CABINET

This meeting will be recorded and the sound recording subsequently made available via the Council's website.

Please also note that under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, other people may film, record, tweet or blog from this meeting. The use of any images or sound recordings is not under the Council's control.

To: Councillors Bailey, Barkley (Deputy Leader), Bokor, Harper-Davies, Mercer, Morgan (Leader), Poland, Rattray, Rollings and Smidowicz (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, 10th February 2022 at 6.00 pm for the following business.

Chief Executive

Southfields
Loughborough

28th January 2022

AGENDA

1. APOLOGIES

2. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

3. LEADER'S ANNOUNCEMENTS

4. MINUTES OF PREVIOUS MEETINGS 4 - 16

To approve the minutes of the following previous meetings: 9th December 2021 and 13th January 2022.

5. QUESTIONS UNDER CABINET PROCEDURE 10.7

The deadline for questions is noon on Wednesday, 2nd February 2022.

6. BUDGET SCRUTINY PANEL 17 - 44

A report of the Head of Strategic Support.

7. 2022-23 GENERAL FUND AND HRA REVENUE BUDGETS AND COUNCIL TAX AND MTFS 2022-25 45 - 102

A report of the Head of Financial Services.

Key Decision

8. CAPITAL STRATEGY, TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY AND ANNUAL INVESTMENT STRATEGY 2022-23 103 - 168

A report of the Head of Financial Services.

Key Decision

9. NEW CAPITAL PLAN (2022-23 TO 2024-25) 169 - 181

A report of the Head of Financial Services.

Key Decision

10. CAPITAL PLAN AMENDMENT REPORT 182 - 190

A report of the Head of Financial Services.

Key Decision

11. HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN 2021-2052 AND ASSET MANAGEMENT STRATEGY FRAMEWORK 191 - 247

A report of the Head of Landlord Services.

Key Decision

12. LOUGHBOROUGH TOWN DEAL 248 - 266

A report of the Head of Planning and Regeneration.

Key Decision

13. SOLAR FARM - FEASIBILITY 267 - 270

A report of the Strategic Director; Commercial Development, Assets and Leisure.

Key Decision

14. RIPA (REGULATION OF INVESTIGATORY POWERS ACT) POLICY 271 - 293

A report of the Head of Strategic Support.

CABINET
9TH DECEMBER 2021

PRESENT: The Leader (Councillor Morgan)
The Deputy Leader (Councillor Barkley)
Councillors Bailey, Harper-Davies, Poland and Rattray

Chief Executive
Strategic Director; Environmental and Corporate Services
Head of Strategic Support
Strategic Director; Commercial Development, Assets and Leisure
Head of Financial Services
Head of Planning and Regeneration
Team Leader Planning Enforcement
Democratic Services Manager
Democratic Services Officer (LS)

APOLOGIES: Councillors Bokor, Mercer, Rollings and Smidowicz attended this meeting virtually, see notes at end of minutes.

The Leader stated that this meeting would be recorded and the sound recording subsequently made available via the Council's website. He also advised that, under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

54. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

The following disclosures were made:

(i) by Councillor Barkley – a personal interest in item 9 on the agenda (Capital Plan Amendment Report) in respect of DD146 2021 £25k Syston Memorial Park Sports Pavilion, as a member of Syston Town Council.
(ii) by Councillors Barkley, Morgan and Poland – interests in item 13 on the agenda (Leicestershire Waste and Recycling Strategy – Approval of Draft Strategy for Public Consultation), as members of Leicestershire County Council.

55. LEADER'S ANNOUNCEMENTS

Derek Smith

The Leader referred to the death of Derek Smith, an employee of the Council's Housing Repairs Team. It was sad news and thoughts were with Derek's family and friends at this time. The Cabinet had a quiet moment of pause and reflection before continuing.

56. MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 18th November 2021 were confirmed as a correct record and signed.

57. QUESTIONS UNDER CABINET PROCEDURE 10.7

No questions had been submitted.

58. MOTION ON NOTICE - TOWARDS CARBON NEUTRALITY IN CHARNWOOD

Considered, a report of the Chief Executive in respect of a motion “Towards Carbon Neutrality in Charnwood” referred by Council to Cabinet on 8th November 2021 (elements that related to executive responsibilities) (item 6 on the agenda filed with these minutes).

Councillor Ward, having submitted the motion, had stated that she did not wish to attend to address the Cabinet.

The Chief Executive and the Monitoring Officer assisted with consideration of the report.

The Chief Executive and the Cabinet Lead Member Transformation noted a suggestion regarding a mechanism for staff to put forward ideas to reduce the Council’s carbon footprint and the benefits that might bring. They would consider how that might be done/added to existing arrangements.

RESOLVED

1. that Cabinet does not support recommendation A for the following reason:

   The Council has a part time member of staff focused on sustainability and carbon neutrality, and there is a budget proposal to make this a full-time role. Officers from across the Council are also engaged in activities to help achieve carbon neutrality and to tackle climate change;

2. that Cabinet does not support recommendation B for the following reason:

   The Carbon Neutral Project Board is not a formally constituted body but despite this, three councillors sit on it, including the Lead Member for Transformation, the Deputy Leader and also our Climate Change Champion who represents the Green Party;

3. that Cabinet does not support recommendation C for the following reason:

   Staff training is a matter for the Head of Paid Service. Relevant training is provided to staff as and when necessary;

4. that Cabinet does not support recommendation D for the following reason:

   The Carbon Neutral Project Board is already responsible for the delivery of the Council's motion on Climate Change passed on the 24 June 2019, of which the 5th paragraph obliges the Council to work with residents, businesses and public bodies across the borough and region. Our Carbon Neutral Plan will contain commitments for the Council to act as leaders in our community on climate change issues.

Members of the Cabinet attending virtually confirmed that they would have all voted in favour of the above decision had they been physically present at the meeting and able to do so.

59. DRAFT GENERAL FUND AND HRA 2022-23 BUDGETS

Considered, a report of the Head of Financial Services setting out the projected base budget position for 2022/23 including the savings and growth proposals put forward for the year and providing the basis for the budget consultation (item 7 on the agenda filed with these minutes).

The Strategic Director; Environmental and Corporate Services and the Head of Financial Services assisted with consideration of the report.

Officers were thanked for their work in respect of preparing the draft budgets in challenging times financially. It was noted that the prudent approach of the Council over recent years had assisted it in now facing those challenges.

RESOLVED

1. that the Cabinet endorses for consultation the draft General Fund and HRA Revenue Budgets for 2022/23 as set out in Tables 1 and 2 in the report;

2. that the Cabinet endorses for consultation the Loughborough Special Expense Budget and Levy for 2022/23 as set out in Appendix 3 to the report.

Reason

1.&2. To provide the opportunity for consultation on the General Fund and HRA budgets for the 2022/23 financial year.

Members of the Cabinet attending virtually confirmed that they would have all voted in favour of the above decision had they been physically present at the meeting and able to do so.

60. DRAFT CAPITAL PLAN (2022-23 TO 2024-25)

Considered, a report of the Head of Financial Services setting out the draft Capital Plan 2022/23 to 2024/25 together with possible sources of funding prior to beginning a period of consultation (item 8 on the agenda filed with these minutes).

The Strategic Director; Environmental and Corporate Services and the Head of Financial Services assisted with consideration of the report.

RESOLVED that Cabinet endorses for consultation the draft Capital Plan for 2022/23 to 2024/25 for the recommended General Fund and HRA schemes in Appendix 1 to the report.

Reason

To enable consultation on the draft Capital Plan, so that it can become the basis for capital spending by the Council.

Members of the Cabinet attending virtually confirmed that they would have all voted in favour of the above decision had they been physically present at the meeting and able to do so.

61. CAPITAL PLAN AMENDMENT REPORT

Considered, a report of the Head of Financial Services setting out proposed changes to the 2021/22 - 2022/23 Capital Plan and its financing (item 9 on the agenda filed with these minutes).

The Head of Financial Services assisted with consideration of the report.

RESOLVED

1. that the current Capital Plan for 2021/22 - 2022/23, as amended by the changes shown in Appendix 1 to the report, in the budgeted sum of £61,491,600 be approved;

2. that £5.9k be vired in 2021/22 from Meeting Rooms Presentation Screens to Hybrid Council Meeting – Camera and Audio Equipment for new equipment;

3. that budget be increased for Northgate System – Single Use System by £15k in 2021/22 due to increased scheme costs to be funded from Revenue Contribution to Capital (RCCO) in 2021/22;

4. that the increase be noted in the Bedford Square Gateway project budgets, in total by £1,843.4k, over 3 years, funded by Town Deal funding, other external funding and capital receipts, in line with the Urgent Delegated Decision 182 2021 on 15th October 2021;

5. that the Capital Amendment Report 16th Sept 2021 be corrected, The Outwoods Country Park – Visitor Centre and Café to add back £50k in 2021/22, as this had already been taken out in the outturn report;

6. that a new capital scheme is added to the Capital Plan in 2021/22, Legal Case Management System for £30k, to be funded from capital receipts;

7. that the Regeneration Project scheme be reduced by £145.4k to release funding back into the Capital Plan Reserve as this is currently not required, currently there is £15m Commitment for borrowing on this scheme;

8. that additional decisions, taken by Officers, be noted in relation to new S106 schemes added to the Capital Programme also included in Appendix 1 to the report;

9. that amendments be noted to the Capital Programme since 16th September 2021 Minute 29.

Reasons

1. To enable the current Capital Plan to be the basis for capital spending by the Council and so that schemes may proceed.

2. To enable the Hybrid Council Meeting Camera & Audio Equipment budget to be available in 2021/22.

3. To confirm that the Northgate – Single Use System scheme be increased which is funded by revenue contributions.

4. To reflect the Urgent Decision in respect of the Bedford Square Gateway scheme and subsequent reporting to Council at the meeting of 8th November 2021.

5. To confirm the Outwoods Country Park – Visitor Centre and Café be amended.

6. To enable the Legal Case Management scheme budget to be available in 2021/22.

7. To reduce the scheme budget in 2021/22, to replenish the Capital Plan Reserve, as the Regeneration budget is set at £15m Borrowing.

8. To note the new Capital Schemes as part of S106 Agreements implemented by Officer for 3rd Parties.

9. To note amendments to the Capital Programme since Cabinet 16th September 2021 Minute 29.

Members of the Cabinet attending virtually confirmed that they would have all voted in favour of the above decision had they been physically present at the meeting and able to do so.

62. AMENDMENTS TO ANNUAL PROCUREMENT PLAN

Considered, a report of the Strategic Director; Commercial Development, Assets and Leisure setting out proposed updates to the Annual Procurement Plan 2021/22 (item 10 on the agenda filed with these minutes).

The Strategic Director; Commercial Development, Assets and Leisure assisted with consideration of the report.

RESOLVED

1. that the contracts, over £25,000 and up to £75,000, listed in Appendix A to the report, be let in accordance with Contract Procedure Rules;

2. that the contracts, over £75,001 and up to £500,000, listed in Appendix B to the report, be let in accordance with Contract Procedure Rules.

Reason

1.& 2. To allow contracts of the Council to be let in accordance with Contract Procedure Rules.

Members of the Cabinet attending virtually confirmed that they would have all voted in favour of the above decision had they been physically present at the meeting and able to do so.

63. MAKE THE WOODHOUSE PARISH AND THE REARSBY NEIGHBOURHOOD PLANS

Considered, a report of the Head of Planning and Regeneration seeking approval for the Woodhouse Parish Neighbourhood Plan and the Rearsby Neighbourhood Plan to be 'made' as part of the statutory development plan for their respective Neighbourhood Areas (item 11 on the agenda filed with these minutes).

The Head of Planning and Regeneration assisted with consideration of the report.

The Cabinet was aware of the considerable and lengthy work local communities needed to undertake to produce neighbourhood plans and wished to recognise that and congratulate all those involved.

RESOLVED

1. that the Woodhouse Parish Neighbourhood Plan is 'made' to confirm their status as part of the statutory development plan for Charnwood, in accordance with the provisions of Section 38(A) (4) of the Planning and Compulsory Purchase Act 2004;

2. that the Rearsby Neighbourhood Plan is 'made' to confirm their status as part of the statutory development plan for Charnwood, in accordance with the provisions of Section 38(A) (4) of the Planning and Compulsory Purchase Act 2004;

3. that any minor amendments to the Woodhouse Parish Neighbourhood Plan and the Rearsby Neighbourhood Plan can be made under delegated authority by the Head of Planning and Regeneration.

Reasons

1. To fulfil the legal duty to make the Woodhouse Parish Neighbourhood Plan part of the development plan for Charnwood.

2. To fulfil the legal duty to make the Rearsby Neighbourhood Plan part of the development plan for Charnwood.

3. To enable minor amendments such as typographical errors or factual corrections to be made efficiently.

Members of the Cabinet attending virtually confirmed that they would have all voted in favour of the above decision had they been physically present at the meeting and able to do so.

64. REGULATION 7 DIRECTION STORER ROAD CONSERVATION AREA, LOUGHBOROUGH - APPLICATION FOR RENEWAL

Considered, a report of the Head of Planning and Regeneration seeking approval to apply to the Secretary of State for a renewal of a Direction to be made under Regulation 7 of the Town and Country Planning Act (Control of Advertisements) (England) Regulations 2007, to control the display of estate agents' letting boards within the Storer Road area, Loughborough (item 12 on the agenda filed with these minutes).

The Head of Planning and Regeneration and the Team Leader Planning Enforcement assisted with consideration of the report.

The Leader noted a concern from Councillor Smidowicz regarding ways in which some landlords were avoiding the requirement to remove letting boards within the timescale required. They would consider whether a representation to the Government in respect of the matter would be appropriate.

RESOLVED

1. that the renewing of the Direction under Regulation 7 of the Town and Country Planning (Control of Advertisements) (England) Regulations 2007, to control the display of 'To Let' advertisements in the Storer Road area of Loughborough, be approved in principle for submission to the Secretary of State for final approval;

2. that, subject to the Secretary of State's approval, the Strategic Director; Environmental and Corporate Services and the Strategic Director; Community, Planning and Housing be authorised to take all necessary steps in order for the Direction to take effect and to operate in the designated area, within the same approved policy guidelines and other terms of reference applied in the current Direction up for renewal.

Reasons

1. To provide a sound basis for the future management of the impact of estate agents' letting boards on the area and preventing the visual clutter caused by the

proliferation of estate agent letting boards for a further five years. It is clear that the Regulation 7 Direction has been effective in improving the visual amenity and character of the area since 2004.

2. To ensure that the benefits of the Direction are realised and to continue the positive impact on the ability of the Council and local landlords and agents in applying the voluntary code in the wider area.

Members of the Cabinet attending virtually confirmed that they would have all voted in favour of the above decision had they been physically present at the meeting and able to do so.

65. LEICESTERSHIRE WASTE AND RECYCLING STRATEGY - APPROVAL OF DRAFT STRATEGY FOR PUBLIC CONSULTATION

Considered, a report of the Head of Cleansing and Open Spaces to agree the approach to the public consultation for the review of the Leicestershire Municipal Waste Management Strategy (item 13 on the agenda filed with these minutes).

The Strategic Director; Environmental and Corporate Services assisted with consideration of the report.

RESOLVED

1. that the approach to the consultation is approved;

2. that delegated authority is given to the Cabinet Lead Member for Community Support and Equalities to sign off of the documents that accompany the public consultation, these being the draft headline strategy, the draft options appraisal report and the draft environmental report.

Reasons

1. To ensure that the joint consultation can go ahead within the agreed timescales.

2. To ensure that the content of the consultation documents has been agreed.

Members of the Cabinet attending virtually confirmed that they would have all voted in favour of the above decision had they been physically present at the meeting and able to do so.

66. URGENT DECISION TAKEN - EXTENSION OF FREE PARKING

Considered, a report of the Chief Executive setting out an action taken by the Chief Executive under urgency provisions (item 14 on the agenda filed with these minutes).

RESOLVED that the action taken be the Chief Executive under urgency provisions, as set out in the report, be noted.

Members of the Cabinet attending virtually confirmed that they would have all been content to note the above action had they been physically present at the meeting and able to do so.

NOTES:

1. Councillors Bokor, Mercer, Rollings and Smidowicz attended this meeting virtually. This was to limit the members of Cabinet in the meeting room to quorum only given the position with Covid 19. Decisions were taken only by Cabinet members physically present at the meeting.

2. The following officers listed as present attended this meeting virtually: Chief Executive, Strategic Director; Commercial Development, Assets and Leisure, Head of Strategic Support, Head of Financial Services, Head of Planning and Regeneration, Team Leader Planning Enforcement. The remainder of officers listed were physically present at the meeting.

3. The Democratic Services Manager was present at this meeting also in her role as Deputy Monitoring Officer.

4. The decisions in these minutes not in the form of recommendations to Council will come into effect at noon on Friday, 17th December 2021 unless called in under Scrutiny Committee Procedure Rule 11.7. Decisions in the form of recommendations to Council are not subject to call in.

5. No reference may be made to these minutes at the next available Ordinary Council meeting unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on Friday, 17th December 2021.

6. These minutes are subject to confirmation as a correct record at the next meeting of the Cabinet.

INFORMAL CABINET
13TH JANUARY 2022

PRESENT: The Leader (Councillor Morgan)
The Deputy Leader (Councillor Barkley)
Councillors Bailey, Bokor, Harper-Davies, Mercer, Poland, Rattray, Rollings and Smidowicz

Councillor Seaton

Chief Executive
Strategic Director; Environmental and Corporate Services
Democratic Services Manager
Strategic Director; Commercial Development, Assets and Leisure
Head of Leisure and Culture
Neighbourhoods and Partnerships Manager
Leisure Contract and Business Manager
Democratic Services Officer (LS)

APOLOGIES: None

The Leader stated that this **informal** meeting would be livestreamed and recorded, and the recording subsequently made available via the Council's website. He also advised that, under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

67. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

The following disclosures were made (all in respect of item 6 on the agenda – Charnwood Grants – Strategic Partners 2022-23 – 2023-24):

(i) by Councillor Poland – an interest as a Council nominee to Charnwood Equality Action. He would leave the meeting during consideration of the item.
(ii) by Councillor Bokor – an interest as the Council nominee to John Storer Foundation Management Committee. She would leave the meeting during consideration of the item.
(iii) by Councillor Barkley – a personal interest in respect of partner Syston Volunteer Centre, as ward councillor, he had no involvement with the organisation.

68. LEADER'S ANNOUNCEMENTS

No announcements were made.

69. MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 9th December 2021 would be submitted to the next formal meeting of the Cabinet for confirmation as a correct record.

70. QUESTIONS UNDER CABINET PROCEDURE 10.7

No questions had been submitted.

Having declared interests, Councillors Bokor and Poland left the meeting during the consideration of the following item.

71. CHARNWOOD GRANTS - STRATEGIC PARTNERS 2022-23 - 2023-24

Considered, a report of the Head of Neighbourhood Services setting out proposals for Strategic Partner Grant Scheme funding for 2022/23 and 2023/24 (item 6 on the agenda filed with these minutes).

Councillor Seaton, Chair of the Scrutiny Commission, presented a report setting out the Commission's pre-decision scrutiny of the matter and recommendation (copy filed with these minutes).

The Neighbourhoods and Partnerships Manager assisted with consideration of the report.

RESOLVED that the following **be recommended to the Leader** for his decision:

1. that the following Strategic Partner Grants be approved, subject to budget approval:

Organisation	Amount Awarded 2022/23 (Year 1)	Provisional Amount 2023/24 (Year 2)
Citizens Advice Charnwood	£86,705	£86,705
Equality Action	£20,454	£20,454
Fearon Hall Community Association	£29,727	£29,727
Gorse Covert Community Association	£19,922	£19,922
John Storer Charnwood	£84,490	£84,490
Shepshed Volunteer Centre (John Storer Charnwood)	£9,537	£9,537
Living Without Abuse	£17,513	£17,513
Syston Volunteer Centre	see resolution 2 below	see resolution 2 below

2. that a Strategic Partner Grant of £9,537 for 2022/23 provisional amount be awarded in principle to Syston Volunteer Centre, subject to it continuing to work with the Council and receipt of evidence demonstrating that it has revisited its business plan and is moving towards further community engagement/ volunteering activities by the end of March 2022, and that the Head of Neighbourhood Services be given delegated authority, in consultation with the Cabinet Lead Member, to determine the most appropriate way forward, including the reallocation of funding to other Strategic Partners if Syston Volunteer Centre is not able to meet those conditions;

3. that the Head of Neighbourhood Services be given delegated authority to finalise the terms and conditions of the Strategic Partner Grants awarded and Service Level Agreements;

4. that it be noted that Clockwise Credit Union did not apply for a Strategic Partner Grant for 2022/23 – 2023/24 and that the amounts set out in recommendations 1 and 2 in the report include the redistribution of the £7,883 that Clockwise Credit Union were invited to apply for between the remaining Strategic Partners;

5. that the report of the Scrutiny Commission be noted.

<u>Reasons</u>

1. To provide appropriate levels of financial support to those organisations that have submitted applications and been assessed as meeting the criteria for the Strategic Partner Grant Scheme.

2. To ensure that the organisation is developing and progressing before any funding is awarded.

3. To enable the grants awarded to be finalised with an approved Service Level Agreement and appropriate information to be supplied to the Council about the outcomes of the projects/services and determine final grant award amounts.

4. To clarify the way in which the funding previously provided to Clockwise Credit Union will be used.

5. To acknowledge the work undertaken by and the views of the Scrutiny Commission.

Councillors Bokor and Poland returned to the meeting.

72. <u>EXEMPT INFORMATION</u>

RESOLVED that members of the public be excluded from the meeting during the consideration of the following item on the grounds that it would involve the likely disclosure of exempt information as defined in Paragraphs 3 and 5 of Part 1 of Schedule 12A to the Local Government Act 1972 and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

The Democratic Services Manager confirmed that the meeting was no longer being livestreamed.

73. LEISURE CENTRE CONTRACT EXTENSION

Considered, an exempt report of the Head of Leisure and Culture proposing a 5-year contract extension with Fusion-Lifestyle to allow the Council to take full advantage of capital investment from Fusion and a higher management fee than that which would be delivered through a 2-year extension of contract that was approved by Cabinet on 11th March 2021 (item 8 on the agenda filed with these minutes).

Councillor Seaton, Chair of the Scrutiny Commission, presented an exempt report setting out the Commission's pre-decision scrutiny of the matter and recommendation (copy filed with these minutes).

The Scrutiny Commission was thanked for its pre-decision scrutiny of reports to this meeting.

The Head of Leisure and Culture and the Leisure Contract and Business Manager assisted with consideration of the report.

RESOLVED that the following **be recommended to the Leader** for his decision:

1. that decisions be made as detailed in the exempt minute (Cabinet Minute 73E 2021/22);

2. that the exempt report of the Scrutiny Commission be noted.

Reasons

1. As set out in the exempt minute (Cabinet Minute 73E 2021/22).

2. To acknowledge the work undertaken by and the views of the Scrutiny Commission.

NOTES:

1. This meeting was informal for the purpose of recommending decisions to the Leader. A Leader's Decision dated 29th October 2021 delegated all Executive functions and decision making to the Leader for a period of three months in accordance with Section 9E of the Local Government Act 2000.

2. The Democratic Services Manager was present at this meeting also in her role as Deputy Monitoring Officer.

CABINET – 10TH FEBRUARY 2022

Report of the Head of Strategic Support
Lead Member: Cllr Barkley

Part A

ITEM 6 BUDGET SCRUTINY PANEL

Purpose of Report

To consider the recommendations of the Budget Scrutiny Panel following its scrutiny of the Council's draft budget for 2022/23.

Recommendation

To note the report and the observations set out within it.

Reason

To acknowledge the work undertaken by and the views of the Budget Scrutiny Panel and to note its observations.

Key Decision: No

Background Papers: None

Officer to contact: Ed Brown
Democratic Services Officer
(01509) 634 502
ed.brown@charnwood.gov.uk

Part B

Background

1. Following a decision of the Scrutiny Commission at its meeting on 13th September 2021, a Budget Scrutiny Panel has undertaken scrutiny of the Council's draft budget for 2022/23.

   No formal recommendations were made, however, it was noted that future meetings of the Panel would need to make recommendations based on what was discussed in terms of financial impact, savings and income with regard to the year's budget.

2. Further to this, the Panel wished to make the following observations in respect of future budgets and budget scrutiny:

   (i) Key risk areas include:
      a. The need to deliver on 2021/22 savings, including salary increases.
      b. Risks surrounding the final and future grant settlement figures,
      c. The impact of the environmental bill on garden waste collection
      d. The need to monitor commercial rents.
      e. Inflationary risks.
      f. Contractual cost risks.
      g. The impact of Omicron and the ongoing Covid-19 pandemic.
      h. Interest rates and the effects a rise in rates would have on the wider economy, particularly in terms of business rates and council tax collection. Whilst treasury management would give the Council more income, borrowing would cost the Council more.

   (ii) Whilst not having officers in their posts creates savings, it means that services are not being delivered.

   (iii) The Council needs to be mindful of the financial pressures faced by its residents.

3. The Scrutiny Commission considered the Panel's report at its meeting on 10th January 2022. It was noted that future meetings of the Panel would be required to recommend on financial impact, savings and income with regard to the year's budget. Some of the topics highlighted for consideration in the next cycle of Budget Scrutiny Panel meetings were void properties, garages and the scoping of car parks and charges.

4. The Scrutiny Commission approved the report of the Budget Scrutiny Panel for submission to the Cabinet at its meeting on 10th February 2022.

Annexes

Annex 1 Report of the Budget Scrutiny Panel, January 2022

SCRUTINY COMMISSION – 10TH JANUARY 2022

Report of the Budget Scrutiny Panel

ITEM BUDGET SCRUTINY PANEL REPORT

Purpose of the Report

To consider recommendations and observations of the Budget Scrutiny Panel.

Action Requested

That the Scrutiny Commission considers the Budget Scrutiny Panel report, attached as an Annex to this report, and, if satisfied, submit it to the Cabinet at its meeting on 10th February 2022.

Background

Following a decision of the Scrutiny Commission at its meeting on 13th September 2021, a Budget Scrutiny Panel has undertaken scrutiny of the Council's draft budget for 2022/23.

Background Papers:	None additional to any listed in the Budget Scrutiny Panel's report.
Officer to Contact:	Ed Brown Democratic Services Officer ed.brown@charnwood.gov.uk 01509 454 6343

REPORT OF THE BUDGET SCRUTINY PANEL – 2022/23 DRAFT BUDGET

Foreword by Councillor Miah, Chair of the Panel

It has been a tough year where staff and Councillors have worked well to keep the Council's finances resilient to ever increasing and changing demand.

1. Background

Following a decision of the Scrutiny Commission at its meeting on 13th September 2021, a Budget Scrutiny Panel has undertaken scrutiny of the Council's draft budget for 2022/23.

2. Panel Membership

Councillors Miah (Chair), Hamilton, Parsons, Parton and Seaton.

3. Meetings and Matters Considered

6th October 2021

At this meeting, the Panel considered:

- The Period 4 Monitoring Report, covering General Fund and HRA to the end of July 2021, Period 4.
- The MTFS Tracker – Review of the MTFS Position. Tracking the data on the Medium-Term Financial Strategy.
- The approach to budget setting for the financial year 2022/23.

8th December 2021

At this meeting, the Panel considered:

- The Revenue Monitoring Position (General Fund and HRA) – Period 7. Setting out the revenue position for the General Fund and HRA at the end of period 7.
- The draft 2022/23 General Fund and HRA budgets. Showing the projected base budget position for 2022/23 including the savings and growth proposals put forward for the year and provide the basis for the budget consultation.
- The Draft Capital Plan 2022/23 to 2024, also considering possible sources of funding and to begin a period of consultation.
- Views on the Government financial settlement.
- Possible Budget Scrutiny Panel recommendations.

5th January 2022

At this meeting, the Panel were presented with further information on the Government financial settlement as well as an update on the approaches to the final budget development. The Panel also agreed its report.

The detail of the discussion at the above meetings is set out in the minutes of those meetings, attached as **appendices** to this report.

4. Officers and Cabinet Lead Members

The Panel was assisted in its scrutiny of the Council's draft budget for 2022/23 by:

The Cabinet Lead Member for Finance and Property Services
The Strategic Director; Environmental and Corporate Services
The Head of Financial Services

5. Recommendations

No formal recommendations were made by the Panel. However, it was noted that future meetings of the panel would need to make recommendations based on what was discussed in terms of financial impact, savings and income with regard to the year's budget and put to the Scrutiny Commission to decide whether to pass them to Cabinet.

6. Observations

The Panel wishes to make the following observations in respect of future budgets and budget scrutiny:

(i) Key risk areas include:
  a. The need to deliver on 2021/22 savings, including salary increases.
  b. Risks surrounding the final and future grant settlement figures,
  c. The impact of the environmental bill on garden waste collection
  d. The need to monitor commercial rents.
  e. Inflationary risks.
  f. Contractual cost risks.
  g. The impact of Omicron and the ongoing Covid-19 pandemic.
  h. Interest rates and the effects a rise in rates would have on the wider economy, particularly in terms of business rates and council tax collection. Whilst treasury management would give the Council more income, borrowing would cost the Council more.

(ii) Whilst not having officers in their posts creates savings, it means that services are not being delivered.

(iii) The Council needs to be mindful of the financial pressures faced by its residents.

7. Background Papers

No further papers to those already identified in/appended to this report.

8. Appendices

Minutes of the meetings of the Budget Scrutiny Panel held on 6th October and 8th December 2021.

BUDGET SCRUTINY PANEL
6TH OCTOBER 2021

PRESENT: The Chair (Councillor Miah)
Councillors Bolton, Hamilton, Parsons, Parton and Seaton

Strategic Director
Head of Financial Services
Democratic Services Officer (NC)
Democratic Services Officer (EB)

Councillor Barkley - Cabinet Lead Member for Finance and Property Services

APOLOGIES: None

The Chair stated that the meeting would be recorded and the sound recording subsequently made available via the Council's website. He also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

24. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

No disclosures were made.

25. DECLARATIONS - THE PARTY WHIP

No declarations were made.

26. QUESTIONS UNDER SCRUTINY COMMITTEE PROCEDURE 11.17

No questions had been submitted.

27. PERIOD 4 MONITORING REPORT

The Head of Financial Services presented a report covering General Fund and HRA to the end of July 2021, Period 4. (Item 5 on the agenda filed with these minutes).

Assisting with the consideration of the presentation: The Cabinet Lead Member for Finance and Property Services and the Strategic Director.

Summary, key points of discussion:

- In Period 4, the actual spend was £6.73million which meant a £7k underspend against the profiled budget of £6.737million. The General Fund managed vacancy saving annual target was £527.7k. There had been a small shortfall of 32k in savings recovered.

- Financial pressures were highlighted including Planning related pressured that had been discussed with the Senior Leadership Team (SLT) and a projected shortfall of 107k in car park fee income. To mitigate some income losses were put in a claim to the DCLG for Quarter 1 of £275k, however, it was clarified that claims could only be made for Quarter 1 as part of the government initiative. It was added that staff working from home had saved the Council some expenditure and that there had been some income from the Vaccination Centre. The Council were looking to reserve funds for shortfalls in the future.
- The Housing Revenue Account (HRA) had an underspend of £81k. Some void rents were currently falling behind profile and voids were in a shortfall position and garages were not hitting targets.
- A 30-year HRA business plan was being considered and would be coming forward in the autumn.
- In relation to concerns about the fluctuations in costs that made up the £7k shortfall, it was noted that budgets were set as closely as possible. The Covid-19 pandemic had affected income streams such as Car Park fees, however, some decisions had been made to try and encourage people back to town centres which would have an effect on the budget. Local transport costs had been incurred since the budget had been set. It was further added that there had been unexpected costs such as the £100k overspend forecast for Planning and this may not have been seen at the beginning of the year. Currently the budget setting for the 2022/23 financial year was underspent, but issues were being highlighted going forward. It was added that resilience was fairly robust.
- The car allowance saving scheme had a potential shortfall of £200k as an estimate. This figure had been developed over time and proposals would be going to a Trade Union meeting which would potentially save approximately £100k per annum. In terms of implementation it was hoped that the proposals would go to Personnel Committee before the end of 2021 and a three-month implementation period would follow with proposals coming into effect from 1st April 2022. It was clarified that no savings were expected this year but subsequently there would be around £100k of savings per annum thereafter.
- It was clarified that 'Commitments' were orders placed on the system and captured Period 4 contract expenditure not yet paid. A breakdown of spending and commitments would be put in reports going forward.
- A virement policy existed and Heads of Service could follow virement policy rules. Budgets were closely examined for the new financial year with patterns of overspends and underspends. The largest amounts had been flagged up.
- The one-off £50k Brexit grant had been allocated to the Council prior to the Brexit deal being finalised. There was no particular plan for this money at this stage and the money was not ringfenced.
- Many of the postings to accounting ledgers happened automatically each month. These figures were examined and then issues such as commitments were calculated, views were then sought from Heads of Service and the SLT. Certain factors and decisions such as car parking were not budgeted for at this stage, however, a detailed exercise would take place for Period 7. A view needed to be taken on car parking income and to what extent it would return to pre-Covid levels.
- It was clarified that the issues discussed were more of a finance function than a legal function and as such the involvement of the legal team was minimal. It was further clarified that performance issues on housing, particularly voids,

were a matter for Landlord Services and the relevant Director and Head of Services were working on it.

- In terms of financial pressures for the rest of the financial year, there were £658k in potential pressures, with £275k from the DCLG this figure was reduced to £383k and with the estimated Essential Car User allowance of £100k this figure was further reduced to £183k. With the estimate overspend of £100k on Planning this was brought down to £83k. This was seen as a realistic projection up until March 2022 and members of the Panel would be kept informed.
- Rent arrears had decreased since July 2020 and former tenant arears had also decreased. However, there were concerns going forward that tenants may struggle to pay rent as Universal Credit was being reduced by £20 per week and the furlough scheme was coming to an end. It was noted that this didn't affect those on Housing benefit. So far Council Tax arrears had not been affected, however, factors may affect them in future. Going forward the situation would become more refined.
- Concern was raised about sums of money in Planning where there was an overspend or no income. It was clarified that officers were asked for information as part of budget monitoring and a £100k overspend on Local Plan transport costs had been reported as part of this and this money had been committed, however the figure was not yet in the ledgers. In terms of the end-of-year forecast, Leicestershire County Council had required money for additional highways monitoring.
- In terms of clarity over how much money had been spent and how much was committed, there was a £7k underspend up to Period 4, however, £100k of costs had been added on to that projection. The £100k was the figure that Heads of Services had brought to SLT and was committed to be spent.
- It was clarified that the comparisons on rent arrears between 2020/21 and 2021/22 were taken at a point in time at the end of Period 4 and as such were a year-on-year comparison for Period 4.
- It was clarified that performance issues on voids were being scrutinised by the Finance and Performance Scrutiny Committee and were also examined by the Housing Management Advisory Board, although the latter was not a decision-making meeting.
- It was requested that headings be updated on the Period 7 to show how the £100k for Planning had been used.

The Cabinet Lead Member for Finance and Property Services stressed that the figures were intended to make the Panel aware of what could come forward in the financial year. The table showed what was included in the budget to date whether spent or not. The report had tried to show a summary of what had contributed to the underspend. He further clarified that if the £100k committed to Planning had not been included, then the underspend would have been shown at £100k more when it was known that this money would be spent.

RESOLVED

1. that the Report be noted.

2. that the subsequent Period 7 Monitoring Report would be clarified with a breakdown of commitments and expenditure.
3. that the subsequent Period 7 Monitoring Report would be clarified to show the distinction for income due and income received in the HRA.
4. that the subsequent Period 7 Monitoring Report have updated headings to show how the £100k for Planning had been used.

Reason

1. To acknowledge the Panel's consideration of the matter.
2. To clarify to the Panel what was committed to be spent and what had actually been spent.
3. To clarify to the Panel the income actually received by the HRA.
4. To provide the Panel with information about how committed money was being spent.

28. MTFS TRACKER - REVIEW OF MTFS POSITION

The Strategic Director submitted a report tracking the data on the Medium Term Financial Strategy. (Item 6 on the agenda filed with these minutes).

Assisting with the consideration of the presentation: The Cabinet Lead Member for Finance and Property Services and the Head of Finance Services.

Summary, key points of discussion:

- Historically, the Medium-Term Financial Strategy (MTFS) had been updated in the autumn with a view to informing budget setting, however, due to uncertainties surrounding the settlement it had been thought best to update the MTFS in March in common with most other authorities. As a result, the meeting looked at an updated version of the previous MTFS
- The figures from March had been used in terms of projections, following which the figures were examined in terms of performance against savings targets. Key differences had been found, particularly with regard to the essential car user figures.
- In terms of savings and progress against the budget the Council were £214k down, in terms of pressures the Council were £307k down.
- It was predicted that the Local Plan would have an adverse impact in terms of the Transport Plan amongst other costs.
- £1million worth of savings were being targeted in options developed terms of Options to Change. Accommodation had been particularly placemarked for savings.
- In the current financial year, more government funding in terms of Council Tax support had been received, and this income had been reflected on the report presented.
- There had been a revised use of reserve projections and savings were needed to be inputted to bridge the gap.
- The outturn had been examined and the outcome had been more favourable than projected. The MTFS had been based on an iterim budget which had been negative due to the impacts of Covid-19. However, some lines of income

had held up better than predicted and Covid-support from the government had left the Council £2million better-off. Additionally, the Business Rate retention had meant that the Council could settle and finalise the position on the Enterprise Zone.

- Whilst expenditure outlook had been negative, use of reserves had been positive and savings and additional income were being sought to close the gap. Figures would change based on what was agreed.
- In terms of risks, the New Homes Bonus Scheme was finishing, and as such was on ‘legacy payment’. £3million had been received from it in this financial year, however, only £998k was due next financial year and nothing the year after that. Whilst it was thought unlikely than no further government funding would be received to help bridge the gap, such a scenario was not impossible and as such needed to be planned for. If more needed to be saved as time progressed, the situation would become more difficult, as such a funding risk existed. A further risk was the Environment Bill, risks from it included the possibility of the Council having to pay for garden waste collections, food waste collections and changes to recycling. Currently the Council generated £4.3million from garden waste collections, if they were required to do them for free this income would be lost. It was not yet known if the bill would pass and what amendments would be made if it did. The Local Government Association (LGA) was lobbying ministers about the impact it would have on local government. It was thought that government funding may be given to help cover the costs of the effects of the bill on Local Authorities, but it may not cover all costs. Another risk was subsidy loss in supported living run by charities.
- Three scenarios were being examined and planned for in terms of use of reserves: 1, Assuming positive factors only. 2, Assuming all factors in the report. 3, Assuming negative factors only. If assuming negative factors only, £6.5million in reserves would need to be used in the 2023/24 financial year. It was stressed that the worst outcome was unlikely but not impossible.
- Based on receiving government funding and the Environment Bill being benign, the approach was to identify £1million+ worth of savings and to review once it was known what the settlement was so that the Council could remain comfortable on budget.
- In the worst case scenario, the Council would still be sustainable, but only able to provide basic services.

The Cabinet Lead Member for Finance and Property Services clarified that all possible scenarios were being shown, but it was not yet known what government funding would be available until December. A series of options were being worked on so that action to reduce expenditure by the amounts necessary could be taken. There was a need to avoid being in deficit and management action would be taken to avoid it.

In response to a question from Councillor Parsons, The Cabinet Lead Member for Finance and Property Services added that a list of priorities for cuts matching the risk scenarios would be drawn up in time for the settlement in December.

RESOLVED

1. that the Report be noted.

2. That a Report be presented at the meeting of the Budget Scrutiny Panel on 8th December 2021 providing the Panel with information on the settlement.

Reason

1. To acknowledge the Panel's consideration of the matter.
2. So that the Panel could be provided with the context to make informed recommendations based on the settlement.

29. APPROACH TO BUDGET SETTING FOR 2022/23 (VERBAL UPDATE)

The Strategic Director presented a verbal report outlining the approaches to setting the budget for the 2022/23 financial year. (Item 7 on the agenda filed with these minutes).

Assisting with the consideration of the presentation: The Cabinet Lead Member for Finance and Property Services and the Head of Finance Services.

Summary, key points of discussion:

- Officers had prepared a list of proposals for savings. If the list did not prove sufficient in terms of total savings there were other lists under development.
- The Council currently tried to preserve services in the way they operated.
- The list would not be decided upon until the settlement was known.
- The consideration of actions was a work in progress and would take most of the next five months.

RESOLVED that the Report be noted.

Reason

To acknowledge the Panel's consideration of the matter.

NOTES:

1. No reference may be made to these minutes at the next meeting of the Full Council unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.

2. These minutes are subject to confirmation as a correct record at the next meeting of the Budget Scrutiny Panel.

BUDGET SCRUTINY PANEL
8TH DECEMBER 2021

PRESENT: The Chair (Councillor Miah)
Councillors Hamilton, Parsons, Parton and Seaton

Strategic Director
Head of Financial Services
Democratic Services Officer (SW)
Democratic Services Officer (EB)

Councillor Barkley - Cabinet Lead Member for Finance and Property Service

APOLOGIES: None

The Chair stated that the meeting would be recorded and the sound recording subsequently made available via the Council's website. He also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

30. MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting of the Panel held on 6th October 2021 were confirmed as a correct record.

31. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

No disclosures were made.

32. DECLARATIONS - THE PARTY WHIP

No declarations were made.

33. QUESTIONS UNDER SCRUTINY COMMITTEE PROCEDURE 11.17

No questions had been submitted.

34. REVENUE MONITORING POSITION (GENERAL FUND AND HRA) PERIOD 7

A report of the Head of Financial Services setting out the revenue position for the General Fund and HRA at the end of period 7 was considered (item 6 on the agenda).

Assisting with consideration of the report: Lead Member for Finance and Property Services, Strategic Director, Environmental and Corporate Services, Head of Financial Services.

