeting of the Cabinet to be held in Committee Room 1, at the Council Offices, Southfields, Loughborough on Thursday, 9th February 2023 at 6.00 pm for the following business.

Chief Executive

Southfields
Loughborough

27th January 2023

TO FOLLOW REPORTS

7. 2023-24 GENERAL FUND AND HRA REVENUE BUDGETS AND COUNCIL TAX — 3 - 23

A report of the Head of Finance.

Key Decision

8. MTFS 2023-26 AND CAPITAL STRATEGY, TREASURY MANAGEMENT STRATEGY STATEMENT, MRP POLICY AND — 24 - 126

ANNUAL INVESTMENT STRATEGY 2023-24

A report of the Head of Finance.

Key Decision

CABINET – 9TH FEBRUARY 2023

Report of the Head of Finance

Lead Member: Councillor Tom Barkley

Part A

GENERAL FUND AND HRA REVENUE BUDGETS 2023/24

Purpose of the Report

This report sets out the proposed General Fund and Housing Revenue Account (HRA) Revenue Budgets for 2023/24. It is a legal requirement to set a balanced budget each financial year. The report also incorporates the proposed Council Tax levy which must be set by Council at its meeting on 27th February 2023. The indicated Council Tax for Charnwood Borough Council as a whole is based on the budget to be recommended to Council and it is proposed that there is equivalent to an overall increase of £5.00 (3.52%) per band D property per annum in 2023/24 including Loughborough Special Levy. This is the allowable increase for the Council based upon the Council's current band D charge being in the lowest quartile across England.

The report also presents the 2023/24 proposals to increase rent and service charges within the ring fenced Housing Revenue Account.

Recommendations

That Council are recommended:

1. To approve the Original General Fund Revenue Budget for 2023/24 at £19,245,129 as set out in Appendix 1.
2. To set a base Council Tax at £140.47 at Band D, an increase of £4.78 on the 2022/23 rate as set out in Appendix 2.
3. To set the Loughborough Special Levy at £81.11, a 1.99% increase on 2022/23 rate, as set out in Appendix 3.
4. To approve the Original HRA Budget for 2023/24 as set out in Appendix 5.
5. To amend the HRA weekly rents in line with the Ministry of Housing, Communities and Local Government (MHCLG) guidance.
6. To amend the non-HRA dwelling properties in line with the Ministry of Housing, Communities and Local Government (MHCLG) guidance.
7. To approve the HRA service charges in accordance with the MHCLG Guidance.
8. To approve that the shop rents retain their current rents in accordance with an assessment by the Valuation Office.

9. To approve that garage rents, retain their current rents in accordance with an assessment by the Valuation Office.

10. To approve that the Leasehold Management and Administration charge increases to £160.46 per annum for Leasehold flats, and £115.29 for Leasehold shops.
11. That the Lifeline weekly charge is retained at the current rate.

12. To determine that the basic amount of Council Tax for 2023/24 is not excessive according to the principles set out by the Secretary of State.

Reasons

1. That the necessary finance is approved to carry out services in 2023/24.

2. That the Council Tax can be set in accordance with legal and statutory requirements.

3. That a Loughborough Special Levy can be set in accordance with legal and statutory requirements.

4. To ensure sufficient funding for the Housing Revenue Account in 2023/24.
5. To comply with social housing rents guidance.
6. To be consistent with the other council house stock.
7. To ensure the correct alignment of costs and service charges for tenants in accordance with best practice.
8. That shop rents follow the assessment and guidance provided by the Valuation Office.
9. To increase the rent generated for garages in line with the guidance from the Valuation Office.
10. That there is sufficient recovery of the costs associated with operating the leasehold flat and shop services.
11. That there is sufficient recovery of the costs associated with operating the Lifeline service.
12. To comply with the requirements of the Local Government Finance Act 1992.

PolicyJustification and Previous Decisions

The budget is essential to all policies of the Council and the setting of a Council Tax levy is a legal requirement of the Council. The rents are set in accordance with MHCLG Guidelines.

Implementation Timetable including Future Decisions and Scrutiny

This report will be available for consideration by the Scrutiny Commission on 6th February 2023 and, if approved by Cabinet, will be tabled for agreement by

Full Council on 27th February 2023. The actual budget will then come into effect on 1st April 2023.

The draft budget was also considered by the Budget Scrutiny Panel on 4th January 2023 and their comments are due to considered separately by Cabinet at the 9th February meeting and are also referred to later in this report.

<u>Report Implications</u>

Financial Implications

The effects of the adoption of these budgets are explained in Part B of the report.

Risk Management

Risks identified in respect of the Original Budget are tabulated below:

Risk Identified	*Likelihood*	*Impact*	*Overall Risk*	*Risk Management actions planned*
Failure to take account of the spending plans of the Council.	Unlikely (2)	Minor (1)	Very Low (2)	Robust budget planning and Budget Monitoring process are in place.
Further exceptional spending being required during the financial year.	Likely (3)	Major (3)	Moderate (9)	It is considered that the Working Balance reserve (and other revenue reserves) remain sufficient to manage normal and one-off events for 2023/24.

Equality and Diversity

There are no specific Equalities and Diversity issues affecting the recommendation in this report, although any such issues arising from particular service pressures and savings will be considered and subject to an equalities impact assessment prior to proposals being implemented.

Key Decision: Yes

Background Papers: None

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Part B

General Fund Revenue Budget 2023/24

1. Appendix 1 shows the General Fund summary position and includes a variance column comparing the Original budget being recommended to Council with the draft one reported to Cabinet on 15th December 2022. The changes are set out below.

2. The working balance has reduced by £596k since the draft report, primarily being a reduction in the investment income £500k due to a change in the interest rate projections and an increase in NDR Income budget £1m.

3. The precept Income has Increased by £1.1m compared to the draft, this being £1m relating to NDR Budget (National Non-Domestic Rates) arising from the 2023 revaluation of all NDR properties and indexation effects.

4. The council is currently part of the Leicestershire business rate pool which means that they do not have to pay levy payments over to Central Government and payments instead are directed to the Local Enterprise Partnership (LLEP) via the business rates pool.

5. Due to timing differences between years in finalising amounts due to other parties, e.g. the County, Police and Fire in respect of Council Tax and the County, Fire and central government in respect of NNDR, the authority operates a Collection Fund. This acts like a trust account where amounts are paid in/out during the year and surpluses/deficits are retained at the year end and then paid out/recovered in following years once final figures are known. The final report to Council on 27th February 2023 will include the final figures, the figures for County, Fire and Police in this report are provisional.

6. The amount due to the Council from Council Tax receipts has decreased by £67k compared with the draft report, this reflects the Council Tax by charging permitted £5 per band D property, which is the seventh year in a row. (Loughborough Special Levy will increase by 1.99%, with the Borough precept calculated to ensure that the overall increase remains within the £5 limit), the Council tax base and the Loughborough Special base was lower than that shown in the draft due to an increase student and other exemptions.

7. The New Homes Bonus (NHB) Grant figure is £373k for 2023/24 (£1,631k 2022/23). For 2023/24 an assumed one off funding guarantee grant has been given as compensation for this loss in funding.

8. The working balance shows a net use of General Fund reserves of £1,296k to balance the budget.

9. Service Pressures, Savings and additional income generation are detailed at Appendix 6, these include unavoidable ongoing Service Pressures of £1,931k, One Off Pressures of £578.5k and ongoing service savings/Income £417.4k for 2023/24.

Consultation on the Budget

10. A programme of consultation commenced following the consideration of the draft budget by Cabinet 15th December 2022. This has involved members of the public, partner organisations, scrutiny (especially the Budget Scrutiny Panel), unions and businesses.

An online consultation was held between 5th December 2022 and 18th December 2022 . The consultation was highlighted in the local media and across other channels include the Council's website, social media, and email alerts. There were no responses submitted to the online consultation.

Budget Scrutiny Panel

11. A Budget Scrutiny Panel has undertaken scrutiny of the draft budget for 2023/24. The recommendations of the Panel are set out in a separate report to this Cabinet meeting (item 6 on the agenda).

Comments of the Industrial and Commercial Ratepayers Meeting

12. A consultation meeting with representatives of Industrial and Commercial Ratepayers was held on 11th January 2023. In summary:

    The Council's proposed budget and capital plan were discussed,and there were no specific commenting on the budget arising. Other matters were:-

    Consultees highlighted the significant work undertaken by the Lead Member and the officers of the Council in producing a stable draft budget in difficult times. Overall, Consultees felt positive about the draft budget.

    The minimum working balance target of £2m was self-imposed by the Council. This was set by the S151 officer as a safe amount, representing six weeks of expenditure. According to the CIPFA Financial Resilience Index, the level of reserves maintained by the Council was in the lower quartile when compared with other District Councils. In comparison to County and Unitary Councils, Charnwood Borough Council's level of reserves was more positive.

    The commercialisation portfolio of the Council was secure and finances associated with this, including the Commercialisation Reserve, were being maintained as expected.

    The Council's Medium Term Financial Strategy covered a three-year period (2023/24, 2024/25 and 2025/26); the first period of which was concerned with finalising the numbers within the draft budget. It was expected that the 2024/25 settlement offered from government would be similar to the draft settlement recently received, although this was not guaranteed. Projections indicate that income may increase slightly over this period, but inflationary costs would increase significantly.

    Proposals were currently in development with regards to the Council's office accommodation. There was a requirement to ensure that the Council considered options for most value for money.

    The Council was aware that Carillon Court shopping centre's previous owner has sold the site to new owners. The new owners had not confirmed to the Council what its plans for the site were. In response to a question about business rates generation, it was highlighted that the shopping centre was not one of the largest providers of Business Rates income in the borough but that all business rates contributors were nevertheless valued and important.

It was highlighted that in addition to retailing activity there would be benefit in introducing other commercial activities into Loughborough town centre, such as leisure experiences like bowling, to encourage more visitors.

The increase in Bed and Breakfast accommodation costs was due to an increase in demand. Previously, the Council had used Bed and Breakfast accommodation for people presenting as homeless, although some of this accommodation was now being used for alternative purposes. In addition, the Council had received funding for temporary accommodation for people presenting as homeless during the Covid-19 pandemic, and this funding was no longer available, which had an impact on Council finances.

The Council had previously entered into a 75% Business Rates Retention Scheme pilot, although the pilot had not been rolled out further. Currently the Council operated under a 50% Business Rates Retention Scheme, which resulted in the receipt of 9% of rates collected, following the appropriate dispersal of the funds collected. A higher retention percentage would not have a substantial impact on the final sum received by the Council, as the majority of the Business Rates funds were sent government and other authorities (Leicestershire County Council, Leicestershire Fire Authority, Leicestershire Police, etc).

Comments of the Loughborough Area Committee

13. This Committee met on 7th December 2022 where the agenda included an opportunity to provide feedback on the draft budget. Although the meeting was inquorate it proceeded on an informal basis, and the principal matter raised was the increase in CCTV costs charged to the Loughborough Special Rate was due to a number of factors, including an increase in the percentage of CCTV costs charged to the Loughborough Special Rate, due to a reduction in income loss from Carillon Court monitoring work of the CCTV cameras. The Council was looking for opportunities to increase the income generated by CCTV services.

14. There had been significant increases in costs to run the Nanpantan Sports Ground. This was primarily due to the increase in energy costs (100% increase in electricity and 200% increase in gas). Nanpantan Sports Ground used more energy than the other sports grounds due to the nature of the services provided.

15. The budget for the Carillon Tower had been reduced from the previous year. This was due to an increased budget previously, due to income from central government during the Covid-19 Pandemic. 50% of the total cost of the Carillon Tower was charged to the Loughborough Special Rate. This was because it was anticipated that 50% of the visitors to Carillon Tower were from outside Loughborough.

    We would like to take this opportunity to thank all those who responded to the consultation. Further of the consultation discussions and responses referred to above are available as background documents to this report (public consultation results) or as meeting minutes, published on the Council’s website.

<u>Loughborough Special Expenses</u> Appendix 3

16. The budget position for Loughborough Special Expense and Levy for 2023/24. The increase to the Loughborough Special Levy is 1.99% to a rate of £81.11 per Band D property (2022/23: £79.53), details of this budget and year to year comparisons are included in Apprendix 3.

Council Tax Base

17. The tax base, as approved by a decision delegated to the s151 Officer, has been used in the relevant calculations.

Precept Amount

18. The Precept amount in Appendix 2 shows an equivalent overall increase of £4.78 (3.52%) on the Base Band D Council Tax plus the Loughborough Special Levy. The band D rate for 2023/24 is set at £140.47 for the base precept.

Parish and Town Councils and Other Precepts

19. All Parish and Town Council precepts have been received and are detailed in Appendix 4. Approved precept information is still to be received from the County Council, the Police and Fire Authorities and the figures therefore shown in Appendix 2 are provisional. These will be updated in time for the main Council meeting on 27th February 2023.

General Fund Revenue Balances and Reserve

20. The General Fund Balances are included in Appendix 1. The budget shows a net £1.296k use of Working Balance is required to balance this year's budget, with a Working Balance estimated to be £4.415m as at March 2024.

It is a requirement to ensure that the level of balances is appropriate for the Council's commitments and current level of expenditure. The recommended minimum working balance set by the Section 151 Officer is £2.5m, representing eight weeks net expenditure (revised from £2m for 2023/24), in line with good practice. The original budget balance on this fund at the end of March 2024 is projected is above this limit.

The Reinvestment Reserve This is used for three purposes, these being:

- For items that produce a payback to the Council;
- To fund costs that lead to appreciable service improvements;
- To fund one-off costs.

The Reinvestment reserve has a balance of £500k to be used for the above purpose. This may be topped up should this be operationally justified and financially feasible.

The Capital Plan Reserve is estimated to be £1.695m at the end of March 2024. This revenue reserve is used to finance General Fund capital expenditure, also the reserve can be used for revenue expenditure and there is no minimum balance for this reserve.

There are fifteen specific earmarked reserves which may be used in line with the purpose of the reserve fund or for general fund purposes totaling £3.66m including the Commercialisation reserve.

The Commercialisation Reserve was set up in 2021/22, to cover any future losses on the Commercial Property Income; a contribution of £324k has been set aside in the 2023/24 budget and by the end of 2023/24, the balance on this reserve will be £1.5m.

The overall total General Fund Reserve balances estimated as at 31st March 2024 is £10.2m.

Housing Revenue Account Appendix 5

21. The HRA budget position for 2023/24 is breakeven. The HRA Balances have been budgeted at £110 per property at approximately £597k. At 31 March 2024, the HRA Financing Fund balance is forecast as being £12,598k. The Major Repairs Reserve was £4,248k in the draft budget, an additional £2m will be used to finance the redevelopment of St Michaels Court.

22. The HRA balances are predicted to be £15,443k at 31/3/2024. Overall, there is an adverse variance of £2,650k between the draft and final budget.The £2,650k variance is primarily due to an additional £2m contribution to the capital programme in order to finance the redevelopment of the St Michaels Court Sheltered scheme.

23. There is a reduction in rent income totaling £70k which is mainly stripping the St Michaels court scheme Income from the budget in 2023/24. This is offset by increases of £14k for Shop income based on updated current demand, and £10k in other service charges following a detailed cost analysis.

24. The increase in Supervision and Management costs include the £89.4k ongoing service pressure for the Housing Needs and £13k reduction in demand for the Lifeline service, including the removal of St Michaels court service charges. The increase of £300k in repairs and maintenance costs represents a reduction in the recharge to HRA capital relating to several posts.

25. Since the December 2022 draft HRA budget, the interest rate used to calculate interest payable and interest receivable has been reduced from 4% to 3% in line with current forecast rates. This has led to a £13k reduction in internal borrowing and £214k reduction in anticipated interest receivable. The interest receivable income has also been reduced because of the reduction in anticipated HRA balances. The rent charges for garages and shops have been reviewed by the Valuations Office, and their recommendation is to retain them at the current levels.

Report of the Chief Finance (Section 151) Officer under Section 25 of the Local Government Finance Act, 2003

26. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer (Section 151 Officer) of a local authority to report on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. This report must be considered by Cabinet and full Council as part of the budget approval and council tax setting process.

27. The proposed budget is set against the context of continued reductions in core Government funding and significant uncertainty as to future funding levels. The budget

is appropriately prudent and, if delivered, will leave the Council's Working Balance at £4.4m at 31st March 2024, above the £2.5m minimum set by the s151 Officer.

28. The Council's S151 Officer is required to report to Cabinet and full Council the key risks facing the Council in relation to current and future budget provision. In subsequent years the lack of certainty around Government funding combined with inflationary pressures and the medium and longer term are the key budgetary risks. Further detail is set out in the Medium Term Financial Strategy 2023 – 2026, which will be presented for adoption to the full Council meeting of 27th February 2023.

Robustness of Estimates

29. The Local Government Finance Act 1992 also requires an authority to take due consideration before setting the budget as there is no recourse to setting a further levy during the year, and any unexpected financial event would have to be met from reserves, or by cutting expenditure on services.

30. This budget has been drawn up using the best estimates of the cost of service delivery by those officers delivering the services, under the overall management of the Chief Financial Officer and with professional advice and guidance from the Financial Services team. The basis of estimation has been to take account of all known costs in delivering a set level of service together with any new or amended services that have been approved by Members.

31. It is recognised that during the eighteen months period, from the start of the budget process until the end of that financial year, there are likely to be budgets that have pressures on spending; equally there are budgets that will under spend. The key is to ensure that the position is under control at all times and that timely, effective action is taken where budget issues are identified in year. Financial procedures are in place to ensure that all decisions that affect spending are fully considered before committing the authority, and that effective monitoring is in place.

32. All spending plans are based on the service planning process and the proposed use of reserves and balances conforms to the approach set out in the Financial Strategy.

Adequacy of Reserves

33. The Chief Financial Officer can confirm that the levels of reserves for both the General Fund and HRA are considered to be adequate to fund the planned expenditure identified by the Council as presented in this report. However, they will need to be monitored and reviewed in the future to ensure that they can be maintained at an adequate level.

Assurance Statement of the Council's Section 151 Officer

34. The Chief Financial Officer confirms that this budget, as set out above and in the attached appendices, is robust and meets the requirements of the Council for its current spending plans and conforms with the procedures agreed for the use of balances.

Appendices

1 - General Fund Budget Summary 2023/24
2 - Council Tax Analysis 2023/24
3 - Loughborough Special Expenses 2023/24
4 - Council Tax Town and Parish Council Precepts 2023/24
5 - HRA Revenue Budget Summary 2023/24
6 - General Fund Service Pressures and Savings 2023/24

Actual 2021/22 £000	General Fund Budget Summary	Original Budget 2022/23 £000	Draft Budget 2023/24 £000	Final Budget 2023/24 £000	Variance Draft vs Final £000
16,108	Net General Fund Service Expenditure	19,141	19,088	19,221	(133)
0	Less MRP & Interest & Commercial Reserve	(929)	(929)	(929)	0
0	Service (Ongoing Savings)	(1,010)	(417)	(417)	0
0	Service (One Off Saving)	(81)	0	0	0
0	Savings to be determined	(250)	0	0	0
0	Service Pressures Ongoing	184	1,984	1,931	53
0	Service Pressures One Off	127	595	579	17
16,108	**Net Service Expenditure**	**17,182**	**20,320**	**20,384**	**(64)**
645	Revenue Contributions to Capital	0	0	0	0
583	MRP Charge	729	604	604	0
230	Interest Paid	240	230	230	0
(281)	Less: Interest on Balances	(300)	(2,000)	(1,500)	(500)
17,285	**Total Borough Expenditure**	**17,851**	**19,154**	**19,718**	**(564)**
(96)	Contribution (from)/to Reinvestment Reserve	0	500	500	0
749	Contribution(from)/to Working Balance	(311)	(1,892)	(1,297)	(595)
2	Contribution (from)/to Collection Fund	122	0	0	0
(524)	Contribution(from)/ to Capital Plan Reserve	0	0	0	0
543	Contribution(from)/to Commericalisation Reserve	200	324	324	0
242	Contribution (from)/to Other Reserves	0	0	0	0
18,202	**Precept Requirement**	**17,862**	**18,086**	**19,245**	**(1,159)**
4,547	NNDR	5,200	5,400	6,400	(1,000)
0	RSG	174	0	329	(329)
7,640	Council Tax Receipts	7,981	8,381	8,314	67
1,311	Loughborough Special Levy	1,346	1,392	1,367	25
3,000	New Homes Bonus	1,631	0	373	(373)
1,418	Lower Tier Services Grant/Tranche 5 one off	1,112	0	0	0
283	General Government Grants	296	2,913	2,462	451
2	Collection Fund Surplus/(Deficit)	122	0	0	0
18,202	**Precept Income**	**17,862**	**18,086**	**19,245**	**(1,159)**

£000 Actual 2021/22	REVENUE BALANCES	£000 Original Budget 2022/23	£000 Draft Budget 2023/24	£000 Final Budget 2023/24	£000 Variance Original vs Draft
5,816	**Working Balance at 1 April**	4,969	6,211	6,211	0
751	Transfer from/(to) General Fund	(189)	(1,892)	(1,297)	(595)
0	Transfer from/(to) Reinvestment Reserve	(167)	(500)	(500)	0
6,567	**Balance at 31 March**	**4,613**	**3,819**	**4,414**	**(595)**
591	**Reinvestment Reserve Balance at 1 April**	333	328	328	0
0	Allocated balance	0	(328)	(328)	0
(96)	Transfers from/(to) General Fund	167	500	500	0
495	**Balance at 31 March**	**500**	**500**	**500**	**0**
2,433	**Capital Plan Reserve Balance at 1 April**	2,233	1,695	1,695	0
(524)	Transfer from/(to) General Fund	0	0	0	0
1,909	**Balance at 31 March**	**2,233**	**1,695**	**1,695**	**0**
7,346	**NDR Deficit COVID Reserve**	**7,346**	**3,052**	**3,052**	0
(4,294)	Funding of NDR COVID Deficit	(7,346)	(3,052)	(3,052)	0
3,052	**Balance at 31 March**	**0**	**0**	**0**	**0**
2,015	**Other Revenue Reserve Balances at 1 April**	2,015	3,343	3,343	0
1,328	Transfers from/(to) General Fund	200	324	324	0
3,343	**Balance at 31 March**	**2,215**	**3,667**	**3,667**	**0**
15,366	**TOTAL BALANCES**	**9,561**	**9,681**	**10,276**	**(595)**

Appendix 2

COUNCIL TAX ANALYSIS 2023/24					
2022/23			**2023/24**		%
58,819.0		**TAX BASE (at CBC collection rate)**	59,186.3		Change
					Per Band D
16,923.1		**LOUGHBOROUGH TAX BASE**	16,855.2		0.62
£	£ p		£	£ p	%
17,862,933	303.69	TOTAL BUDGET REQUIREMENT	19,245,129	325.16	7.07
(1,345,894)	(22.88)	Less: Loughborough Special Levy	(1,367,125)	(23.10)	0.95
16,517,039	280.81		17,878,004	302.06	7.57
		Less:			
(1,631,447)	(27.74)	New Homes Bonus	(373,187)	(6.31)	(77.25)
(5,200,000)	(88.41)	NNDR	*(6,400,000)*	(108.13)	22.31
0	0.00	Funding Guarantee	(2,295,397)	(38.78)	0.00
(1,111,902)	(18.90)	Lower Tier Services Grant	0	0.00	(100.00)
(295,932)	(5.03)	Services Grant	(166,753)	(2.82)	(43.95)
(174,268)	(2.96)	Revenue Support Grant	(328,767)	(5.55)	87.32
8,103,490	137.77		8,313,900	140.47	1.96
(122,340)	(2.08)	Collection Fund (Surplus)/Deficit	0	0.00	(100.00)
7,981,150	**135.69**	**BASIC BOROUGH PRECEPT**	**8,313,900**	**140.47**	**3.52**
		Other Precepts			
4,250,109	72.26	Parishes	4,565,965	77.15	6.77
85,461,673	1,452.96	Leicestershire County Council	85,461,673	1,443.94	(0.62)
4,369,664	74.29	Combined Fire Authority	4,369,664	73.83	(0.62)
15,188,842	258.23	Police & Crime Commissioner for Leics	15,188,842	256.63	(0.62)
109,270,288	1,857.74		109,586,144	1,851.55	(0.33)
1,345,894	79.53	SPECIAL LEVY (LOUGHBOROUGH)	1,367,125	81.11	1.99
118,597,332	2,016.31	**TOTAL REQUIREMENT**	119,267,169	2,015.11	(0.06)
117,251,438	1,993.43	**AVERAGE PARISH PRECEPT**	117,900,044	1,992.02	(0.07)
114,347,223	2,000.70	**LOUGHBOROUGH PRECEPT**	114,701,204	1,995.98	(0.24)

Final figures subject to approval

LOUGHBOROUGH SPECIAL EXPENSES **Appendix 3**

2022/23 Loughborough Special Expenses £	Service	2023/24 Loughborough Special Expenses £	2022/23 to 2023/24 Difference £	% Variance	Note
74,300	Loughborough CCTV	96,800	22,500	23.2%	1
65,500	Community Grants - General / Fearon Hall / Gorse Covert	65,500	0	0.0%	2
36,300	Marios Tinenti Centre / Altogether Place / Community Hubs	38,000	1,700	4.5%	3
6,300	Charnwood Water Toilets	6,700	400	6.0%	4
36,600	Voluntary & Community Sector Dev Officer post (75% LSX)	39,700	3,100	7.8%	5
124,200	Contribution towards Lough Open Spaces Grounds Maintenance	126,200	2,000	1.6%	6
(5,800)	November Fair	(9,400)	(3,600)	38.3%	7
	Parks:				
345,100	Loughborough - including Loughborough in Bloom	352,700	7,600	2.2%	8
70,700	Gorse Covert and Booth Wood	72,200	1,500	2.1%	9
	Sports Grounds:				
117,400	Derby Road	117,500	100	0.1%	10
43,100	Lodge Farm	44,800	1,700	3.8%	11
77,100	Nanpantan	96,600	19,500	20.2%	12
18,200	Park Road	18,600	400	2.2%	13
23,000	Shelthorpe Golf Course	24,800	1,800	7.3%	14
36,500	Loughborough Cemetery	56,800	20,300	35.7%	15
47,800	Allotments - Loughborough	50,400	2,600	5.2%	16
11,600	Carillon Tower	9,200	(2,400)	-26.1%	17
55,100	Festive Decorations and Illuminations	55,300	200	0.4%	18
99,600	Town Centre Management	105,000	5,400	5.1%	19
1,282,600		1,367,400	84,800	6.2%	
0	Adjustments from Year 2021/22	(275)			
63,294	Adjustments from Year 2020/21				
1,345,894	AMENDED SUB TOTAL	1,367,125			
Divided by 16,923.10	**Council Tax Base**	**Divided by 16,855.20**			
79.53	**Special Council Tax**	**81.11**			

Loughborough Special Expense Notes

1	29% of the total costs of CCTV have been charged to the Loughborough Special Rate for 2023/24, compared to 24% in 2022/23. The total number of cameras has reduced overall mainly due to the cancellation of the contract with Carillon Court for 36 cameras, however, the number charged to the Loughborough Special Rate has increased by 2. This additional 5% is the main reason for the increased charge. Increased employee costs are also a factor due to estimated pay award, Support services recharges have also increased, following the senior leadership review, a number of support service recharges have been transferred and managed by different Heads of Service.
2	no comment required
3	The rent for the two properties has increased by inflation £0.4k. The utility costs have also increased £1.3k based on anticipated increased energy prices.
4	£0.4k increased utility costs based on increased energy prices.
5	The increased costs are due to estimated pay award for the Voluntary and Community Sector Development post M298, 75% of which is funded by Loughborough Special Expenses.
6	This increase is due to contract inflation. Future years funding via the Loughborough Special Rate is to be reviewed each subsequent year, as approved by Cabinet 16/02/17 (min 88).
7	Environmental Services contract has increased by inflation £0.7k, security costs has increased by £3.7k to support crowd safety and management. These are offset by additional income £6.2k from site rental, parking and utility usage. Support service recharges have reduced £2k as included above.
8	Both the Environmental Services contract and the Management of Open Spaces contract budgets including variations have increased by inflation £5k and £2.6k respectively
9	the Management of Open Spaces contract budget has increased by inflation £0.9k. Support service recharges have increased £0.6k as included above
10	The increased employee costs £1.6K are due to estimated pay award. Increase NNDR £1.1k, due to inflation and a national revaluation is to be carried out on all non-domestic properties in England from 1st April 2023, all properties will get a revised rateable value. Utility costs also increased £1.6k based on increased energy prices. Both the Environmental Services contract and the Management of Open Spaces contract budgets including variations have increased by inflation £0.9k and £1k respectively, offset by additional rent income £1k. Support service recharges have reduced £4.9k as included above.
11	£1k increased electricity cost based on anticipated increased energy prices. Both the Environmental Services contract and the Management of Open Spaces contract budgets including variations have increased by inflation £0.3k and £0.2k respectively.
12	Increased NNDR £0.7k and utility costs £19k as detailed above. Both the Environmental Services contract and the Management of Open Spaces contract budgets including variations have increased by inflation £0.6k and £0.5k respectively. These are part offset by increased income from tennis charges £1k.
13	£0.4k increased utility costs based on previous year usage and anticipated increased energy prices and inflation. Both the Environmental Services contract and the Management of Open Spaces contract budgets including variations have increased by inflation £0.4k and £0.1k respectively. Part offset by additional rental income for the bowling green and pavilion £0.6k.
14	Increase costs for both NNDR £0.3k and electricity £0.9k as detailed above. Both the Environmental Services contract and the Management of Open Spaces contract budgets have increased by inflation £0.6k and £0.6k respectively. These are part offset by increased income £0.8k from Golf Course fees, this is part of the Management of Open Spaces contract whereby CBC receive a guaranteed income amount, pre-set by Idverde and increased by inflation each year.

15 Increased NNDR £0.3k and electricity costs £0.8k as detailed above. The Management of Open Spaces contract budget has increased by inflation £0.7k. The cemetery service budget has increased by £2.6k based on previous year actuals & increased ongoing costs mainly due to additional standby payments. The budget for consultants fees has been reduced by £2k, further major consultancy advice is not anticipated going forward. Support service recharges have reduced £3k as included above. An ongoing service pressure of £20.8k has been included in the final budget report for grounds maintenance costs for the new cemetery at Nanpantan.

16 Increased water charges £0.3k and management of open spaces contract £0.2k are due to inflation. Increased equipment budget £2k for enhanced security measures is offset by £2k site rental income. Support service recharges have increased £2.1k as included above.

17 £1k increased electricity costs based on increased energy prices. The income budget for £4.5k has been included for 2023/24, this was classed as a one-off service pressure for 2022/23. Support service recharges have reduced £1.4k as included above. 50% of the total cost of the Carillon is charged to the Loughborough Special Rate

18 no comment required

19 The increased employee costs £5.3K are due to estimated pay award. The streets alive and events budget has been reduced by £2k, this is based on previous years spend. The £3k contribution from the BID has been removed for 2023/24, they now cover the cost of the Christmas marketing campaign directly. Support service recharges have reduced £1k as included above.

2023/2024 Council Tax - Parish Precepts **Appendix 4**

Parish/ Meeting/ Town Council		Precept Requirement £	Council Tax Base	Parish/ Special Requirements at Band B £
Anstey		337,548.14	2,676.50	126.12
Barkby / Barkby Thorpe		13,742.00	157.90	87.03
Barrow-Upon-Soar		245,345.00	2,552.70	96.11
Beeby		0.00	44.50	0.00
Birstall		481,859.00	4,592.80	104.92
Burton-on-the-Wolds, Cotes, & Prestwold		32,500.00	560.90	57.94
Cossington		16,400.00	219.50	74.72
East Goscote		66,900.00	931.70	71.80
Hamilton Lee		0.00	282.20	0.00
Hathern		48,500.00	892.60	54.34
Hoton		13,340.00	145.20	91.87
Mountsorrel		554,926.74	3,047.70	182.08
Newtown Linford		59,618.00	537.10	111.00
Queniborough		66,262.00	1,225.50	54.07
Quorndon		323,595.30	2,532.70	127.77
Ratcliffe-on-the-Wreake		3,000.00	86.90	34.52
Rearsby		24,736.00	489.80	50.50
Rothley		204,925.00	2,346.80	87.32
Seagrave		20,882.00	282.60	73.89
Shepshed		411,435.00	5,130.20	80.20
Sileby		273,348.00	2,956.40	92.46
South Croxton		11,751.00	135.70	86.60
Stonebow Village		0.00	5.30	0.00
Swithland		5,200.00	157.10	33.10
Syston		614,275.00	4,383.50	140.13
Thrussington		13,500.00	252.90	53.38
Thurcaston & Cropston		51,823.90	944.90	54.85
Thurmaston		521,272.00	2,865.40	181.92
Ulverscroft		0.00	62.10	0.00
Walton-on-the-Wolds		5,000.00	130.00	38.46
Wanlip		4,000.00	88.80	45.05
Woodhouse		93,154.00	989.90	94.10
Wymeswold		47,127.32	623.30	75.61
		4,565,965.40	42,331.10	
Loughborough (Special Expenses)		1,367,125.00	16,855.20	81.11
Total		5,933,090.40	59,186.30	
Average				100.24

Appendix 5

2021/22 Actual	Housing Revenue Account	2022/23 Original Budget	2023/24 Draft Original Budget	2023/24 Final Original Budget	Variance
£000		**£000**	**£000**	**£000**	**£000**
	Expenditure				
5,762	Supervision and Management	5,483	6,410	6,512	(102)
7,088	Repairs and Maintenance	6,803	7,129	7,429	(300)
277	Rents, Rates and Other Charges	291	291	291	0
97	Provision for Bad Debts & Other Charges	318	118	118	0
3,680	Depreciation	3,641	3,942	3,942	0
(5,488)	Net Revaluation non-current assets increase	0	0	0	0
10	Debt Management Expenses	10	16	16	0
11,426	**Expenditure Sub-total**	16,501	17,906	18,308	(402)
	Income				
(20,637)	Dwelling Rent Income	(21,368)	(22,781)	(22,711)	(70)
(348)	Shops, Land and Garages Rent	(390)	(388)	(402)	14
(49)	Warden Service Charges	(51)	(47)	(49)	2
(312)	Central Heating, Cleaning and Communal Charges	(310)	(320)	(328)	8
(196)	Leasehold Flat and Shop Service Charges	(143)	(160)	(160)	0
(27)	Hostel Service Charges	(25)	(23)	(23)	0
(8)	Council Tax Recharged	(9)	(8)	(8)	0
(21,557)	**Income Sub-Total**	(22,296)	(23,727)	(23,681)	(46)
(19,838)	**Net (income)/Cost of service**	(5,822)	(5,821)	(5,373)	(448)
(82)	Transfer from General Fund – Grounds Maintenance	(85)	(90)	(90)	0
2,701	Interest Payable	2,709	2,751	2,738	13
(45)	Investment Income and Mortgage Interest	(27)	(720)	(506)	(214)
(17,264)	**Net Operating Expenditure/(Income)**	(3,225)	(3,880)	(3,231)	(649)
0	Revenue Contribution to Capital	3,225	3,264	3,231	33
(96)	Pension Adjustment	0	0	0	0
(112)	Accumulated Absence Adjustment	0	0	0	0
14,077	Reversal of Gain on Revaluation	0	0	0	0
13,869	Appropriations	3,225	3,264	3,231	33
(3,395)	**(Surplus)/Deficit for the year**	**0**	**(616)**	**0**	**(616)**

2021/22 Actual	Housing Revenue Account	2022/23 Original Budget	2023/24 Draft Original Budget	2023/24 Original Budget	Variance
£000		**£000**	**£000**	**£000**	**£000**
(609)	**HRA Balance at beginning of year**	(606)	(602)	(602)	0
(2,942)	(Surplus)/Deficit for the year	0	(616)	0	(616)
2,945	Transfer to/from Reserves	(362)	619	5	614
0	Adjustments to 2022/23 Budget	366	0	0	0
(606)	**HRA Balance at end of year**	**(602)**	**(599)**	**(597)**	**(2)**
(11,631)	**HRA Financing Fund at beginning of year**	(14,576)	(12,627)	(12,627)	0
(2,945)	Transfer to/from Reserves	362	(619)	(5)	(614)
0	Revenue Contribution to Capital	1,587	0	34	(34)
(14,576)	**HRA Financing Fund at end of year**	**(12,627)**	**(13,246)**	**(12,598)**	**(648)**
(4,248)	**Major Repairs Reserve at end of year**	**(4,248)**	**(4,248)**	**(2,248)**	**(2,000)**
(19,430)	**Overall HRA balances at end of the year**	**(17,477)**	**(18,093)**	**(15,443)**	**2,650**

Major Contract Inflation			
Major Contracts Ivederda	Contract Inflation/New site	50,100	Contract Capped 2%
Major Contract Leisure centre	Contract Inflation	(42,300)	Increased contract Management Income
Major Contract Capita	Contract Inflation	288,800	CPI 12% estimate September Contract Date January
Major Contract ES Contracts	Contract Inflation	742,600	CPI 12% September Contract Date
Sub total		**1,039,200**	
Other Contract Inflation/Pressures			
External ICS	Software Annual Charges	34,000	10%-12% Inflation increase on Software charges
External ICS	Hardware Maint Charges	6,000	10%-12% Inflation increase on Hardware charges
HR	LCC	14,500	HR Services outsourced from LCC increase in line with salaries
Register of Electors	Software Annual Charges	3,200	RPI increases on Election Software 'Express'
Itrent Payroll Contract	Software Annual Charges	16,000	New Fixed rate contract 3 years
Finance	Software Annual Charges	5,000	Unit4 Support and Maintenance costs increase for 2023-24 - plus increases to PTX bank and sort code checker
Insurance	Insurance Premiums	72,900	Contract cost increases CBI 12%-20%
Insurance	Insurance	13,000	Other insurance costs
Bed & Breakfast	B&B Accomodation	458,000	Base budget is £192.4k increase to £650k based on current levels 2022/23
Civic Expenses	Mayoral Allowance	1,300	Paid as part of NJC, increase in line with salaries.
Land Charges Services Unit	County Fees (Land Charges)	3,000	Realignment of Land Charges budgets (Ave on last 5yrs) - increase in exp budget
Emergency Planning	Emergency Planning	2,200	Local Resiliance Forum (salary time) increase in line with salaries
Dog Control services	Stray Dogs & Bye Law	11,000	CPI currently 10% inflation - additional fuel & energy costs £59.2k budget needed
Refuse collection	Leicester County Council	25,900	Trade waste disposal costs c£23K per quarter including inflation c£92k
Refuse collection	Env Serv Contract - Commercial Waste Variation	54,000	Trade waste collection costs c£8K per month including inflation c£96k
Town Hall shows	Artists Fee Costs	20,000	55% artist settlements based on increased income figure of £467.6K
External Financial Overheads	Bank Charges	31,700	Current budget of £88.3k, spend currently £120k, increase due to credit Card/internet/telephone banking) charge per transaction
External Financial Overheads	External Audit Fees	35,000	Public Sector Audit Appointments (PSAA) reset of total fees. Increase of c.150% from 2022/23 fees
Southfield Offices	Security Services & Charges	12,600	Increased security service cost for unlocking/locking Southfields
Sub total		**819,300**	819300
Other Pressures			
Land Charges Services Unit	Land Charges - search fee Income	24,200	Realignment of Land Charges budgets (analysis on last 5yrs) - reduction in income budget
Land Charges Services Unit	Land Charges -Income	12,100	Realignment of Land Charges budgets (analysis on last 5yrs) - reduction in income budget

Waste Recycling	Garden Bins Income	36,400	Fewer new customer and higher cancellations as a consequence of the price increase along with the dry weather. This budget is in line with forecast outturn position £1.7m.
Sub total		**72,700**	
One off Pressures			
Pressures ONE OFF - Car park Income	Car Park Income	188,500	Review of Car Park Income
Pressures ONE OFF - Vacination Centre Income	Vacination Income	125,000	Reduction in Southfields Office Accommodation Income Budget
Pressures ONE OFF - Cost Elections	Election Costs	200,000	Borough Election costs 2023/24
Pressures ONE OFF - Coffee/Tea Provisions	Coffee/Tea Provision	15,000	Corporate Coffee/Tea Provision
Pressures ONE OFF - Procurement Contract	Procurement Contract	50,000	Review of Procurement Contract
Sub total		**578,500**	
Overall Total Pressures		**2,509,700**	

Additional Income			
Outwoods	*Car Parking Charges*	(6,000)	*Income above budget target - £6k*
Crematorium	Turnover Commission	(10,000)	*Contractor year end income c£160K - £10k above budget*
Refuse collection	Trade Waste Collection Charges	(80,000)	*Trade Waste additional income based on 2022/23 actuals & internal charge to Property services & Town Hall*
Town Hall shows	Sales - General	(71,500)	*£47.6k Town Hall Sales, Town Hall Room Hire £13.2k, town Hall Booking Fees £10.7k All Income lines reset to Pre Covid Levels.*
Planning Applications	Planning Charges	(82,000)	Review of fee income based on 2018/19 to 2022/23 average increase
Building Control - Chargeable Activities	Building Control Fees	(45,100)	Review of fee income based on 2018/19 to 2022/23 average increase
Environmental Services	KPI Income	(30,000)	Serco contract - key performance target income has been made over a number of years
Cupola Way, Scunthorpe - Commercial Property	Rent - General	(50,000)	Increase in rent from £550k to £600k per annum
Misc Land & Property	Rent - General	(4,100)	To reflect increase in rent for Aspire
Street Management	LCC reimbursement	(10,900)	Amendment to base based on 2022/23 actual amount agreed £292K
Limehurst Depot	Reduction in cost	(35,100)	Limehurst Depot sold Sep-22 -Reduction running costs
Central Purchasing Team		(1,300)	Reduction in costs
Car Allowance realigned saving	Car Allowance amendment	20,000	Car allowance amendment to savings
Town Deal Grant Funds	Towns Fund Deal	(11,400)	Town Deal to fund Expenditure
		(417,400)	

CABINET – 9TH FEBRUARY 2023

Report of the Head of Finance

Lead Member: Councillor Tom Barkley

Part A

MEDIUM TERM FINANCIAL STRATEGY 2023-2026 AND CAPITAL STRATEGY (INCLUDING THE TREASURY MANAGEMENT STRATEGY) 2023/24

Purpose of Report

This report brings together two key financial strategies which are principal strands of the Council's budgetary and policy framework.