Summary, key points of discussion:

- The actual spend was £10,807,000 against a budget of £10,907,000 – giving an underspend of £100k. This included a major underspend of £97k regarding salaries, expenditure and other income shortfalls associated with the Town Hall. Depending on the success of shows at the Town Hall, the income would not be known until Period 9. Some schools had been cancelling attendance at pantomime shows due to Covid-19 concerns and this may affect income.
- The managed vacancy savings profile budget was £295k with an actual saving of £381k. The Council were £86k ahead of Target in Period 7 and this was reflected in the outturn forecast.
- The current year-end forecast was a £260k overspend in addition to the £847 use of budgeted reserves for the year, this was looking to be mitigated.
- £276k had been claimed back for DCLG compensation and this was included in the £260k overspend.
- The Loughborough Special Account had a projected year end £12k underspend.
- The Housing Revenue Account (HRA) had a net overspend of £53k primarily due to income losses. However, this was mitigated by a salary underspend.

The Chair thanked the Head of Finance for including the Period Spend to date and making the figures clear.

RESOLVED to note the report

Reason

Members were satisfied with its reflection on the General Fund and HRA monitoring.

35. DRAFT 2022/23 GENERAL FUND AND HRA BUDGETS

A report of the Head of Finance advising members of the projected base budget position for 2022/23 including the savings and growth proposals put forward for the year and provide the basis for the budget consultation was submitted (item 7 on the agenda).

Assisting with consideration of the report: Lead Member of Finance and Property Services, Strategic Director, Environmental and Corporate Services and Head of Financial Services.

Councillor Parton entered the meeting during the discussion of this item.

Summary, key points of discussion:

- Savings of £1million had been generated in addition to the savings made in 2021/22.
- The budgets would depend on the Government Settlement and it was anticipated that more information on the settlement would be released on 13th December 2021.

- There were projected balances of £4.5million at the end of 2022/23 with a commercial income of £886k included int the budget and £200k reserves to cover losses.
- Difficulties faced included the New Homes Bonus being reduced from £3million to £1million in 2022/23 with a further loss of the remaining £1m income in 2023/24. This and other factors create a major uncertainty in the total government funding that the Council may receive of £2.7million in 2022/23, with a further £1m reduction New Homes Bonus due in 2023/24.
- However, there was room for cautious optimism within the Spending Review 2021 outlined by the Chancellor in October and it was hoped that total government funding in 2022/23 would be similar to that of 2021/22.
- Other issues which had impacted the budgets included the inflationary pressures which were £700k more than envisaged in the Medium-Term Financial Strategy (MTFS). All major contracts were linked to inflation.
- If the Government settlement was not what was expected, further measures would need to be taken.
- It was assumed that £2.7m of funding would arise in some form based on funding received in the previous financial year. Further to this it was hoped that the total precept income would be similar to the £17.6m figure as presented in the draft budget.
- Regarding the savings to be determined of £500k, savings ideas had been discussed by officers, however, it was hoped that these would not be required.
- It was necessary to ensure that the total use of reserves was below £500k, and it was considered that £224k would be a reasonable use of reserves, however, this would depend on the settlement.
- In the context of a minimum working balance of £2m, the £4.563m working balance in the draft budget was considered reasonable.
- The re-investment reserve and Capital Plan reserve were earmarked for spend-to-save. Revenue reserves could be used to bolster the balance if needed. Whilst there was no room for complacency, there was a reasonable level of reserves.
- There was a risk surrounding the increase in garden waste collection charges due to the upcoming Environment Bill which was likely to be finalised in March 2022. There had been lobbying to allow councils to charge for the service and it was thought that money could be raised through garden waste subscriptions in the next financial year. A small reduction in subscribers due to increased costs had been factored into the draft budget, but it was thought that the increased cost of the service would result in increased revenue. The estimated amount generated form garden waste collection was calculated by multiplying the number of estimated subscribers with the price increase and calculating the gain. The charge was based on what was thought reasonable through benchmarking based on what other authorities charge.
- There were necessary pressures surrounding the General Fund. These did not include inflation in contracts or salaries which were reflected in the increase in the base budget.
- The Housing Revenue Account (HRA) was a key element, however there was more time to plan and react to changes. The 30-year business plan would be coming forward in the coming months which may address the HRA in more detail.

- The Loughborough Special Expenses would be covered by the Loughborough Area Committee.
- CPI had grown by 3.1% and RPI by 4.9 %.
- Salary inflation of 1.75% and £150k equal to an additional 1% had been built into the budget. The projections built in regarding salaries had projected a salary increase above what had been assumed when the budget had been drafted. The employer offer of 1.75% had been rejected by the unions and whilst it was hoped there could be a settlement, meeting the 10% increase asked for by the Unions would be a significant challenge. The Managed Vacancy saving at Period 7 was £86k ahead of what had been budgeted for, this leaves Period 8 to Period 12 to recoup vacancy savings which would hopefully cover pay awards not budgeted for.
- Regarding the HRA, there had been £16.4m in expenditure and £22m income. There was a net balance of £3.1m earmarked as revenue contribution to capital which topped up the HRA Capital Plan each year. Weekly rent for Council properties was still lower than the Council's peer group. There was £9.6m in the HRA financing fund to cover debt repayments in the 30-year business plan. There was £2.3m in the major repair reserve.
- Heads of Service were working with The Bridge and contributions were reduced but continuing.
- The figure of £2.7m for the Lower Tier Services grant was a balancing figure and it was assumed that the sum of all of the figures on precept income would come to £17.6m. The New Homes Bonus was £998k, down from £3m in the previous financial year, and it was hoped that at least part of this deficit could be made up.
- Concern was raised that many assumptions were being made. It was clarified that the draft Budget was a plan that would depend on the Government Settlement.
- The £239k transfer to the General Fund from the working balance revenue reserve was intended to balance income against expenditure. This figure would depend on government compensation regarding the New Homes Bonus.
- A typographical error in the Budget Summary was noted, the variance in the total balances should read £3,324k.
- An overspend of £200k was projected against the budget and savings made had been reflected in the budget which had been achieved other than those regarding essential car use. Concern was raised that the £2m balance figure was being approached by the end of 2021/22 before going in to 2022/23. It was stressed that this was why the use of reserves was such an important figure.
- Of the £929k for MRP, Interest and Commercial Reserve, £200k has been allocated to Commercialisation Reserve, leaving MRP/ interest charge of £729.
- Commercialisation income had not been budgeted for in the previous financial year. As such, rents collected had been allocated to make a start on the provision. The yearly additions to the reserve would create the total £1.5m needed to cover the next lease event. There would be a lease event in 3-4 years' time and a renegotiation of the lease was planned. If the tenant chose not to renew the lease, the provision was earmarked to cover potential refurbishment costs and the void period. This property was in a developmentally attractive area and there were good alternative uses for the

site. If the lease was not extended, then the next option was to let it to another tenant or find an alternative lucrative use.

- Due to a prudent approach being taken, provisions into the General Fund were able to be released. An Enterprise Zone agreement was settled on and benefits were received from the Business Rate Pilot. The benefit from the pilot had not been budgeted for, however, some had been received. Along with a group of Leicestershire authorities, the approach to provision within the pilot had been standardised. The Council had been over-prudent and as such still had substantial reserves and as such the starting position was a lot better. The Budget projected General Fund reserves of £4.6m would remain at 31 March 2023. Having made adjustments, the Strategic Director was confident that Council was in a reasonable position base on the current rules. However, the impact of the settlement was not yet known, and the rules may change, in a worst-case scenario, the Council could be £2.8m short.
- Concern was raised about key risk areas, including the need to deliver on 2021/22 savings, including salary increases and inflation, pressures surrounding the final settlement figures, the impact of the environmental bill on garden waste collection and the need to monitor commercial rents.
- The reduction in opening hours of the Customer Service Centre would create savings in salaries. This would be a compliant process with appropriate consultation. Some staff had already expressed a predilection for voluntary redundancy, and for remaining staff it was thought that there would be approximately half an hour's difference in their working hours. It was remarked that staff turnover in this department was high. Work had been undertaken regarding the Customer Service Centre and how to underpin savings and this had been informed by the level and pattern of calls. There had been a reduction in demand for face-to-face service during the Covid-19 pandemic that had not returned. More use was being made of the online service and statistics demonstrated that given the number of calls received, a reduction in hours would be more efficient. The out-of-hours line would be open for emergencies when the centre was not open. The possibility of sharing the service with another council had been explored, and previously the Council had carried out the service on behalf of Harborough District Council, however, Harborough District Council was now withdrawing from the agreement. Sharing the service was seen as complex and would not result in a large saving, however, the possibility was not ruled out.
- The Head of Finance would consult the Head of Leisure Service regarding the possibility of renegotiating the contract for the Loughborough Christmas lights to make a saving.
- The HRA was based on Capital Plan requirements and a £5-6m Capital Plan budget was set each year., funding coming mainly from the HRA budget with surplus going into the Capital Plan reserve. Appropriations were used as a balancing figure.

The Chair remarked that 5% inflation was projected, which was considerably more than the 1.75% pay increase offered and enquired as to how much higher salaries would cost the council.

The Strategic Director clarified that the General Fund Salary budget was £13m-14m, so for every 1% increase it would cost £130k-£140k. As such an increase in line with the 5% inflation rate would cost approximately £500k. He added that it may be that the central government conclude they could fund it, and when the settlement was announced the MTFS would need to be done with care.

The Head of Finance added that the budgeted 1% increase added £150k in the budget, plus pension increase on every post. The current managed vacancy saving budget of £0.5m was reduced due to vacant posts being deleted from the establishment

The Chair expressed concern that whilst not having officers in their posts created savings, it meant that services were not being delivered.

Councillor Seaton left the meeting during the discussion of this item.

RESOLVED to note the report

Reason

Members were satisfied with its reflection on the Draft 2022/23 General Fund and HRA Budgets.

36. DRAFT CAPITAL PLAN 2022/23 TO 2024/25

Considered a report of the Head of Financial Services considering the Draft Capital Plan 2022/23 to 2024/25 as well as possible sources of funding and to begin a period of consultation (item 8 on the agenda).

Assisting with consideration of the report: Lead Member for Finance and Property Services, Strategic Director, Environmental and Corporate Services, Head of Financial Services.

Summary, key points of discussion:

- The plan spanned the next three years. £3.54m had been identified for the Loughborough Town deal monies and £0.9m had been identified for the Shepshed Public Realm project. The total funding for the HRA was £23.3m. Every scheme had been noted and every project had been allocated. Plans that had been committed but not costed would be submitted for due process.
- There was a new Capital Plan every two years for a three-year period, so the first year of the new plan was also the last year of the previous plan, so in order to get the context of the next financial year it was necessary to read both plans. If money was not spent on the current plan it could be rolled over to future years and would end up with a merger Capital Plan for the ensuing three years. The new plan had a limited set of proposals reflecting overall funding and most proposals concerned looking after existing assets. The biggest item in the new plan concerned continuing funding for Disabled Facilities Grants (DFG), which was government funding within the General Fund.
- It was noted that the cost of the Bedford Square project had increased, however, the scheme was also expanding in order to attract Town Deal funding. This meant that additional Council funding was a relatively small

amount. It was added that the Bedford Square project had been based on quotes that were over one year old.

- Regarding the Shepshed Bullring, a Senior Leadership Team meeting had taken place to discuss contingency. There was a potential of feasibility work and costs could be revisited, producing different numbers to the plan, which members could then vote on if there was a significant change. It was added that the £0.9m in the plan for Shepshed Public Realm was on top of 0.5m in the current plan, which made a total of £1.4m. Current plans would roll forward.
- Of the £6.3m of external funding, £3.5m was coming from the Loughborough Town Deal and £600k was coming from the Leicester and Leicestershire Local Enterprise Partnership (LLEP), the balance then came from the DFG.
- Expenditure was profiled, and then funding was profiled to match it. Projected receipts were based on profiling Right to Buy (RTB) receipts, and that Limehurst Depot was possibly also contained within the funding projections.
- There was no capital in new expenditure for commercial property. The purchase of commercial properties and the reduction in the treasury would not have an impact on capital planning. There was a new prudential code coming out that would contain new rules on borrowing. As such, whilst it was not impossible to buy commercial property, it was difficult and as such there was not much expansion as the Council did not want to over-commit. The treasury balances were still healthy and more funding for the Enterprise Zone was possible.
- It was noted that there had been no money allocated for certain ongoing schemes in 2022/23 within the new plan because there were equivalent amounts in the current plan.
- In terms of security of funding, the bulk of it was DFG, and as such it was up to the Government. The Government had received a report on how able people were to live in their own homes which resulted in grants being increases. These grants had been challenging to spend logistically as it had involved carrying out assessments, involving many private sector companies and getting contracts which had been time consuming. This process had also been hindered by the Covid-19 pandemic. If money from the Government ceased, then the programme would be restricted. Money had been received from the Leicestershire Business Rate pool. However, there was uncertainty from the LLEP and if external funding failed to materialise then use of reserves would need to be considered.
- Member grants had been reduced to £500 per member, half from revenue and half from capital.
- Members would have visibility of any new borrowing for forward funding schemes in respect of the Enterprise Zone. The money allocated was closely linked to the projected development on the Loughborough University and Charnwood Campus sites. Some plans were in progress that could draw down on some of this money if a forward funding agreement could be arranged. In practice it was thought likely that a proposal would come via a report to Council. All funding above £50m needed to come through Cabinet, so any carry-forward should come through Council. All money for such projects would be borrowed. It was added that business rates retention rules in the Enterprise Zone operated differently to business rates generally, some of the revenue went to the LLEP. As such, if sites were developed, forward funding could be entered into and rates could be kept to pay the loan.

- Ward councillors could be engaged through officers and Heads of Service who could put plans forward for the next three years.
- In the event that the LLEP ceased to operate, the Council would look for alternative vehicles and structures via Leicestershire County Council or Leicester City Council to become a body to collect business rates form the pool and redistribute. There would be risks surrounding the pool and the ability to generate funds and keep them in Leicestershire rather than them being remitted to central government. It would still be possible to get funding without the LLEP if business rates could be kept.

RESOLVED to note the report.

Reason

Members were satisfied with its reflection on the Draft Capital Plan 2022/23.

37. VIEWS ON THE SETTLEMENT

A presentation by the Strategic Director, Environmental and Corporate Services, outlining views on the settlement, was considered (item 9 on the agenda).

Assisting with consideration of the report: Lead Member for Finance and Property Services, Strategic Director, Environmental and Corporate Services, Head of Financial Services.

Summary, key points of discussion:

Bodies such as the Local Government Association and the District Councils Network as well as Pixel, a firm of consultants, had read the statement of the Chancellor of the Exchequer it order to predict what may be in the Government Settlement.

It was thought that the total amount going to the Local Government Sector would be increasing, and as such the Medium-Term Financial Strategy and the budget assumption of having a similar amount of money to previous years was seen as realistic, although there was still a distribution risk.

Government discussion of real terms increases in Local Government Funding assumed that Councils would maximise Council Tax increases. It was thought that the cap on increases would be 1.99% or £5, whichever was the larger figure, in line with previous years.

It had previously been thought that there was a good chance of a multi-year settlement, however, business rates were not being considered in the short-term so this may mean a single-year settlement.

It was hoped that more information would be released on 13th December 2021.

38. POSSIBLE BUDGET SCRUTINY PANEL RECOMMENDATIONS

Considered any recommendations the Panel wished to propose for inclusion in the draft report and to agree a process by which recommendations would be proposed for inclusion in the draft report before the next meeting (item 10 on the agenda).

The Chair noted that no recommendations had been drawn up at this point.

The Strategic Director suggested that the relevant Heads of Service be invited to the next meeting if Panel members had any specific areas they wished to look at. However, any invitations would need to be issued within a very short time period given that the final meeting of the Panel is effectively to endorse the final recommendations.

RESOLVED

1. that Panel Members forward proposed recommendations and observations to the Chair in a timely manner via email.

2. that a draft of the agreed Panel report is made available for publication with the agenda for the consideration of the report at its meeting on 5th January 2022.

Reasons

1-2 to enable proposed recommendations and observations to be agreed by Panel members and to ensure that the Panel report reviewed at its meeting on 5th January 2022 requires minimal amendment before submission to the Scrutiny Commission at its meeting on 10th January 2022.

NOTES:

1. No reference may be made to these minutes at the next meeting of the Full Council unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.

2. These minutes are subject to confirmation as a correct record at the next meeting of the Budget Scrutiny Panel.

BUDGET SCRUTINY PANEL
5TH JANUARY 2022

PRESENT: The Chair (Councillor Miah)
Councillors Hamilton and Parton

Strategic Director
Head of Financial Services
Democratic Services Officer (EB)
Councillor Barkley - Cabinet Lead Member for Finance and Property Service

APOLOGIES: Councillor Parsons and Seaton

The Chair stated that the meeting would be recorded and the sound recording subsequently made available via the Council's website. He also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

39. MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting of the Panel held on 8th December 2021 were confirmed as a correct record.

40. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

No disclosures were made.

41. DECLARATIONS - THE PARTY WHIP

No declarations were made.

42. QUESTIONS UNDER SCRUTINY COMMITTEE PROCEDURE 11.17

No declarations were made.

43. INFORMATION ON THE GOVERNMENT FINANCIAL SETTLEMENT

A verbal update by the Strategic Director, Environmental and Corporate Services, was made updating the panel on the Government Financial Settlement issued on 16th December 2021.

Assisting with the consideration of the item: Lead Member of Finance and Property Services, Strategic Director, Environmental and Corporate Services and the Head of Financial Services.

Summary, key points of discussion:

- From the spending review in 2021 it was ascertained that the total amount given to the Local Government sector was £1.6 billion excluding social care.
- The settlement was broadly in line with the Medium-Term Financial Strategy (MTFS); however, it was only a one-year settlement as opposed to a multi-year settlement. This meant that the information within this year's spending review could not be relied upon as guidance for subsequent years.
- The Fair Funding review had not yet materialised, and it was noted that in the time since it had been proposed there had been a general election and a change in government ministers looking at the Levelling-up Agenda. One of the key premises of the previous Fair Funding work had been the 75% business rate pilot, however, it was now thought that the current secretary of state was not likely to continue with it.
- With regard to the retained National Non-Domestic Rate (NNDR), it was thought that it was more likely to be around £5.2 million rather that the £4.9 million that was previously estimated to be based on the projected 2021/22 outturn. The Council would be due due additional grant compensation due to indexation of business rates not increasing.
- It was likely Council tax would increase by 2% or £5, as is the maximum allowed without a referendum.
- Regarding the New Homes Bonus, in addition to the £1 million legacy funding, there was a single one-off payment of £0.6 million. This was lower than the £1 million typically generated in previous years due to lower housing completions.
- The single-year grants for Revenue Support, Services and Lower-tier Services could not be relied on to continue in subsequent years.
- Risks included inflation, the ongoing Covid-19 pandemic, and interest rates.
- It was thought that Business Rate retention would be £5.2 million.

In response to questions, the panel were advised that:

- There were no specific contingencies for inflationary risks, however, the pay-settlement for Council staff had been estimated and as such more money had been placed into the payroll budget. It was stressed that it was still unknown as to what the final settlement would be, although it was noted that each 1% added to the payroll would cost the Council £150k. Furthermore, contracts (estimated to be worth £8-9 million) were noted to be an inflationary risk. This was seen as a challenge for the MTFS as it was necessary to strike a balance between prudence and unrealistic optimism. It was added that 4.9% had been added on to the Serco contract for next year's budget. This was above the MTFS figures, so the risk had been built into the 2022/23 budget – but future years price increases remain uncertain. Regarding Salary inflation it was added that a 1.75% increase had been built in for this financial year and 2% for the next financial year, and then a further lump sum contingency had been included within the draft budget figures. As such it was hoped that enough contingency had been built in.

- With regard to Council tax base growth, a standard government return was completed by the Council, however there was some volatility surrounding it. Officers were aware that the base was likely to be lower as numbers had been down when the current MTFS had been completed. It was hoped that his was an anomaly rather than a downward trend. It was clarified that this was a challenge to the MTFS rather than the budget.
- The single year and transitional grants were not ringfenced and were part of the Levelling-up Agenda. The Lower Tier Services Grants would benefit district councils and could potentially be regarded as £1.1 million in transitional relief funding this financial year, but it could not be relied upon for the next financial year.
- For NNDR, the government gave the Council a Settlement Funding Assessment (SFA) and a tariff. The Council received business rates and retained an initial 40% and then had to pay the tariff to the government. The revenue retained through the SFA depended on how much was collected on business rates although 92.5% of the FSA is set by the government as a 'safety' net'. Section 31 grant was also given to cover small business relief and transitional relief. In the current financial year, the Council had also received money for retail, hospitality and leisure COVID reliefs for business. Additionally, some of the Section 31 money covered the difference between RPI and CPI. The final figure for 2022/23 would be known until the NNDR3 return is completed in May 2023. It was further added that the Council had worked with CIPFA who had come up with the business rate retention figure of £5.2 million based on forecast figures from the Capita system. Capita still needed to complete the exercise and figures would come out within a week. In terms of risk, officers were satisfied with £5.2 million and this would bring down the £0.5 million in unspecified savings needed. It was noted that while Council tax had variability, it was less volatile than business rates.
- There was no uncertainty about when money would be coming and the cash flow was positive. Council tax came in on a regular basis and government grants would come in the early part of the financial year. It was clarified that January was the peak in Council tax income as some people paid over 10 months.

RESOLVED that the report be noted

Reason

To acknowledge the Panel's consideration of the matter.

44. BUDGET UPDATE - APPROACH TO FINAL BUDGET DEVELOPMENT

A verbal update by the Strategic Director, Environmental and Corporate Services, was made advising members on the approaches to the final budget development for 2022/23.

Assisting with the consideration of the item: Lead Member of Finance and Property Services, Strategic Director, Environmental and Corporate Services and the Head of Financial Services.

Summary, key points of discussion:

- There was £0.5 million needed in unspecified savings. It was thought that if this was brought down to £0.2 million then the savings could be found in-year without an impact on services.
- There were risks built into the budget and funding had come in as anticipated. £1 million had been saved this financial year and it was thought that work on the 2023/24 budget would need to commence earlier. The biggest disappointment had been not receiving a multi-year settlement as that would have facilitated planning further ahead. The £1.6 billion in the Levelling-up Agenda would be subject to government distribution. Risks had been identified and integrated, however it was stressed that there was no room for complacency. Real funding had decreased by approximately 30% over the past 10 years and services had been maintained.

In response to questions, the panel were advised that:

- At the present time, £1m had been brought to Cabinet on savings and efficiencies for 2022/23 and it was intended that a further £200k be saved in the next financial year. It was thought that this could be done through transformation and efficiency. There had not yet been a conversations between officers and the Cabinet on the issue, but officers were comfortable bringing such issues to Cabinet.
- Some work on efficiencies and savings would take longer to realise than other work, however it was thought that work could commence by Spring 2022. The Section 151 Officer had been through the risks and had identified that it was future years that appeared more challenging. As such the need to make savings in-year was identified. It may be possible to decouple issues in the budget to a large extent as it could not be guaranteed that issues would be addressed in the window before the next financial year.
- The figures in the budget would go to Cabinet for approval and then to Full Council in February 2022. Some issues could be addressed under delegated authority, however it was up to Cabinet to decide on the way forward. Cabinet would also look at the 2023/24 financial year based on the MTFS. Plans needed to be made based on assumptions and assessments as funding could not be guaranteed.

RESOLVED that the report be noted.

<u>Reasons</u>

To acknowledge the Board's consideration of the matter.

The Lead Member of Finance and the Head of Financial Services left the meeting following the consideration of this item.

45. PANEL REPORT

A draft report of the Panel was submitted for agreement of the Panel, to then be submitted to the Scrutiny Commission on 10th January 2022 (agenda item 8 filed with these minutes).

Assisting with the consideration of this item: Strategic Director, Environmental and Corporate Services.

Summary, key points of discussion:

- Based on the costs of the Bedford Square project having doubled, it was proposed that a small contingency be put aside for overspend on the Shepshed Project should a similar increase in costs occur. In response, it was clarified that Bedford Square funding had increased along with costs, which had been approximately £70-80k from the Council. It was added that every major capital project had a contingency within it. It was further clarified that increases in costs can occur when unexpected discoveries such as wires were found when digging as it meant that companies would need to conduct work which took time and money. In order to avoid such issues with the Shepshed Project, an approach was planned using feasibility money and work to do initial digging to ascertain what was underground before the actual budget was set. A budget had been set as a placeholder; however, this was a substantial amount and as such it was thought that it would be enough. The project would go through the Capital Plan amendment process. There was contingency in the project already. but it would depend on the times when work could be undertaken. Processes and money were in place and as such it was not thought that amendment was needed.

The Chair added that the Capital plan was not yet fully costed.

The Strategic Director, Environmental and Corporate Services suggested that the issue would be considered by the Finance and Performance Scrutiny Committee.

- It was proposed that an exercise be undertaken to ascertain the land value of such garage land, versus the income gained per annum from garage rental. Garage land to be sold for housing either for Council builds or private builders.

The Strategic Director, Environmental and Corporate Services again suggested that the issue would be considered by the Finance and Performance Scrutiny Committee as part of the Regeneration agenda. He further added that some reviews had already been undertaken on garage land and it was thought that 26-32 homes could potentially be delivered by redeveloping Council owned garage parking spaces for housing to meet local need across the Borough.

The Chair proposed that the issue be picked up in the next cycle of the Budget Scrutiny Panel.

The Chair further suggested that future meetings of the panel would need to make recommendations based on what was discussed in terms of financial impact, savings and income with regard to the year's budget and put to the Scrutiny Commission to decide whether to pass them to Cabinet.

- In response to a proposal to raise car-parking fees by 10p in order to generate income and mitigate savings to protect front-line services, it was explained that this was a complex issue as raising car-parking fees may discourage shoppers from town centres. It was further added that car-parking fees were being considered, but through individual tariffs rather than a flat rise. Further uncertainty was expressed surrounding the extent to which parking needs would return to pre-pandemic levels.

The Strategic Director, Environmental and Corporate Services again suggested that the issue would be considered by the Finance and Performance Scrutiny Committee.

- Regarding an observation that alternative uses could be sought for example to create carbon capture area/solar farms, helping Charnwood Borough Council to meet their carbon reduction targets, it was noted that this was outside the remit of the Budget Scrutiny Panel and again could be considered by the Finance and Performance Scrutiny Committee.

The Chair observed that there were no formal recommendations to be made from the Panel, but the following observations should be made to the Scrutiny Commission:

- Key risk areas included:
    - The need to deliver on 2021/22 savings, including salary increases.
    - Risks surrounding the final and future grant settlement figures,
    - The impact of the environmental bill on garden waste collection
    - The need to monitor commercial rents.
    - Inflationary risks.
    - Contractual cost risks.
    - The impact of Omicron and the ongoing Covid-19 pandemic.
    - Interest rates and the effects a rise in rates would have on the wider economy, particularly in terms of business rates and council tax collection. Whilst treasury management would give the Council more income, borrowing would cost the Council more.
- Whilst not having officers in their posts created savings, it meant that services are not being delivered.
- The Council needed to be mindful of the financial pressures faced by its residents.

RESOLVED that a report containing the above observations be presented to the Scrutiny Commission.

<u>Reason</u>

To inform the Scrutiny Commission of the conclusions of the Panel for consideration.

NOTES:

1. No reference may be made to these minutes at the next meeting of the Full Council unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.

2. These minutes are subject to confirmation as a correct record at the next meeting of the Budget Scrutiny Panel.

CABINET – 10TH FEBRUARY 2022

Report of the Head of Finance

Lead Member: Councillor Tom Barkley

Part A

ITEM 7 GENERAL FUND AND HRA REVENUE BUDGETS 2022/23

Purpose of the Report

This report sets out the proposed General Fund and Housing Revenue Account (HRA) Revenue Budgets for 2022/23, which together, represent the financial spending plans for all services of the Council. 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 21st February 2022. 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 2022/23 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 2022/23 proposals to increase rent and service charges within the ring fenced Housing Revenue Account.

Finally, the report incorporates the latest iteration of the Medium Term Financial Strategy which uses the 2022/23 budget as a base for financial projections into 2023/24 and 2024/25

Recommendations

That Council are recommended:

1. To approve the Original General Fund Revenue Budget for 2022/23 at £17,862,933 as set out in Appendix A1.

2. To set a base Council Tax at £135.69 at Band D, an increase of £4.61 on the 2021/22 rate as set out in Appendix A2.

3. To set the Loughborough Special Levy at £79.53, a 1.99% increase on 2021/22 rate, as set out in Appendix A3 and to approve the following ongoing savings and one off pressure which are included in the General Fund and also form part of Loughborough Special Budget

    - Thorpe Ace Hub - £9.8k saving
    - Gorse Covert/Fearon Hall- £1.3k saving
    - Cemetery Fee Increase - £10k saving

- CCTV Salaries - £10k saving
- Carillon Income - £4.5k One off Service Pressure

4. To approve the Original HRA Budget for 2022/23 as set out in Appendix A5.
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 increase to £10 per week (52 weeks) in accordance with an assessment by the Valuation Office.
10. To approve that the Leasehold Management and Administration charge increases to £138.33 per annum Leasehold flats, and £138.32 for Leasehold shops.
11. That the Lifeline weekly charge is increased in line with MHCLG Guidance.
12. To determine that the basic amount of Council Tax for 2022/23 is not excessive according to the principles set out by the Secretary of State.
13. That delegation be given to the s151 Officer, in conjunction with the Lead Member for Finance, to amend this report for Council in line with the final updated NNDR figures.
14. That the Medium Term Financial Strategy 2022-2025 as set out at Appendix B be noted and recommended to Council for approval.

<u>Reasons</u>

1. That the necessary finance is approved to carry out services in 2022/23.
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 2022/23.
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.

13. To update the budget report in line with final settlement figures once these are received.

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

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 on 8th February 2021 and, if approved by Cabinet, will be tabled for agreement by Full Council on 21st February 2022. The actual budget will then come into effect on 1st April 2022.

The draft budget was also considered by the Budget Scrutiny Panel on 5th January 2022 and their comments are due to considered separately by Cabinet at the 10th February meeting and are also referred to later in this report.

Report Implications

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 2022/23.

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 2022/23

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 9th December 2021. The changes are set out below.

2. Net Service Expenditure has increased from the draft budget by £227k, being a reduction in the additional savings target of £250k being an achievable target and a small budget reduction of £23k.

3. The precept Income has reduced by £277k compared to the draft, this being the net impact of a one year settlement for 2022/23. The settlement includes the Lower Tier Services Grant of £1,112k which is lower than the draft budget by £1,616k, and a small services grant of £296k. It is envisaged that these grant will continue in some form based on core spending power.

4. At the date of drafting this report the NNDR1 Budget (National Non-Domestic Rates), income figure has not yet been finalised. Whilst this has the potential to alter the Council's projected funding position it is not anticipated that any changes would be material in the context of the General Fund budget, however If material, an update will be provided to Cabinet at the date of the meeting and for the purposes of the Council meeting updated figures will be provided.

5. It was envisaged that the national business rate retention scheme would be in place (with a headline 75% retention rate compared to the current 50% retention scheme currently in place), as the new funding regime derived from the Fair Funding review. However, no announcements have been made and it is unlikely that this scheme will happen as it does not fit the 'levelling up' agenda.

   The council is currently part of the Leicestershire business rate pool which means that they do not have to pay this balance over to Central Government and payments instead are directed to the Local Enterprise Partnership (LLEP) via the business rates pool for re-distribution back to Councils.

6. 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 21st February 2022 will include the final figures, the figures for County, Fire and Police in this report are provisional.

7. The amount due to the Council from Council Tax receipts has decreased by £74k compared with the draft report, this reflects the Council Tax by charging permitted £5 per band D property, which is the sixth 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)

8. The New Homes Bonus (NHB) Grant figure for 2022/23 shows an increase of £643k since the draft report. It is not yet known what the financial scheme will be in future years this stream of funding remains volatile for future financial planning.

9. The working balance shows a net use of General Fund reserves of £189k to balance the budget, this is after including an additional in year savings target of £250k.

10. Service Pressures, Savings and additional income generation are summarised at Appendix 6. These include unavoidable Service Pressures of £311k, of which £184k are ongoing pressures and £127k One Off. The ongoing service savings are £1,010k (£576k Reductions in Expenditure and £434k increase in Income) and a one off saving of £80.6k. In addition a figure of £250k Service savings are to be identified as part of additional service reviews in 2022/23.

Consultation on the Budget

11. A programme of consultation commenced following the consideration of the draft budget by Cabinet 10th December 2021. This has involved members of the public, partner organisations, scrutiny (especially the Budget Scrutiny Panel), unions and businesses.

Results of public consultation

12. An on-line public consultation (16 responses) was undertaken. The key themes emerging from these exercises were:

- Of the proposals within the budget, the most contentious (all comments negative) was around the increase in garden waste collection charges – this has been justified because of the general financial pressures faced by the Council and a benchmarking exercise that demonstrates that the proposed charges are in line with other local authorities
- Other comments suggested Council Tax was too high – again this has been justified because of the general financial pressures faced by the Council and Charnwood being in the lowest quartile for Council Tax.
- There were also comments on matters such as highways and the rateable value of business premises which did not relate to Council services

Budget Scrutiny Panel

13. A Budget Scrutiny Panel has undertaken scrutiny of the draft budget for 2022/23. 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

14. A consultation meeting with representatives of Industrial and Commercial Ratepayers was held on 12th January 2022. In summary:
   - The Council’s proposed budget and capital plan were discussed
   - The attendees raised questions around HMOs and public realm works in Loughborough
   - There were no specific comments on the budget arising

Comments of the Loughborough Area Committee

15. This Committee met on 15th December 2021 where the agenda included an opportunity to provide feedback on the draft budget. Principal matter raised was the reduction in the grant awards by approximately 5% to both Fearon Hall and Gorse Covert Community Centre as part of the strategic partner grants budget savings for 2022/23 in the General Fund and has impacted on Loughborough Special Budget. The draft saving was £2.5k however this saving has now been reduced further to £1,300 in line with the Strategic Partner Grants Cabinet report 13th January 2022.

16. 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)

17. The budget position for Loughborough Special Expense and Levy for 2022/23. The increase to the Loughborough Special Levy is 1.99% to a rate of £79.53 per Band D property (2021/22: £77.98). The savings and pressures included in the General Fund that impact the Loughborough Special are as follows:

    - Thorpe Acre Hub/Community Coordinator payment - £9.8k saving
    - Gorse Covert/Fearon Hall - £1.3k saving
    - Cemetery Fee Increase - £10k saving
    - CCTV Salaries - £10k saving
    - Carillion - Loss of income £4.5k one off pressure

<u>Council Tax Base</u>

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

<u>Precept Amount</u>

19. The NNDR figures are not yet available, and the settlement figures have been used in these calculations. Appendix 2 shows an equivalent overall increase of £4.61 on the Base Band D Council Tax plus the Loughborough Special Levy. The band D rate for 2022/23 is set at £135.69 for the base precept.

<u>Parish and Town Councils and Other Precepts</u>

20. 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 21st February 2022.

General Fund Revenue Balances and Reserve

21. The General Fund Balances are included in Appendix A1. The budget shows a net £189k use of Working Balance is required to balance this year's budget, with a Working Balance estimated to be £4.613m as at March 2023.

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 £2m, representing six weeks net expenditure, in line with good practice. The original budget balance on this fund at the end of March 2023 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 £2.233m at the end of March 2023. 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 thirteen specific Earmarked Reserves which may be used in line with the purpose of the reserve fund or for general purposes totaling £2.215m.

The overall total General Fund reserve balances estimated as at March 2023 is £9.561m.

The new Commercialisation Reserve was set up in 2021/22, to cover any future losses on the Commercial Property Income; by the end of 2022/23 we estimate that the balance on this reserve to be £808k.

Housing Revenue Account (Appendix A5)

19. The HRA budget position for 2022/23 is a breakeven. The overall position of the balances is an increase of £367k from the draft budget.

20. The principal change to the final budget compared with the draft budget that was presented to Cabinet on 9th December 2021 is a reduction in £367k revenue contribution to capital from the Housing Financing Fund. This is due to an adjustment to planned Capital spend in 2022/23. The proposed increase in Garage Rents is anticipated to add £39k of rental income. Rents and Service charges have been recalculated since the draft budget to reflect anticipated void levels and the final level of proposed charges. The £15k increase in Supervision and Management includes an anticipated higher increase in voids for lifeline service.

HRA Balances

22. The HRA Balances have been budgeted at £110 per property at approximately £604k. At 31 March 2023, the HRA Financing Fund balance is forecast as being £10,049k.

HRA Service Pressures and Savings

22. It may be noted that no savings or pressures are associated with the HRA. A detailed exercise was performed to realign the HRA budgets in the previous year and that exercise is considered still valid.

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

23. 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.

24. 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 proposed, in the light of the ongoing impact of the COVID-19 pandemic, is appropriately prudent and, if delivered, will leave the Council's Working Balance at £4.6m at 31st March 2023, above the £2m minimum set by the s151 Officer.

25. 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. The short term impact of COVID-19 can be regarded as the principal budget threat in 2022/23. In subsequent years the lack of certainty around Government funding combined with inflationary pressures and the medium and longer term impact of COVID-19 are the key budgetary risks.

26. The Medium-Term Financial Strategy (MTFS) provided at Appendix B of this report considers the medium term financial outlook for the Council in more detail.

Robustness of Estimates

27. 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.

28. 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.

29. 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.

30. 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

31. 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

32. 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

A1 - General Fund Budget Summary 2022/23
A2 - Council Tax Analysis 2022/23
A3 - Loughborough Special Expenses 2022/23
A4 - Council Tax Town and Parish Council Precepts 2022/23
A5 - HRA Revenue Budget Summary 2022/23
A6 - General Fund Service Pressures and Savings 2022/23

B - Medium Term Financial Strategy 2022 - 2025

General Fund Budget Summary

Appendix A1

Actual 2020/21 £000		Original Budget 2021/22 £000	Draft Original Budget 2022/23 £000	Final Budget 2022/23 £000	Variance Final vs Draft £000
19,426	General Fund Service Expenditure	19,026	19,163	19,141	23
0	Less MRP & Interest & Commercial Reserve	(1,262)	(929)	(929)	0
0	Service (Ongoing Savings)	(2,059)	(1,010)	(1,010)	0
0	Service (One Off Saving)	0	(81)	(81)	0
0	Savings to be determined	0	(500)	(250)	(250)
0	Service Pressures Ongoing	1,859	184	184	0
0	Service Pressures One Off	106	127	127	0
19,426	**Net Service Expenditure**	**17,670**	**16,955**	**17,182**	**(227)**
182	Revenue Contributions to Capital	0	0	0	0
0	MRP/Interest /Charge	1,262	729	729	0
240	Interest Paid	240	240	240	0
(342)	Less: Interest on Balances	(300)	(300)	(300)	0
19,506	**Total Borough Expenditure**	**18,872**	**17,624**	**17,851**	**(227)**
(292)	Contribution (from)/to Reinvestment Reserve	0	0	0	0
1,175	Contribution(from)/to Working Balance	(849)	(224)	(311)	87
143	Contribution (from)/to Collection Fund	2	(15)	122	(137)
453	Contribution(from)/ to Capital Plan Reserve	0	0	0	0
0	Contribution(from)/to Commericalisation Reserve	0	200	200	0
756	Contribution (from)/to Other Reserves	(106)	0	0	0
21,741	**Precept Requirement**	**17,919**	**17,585**	**17,862**	**(277)**
4,947	NNDR	4,379	4,465	5,200	(735)
0	RSG	168	0	174	(174)
7,288	Council Tax Receipts	7,640	8,055	7,981	74
1,271	Loughborough Special Levy	1,311	1,364	1,346	18
4,122	New Homes Bonus	3,000	988	1,631	(643)
0	Lower Tier Services Grant/Tranche 5 one off	1,418	2,728	1,112	1,616
3,962	General Government Grants (Covid)/Services	0	0	296	(296)
(173)	Collection Fund Surplus/(Deficit)	2	(15)	122	(137)
21,417	**Precept Income**	**17,919**	**17,585**	**17,862**	**(277)**

£000 Actual 2020/21	REVENUE BALANCES	£000 Original Budget 2021/22	£000 Draft Original Budget 2022/23	£000 Final Budget 2022/23	£000 Variance
4,498	**Working Balance at 1 April**	1,820	4,969	4,969	0
1,318	Transfer from/(to) General Fund	(847)	(239)	(189)	(50)
0	Transfer from/(to) Reinvestment Reserve	0	(167)	(167)	0
1,224	Contribution to the LLEP Enterprise Zone	0	0	0	0
(1,224)	Business Rates Appeals Adjustment	1,561	0	0	0
5,816	**Balance at 31 March**	**2,534**	**4,563**	**4,613**	**(50)**
883	**Reinvestment Reserve Balance at 1 April**	357	333	333	0
(292)	Transfers from/(to) General Fund	0	167	167	0
591	**Balance at 31 March**	**357**	**500**	**500**	**0**
1,980	**Capital Plan Reserve Balance at 1 April**	1,819	1,763	2,233	(470)
453	Transfer from/(to) General Fund	0	0	0	0
2,433	**Balance at 31 March**	**1,819**	**1,763**	**2,233**	**(470)**
7,346	**NDR Deficit COVID Reserve**	**0**	**7,346**	**7,346**	0
0	Funding of NDR COVID Deficit	0	(7,346)	(7,346)	0
7,346	**Balance at 31 March**	**0**	**0**	**0**	**0**
1,158	**Other Revenue Reserve Balances at 1 April**	1,113	2,015	2,015	0
857	Transfers from/(to) General Fund	(106)	200	200	0
2,015	**Balance at 31 March**	**1,007**	**2,215**	**2,215**	**0**
18,201	**TOTAL BALANCES**	**5,717**	**9,041**	**9,561**	**(520)**

Appendix A2

COUNCIL TAX ANALYSIS 2022/23					
2021/22			**2022/23**		% Change Per Band D
58,286.9		**TAX BASE (at CBC collection rate)**	58,819.0		
16,815.4		**LOUGHBOROUGH TAX BASE**	16,923.1		0.91
£	£ p		£	£ p	%
17,919,418	307.43	TOTAL BUDGET REQUIREMENT	17,862,933	303.69	(1.22)
(1,311,265)	(22.50)	Less: Loughborough Special Levy	(1,345,894)	(22.88)	1.70
16,608,153	284.94		16,517,039	280.81	(1.45)
		Less:			
(3,000,484)	(51.48)	New Homes Bonus	(1,631,447)	(27.74)	(46.11)
(4,379,000)	(75.13)	NNDR	(5,200,000)	(88.41)	17.68
(1,417,924)	(24.33)	Government Grants/S.31 Compensation	0	0.00	0.00
0	0.00	Lower Tier Services Grant	(1,111,902)	(18.90)	0.00
0	0.00	Services Grant	(295,932)	(5.03)	0.00
(168,489)	(2.89)	Revenue Support Grant	(174,268)	(2.96)	2.40
7,642,256	131.11		8,103,490	137.77	5.08
(2,009)	(0.03)	Collection Fund (Surplus)/Deficit	(122,340)	(2.08)	5,934.68
7,640,247	**131.08**	**BASIC BOROUGH PRECEPT**	**7,981,150**	**135.69**	**3.52**
		Other Precepts			
4,051,639	69.51	Parishes	4,250,109	72.26	3.95
82,230,122	1,410.78	Leicestershire County Council	82,230,122	1,398.02	(0.90)
4,038,699	69.29	Combined Fire Authority	4,038,699	68.66	(0.91)
14,468,569	248.23	Police & Crime Commissioner for Leics	14,468,569	245.98	(0.91)
104,789,029	1,797.81		104,987,499	1,784.92	(0.72)
1,311,265	77.98	SPECIAL LEVY (LOUGHBOROUGH)	1,345,894	79.53	1.99
113,740,541	1,951.39	**TOTAL REQUIREMENT**	114,314,543	1,943.50	(0.40)
112,429,276	1,928.89	**AVERAGE PARISH PRECEPT**	112,968,649	1,920.61	(0.43)
109,688,902	1,937.36	**LOUGHBOROUGH PRECEPT**	110,064,434	1,927.88	(0.49)

Final figures still awaited – to be included in report presented to Council on 21 February

Appendix A3

LOUGHBOROUGH SPECIAL EXPENSES

2021/22 Loughborough Special Expenses Budget	Service	2022/23 Loughborough Special Expenses Budget	2021/22 to 2022/23 Difference	% Variance	Note
£		£	£		
78,900	Loughborough CCTV	74,300	(4,600)	-6%	1
66,800	Community Grants - General / Fearon Hall / Gorse Covert	65,500	(1,300)	-2%	2
45,800	Marios Tinenti Centre / Altogether Place / Community Hubs	36,300	(9,500)	-26%	3
6,300	Charnwood Water Toilets	6,300	0	0%	4
35,700	Voluntary & Community Sector Dev Officer post (75% LSX)	36,600	900	2%	5
122,400	Contribution towards Lough Open Spaces Grounds Maintenance	124,200	1,800	1%	6
(2,700)	November Fair	(5,800)	(3,100)	53%	7
	Parks:				
353,200	Loughborough - including Loughborough in Bloom	345,100	(8,100)	-2%	8
70,300	Gorse Covert and Booth Wood	70,700	400	1%	9
	Sports Grounds:				
115,600	Derby Road	117,400	1,800	2%	10
43,100	Lodge Farm	43,100	0	0%	11
75,400	Nanpantan	77,100	1,700	2%	12
19,100	Park Road	18,200	(900)	-5%	13
23,800	Shelthorpe Golf Course	23,000	(800)	-3%	14
47,700	Loughborough Cemetery	36,500	(11,200)	-31%	15
49,200	Allotments - Loughborough	47,800	(1,400)	-3%	16
16,600	Carillon Tower	11,600	(5,000)	-43%	17
55,800	Festive Decorations and Illuminations	55,100	(700)	-1%	18
112,600	Town Centre Management	99,600	(13,000)	-13%	19
1,335,600		1,282,600	(53,000)	-4%	
	Adjustments from Year 2020/21	63,294			
-24,335	Adjustments from Year 2019/20				
1,311,265	AMENDED SUB TOTAL	1,345,894			
Divided by 16,815.40	Council Tax Base	Divided by 16,923.10			
77.98	Special Council Tax	79.53			

Loughborough Special Expense Notes

1 The savings include £10k to reduce the CCTV casual salaries budget. 24% of the total costs of the CCTV service has been charged to the Loughborough Special Rate compared to 25% in 2021/22. There has been an increase of 45 additional cameras in the Borough overall, 9 of these are on the Warwick Way Estate Loughborough, as part of the safer streets project.

2 Saving to reduce the grant awards by approximately 5% to both Fearon Hall and Gorse Covert as part of the strategic partner grant process have been included in the 2022/23 budgets, the amount has been reduced to £1.3k in line with the Partnership Grants Cabinet report 13th January 2022.

3 An option for change saving £6.5k with regard to Thorpe Acre Hut/Hub, which will now not be progressed and £3.3k saving on the Community hub co-ordinator payments have been included in the 2022/23 budgets.

4 No comment required.

5 The increased costs are due to estimated pay award & additional pension/NI contributions 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 The Environmental Services contract budget has increased by inflation £0.3k. Offset by reduced Support Services £3.5k, mainly due to less time being spent in this area by the Head of Leisure and Culture and the Admin team.

8 The metered water budget has increased £1.4k, this is based on previous year actuals increased by inflation. Both the Environmental Services contract and the Management of Open Spaces contract budgets including variations have increased by inflation £1.9k and £4.4k respectively. These are offset by reduced Support Services recharges £15.7k, mainly from the Policy and Green Spaces Development Team following a service review carried out summer 2021.

9 No comment required.

10 Both the Environmental Services contract and the Management of Open Spaces contract budgets have increased by inflation £0.4k and £0.9k respectively. Support Service recharges have also increased slightly overall by £0.3k

11 No comment required.

12 The metered water budget has increased £1.2k, this is based on previous year actuals increased by inflation, this is part offset by a £1k reduction to the electricity budget, which is based on previous year underspends. Both the Environmental Services contract and the Management of Open Spaces contract budgets have increased by inflation £0.2k and £0.3k respectively. Support Service recharges have also increased £0.8k, this is mainly due to slightly more time being spent in this area by the Cleansing team.

13 Support Service recharges have reduced, mainly from the Policy and Green Spaces Development team following a service review.

14 The metered water budget has increased £0.4k, this is based on previous year actuals increased by inflation. Both the Environmental Services contract and the Management of Open Spaces contract budgets have increased by inflation £0.2k and £0.5k respectively. These are part offset by increased income £0.6k 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. Support Service recharges have reduced £1.3k, this is mainly from the Policy and Green Spaces Development Team following a service review

15 The NNDR and the metered water budgets have increased by £0.9k and £0.3k respectively for inflation. The Management of Open Spaces contract budget has increased by inflation £0.6k. The provision of the cemetery service budget has been increased by £5k based on previous year actuals & increased ongoing costs mainly due to additional standby payments, this was funded by increasing the expected income due from the crematorium agreement with Dignity Funerals based on previous year and current income levels. An options for change saving of £10k has been included to increase the fees and charges budget, a review of the burial charges will be carried out February 2022. Support Service recharges have reduced £8.5k, this is mainly from the Policy and Green Spaces Development team following a service review.

16 Support Service recharges have reduced £1.6k, mainly from the Policy and Green Spaces Development team following a service review

17 The Carillon will not be open to the public in 2022/23, a pressure for the loss of income £4.5k has been included and the recharge for staffing the building by the museum staff has reduced by £9.5k for this reason. Support service recharges have reduced slightly, namely the insurance charge £2.1k, the premium for the building and terrorism has reduced. 50% of the total cost of the Carillon is charged to the Loughborough Special Rate.

18 Support Service recharges have reduced, this is mainly due to slightly less time being spent in this area by the Head of Leisure and Culture

19 The employee budget has increased £1.7k due to estimated pay award & additional pension/NI contributions. The income budget has increased by £10.8k, taking it back to normal pre-covid19 levels, this was a one-off service pressure in 2021/22 to reduce the income budget to allow the number of street traders to improve following covid19 restrictions. Support Service recharges have reduced £3.9k, this is mainly due to less time being spent in this area by the Head of Leisure and Culture and the ICS team.

Appendix A4

2022/2023 Council Tax - Parish Precepts

Parish/ Meeting/ Town Council	Precept Requirement £	Council Tax Base	Parish/ Special Requirements at Band B £
Anstey	320,284.00	2,666.70	120.10
Barkby / Barkby Thorpe	13,794.00	158.50	87.03
Barrow-Upon-Soar	232,595.00	2,523.10	92.19
Beeby	0.00	42.00	0.00
Birstall	458,343.00	4,587.10	99.92
Burton-on-the-Wolds, Cotes, & Prestwold	32,500.00	554.40	58.62
Cossington	15,225.00	217.30	70.06
East Goscote	63,000.00	937.80	67.18
Hamilton Lee	0.00	280.50	0.00
Hathern	48,500.00	894.50	54.22
Hoton	12,127.00	146.20	82.95
Mountsorrel	524,201.09	3,022.90	173.41
Newtown Linford	56,779.00	534.90	106.15
Queniborough	63,713.00	1,222.60	52.11
Quordon	297,368.30	2,452.80	121.24
Ratcliffe-on-the-Wreake	3,000.00	89.90	33.37
Rearsby	23,010.00	486.80	47.27
Rothley	199,132.00	2,314.80	86.03
Seagrave	18,984.00	278.40	68.19
Shepshed	367,000.00	5,009.40	73.26
Sileby	239,585.00	2,835.20	84.50
South Croxton	11,751.00	133.70	87.89
Stonebow Village	0.00	5.20	0.00
Swithland	4,880.00	160.90	30.33
Syston	570,941.00	4,368.00	130.71
Thrussington	12,000.00	256.50	46.78
Thurcaston & Cropston	43,186.58	942.70	45.81
Thurmaston	480,492.00	2,865.90	167.66
Ulverscroft	0.00	60.00	0.00
Walton-on-the-Wolds	5,000.00	131.70	37.97
Wanlip	4,000.00	100.70	39.72
Woodhouse	85,620.00	988.70	86.60
Wymeswold	43,098.00	626.10	68.84
	4,250,108.97	41,895.90	
Loughborough (Special Expenses)	1,345,894.00	16,923.10	79.53
Total	**5,596,002.97**	**58,819.00**	
Average			**95.14**

Appendix A5

2020/21 Actual	Housing Revenue Account	2021/22 Original Budget	2022/23 Draft Original Budget	2022/23 Final Original Budget
£000		£000	£000	£000
	Expenditure			
5,421	Supervision and Management	5,393	5,423	5,438
6,427	Repairs and Maintenance	6,752	6,803	6,803
261	Rents, Rates and Other Charges	225	291	291
175	Provision for Bad Debts & Other Charges	383	318	318
3,464	Depreciation	3,409	3,641	3,641
(14,077)	Net Revaluation non-current assets increase	0	0	0
18	Debt Management Expenses	10	9	10
1,689	**Expenditure Sub-total**	16,172	16,485	16,501
	Income			
(20,597)	Dwelling Rent Income	(21,100)	(21,366)	(21,368)
(412)	Shops, Land and Garages Rent	(355)	(351)	(390)
(52)	Warden Service Charges	(53)	(54)	(51)
(286)	Central Heating, Cleaning and Communal Charges	(309)	(303)	(310)
(143)	Leasehold Flat and Shop Service Charges	(143)	(143)	(143)
(28)	Hostel Service Charges	(24)	(25)	(25)
(9)	Council Tax Recharged	(10)	(10)	(9)
(21,527)	**Income Sub-Total**	(21,994)	(22,252)	(22,296)
(19,838)	**Net (income)/Cost of service**	(5,822)	(5,767)	(5,795)
(82)	Transfer from General Fund – Grounds Maintenance	(85)	(85)	(85)
2,701	Interest Payable	2,709	2,698	2,698
(45)	Investment Income and Mortgage Interest	(27)	(15)	(15)
(17,264)	**Net Operating Expenditure/(Income)**	(3,225)	(3,169)	(3,197
0	Revenue Contribution to Capital	3,225	3,169	3,197
(96)	Pension Adjustment	0	0	0
(112)	Accumulated Absence Adjustment	0	0	0
14,077	Reversal of Gain on Revaluation	0	0	0
13,869	Appropriations	3,225	3,169	3,197
(3,395)	**(Surplus)/Deficit for the year**	**0**	**0**	**0**
HRA Balances:				
(610)	**HRA Balance at beginning of year**	(609)	(609)	(609)
(3,395)	(Surplus)/Deficit for the year	0	0	0
3,396	Transfer to/from Reserves	0	5	5
(609)	**HRA Balance at end of year**	**(609)**	**(604)**	**(604)**
(8,235)	**HRA Financing Fund beginning of year**	(11,631)	(11,631)	(11,631)
(3,396)	Transfer to/from Reserves	0	(5)	(5)
0	Revenue Contribution to Capital	0	1,954	1,587
(11,631)	**HRA Financing Fund at end of year**	**(11,631)**	**(9,682)**	**(10,049)**
(3,210)	**Major Repairs Reserve at end of year**	**(3,210)**	**(3,210)**	**(3,210)**
(15,450)	**Overall HRA balances end of the year**	**(15,450)**	**(13,496)**	**(13,863)**

General Fund Service Savings 2022/23

Appendix A6

£	Service	Details
£16,500	Neighbourhood Services	Efficiency savings - various
£11,900	Neighbourhood Services	Deletion of vacant hours – various posts, correction to establishment position and various expenditure budgets
£10,000	Neighbourhood Services	Reduction in CCTV casuals' budget – underspend for last 2 years
£22,900	Neighbourhood Services	Reduction in Neighbourhood Development Officer Vacant Hours 18.5hrs
£14,700	Neighbourhood Services	Reduction of 5% to Strategic Partner Grants budget
£2,500	Planning and Regeneration	Delete the Plans Committee Site Visit Bus Budget
£32,800	Customer Experience	Delete current vacant post within the service
£20,000	Customer Experience	Additional Lagan software budget no longer required
£4,000	Customer Experience	Efficiency saving - re postal contract
£85,200	Customer Experience	Reduce the Contact Centre opening hours
£35,700	Customer Experience	Reduce face to face Customer Service Centre opening hours in line with Contact Centre
£24,900	Strategic Support	Remove budget for internal Audit Contingency – not required since inception of shared service arrangements with NWL and Blaby DC
£32,400	Strategic Support	Deletion vacant hrs within legal services – saving arising following organisational restructure
£5,000	Strategic Support	Reduce scope of Mayor making event
£2,300	Strategic Support	Reduce budget for Mayoral visits
£10,000	Improv Org & Development	Efficiency savings - various
£18,000	Improve Org & Development	Delete Vacant hours – various posts, correction to establishment position
£41,400	Finance	Restructure of Financial Services incorporating Commitment Accounting Systems
£45,000	Cleansing & Open Spaces	Changes to Garden Waste Processes (principally stationery savings)
£5,400	Leisure and Culture	Efficiency savings - various
£17,100	Leisure and Culture	Reduce the annual SLA Grant to Charnwood Arts by 50%
£33,800	Leisure and Culture	Shopmobility and review of Market and Town Centre Service
£45,000	Property Services	Delete Vacant Facilities Manager post
40,000	Strategic & Private Sector Housing	Reduction in Contribution to The Bridge Independent Housing Advisory Service to £75.1k
£576,500	**Reductions in Expenditure**	
£1,500	Regulatory Services	Food Hygiene Rating Scheme – Re-scoring charges.
£28,000	Property Services	Increased Commercial Income -Rent review
£30,000	Property Services	Additional Income Southfields Offices
£14,000	Cleansing & Open Spaces	New income from the Outwoods Visitor Centre/Café
£300,000	Cleansing & Open Spaces	Increase the Garden Waste charges
£50,000	Cleansing & Open Spaces	Increase Bulky Waste charges
£10,000	Cleansing & Open Spaces	Increase in Burial charges
£433,500	**Increases in Income**	
£1,010,000	**Total Ongoing Savings**	
80,600	Strategic & Private Sector Hsg	One Off Saving Mandatory HMO Licence Fee for new and renewals 2022/23

General Fund Service Pressures 2022/23

£	Ongoing/One Off	Details
2,300	Ongoing	Local Resilience Forum contract cost increase.
10,000	ongoing	The Public Conveniences service saving approved for 2021/22 £20k will not be made in full reduce to £10K
4,500	ongoing	Economic Development Team leader increase in salary costs
31,100	ongoing	Planning Increase in hours Planning Assistant Post by 22hrs & Increase in Senior Planning Officer 8 hours
19,800	ongoing	Increase in Post A015 0.60 to 1 FTE Sustainable Development Officer to Deliver Carbon Neutral Strategy
41,900	ongoing	S01 37 hrs New Systems Administrator Post Northgate System
32,300	ongoing	Register of Electors New Burdens Grant no longer available
42,000	Ongoing	Harborough Contact Centre Contract £42k, 5 Mths 2022/23 and £100k ongoing

183,900	**Ongoing**	
51,600	One off	Strategic Growth Plan Partnership Contribution with City/County & cost in 2023/2024 - £60,500)
64,000	One-Off	Loughborough Markets income - reduction in line with the MTFS
7,000	One-Off	Leisure centre utility rate contract adjustment
4,500	One-Off	Carillon Tower will remain closed in 2022/23, no income expected. Re-opening April 2023/24
127,100	**One Off**	

APPENDIX B

Charnwood Borough Council

Medium Term Financial Strategy

2022 – 2025

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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 2022 and 31 March 2025.

Once again the financial outlook for the Council is characterised by uncertainty and risk. The lack of detailed information on government funding plans in the medium term remains an ongoing issue, the Environment Bill could have major financial implications, and of course, COVID-19 is still with us.

In respect of the pandemic, I think we can be generally optimistic. The 'Omicron variant' shows that we are not yet completely out of the woods here, but I hope that the major health challenges faced by our communities are now on the wane. There is clearly no room for complacency and the Council continues to direct resources into supporting our communities but looking forward into the period of the MTFS the issues now appear more likely to be around the impact on income streams created by changes in the habits of our customers, and the overhang of public borrowing that will act as a brake on future government expenditure.

In this version of the MTFS additional information is provided covering the funding of the Council in historical context. This shows that since 2010/11 – essentially the final settlement before austerity and the peak level for funding – total Council funding (government grants plus council tax) has fallen by some £2m in cash terms, equating to a real terms reduction of around 30%, and demonstrating the financial challenges that the Council has already overcome. However, the latest funding settlement for local government (Provisional Settlement, December 2021), in combination with 'Spending Review 2021' (outlined by the Chancellor in October), does not suggest that funding is likely to increase in the medium term. Further, whilst the latest funding settlement for 2022/23 was in line with the core assumptions of the previous MTFS, a major disappointment was that this was once again just a settlement for a single year, and with clear messages that the distribution of funding to individual local authorities - the total of which will not, according to the Spending Review, increase - cannot be used as a guide to funding in future. It appears that the new Secretary of State wishes to revisit the premises on which previous proposals on 'Fair Funding' were to be based and a new distribution mechanism reflecting the 'levelling up' agenda will be developed for subsequent settlements.

I obviously hope that the Council will benefit from the future redistribution of the total local government 'pot' but clearly there is a downside risk. Combined with risks arisng from the enactment of the Environment Bill, particularly the potential requirement to provide free garden waste collections which would reduce our annual income by around £1.7m, our ongoing issues in respect of irrecoverable housing benefit payments (a possible excess exceeding £1m) and increasing inflationary pressures on payroll and contract costs, it is fair to say that the future financial outlook is very challenging.

As I reflect above, 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. Our past achievements allow us to be optimistic about creating future financial sustainability for the Council, but it almost goes without saying that a lot of hard work and judicious decision making lies ahead.

Councillor Tom Barkley
Cabinet Lead Member for Finance
January 2022

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 2022/23, 2023/24 and 2024/25. 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 Spending Review 2021, outlined by the Chancellor in October 2021 and the provisional local government finance settlement of December 2021. A draft budget which forms the first year (2022/23) 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 21 February 2022.

In summary the financial projections show:

- 2022/23 (the budget) shows a use of reserves of some £0.3m
- 2023/24 will see a £1.2m use of reserves
- 2024/25 will see a further £2.1m use of reserves

It should be noted that £0.3m use of reserves is planned in 2022/23; 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 – in 2024/25, the projections show the Council would need to reduce net costs on an ongoing basis by £2.1m against the 2022/23 budget amounts.

Over the three year MTFS period this would imply a use of reserves of £3.6m, leaving the working balance at £1.3m by 31 March 2025. The projected working balance of £4.6m at 31 March 2023 represents a reasonable level of financial stability but both the MTFS projections and sensitivity analysis shows that there is no room for complacency.

Once again, 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 the very wide range of possible outcomes within individual lines for income, expenditure and government funding.

The financial settlement for 2022/23 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.

Given the narrative around the Provisional Financial Settlement which made it clear that 2022/23 funding could not be used as a guide for future years there is 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 reduce by amounts equivalent to half (2023/24) and all (2024/25) of the final New Homes Bonus amount awarded in 2022/23 of £1.6m. This represents an overall reduction reflecting Charnwood's relative affluence, with transitional funding being provided within the middle MTFS year.

This assumption is highly speculative and represents a major financial risk within the MTFS projections.

The budget for 2022/23 reflects the results of further income generation and identification of savings but projections for 2023/24 and 2024/25 do not represent a financiallly sustainable outlook. Section 11 of this Strategy sets out more detail on this.

Finally, It is important to note that in respect of the 2023/24 and 2024/25 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 these 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 2022 to 31 March 2025. The first year of this projection uses the 2022/23 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 2023/24 and 2024/25 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 2022) 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 Ecomic Cooperation and Development (OECD) are set out below. A detailed economic review, will be presented within the Capital Strategy (due to be presented to Cabinet and then Council for approval in February 2022).

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OECD Economic Forecast Summary – United Kingdom – December 2021

The economy is recovering and expected to reach pre-crisis levels at the beginning of 2022. Output is projected to rise by 6.9% in 2021, with growth moderating to 4.7% in 2022 and 2.1% in 2023. Consumption is the main driver of growth during the projection period. Business investment will improve but continues to be held back by uncertainty. Increased border costs following the exit from the EU Single Market are weighing on imports and exports. Unemployment will continue to decline. Inflation will keep increasing due to higher energy and commodity prices and continuing supply shortages. It is expected to peak at 4.9% in the first half of 2022 and then fall back towards the 2% target by the end of 2023.

Monetary policy should tighten gradually to bring inflation back to target over the medium term, as price pressures show signs of becoming persistent. Fiscal policy should continue to support the economy and become more targeted to aid economic restructuring. Boosting training and career counselling programmes can facilitate economic reallocation and ease job transitions. Government programmes should focus on providing certainty on long-term issues such as the transition to net zero in order to support investment. The effects from phasing out fiscal support measures on businesses and households should be closely monitored, in the context of planned tax increases, to avoid derailing the recovery.

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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, and over the period

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

of this MTFS, the general assumption is that the economic landscape will be one of an uncertain and patchy recovery.

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.

The detailed implementation of the Act will 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.

The principal and immediate financial risk would be the cessation of the Council's ability to charge for garden waste collections. This currently generates (2021/22) around £1.4m per annum and an increase is proposed which would bring in an additional £0.3m revenue into the budget for 2022/23. If charging were to cease from 1 April 2023 (a possibility) it could be expected that renewals would decline significantly in 2022/23 as customers would anticipate the arrival of free collections from April 2023; all revenue would disappear from 2023/24 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).

Due to a mix of Brexit, COVID-19 and the general election of December 2019, the outcome of the Fair Funding review was delayed, and now appears to have been superseded by the new levelling-up policy. In particular it appears that the prospective 75% business rate retention scheme has been abandoned and from the Spending Review 2021 (SR2021) outlined by the Chancellor in October and the Provisional Local Government Finance Settlement of December it is apparent that the new Secretary of State wishes to revisit the premises on which previous proposals on Fair Funding were to be based and a new distribution mechanism reflecting the levelling-up agenda will be developed for subsequent settlements.

The total quantum of money available to the local government sector over the medium term (financial years 2022/23, 2023/24 and 2024/25) was set out within SR2021 but the net end result of the autumn and winter government statements was yet another single year settlement for 2022/23 and significant uncertainty as to the future distribution amongst local authorities of the total local government 'pot'.

Once 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

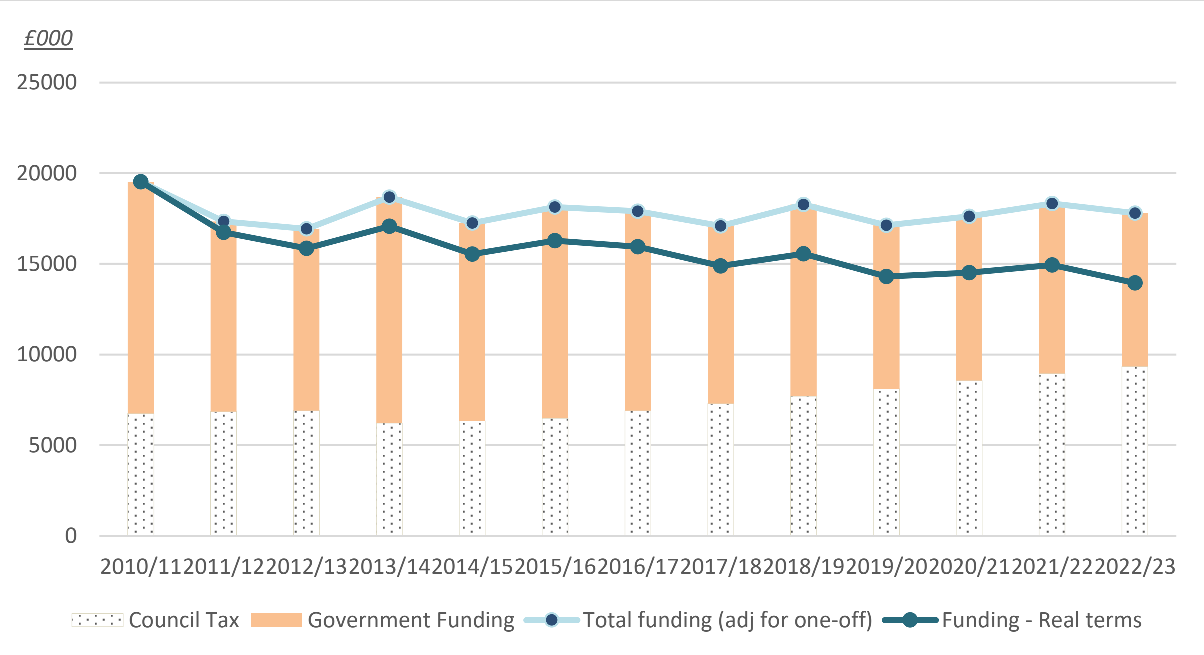
6. The local government financing regime

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 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. The total funding in each year from 2010/11 is set out below:

Figure 1: Charnwood Borough Council – adjusted total funding - 2010/11 to 2022/23



Notes:

- Figures are based on outturn other than 2021/22 (estimated outturn) and 2022/23 (projection based on provisional settlements)
- The funding is adjusted for one-off and specific grants relating to the concessionary travel scheme (now an upper-tier local authority responsibility) and COVID-19 grants
- The 'Real terms' calculation is based on the CPIH index – a consumer price index that includes housing costs

The settlement for 2010/11 was the third in a mult-year settlement package set out in Spending Review 2007, and can be regarded as the final settlement prior to the austerity policies of the 2010 – 2015 coalition government, and adjusted total funding peaked in this year at £19.5m, two-thirds of which was provided by government grants. Projections based on the Provisional Settlement show adjusted total funding some £2m lower (£17.8m) in cash terms with over half (52%) of this now being derived from council tax. In real terms, using CPIH as the base index, this funding would be equivalent to around £13.9m at 2010/11 prices – around 30% below the peak 2010/11 funding. Considering government grant funding alone, in real terms funding based on the Projected Settlement is less than half that received in 2010/11.

In addition to the reduction in the Council's funding, three significant changes to the structure of local government finance, all introduced in the 2013/14 financial year have added to the financial management challenge.

i. Localisation of Council Tax Support (LCTS)

Prior to financial year 2013/14, a national scheme of council tax support was in operation whereby the Council administered the scheme and were able to reclaim payments from the government. Under the localisation process, local authorities were required to introduce their own local schemes and fund the costs. In practice, this had the impact of reducing the council tax base by around £0.7m.

Initially (2013/14) the government did provide compensatory funding, theoretically covering 90% of the financial impact, by including this amount as a specific item within the Revenue Support Grant (RSG). However, in subsequent years compensation was deemed included within the RSG, even as RSG itself was phased out; from £4.9m in 2013/14, RSG had been totally eliminated by 2019/20 (although zombie like, some small grant payments under the RSG heading - £0.2m for 2022/23 – have recommenced).

ii. Council Tax capping and referendum rules

In 2013/14 'capping rules' for local authorities were introduced. Although requiring renewal each year, they have have always been renewed, and remain in place for financial year 2022/23. For District Councils, capping in recent years has restricted council tax increases to a maximum of either 2% or £5 per Band D property *unless* a referendum is held. Special Expense areas, such as Loughborough, are also captured by the capping regulations restricting tax raising capabilities compared to analogous town and parish councils.

If an increase above the capping limit is sought then a referendum on the increase will be required once billing of the higher amount has taken place. This is important as costs of rebilling (maybe £0.2m) would be incurred on top of the costs of the referendum (maybe £0.1m) should the referendum result reject the proposed increase. The political challenge of asking residents to vote for a tax increase, the financial costs of doing so, and the obvious risk that the proposals may be rejected have effectively discouraged all but very few councils pursuing this approach.

iii. Local retention of business rates

Historically, billing authorities (including shire districts) had responsibility for the billing and collection of business rates, which they then remitted directly to the government. Subsequently, although not a formal hypothecation rule, these were then redistributed to local government via the grants system.

From 2013/14 the system changed and became rather more complex. A system of baselines, top-ups, tariffs and levies was introduced, with local authorities benefitting from business rate collections above the baseline, but bearing some risk where collections fell below baseline levels.

The rationale for the new approach was to incentivise local authorities in encouraging economic growth (and hence business rate growth) in their areas. However, the risk and uncertainty inherent in the new arrangements are significant, especially in the area of business rate appeals.

Nothwithstanding the localisation approach, the actual rateable value of a property on which business rates are calculated, is set by the Valuation Office, which is part of HMRC. Rateable values are set on a periodic basis to create the 'rating lists'; this was last updated in 2017 with the next version due in 2023.

Businesses may appeal their rateable values with the Valuation Office. Appeals may be based on alterations to the property but most appeals relate to the original listing. Appeals take some time to be processed (only now are appeals against valuations on the 2017 list being determined) with the result that significant repayments or debtor write-offs may be required as adjustments for successful appeals are applied for all financial years since the original listing.

At inception of the new arrangements the government transferred the risk of appeals on a backdated basis, such that allowance – provisions – had to be created for the risk of successful appeals for all appeals that were not determined. Due to the backlog of caseload within the Valuation Office, many appeals relating to the 2005 and 2010 rating lists were not determined, an issue exacerbated by reporting limits within the software of the billing systems which were not designed to give the data sets required to assess appeals risk.

As context, it may be noted that the current level of provisions held against business rate appeals is around £5m, 40% of which is attributable to the Council (the balance relating to the government, Leicestershire County Council, the Fire Authority and the LLEP). Individual appeals may be significant, whilst decisions on specific property categories can prove very material across the local business rate list. This single issue is therefore a source of both risk and volatility within the business rates funding stream.

In summary, the changes to local government financing arrangments from 2013/14:

- Increased costs of local authorities
- Resticted the ability of local authorities to increase taxation revenues
- Increased the risk and volatility of funding

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 2021/22

NATIONAL PICTURE	***Council Tax Band D***	***Rank (of 181)***
Lowest		
Breckland	£100	1
West Oxfordshire	£109	2
Hambleton	£114	3
Charnwood	**£154**	**24**
Median		
Arun	£192	90
South Holland	£193	91
North East Derbyshire	£193	92
Highest		
Oxford	£320	179
Preston	£327	180
Ipswich	£377	181

LEICESTERSHIRE AUTHORITIES	***Council Tax Band D***	***Rank (of 181)***
Hinckley & Bosworth	£140	14
Charnwood	**£154**	**24**
Harborough	£173	49
Blaby	£173	51
North West Leicestershire	£174	53
Melton	£213	118
Oadby & Wigston	£235	148

** Calculation includes Band D and Share of Loughborough Special Rate (or equivalent) spread across whole tax base*

Source: MHCLG / DLUHC

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 £193 – 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 2021[2] was weaker than this historical norm at just 0.9%.

[2] The CTB1 return, on which the council tax base is calculated, is completed in the October preceding the relevant financial 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 years preceding the COVID-19 pandemic.

Figure 3: Projected Council Tax income tax increases

(Amounts £000)	*2022/23 budget*	*2023/24*	*2024/25*
Assumed council tax income - CENTRALCASE	**7,981**	**8,381**	**8,791**
Assumed council tax income - OPTIMISTIC	7,981	8,547	8,871
Assumed council tax income - PESSIMISTIC	7,981	8,333	8,741

The OPTIMISTIC case assumes that there will be a catch-up in housing completions leading to 2.5% year on year increases for 2023/24 and 2024/25. 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:

https://www.charnwood.gov.uk/files/documents/2021_22_budget_book/Budget%20Book%202021-22.pdf

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 1.4% based on the average of recent years.

***Note: The above paragraphs assume that council tax increases for 2022/23* 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)	*2022/23 budget*	*2023/24*	*2024/25*
LSR – 1.99% increase assumed	1,346	1,392	1,439

Provisional local government finance settlement 2022/23

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. No COVID-19 specific funding has been allocated this year. This is tabulated below, alongside the 2021/22 budget for comparative purposes:

Figure 5: Provisional local government finance settlement

(Amounts £000)	*2021/22 budget*	*Draft budget 2022/23*	*Provnl Settlement 2022/23*
Retained business rates	*4,547*	4,465	*5,200*
Revenue Support Grant	*0*[3]	0	*174*
New Homes Bonus	*3,000*	*988*	*1,631*
Lower Tier Services Grant	*618*	*0*	*1,112*
Services Grant	*0*	*0*	*296*
Unspecified - estimated	*0*	*2,728*	*0*
Movement on collection fund	*2*	*(15)*	*122*
Sub-total	*8,167*	*8,196*	*8,535*
Tranche #5 COVID-19 funding	*801*	*0*	*0*
Total	***8,968***	***8,196***	***8,535***

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

As noted previously, 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 2022/23 equating to £4.3m for 2022/23; the settlement also sets out the safety net balance (£4.0m) below which the collection deficit is compensated, and the levy rate, which has the effect of allowing 20% retention for business rate collections above the baseline.

[3] Although not included within the budget, RSG of £168k was subsequently received

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.

One of the challenges for the Council is 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

Discounting the impact of COVID-19, it could be expected that a small degree of business rates growth will arise over the period of the MTFS based on, in particular. medium term initiatives such as the development of Charnwood Campus and the inclusion of this in the Enterprise Zone and the expectation that the majority of successful valuation appeals are now settled. Combined with indexation gains the central case for the MTFS is that year on year growth of £0.2m in retained business rates will arise, as set out below.

Figure 6: Projected local share of business rates

(Amounts £000)	*2022/23 budget*	*2023/24*	*2024/25*
NDR retention – central case	**5,200**	**5,400**	**5,600**
NDR retention – OPTIMISTIC	5,900	6,200	6,600
NDR retention – PESSIMISTIC	4,900	4,900	4,900

In the OPTIMISTIC case a higher baseline is assumed reflecting volatility within the underlying calculations[4]; further additional business rate growth – including a lesser proportion of empty properties – is experienced creating year on year growth above the budget (2022/23) of £0.3m and £0.4m 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

In the PESSIMISTIC case business rate retention is assumed to remain at £4.9m, being the projected outturn for the 2021/22 financial year; it is unlikely that business rate retention could fall much below this figure unless retention rules were significantly altered.

[4] 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 2022/23; the final outcome is not known until after the 2022/23 year end

Other grants

The consultation associated with the Provional Settlement is summarized in respect of other grants as follows:

- **Revenue Support Grant**: indexation applied to 2021/22 amount to arrive at 2022/23 award but no information on future years

- **New Homes Bonus**: final legacy payment honoured and single year payment in respect of 2022/23 awarded; revised incentivisation scheme for development may be implemented but no detail available

- **Lower Tier Services Grant**: awarded on a single year basis for 2021/22 but a further single year awarded; total funding for the grant of £111m for 2022/23 with distribution designed to ensure no local authority sees a reduction in Core Spending Power

- **Services Grant**: one-off distribution of £822m; it appears that this sum will be available to the sector in future years but with a different distribution; also of note is the comment that this grant will not be included in any baseline calculation for future transitional relief

In addition to the above it is known that the total pot of money relating to the above grants will be static across the MTFS period; therefore any increases or decreases in the Council's individual allocation will be due to the impact of redistribution across the local government sector.

The total funding relating to the above grants amounts to £3.213m for 2022/23. Given the absence of detail on the future of allocations, existence or replacement for the above, these other grants are considered as a single block.

For the purpose of MTFS, the central case assumes that the New Homes Bonus element is deemed to disappear, offset by transitional funding of half the lost amount (£0.8m) receivable in 2023/24 *only*. This reflects the nascent 'levelling-up' agenda and Charnwood's relative affluence in comparison to other areas.

In the OPTIMISTIC case it is assumed that total funding from other grants will remain at £3.213m for each year of the projections. This reflects the overall 'cash flat' scenario set out in Spending Review 2021 with the underlying assumption that the Council will neither gain nor lose from future redistributions.

In the PESSIMISTIC case the loss in grant is assumed at £1.2m in 2023/24 with a further £1m reduction for 2024/25.

Figure 7: Other grant projections

(Amounts £000)	*2022/23 budget*	*2022/23*	*2023/24*
Other grants – central case	**3,213**	**2,400**	**1,600**
Other grants – OPTIMISTIC (rounded amounts)	3,213	3,213	3,213
Other grants – PESSIMISTIC (rounded amounts)	3,213	2,000	1,000

COVID-19 funding

The government provided various types of COVID-19 funding within the 2020/21 and 2021/22 financial years. No funding has been mooted in respect of the 2022/23 financial year.

Figure 7. above, illustrates the risk that a very significant funding gap could arise following the outcome of future local government financial settlements given the one-off or diminishing nature of awards contained within the 2022/23 provisional settlement. The principal risk would appear to be with the New Homes Bonus element of funding, amounting to £1.6m and due to cease after 2022/23, but other reductions could arise due to the effects of redistribution.

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 PEESIMISTIC scenario. However, it must be stressed that even this pessimistic scenario is not the worst case that could be envisaged.

In the absence of further information, the central case and OPTIMISTIC and PESSIMISTIC scenarios are necessarily speculative and gives rise to a high level of uncertainty. This uncertainty within the MTFS projections is highly significant within the context of the overall projections.

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. 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 remains an important source of funding for the Council despite the ongoing low level of interest rates.

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 2022.

For the purposes of projections, it is assumed that:

- Interest rates are likely to rise over the period of the MTFS; Bank of England projections[5] suggest base rates will increase from 0.2% in graded steps to 1.1% by the end of 2022, and remain at that level for an extended period

- Average cash balances available for investment will reduce (reflecting use of internal borrowing to finance the delivery of the capital plan)

- The net effect of the above will deliver returns in line with the 2021/22 budget

[5] BoE - MPC report November 2021

Figure 8: Investment income (interest receivable) projections

(Amounts £000)	*2022/23 budget*	*2023/24*	*2024/25*
Interest receivable - central case	**300**	**300**	**300**
Interest receivable - OPTIMISTIC	350	400	500
Interest receivable - PESSIMISTIC	300	280	250

In the OPTIMISTIC case it is assumed that increases in interest rate will offset reducing balances, whilst the PESSIMISTIC case assumes the reverse. In respect of this revenue, the current low levels of interest rates, and the recent history of the Council's cash holdings, suggest that there is more upside than downside.

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 final 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'[6] 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 2022/23.

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 planned 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 2022/23 budget and MTFS projections assuming net rentals of £0.65m 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.

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

Further details of the investment property portfolio are set out within the Capital Strategy 2022/23.

Figure 9: Commercial (investment) property income projections

(Amounts £000)	*2022/23 budget*	*2023/24*	*2024/25*
Net rentals (after MRP, interest and provision)	**650**	**650**	**650**

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 2022/23 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 2022/23 budget setting process. In contrast to previous versions of the MTFS the underlying inflation outlook is both less benign and less certain, creating greater challenge in developing the MTFS projections, whilst he implementation of the Environment Act 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 10: Environment Act 2021 – adverse financial impact assumptions

(Amounts £000)	*2022/23 budget*	*2023/24*	*2024/25*
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 2023; given the profile of subsubscription renewals this would be assumed to reduce income by around half in 2022/23[7], 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 is much less benign at this this point in time then has been experienced in recent history. The latest available data (November 2021) shows CPI[8] running at 4.6%, significantly above the Bankof England target of 2%. The Monetary Policy Committee report of November 2021 estimates that CPI will peak at around 5% in April 2022 (although other forecasts suggest maybe 7% here) with

[7] Including the proposed increase in charges, garden waste income is budgeted at £1.7m in 2022/23
[8] Consumer Price Index – strictly CPI(H) which includes housing costs

a reduction to 3.4% in Q4 2022 and then 2.1% by Q4 2023; by this stage the forecast suggests that inflation will be back around the 2% target range for 2024 and subsequently.