The report incorporates the latest iteration of the Medium Term Financial Strategy which uses the 2023/24 budget as a base for financial projections into 2024/25 and 2025/26, and provides an extended view of the Council's financial position. This in turn provides the baseline for decision making which will support

The Capital Strategy, which is required under the terms of the 'Prudential Code', a statutory code of practice. The report also sets out the Treasury Management Strategy Statement together with the Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy. These latter strategies and the MRP policy are integral to the overarching Capital Finance Strategy and should be read as one holistic report.

This Cabinet report recommends the approval of the above strategies and proposed amendments to the Constitution to Council.

Recommendations

1. That the Medium Term Financial Strategy 2023-2026 as set out at Appendix A be noted and recommended to Council for approval.

2. That the Capital Strategy, as set out at Appendix B of this report be approved and recommended to Council.

3. That the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy as shown at Appendix BB of this report be approved and recommended to Council.

4. That the Prudential and Treasury Indicators, also set out in within Appendix BB of this report be approved and recommended to Council.

Reasons

1. To inform members of the future financial outlook for the Council.

2. To enable the Council to comply with the statutory code of practice issued by CIPFA: ‘The Prudential Code for Capital Finance in Local Authorities, 2021 Edition’.

2. To ensure that the Council’s governance and management procedures for Treasury Management reflect best practice and comply with the CIPFA Treasury Management in the Public Services Code of Practice, Guidance Notes and Treasury Management Policy Statement.

3. To ensure that funding of capital expenditure is taken within the totality of the Council’s financial position and that borrowing and investment is only carried out with proper regard to the Prudential Code for Capital Finance in Local Authorities.

Policy Justification and Previous Decisions

The Capital Strategy must be approved by Council on an annual basis.

The Treasury Management Strategy Statement, Prudential and Treasury Indicators and Annual Investment Strategy must be approved by Council each year and reviewed half yearly.

The latest version of the Medium Term Financial Strategy (covering financial years 2023 - 2026) outlines the prospective financial challenges facing the Council and the contribution expected of the Investment Strategy in mitigating these challenges.

The Medium Term Financial Strategy should also be approved by Council as part of the maintenance of the budgetary and policy framework.

Implementation Timetable including Future Decisions and Scrutiny

If approved by Council the Medium Term Financial Strategy and the Capital Strategy (including its component strategies) will come into effect from 1 April 2023.

This report is available for the consideration of the Scrutiny Commission on 6 February 2023.

In line with governance requirements the Capital Strategy and associated Treasury Management Strategy Statement, Prudential and Treasury Indicators and Annual Investment Strategy will also be presented to the Audit Committee on 31 January 2023.

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no direct financial implications arising from this report.

Financial issues arising from the implementation of the strategies are covered within the report.

Risk Management

Risk Identified	*Likelihood*	*Impact*	*Overall Risk*	*Risk Management Actions Planned*
MTFS				
Failure to take account of the spending plans of the Council.	Unlikely (2)	Minor (1)	Very Low (2)	Robust budget planning and Budget Monitoring process are in place.
Capital Stategy				
Poor treasury investment decisions due to inadequate treasury management strategies in place	Unlikely (2)	Significant (2)	Low (4)	Strategy developed in accordance with CIPFA guidelines and best practice. Adherence to clearly defined treasury management policies and practices
Loss of council funds through failure of borrowers	Remote (1)	Serious (3)	Low (3)	Credit ratings and other information sources used to minimise risk Adherence to clearly defined treasury management policies and practices
Volatile market changes (such as interest rates or sector ratings) occur during year	Unlikely (2)	Significant (2)	Low (4)	Approved strategy in place, regular monitoring of position and use of Treasury Consultants and other sources to provide the latest advice.
Significant losses arising from investments in non-financial instruments (such as loans to third parties or property investments)	Unlikely (2)	Serious (3)	Moderate (6)	Professional advice will be sought in advance of non-standard or new investment activity outside knowledge base within the Council. Adherence to strategy which set out limits to investment in individual asset classes.

Key Decision: Yes

Background Papers: Treasury Management mid-year update – Cabinet Report 17 November 2022

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Part B

Background – Medium Term Financial Strategy

1. The Medium Term Financial Strategy (MTFS) is set out at Appendix A

2. In summary the financial projections at the heart of the MTFS show:

    - 2023/24 (the budget) shows a use of reserves of some £1.3m

    - 2024/25 will see a £1.6m use of reserves

    - 2025/26 will see a further £2.5m use of reserves

3. A key message within the MTFS is the high level of uncertainty that surround many of the financial projections and underlying assumptions. All figures presented should therefore be viewed with this in mind.

4. It is important to note that in respect of the 2024/25 and 2025/26 financial years the projections do not take account of management actions – which will clearly be necessary – to address the financial challenges identified these projections. To this extent the financial projections for these years should be be regarded as an estimate of the financial challenge facing the Council, not a financial prediction.

5. Further detail is set out within the Appendix.

Background – Capital Strategy

6. The Capital Strategy is a requirement arising from the extant version of the 'Prudential Code'. This code is a statutory code of practice and was published by the Chartered Institute of Public Financial Accountants (CIPFA) taking effect from 1 April 2019. It was issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. Under that section local authorities are required to 'have regard' to 'such guidance as the Secretary of State may issue'.

7. The Council's treasury management activities also fall within the scope of the Prudential Code.

8. The Capital Strategy forms part of the Council's integrated revenue, capital and balance sheet planning. It sets out the long-term context in which capital expenditure and investment decisions are made, considers risks and rewards and the potential impacts on Council objectives

9. The Capital Strategy is an overarching strategy that encompasses the following aspects:

    - Capital expenditure and governance

- Capital financing and the borrowing
- Treasury management investments (essentially financial assets) set out within the Annual Investment Strategy
- Commercial strategy – investment in non-financial assets (including commercial properties and prospective housing development)
- Access to knowledge and skills (enabling the strategy to be delivered)
- Treasury Management policy statement and practices (presented as a separate appendix)

10. The Treasury Management Strategy Statement, incorporating the Annual Investment Strategy, have been prepared in accordance with the revised code and accordingly include:

    - the treasury limits in force which will limit the treasury risk and activities of the council,
    - the Prudential and Treasury Indicators
    - the current treasury position
    - the borrowing requirement
    - prospects for interest rates
    - the borrowing strategy
    - policy on borrowing in advance of need
    - debt rescheduling
    - the investment strategy
    - creditworthiness policy
    - the use of external fund managers and treasury advisers
    - Minimum Revenue Provision (MRP) Policy

11. The current Capital Plan includes as yet unused amounts for Regeneration (now reduced to £5m) and development of the Enterprise Zone (now reduced to £10m); the Capital Strategy assumes that these unused amounts will be carried forward to allow availability in future years.

12. Other than a £2m loan taken out in 1984 (and due for repayment in 2024) the Council has not been required to externalise borrowing within the General Fund. External borrowing may be required if the full £15m for Regeneration

and Enterprise Zone development was invested; however, the Council has significant scope for additional ‘internal’ borrowing and whether or not debt is ’externalised’ will be determined on a case by case basis.

13. In broad terms there are no changes in strategic approach proposed within the 2022/23 Capital Strategy. This does not mean that the Council cannot react to changes in circumstances or opportunities arising, but any changes in approach, and any associated amendments to the Capital Plan will need approval from Council (or as otherwise required though governance processes).

14. Changes within the the proposed 2023/24 Capital Strategy compared to its predecessor include updates arising to changes in the Prudential Code and changes to investment limits within the Treasury Management Strategy Statement (see TMSS, sub-appendix BB(3)).

Appendices

Appendix A:	Medium Term Financial Strategy
Appendix B:	Capital Finance Strategy
Appendix BB:	Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy for 2023/24
	Sub appendices contained within this document:
	BB (1) Economic background
	BB (2) Minimum Revenue Provision
	BB (3) Treasury Management Practice
	BB (4) Approved countries for investment
	BB (5) List of approved brokers for investment
	BB (6) Current investments (snapshot at 5th January 2023)
	BB (7) Treasury management scheme of delegation
	BB (8) Treasury management role of the Section 151 Officer

APPENDIX A

Charnwood Borough Council

Medium Term Financial Strategy

2023 – 2026

Table of Contents

1. Foreword

Welcome to the latest edition of Charnwood Borough Council's Medium Term Financial Strategy (MTFS) covering the three-year period between 1 April 2023 and 31 March 2026.

I have now been writing this foreword for some years and each year I seem to comment on the prevailing uncertainty and the financial challenges facing the Council. Once again, the plot line remains similar and it appears there is plenty of scope for a sequel. Nonetheless, I regard the MTFS as an important document which forms the basis of our ongoing quest for financial sustainability.

This time last year I offered some optimism in respect of the pandemic, which I think has been justified, but noted concern around the economic outlook, government debt levels and potential challenges arising around the Council's income and funding streams. Taking a walk down memory lane, I found last years MTFS included an OECD economic forecast prepared in December 2021. This predicted a recovering economy and a moderate increase in inflation to a peak of 4.9% in the first half of 2022, which would then fall back towards the 2% target in 2023. Suffice to say, the war in Ukraine, and the associated global impact, combined with political turmoil in the UK has resulted in a far less benign economic outlook.

Once again, the Council has received a single year financial settlement which the government calculates increases our core spending power by 3% in cash terms. The increase was of course welcome but the calculation does assume that we will maximise our council tax rate (which is proposed in respect of the 2023/24 budget), and given inflation peaking towards 11% the funding represents a real terms reduction in funding.

Whilst the settlement was for a single year, the associated policy guidance does essentially state that the 2024/25 settlement will be constructed on a similar basis to 2023/24, although it does not offer any level of certainty on the funding we may receive.

Changes to the structure of local government financing through a fair funding review has been anticipated in previous years but we now understand that nothing will be forthcoming in this area until, at the earliest 2025/26, at the start of the next government spending review period. We can probably also assume with a high degree of certainty that other potentially significant changes in local government financing arising from, for example, reviews in the way council tax and business rates are calculated are also unlikely in the near future.

The 'core spending power' calculations maintained by DLUHC demonstrate the very limited growth in our funding in recent years and is a good measure of the funding challenges already overcome.

Looking forward into the medium term, the prevailing economic conditions make it difficult to be optimistic on both government funding and the Council's ability to increase its income generated through fees and charges. This combined with the regulatory risk associated with the Environment Act – in terms of potentially unfunded costs and loss of key revenue streams – means that the financial projections are inevitably on the pessimistic side. However, fundamentally, we have very little insight beyond the 2023/24 financial year and we have to recognize that there may yet be some upside within our projections.

Finally, I will repeat my closing thoughts from last year. The Council does have a track record in meeting financial challenges, and our previous careful management of our finances mean that our reserves remain adequate, even after the planned use of reserves in 2023/24. Our past achievements allow us to be optimistic about creating future financial sustainability for the Council, but, as usual, a lot of hard work and judicious decision making lies ahead.

Councillor Tom Barkley
Cabinet Lead Member for Finance
January 2023

2. Executive summary

This Medium Term Financial Strategy (MTFS) considers the financial outlook for Charnwood Borough Council ('Charnwood', or the 'Council') for the three financial years 2023/24, 2024/25 and 2025/26. The document's focus is on the 'General Fund'; certain aspects of the Housing Revenue Account are also discussed but the outlook for this is dealt with separately within the 30 year Housing Revenue Account business plan.

At the core of this document are the financial projections for these three years which show the funding challenges during this period. The timing of this iteration of the MTFS has allowed us to take account of the provisional local government finance settlement of December 2022. A draft budget which forms the first year (2023/24) of the projections has been prepared and is presented in conjunction with this MTFS.

Council will be asked to approve the final versions of both the budget and MTFS at the meeting scheduled for 27 February 2023.

In summary the financial projections show:

- 2023/24 (the budget) shows a use of reserves of some £1.3m
- 2024/25 will see a £1.6m use of reserves
- 2025/26 will see a further £2.5m use of reserves

It should be noted that £1.3m use of reserves is planned in 2023/24; in latter years the use of reserves reflects the financial challenge that will need to be addressed if the Council is to achieve financial sustainability – by 2025/26, the projections show that the Council would need to reduce net costs on an ongoing basis by £2.5m against the projected amounts.

Over the three year MTFS period this would imply a use of reserves of £5.4m, leaving the working balance at just £0.3m by 31 March 2026. The projected working balance of £4.4m at 31 March 2024 represents a reasonable level of financial stability but both the MTFS projections and sensitivity analysis shows that there is no room for complacency.

The financial settlement for 2023/24 was broadly in line with that estimated within the draft budget but once again the Settlement is for a single year and no certainty around future funding exists.

The Provisional Financial Settlement provided policy guidance for 2024/25 but no guarantees on the actual distributions, and offered no indications on settlements beyond this time. Given the limited information available in respect of the latter years of the MTFS period. It is therefore assumed – in the absence of other information – that future financial settlements will result in the Council's Core Spending Power being maintained in a 'cash flat' position. In broad terms this would mean that increases in council tax would be offset with reductions in government grants. In an inflationary world this assumption does represent a real terms reduction in funding and contributes to the somewhat pessimistic view arising from the use of reserve projections.

It should be noted that his assumption is highly speculative and represents a major financial risk within the MTFS projections.

The budget for 2023/24 reflects the results of further income generation and identification of minor savings but projections for 2024/25 and 2025/26 do not represent a financiallly sustainable outlook. Section 11 of this Strategy sets out more detail on this.

The uncertainty, and associated limited confidence that can be placed on these projections should not be underestimated, the future financial settlements that local government will be offered about which little is known at present, and other factors, such as inflation and the financial impact of the implementation of the Environment Act 2021. A sensitivity analysis is included within the body of this MTFS which illustrates a range of possible outcomes within individual lines for income, expenditure and government funding.

Finally, It is important to note that in respect of the 2024/25 and 2025/26 financial years the projections do not take account of management actions – which will clearly be necessary – to address the financial challenges identified these projections. To this extent the financial projections for these years should be be regarded as an estimate of the financial challenge facing the Council, not a financial prediction.

Going forward, it will be necessary to continue with the efforts targeted at financial sustainability and this will be a major component of Council activity for the foreseeable future.

3. Introduction

The Medium Term Financial Strategy (MTFS) takes a forward look at the political, economic and regulatory environment facing the Council and uses these to create a high level financial model of future potential revenues and costs. Additionally , this version of the MTFS also looks at historical funding patterns to offer further insight into the current financial outlook.

This model attempts to identify potentially significant funding surpluses or shortfalls that may arise in the medium term, and to inform the Council's budget setting process. It takes into account existing income and expenditure patterns – although some of these still remain disrupted due to COVID-19 - together with identified and material cost pressures. The model also incorporates projected savings and efficiencies from the implementation of existing strategies, policies and projects, where these are considered sufficiently likely to materialize, and considers significant budgetary risk identifiable from current budgetary monitoring to attempt a holistic view of the Council's future financial position.

In order to balance the desire to take a long term view of the Council's financial future, and the limits on our ability to create meaningful forecasts over such a period, the MTFS has been developed to cover three years, from 1 April 2023 to 31 March 2026. The first year of this projection uses the 2023/24 budget figures presented to Council for approval alongside this document.

The purpose of this document can be summarised as follows:

- Outline the principal factors that will influence the availability of the Council's financial resources in the medium term
- Inform and define the medium term service delivery plans, in the context of financial challenges identified in financial terms
- Provide the financial basis for the Council to decide its corporate priorities for future years.

However – it is important to state that in respect of the 2024/25 and 2025/26 financial years the projections do not take account of management actions – which will clearly be necessary – to address the financial challenges inherent in these projections. To this extent the financial projections for these years should be be regarded as an estimate of the financial challenge facing the Council, not a financial prediction.

Scope of the MTFS

This strategy document concentrates on the General Fund, which deals with non-housing revenue items and derives its income from charges, government grants, council tax and business rates. The Housing Revenue Account (HRA) has its own business plan and both General Fund and HRA capital expenditure are subject to a three year programme which is reviewed separately from revenue items. However, the impact of capital investment and the HRA on the General Fund is considered as part of this strategy. In particular, the MTFS reflects the impact of the Council's Capital Strategy, which itself incorporates both the Treasury Management Strategy and the Commercial Investment Strategy.

The Council's finances are actively managed on an ongoing basis and the adoption of this strategy will require executive decisions to carry out any significant actions identified.

4. Political, economic and regulatory outlook

In assessing prospects for the Council's finances it is necessary to consider how the wider political and macro-economic factors feed through into the availability of funding for the public sector, what proportion of this will be allocated to local government, and within this allocation, what the funding settlement for each Council will be. Local economic factors will also impact Council income streams, the demand for Council services, and the Council's ability to fund these.

At the time of drafting this Strategy (January 2023) the economic impact of the trade deal secured with the EU following the United Kingdom's exit from the European Union is starting to become more apparent whilst the ongoing issues created by COVID-19 are hopefully abating but may still constrain economic activity in the short and medium term.

The summary views of the Organisation for Economic Cooperation and Development (OECD) are set out below. A detailed economic review, is presented within the Capital Strategy (which is presented alongside this report).

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OECD Economic Forecast Summary – United Kingdom – 22 November 2022

Following a contraction of 0.4% in 2023, GDP is projected to increase by 0.2% in 2024. Consumer price inflation will peak at around 10% in late 2022 due to high energy prices and continuing labour and goods supply shortages, before gradually declining to 2.7% by the end of 2024. Private consumption is expected to slow owing to rising living costs, but will be aided by a 9.7% increase in the minimum wage and the usual uprating of welfare benefits and pensions in April 2023.

The Bank of England has responded to rising inflation with monetary tightening, raising the policy rate from 0.1% in December 2021 to 3% by November 2022. It has also continued with quantitative tightening by no longer reinvesting the proceeds of gilt redemptions in new gilt purchases and gradually reducing its holdings of sterling corporate bonds until the end of 2023. From November 2022, the Bank of England started to sell government bonds to gradually reduce the GBP 838 billion stock that was built up since the global financial crisis. Monetary policy tightening is expected to continue, with the bank rate reaching 4.5% by Q2 2023 and remaining at that level throughout the projection period

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The demand for the Council's services and its income streams are affected by the general economic health of the Borough, whilst prevailing interest rates have a direct impact on the Council's interest receipts. Areas of deprivation do exist in the Borough but as a whole Charnwood is above averagely prosperous, with a ranking of 236 out of 317 English local authorities[1] (where '1' is the most deprived and '317' the least deprived local authority respectively). This relative prosperity is an important factor in the projected housing growth in the Borough and this growth will affect both costs and revenues as it arises. In the relatively short term however the general assumption is that the economic landscape will be one of uncertainty, and, at best, limited growth over the period of this MTFS,

[1] English local authority Index of Multiple Deprivation 2019 (IMD average ranks – File 10; latest result available, updated October 2019)

Environment Act 2021

This long awaited and wide-ranging piece of legislation was finally enacted, receiving Royal Assent on 9 November 2021. Included within the legislation is the creation of the new Office for Environmental Protection which replaces previous EU governance structures together with a raft of new environmental targets and monitoring requirements covering waste collection and disposal, air pollution, and water quality. There are also new responsibilities placed on producers to mitigate the environmental impact of their activities.

Of principle interest in relation to the MTFS are the potential new financial burdens placed on local authorities, and specifically, as a Shire District, the requirements to introduce weekly food waste collections, separate household recyclables into individual collection streams (rather than being co-mingled, as present), and potentially, to provide free collections of garden waste.