Payroll costs

The Council's bill is budgeted at £13.8m for 2022/23 which represents around 45% of general fund operating expenses; each additional percentage point on pay therefore represents therefore around £0.14m.

In the autumn statement of 2020, the Chancellor announced a public sector pay freeze for all but the lowest paid staff. Whilst local government pay is not included within this definition of 'public sector pay', historically local government pay has tracked the public sector pay settlement and that was the base assumption for the 2021/22 budget and last year's version of the MTFS. However, The national local government pay award for the financial year 2021/22 has yet to be settled with rising inflation increasing the strength of the employee claim. Whilst the Trade Union claim for a 10% payrise does not appear realistic, it may be noted that a 1.75% offer has been rejected, and this amount can now be regarded as a 'floor' for the settlement.

It is now likely that a multi-year deal on pay will eventually arise and the budget for 2022/23 assumes an increase on the 2020/21 salary scales of around [3%]. This represents the central case for the MTFS projections, which further assume year on year payrises of 1.5% for subsequent years, an assumption that pay increases will be somewhat below prevailing inlation.

In the OPTIMISTIC scenario salaries grow from the 2022/23 budget at 1% year on year, reflecting increases below likely inflation rates. In the PESSIMISTIC scenario, the budget for 2023/24 proves insufficient (by 2%) and then increases for 2023/24 of 3% and 2024/25 of 2%, representing forecast inflation rates at the end of calendar years 2022 and 2023 respectively.

Figure 11: Payroll cost assumptions

(Amounts £000) *(percentage increases are versus the 2022/23 budget)*	*2022/23* *Budget*	*2023/24*	*2024/25*
Wages and salaries – central case	**+0%** **13,779**	**+1.5%** **13,983**	**+1.5%** **14,190**
Wages and salaries – OPTIMISTIC	+0% 13,779	+1% 13,915	+1% 14,059
Wages and salaries – PESSIMISTIC	+2% 14,187	+3% 14,329	+2% 14,472

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 2022/23 budget) - £5.9m
    - Indexation – RPI
    - Also, standard variation applied for additional properties

- Open Spaces
    - Approximate annual cost (per 2022/23 budget) - £1.3m
    - Indexation – RPI; but capped at 2%

- Revenues & Benefits
    - Approximate annual cost (per 2022/23 budget) - £2.6m
    - Indexation - CPI

Current inflation rates and the associated indexation is essentially reflected in the 202/23 budget, but the central case, and OPTIMISTIC and PESSIMISTIC indexation scenarios are tabulated below:

Figure 12: Major contracts – cost indexation scenarios

(Amounts £000 – increases versus 2022/23 budget) *(percentage increases are versus the 2022/23 budget)*	*2022/23 Budget*	*2023/24*	*2024/25*
Major contracts – central case Environmental Services	+0% 5,945	+5% 6,242	+4% 6,492
Open Spaces	+0% 1,346	+2% 1,373	+2% 1,400
Revenues & Benefits	+0% 2,583	+3.5% 2,673	+2% 2,727
Summary YoY increase	**0**	**415**	**745**
Major contracts – OPTIMISTIC Environmental Services	+0% 5,945	+3% 6,124	+2% 6,246
Open Spaces	+0% 1,346	+2% 1,373	+2% 1,400
Revenues & Benefits	+0% 2,583	+2.5% 2,647	+2% 2,700
Summary YoY increase	0	*270*	*473*
Major contracts – PESSIMISTIC Environmental Services	+0% 5,945	+7% 6,361	+5% 6,680
Open Spaces	+0% 1,346	+2% 1,373	+2% 1,400
Revenues & Benefits	+0% 2,583	+5% 2,712	+4% 2,820
Summary YoY increase	*0*	*572*	*1,026*

9. Transformation and Efficiency plans

Charnwood has embarked on a programme to achieve financial sustainability. This programme is ongoing and has a number of elements as outlined below:

- Service reviews
- Assets and fixed costs
- Commercialisation and income generation
- Procurement
- Regeneration and economic growth
- Other - Technical and tactical approaches

The initial results of the programme were reflected in the savings and income generating opportunities identified and reflected in the budget for 2021/22 and totalling a net £1.6m. Of these initiatives all were essentially realised other than:

- *Essential Car User allowance* – a saving of £0.2m was assumed within the 2021/22 budget but delays in implementation will not result in savings within the 2021/22 financial year; implementation is now underway and a reduced level of savings is included within the 2022/23 budget

- *Biggin Street toilet closures* – only half of the planned saving of £20k proved realizable; the reduced level of savings is adjusted within the 2022/23 budget

Total savings and additional income generating opportunities identified for the 2022/23 budget comprise £1m. The detailed list of savings is included within the budget papers, but principal elements comprise:

Figure 13: Principal savings and income generation opportunities – 2022/23 budget

(Amounts £000)	*2022/23 Budget*	*2023/24*	*2024/25*
Income generation			
Increase in garden waste charges	300	300	300
Increase in bulky waste charges	50	50	50
Other income generation	84	84	84
Staffing efficiencies – various services			
Deletion of vacant posts or vacant hours - No service changes required	231	231	231
Service changes			
Reductions in grant – housing partner	40	75	75
Customer Services – reduced opening hours	121	121	121
Review of town centre facilities – shop mobility	34	34	34
Reduction – other grants	32	32	32
Efficiency savungs			
Garden waste collections – stationery saving	45	45	45
Other efficiency	73	73	73
TOTAL GENERATED	**1,010**	**1,043**	**1,043**

For the purposes of the MTFS projection it is assumed that savings and income generation identified in respect of the budget year 2022/23 will carry forward into future years, being specific actions and initiatives, and with a high level of probability that these can be delivered and sustained into the medium term.

It is recognized that further savings and / or income generation will be required in 2023/24 and 2024/25 to address the financial challenges identified within the MTFS projections. As such it is important to note that the projections above are arithmetic in nature rather than predictions of a likely outcome in terms of savings that will be achieved in future years,

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 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 £2m in line with good practice
- 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 detail of this is set out in the Capital Strategy 2022/23.

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

	2022/23 £000	*2022/23 £000*	*2023/24 £000*
Expenditure			
Baseline Net Service Costs	18,508	18,151	19,038
Ongoing Service pressures	184		
Ongoing additional savings / income	(1,010)		
Net Service Expenditure	17,432	18,151	19,038
Commerial property interest and provisions	729	729	729
Interest payable	240	240	60
Interest receivable	(300)	(300)	(300)
Collection fund and reserve adjustments	322	0	0
	18,423	18,820	19,527
Savings to be determined 2022/23	(250)		
Total Borough Expenditure	**18,173**	**18,820**	**19,527**
Funding			
Council Tax Receipts	7,981	8,381	8,791
Loughborough Special Levy	1,346	1,392	1,440
Revenue Support Grant	174	0	0
NNDR	5,200	5,400	5,600
New Homes Bonus	1,631	0	0
Lower Tier Services Grant	1,112	0	0
Core Spending Grant	296	0	0
Government Grants - non specific	**0**	**2,398**	**1,582**
Collection Fund Surplus/(Deficit)	122	0	0
	17,863	17,571	17,413
Projected use of Working Balance	**311**	**1,248**	**2,114**

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 2024/25 the Council will need to remove around £2.1m from its projected cost base over and above savings identified and income generation created to date. **Critically, this assumes that funding due (or likely to) fall away from 2023/24 is at least partially replaced – 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

	2022/23	*2022/23*	*2023/24*
	£000	*£000*	*£000*
General Fund working balance			
Balance brought forward	4,970	4,614	3,366
Collection fund surplus	122	-	-
Replenishment Reeinvestment Reserve	(167)		
Use of balance in year	(311)	(1,248)	(2,114)
	4,614	**3,366**	**1,252**

The above projection shows that without action to address the financial challenge projected, the Working Balance would fall below the minimum level of £2m (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)

	2022//23	*2023/24*	*2024/25*
	£000	*£000*	*£000*
Other Revenue Reserves			
Reinvestment Reserve	500	500	357
Capital Plan Reserve	2,233	2,233	2,233
Other Revenue Reserves	2,215	2,215	2,215
	3,183	**3,183**	**3,183**

(Movements in other reserves are typically not directly connected to revenue expenditure but will in practice diminish through utilisation over the MTFS period)

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 very wide range of plausible funding outcomes. The most obvious risk area is the New Homes Bonus funding stream where some £1.6m receivable in 2022/23 is due to cease, but other funding streams are also earmarked as ‘one year only’ and generally, funding received in 2022/23 will be subject to potentially adverse redistribution effects in future years.

Inflation

The current inflation outlook is discussed previously in this MTFS but the less benign outlook clearly gives rise to additional 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.

Supported living

The projections assume these costs remain at around £0.7m across the period of the MTFS. Based on current information around supported living units existing and planned, it is possible that costs could exceed £1m. However, should either the Council be successful in lobbying the Government about the impact of this situation, or the main providers in Charnwood achieve Registered Provider status then the cost to the Council could fall significantly.

In the OPTIMISTIC case the main providers in Chranwood both achieve Registered Provider status (or fall under an RP umbrella) such that costs reduce to an annual £0.1m from 1 January 2023. In the PESSIMISTIC case costs exceed the budget amount by £0.2m in 2022/23 and increase by this amount year on year, as set out below.

Figure 17: Supported living - sensitivies

(Amounts £000)	*2022/23 Budget*	*2023/24*	*2024/25*
Supported living – central case	**650**	**650**	**650**
Supported living – OPTIMISTIC	650	525	100
Supported living – PESSIMISTIC	850	1,050	1,250

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 will continue to operate at below pre-pandemic levels through 2021/22 but it is assumed that the key shows will be able to run in line with pre-pandemic operations from 2022/23 and in subsequent years.

- ***Car parking*** – income is assumed at 85% of pre-pandemic levels across the MTFS period; underpinning assumptions are that economic activity will near normal by late spring 2022 (with works around Bedford Square being completed and the temporary free car parking offer ceasing) but that permanent changes in shopping and commuting habits will restrict income recovery; budgeted income for 2022/23 is set at prior year levels with potential shortfalls (based on current run rates) being offset by the periodic rate increase which is due.

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)*	*2022/23* *Budget*	*2023/24*	*2024/25*
Income – central case	**0**	**0**	**0**
Income – OPTIMISTIC	500	500	500
Income – PESSIMISTIC	(500)	(500)	(500)

COVID-19

The impact of the COVID-19 pandemic has been considered within the MTFS projections set out in previous paragraphs assuming a general scenario where social restrictions on day-to-day life are minimal and society recovers towards a new normal.

Should a major reoccurance of COVID-19 arise such that major restrictions on day-to-day life have to be introduced for an extended period of time this would materially impact the Council's income and expenditure patterns. None of the projections in this iteration of the MTFS are based on this scenario and – as was the case in 2020/21 – such an event would likely require updated versions of the budget and MTFS to be produced.

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)	*2022/23* *Budget*	*2023/24* *MTFS*	*2024/25* *MTFS*
Council Tax	-	166	80
NDR retention	700	800	1.000
Other government grants	-	813	1,613
Investment income (non-commercial property)	50	100	200
Environment Act 2021	-	-	-
Payroll costs	-	68	131
Major contract indexation	-	145	273
Irrecoverable Housing Benefit – supported living	-	125	550
Income streams	500	500	500
BEST CASE SCENARIO	**1,250**	**2,717**	**4,347**

Figure 20: Sensitivities – PESSIMISTIC SCENARIOS

(Amounts £000)	*2022/23 Budget*	*2023/24*	*2024/25*
Council Tax	**-**	(48)	(50)
NDR retention	(300)	(500)	(700)
Other government grants	-	(400)	(600)
Investment income (non-commercial property)	-	(20)	(50)
Environment Act 2021	(800)	(1,700)	(1,700)
Payroll costs	(408)	(346)	(282)
Major contract indexation	-	(157)	(281)
Irrecoverable Housing Benefit – supported living	(200)	(400)	(600)
Income streams	(500)	(500)	(500)
WORST CASE SCENARIO	**(2,208)**	**(4,071)**	**(4,763)**

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 £22.3m in 2022/23 of which £21.4m was dwelling rents. Expenditure on management and repairs amounted to £12.2m whilst depreciation was £3.6m. A further £2.7m 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 2022 it was £0.6m equating to its target balance of that amount. There is an additional £11.2m 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 £3.2m 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. The most recent 30 Year Housing Business Plan, which effectively represents the MTFS for the HRA, was approved by Council in November 2014. The Business Plan is now being refreshed and a new version should be complete within the 2022/23 financial year.

14. Reserve Strategy

As outlined above, from 2023/2024 onwards grant funding from central government remains highly uncertain. The Council's strategy is to maintain a minimum of £2.0m in the working balance.

The Council's reserves were adversely affected by COVID-19 (such an emergency is precisely why the Working Balance reserve is maintained) and concerted efforts will need to continue in order to meet this objective and ensure the Council remains financially sustainable.

The budget proposed for 2022/23 would leave the Working Balance at £4.5m, above the £2.0m 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.

CABINET – 10TH FEBRUARY 2022

Report of the Head of Finance and Property Services

Lead Member: Councillor Tom Barkley

Part A

ITEM 8 CAPITAL STRATEGY (INCLUDING THE TREASURY MANAGEMENT STRATEGY) FOR 2022/23

Purpose of Report

This report introduces 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 are therefore presented within a single report for context.

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

Recommendations

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

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

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

Reasons

1. To enable the Council to comply with the statutory code of practice issued by CIPFA: 'The Prudential Code for Capital Finance in Local Authorities, 2017 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 2022 - 2025) outlines the prospective financial challenges facing the Council and the contribution expected of the Investment Strategy in mitigating these challenges.

Implementation Timetable including Future Decisions and Scrutiny

If approved by Council the Capital Strategy (including its component strategies) will come into effect from 1 April 2022.

This report is available for the consideration of the Scrutiny Commission on 7 February 2022.

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 15 February 2022.

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*
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

Risk Identified	*Likelihood*	*Impact*	*Overall Risk*	*Risk Management Actions Planned*
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 11 November 2021

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Part B

Background

1. 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'.

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

3. 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

4. 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)

5. 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

6. The Council created a commercial property portfolio capital, spending £22.5m in the 2020/21 financial year. This portfolio is performing well and in other circumstances the Council may have considered expanding this. However, new regulations were introduced in 2020 preventing access to Public Works Loan Board (PWLB) borrowing for local authorities that included investment in property (or other assets) for yield purposes within their capital programmes (whether or not borrowing was linked to a specific investment asset). In 2021 this was followed by the publication of an updated Prudential Code that effectively prevents local authorities acquiring such assets where funded by borrowing.

7. The current Capital Plan includes as yet unused amounts for Regeneration (£15m) and development of the Enterprise Zone (£13m); the Capital Strategy assumes that these unused amounts will be carried forward to allow availability in future years.

8. 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 would be required if the full £28m for Regeneration and Enterprise Zone development was invested; however, the Council has significant scope for additional 'internal' borrowing and in practice it is unlikely that external borrowing will be required in the next financial year.

9. 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 as the country (hopefully) moves out of the COVID-19 pandemic, 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).

10. Overall, there are no significant changes and matters of note within the the proposed 2022/23 Capital Strategy compared to its predecessor.

11. As stated in Part A, this report requests that the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy together with the Prudential and Treasury Indicators, be approved and recommended to Council.

<u>Appendices</u>

Appendix A: Capital Finance Strategy

Appendix B: Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy for 2019-20

Sub appendices contained within this document:

B (1) Economic background

B (2) Minimum Revenue Provision

B (3) Treasury Management Practice

B (4) Approved countries for investment

B (5) List of approved brokers for investment

B (6) Current investments (snapshot at 6 January 2020)

B (7) Treasury management scheme of delegation

B (8) Treasury management role of the Section 151 Officer

APPENDIX A

Charnwood Borough Council

Capital Strategy

2022 – 2023

Foreword

This latest Capital Strategy sets out our plans and aspirations in the areas of capital planning, treasury management, and new borrowing to assist the economic development of our communities as they recover from the COVID-19 outbreak.

The financial and economic outlook facing the Council is highly uncertain (see the latest version of the Medium Term Financial Strategy for more detail) and much of our focus will be to ensure that the Council remains on a sustainable financial footing. With this in mind the new Capital Plan (2022 – 2025) has a focus on the upkeep of the Borough and maintenance of our existing asset portfolio. However, our ambition for the Borough remains and it is envisaged that sigificant remaining unspent balances in the existing Capital Plan (2020 – 2023) earmarked for economic regeneration and investment in the Enterprise Zone, some £28m, will continue to be available, whilst we will also 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. We continue to look for ways to refine our treasury operations and seek to minimise our external borrowing requirement.   We believe our existing Treasury Policies remain appropriate and security and liquidity will still be the key elements of the Council's approach to treasury management. However, the financial challenges ahead, coupled with – after many years – an 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 Services

January 2022

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 supporting this vision work is in progress on ambitious improvements in the public realm through investment in the Bedford Square area of Loughborough and plans under development for investment around Shepshed market place. A sum of £15m is set aside for regeneration investment which may complement the Loughborough Town Deal and allow investment across the Borough. 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.

The Council's capital expenditure plans will support and create economic prosperity for the Borough. A training and skills hub, developed in conjunction with Loughborough College has opened following a £0.8m investment whilst an initial £2m investment in the refurbishment of buildings within the Enterprise Zone out of the total £15m fund earmarked for this purpose will bring new jobs to the area.

Enabling this vision requires the Council to be financially sustainable and the commercial investment property element within the extant capital plan (now delivered) and a more robust approach to future capital appraisals reflect this need.

The Capital Strategy shows how these expenditure plans are governed, the financing requirements they imply, the impact on revenue budgets and the method by which the Council aims to mitigate some of the risks involved in this expenditure.

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 B). **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.

Current and new Capital Plans

The Council has a policy of preparing a three year Capital Plan, and then refreshing this every other year. In the light of the COVID-19 pandemic the extant plans were refreshed and merged to form a revised plan for the years 2020-2023. See:

https://charnwood.moderngov.co.uk/documents/g318/Public%20reports%20pack%2009th-Nov-2020%2018.30%20Council.pdf?T=10

Whilst the final year of the current Capital Plan is 2023/24 a new Capital Plan covering the financial years 2022/23 to 2024/25 has been prepared and is due for approval at the Council of 21 February 2022 alongside this Capital Strategy. There are also significant items within the current Capital Plan – principally the amounts held for Regeneration (£15m) and forward funding of the Enterprise Zone (remaining balance £13m) - which have a profile spend in 2021/22 but are highly likely to be carried forward as prospective initiatives into future years.

In summary the situation may be illustrated as follows:

(Amounts £m)	*General Fund*	*HRA*
Final year of current Capital Plan (Planned spend 2022/23)	3.8	7.7
New Capital Plan 2022 - 2025	8.9	23.3
Estimated slippage from current Capital Plan into future years	28.0	-
PROJECTED SPEND – 2022 - 2025	**40.7**	**31.0**

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 is likely to 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.

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.

The implications of financing capital expenditure from 'borrowing' are explained later on in Treasury Management Investments.

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.

Following a period of consultation the Government has now restricted access to Public Works Loan Board finance for local authorities wanting to access PWLB funding where that local authority plans to purchase commercial investment property for yield – whether or not any loan is specifically attached to an individual commercial property.

Additionally, an amendment to the 2021 version of the Prudential Code will prevent any acquisition of commercial investment property financed through borrowing.

The above changes mean that acquisition of assets purely for commercial returns is very difficult, other than at small scale such that the Council's *entire* Capital Plan could be financed by using existing reserves allocated for capital expenditure.

The Council continues to investigate investment opportunities that may have a commercial element alongside attributes supporting other Council objectives, such as regeneration, or the climate change agenda. Other than the £15m within the current Capital Plan earmarked for regeneration projects, no capital expenditure is included within either the new Capital Plan or Treasury Management Strategy for this type of opportunity. Any additional investment required 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.

As referenced in the previous section, the Council's capital expenditure plans mean that it is highly likely that the Council will need to finance this expenditure using prudential borrowing. This is an important departure from historical practice and the implications of this approach are set out within Appendix B of this document set which details (potential) prudential borrowing within the overall context of the Council's Capital Financing Requirement.

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 are provided In the Treasury Management Strategy Statement (Appendix B).

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 B).

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.

CHANGES TO THE TREASURY MANAGEMENT STRATEGY FOR 2021/22

No changes are proposed further to those introduced by the 2020/21 Capital Strategy.

4. Commercial investments

The prolonged low interest rate environment has meant that treasury management investments have not generated significant returns. Even drafting this Strategy in early 2022, as inflation increases significantly after an extended benign period, interest rate forecasts show only a modest rise in rates. The introduction of the general power of competence (arsing 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.

More recently, the Government became increasingly concerned about the amount of borrowing undertaken by local authorities to fund investment for purely commercial return. This has resulted in a situation where the wider powers and flexibilities made available to local authorities remain, but the ability to fund certain investments is restricted if an authority would need to borrow in order to acquire it.

Regulatory framework

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 a five-year statutory override applicable to local authorities (covering financial years from 2018/19). 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 and a major downturn in the value of specific assets, or the property market generally, represents a clear risk in future financial periods.

The latter point is becoming ever more topical as the override period is due to end in just over a year. It is likely in practice that the override will be extended (otherwise certain local authorities that were otherwise financially viable may be pushed into financial difficulties). From a Charnwood perspective, there are not material issues with either the Property Funds (two funds of £2.5m) or the commercial property portfolio, even if the override ceases; but 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. A new (2021) version of this code will apply from the 2022/23 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.

The following paragraphs outline the approach the Council adopts to the management of its commercial property portfolio.

<u>Commercial Investment properties</u>

The Council has now developed a commercial investment property portfolio totalling £22.5m. As noted, previously 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 2022)*
Loughborough	Car showroom	2.4	165	13 years
Banbury	Offices	7.7	540	4 years
Aberdeen	Industrial	3.6	211	9 years
Scunthorpe	Industrial	8.8	550	14 years
		22.5	**1,466**	

The 2022/23 budget for commercial property income is set at £0.65m, 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)	*2022/23 (Budget)*	*2023/24 (Projection)*	*2024/25 (Projection)*
Gross rent	1,466	1,466	1,466
MRP charge (40-year annuity life method)	(295)	(304)	(314)
Interest charge (based on internal borrowing)	(113)	(113)	(113)
Portfolio management charges	(50)	(50)	(50)
Contribution to reserve (balancing figure)	(358)	(349)	(339)
Net contribution to revenue budget	**650**	650	650

It may be noted that the above figures exclude net income from the Loughborough vaccination centre; such income is possible but not contractually certain, and hence excluded from the above calculation.

The figures also 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

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.

<u>Loans to local enterprises and third parties (no change in approach planned)</u>

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

[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)

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 2022/23 – 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.

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 2022/23 - 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 may be facilitated by providing 'match' funding from the Council[2]

- 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:

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

STRATEGY FOR 2022/23 - INVESTMENT IN THE TOWN DEAL AND REGENERATION PROJECTS

An amount of £15m to fund material investment in the Town Deal and regeneration projects will be carried forward into 2022/23 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 £15m allocation) will be approved by Cabinet 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 2021/22 - INVESTMENT IN THE ENTERPRISE ZONE

An amount of £15m to forward fund investment in the Enterprise Zone (EZ) has been created. To date £2m has been allocated and the £13m balance will be carried forward into 2022/23 and future years of the Capital Plan 2020-23 (subject to approval by Council).

This total amount was profiled for the 2020/21 financial year to ensure there is no impediment to investment opportunities but in practice it is likely that £2m will be allocated in this year, with the balance to be reprofiled in future years as appropriate.

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].

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

[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

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.

1.2. 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 B)

APPENDIX B

Charnwood Borough Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2022/23

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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 authority 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."*

1.2 Reporting requirements

1.2.1 Capital Strategy

CIPFA published the updated Treasury Management and Prudential Codes on 20th December 2021. CIPFA has stated that there will be a soft introduction of the codes with local authorities not being expected to have to change their current draft TMSS/AIS reports in 2022/23, full implementation would be required for 2023/24.

It should also be noted by English authorities that the 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 also adopted a similar set of restrictions to discourage further capital expenditure on commercial investments for yield.

However, this does not mean that local authorities may not currently have the legal powers to undertake such capital expenditure despite such guidance and regulation.

The DLUHC is also conducting a consultation on amending MRP rules for England.

The CIPFA 2017 Prudential and Treasury Management Codes requires as from 2021/22 all local authorities to prepare a capital strategy report, which provides 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 this capital strategy is to ensure that all elected members on the full council 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 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 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 investment strategy (the parameters on how investments are to be managed).

b) **A mid-year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c) **An annual treasury report** – This provides details 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.

1.3 Treasury Management Strategy for 2022/23

The strategy for 2022/23 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 Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny (which largely falls under the ambit of the Audit Committee). Suitable training is provided for members on a periodic basis as part of the wider Member training programme. Officers are also available to train and advise members on an ad hoc basis outside of this programme if required. The training needs of treasury management officers are reviewed annually as part of the Personal Review process.

1.5 Treasury Management Consultants

The Council uses Link Group Treasury Solutions 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 service of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, that from our treasury advisers.

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

2. THE CAPITAL PRUDENTIAL INDICATORS 2022/23-2024/25

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

The Council's capital expenditure plans are the key driver of Treasury Management activity. This prudential indicator is a summary of the Council's 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	*2021/22 Budget Estimate £'000*	*Actual Spend 31/12/2021 £'000*	*2022/23 Budget Estimate £'000*	*2023/24 Budget Estimate £'000*	*2024/25 Budget Estimate £'000*
General Fund - general	10,697	4,484	4,330	2,991	1,580
Enterprise Zone	15,000	2,000	0	0	0
Regeneration	15,000	0	0	0	0
HRA	9,620	3,052	8,874	7,530	6,519
Total	**50,317**	**9,536**	**13,204**	**10,521**	**8,099**

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	*2021/22 Budget Estimate £'000*	*2022/23 Budget Estimate £'000*	*2023/24 Budget Estimate £'000*	*2024/25 Budget Estimate £'000*
Total Capital Expenditure as per above table	**50,317**	**13,204**	**10,521**	**8,099**
Financed by:				
GF Revenue Contributions	15	0	0	0
GF Capital receipts	5,246	760	1,433	453
GF Capital Grants	5,236	3,570	1,558	1,127
GF Capital Plan Reserves	200	0	0	0
HRA Revenue Contributions	8,315	8,424	7,081	6,069
HRA Capital Receipts	1,305	450	449	450
Internal /External Borrowing	30,000	0	0	0
Total Funding	**50,317**	**13,204**	**10,521**	**8,099**

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 broadly 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 approved by Council 24th February 2020) and the main body of the Capital Strategy report, and comprise:

- 50% funding of the Environmental Services fleet in 2020/21 (£2.4m)
- Creation of a fund to purchase Commercial Property (£25m), which were all purchased in 2020/21. No further Commercial activities are planned beyond this date.
- Creation of a Regeneration fund to take advantage of opportunities arising from the Town Deal, and others that may arise; £15m.
- Creation of a £15m fund – to enable forward funding within the Enterprise Zone (to be repaid through business rates generated)

(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 Budget Estimate £'000***	***2022/23 Budget Estimate £'000***	***2023/24 Budget Estimate £'000***	***2024/25 Budget Estimate £'000***
CFR – (Fleet Less MRP)	2,100	1,800	1,500	1,200
CFR – (Commercial Activities Less MRP)	22,215	21,921	21,617	21,304
CFR – (Regeneration Less MRP)	15,000	14,810	14,614	14,412
CFR – (Enterprise Zone No MRP)	15,000	15,000	15,000	15,000
CFR – (HRA – No MRP)	81,820	81,820	81,820	81,820
Total CFR	**136,135**	**135,351**	**134,551**	**133,736**
Movement in CFR represented				
Net financing need for the year	7,500	0	0	0
Less MRP/VRP and other financing movements	(585)	(784)	(800)	(815)
Movement in CFR	**6,915**	**(784)**	**(800)**	**(815)**

2.3 Core Funds and Expected investment balances

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 estimates of the year end balances held for each resource.

Year End Resources £m	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Capital Plan Reserves	2,433	1,763	1,763	1,763	1,763
Capital Receipts 1-4-1	9,863	5,895	6,299	6,031	6,742
Other Capital Receipts	0	1,162	1,000	0	0
HRA MRR	3,210	3,210	3,210	3,210	3,210
HRA Financing Fund	11,630	9,682	9,682	9,682	9,682
Total core funds	**27,136**	**21,712**	**21,954**	**20,686**	**21,397**

The current Capital Plan runs through to 31 March 2023, in addition a new three Year Capital Plan 2022/23 – 2024/25 will be reported to Cabinet 10th February 2022. Funding for both plans 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.

2.4 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 2021 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 from 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 provide details of the capital expenditure of the Council over the next 3 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 Estimate £'000	***2022/23 Estimate £'000***	***2023/24 Estimate £'000***	***2024/25 Estimate £'000***
External Debt at 1 April	81,190	111,190	111,190	111,190
Expected change in Debt	30,000	0	0	0
Actual debt at 31 March	**111,190**	**111,190**	**111,190**	**111,190**
Capital Financing Requirement above 2.2	136,135	135,351	134,551	133,736
Under borrowing	**24,945**	**24,161**	**23,361**	**22,546**

The table shows that the Council has complied with this prudential indicator in the current year and does not envisage difficulties for the future.
Capital Plan, if investment opportunities of sufficient quality do not arise in line with the above projections then the required borrowing associated with these investments would not take place. The above projections are consistent with the current Capital Plan and the new 3 year Capital plan.

limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

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	*2020/21 Actual £'000*	*2021/22 Estimate £'000*	*2022/23 Estimate £'000*	*2023/24 Estimate £'000*
Debt	81,190	108,090	108,090	108,090
Non-financial investments	0	28,000	28,000	28,000
Total	**81,190**	**136,090**	**136,090**	**136,090**

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 lasts years limits.

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

Authorised limit	*2019/20 Actual £'000*	*2021/22 Estimate £'000*	*2022/23 Estimate £'000*	*2023/24 Estimate £'000*
Debt	96,000	130,000	130,000	130,000
Non-financial investments	0	28,000	28,000	28,000
Total	**96,000**	**158,000**	**158,000**	**158,000**

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 20th December 2021. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Additional notes by Link on this forecast table: -

- *LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, our forecasts are based on expected average earnings by local authorities for 3 to 12 months.*
- *Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.*

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

Significant risks to the forecasts

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns. 25% of the population not being vaccinated is also a significant risk to the NHS being overwhelmed and lockdowns being the only remaining option.
- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.
- **The Monetary Policy Committee** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.
- **The Government** acts too quickly to cut expenditure to balance the national budget.

- **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.

- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.

- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.

- **Geopolitical risks,** for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside, including risks from Covid and its variants - both domestically and their potential effects worldwide.

Forecasts for Bank Rate

It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes four increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- We do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.

- There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. And then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation, or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.

- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?

- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.

- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?

- It looks as if the economy coped well with the end of furlough on 30th September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.

- We also recognise there could be further nasty surprises on the Covid front beyond the Omicron mutation.

- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

It should also be borne in mind that Bank Rate being cut to 0.25% and then to 0.10%, were emergency measures to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than they are no longer warranted, and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB rates and gilt and treasury yields

Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields. **As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant <u>UPWARD RISK</u> exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

US treasury yields. During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020. This was then followed by additional Democratic ambition to spend $1trn on infrastructure, (which was eventually passed by both houses later in 2021), and an even larger sum on an American families plan over the next decade; this is still caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme had enabled a rapid opening up of the economy during 2021.
2. The economy was growing strongly during the first half of 2021 although it has weakened overall during the second half.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its December meeting with an aggressive response to damp inflation down during 2022 and 2023.

At its 3rd November Fed meeting, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its **15th December**

meeting it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields will rise over the taper period and after the taper ends, all other things being equal. The Fed also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy.

There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising earlier and higher in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures actually turn out to be in both the US and the UK and so put upward pressure on treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases eventually needed to suppress inflation, are likely to be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields.

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and Russia, China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

The balance of risks to medium to long term PWLB rates: -

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

A new era for local authority investing
– a fundamental shift in central bank monetary policy
One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US, before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' before starting on raising Bank Rate and the ECB now has a similar policy.
- ***For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.***
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

3.4 Investment and Borrowing Rates

- **Investment returns** are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.

- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows: -.

    - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
    - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
    - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

3.5 Borrowing strategy

The Council is currently maintaining an under-borrowed position overall. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt. Instead cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Council will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances both internally and externally.

The Council's investments in commercial property in the short to 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.

- **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.

3.7 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. 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.

3.8 Municipal Bond Agency

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

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

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross
- Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018
- The Council's investment priorities will be security first, portfolio liquidity second and
- then yield, (return).

The above guidance from the MHCLG and CIPFA places a high priority on the management of risk. This authority 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 banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix B (3) 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.
    - **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.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments limit is £30m, (see paragraph 4.3

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

7. **Transaction limits** are set for each type of investment in 4.2.

8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

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

10. This authority has engaged **external consultants**, (see paragraph 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.

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

12. a result of the change in accounting standards for 2020/21 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 commencing from 1 April 2018 to 31st March 2023)

    However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). 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 Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;

sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product 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*:*

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

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

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 process.

Creditworthiness.

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, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, 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.

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 12B (4). This list will be added to or deducted from by officers should ratings change in accordance with this policy.

4.4 Investment strategy

<u>In-house funds</u> - 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. 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.

If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year, (based on a first increase in Bank Rate in quarter 2 of 2022), are as follows.:

Average earnings in each year	Now	Previously
2022/23	0.50%	0.50%
2023/24	0.75%	0.75%
2024/25	1.00%	1.00%
2025/26	1.25%	1.25%
Long term later years	2.00%	2.00%

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	2022/23	2023/24	2024/25
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. For cash investments this will be the 3 month London Interbank Bid Rate (LIBID) which matches the weighted average time period of our current cash investments. Should the Council invest in Property Funds an appropriate additional benchmark will be added to measure the performance of these investments. This will be reported in the next available treasury report to Members.

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 B

B (1). Economic Background

B (2). Minimum Revenue Provision Policy

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

B (4). Approved Countries for Investment

B (5). Approved Brokers for investments

B (6). Current Investments as at 5th January 2022

B (7). Treasury management scheme of delegation

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

COVID-19 vaccines.

These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC MEETING 16H DECEMBER 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

- **On 10th December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.

- **On 14th December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major economy wide expenditure unless it is very limited and targeted on narrow sectors like hospitality, (as announced just before Christmas). The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%.** What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

- On the other hand, it did also comment that **"the Omicron variant is likely to weigh on near-term activity".** But it stressed that at the November meeting it had said it <u>would</u> raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time,** which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only **a "modest tightening"** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory,** and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
    - Raising Bank Rate as "the active instrument in most circumstances".
    - Raising Bank Rate to 0.50% before starting on reducing its holdings.
    - Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
    - Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- **US.** Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.
- **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed's meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.
  See also comments in paragraph 3.3 under PWLB rates and gilt yields.

- **EU.** The slow role out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.
- **November's inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.
- **ECB tapering.** The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.

- The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.
- The EU has entered into a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

- **CHINA.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.
- However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time. The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.
- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

- **JAPAN.** 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.
- The Bank of Japan is continuing its **very loose monetary policy** but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

- **WORLD GROWTH.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is likely that we are heading into a period where there will be a **reversal of world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

- **SUPPLY SHORTAGES**. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

APPENDIX B(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 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:

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 authority 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 Strategic Director of Corporate Services), 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 li

APPENDIX (B3)

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	**** Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government	N/A	Unlimited	6 months
UK Government gilts	UK sovereign rating	Unlimited	12 months
UK Government Treasury bills	UK sovereign rating	Unlimited	12 months
Bonds issued by multilateral development banks	AAA	Unlimited	6 months
Money Market Funds (CNAV, LVAV & VNAV)	AAA	£12m any one institution and £30m in total	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	£7m any one institution and £18m in total	Liquid
Local authorities	N/A	£5m any one institution and £20m in total	5 Years
Property Funds	N/A	£5m in total	20 Years
Term deposits with banks and building societies	Purple	£8m any one institution and £12m in total	Up to 12 months
	Blue	£7m any one and £12m in total	Up to 12 months
	Orange	£8m & (£18m for HSBC only) any one institution and £25m in total	Up to 12 months
Term deposits with banks and building societies	Red	£8m any one institution and £40m in total	Up to 6 Months
	Green	£6m any one institution and £20m in total	Up to 100 days
	No Colour	Nil	Not for use

Non Specified Investments: In light of the current and forecast low interest rates on specified investments the Council included the opportunity to invest in established Property Funds run by Fund Managers in a previous Treasury Management Strategy. 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 since 2018. 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.

APPENDIX B(4)

APPROVED COUNTRIES FOR INVESTMENTS @ 5/1/2022

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, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

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

AA+
- Canada
- Finland
- U.S.A.

AA
- Abu Dhabi (UAE)
- France

AA-
- Belgium
- Hong Kong
- Qatar
- U.K.

APPENDIX B(5)

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

APPENDIX B (6)

Current Investments as at 5th January 2022 (for information only).

For illustrative purposes only the Council's investments as at 5th January 2022 are set out below. Please note that these investments alter on a daily basis.

Institution	**Colour**	**Amount invested £m**	**Transaction Limit £m**	**Maturity Date**	**MaxTime Limit**
Close Brothers	Red	2,000	8,000	28/1/2022	6 Months
Standard Chartered Bank	Red	3,000	8,000	14/04/2022	6 Months
Standard chartered Bank	Red	3,000	8,000	27/05/200	6 Months
Santander	Red	8,000	8,000	180 Day Notice	6 Months
Goldman Sachs international Bank	Red	2,500	8,000	35 Day Notice	6 Months
Goldman Sachs international Bank	Red	2,500	8,000	95 Day Notice	6 Months
HSBC Bank	Orange	8,000	18,000	31 Day Notice	12 months
HSBC Bank	Orange	5,450	18,000	07/01/2022	12 Months
Money Market Funds	AAA Rated	21,330	30,000 in total	1 Day	12 Months
Property Funds	N/A	5,000	5,000 in total	N/A	20 Years
TOTAL		**60,780**			

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.

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 authority
- 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 authority does not undertake a level of investing which exposes the authority 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 authority has adequate expertise, either in house or externally provided, to carry out the above

CABINET – 10TH FEBRUARY 2022

Report of the Head of Financial Services

Lead Member: Councillor Tom Barkley

Part A

ITEM 9 FINAL 3 YEAR CAPITAL PLAN 2022/23 TO 2024/25

Purpose of Report

To consider the Final 3 Year Capital Plan 2022/23 to 2024/25 as well as possible sources of funding and to begin a period of consultation.

Recommendation

That Cabinet endorses the Final 3 Year Capital Plan for 2022/23 to 2024/25 for the General Fund and HRA schemes in Appendix 1, for Council approval on the 21st February 2022.

Reason

That the Final 3 Year Capital Plan becomes the basis for Capital spending by the Council for 2022/23 to 2024/25.

Policy Justification

The Council's Capital Plan is an integral element of all policies.

Implementation Timetable including Future Decisions and Scrutiny

The final 3 year Capital Plan will be submitted to Council on 21 February 2022 for approval. The new Capital Plan will come into effect on 1 April 2022. Any changes to the Plan will then be considered by Cabinet, and Council if necessary, as part of the Capital Plan Amendment process.

A consulation process has been undertaken with the following parties, and there is no further recommendations.

- Trades Unions
- Formal consultation with key partners, including members of Charnwood Together, Towns and Parishes
- Budget Scrutiny Panel

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no direct financial implications from approving this report for consultation. However, if the final report is approved then there will be financial implications for the Council and these are set out in Part B of this report. Overall, the Capital Plan will be fully funded through the use of revenue and capital resources.

Risk Management

There are no specific risks associated with the decision Cabinet is being asked to make. However, Part B of the report identifies risks associated with the eventual adoption of the new Capital Plan.

Equality and Diversity

There are no specific Equalities & Diversity issues affecting the recommendation in this report, though any such issues affecting particular schemes will be considered as part of those schemes' formal appraisal.

Sustainability

As with other items above, there are no direct sustainability issues affecting the recommendation, but any affecting specific schemes will be considered as part of the appraisal of those schemes.

Key Decision:	Yes
Background Documents:	None
Officers to Contact:	Lesley Tansey, 01509 634848 lesley.tansey@charnwood.gov.uk

Part B

Background

1. The Council operates the Capital Plan on a three year basis to reflect the longer term nature of capital expenditure and in accordance with best practice. Heads of Service held discussions with their Lead Members and Directors before submitting Capital Appraisals to the Senior LeadershipTeam (SLT) for initial appraisal. These appraisal forms cover areas such as enhancements of an existing asset, planned improvements to existing assets, scheme affordability. Schemes are categorised as either live, Committed or Third party schemes. Live schemes are project managed by Charnwood Borough Council, Provisional schemes are scheme in principal but require further consideration in order to commence and Third Party schemes are fully funded by external resources.

2. These schemes were considered by SLT, and from this appraisal process a New 3 Year Capital Plan for 2022/23 to 2024/25 was produced for the General Fund and HRA included in Appendix 1 .

3. Cabinet should note that only limited information is available at present, and the costings for the new schemes are on 'best estimate' basis. Firm quotations or tender prices have not been obtained at this stage.

New 3 Year Capital Plan 2022/23 to 2024/25

4. The tables below show a summary of the schemes, split between General Fund and Housing Revenue Account schemes, and the anticipated funding positions. The General Fund, Table 1 excludes schemes in the current approved Capital Plan and includes those schemes recommended for inclusion in the new 3 year Capital Plan. Table 2, shows all the Housing Revenue Account schemes and it should be noted that these schemes are fully funded.