Notwithstanding the elapse of time since the enaction of the Act there remains significant uncertainty as to how certain elements of the Act will be applied, and the specific implementation dates. The detailed implementation of the Act remain to be determined by Regulations yet to be determined by the Secretary of State. There government say they have recognised the financial and operational challenges associated with the Act and implementation dates are still to be finalised, with some elements (eg. food waste collections) not likely to commence until 2025 at earliest.

The principal and immediate financial risk would be the cessation of the Council's ability to charge for garden waste collections. This currently generates (2022/23) around £1.7m per annum with similar amounts projected through the MTFS period. If charging were to cease from 1 April 2024 (a possibility) it could be expected that renewals would decline significantly in 2023/24 as customers would anticipate the arrival of free collections from April 2024; all revenue would disappear from 2024/25 and costs would increase as residents not currently taking advantage of the service would become entitled to free collections.

Based on the provisions within the Act it seems inevitable that additional capital and revenue costs will be incurred as new arrangements for waste collection and disposal are introduced. Generally, the government has stated that local authorities will be compensated for additional financial burdens arising from the new Act but details on this are not yet available. This gives rise to a financial risk if the governments calculation of additional cost burdens (or lost revenues) does not match the actual costs incurred. Further, previous experience suggests that new funding will be 'rolled' into the general financial settlement in future years (which may then be subject to reduction) leaving local authorities to pick up an increasing proportion of the additional costs.

Future local government financial settlements

An initiative known as the 'Fair Funding' review has been awaited by the local government sector since 2019. This promised new distribution mechanisms and potentially new methods of local government funding underpinned by a 75% business rate retention scheme (which would replace the current 50% business rate retention model). It now seems apparent however that whilst something called ‘Fair Funding’ may be introduced in future years, to all intents and purposes the previous initiative has been abandoned. This can be attributed to various factors since 2019 including Brexit implementation, the General Election of 2019, COVID-19, and the recent turmoil in UK politics.

In the latest Autumn Statement it was stated that:

- The 2023/24 local government settlement would be for a single year; however,
- Principles for the 2024/25 settlement were laid out – essentially the ‘shape’ and funding composition of this settlement would be in line with 2023/24, but no indications or guarantees over funding were given
- Government noted that 2024/25 was the last year of the current Spending Review period and therefore there could be no commitment on settlements in subsequent years.

The ‘favourite’ date for the next General Election is May 2024 with a latest possible date of January 2025 – so in practice it is highly likely that local government settlements from 2025/26 will be decided by the next Parliament.

Reform to local government financing, including the funding formulas, and the operation of the council tax and business rates regimes, has long been mooted and are arguably well overdue. At the time of drafting however, it seems unlikely anything significant will change prior to 2025/26, and even then, there is a question of where local taxation and local government financing will sit on the agenda of a new government.

Yet again, given the one-year only basis of the recent settlements, and the absence of any material indication of future settlements, there is little option but to assume future settlements will be in line with the most recent. This is discussed further in subsequent sections of the MTFS alongside more detailed assumptions around the key individual components of the Council’s revenue streams and expenditure, and the risks associated with these assumptions.

5. Financial projections – overview

At the heart of this MTFS is the high level financial model. This is used to derive an estimate of the Council's future revenues and costs and the associated impact on the Council's reserves. Subsequent sections describe how the model has been developed and the key assumptions used, as follows:

- Local government financing regime: discusses the projected mix of council tax and government grant revenues over the period of the MTFS
- Treasury management and investment income: discusses the Council's current approach to fund investment and projected levels of interest receivable, together with comments on envisaged future activities
- Key operational assumptions: describes the derivation and key assumptions underpinning the projections of operational income and expenditure
- Transformation and Efficiency Plans: describes the activities undertaken and identified, and initiatives planned and underway that will address the budget challenges
- Budget risks: sets out material high-level risks identified
- Existing financial resources and use of prudential borrowing: describes how revenue and capital expenditure of the Council may be financed over the period of the MTFS using reserves or prudential borrowing
- General Fund financial projections: presents the projected financial outlook for the Council over the period of the MTFS in tabular form

6. The local government financing regime

Historical context

The Council's funding is currently derived from a mixture of council tax receipts, new homes bonus payments, a share of locally collected business rates and direct government grant funding. A continuing theme from the government has been the drive towards financial independence for local authorities and the move towards localism. In practice this now means a reduction in levels of direct (formula) grant funding, and increasing reliance on council tax receipts. The government funding derived from what the Council is allowed to retain from business rate collections

The peak funding year for the Council was back in 2010/11 when adjusted total funding – council tax and government grants – amounted to some £19.5m. This was the final year of a pre-austerity multi-year settlement and where the local government financing regime was much simpler. Since 2013/14, with the introduction of loacalised collection of business rates assessing the total funding available is both more complex and subject to significant risk and uncertainty.

The principal government measure for assessing funds available to local authorities is known as 'Core Spending Power' (CSP). This measure:

- Includes council tax and assumes local authorities maximise the tax take within the capping limits
- Excludes gains or losses arising from the business rates retention system

The Councils CSP since 2015/16 (first year of DLUHC time series) is set out below:

Figure 1: Charnwood Borough Council – CSP 2015/16 to 2023/24 (Source: DLUHC)

	2015-16	*2016-17*	*2017-18*	*2018-19*	*2019-20*	*2020-21*	*2021-22*	*2022-23*	*2023-24*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Settlement Funding Assessment	7.0	6.0	5.3	4.9	4.4	4.5	4.5	4.5	4.8
Compensation-business rates multiplier	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.4	0.8
Council Tax Requirement	6.5	6.9	7.3	7.7	8.1	8.6	9.0	9.3	9.8
New Homes Bonus	3.8	4.5	4.0	3.6	3.7	4.1	3.0	1.6	0.4
New Homes Bonus returned funding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lower Tier Services Grant	0.0	0.0	0.0	0.0	0.0	0.0	0.6	1.0	0.0
Services Grant	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.2
Grants rolled in	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.0
Funding Guarantee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.3
Core Spending Power	**17.5**	**17.6**	**16.8**	**16.4**	**16.5**	**17.5**	**17.4**	**17.3**	**18.1**

With the existing business rate retention scheme, gains and losses versus the 'Settlement Funding Assessment (top row within the CSP table, above) are calculated with respect to a business rates baseline. At introduction in 2013/14, the government indicated that the baselines would be reset every three years; however, approaching ten years into the scheme, no reset has yet occurred. Most business rate collection authorities (including all in Leicestershire) have seen growth in the tax base through a mix of periodic revaluations (of 2017 and 2023) and physical growth in business infrastructure. Local authorities that have benefitted most from this situation will no doubt point to progressive and far-sighted enabling policies (mainly around planning) but in reality, the individual circumstances of the authority will be the determining factor. In Charnwood, in very unfortunate timing, the Council's larget ratepayer (Astra Zeneca) vacated the Loughborough site within weeks of the baseline having been set. This resulted in below baseline collections in the initial year of the new business rate scheme but after ten years collections are now above baseline levels, and additional funding of around £0.7m may be achieved above CSP in 2023/24; this is both helpful and a source of risk in that such funding could be immediately wiped out in future years should rebasing be enacted. In context, a £0.7m gain over ten years is not impressive; some other Leicestershire Districts have made very significant gains, of up to £5m above CSP.

Notwithstanding additional funding derived from business rate retention above baseline levels, it is clear that the Council has suffered a significant reduction in funding in real terms. The 2010/11 settlement would be worth the equivalent of

Using CPI as the inflationary index, the data shows an index figure of 88.0 for December 2009 versus 127.2 at December 2022 (July 2015 = 100). Using this index, the 2010/11 settlement would be worth £28.2m at current price levels; alternatively, even allowing for the additional gain in business rate retention, the 2023/24 settlement represents a real terms reduction in funding of a third (33.7%).

In recent years the government has made its case for the local government settlement by reference to CSP, stating that CSP has been maintained, or, as for 2023/24 stating that each local authority will see a minimum increase in CSP of 3%. This concept of referencing CSP is used to develop funding projections for the later years of this version of the MTFS.

Assumptions and projections

Council tax

The core assumption for the purposes of the MTFS is that the capping regime will continue, and that the Council will increase council tax by the maximum permitted amount in each year of the MTFS period. This is assumed at £5, but adjusted for the effect of the Loughborough Special Expense area.

In comparison to other districts, Charnwood's council tax charges are still amongst the lowest in the country as the data below illustrates:

Figure 2: Comparison of District Band D Council Tax Charges 2022/23

	Council Tax Band D	***Rank (of 181)***		***Council Tax Band D***	***Rank (of 181)***
NATIONAL PICTURE			LEICESTERSHIRE AUTHORITIES		
Lowest					
Breckland	£105	1	Hinckley & Bosworth	£145	15
West Oxfordshire	£114	2	**Charnwood**	**£159**	**24**
Hambleton	£119	3	Harborough	£178	52
			Blaby	£178	54
Charnwood	**£159**	**24**	North West Leicestershire	£175	40
			Melton	£218	118
Median			Oadby & Wigston	£240	148
Waverley	£196	90			
Arun	£196	91			
South Holland	£198	92			
Highest			** Calculation includes Band D and Share of Loughborough Special Rate (or equivalent) spread across whole tax base*		
Oxford	£327	179			
Preston	£334	180	*Source: MHCLG / DLUHC*		
Ipswich	£384	181			

The impact of the capping rules are illustrated here. Were the Council allowed to increase council tax up to an average level for 2022/23 – say £198 – then this would generate an additional £2.3m in that year (with the obvious cumulative benefit in future years).

The actual amount of Council Tax collected will also vary in line with the tax base, essentially the number of properties against which Council Tax is levied. Historically the tax base has increased in a range between 1.5% and 2% per annum, reflecting the strong housing growth in the area. However, growth in the year to October 2022[2] was

[2] The CTB1 return, on which the council tax base is calculated, is completed in the October preceding the relevant financial year

weaker than this historical norm at just 0.6%, following on from an also below trend increase of 0.9% in respect of the previous year.

The tax base for the 'central case' on which the MTFS financial model is calculated is assumed to increase by 1.6% year on year over the period of this document. This assumes that the slower growth recently experienced was a blip and as the impact of the pandemic recedes historical growth trends are restored. The 1.6% figure is based on a moving average of increases in the recent years.

Figure 3: Projected Council Tax income tax increases

(Amounts £000)	*2023/24 budget*	*2024/25*	*2025/26*
Assumed council tax income - CENTRALCASE	**8,314**	**8,711**	**9,117**
Assumed council tax income - OPTIMISTIC	8,314	8,801	9,212
Assumed council tax income - PESSIMISTIC	8,314	8,673	9,077

The OPTIMISTIC case assumes that there will be a catch-up in housing completions leading to 2.5% year on year increases for 2024/24 and 2025/2. Conversely, the PESSIMISTIC case assumes the lower growth rate in the council tax base will continue resulting in 1% year on year increases.

In all scenarios it is assumed that the tax rate will increase by the maximum £5 allowed year on year (allowing for Loughborough Special Expenses adjustment).

Loughborough Special Rate

The town of Loughborough does not have the equivalent of a town council and the role that this organisation would fulfill is therefore undertaken by the Borough Council.

The Loughborough Special Rate is levied on the residents of Loughborough by the Borough Council and is used for activities specifically related to Loughborough town. This set of activities is comparable to those performed by towns and parishes and used by other Councils in equivalent situations. These activities have been validated by the Council and include maintenance of parks, cemeteries and memorials, management of allotments and costs associated with the Loughborough Fair and festive decorations. A full list of activities is set out in the Budget Book issued by the Council each year and available at:

Budget Book 2022-23.pdf (charnwood.gov.uk)

For the purposes of the MTFS projections the Special Rate is assumed to increase by 1.99% year on year, whilst the council tax base annual growth rate is assumed at 1.2% based on the average of recent years.

***Note: The above paragraphs assume that council tax increases for 2023/24* will be approved by the meeting of the full Council in February.**

It should also be noted that for the purposes of assessing whether Council Tax increases are excessive when the government calculates the year on year level of increase for Charnwood, it includes both the main Borough charge and the Loughborough Special Rate.

Figure 4: Projected Loughborough Special Rate income

(Amounts £000)	*2023/24 budget*	*2024/25*	*2025/26*
LSR – 1.99% increase assumed	1,367	1,410	1,455

Provisional local government finance settlement 2023/24

The latest (albeit provisional) local government finance settlement continues the recent series of ‘one-off’ allocations, and comprises a mix of business rate retention, and historic and new grant allocations. This is tabulated below, alongside the 2022/23 budget for comparative purposes:

Figure 5: Provisional local government finance settlement

(Amounts £000)	*2022/23 budget*	*Draft budget 2023/24*	*Provnl Settlement 2023/24*
Retained business rates[3]	*5,200*	5,400	*6,400*
Revenue Support Grant	*174*	0	*329*
New Homes Bonus	*1,631*	*0*	*373*
Lower Tier Services Grant	*1,112*	*0*	*0*
Services Grant	*0*	*0*	*167*
Funding Guarantee and other	*296*	*2,913*[4]	*2,295*[5]
Movement on collection fund	*122*	*0*	*0*
Total	***8,535***	***8,313***	***9,164***

Local share of national non-domestic rates (‘business rates’ or ‘NNDR’)

From 1 April 2013 the structure of local government finance changed, with local authorities retaining a share of business rates collected in their area. The calculations are based on baseline (target) rates of collection set by government and estimate that the Council will retain around 9% of the total collected (although this calculation has been skewed in recent years due to one-off COVID-19 reliefs applied following which the Council is compensated via grants). A baseline amount of retention is set out within the settlement for 2023/24 equating to £5.2m for 2023/24. The settlement also sets out the safety net balance for collections[6] (£4.1m) below which the collection deficit is compensated, and the levy rate, which

[3] The Retained Business Rates are calculated post-Settlement with reference to the NNDR1 return using Settlement figures as the base

[4] For the purposes of the draft budget a composite value for various grants was assumed

[5] In the actual draft settlement individual grant elements were identifiable; £2.3m is the new ‘Funding Guarantee’

[6] ie. This calculation excludes the indexation compensation element of the NDR retention rules

has the effect of allowing 20% retention for business rate collections above the baseline.

The amount the Council receives is subject to a number of variables including collection rates and business rate reliefs for which the Council may (or may not) receive compensation via ‘Section 31’ grants. The figure inserted in the tle above includes an estimate for Section 31 grants due within 2023/24.

One of the historical challenges for the Council has been the material lack of growth in business rates since the inception of the localised arrangements. This is due to two main factors:

- The business rates baselines were set immediately prior to the Council’s biggest ratepayer, Astra Zeneca, vacating the site of what is now Charnwood Campus leading to a loss in business rates of over £2m; whilst the idea of a baseline reset is much mooted this has yet to be carried out (and is resisted by local authorities that have benefitted through business rates growth)
- Generally, business rates growth has been sluggish within Charnwood, with gains offset by losses arising from successful appeals, or empty properties

Notwithstanding the sluggish underlying position however, the Council is now starting to see growth in business rates due to the unwinding of the impact of COVID-19 (and the associated rate reliefs) combined with indexation and revaluation gains. The position remains volatile in respect of the sensitivity of projection calculations to such issues as empty property reliefs but detailed review and modelling suggests that the Council could expect to retain £20.4m in business rates over the MTFS period. This assumes a long overdue rebasing of business rates will occur in 2025/26 post General Election). The distribution of business rate retention in each year is set out in Table 6, below.

Figure 6: Projected local share of business rates

(Amounts £000)	*2032/24 budget*	*2024/25*	*2025/26*
NDR retention – central case	**6,400**	**6,800**	**7,200**
NDR retention – OPTIMISTIC	6,400	7,000	7,500
NDR retention – PESSIMISTIC	6,400	6,600	6,800

In the OPTIMISTIC case a higher baseline is assumed reflecting volatility within the underlying calculations[7]; further additional business rate growth – including a lesser proportion of empty properties – is experienced creating year on year growth above the budget (2023/24) of £0.6m and £0.5m for 2023/24 and 2024/25 respectively; these relatively low projections for the Optimistic case in the MTFS period reflect the absence of major development sites with planning permission and / or developer interest.

[7] The results of appeals, quantum and timing of s31 grant receipts and incidence of empty property relief may result in a better than expected position for 2023/24; the final outcome is not known until after the 2023/24 year end

In the PESSIMISTIC case business rate retention is assumed below the modelled forecast, which would reflect stagnant growth and / or increasing levels of empty properties.

Other grants

Revenue Support Grant (RSG) – RSG is included within what the government describes as the Settlement Funding Assessment. This is projected, based on adviser forecast, as follows:

Figure 7: Projected local share of business rates

(Amounts £000)	*2032/24 budget*	*2024/25*	*2025/26*
RSG – central case	**329**	**353**	**398**

The financial settlement contained a mix of other direct grants which can be viewed as 'smoothing' or 'top-up' grants. The amounts and description of these grants ghas shown some variation year on year, as can be seen in Figure 1 (CSP analysis), above.

The 2023/34 components total some £2.8m, derived as follows

- **New Homes Bonus - £0.4m**: single year payment in respect of 2023/24 awarded; arevised incentivisation scheme for development may be implemented but no detail available
- **Services Grant**: another one-off distribution of **£0.2m**
- **Funding guarantee – £2.2m**: a balancing amount that ensured that the Council had a 3% increase in CSP

The total funding relating to the above grants amounts to £2.835m for 2023/24. The policy guidance within the settlement suggests that this type of mix of direct grants will be awarded in 2024/25, but given the absence of detail on the future of allocations, existence or replacement for the above in subsequent years of the MTFS, these other grants are considered as a single block.

For the purpose of MTFS, the central case assumes that increases in council tax collections will be offset by reductions in other grants, in line with a 'flat' Core Spending Power scenario.

In the OPTIMISTIC case it is assumed that total funding from other grants will remain at £2,835 for each year of the projections.

In the PESSIMISTIC case the loss in grant is assumed at £0.8m in 2024/25 with a further £0.4m reduction for 2025/26; this could reflect a scenario where gains in business rate retention (excluded from CSP calculations) are brought into account by government.

Figure 8: Other grant projections

(Amounts £000)	*2023/24 budget*	*2024/25*	*2025/26*
Other grants – central case	**2,835**	**2,435**	**2,035**
Other grants – OPTIMISTIC (rounded amounts)	2,835	2,835	2,835
Other grants – PESSIMISTIC (rounded amounts)	2,835	2,035	1,635

Figure 7. above, illustrates the risk that a significant funding gap could arise following the outcome of future local government financial settlements given the one-off nature of awards contained within the 2023/24 provisional settlement.

It does not seem likely that all this funding would be lost without some significant level of mitigation or transitional arrangements hence the assumptions made within the PESSIMISTIC scenario. However, it must be stressed that even this pessimistic scenario is not the worst case that could be envisaged, particularly in respect of 2025/26 when a more radical redistribution of the local government pot may be considered..

7. Treasury management and commercial investment income

Treasury management

The majority of the Council's investments are short-term, mainly made up of cash deposited for short periods on money markets. The remainder is made up of loans to other local authorities for periods of up to two years and longer term holdings in property funds. In recent years these have had a value in the range of £40m to £70m at any point in time; latterly, funds under management are nearer the top end of this range. Broadly, these amounts represent a combination of Council Reserves (including the Housing Revenue Account), business rates and council tax collected on behalf of the County Council, local police and fire authorities, and parishes. The investment income generated from these balances is now a very important source of funding for the Council given the significant increase in interest rates in the latter months of 2022/23. This is likely to produce income of around £1m in this year, versus a budget of just £0.3m.

In selecting its investments, the Council must balance the rates of return available whilst ensuring the security and liquidity of its investments. As a body that must take its stewardship of public money seriously, the Council adopts a prudent treasury management strategy. This strategy is subject to Council approval each year and aims to allow the Council's finance team appropriate levels of latitude in the day to day management of treasury operations within closely defined operational parameters.

The investment strategy is weighted towards security and liquidity of capital and, in general, it is envisaged that this approach will continue. The strategy assumes a continuation of the trend of recent years to seek increased returns through loans to other public sector bodies and investments in a wider range of financial instruments, such as property funds but security and liquidity remain paramount.

This matter is discussed in more detail in the Council's Capital Strategy, which is also scheduled for Cabinet and Council approval in February 2023.

For the purposes of projections, it is assumed that average earnings (interest) rates will be in line with projections within the Capital Strategy – Treasury management Strategy Statement (projections provide by Link, our Treasury consultants):

- Average earning rate 2023/24 4.4%
- Average earning rate 2024/25 3.3%
- Average earning rate 2025/26 2.6%

In the central case the calculations reflect projected average cash balances held (around £50m) and estimated average earning rates as set out above.

The net effect of the above in terms of the *General Fund* are projected below; it should be noted that earnings attributed to funds derived from the Housing Revenue Account (HRA) are allocated to the HRA.

Figure 9: Investment income (interest receivable) projections

(Amounts £000)	*2023/23 budget*	*2023/24*	*2024/25*
Interest receivable - central case	**1,500**	**1,000**	**800**
Interest receivable - OPTIMISTIC	1,800	1,200	1,000
Interest receivable - PESSIMISTIC	1,200	800	600

The OPTIMISTIC and PESSIMISTIC cases reflect the possibility of variations in both the earnings rate and cashflows.

Interest payable – General Fund

The Council has one external loan of £2m. This was taken out in 1984 at a fixed interest rate of 11.625% and is due for repayment in June 2024. **Repayment of the loan will see a reduction in interest payable of around £180k in the middle year of the MTFS period** (and all £233k in subsequent years) unless new loans are taken out in the intervening period. Given the Council's cash balances, around £10m of capital expenditure could be financed via 'internal borrowing'[8] so there are no plans to undertake additional external boorowing in the short term. More detail on this may be found within the Capital Strategy 2023/24.

Commercial investment income

The Council has built up a portfolio of commercial properties for investment purposes at a cost of £22m, generating gross annual rental returns in excess of £1m.

The property portfolio is performing well but the Council's ability to make additional commercial property acquisitions is now very restricted due to reduced access to Public Works Loan Board borrowing, and changes to the 'Prudential Code' which will effectively prevent the Council acquiring commercial property using debt. These restrictions may not completely prevent additional acquistions but workarounds such as the creation of special purpose corporate bodies may be required and for the purpose of this MTFS it is assumed that no further commercial property investment will occur.

Whilst over £1m in gross annual rentals will be generated from the existing investment properties the Council will adopt a prudent approach to recognizing this income with the 2023/24 budget and MTFS projections assuming net rentals of £0.7m per annum. This allows proper allowance of Minimum Revenue Provision (a charge reflecting the need to repay capital purchases unfunded by earmarked reserves), notional interest payments (reflecting the current internal borrowing arrangements) and creation of a reserve to allow for potential void rent periods, additional interest costs should debt need to be externalised, and similar.

[8] Use of cash holdings held to satisfy future liabilities – which may not crystallise for some years

At the end of the 2023/24 financial year the earmarked roperty reserve will be at the target level, calculated in relation to future lease events, of £1.5m.

Further details of the investment property portfolio are set out within the Capital Strategy 2023/24.

Figure 10: Commercial (investment) property income projections

(Amounts £000)	*2023/24 budget*	*2024/25*	*2025/26*
Net rentals (after MRP, interest and provision)	**700**	**1,000**	**1,000**

8. Key operational assumptions

The Council's 'Net Service Expenditure' (or 'Baseline net service costs' per the summary financial model at Figure 14) is the total amount spent on services, offset by income associated with the provision of those services such as planning fees receivable, income generated by the Council's car parks, or service specific grant income. The basis of the Council's projected Net Service Expenditure for the purposes of the MTFS is the 2023/24 budget.

For this iteration of the MTFS there are key assumptions are around payroll costs (wages, salaries and on-costs, particularly employer pension contributions), indexation increases in major contracts, and services pressures identified as part of the 2023/24 budget setting process. The underlying inflation outlook is probably one of improvement, but significant uncertainty remains, creating challenge in developing the MTFS projections. Additionally, the implementation of the Environment Act, for which details are still awaited, could also have a very negative financial impact on the Council.

Environment Act - assumptions

As discussed previously in this paper (Section 4), the Environment Act 2021 has the potential to create additional costs for the Council as well as remove income currently derived from garden waste collections. For the purposes of the central case MTFS projections it is assumed that **no adverse financial impact** will be experienced across the period of the MTFS due to allowance for the necessary lead times being made within the Regulations to the Act.

Figure 11: Environment Act 2021 – adverse financial impact assumptions

(Amounts £000)	*2023/24 budget*	*2024/25*	*2025/26*
Environment Act 2021 - central case	**0**	**0**	**0**
Environment Act 2021 - OPTIMISTIC	0	0	0
Environment Act 2021 - PESSIMISTIC	800	1,700	1,700

In the PESSIMISTIC scenario the implementation of the Act would require the Council to offer free garden waste collections from 1 April 2024; given the profile of subsubscription renewals this would be assumed to reduce income by around half in 2023/24[9], on the basis that customers would not renew subscriptions in the autumn and winter, with a full year loss of income from 2024/25.

Inflation outlook

The inflation outlook remain uncertain, and much less benign than has been experienced in recent history. The Monetary Policy Committee report of November 2022 estimates that CPI peaked at around 11% at the end of 2022 and projects a decline throughout 2023 which will continue such that inflation will be back around

[9] Including the proposed increase in charges, garden waste income is budgeted at £1.7m in 2022/23

the 2% target range towards the end of 2024; subsequently projections show a further decline in CPI to below the 2% target.

Clearly however, domestic and international factors – particularly the war in Ukraine – make the above projections susceptible to 'events'.

Payroll costs

The Council's bill is budgeted at £15.0m for 2023/24 which represents around 45% of General Fund operating expenses; each additional percentage point on pay therefore represents therefore around £0.15m.

The latest local government pay settlement for 2022/23 amounted to £1,925 for each full time member of staff. This equated to around 7% additional cost for the Council. For 2023/24 it is assumed (in line with other authorities) that pay will increase by 4.75%. In subsequent years we have assumed 3.5% for 2024/25 and 2% for 2025/26. It is acknowledged that these projections are somewhat speculative.

In the OPTIMISTIC scenario salaries grow from the 2023/24 budget by 1.5% in 2024/25 and 1% in 2025/26. Conversely, in the PESSIMISTIC scenario, salaries grow from the 2023/24 budget by 4.5% in 2024/25 and 3% in 2025/26.

Figure 12: Payroll cost assumptions

(Amounts £000) *(percentage increases are versus the 2022/23 budget)*	*2023/24* *Budget*	*2024/2*	*2024/25*
Wages and salaries – central case	**+4.75%** **15,025**	**+3.5%** **15,551**	**+2%** **16,179**
Wages and salaries – OPTIMISTIC	**+4.75%** **15,025**	+1.5% 15,250	+1% 15,557
Wages and salaries – PESSIMISTIC	**+4.75%** **15,025**	+4.5% 15,701	+3% 16,657

Indexation cost increases in major contracts

The Council is party to many contracts for goods and services at any particular point in time, including – for example - those for IT licences, stray dog kennelling and putting up the Christmas lights. However, the largest contracts (excluding HRA contractors) are:

- Environmental Services
  - Approximate annual cost (per 2023/24 budget) - £6.7m
  - Indexation – RPI
  - Also, standard variation applied for additional properties
  - Contract ends March 2024

- Open Spaces
  - Approximate annual cost (per 2023/24 budget) - £1.4m

- Indexation – RPI; but capped at 2%
- Contract ends March 2024

- Revenues & Benefits
  - Approximate annual cost (per 2023/24 budget) - £2.9m
  - Indexation – CPI
  - Contract ends October 2024

As noted above, there are other contracts which whilst not of the same scale are collectively significant; these are covered in the base budget with specific indexation where known, or general inflationary increases.

Certain contractors have been in touch to request additional payments due to specific pressures around pay and fuel. Whilst the Council will not necessarily accede to additional payment requests, some may be appropriate. Further, the major contracts listed above are all due to cease in 2024 and it is expected that some quotes (either contract extensions or replacement contractors) will be above that which may have been expected on a simple RPI or CPI indexation. To reflect this a lump sum for additional costs has been built into the projections for the latter years of the MTFS.

The central case, and OPTIMISTIC and PESSIMISTIC indexation scenarios are tabulated below:

Figure 13: Major contracts – cost indexation scenarios

(Amounts £000 – increases versus 2022/23 budget) *(percentage increases are versus the 2022/23 budget)*	*2023/24* *Budget*	*2024/25*	*2025/26*
Major contracts – central case Environmental Services	+0% 6,742	+5% 7,079	+4% 7,362
Open Spaces	+0% 1,366	+2% 1,393	+2% 1,421
Revenues & Benefits	+0% 2,872	+3.5% 2,972	+2% 3,031
Additional cost pressures	0	500	+5% 525
Summary YoY increase	**0**	**965**	**860**
Major contracts – OPTIMISTIC Environmental Services	+0% 6,742	+3% 6,944	+2% 7,083
Open Spaces	+0% 1,366	+2% 1,393	+2% 1,421
Revenues & Benefits	+0% 2,872	+2.5% 2,944	+2% 3,003
Additional cost pressures	0	400	+5% 420
Summary YoY increase	0	*701*	*547*

(Amounts £000 – increases versus 2022/23 budget) *(percentage increases are versus the 2022/23 budget)*	*2023/24* *Budget*	*2024/25*	*2025/26*
Major contracts – PESSIMISTIC Environmental Services	+0% 6,742	+7% 7,214	+5% 7,575
Open Spaces	+0% 1,366	+2% 1,393	+2% 1,421
Revenues & Benefits	+0% 2,872	+5% 3,016	+4% 3,136
Additional cost pressures	0	750	+5% 788
Summary YoY increase	*0*	*1,393*	*1,189*

9. Transformation and Efficiency plans

Charnwood undertaken various initiatives to achieve financial sustainability in recent years, as reflected in previous iterations of the MTFS and associated budget papers.

In the summer of 2022 th Council completed the Leadership Review, covering senior management grades. This achieved net savings of around £0.15m. To allow the new organization structure to settle down a hiatus in major initiatives was considered appropriate and (also in the light of continuing future funding uncertainty) an approach whereby the 2023/24 budget would be set using reserves was established.

Notwithstanding the above, a review of Council income streams was undertaken resulting in some £0.4m benefit to the General Fund.

Going forward, a new development of a further set options towards the achievement of financial sustainability will be developed from the spring of 2023, with a view to these being available for implementation in (or prior to) the 2024/25 financial year.

It is clearly recognized that further savings and / or income generation will be required in 2024/25 and 2025/26 to address the financial challenges identified within the MTFS projections. This will be a priority over the period of the MTFS.

10. Existing financial resources and use of prudential borrowing

Currently, the Council retains a number of reserves on its balance sheet, representing amounts that the Council may use to deliver or enhance Council services. Broadly, these are of three types:

- The General Fund balance that can be used to fund any type of expenditure
- Balances that may be used to fund any type of expenditure but which have been earmarked for specific uses by the Council
- Balances that are restricted in use by Government regulation that can be used to fund only specific types of expenditure, usually of a capital nature

There are also other balances on the Council's balance sheet created as a result of Government regulation or accounting rules. These balances are not available to fund expenditure of any type.

In recent history Charnwood has had a policy of maintaining a minimum General Fund working balance of £2m, equating to six weeks of the net budget expenditure, which was a good practice benchmark. It should be noted that there is no prescribed calculation for the calculation of the minimum working balance but in setting the level the s151 officer (whose responsibility this is) should have regard to the risk environment, and other earmarked reserves or other mechanisms that would mitigate risk.

In the light of experience through the COVID-19 pandemic and continued volatility in key funding streams the s151 officer has reviewed this policy and reconsidered an appropriate level of minimum balance. From 1 April 2023, having regard to what appears to be an environment of increased risk (such as the difficult outlook for public expenditure and the ongoing war in Ukraine) the s151 officer has concluded that **the minimum General Fund balance should be increased to £2.5m** (equivalent to eight weeks of net budget expenditure).

In recent years Charnwood has continued to invest in service delivery and the MTFS assumes that:

- The General Fund balance will be maintained at a level of not less than £2.5m in line with the review of this outlined above.
- Other reserves will be utilised or created during the period of the MTFS as appropriate; additionally, transfers between reserves may be deemed appropriate

As will be seen from the financial projections the Council reserves levels are reasonable (with a working balance of some £4.5m projected at 31 March 2023) but the significant risk with the latter two years of the MTFS period in particular, does not give room for complacency.

It is clear from the projections (Section 11) and identified risks (Section 12) that further action is required to address the projected net funding deficit across the period of the MTFS.

In addition, the Council could consider utilising reserves in the short term in order that services can be restructured in a cost effective and efficient manner giving a sustainable base for the future.

Growth Support Fund and Capital Plan Reserve

The Growth Support Fund has been established to support growth throughout the Borough. This fund is a revenue reserve and can be used for a variety of purposes, both revenue and capital. In addition, a Capital Plan Reserve has been created so that the Council can supplement its level of usable capital receipts. This reserve is designed to be used for General Fund capital items only but it is not constrained and could also be used to fund General Fund revenue expenditure.

Usable Capital Receipts Reserve

The Usable Capital Receipts Reserve represents the proceeds of asset sales available to meet future capital expenditure. The use of this reserve is restricted for application on items of a capital nature.

The Council has a well-established process exists for the management of the capital plan. For the purposes of the MTFS we are therefore able to assume that sufficient resources exist, or will be generated, to finance all uncompleted schemes within the current Capital Plan. Funding required beyond this point will rely on the Council's ability to generate new receipts from asset sales, or funding from revenue and/or reserves or Prudential Borrowing, which is discussed below.

Use of Prudential Borrowing – General Fund

Historically, Charnwood has been able to avoid the use of borrowing but in the 2020/21 financial year undertook Prudential Borrowing to finance the acquisition of commercial properties for investment purposes (some £22m) and to part finance the purchase of the new environmental services fleet. Further prudential borrowing of £2m was undertaken in 2021/22 to fund development of the Enterprise Zone.

Additional borrowing may be contemplated in the event that opportunities arise to enable the development of Enterprise Zone sites (£10m is available within the Capital Plan) or to acquire key sites in line with the Council's economic development or regeneration objectives (£5m is available within the Capital Plan). Currently however, this level of investment would likely be financed via internal borrowing in the medium term.

Further detail of this is set out in the Capital Strategy 2023/24.

Use of Prudential Borrowing for Housing

The Council will externally borrow, if necessary, to undertake works in line with its Housing Capital Investment Programme and 30-Year Housing Business Plan. Where feasible it will 'internally borrow' from the General Fund provided there are surplus amounts available for this purpose. These internally borrowed amounts will be at similar interest rates to those offered by the government's Public Works Loan board (PWLB). The Council retains all its Council dwellings rental income in order to service the HRA debt, pay for repairs and maintenance of the housing stock and for its housing operations generally. This borrowing, and any additional borrowing as mentioned above, is segregated from General Fund borrowing and so does not directly impact on the MTFS. Further details regarding the HRA are set out in the section covering the Housing Revenue Account.

11. Financial Projections 2022 – 2025

Figure 14 MTFS financial projections – General Fund

	2023/24 £000	*2024/25* *£000*	*2025/26* *£000*
Net Service Expenditure	20,384	21,642	22,865
Commerial property interest and provisions	604	619	634
Interest payable	230	60	~~0~~
Interest receivable	(1,500)	(1,000)	(800)
Collection fund and reserve adjustments	822	0	0
Total Expenditure	**20,540**	**21,321**	**22,699**
Fundin g			
Council Tax Receipts	8,314	8,711	9,117
Loughborough Special Levy	1,367	1,410	1,455
Revenue Support Grant	329	353	398
NNDR	6,400	6,800	7,200
New Homes Bonus	373	0	0
Core Spending Grant	167	0	0
Government Grants - non specific	**2,295**	**2,435**	**2,035**
Collection Fund Surplus/(Deficit)	0	0	0
	19,245	19,709	20,205
Projected use of Working Balance	**1,295**	**1,612**	**2,494**

The implication of the above projections is that to bring the Council's finances back into a sustainable position (ie. where expenditure is restricted to match funding) is that by 2025/26 the Council will need to remove around £2.5m from its projected cost base over and above savings identified and income generation created to date. **Critically, this assumes that the funding assumptions outined in Section 6 prove accurate – which is a highly uncertain proposition at this time.**

The impact of these projections on the Council's revenue reserves is set out below:

Figure 15: Projected movement on Working Balance

	2023/24 *£000*	*2024/25* *£000*	*2025/26* *£000*
General Fund working balance			
Balance brought forward	6,211	4,416	2,804
Replenishment Reeinvestment Reserve	(500)		
Use of balance in year	(1,295)	(1,612)	(2,494)
	4,416	**2,804**	**310**

The above projection shows that without action to address the financial challenge projected, the Working Balance would fall below the minimum level of £2.5m (as recommended by the Section 151 Officer) by the end of the MTFS period; further, although the projections do not extend into 2025/26, it is clear that the working balance would be completely depleted if no action was taken and the Council in effect becoming insolvent.

Figure 16: Other Revenue Reserves (year end position)

	2023//24 *£000*	*2024/25* *£000*	*2025/26* *£000*
Other Revenue Reserves			
Reinvestment Reserve	500	500	500
Capital Plan Reserve	1,695	1,695	1,695
Other Revenue Reserves	3,667	3,667	3,667
	5,862	**5,862**	**5,862**

(Movements in other reserves are typically not directly connected to revenue expenditure but will in practice diminish through utilisation over the MTFS period; the above analysis also excludes NNDR equalization reserve)

Note on Collection Fund: In any year the amounts of council tax or business rates actually collected will differ from that budgeted due to additions or removals of properties from the register, or non-collection of amounts billed. These surpluses or deficits are managed through the collection fund and (effectively) reflected in adjustments to precepts in subsequent years.

12. Risk and sensitivities

Government funding

The delay in the Funding Funding review and another one-year 'sticking plaster' local government financial settlement (historically there are little or no changes between the provisional and final settlements - which is usually communicated in mid-February) means that there is a high level of uncertainty around future funding in the latter years of this MTFS and a range of plausible funding outcomes.

The largest risk area will be the settlement for 2025/26 as this will be the first year of the next Spending Review period and likely to occur following the next General Election.

Inflation

The current inflation outlook is discussed previously in this MTFS but the less benign situation clearly gives rise to risk; in broad terms each additional 1% increase on payroll and major contract costs adds £0.25m to the Council's annual expenditure.

Environment Act 2021

The financial impact of the Environment Act 2021 has also been discussed previously. Based on the significant lead time required to implement the aspects of the Act directly impacting local government it is assumed that the Regulations that will set out the detailed implementation timetable will not result in any material adverse financial impact to the Council over the period of the MTFS. However, earlier adoption of the requirement to offer a free garden waste collection in particular could give rise to a significant loss of income.

A sensitivity analysis for the above areas is included within previous Sections. The following areas are also areas of risk and / or opportunity.

Income streams

The Council generates around £12m annually from various fees and charges. These include:

- **Planning fees** are known to be cyclical in nature and given the substantial nature of some individual planning fees a variance (adverse or negative) of £0.25m around the budgeted figure would not be unusual

- ***Leisure centres*** – it is assumed that the Council will successfully complete the contract extension for the leisure centre provider with income receivable being stable across the period of the MTFS at contracted levels

- ***Markets*** – it is assumed income levels will recover from pandemic lows but then plateau towards a new lower normal in 2023/24 reflecting the loss of some existing traders and permanent changes in shopping habits

- ***Town Hall*** – shows and room hire suffered from the COVID-19 pandemic but it is assumed that the key shows will now be able to run in line with pre-pandemic operations.

- ***Car parking*** – income is yet to reach pre-pandemic levels. A one-off service pressure of £0.2m is included within the 2023/24 budget but the underpinning assumption is that income will return to pre-pandemic levels from 2024/25.

In total, income may be plus or minus £0.5m versus the budgeted figure, as reflected in the table below.

Figure 18: Income - sensitivies

(Amounts £000) *Increases / (decreases) versus the 2022/23 budget)*	*2023/24* *Budget*	*2024/25*	*2025/26*
Income – central case	**0**	**0**	**0**
Income – OPTIMISTIC	500	500	500
Income – PESSIMISTIC	(500)	(500)	(500)

Summary of sensitivities

A summary of the sensitivities – differences to the central case – are tabulated below for both OPTIMISTIC and PESSIMISTIC scenarios.

Figure 19: Sensitivities – OPTIMISTIC SCENARIOS

(Amounts £000)	*2023/24*	*2024/25*	*2025/26*
	Budget		
Council Tax	**-**	90	95
NDR retention	**-**	200	300
Other government grants	-	400	800
Investment income (non-commercial property)	**300**	200	200
Environment Act 2021	-	-	-
Payroll costs	-	301	622
Major contract indexation	-	264	313
Income streams	500	500	500
BEST CASE SCENARIO	**800**	**1,955**	**2,830**

Figure 20: Sensitivities – PESSIMISTIC SCENARIOS

(Amounts £000)	2023/24 Budget	2024/25	2025/26
Council Tax	**-**	38	40
NDR retention	**-**	200	400
Other government grants	-	400	800
Investment income (non-commercial property)	300	200	200
Environment Act 2021	800	1,700	1,700
Payroll costs	-	150	478
Major contract indexation	-	428	329
Income streams	500	500	500
BEST CASE SCENARIO	**1,600**	**3,616**	**4,447**

It should be noted in practice that is highly unlikely that variations to the central case would be entirely positive or negative; however, the scale of individual elements within the above table do indicate that significant variation from the budget or MTFS projections is very possible.