Table 1

	2022/23	2023/24	2024/25	TOTAL
	£'000	£'000	£'000	£'000
General Fund New 3 Year Plan				
Gross Cost of Schemes	4,330	2,991	1,580	8,901
Total Cost	**4,330**	**2,991**	**1,580**	**8,901**
External Funding	3,570	1,558	1,127	6,255
CBC Capital Receipts	760	1,433	453	2,646
Total Funding	**4,330**	**2,991**	**1,580**	**8,901**

5. The Capital Plan distinguishes between various types of scheme:

- 'Live' schemes: schemes classified as 'live' are usually project managed by the Council and preliminary evaluation has been carried out such that the costs within the Capital Plan should be a reasonable estimate of scheme outturn
- 'Provisional' schemes: these are where the Council wishes to make a statement of intent that it intends to deliver a scheme but where the detailed timings and / or costings of that scheme remain uncertain. The scheme may stil require further feasibility work or be subject to external funding bids. It is also worth noting that final costs can not be determined until the completion of a procurement process and market prices have been received.
- 'Third Party' schemes: third party schemes are schemes, usually associated with s106 agreements, where the scheme must be included within the Council's Capital Plan for technical reasons but where the Council does not undertake project management and would not usually provide project funding (no such schemes are included within the new Capital Plan)
- The New Capital Plan Schemes are set out in more detail in Appendix 1. Significant additions, all classified as 'Committed' within the new General Fund Plan include:

- Town Deal: a total of £3.54m has been identified for two elements of the Town Deal (Lanes & Links, and Living Loughborough); projects that will require significant Council management input where it is assumed that the Council will have responsibility for project delivery; funding of up to £3.54m will be available through Town Deal funding but any additional costs would need to be sourced elsewhere

- Shepshed Bullring: £0.9m has been allocated within the new Capital Plan for this public realm project; given the risks inherent with this type of scheme preliminary work will be required to assess the adequacy of the current capital allocation with any required variations being addressed via the regular capital pla amendment reports
- Building improvements: £1.48m has been allocated towards the upgrade of Council assets; this amount is estimated but underpinned by building condition surveys

5. Table 1 shows total proposed schemes of £8.9m requiring council capital receipts funding of £2.6m, and external funding of £6.3m. As at 31 March 2025 there will be approximately £6.1m capital receipts estimated in balances, therefore the draft three year Capital plan is affordable from current resources. This assumes that the estimates include no major capital receipts during the next three years of the plan as there are currently no disposals on the of Council assets. It should be noted that the costs shown above are estimates made by the relevant services and do not reflect firm quotes or tender prices.

6. Anticipated External Funding is in respect of grants and capital contributions which are expected over the next three years. It should be noted that the grants are scheme specific and cannot be used to fund other schemes.

7. There is £2.2m in the Capital Plan Reserve estimated as at 31 March 2022, this can be used for either Capital or Revenue one-off expenditure.

Table 2

	2022/23	2023/24	2024/25	TOTAL
	£'000	**£'000**	**£'000**	**£'000**
<u>Housing Revenue Account</u>				
Gross Cost HRA Schemes	8,874	7,530	6,519	22,923
Total Cost	**8,874**	**7,530**	**6,519**	**22,923**
RCCO	3,169	3,169	3,169	9,507
Capital Receipts	450	450	450	1,350
Major Repairs Reserve/HRA Finance Fund	5,255	3,911	2,900	12,406
Total Funding	**8,874**	**7,530**	**6,519**	**22,923**

8. Appendix 1 shows all of the HRA schemes for the capital plan period including new schemes, existing schemes and changes to existing schemes.

9. The Major Repairs Reserve, or equivalent, effectively represents the amount set aside for depreciation each year and this becomes a cash amount that will be spent on capital works. The Housing Revenue Account report shows that in 2022/23 the depreciation budget is £3,641k and the RCCO budget is £3,169k. It can be reasonably assumed that these levels will continue for 2022/23 and 2024/25 so the plan is fully funded.

10. The level of capital expenditure will be set so as to ensure that the housing stock is kept in good repair and at a level that allows the Council to service the £79.19m borrowing that it undertook to pay the government in March 2012. As such the HRA Capital Plan will be adequately funded over the three years.

<u>Capital Plan 2020 -2023</u>

11. The Council's policy is to create a new Capital Plan every other year, for a three-year period. As a result, the 2022/23 financial year will include schemes from both the current (2020 – 2023) and proposed (2022 – 2025) Capital Plans. To get a full view of all current and proposed schemes Appendix 2, which lists schemes within the extant Capital Plan should be considered alongside the new proposals.

12. It may also be noted a regular Capital Plan amendment report is also being present at the 9 December Cabinet which offers additional information on the current Capital Plan.

Prudential Code

13. In order to comply with the Prudential Code capital expenditure must be affordable in the long term, and therefore sustainable, which requires that the decision making process must be prudent. The revenue impact of the capital expenditure must be contained within the forward plans of the authority which provides a level of Council Tax that the Council considers acceptable. Implementation of the proposed General Fund Capital Plan would result in net revenue savings and therefore is in line with the proposed Revenue Budget and the Medium Term Financial Strategy.

14. Consideration has been given to undertaking prudential borrowing in order to fund General Fund capital expenditure. However, this would incur additional revenue costs for both interest and repayments which the council would have to be able to fund as well as the savings programme which is required to continue to fund services in the light of reduced central government funding. In view of this and as set out in the current Medium Term Financial Strategy, the Council does not intend to undertake any such material borrowing in the medium term.

15. Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

Risk Identified	Likelihood	Impact	Overall Risk	Risk Management Actions Planned
Insufficient funding	Remote (1)	Major (4)	Low (4)	The funding of the Capital Plan is regularly monitored and any apparent shortfalls are brought to the attention of Cabinet with suggested solutions
General Risks associated with capital expenditure	Unlikely (2)	Serious (3)	Moderate (6)	The Capital Plan is controlled through Capital Monitoring &

Risk Identified	Likelihood	Impact	Overall Risk	Risk Management Actions Planned
				Senior Leader Team and Cabinet.

Appendices

Appendix 1 List of Capital Plan schemes are attached.

Appendix 2 Extant schemes; current capital Plan 2020 - 2023

New 3 Year Capital Plan 2022/23 - 2024/25 — Appendix 1

Scheme Details			2022/23 New & Current Plan £	2023/24 New Original Plan £	2024/25 New Original Plan £
SUMMARY OF CAPITAL PLAN					
Live Schemes					
Environmental and Corporate Services			**150,000**	**75,000**	**75,000**
Commercial Development, Asset and Leisure			**610,000**	**750,000**	**120,000**
Community, Planning and Housing - General Fund			**0**	**1,216,000**	**1,316,000**
Community, Planning and Housing - HRA			**8,874,400**	**7,529,600**	**6,519,000**
		Sub-total Live Schemes	**9,634,400**	**9,570,600**	**8,030,000**
Committed Schemes					
Commercial Development, Asset and Leisure			**2,970,000**	**500,000**	**69,000**
Community, Planning and Housing - General Fund			**600,000**	**450,000**	**0**
		Sub-total Committed Schemes	**3,570,000**	**950,000**	**69,000**
		GF Total	**4,330,000**	**2,991,000**	**1,580,000**
		HRA Total	**8,874,400**	**7,529,600**	**6,519,000**
		Grand Total	**13,204,400**	**10,520,600**	**8,099,000**
Environmental and Corporate Services					
Live Schemes					
AK	Z085	Replacement Hardware Programme - Block Sum	0	45,000	45,000
AK	Z354	Infrastructure Development - Block Sum	0	30,000	30,000
AK	NEW	Phone System - Migration to Teams	45,000	0	0
MB	NEW	Cemetery Ashes Plots	40,000	0	0
MB	NEW	Cemetery Gates	15,000	0	0
MB	NEW	Syston Riverside Walk	50,000	0	0
		Sub-total Live Schemes	**150,000**	**75,000**	**75,000**
		Environmental and Corporate Services - Total	**150,000**	**75,000**	**75,000**
Commercial Development, Asset and Leisure					
Live Schemes					
IB	Z310	Planned Building Improvements	610,000	750,000	120,000
		Sub-total Live Schemes	**610,000**	**750,000**	**120,000**
Committed Schemes					
SW	NEW	Town Deal	2,970,000	500,000	69,000
		Sub-total Committed Schemes	**2,970,000**	**500,000**	**69,000**
		Commercial Development, Asset and Leisure - Total	**3,580,000**	**1,250,000**	**189,000**
Community, Planning and Housing - General Fund					

Live Schemes					
JR	Z388	CCTV	0	45,000	45,000
JR	Z348	Charnwood Community Facilities Grants	0	50,000	50,000
JR	Z427	Members Grants - Members Choice	0	13,000	13,000
AT	Z786	Car Parks Resurfacing and Improvements	0	0	150,000
AT	NEW	Leisure Centre barrier and entry control	0	50,000	0
RS	Z210	Disabled Facilities Grants - Block Sum	0	1,058,000	1,058,000
		Sub-total Live Schemes	**0**	**1,216,000**	**1,316,000**
Committed Schemes					
RB	Z835	Shepshed Public Realm	600,000	300,000	0
AT	NEW	DNO Connections and Electric Vehicle Charge Points for car parks	0	150,000	0
		Sub-total Committed Schemes	**600,000**	**450,000**	**0**
Third Party Schemes					
		Community, Planning and Housing - General Fund - Total	**600,000**	**1,666,000**	**1,316,000**
Community, Planning and Housing - HRA					
Live Schemes					
PO	Z761	Major Adaptations	450,000	450,000	450,000
PO	Z301	Minor Adaptations	50,000	50,000	50,000
PO	Z302	Stairlifts	60,000	60,000	60,000
PO	Z762	Major Voids	280,000	280,000	280,000
		Compliance			
PO	Z434	Asbestos Removal	150,000	100,000	60,000
PO	Z771	Communal Area Improvements	200,000	75,200	75,200
PO	Z742	Communal Area Electrical Upgrades	200,000	68,000	68,000
PO	Z772	Smoke/CO & Heat Detection	149,800	149,800	149,800
PO	Z773	Fire Safety Works	100,000	100,000	100,000
		Stock Maximisation			
PO	Z375	Garages	25,000	370,000	0
		Decent Homes			
PO	Z763	Kitchens	900,000	837,000	112,500
PO	Z764	Bathrooms	1,778,100	957,700	675,000
PO	Z765	Electrical Upgrades	212,500	505,300	505,300
PO	Z766	Window Replacement	22,400	44,800	223,800
PO	Z767	Heating	264,600	504,000	831,600
PO	Z743	Sheltered Housing Improvements	200,000	100,000	0
PO	Z768	Door Replacement	700,000	700,000	700,000
PO	Z769	Roofing Works & Insulation	650,000	250,000	250,000
PO	Z770	Major Structural Works	250,000	250,000	250,000
		General Capital Works			
PO	Z776	Estate and External Works	205,000	200,000	200,000
PO	Z857	Housing Capital Technical Costs	312,000	312,000	312,000
PO	Z378	Door Entry Systems	200,000	27,000	27,000
AS	Z760	Acquisition of Affordable Housing to meet housing need	1,500,000	1,123,800	1,123,800
PO	Z775	Mobility Scooter Storage	15,000	15,000	15,000
		Sub-total Live Schemes	**8,874,400**	**7,529,600**	**6,519,000**
		Community, Planning and Housing - HRA - Total	**8,874,400**	**7,529,600**	**6,519,000**

CAPITAL PLAN 2021/22

Scheme Details			2021/22 Current Budget £	2021/22 Actual Spend 31/12/21 £	2021/22 Balance £	2022/23 Original Plan £	2022/23 Current Budget £
SUMMARY OF CAPITAL PLAN							
Live Schemes							
Environmental and Corporate Services			**2,308,800**	**1,266,194**	**1,042,606**	**390,000**	**326,200**
Commercial Development, Asset and Leisure			**343,000**	**154,068**	**188,932**	**500,000**	**475,000**
Community, Planning and Housing - General Fund			**2,667,200**	**278,300**	**2,373,045**	**1,224,000**	**1,244,000**
Community, Planning and Housing - HRA			**9,898,600**	**2,646,920**	**7,251,680**	**7,723,800**	**7,723,800**
Sub-total Live Schemes			**15,217,600**	**4,345,482**	**10,856,263**	**9,837,800**	**9,769,000**
Provisional Schemes							
Environmental and Corporate Services			**15,000,000**	**2,000,000**	**13,000,000**	**0**	**0**
Commercial Development, Asset and Leisure			**15,000,000**	**(4,516)**	**15,004,516**	**0**	**0**
Community, Planning and Housing - General Fund			**3,831,400**	**1,588,550**	**2,242,850**	**500,000**	**1,715,000**
Community, Planning and Housing - HRA			**0**	**0**	**0**	**0**	**0**
Sub-total Provisional Schemes			**33,831,400**	**3,584,034**	**30,247,366**	**500,000**	**1,715,000**
Third Party Schemes							
Environmental and Corporate Services			**379,400**	**40,500**	**338,900**	**113,000**	**53,600**
Commercial Development, Asset and Leisure			**0**	**0**	**0**	**0**	**0**
Community, Planning and Housing - General Fund			**888,500**	**207,640**	**680,860**	**0**	**0**
Community, Planning and Housing - HRA			**0**	**0**	**0**	**0**	**0**
Sub-total Third Party Schemes			**1,267,900**	**248,140**	**1,019,760**	**113,000**	**53,600**
GF Total			**40,418,300**	**5,530,736**	**34,871,709**	**2,727,000**	**3,813,800**
HRA Total			**9,898,600**	**2,646,920**	**7,251,680**	**7,723,800**	**7,723,800**
Grand Total			**50,316,900**	**8,177,656**	**42,123,389**	**10,450,800**	**11,537,600**
Environmental and Corporate Services							
Live Schemes							
MB	Z739	Green Spaces Programme	0	205	(205)	0	0
MB	Z784	Loughborough Cemetery - New Burial Provision	1,170,200	921,223	248,977	0	0
MB	Z753	The Outwoods Country Park - Septic tank system replacement	0	233	(233)	0	0
MB	Z754	The Outwoods Country Park - Visitor Centre and Café	114,200	110,706	3,494	0	0
MB	Z790	Environmental Services - Fleet Purchase	0	(15,744)	15,744	0	0
MB	Z831	Loughborough Playground Improvement Plan	50,000	0	50,000	50,000	50,000
MB	Z828	Queens Park - Improvements to Childrens Play Provision & Adult Recreation Provision	100,000	0	100,000	105,000	105,000
MB	Z802	Allotment Improvements	10,000	0	10,000	0	0
MB	Z824	Shepshed POS Enhacement	104,100	1,611	102,489	0	0
MB	Z805	Queens Park Aviary Improvements	20,000	0	20,000	0	0
MB	Z806	Playing Pitch Strategy Action Plan	51,900	(5,866)	57,766	140,000	40,000
MB	Z484	Closed Churchyard Wall	25,000	41,901	(16,901)	0	25,000
MB		Lodge Farm Public Open Space Enhancements	0	0	0	0	31,200
MB	Z808	Park Road Access Resurfacing	0	663	(663)	0	0
MB	Z809	Delivery of Open Space Strategy	0	0	0	20,000	0
MB	Z791	Shelthorpe Golf Course - Fencing	77,100	0	77,100	0	0
MB	Z792	Community Tree Planting Programme	30,000	4,400	25,600	0	0
AK	Z085	Replacement Hardware Programme - Block Sum	39,600	40,240	(640)	45,000	45,000
AK	Z354	Infrastructure Development - Block Sum	36,000	(2,178)	38,178	30,000	30,000
AK	Z822	Hybrid Council Meeting - Camera and audio equipment - Virtual Meetings	15,900	12,011	3,889	0	0
KB	Z423	Call Secure System - PCI Compliance	4,900	728	4,172	0	0
KB	Z812	Server Redesign	70,000	0	70,000	0	0
KB	Z813	Cloud Implementation	177,900	50,492	127,408	0	0
KB	Z814	Meeting Rooms - presentation screens	4,100	4,063	37	0	0
KB	Z816	Northgate - Single Use System	115,300	79,539	35,761	0	0
AW	Z811	Legal Case Management System	30,000	0	30,000	0	0
LT	Z810	Unit4 Agresso Upgrade	32,800	0	32,800	0	0
AK	Z793	ITrent Upgrade & New Flexi Time System	8,700	16,231	(7,531)	0	0
HG	Z823	Performance Management System	21,100	5,736	15,364	0	0
Sub-total Live Schemes			**2,308,800**	**1,266,194**	**1,042,606**	**390,000**	**326,200**
Provisional Schemes							

CAPITAL PLAN 2021/22

Scheme Details			2021/22 Current Budget £	2021/22 Actual Spend 31/12/21 £	2021/22 Balance £	2022/23 Original Plan £	2022/23 Current Budget £
SJ	Z818	Enterprise Zone	15,000,000	2,000,000	13,000,000	0	0
		Sub-total Provisional Schemes	**15,000,000**	**2,000,000**	**13,000,000**	**0**	**0**
Third Party Schemes							
JT	Z697	Bell Foundry Pocket Park - Phase 1 & 2	30,300	5,154	25,146	0	0
MB		Farnham Road Public Open Space Improvements	0	0	0	113,000	0
MB	Z699	Shelthorpe Public Open Space Enhancements	113,200	1,537	111,663	0	0
MB	Z830	Holt Drive PA Enhancements	11,000	0	11,000	0	0
MB		Radmoor Road Public Open Space Enhancements	0	0	0	0	53,600
MB	Z778	Syston Community Garden	22,300	0	22,300	0	0
MB	Z826	Wymeswold Parish Council - tarmac court with multi-use goal ends at the Washdyke	22,800	22,809	(9)	0	0
MB	Z847	Barrow Town Cricket Club - extend clubhouse facilities, creating additional changing and ancillary provision	20,000	11,000	9,000	0	0
MB	Z849	Barrow Town Council - new play area Mill Lane	89,100	0	89,100	0	0
MB	Z850	Sileby Parish Council - improvement and provision of additional youth/adult facilities at Sileby Memorial Park	70,700	0	70,700	0	0
		Sub-total Third Party Schemes	**379,400**	**40,500**	**338,900**	**113,000**	**53,600**
		Environmental and Corporate Services - Total	**17,688,200**	**3,306,694**	**14,381,506**	**503,000**	**379,800**
Commercial Development, Asset and Leisure							
Live Schemes							
SW	Z801	Lighting strategy to support the Masterplan lane strategy - feasiblity study	10,000	0	10,000	0	0
NB	Z748	Loughborough Festive Lights and Street Dressing	4,800	0	4,800	0	0
SW	Z757	Town Hall Roof Upgrade	17,300	55	17,245	0	0
SW	Z797	Loughborough Town Hall - Lower Level Elevation Repairs & Feasibilty Study	7,900	5,905	1,995	0	0
SW	Z798	Town Hall - Victorial Room - Air Handling	50,000	0	50,000	0	0
SW	Z799	Town Hall - additional seating	0	0	0	0	225,000
IB	Z310	Planned Building Improvements	128,000	118,972	9,028	500,000	100,000
IB	Z821	Granby Street Culvert Repairs	75,000	28,766	46,234	0	0
JH	Z820	Southfields Offices - NHS Vaccination Centre	50,000	370	49,630	0	0
JH	Z832	Feasibility Work - New Council Offices	0	0	0	0	150,000
		Sub-total Live Schemes	**343,000**	**154,068**	**188,932**	**500,000**	**475,000**
Provisional Schemes							
JH	Z676	Commercial Property Investment Portfolio	0	(1,521)	1,521	0	0
JH	Z817	Regeneration Projects	15,000,000	(2,995)	15,002,995	0	0
		Sub-total Provisional Schemes	**15,000,000**	**(4,516)**	**15,004,516**	**0**	**0**
		Commercial Development, Asset and Leisure - Total	**15,343,000**	**149,552**	**15,193,448**	**500,000**	**475,000**
Community, Planning and Housing - General Fund							
Live Schemes							
JR	Z388	CCTV	122,300	20,739	101,561	45,000	35,000
JR	Z348	Charnwood Community Facilities Grants	100,300	5,400	94,900	20,000	50,000
JR	Z427	Members Grants - Members Choice	13,000	8,762	4,238	26,000	26,000
AT	Z744	Beehive Lane Car Park Improvements and refurbishment scheme	149,400	9,648	139,752	0	0
AT	Z786	Car Parks Resurfacing and Improvements	32,800	0	32,800	0	0
IB	Z738	Carbon Management Schemes	7,500	(1,857)	9,357	0	0
RS	Z210	Disabled Facilities Grants - Block Sum	2,116,900	225,471	1,891,429	1,058,000	1,058,000
RS	Z346	Private Sector Housing Grants - Block Sum	125,000	25,992	99,008	75,000	75,000
AS	Z424	Choice Based Lettings Software	0	(15,855)	15,855	0	0
		Sub-total Live Schemes	**2,667,200**	**278,300**	**2,373,045**	**1,224,000**	**1,244,000**
Provisional Schemes							

CAPITAL PLAN 2021/22

Scheme Details			2021/22 Current Budget £	2021/22 Actual Spend 31/12/21 £	2021/22 Balance £	2022/23 Original Plan £	2022/23 Current Budget £
RB	Z367	Bleach Yard	5,900	3,397	2,503	0	0
RB	Z787	Bedford Square Gateway	2,654,000	1,562,067	1,091,933	0	1,215,000
CC	Z796	Carbon Neutral Action Fund - Block Sum	598,800	3,700	595,100	500,000	500,000
RB	Z835	Shepshed Bull Ring	504,400	0	504,400	0	0
RB	Z396	Public Realm - Shepshed Town Centre	18,400	19,386	(986)	0	0
RS	Z141	Regional Housing Pot Grant	42,900	0	42,900	0	0
RS	Z363	Fuel Poverty Scheme	7,000	0	7,000	0	0
		Sub-total Provisional Schemes	**3,831,400**	**1,588,550**	**2,242,850**	**500,000**	**1,715,000**
Third Party Schemes							
JR	Z488	Thorpe Acre Residents Association - contribution towards Community Hub building	25,900	0	25,900	0	0
JR	Z500	Birstall Cedars Academy all weather pitch	50,000	0	50,000	0	0
JR	Z795	Syston Town Council - redevelopment of sports pavilion at Memorial Park	40,500	0	40,500	0	0
JR	Z815	Rothley Parish Council - upgrade Rothley Centre	367,600	11,524	356,076	0	0
JR	Z825	Loughborough Police Station Centre - Front Enquiry Desk	236,700	137,485	99,215	0	0
JR	Z827	Leicestershire Police - Drone Equipment and Forensic Hub Upgrade	58,600	58,631	(31)	0	0
JR	Z848	Syston Town Council - Memorial Park - redevelopment of sports pavilion	25,000	0	25,000	0	0
RB	Z852	Shepshed Town Council - Skate Bowl, Oak Road Playing Fields	84,200	0	84,200	0	0
		Sub-total Third Party Schemes	**888,500**	**207,640**	**680,860**	**0**	**0**
		Community, Planning and Housing - General Fund - Total	**7,387,100**	**2,074,490**	**5,296,755**	**1,724,000**	**2,959,000**
Community, Planning and Housing - HRA							
Live Schemes							
PO	Z761	Major Adaptations	580,000	105,252	474,748	450,000	450,000
PO	Z301	Minor Adaptations	50,000	5,279	44,721	50,000	50,000
PO	Z302	Stairlifts	80,000	72,156	7,844	80,000	80,000
PO	Z762	Major Voids	280,000	0	280,000	280,000	280,000
		Compliance					
PO	Z434	Asbestos Removal	150,000	211,536	(61,536)	150,000	150,000
PO	Z771	Communal Area Improvements	200,000	19,403	180,597	200,000	200,000
PO	Z742	Communal Area Electrical Upgrades	200,000	1,335	198,665	200,000	200,000
PO	Z772	Smoke/CO & Heat Detection	30,000	12,778	17,222	30,000	30,000
PO	Z773	Fire Safety Works	100,000	136,468	(36,468)	100,000	100,000
PO	Z374	CO Monitors	0	378	(378)	0	0
		Stock Maximisation					
PO	Z375	Garages	25,000	0	25,000	25,000	25,000
		Decent Homes					
PO	Z763	Kitchens	805,500	(24,007)	829,507	598,500	598,500
PO	Z764	Bathrooms	787,800	53,655	734,145	1,186,600	1,186,600
PO	Z765	Electrical Upgrades	290,000	207	289,793	290,000	290,000
PO	Z766	Window Replacement	195,000	4,030	190,970	40,000	40,000
PO	Z767	Heating	331,200	77,204	253,996	411,700	411,700
PO	Z743	Sheltered Housing Improvements	200,000	228,727	(28,727)	200,000	200,000
PO	Z768	Door Replacement	360,000	86,232	273,768	300,000	300,000
PO	Z769	Roofing Works & Insulation	710,000	128,127	581,873	650,000	650,000
PO	Z770	Major Structural Works	250,000	35,062	214,938	250,000	250,000
		General Capital Works					
PO	Z776	Estate and External Works	205,000	(146,053)	351,053	205,000	205,000
PO	Z857	Housing Capital Technical Costs	312,000	0	312,000	312,000	312,000
PO	Z378	Door Entry Systems	200,000	4,531	195,469	200,000	200,000
AS	Z760	Acquisition of Affordable Housing to meet housing need	3,263,400	1,358,420	1,904,980	1,500,000	1,500,000
AS	Z851	Acquisition of Dwellings - S106	278,700	276,200	2,500	0	0
PO	Z775	Mobility Scooter Storage	15,000	0	15,000	15,000	15,000
		Sub-total Live Schemes	**9,898,600**	**2,646,920**	**7,251,680**	**7,723,800**	**7,723,800**
		Community, Planning and Housing - HRA - Total	**9,898,600**	**2,646,920**	**7,251,680**	**7,723,800**	**7,723,800**

CABINET – 10TH FEBRUARY 2022

Report of the Head of Finance Services
Lead Member: Cllr Tom Barkley

Part A

ITEM 10 CAPITAL PLAN AMENDMENT REPORT

Purpose of the Report

This report requests Cabinet to consider and approve changes to the 2021-2023 Capital Plan and its financing.

Recommendations

1. That the current Capital Plan for 2021/22-2022/23, as amended by the changes shown in Appendix 1, in the budgeted sum of £61,854,500 be approved.

2. To note additional decisions, taken by Officers, in relation to new S106 schemes added to the Capital programme also included in Appendix 1.

3. To note amendments to the Capital Programme since 9th December 2021 minute 61.

Reasons

1. To enable the current Capital Plan to be the basis for capital spending by the Council and so that schemes may proceed.

2. To note the new Capital Schemes as part of S106 Agreements implemented by Officer for 3rd Parties.

3. To note amendments to the Capital Programme since Cabinet 9th December 2021 minute 61.

Policy Justification and Previous Decisions

The Capital Plan is an integral element of all policies. The revised three-year Capital Plan was approved by Council on 9th November 2020. The Capital Outturn report including slippage was approved by Cabinet on the 1st July 2021 minute 14.

Implementation Timetable including Future Decisions and Scrutiny

This report will be available for scrutiny by the Scrutiny Commission on 7th February 2022.

Report Implications

The following implications have been identified for this report.

Financial Implications

The financial implications are covered in the body of this report.

Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

Risk Identified	*Likelihood*	*Impact*	*Overall Risk*	*Risk Management Actions Planned*
Insufficient funding	Remote (1)	Major (4)	Low (4)	The funding of the Capital Plan is regularly monitored and serious funding shortfalls would be brought to the attention of Cabinet with suggested solutions
Expenditure associated with commercial property, Town Deal projects, regeneration or forward funding of the Enterprise Zone	Unlikely (2)	Serious (3)	Moderate (6)	All such expenditure will require fulfillment of additional governance processes prior to approval
General risks associated with capital expenditure	Unlikely (2)	Serious (3)	Moderate (6)	The Capital Plan is controlled through regular monitoring via the Senior Leadership Team with periodic reports presented to Cabinet.

Key Decision: Yes

Background Papers: None

Officer to Contact: Lesley Tansey
Head of Finance
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Lesley.tansey@charnwood.gov.uk

Part B

Background – Capital Plan

1. The Capital plan amendedment report provides a breakdown of the new/amended schemes for 2021/22 budgets, and detailed budgets are set out in Appendix 1 for 2021/22 to 2022/23.

2. The net effects of these changes on the 2021/22 Capital Plan are as follows:

2021/22 Capital Plan	**£**
Approved 2021/22 Capital Plan	49,954,000
Net new/amended schemes	362,900
Amended 2021/22 Capital Plan	**50,316,900**

Funded by:	**£**
General Fund:	
Grants, S106 Contributions and Revenue	4,972,600
Contributions from Capital Plan Reserve	199,900
Contributions from Capital Receipts	5,245,800
Internal or External Borrowing	30,000,000
Total General Fund	**40,418,300**
HRA:	
MRA or equivalent	8,314,500
Contributions from Capital Receipts	1,305,400
S106 Contributions	278,700
Total HRA	**9,898,600**
Total Funding for 2021/22	**50,316,900**

3 A full list of the decisions and amendments are listed in Appendix 1. A detailed explanation for the major changes are given in the table below.

4

New/Amended Schemes	£
Acquisition of Dwellings – S106	**£278,700**
Purchase of 77 Birdhill Road, Woodhouse Eaves fully funded by S106 monies already received by the authority.	
Shepshed Town Council – Skate Bowl – Oak Road Playing Fields	**£84,200**
Contribution towards the open space provision for recreation, youth and general amenity play facilities, fully funded by S106 monies already received by the authority.	

5 The Capital Plan is fully funded as per the table in paragraph 2 of this report.

<u>Appendices</u>

Appendix 1 – Details of Capital Plan Amendments
Appendix 2 – Capital Plan 2021/22-2022/23

CAPITAL PLAN AMENDMENT REPORT 2021/22		Appendix 1
	2021/22	**2022/23**
	£	**£**
Capital Plan Amendment Report - 9th December 2021- Minute 61	49,954,000	11,537,600
Deligated Decision (DD209 2021) - 1st December 2021		
Acquisiion of Dwellings - Purchase 77 Birdhill Road, Woodhouse Eaves - fully funded by S106	278,700	
Deligated Decision (DD217 2021) - 14th December 2021		
Shepshed Town Council - Skate Bowl, Oak Road Playing Fields - fully funded by S106	84,200	
Update Report - Total	**50,316,900**	**11,537,600**
Total of 3 Year Capital Plan (2021/22 to 2022/23)		**61,854,500**

CAPITAL PLAN 2021/22

Scheme Details			2021/22 Current Budget £	2021/22 Actual Spend 31/12/21 £	2021/22 Balance £	2022/23 Current Budget £
SUMMARY OF CAPITAL PLAN						
Live Schemes						
Environmental and Corporate Services			**2,308,800**	**1,266,194**	**1,042,606**	**326,200**
Commercial Development, Asset and Leisure			**343,000**	**154,068**	**188,932**	**475,000**
Community, Planning and Housing - General Fund			**2,667,200**	**278,300**	**2,373,045**	**1,244,000**
Community, Planning and Housing - HRA			**9,898,600**	**2,646,920**	**7,251,680**	**7,723,800**
Sub-total Live Schemes			**15,217,600**	**4,345,482**	**10,856,263**	**9,769,000**
Provisional Schemes						
Environmental and Corporate Services			**15,000,000**	**2,000,000**	**13,000,000**	**0**
Commercial Development, Asset and Leisure			**15,000,000**	**(4,516)**	**15,004,516**	**0**
Community, Planning and Housing - General Fund			**3,831,400**	**1,588,550**	**2,242,850**	**1,715,000**
Community, Planning and Housing - HRA			**0**	**0**	**0**	**0**
Sub-total Provisional Schemes			**33,831,400**	**3,584,034**	**30,247,366**	**1,715,000**
Third Party Schemes						
Environmental and Corporate Services			**379,400**	**40,500**	**338,900**	**53,600**
Commercial Development, Asset and Leisure			**0**	**0**	**0**	**0**
Community, Planning and Housing - General Fund			**888,500**	**207,640**	**680,860**	**0**
Community, Planning and Housing - HRA			**0**	**0**	**0**	**0**
Sub-total Third Party Schemes			**1,267,900**	**248,140**	**1,019,760**	**53,600**
GF Total			**40,418,300**	**5,530,736**	**34,871,709**	**3,813,800**
HRA Total			**9,898,600**	**2,646,920**	**7,251,680**	**7,723,800**
Grand Total			**50,316,900**	**8,177,656**	**42,123,389**	**11,537,600**
Environmental and Corporate Services						
Live Schemes						
MB	Z739	Green Spaces Programme	0	205	(205)	0
MB	Z784	Loughborough Cemetery - New Burial Provision	1,170,200	921,223	248,977	0
MB	Z753	The Outwoods Country Park - Septic tank system replacement	0	233	(233)	0
MB	Z754	The Outwoods Country Park - Visitor Centre and Café	114,200	110,706	3,494	0
MB	Z790	Environmental Services - Fleet Purchase	0	(15,744)	15,744	0
MB	Z831	Loughborough Playground Improvement Plan	50,000	0	50,000	50,000
MB	Z828	Queens Park - Improvements to Childrens Play Provision & Adult Recreation Provision	100,000	0	100,000	105,000
MB	Z802	Allotment Improvements	10,000	0	10,000	0
MB	Z824	Shepshed POS Enhacement	104,100	1,611	102,489	0
MB	Z805	Queens Park Aviary Improvements	20,000	0	20,000	0
MB	Z806	Playing Pitch Strategy Action Plan	51,900	(5,866)	57,766	40,000
MB	Z484	Closed Churchyard Wall	25,000	41,901	(16,901)	25,000
MB		Lodge Farm Public Open Space Enhancements	0	0	0	31,200
MB	Z808	Park Road Access Resurfacing	0	663	(663)	0
MB	Z809	Delivery of Open Space Strategy	0	0	0	0
MB	Z791	Shelthorpe Golf Course - Fencing	77,100	0	77,100	0
MB	Z792	Community Tree Planting Programme	30,000	4,400	25,600	0
AK	Z085	Replacement Hardware Programme - Block Sum	39,600	40,240	(640)	45,000
AK	Z354	Infrastructure Development - Block Sum	36,000	(2,178)	38,178	30,000
AK	Z822	Hybrid Council Meeting - Camera and audio equipment - Virtual Meetings	15,900	12,011	3,889	0
KB	Z423	Call Secure System - PCI Compliance	4,900	728	4,172	0
KB	Z812	Server Redesign	70,000	0	70,000	0
KB	Z813	Cloud Implementation	177,900	50,492	127,408	0
KB	Z814	Meeting Rooms - presentation screens	4,100	4,063	37	0
KB	Z816	Northgate - Single Use System	115,300	79,539	35,761	0
AW	Z811	Legal Case Management System	30,000	0	30,000	0
LT	Z810	Unit4 Agresso Upgrade	32,800	0	32,800	0

CAPITAL PLAN 2021/22

Scheme Details			2021/22 Current Budget £	2021/22 Actual Spend 31/12/21 £	2021/22 Balance £	2022/23 Current Budget £
AK	Z793	ITrent Upgrade & New Flexi Time System	8,700	16,231	(7,531)	0
HG	Z823	Performance Management System	21,100	5,736	15,364	0
		Sub-total Live Schemes	**2,308,800**	**1,266,194**	**1,042,606**	**326,200**
Provisional Schemes						
SJ	Z818	Enterprise Zone	15,000,000	2,000,000	13,000,000	0
		Sub-total Provisional Schemes	**15,000,000**	**2,000,000**	**13,000,000**	**0**
Third Party Schemes						
JT	Z697	Bell Foundry Pocket Park - Phase 1 & 2	30,300	5,154	25,146	0
MB		Farnham Road Public Open Space Improvements	0	0	0	0
MB	Z699	Shelthorpe Public Open Space Enhancements	113,200	1,537	111,663	0
MB	Z830	Holt Drive PA Enhancements	11,000	0	11,000	0
MB		Radmoor Road Public Open Space Enhancements	0	0	0	53,600
MB	Z778	Syston Community Garden	22,300	0	22,300	0
MB	Z826	Wymeswold Parish Council - tarmac court with multi-use goal ends at the Washdyke	22,800	22,809	(9)	0
MB	Z847	Barrow Town Cricket Club - extend clubhouse facilities, creating additional changing and ancillary provision	20,000	11,000	9,000	0
MB	Z849	Barrow Town Council - new play area Mill Lane	89,100	0	89,100	0
MB	Z850	Sileby Parish Council - improvement and provision of additional youth/adult facilities at Sileby Memorial Park	70,700	0	70,700	0
		Sub-total Third Party Schemes	**379,400**	**40,500**	**338,900**	**53,600**
		Environmental and Corporate Services - Total	**17,688,200**	**3,306,694**	**14,381,506**	**379,800**
Commercial Development, Asset and Leisure						
Live Schemes						
SW	Z801	Lighting strategy to support the Masterplan lane strategy - feasiblity study	10,000	0	10,000	0
NB	Z748	Loughborough Festive Lights and Street Dressing	4,800	0	4,800	0
SW	Z757	Town Hall Roof Upgrade	17,300	55	17,245	0
SW	Z797	Loughborough Town Hall - Lower Level Elevation Repairs & Feasibilty Study	7,900	5,905	1,995	0
SW	Z798	Town Hall - Victorial Room - Air Handling	50,000	0	50,000	0
SW	Z799	Town Hall - additional seating	0	0	0	225,000
IB	Z310	Planned Building Improvements	128,000	118,972	9,028	100,000
IB	Z821	Granby Street Culvert Repairs	75,000	28,766	46,234	0
JH	Z820	Southfields Offices - NHS Vaccination Centre	50,000	370	49,630	0
JH	Z832	Feasibility Work - New Council Offices	0	0	0	150,000
		Sub-total Live Schemes	**343,000**	**154,068**	**188,932**	**475,000**
Provisional Schemes						
JH	Z676	Commercial Property Investment Portfolio	0	(1,521)	1,521	0
JH	Z817	Regeneration Projects	15,000,000	(2,995)	15,002,995	0
		Sub-total Provisional Schemes	**15,000,000**	**(4,516)**	**15,004,516**	**0**
		Commercial Development, Asset and Leisure - Total	**15,343,000**	**149,552**	**15,193,448**	**475,000**
Community, Planning and Housing - General Fund						
Live Schemes						
JR	Z388	CCTV	122,300	20,739	101,561	35,000
JR	Z348	Charnwood Community Facilities Grants	100,300	5,400	94,900	50,000
JR	Z427	Members Grants - Members Choice	13,000	8,762	4,238	26,000

CAPITAL PLAN 2021/22

Scheme Details			2021/22 Current Budget £	2021/22 Actual Spend 31/12/21 £	2021/22 Balance £	2022/23 Current Budget £
AT	Z744	Beehive Lane Car Park Improvements and refurbishment scheme	149,400	9,648	139,752	0
AT	Z786	Car Parks Resurfacing and Improvements	32,800	0	32,800	0
IB	Z738	Carbon Management Schemes	7,500	(1,857)	9,357	0
RS	Z210	Disabled Facilities Grants - Block Sum	2,116,900	225,471	1,891,429	1,058,000
RS	Z346	Private Sector Housing Grants - Block Sum	125,000	25,992	99,008	75,000
AS	Z424	Choice Based Lettings Software	0	(15,855)	15,855	0
		Sub-total Live Schemes	**2,667,200**	**278,300**	**2,373,045**	**1,244,000**
Provisional Schemes						
RB	Z367	Bleach Yard	5,900	3,397	2,503	0
RB	Z787	Bedford Square Gateway	2,654,000	1,562,067	1,091,933	1,215,000
CC	Z796	Carbon Neutral Action Fund - Block Sum	598,800	3,700	595,100	500,000
RB	Z835	Shepshed Bull Ring	504,400	0	504,400	0
RB	Z396	Public Realm - Shepshed Town Centre	18,400	19,386	(986)	0
RS	Z141	Regional Housing Pot Grant	42,900	0	42,900	0
RS	Z363	Fuel Poverty Scheme	7,000	0	7,000	0
		Sub-total Provisional Schemes	**3,831,400**	**1,588,550**	**2,242,850**	**1,715,000**
Third Party Schemes						
JR	Z488	Thorpe Acre Residents Association - contribution towards Community Hub building	25,900	0	25,900	0
JR	Z500	Birstall Cedars Academy all weather pitch	50,000	0	50,000	0
JR	Z795	Syston Town Council - redevelopment of sports pavilion at Memorial Park	40,500	0	40,500	0
JR	Z815	Rothley Parish Council - upgrade Rothley Centre	367,600	11,524	356,076	0
JR	Z825	Loughborough Police Station Centre - Front Enquiry Desk	236,700	137,485	99,215	0
JR	Z827	Leicestershire Police - Drone Equipment and Forensic Hub Upgrade	58,600	58,631	(31)	0
JR	Z848	Syston Town Council - Memorial Park - redevelopment of sports pavilion	25,000	0	25,000	0
RB	Z852	Shepshed Town Council - Skate Bowl, Oak Road Playing Fields	84,200	0	84,200	0
		Sub-total Third Party Schemes	**888,500**	**207,640**	**680,860**	**0**
		Community, Planning and Housing - General Fund - Total	**7,387,100**	**2,074,490**	**5,296,755**	**2,959,000**
Community, Planning and Housing - HRA						
Live Schemes						
PO	Z761	Major Adaptations	580,000	105,252	474,748	450,000
PO	Z301	Minor Adaptations	50,000	5,279	44,721	50,000
PO	Z302	Stairlifts	80,000	72,156	7,844	80,000
PO	Z762	Major Voids	280,000	0	280,000	280,000
		Compliance				
PO	Z434	Asbestos Removal	150,000	211,536	(61,536)	150,000
PO	Z771	Communal Area Improvements	200,000	19,403	180,597	200,000
PO	Z742	Communal Area Electrical Upgrades	200,000	1,335	198,665	200,000
PO	Z772	Smoke/CO & Heat Detection	30,000	12,778	17,222	30,000
PO	Z773	Fire Safety Works	100,000	136,468	(36,468)	100,000
PO	Z374	CO Monitors	0	378	(378)	0
		Stock Maximisation				
PO	Z375	Garages	25,000	0	25,000	25,000
		Decent Homes				
PO	Z763	Kitchens	805,500	(24,007)	829,507	598,500
PO	Z764	Bathrooms	787,800	53,655	734,145	1,186,600
PO	Z765	Electrical Upgrades	290,000	207	289,793	290,000
PO	Z766	Window Replacement	195,000	4,030	190,970	40,000

CAPITAL PLAN 2021/22

Scheme Details			2021/22 Current Budget £	2021/22 Actual Spend 31/12/21 £	2021/22 Balance £	2022/23 Current Budget £
PO	Z767	Heating	331,200	77,204	253,996	411,700
PO	Z743	Sheltered Housing Improvements	200,000	228,727	(28,727)	200,000
PO	Z768	Door Replacement	360,000	86,232	273,768	300,000
PO	Z769	Roofing Works & Insulation	710,000	128,127	581,873	650,000
PO	Z770	Major Structural Works	250,000	35,062	214,938	250,000
		General Capital Works				
PO	Z776	Estate and External Works	205,000	(146,053)	351,053	205,000
PO	Z857	Housing Capital Technical Costs	312,000	0	312,000	312,000
PO	Z378	Door Entry Systems	200,000	4,531	195,469	200,000
AS	Z760	Acquisition of Affordable Housing to meet housing need	3,263,400	1,358,420	1,904,980	1,500,000
AS	Z851	Acquisition of Dwellings - S106	278,700	276,200	2,500	0
PO	Z775	Mobility Scooter Storage	15,000	0	15,000	15,000
		Sub-total Live Schemes	**9,898,600**	**2,646,920**	**7,251,680**	**7,723,800**
		Community, Planning and Housing - HRA - Total	**9,898,600**	**2,646,920**	**7,251,680**	**7,723,800**

CABINET – 10TH FEBRUARY 2022

Report of the Head of Landlord Services
Lead Member: Councillor James Poland

Part A

ITEM 11 DRAFT HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN 2021-2052 AND ASSET MANAGEMENT STRATEGY FRAMEWORK

Purpose of Report

To seek Cabinet approval for the draft updated Housing Revenue Account (HRA) Business Plan 2021-2052 and Asset Management Strategy Framework.

Recommendations

That Cabinet approve the:

1. Updated Housing Revenue Account (HRA) Business Plan 2021-2052 at Appendix 1.

2. Asset Management Strategy Framework attached at Appendix 2.

3. Head of Landlord Services to undertake a procurement for a contractor to support the development of the Council's Asset Management Strategy through the undertaking of a stock condition survey, high level energy study, and the production of a prioritised investment strategy, and that this be added to the Annual Procurement Plan in the £25,000 to £75,000 bracket.

Reasons

1. To set out the revised financial framework for how the Council intends to meet the investment requirements necessary to deliver the housing service and maintain its HRA properties over the next 30 years.

2. To develop the Council's Asset Management Strategy, ensuring it links to our priorities, and highlights risk and opportunities around our HRA assets, including homes, estates, sheltered accommodation, shops, and garages.

3. To validate the assumptions in the HRA Business Plan and enable informed discussion around future investment priorities and the strategic approach to asset management, and to add the procurement to the Annual Procurement Plan.

Policy Justification and Previous Decisions

In February 2012 Cabinet recommended to Council approval of a 30-year HRA Business Plan required to deliver the self-financing requirements introduced by the Localism Act 2011. This was approved by Council on 27th February 2012 (minute 75.5). It was also resolved that the Business Plan would be periodically reviewed and updated. On 25th September 2014 (Minute 35) Cabinet approved the HRA Business Plan 2014-2044 and Housing Asset Management Strategy 2014-19.

Implementation Timetable including Future Decisions and Scrutiny

The HRA Business Plan covers the period 2021-2052. It will be reviewed in 2022/23 following the stock condition survey, and every two years thereafter as a minimum, or earlier if there are significant changes to income, expenditure, policy, and / or priorities.

The stock condition survey is expected to be completed in the first half of 2022/23.

An updated Asset Management Strategy, setting out investment priorities is expected to be produced for Cabinet's consideration in the Autumn of 2022/23. Tenants will be consulted through the Housing Management Advisory Board.

Report Implications

The following implications have been identified for this report.

Financial Implications

Based on the assumptions set out at page 12 of the updated Housing Revenue Account (HRA) Business Plan at Appendix 1: in a scenario where repayment of loans reaching maturity and refinancing where required for medium term borrowing takes place, in overall terms the HRA revenue position remains balanced and is forecast to have reserves of c£17.8million in 30 years, whilst ensuring a fully financed capital programme. The levels of debt commence at £78.62million and are forecast to be c£50.2million in 30 years, of which £14.9million will be accounted for with existing loans.

There is no statutory requirement for the repayment of debt within the HRA. It is likely that once a revisit of the stock investment requirements and priorities is undertaken that the profile of required borrowing may change. It is expected that a further report will be brought to Cabinet in 2022/23 setting out the proposed approach to investment.

Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

Risk Identified	Likelihood	Impact	Overall Risk	Risk Management Actions Planned
Incorrect stock condition data combined with data which suggests there is a backlog of work required in some areas, leading to incorrect assumptions being	3 Likely	4 Major	12 High	A reprerestentative 20% sample stock condition survey will be undertaken with adjustments made to the plan as necessary, and a further report covering investment brought to Cabinet in 2022/23.

Risk Identified	Likelihood	Impact	Overall Risk	Risk Management Actions Planned
made in the HRA business planning process, leading to financial loss due to an incorrect approach to investment and priorities and consequential reputational damage.				

Equality and Diversity

The updated HRA Business Plan is expected to positively contribute towards the Council's equality and diversity responsibilities and commitments. There are sums identified for:

- Meeting the property related needs of elderly / disabled people.
- Delivering ASB services to protect vulnerable people and deal with hate incidents.
- Providing financial and tenancy support services to vulnerable tenants.
- Investment in neighbourhoods, and in community projects.

Crime and Disorder

The updated HRA Business Plan is expected to positively contribute towards achievement of the Council's responsibilities under Section 17 of the Crime and Disorder Act (1998) to undertake reasonable action to improve community safety in the borough. Sums for the installation and maintenance of communal entrance doors at blocks of accommodation providing security for tenants and their families have been incorporated in to the future projections of spend. The plan also includes sums for the delivery of anti-social behaviour services.

Sustainability

The updated HRA Business Plan includes sums for the delivery of central heating upgrades, the installation of new loft insulation, and LED lighting schemes in communal areas, contributing towards the Council's carbon reduction targets.

The Asset Management Strategy Framework and the proposed representative sample survey of the Council's stock will support the production of a high level energy study on the Council's stock to inform priority areas for investment. Energy efficiency data will be captured as part of the survey process.

The following principles of sustainability are therefore supported:

- Avoid increase in energy intensity of Council owned buildings and maximise efficiency.

- Reduce poverty, crime, anti-social behaviour and increase community safety.
- Improve public health and wellbeing.
- Ensure that housing needs of all sections of the community are met.

Key Decision:	Yes
Background Papers:	HOUSING REVENUE ACCOUNT BUSINESS PLAN 2014- 2044 AND HOUSING ASSET MANAGEMENT STRATEGY 2014- 2019 available at: *https://www.charnwood.gov.uk/files/papers/cab_25_september_2014_item_06_hra_business_plan_2014_2044_and_housing_asset_management_strategy_2014_2019/Cab%2025%20September%202014%20Item%2006%20HRA%20Business%20Plan%202014-2044%20and%20Housing%20Asset%20Management%20Strategy%202014-2019.pdf*
Officer to contact:	Peter Oliver Head of Landlord Services 01509 634 666 Peter.oliver@charnwood.gov.uk

Part B

1. Asset Management Strategy Framework

1.1 The framework sets out the Council's proposed approach to updating its Asset Management Strategy, ensuring it links to our priorities, and highlights risk and opportunities around our HRA assets, including homes, estates, sheltered accommodation, shops, and garages.

2.1 The framework identifies several key actions to be completed over the coming months, including a 20% representative stock condition survey. This will involve a survey of properties to check the condition matches the information held about them on the Council's systems. The survey will also look at the energy efficiency of properties. This action will support validation of the assumptions in the HRA Business Plan. It is expected that an updated Asset Management Strategy will be brought forward in 2022, which in addition to setting out how the assets will be maintained will outline the approach to key potential areas of investment including:

- Sheltered housing improvements
- Decarbonisation / energy efficiency
- Stock replacement e.g., new build and acquisition of properties
- Regeneration and estate improvement

2. HRA Business Plan 2021-2052

2.1 The plan identifies the level and sources of funding available to deliver our priorities and provide the housing service to tenants and leaseholders. It is a long-term plan covering the next 30 years.

2.2 The plan starts in April 2021 as 2021 data has been used to develop it. The plan is subject to changes in the 2022/23 budget and 2021/22 out-turn process, and the results of the expected 20% representative stock condition survey to be carried out in 2022/23.

2.3 The plan updates the previous HRA Business Plan approved in September 2014, reviewing, and updating investment, income, and expenditure assumptions.

2.4 Subject to the results of the expected stock condition survey, the plan provides a good indication that future investment capacity exists.

2.5 The financial modelling in the plan has been carried out by Savills UK.

3. Consultation

3.1 On 10th November 2021 the Housing Management Advisory Board (item 4) considered the draft updated Housing Revenue Account Business Plan 2021-2052 and draft Asset Management Strategy Framework. It was resolved that:

a) The report be noted.
b) That Cabinet notes the investment capacity for improvement to sheltered housing.

Appendices

Appendix 1 - Updated Housing Revenue Account (HRA) Business Plan 2021-2052.

Appendix 2 - Asset Management Strategy Framework

Appendix 3 - Equality Impact Assessment

Housing Revenue Account Business Plan & Capacity Review

Draft Report
November 2021

savills.co.uk

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1. Introduction

1.1. Background

Charnwood Borough Council (CBC, the Council) have commissioned Savills to produce an updated HRA Business Plan and review of the Asset Management Strategy which were both last produced in 2014.

The report focuses on the production and outputs of the HRA business plan but does refer to the outcome of the separate review of the Asset Management Strategy. It takes a holistic view on the current HRA budget and compares current cost levels with benchmarks for similar sized local authorities.

In updating the HRA business plan we have also considered the impact in light of the abolition of the HRA debt cap, and the potential for the introduction of greater flexibilities around the reinvestment of Right to Buy receipts. Like many authorities, the Council has adopted a new approach to setting out the financial capacity and capability of the HRA to deliver on its objectives towards refurbishment, investment, regeneration and new supply. This new approach is also consistent with the requirement for the publication of Prudential Indicators specific to the HRA following their reintroduction alongside the abolition of the debt cap.

Savills have therefore updated the 2014 HRA business plan, in conjunction with officers, offering our thoughts on the methodology, approach and assumptions, with a focus on setting a series of target prudential indicators / metrics which may then inform the basis of the long-term financial management and investment strategy delivered within the business plan.

1.2. Approach

In order to carry out this commission we were provided the following:

- A full breakdown of the 2021.22 HRA Budget
- The 30-year projections for investment in the stock
- The full rent schedule for existing properties
- Potential investment opportunities

We have also drawn on our extensive financial database to provide appropriate benchmarks for both a high-level and in-depth comparison.

To produce the HRA business plan we have used our latest platform to model the 30-year projections and to provide a view on both viability but also borrowing capacity to allow for future and additional investment.

2. HRA Budget Review

2.1. HRA Budget

The HRA business plan is launched from the latest approved budget which is detailed below:

Table 2.1: HRA Budget

	2021.22 Budget
Income:	
Dwelling Rents	£21,100,000
Non-Dwelling Rents	£355,000
Charges for Services & Facilities	£441,000
Warden Charges	£49,000
Central Heating	£67,000
Other Income	£95,000
Interest & Investment Income	£25,000
Total Income	**£22,132,000**
Expenditure:	
Repairs & Maintenance	£6,802,000
Supervision & Management	£5,666,000
Contribution to Bad Debt Provision	£383,000
Depreciation (transfer to MRR)	£3,409,000
Debt Management Costs	£10,000
Interest Payable	£2,709,000
Total Expenditure	**£18,979,000**
Surplus	**£3,153,000**
Contribution from Reserve	£365,000
Revenue Contribution to Capital	(£3,523,000)
Net Surplus / (Deficit)	**(£5,000)**

The HRA shows a forecast deficit of £5,000 which occurs after the revenue contribution to capital. CBC also holds an HRA Financing Reserve of £5.623million which is after the £0.365million contribution to the general HRA reserve. This is therefore in addition to the £0.602million forecast balances within the HRA general reserve.

The HRA business model has been balanced to the above budget in order to project future cashflow income and expenditure prior to the financing of capital expenditure.

Table 2.2: HRA Capital Budget

	2021.22 Budget
Expenditure:	
Investment in Stock	£6,331,500
Acquisitions	£1,050,000
Total Income	**£7,381,500**
Financed By:	
Major Repairs Reserve	£3,408,700
‘1-4-1’ Receipts	£450,000
Revenue Contributions	£3,522,800
Total Expenditure	**£7,381,500**

The Major Repairs Reserve, to which the depreciation charged to the HRA is credited, is forecast to hold balances of £3.111million in March 2012.

A small programme for 6 open market acquisitions is budgeted this year, which is part-subsided by the use of ‘1-4-1’ retained right to buy receipts.

2.2. Benchmarking

In order to compare Charnwood’s cost basis we have utilised our national database of the accounts for stock holding local authorities and identified a peer group of 15 local authorities with a range of 3,600 to 5,700 properties located in the Midlands and East of England. The results are shown on a per unit basis to allow for direct comparison.

The costs for financial year 2020.21 will be impacted due to the Coronavirus pandemic in that expenditure, particularly for repairs, would be lower than previous years, hence we have shown the values for 2019.20 as well.

For further comparison we have shown the per unit values for the 2021.22 budget as well.

Table 2.3: Benchmarking Analysis (per unit)

	2019.20 Actual		2020.21 Actual		2021.22
	Charnwood	Peer Group	Charnwood	Peer Group	Charnwood
All Management (per unit)	£1,056	£1,258	£1,100	£1,257	£1,027
Net Management (per unit)	£813	£889	£880	£896	£845
Repairs (per unit)	£1,086	£1,030	£1,003	£1,053	£1,234
Depreciation (per unit)	£586	£914	£625	£972	£618
Operating Surplus (per unit)	£1,056	£1,256	£1,054	£1,284	£1,057
Rents	£71.73	£81.70	£74.73	£83.14	£75.26

The all management costs incorporate the total running costs for the service exclusive of the provision for bad debts, depreciation and interest charges, whereas the net management cost offsets the income from non-dwelling rents, service charges and other income, excluding interest earnt.

The analysis shows that both gross and net management costs are lower than the peer groups for the two years of accounts with 2021.22 likely to follow suit.

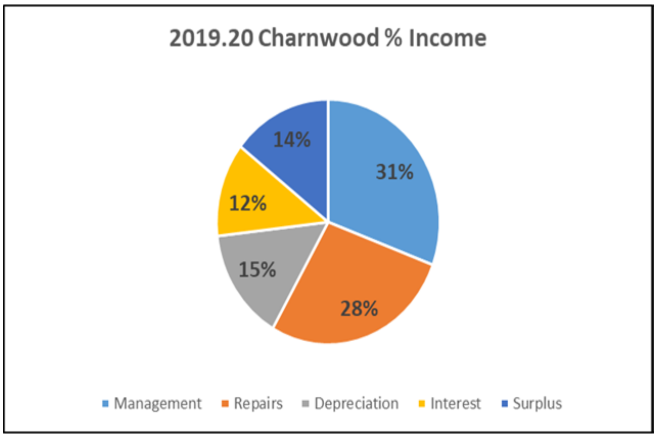
Repairs expenditure is relatively in-line with the peer group, although 2021.22 shows an increase in expenditure, to which we review further in the following section.

The depreciation charge is lower than the peer group by some margin. Whilst this is not material as surpluses generated by the HRA, which would be increased by a lower depreciation charge, are offset by higher revenue contributions to capital to fund the programme. It is however, a key component when considering borrowing capacity further in this report.

The operating surplus (prior to interest) remains relatively stable across all three years, but is lower than the peer group. A major factor in accounting for the difference is the level of rent charged, but also the lower depreciation charge.

In order to make further comparisons we have shown graphically the difference in the key HRA expenditure headings expressed as a percentage of the total income (which includes rents less voids, non-dwelling rents and charges, service charges and other forms of income).

Chart 2.4: 2019.20 Benchmarking Analysis (percentage expenditure)



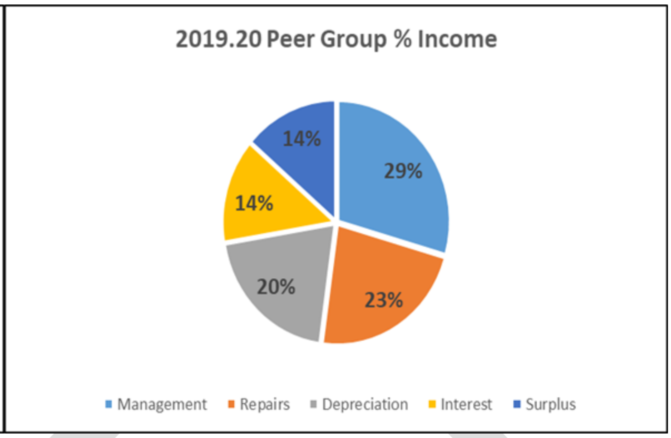
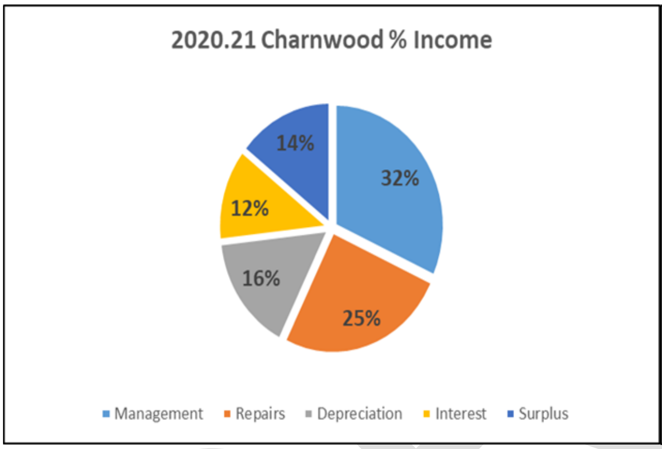


Chart 2.5: 2020.21 Benchmarking Analysis (percentage expenditure)



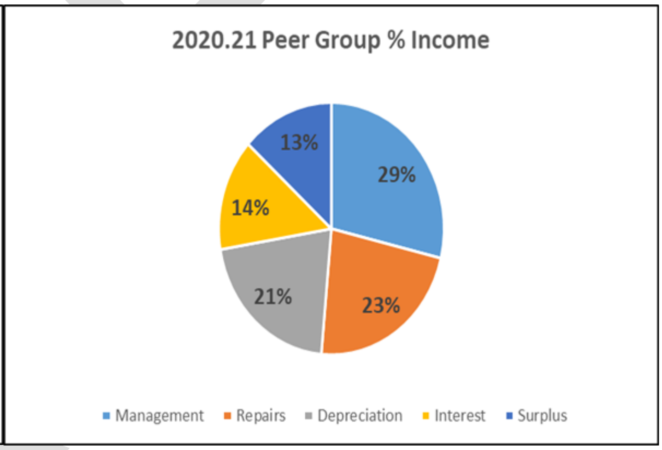
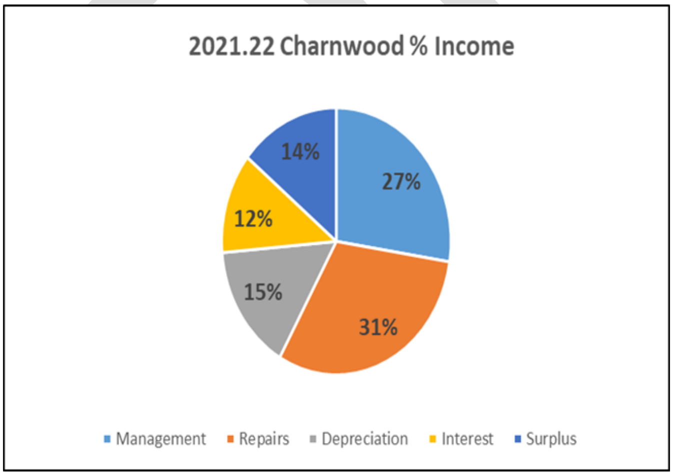


Chart 2.6: 2021.22 Benchmarking Analysis (percentage expenditure)



In terms of the two years direct comparison with the peer group and 2021.22 budget there are no significant outliers other than the following:

- Repairs expenditure for 2019.20 and 2021.22 demonstrates a higher level of expenditure, which is reflected in the above table.
- Depreciation also differs again due to the lower provision made by CBC
- Interest charges are lower on account of the smaller debt level in comparison to the peer group

Interestingly though, the resulting surpluses appear to be in line, which results in no draw upon reserves.

2.3. In-Depth Review

As per our commission we undertook a desktop holistic review of the key budgets within the HRA. In doing so we were provided with a comprehensive list of all of the HRA budgets by both cost centre but also account code. This allowed us to categorise expenditure in order to compare with our knowledge and database of other HRAs.

Our summary of the accounts is as follows:

<u>Non-Rental Income</u>

The budgets primarily cover:
- Rent from Land
- Garage Rents (less 31% void allowance)
- Shop Rents (less 24% void allowance)
- Service Charges (less various levels of void allowance c34%)
- Council Tax Recharged
- Ground Maintenance Contributions

These are set locally and therefore cannot be benchmarked as they based on the profile of assets specific to CBC. The void rates, however, have a significant impact to the coverage of actual costs for services.

<u>Management</u>

We have reviewed the detailed budgets that make up the £5.441million costs for management.

We have categorised the expenditure for the costs by reviewing the account codes for the following headings:

- Direct Salaries: £3,168,200
- Direct Costs: £1,681200 (net of income)

- Overhead Costs: £1,651,400
- Recharges: (£1,023,500)

The proportion of salary costs is equivalent to 49% of expenditure, whilst net direct costs account for 26% leaving 25% for central overhead recharges.

The level of recharges appear to be at the higher end than other authorities to which we hold data as a percentage of overall management expenditure with ranges between 12% and 27%.

Another analysis is the split between core and non-core management activities. Our analysis shows that 19% of expenditure is deemed non-core, which is deemed supplementary to the specific landlord function. This compares to benchmarks of between 15% and 21% elsewhere.

Repairs

As with management budgets with have reviewed the cost centre and accounts that are associated with the repairs service.

We have categorised the expenditure for the costs by reviewing the account codes for the following headings:

- Direct Salaries: £2,847,712
- Direct Costs: £3,264,729
    - Of which: £635,000 on subcontractors
- Overhead Costs: £689,859

The salaries proportion is 42% which is at the lower end of benchmarks with other local authorities that have a direct workforce rather than a repairs contractor.

Overheads from the General Fund charged to repairs account for 10% of the overall budget which again is line with benchmarks with local authorities with a typical range of 8% to 16%.

The direct costs are formed from a variety of expenditure including materials, sub-contractors, transport and internal operational related costs. The level of sub-contractor accounts for 9% which is very much at the lower-end of what we have seen with other Councils. This is a positive, given less reliance upon external services.

Financing Costs

There will be a variety of reasons for the cost of borrowing charged to the HRA. This will be due to loans attributed to the HRA, when they were financed and duration. Currently, the average interest rate for CBC is 3.43%. This compares favourably with the national average rate of 4.01% whilst the peer group used for the benchmarks above is 3.06%.

Given the majority of borrowing would have been to finance the self-financing settlement the rates are within the expected range, given the duration of some of the loan facilities.

Capital Fees

From the accounts analysis £299,700 is charged to capital expenditure for the management of the capital programme. Due to the fluctuation of capital expenditure the fees equate to between 4% and 7% which is well within the expected 8% benchmarks.

3. Capital Investment & Financing

3.1. 30-Year projections

The following table shows the latest projections for the stock investment required for the stock summarised in 5-year segments. Year 1 in the table represents financial year 2020.21, and as we have launched the model from 2021.22 and used the actual capital programme we have drawn from the figures commencing in year 3 with allowances for inflation. Therefore, we have had to assume an average level of expenditure for the plan in the final 2 years.

Table 3.1: 30-Year Stock Investment Requirements

Component	Yrs 1-5	Yrs 6-10	Yrs 11-15	Yrs 16-20	Yrs 21-25	Yrs 26-30	TOTAL
Bathrooms	5,369,532	2,159,425	3,682,901	2,143,959	6,744,495	4,479,596	**24,579,909**
Kitchens	2,354,912	3,692,371	8,393,990	6,654,473	2,683,123	2,916,973	**26,695,841**
Heating	2,354,681	6,921,857	1,650,028	2,609,547	11,211,874	2,540,702	**27,288,690**
Wiring	1,582,256	2,526,553	2,526,553	2,526,553	2,526,553	2,526,553	**14,215,022**
Windows	419,628	2,391,879	6,174,126	5,684,560	607,062	2,798	**15,280,053**
Doors	3,459,170	150,250	492,140	542,200	1,704,600	1,641,520	**7,989,880**
Roof/Insulation	2,105,600	1,222,800	16,000	1,750,300	2,240,000	2,181,600	**9,516,300**
Structural	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	**7,500,000**
Asbestos	530,000	200,000	200,000	200,000	200,000	200,000	**1,530,000**
Fire Safety	700,000	50,000	50,000	50,000	50,000	50,000	**950,000**
Smoke Detectors	449,325	0	0	449,325	0	0	**898,650**
Adaptations	2,800,000	2,800,000	2,800,000	2,800,000	2,800,000	2,800,000	**16,800,000**
Major Voids	1,340,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	**7,590,000**

Component	Yrs 1-5	Yrs 6-10	Yrs 11-15	Yrs 16-20	Yrs 21-25	Yrs 26-30	TOTAL
Communal Works	2,140,370	850,925	850,925	850,925	850,925	850,925	**6,394,995**
Estate Works	1,015,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	**6,015,000**
Other Sheltered	275,000	0	125,000	240,000	60,000	0	**700,000**
IT Replacement	0	300,000	0	300,000	0	300,000	**900,000**
Garages	470,000	0	0	0	0	0	**470,000**
TOTAL	28,615,474	26,766,060	30,461,663	30,301,842	35,178,632	23,990,667	**175,314,340**

This table demonstrates a total of £175,314,340 of capital investment for the HRA over the 30 year period. The above table excludes the provision for capitalised fees to manage the annual programme of £299,700, which has been included within the financial projections.

Within the model we have assumed that some components, for example kitchens and bathrooms, are considered variable and therefore adjusted within the projections for loss of stock through right to buy.

3.2. Review of the Asset Management Strategy Framework

Savills have been appointed, as part of our commission, to review the database used to arrive and the above costs and provide support for the preparation of the Asset Management Strategy Framework.

The key themes of the Asset Management Strategy Framework:

- ***Stock Investment-*** Investing to maintain the stock to a standard that meet customer and business need and regulatory requirements.

- ***Active Asset Management-*** Activities to improve the performance of assets that have a poor social, economic or environmental performance, because of low demand or high costs, and either improving them or replacing them with properties which are fit for purpose.

- ***Supporting wider objectives -*** Being clear where and how asset management is supporting wider objectives, such as building safety, energy efficiency and meeting housing need in line with our strategic aims.

Our observations of the current database are:

- Stock Condition data:
  - Based on 50% sample carried out 2012 which has not been regularly updated
  - Risk that condition and components reaching end of life cycle are not factored into the projections
  - The need for a sample survey to validate business plan/asset management strategy and decent homes compliance

- Other non-survey requirements:
  - Energy – RDSAP data held but appears old and not updated
  - Mechanical & Electrical – costs not up to date - specialist surveys may be required for complex equipment
  - Sheltered Housing Improvements – small provision made
  - Fire Safety – not large exposure but allowances made for additional works need reviewing – additional specialist surveys and additional FRAs

- Asset Performance Evaluation:
  - Currently the focus is on when rather than if to invest in the stock.
  - Understanding asset performance critical in future

- Investment Standards:
  - Charnwood Standard used as reference point
  - Beyond decent homes standard
  - Based on life-cycle rather than condition and need for replacement
  - Risks replacing items still in reasonable condition
  - Asset management strategy to be reviewed in context of wider investment priorities

- Business Planning:
  - Existing commitments covered but age and extent of existing data means manual adjustments required
  - Raw data shows backlog expenditure – risk of spend profile being incorrect
  - Risk of less effective investment programmes without link back to effective core data

In summary, the levels of expenditure are within expected benchmarks over the 30 years but risks some expenditure not being properly prioritised.

Therefore the draft Asset Management Strategy Framework has identified a series of tasks to tackle this through two phases.

More work and conversation however, is required for the move towards the stock becoming zero-carbon.

3.3. New Housing Supply

At present the model includes for the acquisition of 6 properties in the form of ex-Council homes for 2021.22 only. The acquisitions utilise the 1-4-1 receipts that occur from right to buy receipts.

Whilst the regulations are changing for the use of right to buy receipts the impact of this has no bearing on CBC's HRA and would actually allow for a greater percentage of 1-4-1 receipts to be used.

We have modelled a scenario of the continuation of the continuation of the acquisition programme in section 6 on this review.

3.4. Sheltered Scheme Review

Currently CBC is witnessing high void levels within in sheltered stock due to some of the properties not being fit for purpose and therefore difficult to re-let. This impacts upon loss of rental income but also service costs that are unrecoverable.

Within the above table no investment, that is included within the base plan, has been provided for sheltered scheme remodelling.

We have therefore modelled a scenario where some of the existing schemes are remodelled and then the impact to the plan can be assessed.

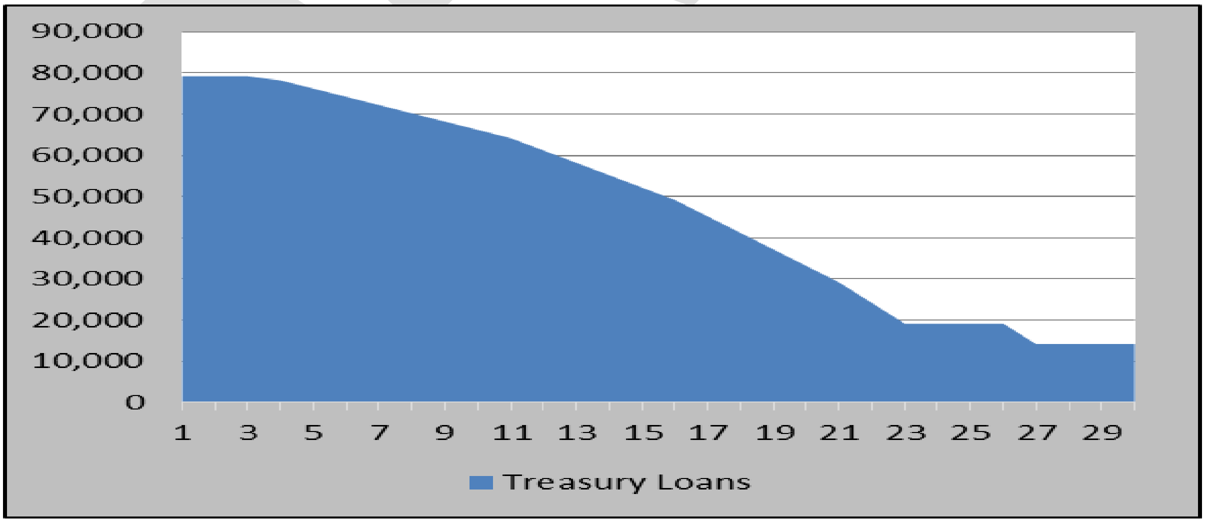
3.5. Current Financing of the HRA

The HRA level of debt is defined by its HRACFR (Capital Financing Requirement). It currently stands at £78,620,000 and is financed by:

- 24 Loans with various maturity dates totalling £79,190,000
- This results in 'over-financing' of £570,000 to which interest is received from the CBC General Fund

The loan portfolio and future balances from loan maturities is shown below:

Chart 3.1: Loan Balances – Current Portfolio



This demonstrates that the projected loan balances reduce to £14.190million over the 30 years. This excludes any refinancing of the loans or additional borrowing required.

The average interest charge for the current portfolio is 3.43%.

4. HRA Business Plan Projections

4.1. Future Assumptions

The model is launched from 2021.22 using the budgets as in table 2.1, the loans within chart 3.1 and the stock investment requirements in table 3.1.

In order to produce future cashflow projections for the HRA we have made the following assumptions:

1. Core Inflation running through the plan is set at 2% based on the Government's long-term CPI (consumer price index) target of 2%, with 2.5% applied for years 2 & 3.
2. Rents for 2022.23 will increase by 4.1% on the current levels of £75.28 and then for April 2023 and April 2024 by CPI plus 1% following the current social rent policy. Thereafter rents will increase by CPI only
3. Properties re-let to new tenants will be at formula rent which is £1.11 than the current level and a turnover rate of 2.5% is assumed on a reducing balance basis
4. Void rates rent lost are set at current reflecting the difficulties with letting some sheltered stock
5. Bad Debt Provision continues to be set at 1.77% of rental income
6. Right to Buys remain at 40 per year for the first 3 years and then reduce by 10% per year, at total of 476 properties representing 8.6% of the current stock
7. All service charges and other forms of income will increase by CPI only
8. All management related costs will increase by CPI only
9. Repair cost will increase by CPI only but adjusted by 20% (pro-rate) for stock loss
10. Capital Expenditure increases by CPI only with some components adjusted for stock loss, with an uplift of an additional 7% on the values in table 3.1 for application from 2022.23 onwards
11. Loans upon maturity will be repaid from HRA reserves or surpluses but where refinancing is required an interest rate of 3.5% is assumed for medium-term borrowing
12. The minimum balance for the HRA has been set at £0.55million and increases with inflation
13. We have assumed that the HRA Financing Reserve is utilised to finance the loan repayments overs years 4 to 7 of the plan.

4.2. Financial Outputs

The charts below summarise the forecast:

- Revenue reserves forecast over 30 years
- Capital programme forecast over 30 years
- HRA Debt forecast over 30 years.

Chart 4.1 - Revenue Reserves forecast 2021-2051 Baseline Position

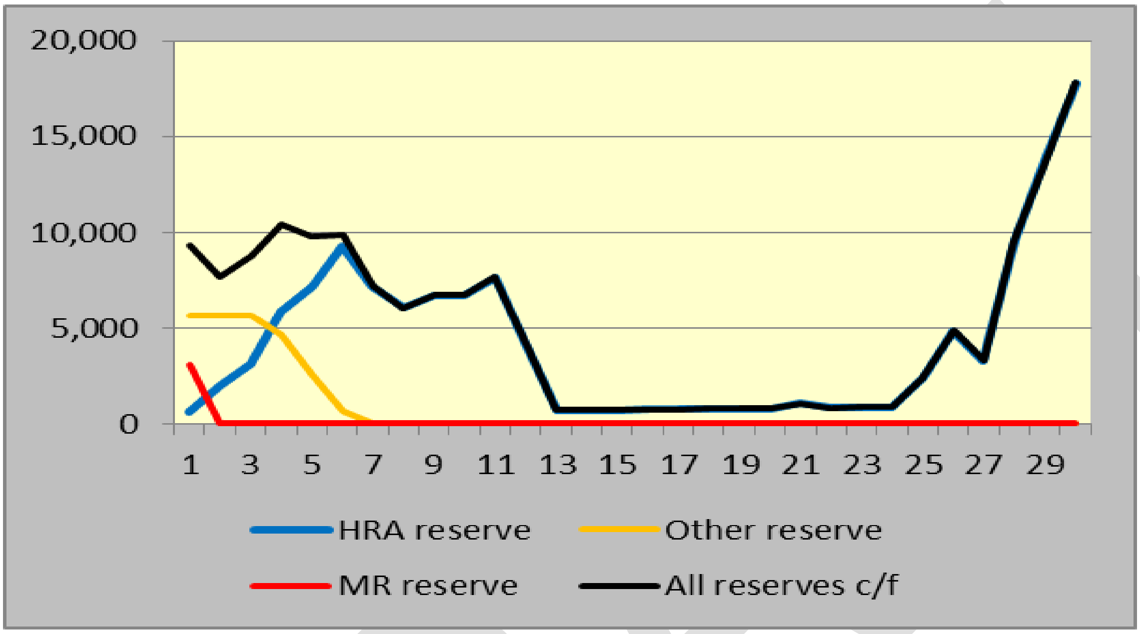


Chart 4.2 - Capital expenditure and financing forecast 2021-2051 Baseline Position

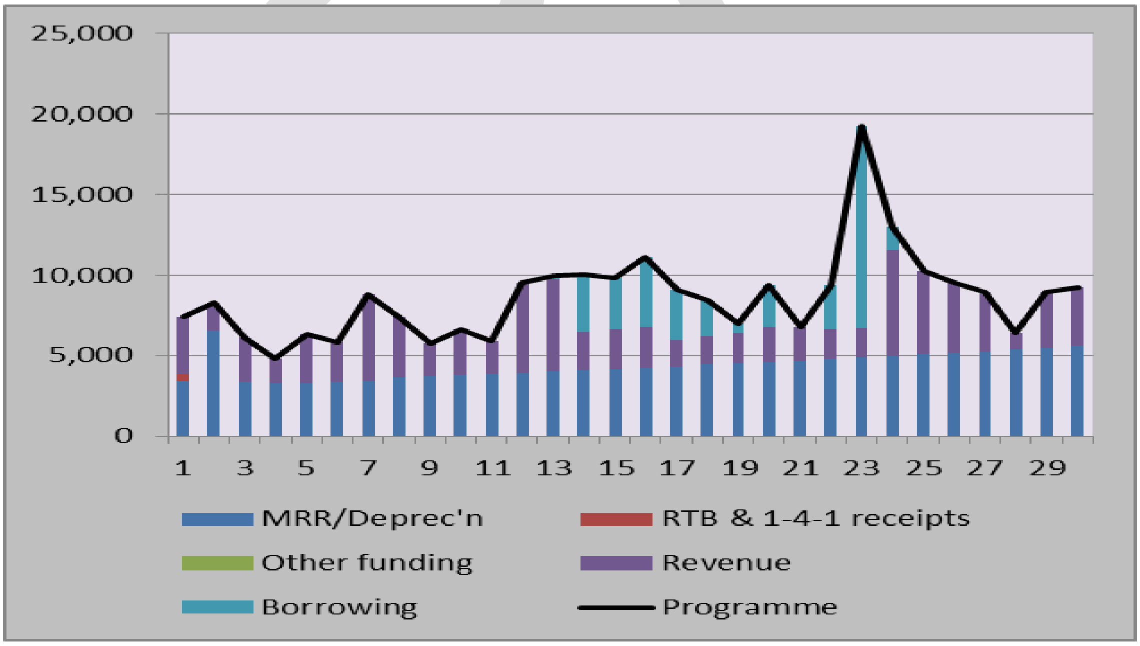
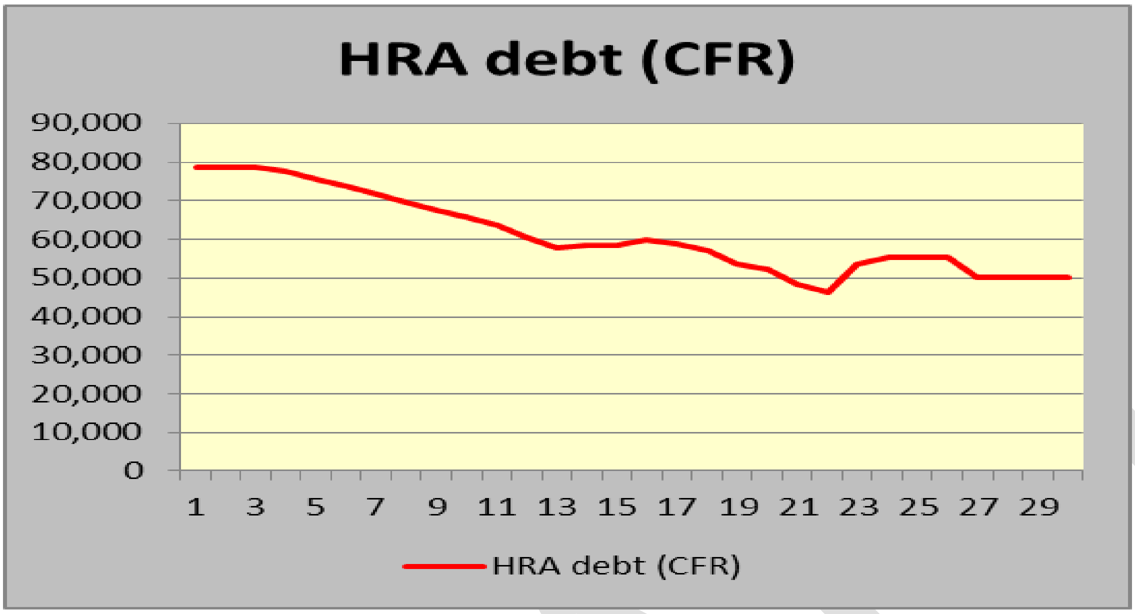


Chart 4.3 - HRA Debt forecast 2021-2051 Baseline Position



4.3. Summary

The revenue projections show that available reserves are utilised over the early stages of the plan to finance both capital expenditure and loan repayments. Due to capital expenditure increasing in year 12, in comparison to the previous years, the HRA balance falls to the pre-set minimum levels. This continues for a period of 12 years and then balances begin to accrue as capital expenditure begins to reduce compared to the mid-term levels of the plan.

The capital expenditure chart shows that the programme is fully funded in each of the years by a variety of resources, but substantially from the HRA itself but with the requirement for additional borrowing in the mid-term of the plan.