13. Note on the Housing Revenue Account

The Housing Revenue Account (or HRA) is a ring-fenced set of transactions that sit within the wider financial records of the Council. It had budgeted gross income of £23.7m in 2023/24 of which £22.8m was dwelling rents. Expenditure on management and repairs amounted to £13.5m whilst depreciation was £3.9m. A further £2.8m was required for interest payments on its debt.

There is a surplus or deficit on the HRA each year which is added to the brought forward HRA balance. This balance should always be in surplus and at 31 March 2023 it was projected at £0.6m equating to its target balance of that amount. Also as projected at 31 March 2023 is an additional £12.6m in the Housing Financing Fund, the purpose being to help mitigate potential financial pressures that national policy may place on the HRA in the medium-term and also ensure debt repayments can be met in the short and medium term. There is also a projected £4.2m at 31 March 2023 in the Major Repairs Reserve which has restrictions on its use to capital expenditure and the repayment of loans.

Rental levels are largely controlled by central government and there are certain other restraints on how the Council may manage its housing stock. This is discussed in the detailed 30 Year Housing Business Plan, which effectively represents the MTFS for the HRA.

14. Reserve Strategy

As outlined above, from 2023/2024 onwards grant funding from central government remains highly uncertain. The Council's updated strategy from 1 April 2023 is to maintain a minimum of £2.5m in the working balance.

The 2023/24 budget anticipates use of Council's reserves and concerted efforts will need to continue in order to meet the minimum reserve objective and ensure the Council remains financially sustainable.

The budget proposed for 2023/24 would leave the Working Balance at £4.4m, above the £2.5m minimum.

15. Monitoring, Delivery and Review

There are well established processes for the monitoring of budgets which include regular outturn reports to the Performance Scrutiny Panel and Cabinet. For example, Revenue and Capital Plan outturn reports are usually presented to Cabinet in the July following completion of the financial year. Internally, budgets are monitored on a regular basis with regular Senior Leadership Team review whilst a series of 'Boards' chaired by the Council's Directors are in place to drive through the financial sustainability agenda.

APPENDIX B

Charnwood Borough Council

Capital Strategy

2023 – 2024

Foreword

This latest Capital Strategy sets out our plans and aspirations in the areas of capital planning, treasury management, and new borrowing which supports and enables our corporate plan and is a key plank in ensuring the ongoing financial sustainability of the Council.

At risk of repeating my messages from previous years, it remains very true that the financial and economic outlook facing the Council is highly uncertain, exacerbated at this time by the ongoing war in Ukraine and the recent political turmoil within the UK. Further detail on the implications of this is provided in the body of this Capital Strategy and the latest version of the Medium Term Financial Strategy which is presented alongside this document. As in previous years, much of our focus will be to ensure that the Council remains on a sustainable financial footing.

The extant Capital Plan (2022 – 2025) has a focus on the upkeep of the Borough and maintenance of our existing asset portfolio. Our ambition for the Borough remains and we will retain funds earmarked for economic regeneration and investment in the Enterprise Zone, albeit at reduced levels than originally created, having reviewed the likely operational scenarios which would require funds being available within a compressed timescale. Notwithstanding the funding earmarked within the Capital Plan for economic regeneration, there is flexibility within existing earmarked capital reserves and our ability to borrow for capital purposes that would enable an ambitious redevelopment scheme to be financed should that be appropriate. Any significant scheme of this nature would be subject to the approval of full Council. Additionally, we will also continue to invest the resources required, both financially and in time, to ensure that we maximise the opportunity afforded by the £17m funding available through Loughborough's Town Deal.

The Council holds significant cash balances and this is an important resource which we will use proactively. It is clear from the proposed 2023/24 budget that the income we can generate from our treasury operations will form a vital component of our funding and we continue to look for ways to refine our treasury operations and seek to minimise our external borrowing requirement.   The Treasury Management Strategy has therefore been amended with a view to increasing yields but security and liquidity will still be the key elements of the Council's approach to treasury management. However, the financial challenges ahead, coupled with a now significantly upward trend in interest rates place even greater importance on the continuation of our strong record in this area.

Councillor Tom Barkley

Cabinet Lead Member for Finance & Property

January 2023

CONTEXT

The Capital Strategy, in common with other strategies produced by the Council supports the overarching Corporate Strategy; see:

https://www.charnwood.gov.uk/files/documents/charnwood_borough_council_corporate_strategy_2020_2024/Charnwood%20Borough%20Council%20Corporate%20Strategy%202020-24%20FINAL%2027.02.20.pdf

This strategy sets out the vision for the Borough as follows:

'Charnwood is a borough for innovation and growth, delivering high-quality living in urban and rural settings, with a range of jobs and services to suit all skills and abilities and meet the needs of our diverse community.'

In working towards this vision the Council's principle focus at present is to leverage its own capital resources alongside local partners and the government through schemes such as the Town Deal, Shared Prosperity and Levelling Up Funds.

Examples of this activity can be seen through Council-led projects such as the ambitious improvements in the public realm through the recently completed investment in the Bedford Square area of Loughborough, and plans under development for investment around Shepshed market place, alongside partner projects such as the expansion of training and skills facilities at Loughborough College, improvement to the Grand Union Canal tow path and enhancements to Loughborough's flood defences.

Within the Capital Plan a sum of £5m is set aside for regeneration investment, an amount designed to allow the Council to respond in a timely fashion should important property assets become available at short notice within the Borough, and where their acquisition will support regeneration or economic development objectives. An additional amount of £10m is also maintained to provide 'forward funding' (to be recovered through business rate retentions) for the Enterprise Zone areas within the Borough. The Treasury Management Strategy (appended to this Capital Strategy) assumes that this funding would be financed through borrowing and for the purposes of presentation assumes that this will happen in the 2023/24 financial year. In practice, the both the timing and quantum of this investment is reliant on third party actions and/or suitable opportunities presenting themselves; no funds will actually be borrowed unless and until they are required.

Finally, there will also be continued investment across the Borough ensuring that our public realm and open spaces are maintained and enhanced to the standard that residents deserve through the regular refresh of the Capital Plans. This investment will be funded from the Council's designated capital reserves.

Enabling this vision requires the Council to be financially sustainable. Cash balances managed through the Council's treasury function, and the interest generated, are increasingly important given the combination of cash and short term investments held (typically in the range of £50m-60m), rising interest rates and cost pressures within the Council's revenue budgets. There is therefore a clear incentive to husband cash carefully, avoid unnecessary capital expenditure and maximise treasury returns within an appropriately prudent framework.

In summary, the Capital Strategy shows how these expenditure plans are governed, the financing requirements they imply, how financial assets are managed through the treasury function, the impact on revenue budgets and the method by which the Council aims to mitigate some of the risks involved in capital expenditure and treasury operations.

CAPITAL STRATEGY (INCLUDING TREASURY MANAGEMENT)

The purpose of the Capital Strategy is to demonstrate that the Council takes capital expenditure and investment 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. The Capital Strategy comprises a number of distinct, but inter-related, elements as follows:

1. **Capital expenditure**; which includes an overview of the governance process for approval and monitoring of capital expenditure, including the Council's policies on capitalisation, and an overview of its capital expenditure and financing plans.

2. **Capital financing and borrowing**; provides a projection of the Council's capital financing requirement, how this will be funded and repaid. It therefore sets out the Council's borrowing strategy and explains how it will make prudent revenue provision for the repayment of debt should any borrowing be required.

3. **Treasury management investments**; explains the Council's approach to treasury management investment activities, including the criteria for determining how and where funds will be invested to ensure that the principal sums are safeguarded from loss and that sufficient liquidity is maintained to ensure that funds are available when needed.

4. **Commercial investments**; provides an overview of those of the Council's current and any potential commercial investment activities that count as capital expenditure, including processes, due diligence and defining the Council's risk appetite in respect of these, including proportionality in respect of overall resources.

5. **Knowledge and skills**; summarises the knowledge and skills available to the Council and provides confirmation that these are commensurate with the Council's risk appetite. Further details are provided in the following sections.

6. (Appendix BB). **Treasury management policy statement and practices**; this is presented separately; it updates to the Council's Treasury Management Policy Statement and to its Treasury Management Practices. These set out the Council's policies, objectives and approach to risk management of its treasury management activities, and the manner in which it seeks to achieve its policies and objectives for treasury management.

1. Capital expenditure

Capitalisation policies

Capital expenditure involves acquiring or enhancing non-current assets with a long-term value to the Council, such as land, buildings, and major items of plant and equipment or vehicles, as well as the contribution or payments of grants to others to be used to fund capital expenditure. Capital assets shape the way services are delivered for the long term and may create financial commitments for the future in the form of financing costs and revenue running costs. Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria below are met.

Expenditure is classified as capital expenditure when the resulting asset:

- Will be held for use in the delivery of services, for rental to others, or for administrative purposes; and
- Is of continuing benefit to the Council for a period extending beyond one financial year.

There may be instances where expenditure does not meet this definition, but would nevertheless be treated as capital expenditure. This is known as 'Capitalisation' and it is the means by which the Government, exceptionally, permits local authorities to treat revenue costs as capital costs. It allows exceptional revenue costs, that should be met from revenue resources to be treated as capital expenditure. Permission is given through capitalisation directions, which the Secretary of State can issue under section 16(2)(b) of the Local Government Act 2003.

The Council operates a de-minimis limit of £10,000 for capital expenditure. This means that items below this limit are charged to revenue rather than capital.

Governance

A three year Capital Plan is prepared by officers and approved by Council. Potential schemes are identified by Officers, in conjunction with Cabinet members, and supported by a Capital Application form. Following a process of review by senior officers a report is prepared for Cabinet with recommendations as to which schemes to include in the Plan, how the Plan would be funded and other elements such as risk and compliance with the Prudential Code.

Once adopted the three year Capital Plan is formally reviewed by Cabinet at the end of year two when Heads of Service are asked to submit proposals for the following three years. 'Year three' of the current plan would then become 'year one' of the new plan.

New schemes can only be added outside of this procedure where they are in substitution of existing schemes or have a separate source of funding so that the actual total level of the Plan would not increase.

All schemes of £50,000 in value or greater require Capital Appraisal and all procurement and contracting must adhere to the Contract Procedure Rules. The Section 151 Officer (or 's151' – essentially a local authority's Finance Director as defined by Section 151 of the Local Government Act 1972) makes recommendations to Cabinet as to whether funding should be released to allow new schemes to be included in the Capital Plan.

After the end of the financial year an outturn report detailing the total amount of capital expenditure incurred during the year is submitted to Cabinet by the s151 Officer.

Prior to the closure of the Council's accounts a report detailing the proposed method of funding the capital expenditure incurred is submitted to Cabinet by the s151 Officer as required by the Local Government & Housing Act 1989.

2. Capital Financing Requirement and borrowing

The Council is required by regulation to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (referred to as the 'Prudential Code') when assessing the affordability, prudence and sustainability of its capital investment plans. Fundamental to the prudential framework is a requirement to set a series of prudential indicators. These indicators are intended to collectively build a picture that demonstrates the impact over time of the Council's capital expenditure plans upon the revenue budget and upon borrowing and investment levels, and explain the overall controls that will ensure that the activity remains affordable, prudent and sustainable.

Updated regulatory framework

CIPFA published the updated Treasury Management and Prudential Codes on 20 December 2021. The main objective of the 2021 Codes was to respond to the major expansion of local authority investment activity over the past few years into the purchase of non-financial investments, particularly property.

The Code had a 'soft' introduction but Local Authorities are expected to fully implement the required reporting changes from 2023/24.

It should also be noted that DLUHC is proposing to tighten up regulations around local authorities financing capital expenditure on investments in commercial projects for yield and has already closed access to all PWLB borrowing if such schemes are included in an authority's capital programme. The new CIPFA codes have adopted a similar outlook to discourage further capital expenditure on commercial investments for yield.

In theory this does not mean that local authorities may not currently have the legal powers to undertake such capital expenditure despite such guidance and regulation, but in practice such investment is very likely difficult to justify, and in effect investment financed by borrowing (whether internal or external) purely for yield is no longer a viable activity.

There are a number of other technical changes within the 2021 version of the Code but other changes of note are:

- Adoption of a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement
- Reporting to members, including updates of prudential indicators, to be on a quarterly basis
- Assessment of the risks and rewards of significant investments over the **LONG TERM**; what may be viewed as 'significant' is a moot point whilst CIPFA has not defined what longer-term means, but it is likely to infer 20-30 years (our treasury advisor view)

Further discussion of the regulatory environment is set out with Section 4 of this Strategy.

Current Capital Plans

The Council has a policy of preparing a three year Capital Plan, and then refreshing this every other year.

The most recent Capital Plan was prepared covering the financial years 2022/23 to 2024/25, and subsequently incorporated the final year of the preceding Plan coverig the years 2020/21 to 2022/23.

Naturally, in the course of the three-year plan schemes will be added, deleted or amended through periodic Capital Plan amendment reports. The latest version of the amended Capital Plan was presented at the Cabinet Meeting of 9 February 2023:

In summary the situation may be illustrated as follows:

Capital Expenditure	**2022/23 Budget Estimate**	**2023/24 Budget Estimate**	**2024/25 Budget Estimate**
	£'000	**£'000**	**£'000**
Live Schemes			
General Fund	9,617	2,991	1,580
HRA	12,034	9,656	6,645
Provisional Schemes			
General Fund	3,020	15,000	0
HRA	0	0	0
Third Party Schemes			
General Fund	909	0	0
HRA	0	0	0
Total	**25,580**	**27,647**	**8,225**

It should be stressed that inclusion of the above within the Capital Plan, does not imply that any of the above amounts will ultimately be expended. Further discussion of the above is set out later in this document.

Funding of the Capital Plan

The Capital Plan is funded by a combination of the following sources:

- Capital grants and contributions - amounts awarded to the Council in return for past or future compliance with certain stipulations.

- Capital receipts – amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance.

- Revenue contributions – amounts set aside from the revenue budget.

Prudential borrowing - In addition to the above the Council also has the ability to borrow to fund capital expenditure. At this point in time the Council has been able to finance prudential borrowing internally, taking advantage of cash flows inherent within the Council's operations (ie. cash outgoings typically lag the associated cash inflows, often by months or years). So far it has not been necessary to use external borrowing to fund General Fund capital expenditure but some level of external borrowing may be required if the Council is to complete the delivery its Capital Plan within the projected timescales (and over the medium term as and when the positive cash flow position reverses).

The Council has taken out external borrowing to fund the purchase of its housing stock (held within the Housing Revenue Account) from the Government under the 2012 Self-Financing Regime. This totals £79m. An additional £25m borrowing (internally financed) has been undertaken to finance the commercial property portfolio and a proportion of the refuse collection fleet replacement.

Prudent revenue provision for debt repayment

Borrowing allows the Council to defer the funding of its capital expenditure so that it does not need to fund immediately from existing reserves, but instead charges to the revenue budget over a number of years into the future.

Where borrowing is used to finance capital expenditure within the general fund a Minimum Revenue Provision calculated in line with CIPFA guidance contained within the Prudential Code

3. Treasury management investment

The Treasury Management Code and statutory regulations require the Council to prepare an annual strategy that explains how the Council will invest its funds, giving priority to security and liquidity, and then to yield. This Annual Investment Strategy is set out in full in the Treasury Management Strategy Statement (Appendix BB).

The Council's Treasury Management Strategy Statement (TMSS) covers 'specified investments' and loans to other local authorities. The policies are designed to comply with the Statutory Guidance on Local Government Investments ('the Guidance'), effective from 1 April 2018. The Council manages treasury operations in line with its TMSS, which in turn is in accordance with the guidance. The Council is required to review the TMSS on an annual basis.

The Guidance defines in detail what criteria an investment would meet to be categorised as 'specified' One of the criteria of specified investments is that the local authority has a contractual right to repayment within 12 months. Certain loans to other local authorities made by the Council have a term of up to two years (with an intention to increase the allowed maimum to five years), so do not fall strictly within the definition. However, the Council considers that management of this type of financial instrument should fall within the ambit of the TMSS.

The prolonged and historically low interest rate environment that prevailed since the financial crisis of 2008 now appears over. Base rates are now (January 2023) at 3.5% and expected to increase to peak at around 4.5% in the summer. Subsequent projections show a gradual tailing off beyond that time but it seems rates will remain well above those seen into the early months of 2022, which were typically well below 1%. This new economic environment has therefore put even greater emphasis on the importance of the Council's treasury function.

CHANGES TO THE TREASURY MANAGEMENT STRATEGY FOR 2023/24

The thrust of the Treasury Management Strategy remains on prioritising the security of public money and ensuring the Council has sufficient day to day liquidity to meet its payment obligations. However, the increased importance of interest receipts combined with the growth in assets under management over recent years has resulted in amendments to the Strategy being proposed for 2023/24. The main changes allow for increasing values of investment in individual counter parties and maturity periods reflecting increasing amount of funds under management and to avoid challenges in being able to place funds effectively. The proposals are detailed within Appendix BB and comprise changes to the Code (as noted previously) and amendments to the investment limits and acceptable counterparties, countries and brokers, as follows (with comparatives or changes noted sine 2022/23 where applicable:

- B(3) Credit and counterparty risk management
- B(4) Approved countries for investments
- B(5) List of approved brokers for investment

4. Commercial investments

Regulatory framework

The introduction of the general power of competence (arising from the Localism Act 2011) has given local authorities far more flexibility in the types of activity they can engage in. These changes in the economic and regulatory landscape, combined with significant financial challenges, led many authorities to consider different and more innovative types of investment

CIPFA issues the Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Management Code). One of the main changes introduced in the most recent update to the Code is to require authorities to incorporate all of the financial and non-financial assets held for financial return in authorities' annual capital strategies.

Separately, the Ministry of Housing, Communities and Local Government issued Statutory Guidance on Local Government Investments under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018.

As is the case for treasury activities, commercial investment should balance:

- Security – to protect the capital sums invested from loss
- Liquidity – ensuring the funds invested are available for expenditure when needed
- Returns – ensuring that the Council's investment ability is used effectively

Commercial investment may be defined quite widely and could include, for example:

- Commercial property investment held solely for the purposes of generating a financial return
- Investments in wholly owned companies and joint ventures (which maybe in the form of equity or loans)
- Wider scale and more ambitious regeneration projects
- Ad-hoc complex investments

The Statutory Guidance describes non-financial investment as being in non-financial assets held primarily or partially to generate a profit. Usually it will be expected that the underlying asset could be 'realised' to recoup the capital invested.

There are important aspects of financial reporting that Council's must be aware of. In terms of reporting it is necessary to state whether:

- The fair value of non-financial investments is sufficient to provide security against losses, and that the underlying assets provide adequate security for the originating capital investment

- Where the fair value is insufficient detail of mitigating actions should be provided to protect the capital invested

- Additionally, where the fair value assessment recognises a loss in the non-financial investment the subsequent Capital Strategy will need to reflect the impact of loss of security and the associated revenue consequences

- Fair value accounting in this context is covered by International Financial Reporting Standard 9, as modified by an extended statutory override applicable to local authorities. The implication of the override is that if a local authority recognises a loss on investment then this will not impact on the general fund, or, therefore, on an authority's ability to set its budget. However, the override is (currently) time limited to 31 March 2025 and a major downturn in the value of specific assets, or the property market generally, represents a clear risk in future financial periods.

This situation will be kept under close review and the Council will consider diverting interest and rental receipts to create a provision to cover any prospective loss on investment.

The Prudential Code is published by CIPFA (the chartered accountancy body which has a public sector focus), and aims to ensure local authorities' financial plans are affordable, prudent and sustainable. The new (2021) version of this code will apply fully from the 2023/24 financial year, which, as noted previously, tightens the definition of commercial investment and essentially prevents borrowing to finance the acquisition of assets purely for financial return. Although published by CIPFA, the Prudential Code does carry legal weight as the underpinning government regulations require that due regard is paid to the Code.

Approach for the 2023/24 financial year.

Overview

The Council has successfully developed a well-performing commercial property portfolio but in the current regulatory environment, as previously observed, the investment in commercial properties purely for yield has now effectively been outlawed where this activity has to be financed via borrowing.

The Council will however continue to investigate investment opportunities that may have a commercial element alongside attributes supporting other Council objectives, such as regeneration, or the climate change agenda. There are no specific plans at the time of developing this version of the strategy but some £5m within the current (amended) Capital Plan is earmarked for regeneration projects; this will enable an agile response should key sites within the Borough become available. Additionally, some £10m is included within the Capital Plan to support development of the

Enterprise Zone sites within the Borough. The initiation of such projects is within the gift of site sponsors (ie. Charnwood Campus and Loughborough University) but it is anticipated that some call on this fund will be likely in the next financial year.