The debt levels of the HRA (HRACFR) initially reduce on account of the loans maturing during this period. However, in the mid-term of the plan whilst there are loans continually maturing there is a need to both refinance these loans but also additional borrowing required. The net effect of this is shown in chart 4.3 where in years 14 to 17 there is an overall growth in borrowing. Later into the plan, due to the high levels of forecast capital expenditure, further borrowing is required.

In overall terms the HRA revenue position remains balanced and is forecast to have reserves of c£17.8million in 30 years, whilst ensuring a fully financed capital programme. The levels of debt commence at £78.62million and are forecast to be c£50.2million in 30 years, of which £14.9million will be accounted for with existing loans.

There is no statutory requirement for the repayment of debt within the HRA. It is likely though that once a revisit of the stock investment requirements is undertaken that the profile of required borrowing may change.

5. Capacity analysis

5.1. Introduction and methodology

The HRA debt cap represented an artificial constraint on borrowing set outside the HRA and linked to future income and cost assumptions which were made in 2012. The housing and financial policy environment has moved on considerably since then, however the only change in the debt cap until 2018 that was implemented was for a small minority of authorities that opted to bid for an increase in 2014.15.

The proposition within this analysis is that, whilst there is theoretically now no limit to borrowing within the HRA, the existing asset and operating base generates a net income stream that does offer a logical limit on sustainable borrowing levels. In setting out its investment strategy, the Council therefore needs to consider how it will take decisions on whether to invest, how to fund, the extent of new borrowing, and determine a framework within which decisions will be taken for the business plan overall, within the MTFP and within successive budget rounds.

This report applies some metrics developed in the light of the experience of 40 years' of successful private finance of housing associations, during which associations have developed hundreds of thousands of new affordable homes, without a single association ever going into default with any of its lenders.

This is not the only approach that can be utilised, for example the Council will have an established approach to the setting of Prudential Indicators in the General Fund which it might wish to consider in the HRA context. However, as will be seen, looking at tried and tested principles from a privately financed sector in the HRA context provides a powerful and persuasive evidence base to provide for a significant increase in funding for new HRA developments.

5.2. Housing association metrics

Housing associations have traditionally been funded from long-term bank lending from the High Street banks and Building Societies. There is over £60billion of debt on HA balance sheets. Bank lending has been built on lending covenants which have become established in the marketplace and associated with the delivery of cheap debt. Whilst local authority borrowing is not directly secured on its asset base, the covenant approach provides a key insight into the viability and sustainability of borrowing as viewed by private lenders.

We have identified three covenants/ratios or metrics which we consider potentially relevant in the HRA context, set out below.

Interest Cover Ratio (ICR)

This is the ratio of operating surplus divided by interest costs, and represents the cover that the HRA has against its interest cost liabilities in any year; the ICR is set to a minimum which provides comfort that if there were a sudden drop in income or increase in operating costs, there would be sufficient headroom to continue to cover debt interest. For housing associations, the usual definition of operating surplus is EBITDA-MRI (Earnings before Interest, Tax, Depreciation and Appropriations – Major Repairs Included). The average ICR for the HA sector in 2019.20 was around 1.65; typical lending covenants vary between 1.10 and 1.50 depending on the size and nature of the HA, with 1.25 being a typical "golden rule".

For the HRA, operating surplus is best defined as:

- Turnover (dwelling rents, other rents, service charges, contributions)
  Less
- Operating Costs (general management, special management, other management, repairs & maintenance, major repairs)

For housing associations, depreciation is not a cash transaction. In the HRA, because of the treatment of depreciation as a cash transfer to the Major Repairs Reserve (MRR) plus an adjustment to reflect actual transfers to MRR, it is essential to include the net amount transferred to MRR in the calculation. This represents the revenue expenditure on major repairs made legitimately as part of operating costs. Notwithstanding that these are subsequently treated as part of the capital programme, they are funded from revenue and properly an operating cost. Whilst transfers to the MRR may not be spent in-year, our experience is that the majority of balances carried in the MRR tend to be from expenditure slippage.

The above definition of ICR works in the HRA context as it determines the revenue surplus before interest, appropriations, and other "below the line" adjustments, and already takes into account a significant element of costs relating to major repairs before comparing to debt interest capability.

Loan to Value (LTV)

This is an essential tool for private lenders where debt is secured against properties, hence theoretically against their value. The basis for valuation in HAs has been Existing Use Value (Social Housing) - EUV(SH) - for decades with many HAs and lenders now adopting Market Value Subject to Tenancy as a valuation method. Typical covenants prescribe 65-70% maximum LTV.

For the HRA, borrowing is not directly secured against the properties. In addition, the EUV(SH) calculation prescribed by government is not cashflow based, but is based on vacant possession values discounted by a regional factor periodically published by the government.

LTV is best defined in the HRA context as Outstanding Debt / Fixed Asset Value. Debt is defined as the HRACFR as this is the amount that must be financed with interest payments in the HRA. Asset values include all assets, dwellings and non-dwellings, as all assets are included in the generation of net income cashflows in the HRA.

Whilst the LTV definition works for the HRA to an extent, the absence of a clear relationship between net rental income and asset values means that the ratio tends to deliver a "low" result, compared to HAs.

Debt:Turnover ratio

Another measure we have developed for this analysis is the ratio of Debt to Turnover. This measures the level of turnover in relation to debt, which differs slightly from the ratio used for assessing debtor balances against turnover. As a proxy we have suggested a ratio of 5:0, so that turnover can cover the level of debt outstanding by a factor of 5 times. This measures the capability for gross income to cover debt and is becoming an established and readily accessible measure for local authorities.

Others

There are other covenants and ratios that are utilised in the HA context, including in particular Asset Cover (broadly, the inverse of LTV). Lenders and HAs are tending to move away from this towards gearing as a key measure.

Gearing is also another measure, which is effectively the LTV ratio but with the inclusion of reserves.

5.3. Using the metrics & benchmarking

The application of each metric to the cashflows and balance sheet within the business plan will result in a deemed maximum *constraint* on borrowing.

In the HRA context, the projected constraint on borrowing will operate separately because of the lack of direct dependency between net income streams and asset values and the level of debt. We would expect to see quite different results from each, and the extent to which the measures vary will offer additional insight into the viability and sustainability of new investment within the business plan.

The maximum capacity will result from the lowest outcome from each of the three metrics and each will change over time. A forecast for all three illustrates potential capacity frameworks for OCC, however we have proposed that the key focus might be on the Interest Cover Ratio as this provides the most straightforwardly interpreted and practical measure.

Savills has undertaken an analysis of the national position based on the HRA accounts for 2020.21. In additional we have used the same peer group as used for the cost benchmarking. OCC's outputs are compared below.

Table 5.1: metrics comparison to peer group and national average

Description	CBC Projections 2021.22	CBC Actual 2020.21	Peer Group 2020.21	National Actual 2019.20
Operating margin	26%	26%	28%	22%
Interest Cover Ratio	2.16	2.16	1.92	1.67
Loan to Value	25%	25%	34%	27%
Debt: Turnover	3.6	3.6	4.7	3.3

It is possible to draw general conclusions that:

- Interest cover remains greater than the peer group and the national position for 2019.20, however as per the benchmarking analysis we have commented on the lower level of depreciation charge which will influence by the operating margin and interest cover ratio.

  If we were to use the average depreciation value of the peer group the impact is shown below:
  - Operating Margin: 18%
  - Interest Cover Ratio: 1.46

- The loan to value is below both the peer group and the national average
- Debt to Turnover is also favourable in comparison to the peer group and national average
- In measures the performance between 2020.21 actuals and 2021.22 budgets remains static

5.4. Metrics for CBC HRA BP model

We have taken the outputs from the HRA Business Plan model and analysed the three metrics from the key financials of the modelling.

The three graphs below illustrate the metrics described in section 5.2

We have set minimum metrics as follows:
- ICR @ minimum 1.25
- LTV @ maximum 50%
- Debt:Turnover @ maximum 5.0

These are not minimum/maximum constraints, rather guidelines based on benchmarks within the HA sector and with other HRAs..

The Council may wish to operate with leeway within each.

It is emphasised that these are guideline measures to assist the central finance function (s151 officer) to determine what are prudent borrowing limits. Ultimately, the s151 is accountable for any specific borrowing is undertaken according to the principles of prudence in the Prudential Code.

The modelling has been amended to reflect the impact of a higher depreciation charge, based on the average derived from the peer group.

Chart 5.1– Interest Cover Ratio Projections

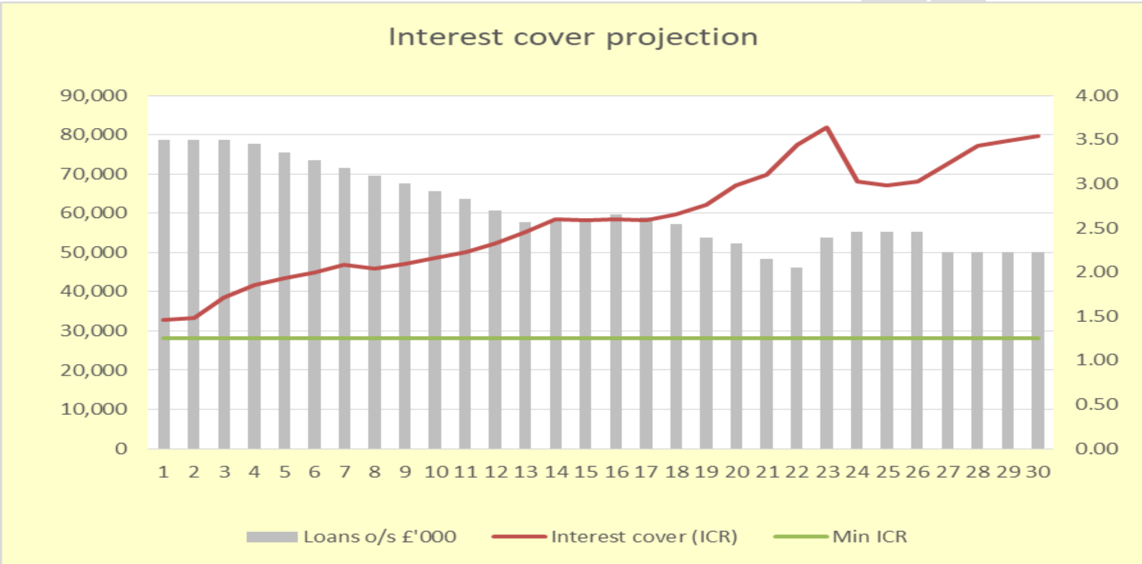


Chart 5.2 – Loan to Value Ratio Projections

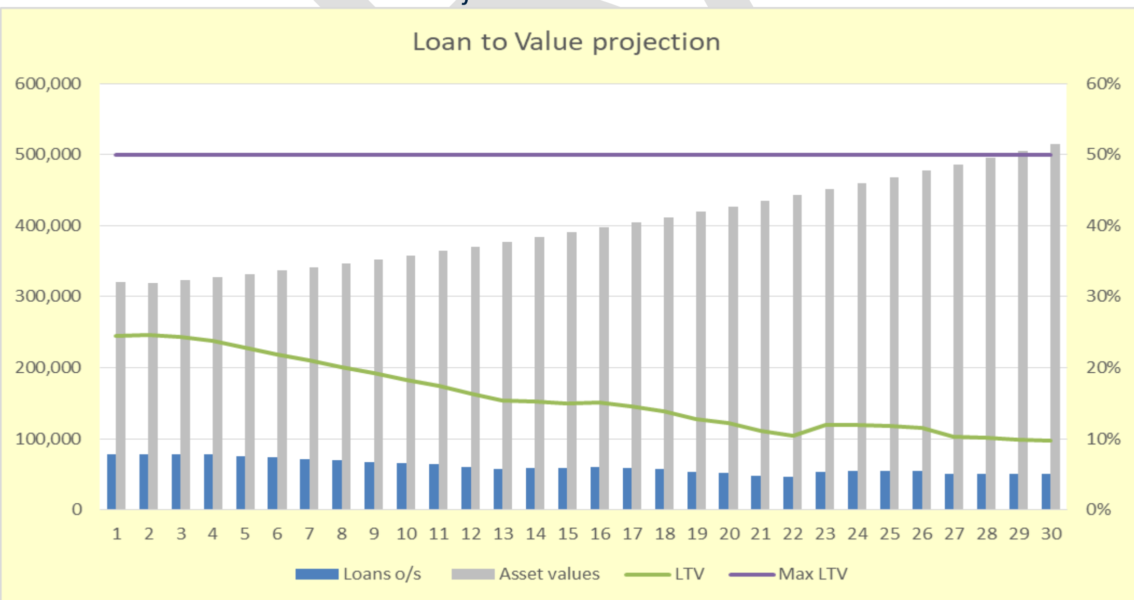
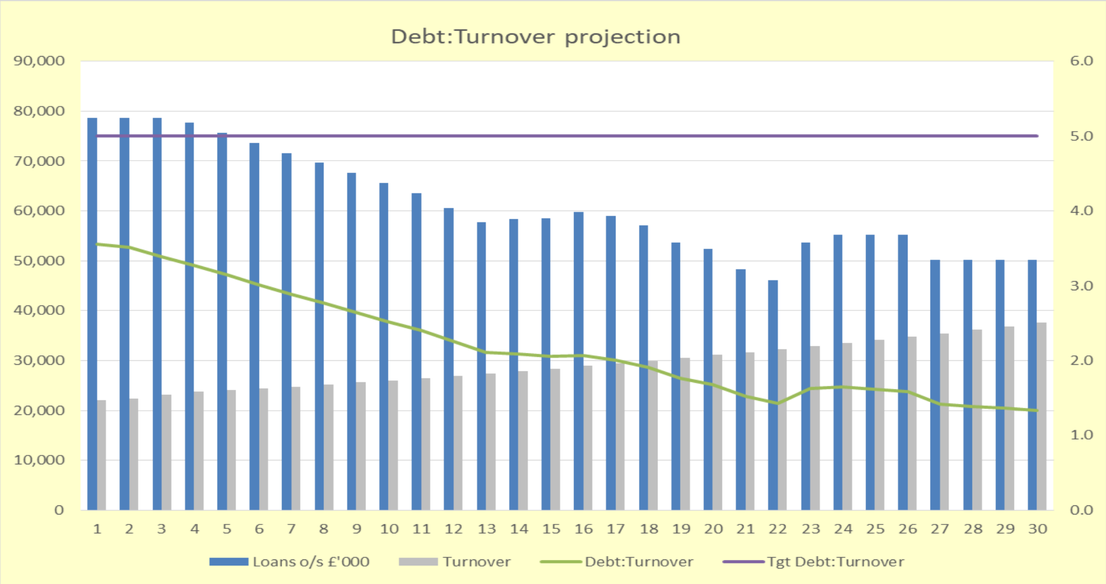


Chart 5.3 – Debt:Turnover Ratio Projections



The three graphs illustrate the following:

- The ICR shows that there is additional capacity available in all of the years and shows growth for the majority of these. Part of the reason will the net repayment of loans, thus reducing the levels of interest paid
- That there is the same direction of travel in terms of LTV but growth is extended by the repayment of loan maturing offset by refinancing and additional borrowing
- The Debt:Turnover ratio shows a similar pattern to the ICR

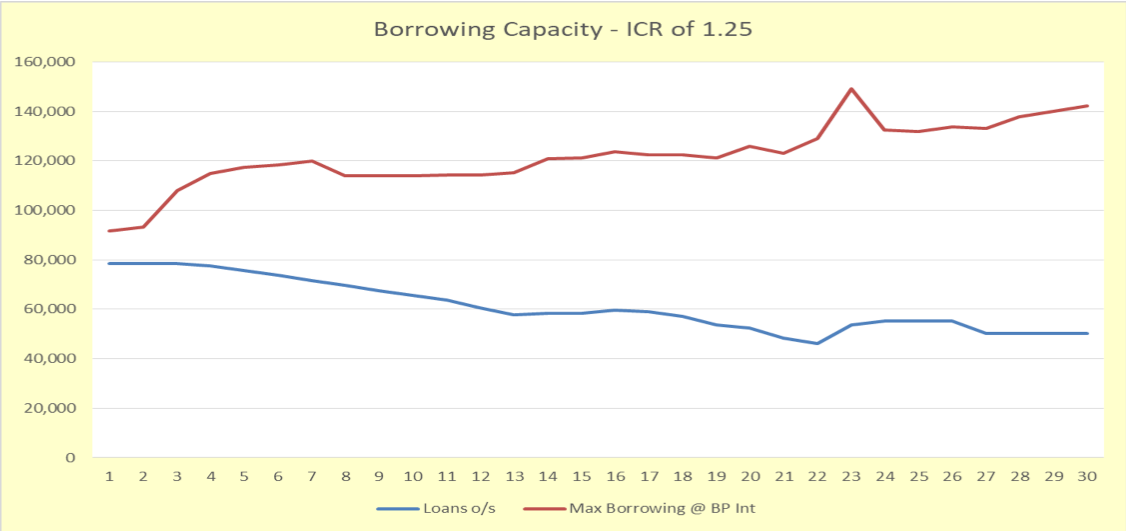
The interplay between these metrics illustrate the importance of adopting an overall approach to setting a framework, rather than relying on any specific measure or measures.

In particular, whilst interest cover remains broadly within expected limits in the early years and grows quickly for the remainder of the plan, highlighting the underlying strength of net cashflows in the current stock and due to net loan repayments.

5.5. Additional capacity over time

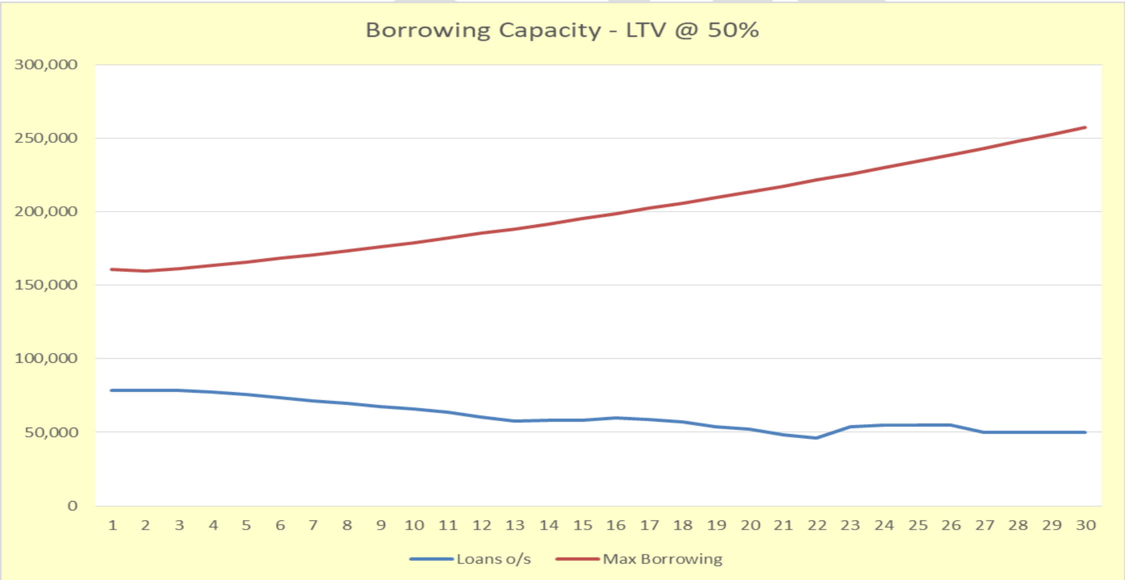
We have set out below our forecasts for how borrowing capacity changes during the term of the plan. These are based on the outputs from the charts 5.1 to 5.3 above.

Chart 5.4 – Forecast Debt Capacity based on a Minimum ICR of 1.25



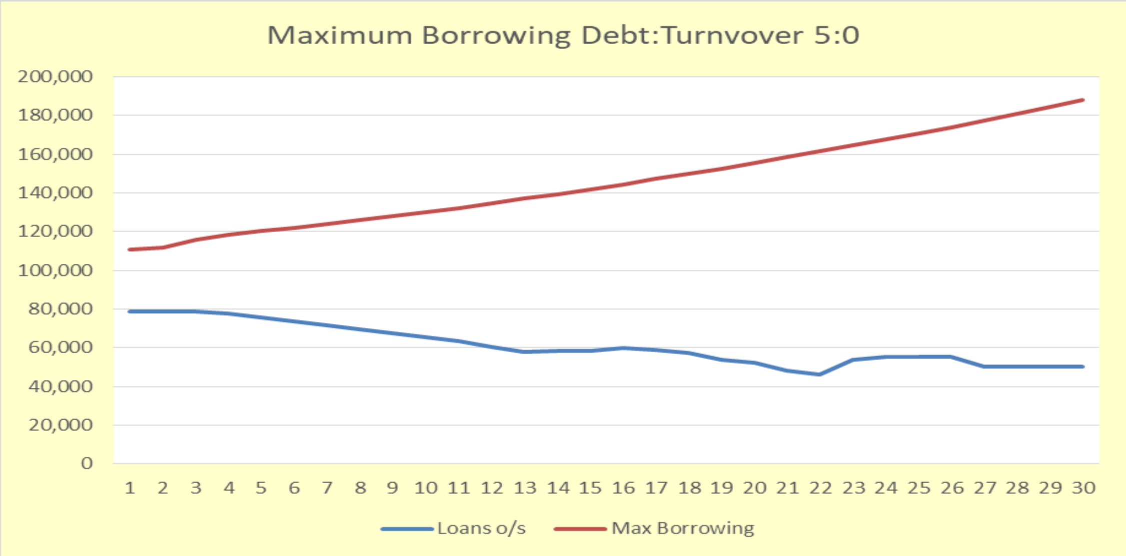
This chart demonstrates that capacity (the gap between the two lines) is available immediately of c£13.2million and steadily increasing.

Chart 5.5 – Forecast Debt Capacity based on a maximum Loan to Value Projection of 50%



The asset value is increasing over the years on account of the development programme, inflation but offset by right to buys. In all years there is borrowing capacity, which increases as net debt is repaid.

Chart 5.6 – Forecast Debt Capacity based on a maximum 5.0 Debt to Turnover Ratio



As set out above, this graph presents a similar position to the ICR metric demonstrating that capacity is increasing throughout the plan.

6. Sensitivity & Scenario Modelling

6.1. Sensitivity Testing

As part of the business planning process we have run a series of sensitivities to demonstrate the impact of changes to the assumptions used within the model and are shown in the table below:

Table 6.1: Sensitivity Test

Sensitivity £'m	HRA Bal Yr 10	HRA Debt Yr 10	ICR Yr 10	HRA Bal Yr 30	HRA Debt Yr 30	ICR Yr 30
Base	**6.718**	**65.620**	**2.16**	**17.805**	**50.157**	**3.55**
CPI -0.5%	6.051	65.620	2.04	13.177	53.509	2.85
CPI +0.5%	7.401	65.620	2.28	22.961	46.670	4.44
Int Rate +1%	6.718	65.620	2.16	15.023	52.085	2.82
Cap Exp +10%	0.760	65.620	2.16	9.975	78.757	2.26
Voids -1%	8.741	65.620	2.27	21.727	42.078	4.47
RTB Halved	10.655	65.620	2.49	31.471	29.893	7.72
Rents +1% all yrs	11.764	65.620	2.79	113.931	13.620	33.45
Rents CPI Only	1.442	65.620	1.92	10.267	73.508	2.12

The plan shows a resilience to changes but mostly impacts upon the resulting level of debt. Any changes to rent assumptions have the greatest impact.

6.2. Scenario Modelling (Sheltered Review)

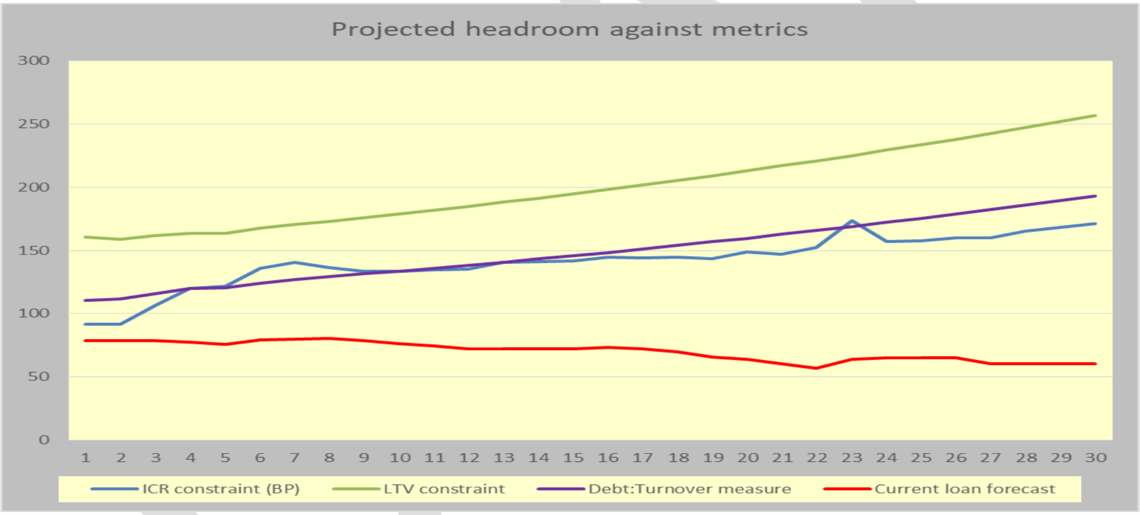
The result of the capacity analysis in section 5 has identified that the HRA has borrowing headroom if the metrics suggested are applied.

For example, if £17.5million was invested in the next five years in improving the sheltered accommodation over and above that allowed for within the existing levels provided for stock investment, the impact on the plan would be as follows.

Table 6.2: Impact of Sheltered Improvements Scenario

Scenario £'m	HRA Bal Yr 10	HRA Debt Yr 10	ICR Yr 10	HRA Bal Yr 30	HRA Debt Yr 30	ICR Yr 30
Base	**6.718**	**65.620**	**2.16**	**17.805**	**50.157**	**3.55**
Sheltered Improvements	2.018	76.481	2.17	21.414	60.091	2.56

Chart 6.1 Borrowing Capacity – Sheltered Improvements Scenario



With the projected level of borrowing required offset partially by the reduction in voids allowance for rents and service charges the result of the sheltered remodelling is not as significant as might have been expected. Whilst debt levels increase, there is a marginal increase to projected revenue balances.

In terms of borrowing capacity the ICR remains relatively static in the medium-term but as demonstrated in chart 6.1 there remains capacity with all metrics as presented.

6.3. Scenario Modelling (Continuation of Acquisitions)

Whilst CBC continues to sell properties through right to buys we have modelled the scenario of the continuation of open market acquisitions utilising the useable receipts to maximum effect.

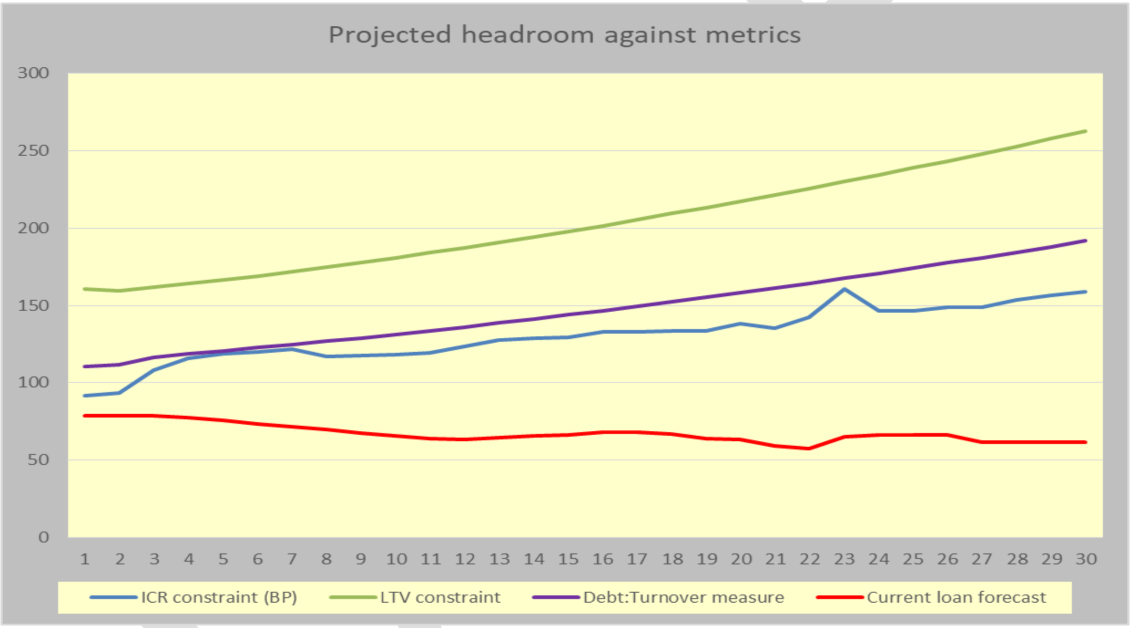
This scenario assumes that over the next 29 years an additional 108 properties will be acquired.

The results are as follows:

Table 6.3: Impact of Additional Acquisitions Scenario

Scenario £'m	HRA Bal Yr 10	HRA Debt Yr 10	ICR Yr 10	HRA Bal Yr 30	HRA Debt Yr 30	ICR Yr 30
Base	**6.718**	**65.620**	**2.16**	**17.805**	**50.157**	**3.55**
Additional Acquisitions	1.668	65.620	2.24	17.771	61.367	3.24

Chart 6.2 Borrowing Capacity – Additional Acquisitions Scenario



In order to facilitate the continuation of the acquisition programme additional borrowing is required in the longer-term and use of reserves in the shorter-term. Whilst the level of subsidy towards the acquisitions is modelled at 40% the levels of rent modelled demonstrate that the existing stock cashflows need to also provide a form of subsidy.

The result is additional debt to the plan with equivalent reserves projected.

In terms of borrowing capacity, as demonstrated in chart 6.2, there remains borrowing headroom throughout.

7. Summary

7.1 Our review has demonstrated that in overall terms CBC's operating and investment costs are within benchmarks for similar authorities HRAs.

7.2 This provides for an appropriate basis in which forecast the HRA business plan from.

7.3 The HRA business plan forecast as set out in our modelling for CBC has been refined to generate an analysis of future borrowing capacity.

7.4 We have defined three metrics or ratios to illustrate how a capacity framework might be developed to underpin future decision making in investment and borrowing strategies. Whilst based on the experiences of covenants in the housing association sector, these have been refined to reflect the particular accounting and funding issues applicable in the HRA.

7.5 Over the next few years the Council could borrow and use reserves in order to fund the required investment in the stock, supporting the draft Asset Management Strategy Framework, additional investment in its sheltered housing stock and fund further acquisitions.

7.6 The primary capacity constraint, therefore, within CBC's business plan is the Interest Cover Ratio, which measure the extent to which operating surpluses can cover debt interest payments and provide comfort against short-medium term reductions in income or increases in costs.

7.7 The Council can affect future operating surpluses through effective cost management and this would increase borrowing capacity. Similarly, increases in inflation and in particular in rent inflation would add significantly to future capacity

7.8 This review should provide a sound basis for the Council to inform its future approach to establishing a decision making framework for its HRA investment and development strategies, and also inform the work to be undertaken to adopt Prudential Indicators for the HRA. This needs to be set against the backdrop of considering the repayment of debt as it falls, the potential to use reserves rather than borrow to deliver the initial development programme and use of reserves to fund future developments rather than borrow. However, this needs to be considered in the context of CBC's treasury management strategy.

7.9 The business plan will continue to evolve as the Asset Management Strategy developments as to when the costs of zero-carbon are established, funding mechanisms available and budgetary changes.

HRA Business Plan and Capacity Review: DRAFT

Steve Partridge & Simon Smith
Savills
November 2021

APPENDIX 2

Asset Management Strategy Framework

1. Introduction

The Council has invested over £44 million in its stock over the life of the 2014 Asset Management Strategy to deliver the Charnwood Standard of accommodation, which aims to exceed the government set Decent Homes Standard.

This framework sets out the Council's proposed approach to updating the 2014 Asset Management Strategy, ensuring it links closely to our objectives, and highlights risk and opportunities around our HRA assets.

Alongside this framework, the Council is currently changing its model for the delivery of planned investment, moving away from delivery of multiple workstreams though a single managing contractor, to a model based on delivery though multiple dedicated specialist contractors.

The reason for creating a framework as opposed to immediately updating the existing strategy is threefold:

- Firstly, the amount of change that the Council, and the housing sector more generally, faces around stock investment and asset management. These changes are outlined in the context section of this document. Whilst the purpose of our asset management strategy remains largely consistent, the changes will result in some key decisions for the Council.

- Secondly, the Council is considering improvement expenditure – predominately focused on its sheltered housing schemes but also including estate-based improvements - and wants to ensure that the capacity to make this investment is fully understood.

- Thirdly, the Council requires additional information to be sure that the HRA Business Plan accurately captures investment requirements and that it can properly evaluate stock investment decisions and make appropriate recommendations to stakeholders.

Whilst the information supporting the existing AMS and the associated HRA Business Plan has served its purpose, we now need to ensure that we can continue to make informed decisions around asset investment and do not want to increase risk by bringing forward a strategy without the necessary foundations.

This framework sets out key objectives and an outline approach to asset management. It also includes some commentary on where we currently are against the framework and identifies some key immediate actions. This will develop into a more detailed action plan that identifies the work that needs doing to develop and implement the strategy.

2. Approach and Timetable

The approach to the development of the strategy will be to take the existing information that we have available - including updated stock condition survey report and energy study, and the latest information on fire/building safety as outlined below - and validate this to compare the current cost forecasts from these activities with the current HRA Business Plan allowances. We will then produce a draft strategy setting out a prioritised plan of what is affordable within the existing allowances. We will bring forward a draft updated strategy for discussion by the end of Quarter 2 of 2022/23 on this basis.

It is important to note that this approach will aim to produce a strategy that is affordable within the existing HRA Business Plan that accompanies this paper. If the updated cost forecasts arising from the exercise to interrogate and validate our existing information varies materially from those contained within the current plan, we will be clear what is deliverable within the existing plan and the subsequent impact on the housing stock and our plans to invest in improvement expenditure. The updated draft strategy will then allow further debate prior to approval.

This framework sets out the tools needed to develop the strategy. These are split into two phases. Firstly, the work needed to validate existing stock condition data and develop an affordable strategy as described above. This will be delivered prior to strategy approval to give stakeholders the necessary assurance that the strategy is robust. Secondly, the work needed to further develop and implement the strategy and the asset performance evaluation that will consider the long-term contribution of the assets.

Scope
The strategy will set out our overall approach to asset management of the HRA stock. It includes all our housing assets, including sheltered accommodation, and other HRA assets including garages, and shops.

Purpose
The asset management strategy plays a significant role in our HRA Business Plan, and needs to take account of three key themes that we propose form the purpose of the strategy:

- ***Stock Investment-*** Investing to maintain the stock to a standard that meet customer and business need and regulatory requirements.

- ***Active Asset Management-*** Activities to improve the performance of assets that have a poor social, economic or environmental performance, because of low demand or high costs, and either improving them or replacing them with properties which are fit for purpose.

- ***Supporting wider objectives -*** Being clear where and how asset management is supporting wider objectives, such as building safety, energy efficiency and meeting housing need in line with our strategic aims.

3. Context

The environment in which the Council operates reflects continued public sector spending constraints and welfare reform, leading to a reduction in social rents. The Government has now agreed a 5-year settlement where registered providers of social housing can increase rents by up to CPI + 1% per annum.

Government is currently legislating for changes to the management of building safety. This is likely to introduce additional costs and management obligations on landlords of buildings over 18m or 6 storeys, as well as having an impact on lower rise buildings. Whilst the Council has no buildings over this threshold, an impact in the approach to management of the wider stock is to be expected. Landlord compliance activity is critical to ensuring our homes are safe. Like many providers, the Council has strengthened delivery in key areas.

Other additional cost factors to be considered are those arising from national commitments to achieve net zero carbon emissions by 2050.

The Social Housing White Paper sets out a focus for all social housing residents to be safe in their home and have a good quality home and neighbourhood to live in. The White Paper confirms the review of the Decent Homes Standard during 2021. We believe that this will lead to an updated Decent Homes Standard.

The Regulator of Social Housing (RSH) Home Standard sets out the requirements for Registered Providers as follows:

Quality of accommodation
Registered providers shall:
(a) ensure that tenants' homes meet the standard set out in section five of the Government's Decent Homes Guidance and continue to maintain their homes to at least this standard
(b) meet the standards of design and quality that applied when the home was built, and were required as a condition of publicly funded financial assistance if these standards are higher than the Decent Homes Standard
(c) in agreeing a local offer, ensure that it is set at a level not less than these standards and have regard to section six of the Government's Decent Homes Guidance.

Repairs and maintenance
Registered providers shall:
(a) provide a cost-effective repairs and maintenance service to homes and communal areas that responds to the needs of, and offers choices to, tenants, and has the objective of completing repairs and improvements right first time
(b) meet all applicable statutory requirements that provide for the health and safety of the occupants in their homes.

Whilst the Home Standard applies to the Council, Councils are not yet subject to proactive engagement with the RSH. This will change following the Social Housing White Paper and the Council can expect to be routinely checked against the regulator’s standards. Whilst this should not be a change - as the Council has always aimed to meet the Home Standard anyway - it is important to use this opportunity of the review of the AMS to understand the current focus of the RSH and test our approach accordingly.

The Regulator of Social Housing (RSH) current regulatory focus continues to be on governance and viability. The Regulator has made clear that it is essential that there is a golden thread of information that links our decision making in this area to our HRA Business Plan to demonstrate viability and the suitability of our investment plans. The most recent sector risk profile highlights the most significant risks that Providers must manage and mitigate including:

- Landlord compliance – all providers have an obligation to act to ensure the homes they provide are safe and data remains a key risk.
- Stock condition – investment should be based on a good, evidenced understanding of the overall condition of stock underpinned by up-to-date data.
- Market sales exposure – the implications of the market cycle and a slowdown in some geographical areas.
- Reputational risk – decisions should have regard to the expectations of all stakeholders.
- Rents – strategies and business plans need to cope with changes in housing policy and related areas including welfare reform.
- Best value principles are also important in the context of this strategy and it is important to note the wider duties incumbent on the Council. Specifically in relation to Asset Management, it should be noted that value for money is significantly wider than the procurement of goods and services linked to the investment programme, and encompasses decision making on the investment in the asset in the first place.
- The HCAs Value for Money Standard is useful in this regard. It requires that registered providers shall deliver value for money through their repairs and maintenance programmes, and also that they *"understand the return on assets and have a strategy for optimising the future returns on assets – including rigorous appraisal of all potential options for improving value for money including the potential benefits in alternative delivery models - measured against the organisation’s purpose and objectives”.*

4. Asset management objectives

Linked to our Corporate Strategy (2022-24) themes set out in the box below we propose seven key objectives for asset management will underpin the new strategy:

> Corporate Strategy (2022-24) Themes
>
> Theme 1 - Caring for the environment - We have already reduced our carbon footprint and we have pledged to become a carbon neutral organisation by 2030 to help tackle climate change.
>
> Theme 2 - Healthy Communities - We are passionate about improving housing in the social… sector. We will continue to invest in our council homes… to ensure high-quality homes are available to residents.

1. Maintain up to date and reliable information on the stock, its environmental impact, and its condition to demonstrate a comprehensive understanding of liabilities.
2. Maintain clear standards to ensure quality and safe homes and consult with tenants and other stakeholders on these standards.
3. Ensure that our investment to meet these standards is needs based and prioritised, with priorities for investment focused on areas of greatest risk.
4. Ensure that our plans are affordable within the HRA Business Plan and are considered against existing and potential objectives relating to the improvement of sheltered accommodation, acquisitions, new supply, decarbonisation, and regeneration.
5. Understand the financial and non-financial performance of our assets and deliver investment where it will generate appropriate return.
6. Carry out options appraisals on stock that does not meet our requirements or offers other opportunities, exploring a range of alternative options to improve outcomes for tenants and the HRA Business Plan.
7. Deliver value for money through clear, compliant, efficient and well monitored programmes of work.

5. Tools required to develop the strategy and deliver on the objectives

The strategy will rely on information in the following areas which will need to be regularly updated to ensure it is fit for purpose. Some of the elements outlined below require action prior to the approval of the strategy - these are highlighted as phase one tasks but will also need to be updated and refreshed. Others will be developed and maintained during its life - these are recorded as phase two tasks and the strategy will set targets for the delivery of these.

Information on the stock and its condition

To be fully compliant and understand our assets we have to maintain up to date and controlled records covering our stock and its condition. Our existing plans are based on old stock condition data based on a 50% sample originally collected in 2012. This data no longer fully meets the Council's needs in terms of informing the Asset Management Strategy or the HRA Business Plan. Whilst the data has been updated for investment works delivered since then, there are concerns that there have been periods when data update has not been comprehensive.

In addition, our current approach is to record expected component lifecycles within the database (linked to the Charnwood Standard) rather than a surveyor's opinion on when they will reach the end of their useful life. The result is that the database does not effectively capture when replacement will be required based on condition. Even if it did, in some instances, the data is now old enough that it is unlikely to provide an accurate picture of this condition.

The schedule of rates – the rates for the replacement of key components that underpin the financial forecasts from the data – also requires updating. Whilst there is a manual adjustment of this to capture more reflective rates in the HRA Business Plan (see Business Planning section below), the database needs be properly adjusted to reflect the latest outturn costs. Our current data also suggests some backlog in investment. We believe this to be driven primarily by a combination of tenant refusals and failure to update the data but acknowledge that this is based on local knowledge and should be reflected in the data.

The Council will therefore undertake a representative sample survey of the stock. This will serve to validate the existing HRA Business Plan and the existing Decent Homes Position (including identifying potential HHSRS issues). A Stock Condition Surveyor post has been recruited to, but a single post-holder will not be able to deliver the initial representative sample in a suitable timeframe.