For the purposes of completing the Treasury Management Strategy Statement it is assumed that the above funding (Regeneration £5m and Enterprise Zone £10m) will be fully required in 2023/24 and that this funding would be financed from borrowing rather than the Council's capital reserves. In practice however, no borrowing will be undertaken unless specific projects are identified.

Any investment required over and above these amounts would be need to be approved through updates to the extant Capital Strategy and Capital Plan in accordance with the Council's budgetary and policy framework.

The full details of the Council's Capital Financing Requirement (CFR) position and the limits that have been set for borrowing and all the associated prudential indicators implied by the above are provided In the Treasury Management Strategy Statement (Appendix BB).

Specific approach planned

Commercial Investment properties

The Council has now developed a commercial investment property portfolio totalling £22.5m. No further investments of this type are planned pro tem.

Management of existing portfolio (including risk mitigation)

The Council's commercial investment property portfolio can be summarised as follows:

Location	*Property type*	*Gross acquisition costs (£m)*	*Annual rent*	*Remaining lease term (at Jan 2023)*
Loughborough	Car showroom	2.4	165	12 years
Banbury	Offices	7.7	540	3 years
Aberdeen	Industrial	3.6	239	8 years
Scunthorpe	Industrial	8.8	600	13 years
		22.5	**1,544**	

The 2023/24 budget for commercial property income is set at £0.8m, being a net figure that allows for charges for interest and Minimum Revenue Provision, and the creation of a property reserve that allows for possible tenant non-payment (considered a very low probablilty based on tenant due diligence performed) and prospective periods of void and dilapidation costs that may arise at the end of the lease term. An allowance is also made for additional management costs arising from the acquisitions. These elements are analysed below:

(all figures £000)	*2023/24 (Budget)*
Gross rent	1,544
MRP charge (40-year annuity life method)	(295)
Interest charge (based on internal borrowing)	(113)
Portfolio management charges	(50)
Contribution to reserve (balancing figure)	(324)
Net contribution to revenue budget	**762**

The figures exclude the Loughborough skills hub situated in Loughborough. This is owned by the Council but purchased with Government grant money, and let to Loughborough College at peppercorn rent for the initial rental period of three years. Subsequently it is anticipated that the property will either generate a capital receipt or generate rentals on a commercial basis.

The total property reserve will be built up to ensure that a balance on the reserve of £1.5m is created before the first identified lease event (expiry of lease term on the Banbury property on 12 December 2025). The run rate set out above (some £0.3m+ per annum going forward) will ensure that this is achieved.

- Projected property reserve balance at 31 March 2023 £1.2m
- Projected property reserve balance at 31 March 2024 £1.5m

Finally, it may also be noted that the commercial property portfolio will be actively managed, to minimise (inter alia) void losses and dilapidation payments.

Reporting and monitoring of the commercial property portfolio is undertaken by the Audit Committee.

Loans to local enterprises and third parties (no change in approach planned)

Loans to local enterprises or partner public sector bodies could be considered, as part of a wider strategy for local economic growth, even though they may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity. Such loans could be considered as an option to generate a yield. There would need to be a set of criteria drawn up which would need to be met before any loan was given. These might include:

- Whether or not the loan has security
- The term of the loan
- The profile of capital repayments

- The credit rating of the counterparty
- That total financial exposure to this type of loan is proportionate
- An allowed 'expected credit loss' model for assessing credit risk is adopted[1]
- Appropriate credit control arrangements to cover overdue payments are in place
- The local authority has formally agreed the total level of loans by type that it is willing to make, and the total loan book is within that self-assessed limit

The Council will not proactively seek to market loans to third parties but will consider offering loans to local enterprises, local charities, on a case by case basis, as and when approached.

The Council will also consider offering a loan, on a case by case basis, to any subsidiaries that may exist at a point time; in particular, this would apply should the Council have a subsidiary Housing Development Company.

The strategy in this area is set out below.

STRATEGY FOR 2023/24 – LOANS TO THIRD PARTIES AND SUBSIDIARIES

No money will be set aside within the Capital Plan unless and until a specific proposal is available for consideration.

Should an opportunity to offer a loan to a third party arise reports will be taken to Cabinet, and Council if required, to seek specific approval for that transaction.

All prospective debtor organisations will be either be located, or will have substantial operations, within the Borough.

Any asset created through the loan will be located within the Borough.

The purpose of the loan will support local economic growth as defined within the extant Corporate Plan.

The maximum total loan book the Council would manage will be £10m.

The maximum single loan to an individual organisation will be:

- Secured loan £5m
- Unsecured loan £2m

The maximum total value of unsecured loans will be £4m.

Loans will be offered on a commercial basis with rates offered dependent on risk; unsecured loans will attract higher interest rates. Rates offered will be in accordance with independent professional advice

Due diligence will be carried out on prospective debtor organisations.

Generally, independent professional advice will be taken to ensure that the structure of loan finance offered, and the risk and return associated with that structure is appropriate.

[1] As defined within International Financial Reporting Standard 9 – in broad terms the likelihood of a creditor defaulting in future must be considered in accounting for impairment (compared to previous Standards in which accounting was based on actually incurred losses)

Support for Subsidiaries (no change in approach planned)

The Council does not currently have any wholly owned local trading or property (housing) companies. Should the Council decide to form a subsidiary then Council could decide to provide the funding required to support these organisations. As with providing loans to local enterprises and third parties there would need to be a set of criteria drawn up which would need to be met before any loan was given. This would mitigate the risk of loss to the Council.

However, the creation of a Property Development Company (probably with a housing focus) remains a possible course of action for the Council. It may be appropriate to invest directly in the equity of a Property Development Company, rather than in the form of a loan, as described above. The basis of investment will be equivalent, as described below.

STRATEGY FOR 2023/24 - INVESTMENT IN A PROPERTY DEVELOPMENT COMPANY

No money has been allocated within the capital plan at present.

This funding *may* be in the form of an equity investment in the PDC, upon which dividends or and / or management fees will be due to the Council.

It is assumed that this funding be financed through Council borrowing, as and when investment is required.

At minimum, dividends and management fees will cover all of the Council's borrowing costs, in cases where the subsidiary company is wholly owned by the Council.

At minimum dividends and management fees will cover all of the Council's borrowing costs, plus a margin of in cases where a subsidiary company or joint venture is only partially owned by the Council.

Professional advice will be taken to ensure:

- Any loans are structured in the most advantageous way, having regard to risk, prospective returns, and tax implications
- MRP can be avoided or mitigated through the loan structure

Appropriate due diligence will be carried out on prospective partner organisations.

In total, the maximum investment in a PDC, whether by loan or equity investment, will be an amount of £10m.

Economic development and regeneration

COVID-19 has, as might be expected, had a significantly negative impact on businesses, which is reflected in both the physical environment and employment rates. In general, the Council would want to consider investment projects that benefit its communities, but it also has the opportunity to invest using the following specific arrangements:

- Town Deal: Loughborough has secured funding of £17m to support improvements to Loughborough town centre; release of some of this funding is facilitated by providing ‘match’ funding from the Council in respect of Council-led projects[2]

- Other government funding – such as Levelling-Up Funding or the Shared Prosperity Fund: an approach analous to the approach adopted to attract and administer Town Deal funding is anticipated.
- Enterprise Zone: The Council can support the development of infrastructure on its Enterprise Zone sites by taking out a loan to fund projects, repayable fro future business rates generated

The strategy as related to the these opportunities is set out below:

STRATEGY FOR 2023/24 - INVESTMENT IN THE TOWN DEAL AND REGENERATION PROJECTS

An amount of £5m to fund material investment in regeneration projects will be carried forward into 2023/24 and future years of the Capital Plan 2020-23 (subject to approval by Council). This is in addition to earmarked funding for specific projects such as Bedford Square.

It is assumed that this funding be financed through Council borrowing, as and when investment is required.

Investment in regeneration projects (ie. where funding is to come from this £5m allocation) will be approved by Cabinet, or through an Urgent Decision process, on a case by case basis. In general, it is antipated that such projects will provide a positive financial return to the Council, but that a lower return than may be achievable with pure commercial investment will be acceptable.

STRATEGY FOR 2023/24 - INVESTMENT IN THE ENTERPRISE ZONE

An amount of £10m to forward fund investment in the Enterprise Zone (EZ) will be maintained. To date £2m has been allocated. The £10m balance will be carried forward into 2023/24 and future years of the Capital Plan 2022-25 (subject to approval by Council).

This total amount will be profiled for the 2023/24 financial year to ensure there is no impediment to investment opportunities.

The mechanism by which the investment will work is as follows:

1. The Council will take out a loan for the amount required to fund the project
2. Funds will be passed to the LLEP, who will then make a grant to the site sponsor[3] who will undertake the project delivery
3. The Council will cover the loan costs by retaining business rates generated by the project that would otherwise have been due to the LLEP (the LLEPP share of business rates generated is 85% as set out in the EZ agreement)

MRP treatment – generally, MRP will be calculated using the annuity method reflecting the life of underlying assets being long term and assumed at 40 years. However, where the loan is taken out on a repayment basis (as may be the case) then no MRP charge will be deemed necessary[4].

[2] Although it should be noted that the Town Deal also strongly encourages participation and investment from the private sector

[3] The site sponsors would be either Charnwood Campus (Jayplas) or Loughbourough University

[4] This is subject to compliance with the new Prudential Code; technical interpretation of relevant sections is still in progress

Forward funding agreements will be:

- Based on business cases supported by the Council and subject to approval by the LLEP Board (where the Council has representation at present)
- Subject to Cabinet approval on a case by case basis

A condition of any forward funding agreement is that the loan will have to be underwritten by the site sponsor.

It is assumed that this forward funding be financed through Council borrowing, as and when investment is required. It is also expected that repayment of the loan via future business rates will create a small 'margin' versus the terms of the loan that will provide a positive contribution to the Council's finances.

Other commercial investments

Investment in other types of asset, or in larger and more complex arrangements, is not considered within this iteration of the Commercial Investment strategy. In practice, should opportunities arise, the Commercial Investment and Capital Strategies could be amended, subject to the approval of full Council, to allow emerging opportunities to be exploited. It can also be assumed that any significant investment would be subject to the specific approval by Cabinet.

5. Knowledge and Skills

The Council recognises the importance of ensuring that all officers involved in the treasury management function (including commercial investment activities) are fully equipped to undertake the duties and responsibilities allocated to them. The Strategic Director for Corporate Services is responsible for recommending and implementing the necessary arrangements and does this by:

- Appointing individuals who are capable and experienced.
- Providing training and technical guidance to all individuals involved in the delivery of the treasury management function to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills to undertake the duties and responsibilities allocated to them.
- Appointing a treasury management advisor and other professional advisors when required. This ensures that the individuals involved in delivery of the Council's treasury management activities have access to specialist skills and resources. In addition, professional advisors are employed as required to ensure that the Council has access to the specialist skills and resources necessary to undertake commercial investment activities.

Treasury management advisors - The Council employs Link Asset Services (Treasury Solutions) to provide it with treasury management advice. The services provided by Link Asset Services (Treasury Solutions) include advice on treasury matters and capital finance issues, economic and interest rate analysis and creditworthiness information. Notwithstanding this, the final decision on all treasury matters remains vested with the Council. The services received from Link Asset Services (Treasury Solutions) are subject to regular review, including through periodic re-tendering.

6. Treasury management Policy Statement and Treasury Management Practices

The Council's Treasury Management Policy Statement and its Treasury Management Practices have been updated to reflect the requirements of the updated Treasury Management Code. They are presented for approval in the Treasury Management Strategy (Appendix BB)

APPENDIX BB

Charnwood Borough Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2023/24

INDEX

1. INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that the cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in generally low risk counterparties or instruments commensurate with the Council's risk appetite, ensuring the provision of adequate liquidity (cash balances) initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This longer term cash management may involve arranging long or short term loans, or using longer term cash flow surpluses. When prudent and economic any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, 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."*

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following: -

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the strategy is to ensure that all the Council's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

1.2.2 Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) The first, and most important report is forward looking and covers: -
    - the capital plans, (including prudential indicators)
    - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
    - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
    - an Annual Investment Strategy, (the parameters on how investments are to be managed)

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly update reports.

c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee and the reports are also available for consideration by the Scrutiny Commission.

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June, end of December) is also required. However, these additional reports do not have to be reported to Full Council/Board but do require to be adequately scrutinised. This role is undertaken by the Audit Committee.

1.3 Treasury Management Strategy for 2023/24
The strategy for 2023/24 covers two main areas:

Capital issues

- Capital expenditure plans and prudential indicators;
- Minimum revenue provision (MRP) policy.

Treasury management issues

- Current treasury position
- Treasury indicators which limit the treasury risk and activities of the Council;
- Prospects for interest rates;
- Borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- Investment strategy;
- Creditworthiness policy; and
- Policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.4 Training

The CIPFA Treasury Management Code requires the responible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

The Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, the Council should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and council members, encouraging them to highlight training needs on an ongoing basis.”

In further support of the revised training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by members responsible for the scrutiny of treasury management’, which is available from the CIPFA website to download.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function will be maintained by Audit Committee. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by Audit Committee.

1.5 Treasury Management Consultants

The Council uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

if the Council are undertaking non-treasury investments, e.g., investment in commercial properties, it would be expected that in undertaking such investing, it would use specialist property advisers.

2. THE CAPITAL PRUDENTIAL INDICATORS 2023/24-2024/25

The 2021 Prudential and Treasury Management Codes require local authorities to undertake financial planning for periods longer than the three years required for prudential and treasury indicators.

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Councils capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure	***Actual Spend 31/12/2022 £'000***	***2022/23 Budget Estimate £'000***	***2023/24 Budget Estimate £'000***	***2024/25 Budget Estimate £'000***
General Fund - general	2,492	13,546	2,991	1,580
Enterprise Zone	0	0	10,000	0
Regeneration	0	0	5,000	0
HRA	1,506	12,034	9,656	6,645
Total	**3,998**	**25,580**	**27,647**	**8,225**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure	***2022/23 Budget Estimate £'000***	***2023/24 Budget Estimate £'000***	***2024/25 Budget Estimate £'000***
Total Capital Expenditure as per above table	**25,580**	**27,647**	**8,225**
Financed by:			
GF Revenue Contributions	38	0	0
GF Capital receipts	4,714	1,433	453
GF Capital Grants	8,580	1,558	1,127
GF Capital Plan Reserves	214	0	0
HRA MRR & Financing Fund	10,863	9,207	6,195
HRA Capital Receipts	1,171	449	450
Internal /External Borrowing	0	15,000	0
Total Funding	**25,580**	**27,647**	**8,225**

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). This is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR will not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which reduces the borrowing need in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The resultant CFR projections are set out in the table below. These reflect the current (updated) Capital Plan (which was due to be approved by Council 27th February 2023) and the main body of the Capital Strategy report, and comprise:

- 50% funding of the Environmental Services fleet in 2020/21 (£2.4m)
- Purchase Commercial Property (£25m), in 2020/21. No further Commercial activities are planned beyond this date.
- Regeneration fund of £5m to take advantage of opportunities that arise, there are currently no plans in place.
- Enterprise Zone fund of £10m to enable further forward funding within the Enterprise Zone (to be repaid through business rates generated) this is not subject to MRP as this is classed a a Capital Grant.

(In practice expenditure under the latter two headings may fall into later periods but the presentation assumes the earliest possible spend)

Capital Financing Requirement	***2021/22 Actual £'000***	***2022/23 Original Budget £'000***	***2023/24 Original Budget £'000***	***2024/25 Original Budget £'000***
CFR - (Fleet-Less MRP)	2,086	1,788	1,490	1,192
CFR – (Commercial Activites Less MRP)	22,716	22,422	22,119	21,806
CFR – (Regeneration Less MRP)	0	0	5,000	4,937
CFR - (Enterprize Zone - No MRP)	0	0	10,000	10,000
CFR – (HRA No MRP)	81,820	81,820	81,820	80,820
Total CFR	**106,622**	**106,030**	**120,429**	**118,755**
Movement in CFR represented by:		592	(14,399)	1,674
Net financing need for the year (above)	0	0	15,000	(1,000)
Less MRP charge	(583)	(592)	(601)	(674)
Movement in CFR	**(583)**	**(592)**	**14,399**	**(1,674)**

2.3 Liability Benchmark

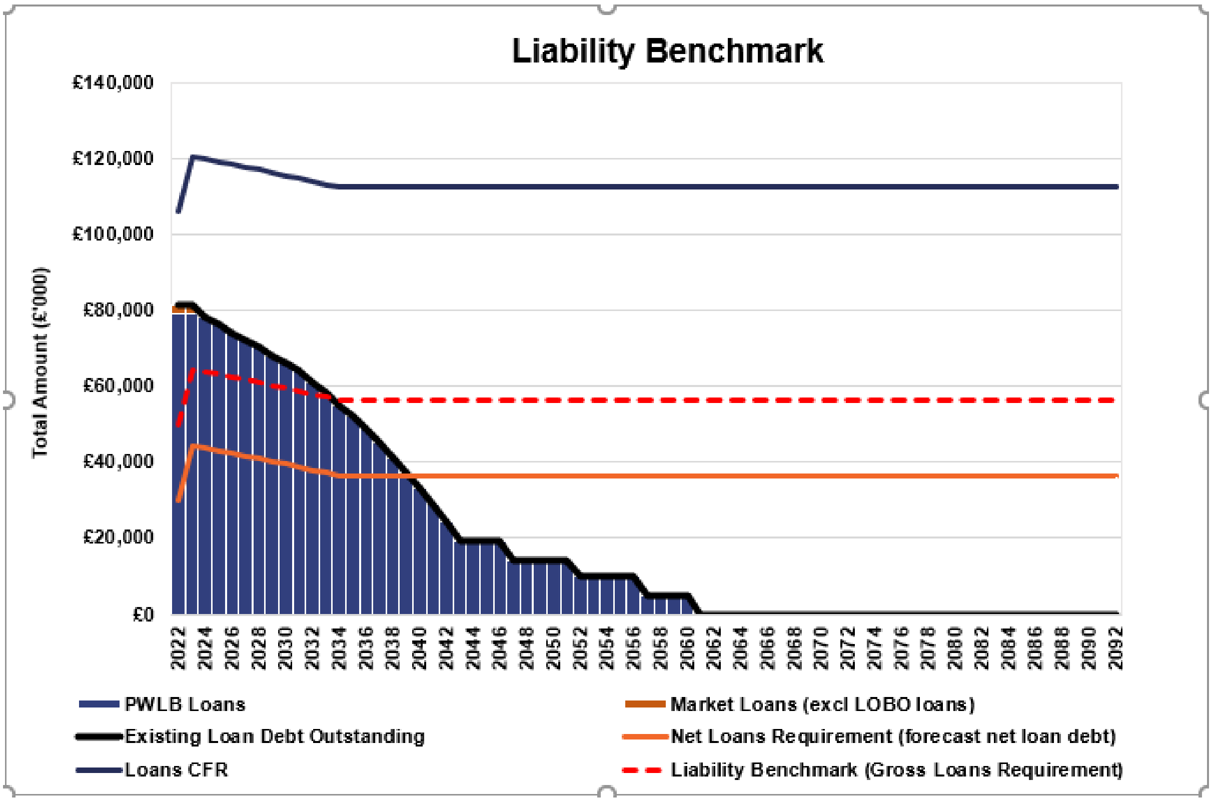
A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. **Existing loan debt outstanding**: the Council's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement**: this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.
5.

Liability Benchmark	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
Existing Loans			
HRA	79,190	79,190	78,190
Other Loans	2,000	2,000	0
Total Debt Outstanding	**81,190**	**81,190**	**78,190**
TM Investments Opening Position	(50,507)	30,091	44,490
Planned Prudential Borrowing	0	15,000	0
Less MRP	(592)	(601)	(674)
Net Loans Requirement	**30,091**	**44,490**	**43,816**
Liquidity/Working Capital Allowance	20,000	20,000	20,000
Liability Benchmark	**50,091**	**64,490**	**63,816**
(Over)/Under Liability Benchmark	**(31,099)**	**(16,700)**	**(14,374)**

The table above shows the difference between the total Debt outstanding compared to the Liability Benchmark (Net loans requirement plus the liquidity allowance), the Council is currently over the liability benchmark. What this shows is that the Council has more than sufficient external borrowings to maintain its required liquidity and working capital (the cash needed to ensure the Council can meet day to day expenditure such as meeting the payroll and payment of preceptors and suppliers).



The Liability Benchmark perhaps makes more sense when viewed over the longer term. The graph above extrapolates the current situation into the future, and assuming no changes to the underlying metrics, it can be seen that from around 2033 the level of borrowing falls below the Benchmark (red dotted line), implying that the Council would need to increase external borrowing at this time. This also implies that in the short term, the Council has scope to increase internal borrowing, as the current combination of external loans and treasury balances is well above the benchmark.

2.4 Core Funds and Expected investment balances held

The application of resources (Capital Plan Reserves, Capital Receipts, HRA Major Repair Reserve, HRA Financing Fund) to finance Capital expenditure will have an ongoing impact on investments unless resources are supplemented each year by new resources (assets sales, grants etc). Detailed below are estimated year end balances held for each resource after funding the current capital programme.

Year End Resources £m	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Capital Plan Reserves	1,909	1,695	1,695	1,695
Capital Receipts 1-4-1	3,162	2,513	2,586	2,658
Other Capital Receipts	7,220	3,288	,2,637	2,966
HRA MRR	4,248	4,248	4,248	4,248
HRA Financing Fund	14,575	12,627	11,246	10,246
Total core funds	**31,114**	**24,371**	**22,412**	**21,813**

The current Capital Plan runs through to 31 March 2025, Funding for the plan are tabled above in 2.1. Any additional proposals for capital expenditure will require a capital appraisal and business plan to be considered by Senior Leadership Team and Cabinet approval. The funding position is regularly reviewed and if there is a need to borrow, this will require a further appraisal and a revision to the Capital Programme and the Treasury Management Strategy and will therefore require additional Council approval.

2.5 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision - VRP).

MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), VRP or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2022 the total VRP and overpayments were £0m.

The Council has for the General Fund a CFR requirement and therefore will need to make a MRP provision. As the Council is likely to fund capital expenditure for borrowing in the future and as there is a statutory requirement to have an approved MRP Statement in place in advance for each year, an MRP policy has been included in this Treasury Management Strategy as Appendix B(2). Council is asked to adopt and approve the MRP policy statement.

3 BORROWING

The capital expenditure plans set out in Section 2.1 above provide details of the capital expenditure of the Council over the next 2 years. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes so that sufficient cash is available to meet this service activity. This will involve both the management of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

One of the key indicators is that the Council's gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This is to ensure that the Council conducts its activities within well-defined limits. Also the indicator allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes or speculative purpose.

The table below shows the forward projections for external debt against the underlying need to finance capital expenditure through borrowing or other long term liabilities, i.e. the CFR, highlighting any over or under borrowing.

	2021/22 Actual £'000	***2022/23 Estimate £'000***	***2023/24 Estimate £'000***	***2024/25 Estimate £'000***
External Debt at 1 April	81,190	81,190	81,190	81,190
Expected change in Debt	0	0	15,000	14,000
Actual debt at 31 March	**81,190**	**81,190**	**96,190**	**95,190**
Capital Financing Requirement	106,622	106,030	120,429	118,755
Under borrowing	**25,432**	**24,840**	**24,239**	**23,565**

The table shows that the Council has complied with this prudential indicator in the current year and does not envisage difficulties for the future

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary.

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary	*2021/22 Actual £'000*	*2022/23 Estimate £'000*	*2023/24 Estimate £'000*	*2023/24 Estimate £'000*
Debt	81,190	108,090	108,090	107,090
Non-financial investments	0	0	15,000	15,000
Total	**81,190**	**108,090**	**123,090**	**122,090**

The authorised limit for external debt.

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

It should be noted that the authorised limits (as shown in the table below) has been set based on the current capital expenditure and funding plans within the Capital Strategy, which is the same as last years limits.

The authorised limits are in line with the Capital Strategy is approved by Council:

Authorised limit	*2021/22 Actual £'000*	*2022/23 Estimate £'000*	*2023/24 Estimate £'000*	*2024/25 Estimate £'000*
Debt	81,190	120,000	120,000	120,000
Non-financial investments	0	0	15,000	15,000
Total	**81,190**	**120,000**	**135,000**	**135,000**

In October 2018 the Government published the "Limit of Indebtedness (Revocation) Determination 2018". This removed the HRA debt cap which was £88,770k and therefore the HRA is able to determine its own level of borrowing in alignment with prudential guidelines. This means that it can borrow providing it can demonstrate that the interest and loan repayments are affordable, within the overall HRA.

3.3 Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 08.11.22. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

PWLB forecasts are based on PWLB certainty rates.

Additional notes by Link on this forecast table: -

Our central forecast reflects a view that the MPC will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures have lessened – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation will peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. Wage increases, excluding bonuses, are currently running at 5.7%.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present. This approach will prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

Yield curve movements have become less volatile under the Sunak/Hunt government. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.50%. The medium to longer part of the yield curve is currently inverted (yields are lower at the longer end of the yield curve compared to the short to medium end).

We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside. Indeed, the Bank of England projected two years of negative growth in their November Quarterly Monetary Policy Report.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).

- **The Bank of England** acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.

- **The Government** acts too slowly to increase taxes and/or cut expenditure to balance the public finances, in the light of the cost-of-living squeeze.

- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer term **US treasury yields** rise strongly, if inflation numbers disappoint on the upside, and pull gilt yields up higher than currently forecast.

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are now above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are as follows: -

Average earnings in each year	
2022/23 (remainder)	3.95%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

3.4 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Councils's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the remainder of 2022 and the first half of 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Council will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

The Council's investments in commercial property in the medium term has used internal borrowing as the Council has been able to utilise its cash balances as an alternative to external borrowing. This is considered to be an effective strategy at present as:

It enables the Council to avoid significant external borrowing costs in the short to medium term (i.e. making it possible to avoid net interest payments); and
It mitigates the risks associated with investing cash and the low investment rate returns.

3.5 Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

At a point in time, short term borrowing rates may be considerably cheaper than longer term fixed interest rates. In this event there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify whether there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

The Council currently has one long term market debt of £2m which matures in June 2024 and it carries a current interest rate of 11.625%. The cost of replacing this debt is prohibitive and this position is unlikely to change in the next three years.
Once this has loan has matured then a revenue Income stream of £232.5k PA will be available to support the General Fund budget.

The £79.19m of HRA debt is at fixed interest rates and the twenty-four loans are repayable from 2024 to 2061. The first repayment is in 2024/25 £1M, which has been reflected in the tables above. Their maturity dates are set to match income and expenditure levels in the HRA Business Plan and they will be reviewed in line with that plan. However, the primary objective of the plan over the next few years is to invest in the Council's housing stock and this position is not expected to change in the near future. Therefore these debts are unlikely to be rescheduled over the next three years. All rescheduling will be reported to the Cabinet at either the half year or full year report stage.

3.7 New Financial Institutions as a Source of Borrowing and / or Types of Borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally are still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources. This Council may make use of this new source of borrowing as and when appropriate.

3.8 Approved Sources of Long and Short-term Borrowing

Should the Council require further borrowing in the future then borrowing options will be considered and reported to Cabinet and Council for approval.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – Management of isk

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy.

The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Council's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix B3, under the categories of 'specified' and 'non-specified' investments.

   - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

   - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

   - **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments limit is £30m.

5. **Lending limits**, (amounts and maturity), for each counterparty will be set as per Appendix B3.

6. **Transaction limits** are set for each type of investment in Appendix B3.

7. This Council will set a limit for its investments which are invested for **longer than 365 days**, (see Appendix B3)

8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph below 4.3).

9. This Council has engaged **external consultants**, (see paragraph above 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.

10. All investments will be denominated in **sterling**.

11. As a result of the change in accounting standards for 2022/23 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. At the current juncture it has not been determined whether a further extension to the over-ride will be agreed by Government.

    At the time of writing, we are still waiting to hear whether the application of IFRS9 will be deferred for a further period.

However, this Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.

The above criteria has changed from last year due to a new investment Strategy.

Investment instruments identified for use in the financial year are listed in appendix B (3) under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices.

4.2 Creditworthiness policy

This Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

1. "watches" and "outlooks" from credit rating agencies;
2. CDS spreads that may give early warning of changes in credit ratings;
3. sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands

- Yellow 5 years *
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the

iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services.

- Extreme market movements may result in downgrade of an institution or
- removal from the Council’s lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making proces

Creditworthiness.
Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS prices
Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

Limits
Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

Non-specified treasury management investment limit. The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments.

4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch, other than the UK where the Council has set no limit. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix B(4). This list will be added to or deducted from by officers should ratings change in accordance with this policy.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Investment returns expectations.
The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to reach 4.5% in Q2 2023.

As noted earlier, the suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

Average earnings in each year	
2022/23 (remainder)	3.95%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 365 days			
£m	2023/24	2024/25	2025/26
Principal sums invested >365 days	£30m	£30m	£30m

4.5. Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7 day, 1, 3, 6 or 12 month compounded / SONIA

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

APPENDICES FOR APPENDIX BB

BB (1). Economic Background

BB (2). Minimum Revenue Provision Policy

BB (3). Treasury management practice 1 – credit and counterparty risk management

BB (4). Approved Countries for Investment

BB (5). Approved Brokers for investments

BB (6). Current Investments as at 5th January 2023

BB (7). Treasury management scheme of delegation

BB (8). The treasury management role of the section 151 officer

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	3.0%	1.5%	3.75%-4.00%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	11.1%y/y (Oct)	10.0%y/y (Nov)	7.7%y/y (Oct)
Unemployment Rate	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c£500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

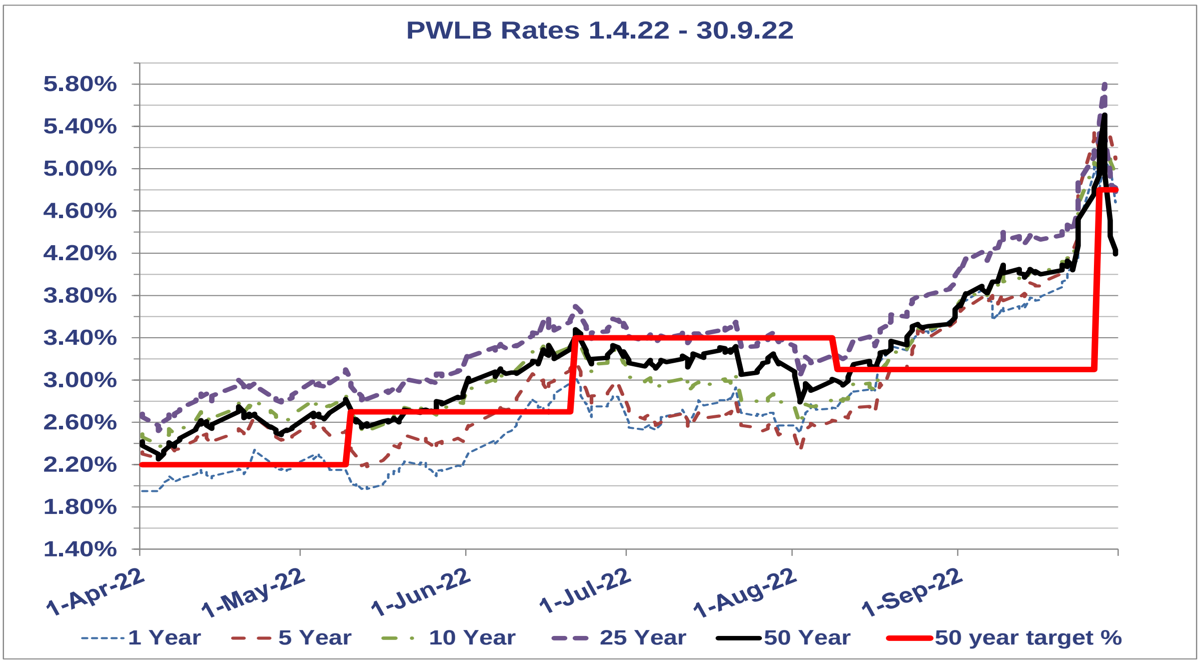
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and December. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – NOVEMBER 2022

At the start of November, the Fed decided to push up US rates by 0.75% to a range of 3.75% - 4%, whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the pipeline.

Having said that, the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

APPENDIX BB(2)

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

Under Regulation 27 of the 2003 Regulations, local authorities are required to charge MRP to their revenue account in each financial year. It should cover the gap between the Capital Financing Requirement (CFR) and grant income and capital receipts.

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP). It is also allowed to undertake additional voluntary payments if desired (voluntary revenue provision - VRP). Any planned overpayments must be recorded clearly in the MRP statement.

MHCLG (now DLUHC) regulations have been issued which require the full Council to approve an MRP Statement in advance of each year; hence, the inclusion of this policy within the Capital Strategy.

The Council is required to calculate in each financial year a prudent provision to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits (asset life). MRP cannot be negative, and can only be zero if the CFR is nil or negative, or if the charge is fully reduced by reversing previous overpayments. A maximum asset life of 40 years can be used, except freehold land which can be 50 years.

In calculating MRP the Council must base its calculation on methods set out within ‘guidance’ issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. Under that section local authorities are required to ‘have regard’ to this guidance. The extant guidance distinguishes between borrowing incurred prior to 2008 and that incurred in subsequent years. The Council did not incur borrowing to finance assets prior to 2008 and hence its options on which its MRP calculation is based are restricted to Options 3. and 4. as set out in guidance, as below:

Option 3: Asset Life Method

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the useful life of the asset.

There are two main methods by which this can be achieved, as described below.

(a) Equal instalment method

MRP is the amount given by the following formula:

$\underline{A - B}$

C

Where:

A is the amount of capital expenditure in respect of the asset financed by borrowing or credit arrangements.

B is the total provision made before the current financial year in respect of that expenditure.

C is the inclusive number of financial years from the current year to that in which the estimated useful life of the asset expires.

(b) Annuity method

MRP is the principal element for the year of the annuity required to repay over the asset's useful life the amount of capital expenditure financed by borrowing or credit arrangements. The Council should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during repayment period (e.g. by the application of capital receipts) should be made as necessary.

Option 4: Depreciation method

MRP is deemed to be equal to the provision required in accordance with deprecation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment charged to the income and expenditure accounts.

Selected Charnwood calculation methods

For assets with a life of 10 years or less, the straight line asset life method (Option 3 (a)) will be used
For assets with a life in excess of 10 years, the annuity asset life method (Option 3 (b)) will be used

The asset life method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined by the Council's Chief Financial Officer (this is the Council's designated s151 Officer, a role currently held by the Director of Finance, Governance and Contracts), with regard to the statutory guidance and advice from professional valuers if required.

The Chief Financial Officer may also determine that if, in their opinion, the straight line method is more prudent for an asset with a life in excess of 10 years then this option may be used.

Generally, the straight line asset life method is considered appropriately prudent for assets with a relatively short term life (such as most types of plant and equipment). Assets purchased with a longer life will usually be land and buildings and hence an annuity asset life method will be used reflecting that such assets will in practice have a value at the end of the designated asset life. One aspect of the annuity asset life method is that it generates MRP payments that are relatively low in early years which then increase over the asset life. This structure of MRP is well-suited to commercial properties as the increase in MRP could be expected (broadly) to mirror increasing rental income created by periodic rent reviews.

The designated asset life of land and buildings, including commercial property for investment purposes, will usually be set at 40 years, in accordance with the guidance and in common with other local authorities.

In line with the extant guidance MRP will be not be charged until the later of the year after capital expenditure is incurred or the year after the asset becomes operational

The calculation of MRP is also subject to the following details:

- An average asset life for each project will normally be used. There will not be separate MRP schedules for the components of a building (e.g., plant, roof etc.). Asset life will be determined by the Chief Finance Officer. A standard schedule of asset lives will generally be used (as stated in the Statement of Accounts accounting policies).
- MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets when expenditure is being financed from borrowing the MRP will be deferred until the year after the asset becomes operational.

  Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case, at the discretion of the Chief Finance Officer; this may include certain circumstances relating to investment (forward funding) within the Enterprise Zone and where the underlying loan is taken out on a repayment basis. In this case no MRP charge will be deemed necessary assuming the loan term does not exceed the asset life.

APPENDIX (BB3)

TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year** with the exception of other Local Authorities which have a maximum of 2 years and investments in Property Funds which are longer-term investments. All investments will meet the minimum 'high' quality criteria where applicable.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**Current investment Limits 2022/23**	**Investments Limits 2023/24**	**Max. maturity period**
DMADF – UK Government	N/A	Unlimited	Unlimited	6 months
UK Government gilts	UK sovereign rating	Unlimited	Unlimited	12 months
UK Government Treasury bills	UK sovereign rating	Unlimited	Unlimited	12 months
Bonds issued by multilateral development banks	AAA	Unlimited	Unlimited	6 months
Money Market Funds (CNAV, LVAV & VNAV)	AAA	£12m any one institution and £30m in total	£12m any one institution and £30m in total	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	Pink, AAA	£7m any one institution and £20m in total	£12m any one institution and £20m in total	Liquid
Local authorities	N/A	£5m any one institution and £20m in total	£5m any one institution and £20m in total	5 Years
Property Funds	N/A	£5m any one instition and £20m in total	£5m any one instition and £20m in total	20 Years
Term deposits with banks and building societies	Purple	£8m any one institution and £12m in total	£12m any one institution and £20m in total	Up to 12 months
	Blue	£7m any one institution and £12m in total	£12m any one institution and £20m in total	Up to 12 months
	Orange	£8m & (£18m for HSBC only) any one institution and £35m in total	£12m & (£18m for HSBC only) any one institution and £45m in total	Up to 12 months
Term deposits with banks and building societies	Red	£8m any one institution and £50m in total	£12m any one institution and £60m in total	Up to 6 Months
	Green	£6m any one institution and £20m in total	£12m any one institution and £25m in total	Up to 100 days
	No Colour	Nil	Nil	Not for use

Non Specified Investments: In 2018 the Council invested in established Property Funds run by external fund managers. These funds are longer term investments (typically 2-5 years) and give potentially higher returns than more liquid investment categories. Investments totaling £5m have been made in Property Funds, these investments will form part of the £30m limit for investments of over 365 days duration.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, a review of the accounting implications of new transactions will be carried prior to any investment decision.

5.1 APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service. (No changes)

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar
- **U.K.**

List of Approved Brokers for Investments

The list below represents approved brokers that the Council will use to facilitate its investment strategy when necessary;

King and Shaxson

Tradition (UK) Ltd

RP Martin

Link Asset Services Agency Treasury Service

Tullet Prebon (New)

APPENDIX BB (6)

Current Investments as at 5th January 2023 (for information only).

For illustrative purposes only the Council's investments as at 5th January 2023 are set out below. Please note that these investments alter on a daily basis.

Institution	**Colour**	**Maximum Time Limit**	**Invest Limit £m**	**Amount Invested £m**	**Interest Rate**	**Start Date**	**Maturity Date**
Lloyds Bank Corporate Markets	Red	6 months	£8,000	£3,000	2.43%	25/07/2022	24/01/2023
Close Brothers	Red	6 months	£8,000	£2,000	2.00%	29/07/2022	27/01/2023
Goldman Sachs International Bank	Red	6 months	£8,000	£4,000	4.18%	03/10/2022	03/04/2023
SMBC Bank International	Red	6 months	£8,000	£3,000	4.27%	13/10/2022	13/04/2023
HSBC	Orange	12 months	£18,000	£5,000	3.29%	07/11/2022	06/02/2023
Standard Chartered Bank - Sustainable Deposit	Red	6 months	£8,000	£5,000	3.62%	07/11/2022	13/03/2023
Standard Chartered Bank - Sustainable Deposit	Red	6 months	£8,000	£3,000	3.89%	14/11/2022	12/05/2023
HSBC	Orange	12 months	£18,000	£4,500	3.48%	15/11/2022	13/03/2023
National Bank of Canada	Red	6 months	£8,000	£3,000	4.22%	30/11/2022	30/05/2023
Landesbank Hessen Thueringen Girozentrale	Orange	12 months	£8,000	£5,000	4.47%	30/11/2022	30/11/2023
Oversea-Chinese Banking Corporation	Orange	12 months	£8,000	£5,000	4.35%	08/12/2022	08/09/2023
SMBC Bank International	Red	6 months	£8,000	£3,000	3.74%	08/12/2022	20/03/2023
Bayerische Landesbank	Red	6 months	£8,000	£5,000	4.14%	05/01/2023	05/07/2023
Money Market Funds	AAA Rated	1 Day Notice	£30,000	£12,920	3.30%		
Property Funds	N/A	20 Years	£5,000	£5,000	1.70%*		
TOTAL INVESTMENTS				**£68,420**			

*As at 30/09/2022

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Council

- receiving and reviewing reports on treasury management policies, practices and activities.
- approval of annual strategy.

(ii) Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy
- statement and treasury management practices.
- budget consideration and approval.
- approval of the division of responsibilities.
- receiving and reviewing monitoring reports and acting on recommendations.

(iii) Audit Committee/Overview Scrutiny Board

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- reviewing treasury management quarterly update reports and making recommendations to the responsible body.

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports.
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Council
- ensure that the authority has appropriate legal powers to undertake expenditure on non- financial assets and their financing
- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above