An ongoing programme of stock surveys to support the strategy objectives and ultimately move to a position of 100% survey coverage will then be developed to support investment planning (see below). This programme, subject to evaluation and risk assessment once the results of the sample survey are known, will be delivered by the new internal resource. We will also develop and maintain an enhanced process for capturing and updating data from planned and responsive programmes and an up-to-date schedule of rates providing accurate costs of replacement. As part of this work, we will consider the use of the current IT system, and our requirements in respect of the real time update of asset data following field survey.

Phase 1 tasks

- Undertake a representative 20% sample stock condition survey.
- Check key replacement costs driving the plan against recent outturn cost.
- Cross check against internal data and HRA Business Plan and highlight any risks.
- Define strategy for remaining surveys to achieve 100% coverage.

Phase 2 tasks

- Develop procedures relating to data and maintenance to ensure that information remains up to date.

Non-stock condition survey driven requirements

The stock condition data should cover the replacement of key components within the property when they reach the end of their useful life. We also need to consider and define other investment requirements. This is likely to include further consideration of:

- Repairs and maintenance – including responsive and voids;
- Landlord compliance- comprehensive plans to deliver landlord compliance activity in accordance with our Policies;
- Fire Risk/Building Safety- e.g. sprinklers, doors, compartmentation, alarms, external wall systems;
- Energy- EPC C by 2030 and net zero carbon;
- Decent Homes '2' and / or any requirements emerging from the consultation on the Decent Homes Standard
- Sheltered housing improvements- the remodelling and improvement that are currently being considered to the Sheltered Housing stock;
- Complex mechanical and electrical (M&E) installations;
- Other improvements- investment which raises the standard of the stock including those areas beyond the dwelling i.e. common parts and neighbourhoods;
- Other exceptional costs.

Some of these areas are well understood and others are less certain at this stage. A detailed breakdown of current assumptions for the above areas will be compiled. Any additional investigations required will form part of the action plan associated with the conversion of this framework into the new strategy.

Some current gaps have already been identified as priority areas. These include:

- Energy- The council does hold RDSAP data, however it requires updating. The recommendation is to use the representative sample stock condition survey to collect representative energy data to inform an energy study and understand the costs of achieving SAP C and net zero carbon.

- M&E - the costs relating to communal electrical installations, common heating systems and lifts.
- Sheltered Housing improvements- more detailed costs and profile around the proposed remodelling. The HRA BP does include some allowances, but the latest cost forecasts exceed these and update is required subject to the agreement of our plans.
- Fire - the Council does not currently have stock over 6 storey or 18m. It has already done work to risk assess its fire doors and the HRA Business Plan has been adjusted to reflect the need for priority fire door replacement in the early part of the HRA Business Plan. The amount for other fire safety works has been increased from £100,000 to £300,000 in 2020 to reflect the need to address actions arising from Fire Risk Assessments and associated intrusive surveys. This allowance will need to be kept under review as further FRAs and surveys are undertaken.

Phase one tasks

- Review existing cost forecasts from currently available information for the key areas outlined above.
- Highlight areas where we do not currently have sufficient information to assess and plan further investigations where required.
- Capture new RDSAP data as part of the representative sample survey and undertake a high level energy study to forecast the likely costs of achieving SAP C and net zero carbon.
- Develop updated cost forecasts and profile for the planned Sheltered Housing improvements.
- Undertake M&E surveys in blocks with complex M&E and sample other blocks to test current assumptions.
- Maintain a costed list of actions arising from FRAs and associated surveys and cross check with fire safety related HRA Business Plan allowances.

<u>Investment Priorities and Standards</u>

There are a number of possible scenarios around asset investment. Whilst some investment is essential and non-discretionary (e.g. statutory compliance activity or work to maintain Decent Homes), other investment is more discretionary. Of our more discretionary investment, some will be key to maintaining the income stream (e.g. the re-modelling of hard to let Sheltered accommodation) whilst other may be more based on improving tenant satisfaction (e.g. environmental improvements on estates). Investment priorities are not currently documented, although the HRA business planning process does include some prioritisation and annual programmes of investment are prioritised.

As a result of the limitations in the age and coverage of the existing data, it is not possible to identify prioritised investment from the current data. Local knowledge and manual intervention is needed to develop programmes of work. Enhancements to the data will enable us to provide Members and tenants with greater assurance that the highest priority requirements are being met and that there is sufficient capacity for any improvement related spend.

The Charnwood Standard is currently in place. This focuses primarily on the replacement of key components - such as kitchens and bathrooms - when they reach the end of their allocated lifecycle as opposed to when their condition dictates that they require replacement. The result of this is that the components should be more modern - the Charnwood Standard goes beyond the modernity standard in Decent Homes - but, in setting a maximum age for these components, the Council risks replacing components still in reasonable condition. In addition, the average lifecycle will likely drop below the expected lifecycle as some components will be replaced early owing to their condition but these cannot be offset by other components being replaced later where condition allows. The review of the strategy allows us to consider if the Charnwood Standard remains appropriate in the context of the wider investment priorities.

Phase one task

- Document existing investment priorities and review the Charnwood Standard with stakeholders in the context of the survey results.

<u>Asset Performance Evaluation</u>

Typically, the Council has focused on when and not if investment should be made in the housing stock. Whilst the vast majority of the HRA stock will remain for the 30-year life of the HRA Business Plan, we need to do more work to develop our understanding of how our assets perform in order that we can appraise investment options.

As part of the development of this strategy we will carry out an exercise to assess the performance of all our housing stock. This groups the stock according to archetype and locality and considers the following:

- Rental income and void rent loss;
- Repairs and maintenance expenditure;
- Future 30 year planned maintenance expenditure (including stock condition and non-stock condition driven cost);
- Housing management costs.

It will be essential to evaluate performance across a range of factors, not just financial, reflecting the social objectives of the Council. This social analysis is essential and can enable these factors to be objectively assessed and demonstrated in order to provide the information needed to make investment decisions going forwards. We will develop these non-financial measures as part of our asset performance evaluation.

A scoring system will be developed and we will use the following matrix to prioritise investigations:

<table>
<tr><td colspan="2"></td><td colspan="4">Financial Sustainability (NPV)</td></tr>
<tr><td colspan="2"></td><td>Green (TBC)</td><td>Amber (TBC) and increasing</td><td>Amber (TBC) and decreasing</td><td>Red (Negative)</td></tr>
<tr><td rowspan="3">Non-financial Sustainability</td><td>Score TBC</td><td colspan="2" rowspan="2"></td><td rowspan="3">Priority 2</td><td rowspan="3">Priority 1</td></tr>
<tr><td>Score TBC</td></tr>
<tr><td>Score TBC</td><td colspan="2">Priority 3</td></tr>
</table>

Where stock is performing poorly, on either a financial and/or social return basis (i.e. priority groups 1-3 above), a more detailed evaluation of the drivers of poor performance will be undertaken before investment decisions are made (excluding essential investment for H&S which should be made regardless to ensure tenant safety and Decency). This will avoid investment in unsustainable stock. Where appropriate, alternative options will be explored. Appraisal options will consider:

- Demolition and redevelopment;
- Limited life- medium term investment plan or short term responsive and cyclical repairs;
- Disposal of some or all units on the open market;
- Change of use or unit type- either short term of long term.

It is important to note that in some cases none of the above will be appropriate. The target of the strategy will be informed decision making - even if that decision is the status quo - as opposed to mandating alternative strategies in the event of poor financial or social performance.

Phase one task

Plan an asset performance exercise.

Phase two task

Complete asset performance evaluation and present results. Provide initial information to enable a strategic discussion and plans for further investigations and appraisal. Subsequently incorporate results in to AMS for approval.

<u>Housing market and demand</u>

The updated Asset Management Strategy will be aligned with a Housing Strategy which will provide an understanding of the local housing market

Growth/mitigating stock reduction from RTB

The Council has utilised one for one Right to Buy capital receipts to fund 30% of acquisition costs of properties to meet the need for affordable rented homes with the remaining 70% from the Housing Revenue Account. As of 31st March 2021, the Council has purchased 38 properties either for sale on the open market or offered back to the Council through the Right of First Refusal scheme.

In addition, the Council has taken opportunities to acquire properties via S106 Agreements resulting in 5 additional units in Shepshed and 27 in Queniborough.

However, the impact of the Right to Buy legislation continues to see an annual net loss in the Council's housing stock which reduces the number of affordable properties available to those households on low income and impacts on the viability of the HRA Business Plan.

Phase two task

Once phase one tasks are complete, develop a growth strategy to mitigate the impact of the Right to Buy and maintain affordable housing supply within the constraints of the HRA Business Plan.

Business Planning

The current HRA Business Plan includes allowances to fund existing commitments, but the age and coverage of the existing data means that it relies on a series of manual adjustments and the application of local knowledge. Whilst there is visibility of the assumptions made and these are recorded amongst supporting information, there needs to a golden thread from recently collected information through to the plan.

The result is that the profile of work indicated by the stock condition varies from that in the HRA Business Plan in some areas. The HRA Business Plan has been manually adjusted for the fact that the existing data is incomplete as it does not contain survey data on every component/property. When this is combined with the backlog expenditure indicated by the raw data, it increases the risk of the HRA Business Plan expenditure profile being incorrect.

The HRA Business plan has been updated to reflect the emerging liabilities around fire safety and to include some, but not all, of the improvement expenditure for the sheltered housing project.

It is for the reasons outlined above that the recommendation of a new stock condition survey and associated 30-year cost forecast is made. This will allow the Council to validate the assumptions being made in the HRA business planning process and provide stakeholders with assurance around the suitably of these.

This will enable this new strategy to emerge alongside a validated 30-year cost plan covering the stock condition and non-stock condition items considered above. Alongside this, the agreed investment priorities and standards will be developed. Affordability testing will be key and there must be a golden thread between the plan and the underlying data.

Phase one task

Ensure the initial strategy and discussion is based on the affordability limits within the previously agreed plan or present business case to revise the existing plan as required.

Phase two task

The associated Investment Plan will be approved annually to confirm alignment to the business plan and affordability. This is particularly relevant to understanding the impact of increases in the costs of delivery rate (either through inability to achieve target costs or cost inflation) or an increase in requirements (e.g. net zero carbon or Decent Homes 2) which will be stress tested.

<u>Short term investment plan</u>

The Council currently plans investment on an annual basis. The objective is to develop a longer-term programme of work that can provide stakeholders with greater visibility of work in the medium term. The investment planning process envisaged by the new strategy is designed to create a 5-year programme of work to determine:

- What works are required
- To which properties
- In which works package
- In which year
- Budget ensuring that the investment plan fits within the financial parameters of the business plan.

The investment plan is important to support effective procurement and value for delivery, and to provide resident visibility. The strategy will commit to the development of a five-year investment plan on this basis.

Phase two task

- Produce the 5 Year Investment Plan

<u>Skills and expertise</u>

Once the investment requirements are fully understood, a review of the Asset Management Team structure will be undertaken and the action plan accompanying the framework will highlight any changes required to deliver against requirements.

Risk management

The strategy will need recognise that housing assets can also become liabilities, creating a risk to viability as well as significantly impacting on residents' lives. Key risks to cover in the strategy will include:

- Failures to manage health and safety compliance could put residents, staff and contractors at risk.
- Failures to meet statutory or regulatory standards can carry penalties and will damage the organisation's reputation.
- Failure to maintain the golden thread between the understanding of stock condition and investment need and the allowances within the Business Plan.
- An incorrect scope or poor quality of stock investment will have a key influence on customer satisfaction.
- Poor value for money in stock investment will have a major impact on our finances as this represents a very large proportion of our HRA spend.
- Internal and external factors impact on investment need and expenditure. Key amongst these are currently fire/Building Safety and energy efficiency. We will need to remain aware of the impact of these on investment levels in existing stock and any subsequent impact on our investment plans.
- Internally published standards will need to be reviewed - changing standards may carry reputational risk.

A process to identify and assess risks is in place and actions agreed to manage risks to minimise impact. All key asset management related risks including financial, operational, delivery risks (e.g., failure to invest) are captured in the appropriate operational risk register.

Action and Next Steps

Action required and next steps are as follows:

- Accept the approach and timetable to strategy development;
- Agree the Asset Management Objectives;
- Note the phase one requirements and associated limitations;
- Note the risks and ensure that these are adequately captured in risk registers.

Appendix 1 - Summary of Tasks

<u>Phase 1</u>

1. Enhance Data

- Undertake a representative 20% sample stock condition survey alongside an asset performance exercise.
- Capture new RDSAP data as part of the representative sample survey and undertake a high-level energy study to forecast the likely costs of achieving SAP C and net zero carbon.
- Undertake M&E surveys in blocks with complex M&E and sample other blocks to test current assumptions.
- Maintain a costed list of actions arising from FRAs and associated surveys and cross check with fire safety related HRA Business Plan allowances.

Analyse Data against existing proprieties and consult stakeholders on investment properties

- Check key replacement costs driving the plan against recent outturn cost.
- Review existing cost forecasts from currently available information for the key areas outlined above.
- Highlight areas where we do not currently have sufficient information to assess and plan further investigations where required.
- Develop updated cost forecasts and profile for the planned Sheltered Housing improvements.
- Document existing investment priorities and review the Charnwood Standard with stakeholders in the context of the survey results.
- Cross check against internal data and HRA Business Plan and highlight any risks.

Produce and Output Strategy

- A process to identify and assess risks is in place and actions agreed to manage risks in order to minimise impact. All key asset management related risks including financial, operational, delivery risks (e.g. failure to invest) are captured in the appropriate operational risk register.
  Ensure the initial strategy and discussion is based on the affordability limits within the previously agreed plan or present business case to revise the existing plan as required.
- Define strategy for remaining surveys to achieve 100% coverage.
  Updated draft strategy in Quarter 2 of 2022/23

Phase 2

Develop Systems and Maintain Data Quality

- Develop procedures relating to data and maintenance to ensure that information remains up to date.
- Consider the use of the current IT system, and our requirements in respect of the real time update of asset data following field survey.

Asset Performance and Growth

- Using data from asset performance evaluation - present results. Provide initial information to enable a strategic discussion and plans for further investigations and appraisal. Subsequently incorporate results in to AMS for approval.
- Develop a growth strategy to mitigate the impact of the Right to Buy and maintain affordable housing supply within the constraints of the HRA Business Plan.

Develop Investment Plan

- Produce the 5 Year Investment Plan.
- The associated Investment Plan will be approved annually to confirm alignment to the business plan and affordability. This is particularly relevant to understanding the impact of increases in the costs of delivery rate (either through inability to achieve target costs or cost inflation) or an increase in requirements (e.g. net zero carbon or Decent Homes 2) which will be stress tested.

- Put resources in place.
- Once the investment requirements are fully understood, a review of the Asset Management Team structure will be undertaken and the action plan accompanying the framework will highlight any changes required to deliver against requirements.

APPENDIX 3

Equality Impact Assessment

DRAFT HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN 2021-2052 AND ASSET MANAGEMENT STRATEGY FRAMEWORK

27/01/2022

- **Background**

An Equality Impact Assessment is an improvement tool. It will assist you in ensuring that you have thought about the needs and impacts of your service/policy/function in relation to the protected characteristics. It enables a systematic approach to identifying and recording gaps and actions.

- **Legislation- Equality Duty**

As a local authority that provides services to the public, Charnwood Borough Council has a legal responsibility to ensure that we can demonstrate having paid due regard to the need to

- ✓ Eliminate discrimination, harassment, victimisation.
- ✓ Advance Equality of Opportunity
- ✓ Foster good relations

For the following protected characteristics:

- ✓ Age
- ✓ Disability
- ✓ Gender reassignment
- ✓ Marriage and civil partnership
- ✓ Pregnancy and maternity
- ✓ Race
- ✓ Religion or belief
- ✓ Sex (Gender)
- ✓ Sexual orientation
- ✓ Socially excluded groups

What is prohibited?

- ✓ Direct Discrimination
- ✓ Indirect Discrimination
- ✓ Harassment
- ✓ Victimisation
- ✓ Discrimination by association
- ✓ Discrimination by perception
- ✓ Pregnancy and maternity discrimination
- ✓ Discrimination arising from disability
- ✓ Failing to make reasonable adjustments

Complete this action plan as you go through the questions

- **Step 1 – Introductory information**

Title of the policy	HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN 2021-2052 AND ASSET MANAGEMENT STRATEGY FRAMEWORK
Lead officer and others undertaking this assessment	Head of Landlord Services
Date EIA started	17.01.2022
Date EIA completed	17.01.2022

- **Step 2 – Overview of policy/function being assessed**

Outline: What is the purpose of this policy? (Specify aims and objectives) • To set out the revised financial framework for how the Council intends to meet the investment requirements necessary to deliver the housing service and maintain its HRA properties over the next 30 years. • To set out a framework for the development the Council's Asset Management Strategy, ensuring it links to our priorities, and highlights risk and opportunities around our HRA assets, including homes, estates, sheltered accommodation, shops, and garages.
What specific group/s is the policy designed to affect/impact and what is the intended change or outcome for them?
To deliver high-quality landlord services, providing Council tenants with a standard of accommodation which meets all relevant standards.
Which groups have been consulted as part of the creation or review of the policy
Tenants on the Housing Management Advisory Board.

- **Step 3 – What we already know and where there are gaps**

List any existing information/data do you have/monitor about different diverse groups in relation to this policy? Such as in relation to age, disability, gender reassignment, marriage and civil partnership, pregnancy & maternity, race, religion or belief, sex, sexual orientation etc. Data/information such as: • Consultation • Previous Equality Impact Assessments • Demographic information • Anecdotal and other evidence
Detailed tenant profiling data is captured and recorded on QL, the Council's electronic housing management system.
What does this information / data tell you about diverse group? If you do not hold or have access to any data/information on diverse groups, what do you need to begin collating / monitoring? (Please list)
Tenant profiling data confirms that tenants and leaseholders have a range of differing needs.

- **Step 4 – Do we need to seek the views of others? If so, who?**

Considering the answers given in Step 2, do you need to consult with specific groups to identify needs / issues? If not explain why.

Consultation with the Housing Management Advisory Board is deemed sufficient given the approach to the delivery of services is set out in separate policy documentation.

- **Step 5 – Assessing the impact**

Considering any data/consultation/information and your own knowledge, identify whether the policy has a positive or negative impact on the individuals or community groups who identify with any 'protected characteristics' and provide an explanation for your decision. Please refer to the general duties on the front page.	
Age	**Positive impact -** The plan includes sums to maintain sheltered accommodation, occupied by elderly and vulnerable tenants, and for the delivery of warden services to those tenants. The plan includes sums relating to the delivery of ASB services, including the response to hate incidents, where age may be a factor.
Disability • Physical • Visual • Hearing • learning disabilities • mental health	**Positive impact -** Sums for adaptations to meet the needs of tenants and their family members with a disability have been incorporated into the future projections of spend. This work can include level access showers, ramps, rails, stair lifts, and other modifications following a recommendation from an occupational therapist. The plan includes sums relating to the delivery of ASB services, including the response to hate incidents, where disability may be a factor.
Gender Reassignment (Transgender)	**Positive impact -** The plan includes sums relating to the delivery of ASB services, including the response to hate incidents, where gender reassignment may be a factor.
Race	**Positive impact -** The plan includes sums relating to the delivery of ASB services, including the response to hate incidents, where race may be a factor.
Religion or Belief (Includes no belief)	**Positive impact -** The plan includes sums relating to the delivery of ASB services, including the response to hate incidents, where religion or belief may be a factor.
Sex (Gender)	**Positive impact -** The plan includes sums relating to the delivery of ASB services, including the response to hate incidents, where gender may be a factor.

Sexual Orientation	**Positive impact -** The plan includes sums relating to the delivery of ASB services, including the response to hate incidents, where sexual orientation may be a factor.
Other protected groups • Pregnancy & maternity • Marriage & civil partnership	No adverse impact identified.
Other socially excluded groups • Carers • Low literacy • Priority neighbourhoods • Health inequalities • Rural isolation • Asylum seeker and refugee communities	**Positive impact -** The plan includes sums relating to the delivery of financial inclusion and tenancy support services designed to support the most vulnerable tenants to pay the rent and succeed in their tenancies. The plan includes sums relating to the improvement of estate, and for investment in community projects. Priority neighbourhoods will be maintained and positively affected through this activity. The plan includes a sums relating to additional security for victims of ASB and survivors of domestic abuse.

Where there are potential barriers, negative impacts identified and/ or barriers or impacts are unknown, please outline how you propose to minimise all negative impact or discrimination. • If you have identified adverse impact or discrimination that is illegal, you are required to take action to remedy this immediately. • Additionally, if you have identified adverse impact that is justifiable or legitimate, you will need to consider what actions can be taken to mitigate its effect on those groups of people.
N/A
Summarise your findings and give an overview as to whether the policy will meet Charnwood Borough Council's responsibilities in relation to equality and diversity (please refer to the general duties on the front page).
The HRA Business Plan and Asset Management Strategy Framework will meet Charnwood Borough Council's responsibilities in relation to equality and diversity. There are sums identified for: • Meeting the property related needs of elderly / disabled people. • Delivering ASB services to protect vulnerable people and deal with hate incidents. • Providing financial and tenancy support services to vulnerable tenants. • Investment in neighbourhoods, and in community projects.

- **Step 6- Monitoring, evaluation, review**

Are there processes in place to review the findings of this Assessment and make appropriate changes? How will you monitor potential barriers and any positive/ negative impact?
Processes are in place for the:

• performance monitoring of services including those relating to the delivery of adaptations, ASB and hate incident services, financial inclusion and tenancy support. • monitoring of spend in the delivery of adaptations, estate and communal area improvements. • monitoring of spend on community projects, and the recording of related outcomes.
How will the recommendations of this assessment be built into wider planning and review processes? e.g. policy reviews, annual plans and use of performance management systems.
N/A

- **Step 7- Action Plan**

Please include any identified concerns/actions/issues in this action plan. The issues identified should inform your Service Plan and, if appropriate, your Consultation Plan			
Reference Number	Action	Responsible Officer	Target Date
	N/A		

- **Step 8- Who needs to know about the outcomes of this assessment and how will they be informed?**

	Who needs to know?	How they will be informed (we have a legal duty to publish EIA's)
Employees	Y	Staff Briefing
Service users	Y	Publication on the Council's website
Partners and stakeholders	N	
Others	N	
To ensure ease of access, what other communication needs/concerns are there?		None identified

- **Step 9- Conclusion (to be completed and signed by the Service Head)**

Delete as appropriate
I agree with this assessment
If *disagree*, state action/s required, reasons and details of who is to carry them out with timescales below.
N/A
Signed (Service Head): Peter Oliver - Head of Landlord Services
Date: 17.01.22

Please send completed & signed assessment to **Vicky Brackenbury** for publishing.

CABINET - 10TH FEBRUARY 2022

Report of the Head of Planning and Regeneration
Lead Member: Councillor Jonathan Morgan

Part A

ITEM 12 LOUGHBOROUGH TOWN DEAL

Purpose of Report

This report provides an overview of the Loughborough Town Deal and explains the Borough Council's role in its implementation. It seeks endorsement of the Council's continued support for the Town Deal.

Recommendations

1. That endorsement is given to ongoing Council support for the Town Deal and the use of resources which enable the Deal and projects led by the Borough Council to be successfully delivered.

2. That officers are asked to prioritise the progression of Council-led Town Deal projects within Service work programmes.

Reasons

1. To recognise the importance of the Town Deal to Loughborough and to give confidence to the Town Deal Board that the Council will continue to play key roles in the Town Deal's delivery.

2. To ensure that the Lanes and Links, Living Loughborough and Bedford Square Gateway projects attain approved business cases and are delivered within the lifetime of the Town Deal.

Policy Justification and Previous Decisions

1. The Council's Corporate Strategy 2020 – 24 includes two headline thematic areas which are relevant to the Town Deal: 'A Thriving Economy' and 'Caring for the Environment'. Town Deal projects will help the local economy and those which deliver public realm improvements will help the local environment and green / open spaces.

2. A number of Town Deal projects will see aspects of the Loughborough Town Centre Masterplan be delivered.

3. No previous decisions about the Town Deal have been made by Cabinet.

Implementation Timetable including Future Decisions and Scrutiny

1. The primacy of Town Deal decision-making rests with the Town Deal Board.

2. The Town Deal Board's Member Reference Group has been, and will continue to be, involved in commenting on the progression and delivery of the Town Deal.

3. The Accountablity function for the actions of the Town Deal Board and its Delivery Sub-Group is carried out by the Council's S151 Officer.

4. The Town Deal has until June 2026 to be implemented. Monitoring of project delivery will be reported to the Town Deal Board's Delivery Sub-Group and the projects and overall town deal programme are subject to monitoring and spot-checking by Government departments or agencies.

5. Decisions made in respect of this Cabinet Report will come in to effect immediately, subject to Call-in.

<u>Report Implications</u>

The following implications have been identified for this report:

Financial Implications

It should be noted that Town Deal funding cannot be used as part of the Council's General Fund and it is held, and released, by the Council on behalf of the Town Deal Board. It is therefore a ring-fenced funding 'pot'.

DLUHC has allowed that up to 5% of the Town Deal's £16.9 m (£845,000) can be used to support the management of the Town Deal and to enable projects to develop their business cases. The Town Deal Board's Delivery Sub-Group has agreed how the £845,000 plus some earlier 'capacity funding' should be allocated. It should be noted that this sum is a total for the 5-years life of the Town Deal and not an annual allocation. The attached budget sheet at Appendix B shows forecast expenditure of the £845,000.

Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

Risk Identified	Likelihood	Impact	Overall Risk	Risk Management Actions Planned
Council unable to continue to provide officer support to the Town Deal.	Unlikely (2)	Major (4)	Moderate (8)	Other Town Deal partner organisations would be asked to provide support.
Service areas unable to prioritise progression and delivery of CBC-led projects.	Unlikely (2)	Major (4)	Moderate (8)	Review Service Plan priorities.

Equality and Diversity

All Town Deal projects' must complete an Equalities Impact Assessment before the business case can be submitted for approval and before Government funding can be released.

Key Decision:	Yes
Background Papers:	None.
Officer(s) to contact:	Christopher Grace Town Deal Project Manager 01509 634534 Christopher.grace@charnwood.gov.uk Richard Bennett Head of Planning and Regeneration 01509 634763 Richard.bennett@charnwood.gov.uk

Part B

Background

1. The Towns Fund was established by the Government as a mechanism to assist with its 'Levelling-Up' policy agenda. 101 towns were invited to put together proposals which, if approved, would lead to a local Town Deal. Deals would secure up to £25 million (or more in exceptional circumstances) in Government funding for projects which stimulate the local economy and improve the vibrancy of communities affected by [relatively] slow economic growth. Loughborough is one of the 101 towns.

2. In order to achieve a Town Deal, towns had to prepare and submit a Town Investment Plan (TIP) outlining how identified projects would help the locality and how Government investment would stimulate, or be matched by, other sources of capital. A first version of Loughborough's TIP was submitted in October 2020 and then on the invitation of Government a final revised version was submitted in February 2021. In June 2021 the Government announced that it would award Loughborough £16.9 million. That £16.9 million will enable 11 projects to be funded; the 11 projects were prioritised from an original list of 14 projects which had totalled £25 million in the TIP.

3. The production of the TIP and the prioritisation of the projects was the responsibility of the Town Deal Board, as is current and future oversight of the implementation of the Town Deal. Towns Fund guidance states that Town Deals are to be led by an independent Board withh the local authority (the district or borough council in a two-tier area) being the formal Accountable Body for the Town Deal. The Loughborough Town Deal Board is Co-chaired by Dr Nik Kotecha (Morningside Pharmaceuticals) and the Leader of the Borough Council. Information about members of the Board, details of the TIP and agendas / minutes of all Board and other relevant meetings are accessible to anyone on the Loughborough Town Deal website www.loughboroughtowndeal.co.uk

Loughborough Town Deal

1. The Loughborough Town Deal contains 11 projects. All the projects have been through several rounds of evaluation by the Board, its advisory sub-groups and Government officials before being included in the Town Deal. All of them originated in the TIP which was subject to public and stakeholder consultation (including the comments of a Member Reference Group which includes Members from each of Loughborough's electoral wards).

2. A project cannot receive funding from the Town Deal until it has prepared a Project Initiation Document and a full Business Case. The business case is assurance checked against HM Treasury 'Green Book' standards by an independent consultancy (MACE Group Ltd) before being considered for approval by the Delivery Sub-Group of the Town Deal Board, signed-off by the S151 Officer and then cleared by the Department for Levelling Up Homes and Communities (DLUHC).

3. The exception to the scenario described in paragraph 2 above is the Careers and Enterprise Hub project which received 'upfront' funds from the Town Deal. The Hub has been open in the Market Place since May 2021. The Government released £750,000 because the project was 'oven ready' to be delivered very quickly.

4. The 11 projects are listed below and a summary of them is at Appendix A.

   i) Bedford Square Gateway
   ii) Taylor's Bellfoundry
   iii) Digital Skills Hub
   iv) Careers and Enterprise Hub
   v) Healthy and Innovative Loughborough
   vi) The Loughborough Generator
   vii) Great Central Railway
   viii) Riverside Regeneration
   ix) Woodbrook Flood Mitigation Scheme
   x) Living Loughborough
   xi) Lanes and Links (including the Hope Bell).

<u>Programme Management</u>

1. The Borough Council has undertaken the essential role of programme management for the Town Deal ever since the Government first launched its Towns Fund initiative in late 2019. There is a core Project Team which consists of the Strategic Director for Communities, Planning and Housing, Head of Planning and Regeneration, Town Deal Manager, Communications Manager and two Democratic Services Officers. Other posts / service areas have been or are involved at times including the Head of Leisure and Culture, Plans, Policy and Place Group, Legal Services, Finance, Policy and Organisational Development Team.

2. The above officer resources have been deployed to support the Town Deal Board and to ensure that management of the Town Deal process and programme happens. There are many key aspects of the Town Deal which have been or remain carried out by the Council, including:

   i) Liaison with Civil Servants and interpretation / distillation of Town Deal official guidance,
   ii) Production of the TIP,
   iii) Leading public consultations and carrying out Town Deal Communications,
   iv) Supporting the Board via professional advice, preparation of reports and agendas, taking of minutes,
   v) Supporting the Board's Delivery Sub-Group via professional advice, preparation of reports and agendas, taking of minutes,
   vi) Supporting the Member Reference Group via professional advice, preparation of reports and agendas, taking of minutes,
   vii) Supporting the Community and Stakeholders Engagement Group via professional advice, preparation of reports and agendas, taking of minutes,

viii) Liaison with individual Project Leads and hosting project Leads group meetings,
ix) Appointment of and liaison with consultants,
x) Preparation of programme management timelines and ensuring projects meet monitoring and evaluation requirements / timelines,
xi) Production of a Local Assurance Framework,
xii) Management and monitoring of the Town Deal budget.

Accountable Body Role

1. As Accountable Body for the Town Deal, the Borough Council plays a key role in ensuring that all governance arrangements for the Town Deal Board and town deal processes / decision-making are proper and transparent. This must be in accordance with the principles of public governance used by the Council for its own business. The S151 Officer is required by Towns Fund guidance to ensure that all required due diligence is undertaken as the Town Deal moves forward and projects become eligible to receive funding. Indeed, no project can receive Town Deal funding unless its business case and a decision to approve it is signed-off by the S151 Officer.

2. Although the Town Deal Board is independent and oversees the progression and delivery of the Town Deal, it is not a legal entity and therefore the Council's function of Accountable Body is fundamental to being able to deliver the benefits for the local community which Town Deal's can undoubtedly bring. Discharging this function along with the managing the overall Town Deal programme takes up a not insignificant level of Council resources.

Borough Council Led Projects

1. A final aspect of Council involvement in the Town Deal is responsibility for leading and delivering three Town Deal projects: Lanes and Links, Living Loughborough (in partnership with Love Loughborough Business Improvement District) and Bedford Square Gateway. The latter project has an approved business case and Town Deal funding has already started to be released by the Government. This will allow the final phases of the Gateway's improvements to be delivered.

2. The Lanes and Links and Living Loughborough projects require significant preliminary project initiation work to be carried out before they are in a position to draft full business cases. They are both excellent projects which will make a real difference to Loughborough town centre. The latest point at which business cases can be approved and submissions made to the Government is mid-July 2022 and therefore it is suggested that in order to meet that deadline, priority is given to moving both the projects forward.

Consultation

1. The Town Deal Board has carried out extensive public consultation and stakeholder engagement throughout the Town Deal process and will continue to do so. The TIP includes details of activities which were undertaken and the Board recently approved a refreshed Communications and Engagement Plan as at Appendix C.

Appendices

Appendix A – Summary of Loughborough Town Deal projects.

Appendix B – Town Deal programme management budget forecast.

Appendix C – Town Deal Board's Communications and Engagement Plan.

Appendix A

Summary of Loughborough Town Deal projects

The figures in brackets below show how much funding is allocated to a project by the Town Deal, not the total worth of the project. Some projects have other sources of funding additional to the Town Deal.

1. Bedford Square Gateway (£1.7m)

This project improves the public realm in the Bedford Square Gateway area of the town centre. The overall scheme of improvement is well under-way and the Town Deal funding will allow for further phases of the scheme to be completed.

2. Taylor's Bellfoundry (£835k)

This project will secure the future of the bell foundry site and create a new Bell Museum. It will help regenerate a disadvantaged part of the town, provide new skills opportunity for local persons and bring increased visitor footfall to the area.

3. Digital Skills Hub (£2.6m)

The Hub will be a new physical facility at Loughborough College. Young and older adults will be able to gain or improve a wide range of digital skills which help them get into employment or to be successful on a wide range of training initiatives such as T-levels, apprenticeships and Kickstart placements.

4. Careers and Enterprise Hub (£150k)

The Hub opened in market Place in 2021 and this funding will allow further improvements to be made to the building which needs some structural repairs and improvement.

5. Healthy and Innovative Loughborough (£2.466m)

This multi-faceted project will provide new floorspace at the University's Science and Enterprise Park which can bring more high-value employment to the town. The University's expertise will also be deployed to enable business support and growth activities and to schemes which engender innovation, particularly where it is related to healthy and active living.

6. The Generator (£1.6m)

Conversion of a town centre building on Frederick Street which will provide a new centre housing creative industries workspace, multi-media arts activity and space for exhibitions and community activities.

7. Great Central Railway (280k)

The Town Deal funding will contribute to a project which will provide a building which allows for restoration of locomotives, provides facilities which enable apprenticeships and which improve the offer to visitors at the Loughborough station.

8. Riverside Regeneration (885k)

Led by the Canal and Rivers Trust, this project will improve 2km of the waterway in the town centre by improving walking surfaces, cycle and pedestrian access, signage and moorings capacity. It will make the environment better for local people and encourage more visitors to explore the waterway.

9. Flood Mitigation and Protection (£2m)

By creating water retention facilities upstream of the town, this project will protect the town from the increasing likelihood of flooding and mitigate risks associated with flooding. The impact of the scheme will not only be in terms of reducing flooding but in terms of creating more town centre sites to become suitable for commercial or residential development.

10. Living Loughborough (£2.87m)

This is a multi-faceted project which will boost and re-invigorate the town centre. The appearance of the town centre will be enhanced and new infrastructure will enable more events to take place. There will better infrastructure for digital communication with residents and visitors and enhancements to the operation of the markets. There will be elements of the project which stimulate new business growth and help existing town centre businesses.

11. Lanes and Links [incorporating the Hope Bell] (£669k)

The Hope Bell will be a memorial bell structure which commemorates lives lost during the Covid-19 pandemic and which gives hope for future life. Physical and visual improvements will be made to the lanes and linkways in the town centre which are in closest proximity to the Hope Bell enabling people to have a pleasant experience when exploring the town centre and visiting the bell.

APPENDIX B

Code		2021/22				2022/23	2023/24	2024/25	2025/26	
		Actual to December 2021 (Period 9)	Committed to December 2021 (Period 9)	Proposed Budget from January 2022 to March 2022 (Periods 10 to 12)	Full Year Predicted Budget	Budget	Budget	Budget	Budget	
		£	£	£	£	£	£	£	£	£
	Expenditure:-									
P305 A0101/0108/0110/0120	Town Deal Project Manager	12,120.40		32,979.60	45,100.00	104,000.00	104,000.00	104,000.00	104,000.00	461,100.00
P305 A0153	Towns Fund Deal Agency Costs	25,725.00			25,725.00					25,725.00
P305 D0415	Publicity	3,262.50			3,262.50					3,262.50
	Comms			6,720.00	6,720.00	11,720.00	8,720.00	6,720.00	11,720.00	45,600.00
P305 D0501	MACE Due diligence	38,625.60	18,893.75	0.00	57,519.35	28,500.00				86,019.35
P305 D0501	31ten consultancy			40,000.00	40,000.00	30,000.00				70,000.00
	Business Case Development Grants			40,000.00	40,000.00					40,000.00
	Total Expenditure	**79,733.50**	**18,893.75**	**119,699.60**	**218,326.85**	**174,220.00**	**112,720.00**	**110,720.00**	**115,720.00**	**731,706.85**
X458	**Income:-**									
	Opening balance MHCLG Grant	-91,072.33			-91,072.33					-91,072.33
	MHCLG Grant received in year	-1,015,000.00			-1,015,000.00					-1,015,000.00
	Total Income	**-1,106,072.33**	**0.00**	**0.00**	**-1,106,072.33**	**0.00**	**0.00**	**0.00**	**0.00**	**-1,106,072.33**
	Balance of grant remaining				**-887,745.48**	**-713,525.48**	**-600,805.48**	**-490,085.48**	**-374,365.48**	**-374,365.48**

LOUGHBOROUGH TOWN DEAL BOARD

Loughborough Town Deal Communications and Engagement Plan

1. Introduction

This document sets a high-level approach to communications and engagement surrounding Loughborough Town Deal as it moves into the business case phase.

2. Principles of engagement

Communication and engagement will be carried out based on the following principles:

- **Openness and transparency** – we will be clear about the decision-making process and the role stakeholders can take
- **Respect** – stakeholders will be treated with respect and express their views
- **Clarity** – we will ensure information is easy to access and understand
- **Being proactive** – we are committed to engaging stakeholders across a number of different channels
- **Inclusivity** – we will engage with a wide range of stakeholders who can participate and feel included.

3. Objectives

- Clearly articulate the aims and ambitions of Loughborough Town Deal
- Tell the story of how Loughborough Town Deal will bring significant benefits to the town including its businesses and communities
- Engage with a wide range of stakeholders to help shape those plans and develop support

4. Engagement strategy

The Council and partners already have several established channels to engage and communicate with a large number of people and organisations in Loughborough.

Those channels will be utilised to communicate the Town Deal vision, its projects and for engagement work.

Those channels include social media, websites, email subscription lists, regular meetings, local media and other networks.

The Council's communications team will co-ordinate communications around the Town Deal and proactively tell the Town Deal story and advise partners who wish to promote their own projects.

The key messages for the Town Deal (which will evolve) are:

- Loughborough Town Deal is on course to attract over £40 million worth of investment across a range of exciting projects
- It will boost jobs, skills and make the town, including its centre, a better place to live, learn, work and grow
- Collaboration between organisations, businesses, communities and residents is key to the Town Deal's success.

5. How we will engage

There are several strands to this. Loughborough Town Deal's Community Engagement and Consultation Group will continue to operate and meet regularly. The group consists of a range of stakeholders and they will receive updates on the Town Deal progress and give feedback to the Town Deal Board.

There will be a programme of regular communications from the Council communications team about Town Deal progress and the projects. These will be shared on various channels including

- Loughborough Town Deal website
- Council channels including the corporate website, social media and email alerts
- Local Media
- Events when appropriate
- Updates at regular meetings such as Loughborough Town Team
- Partner channels

Individual projects will be required to demonstrate how they are engaging with stakeholders and report to the Board. A Stakeholder Engagement Project template (Appendix B) has been produced to support projects. It is not intended to replace project's existing engagement plans should they have them in place.

6. Communications plan

As of October 2021, the Council's communications team is planning to communicate updates about Loughborough Town Deal via Council channels (as set out in section 9)

In the coming months the Council will:

- Produce spotlights about each project. This could be an article or a video. The Council's communications team will liaise with projects directly and distribute the content across several channels, including the Town Deal website
- Milestones will be marked with a press release for the local and regional media. Other content may also be produced, including videos
- Consideration will be given to holding an awareness raising event. A budget will be required.

Partners will be encouraged to share any content generated to increase the potential reach.

7. Stakeholders

A list of key stakeholders is in appendix A

8. Governance

Plans and progress on communication and engagement will be reported to the Board. The Council's communications team will provide most of the resource, but some budget is likely to be necessary to bring in specialist skills or additional resource when required.

The Community Engagement and Consultation Group will be able to have input into engagement and communications.

9. Engagement tactics and communication channels

We will use a range of tactics and channels to engage and keep people informed.

Communications will primarily be driven through the Council's corporate communication channels including:

- CBC Facebook page
- CBC Twitter account
- Loughborough Town Deal Twitter account
- Loughborough Town Deal website
- CBC website
- CBC Linked-In account
- CBC Email alerts
- Local and regional media
- Printed materials when appropriate
- Partner's channels, for example Love Loughborough and its network of local businesses
- Public displays to raise awareness

Engagement tactics are likely to include:

- Online surveys
- Virtual or in-person meetings
- Drop-in sessions
- Displays
- Focus groups
- Awareness raising events could also be used for engagement

- Market research
- Direct engagement with local partners

Projects will also be required to set out how they will engage stakeholders for their projects and provide updates to the Board.

10. Approach to reach seldom heard groups

The Council has good links with a variety of communities in Loughborough and will use those existing channels to reach seldom heard groups.

The aim will be to encourage engagement and raise awareness of the Town Deal to generate positive support.

11. Covid-19

As with any project, considerations to any potential issues caused by the pandemic will be factored into the engagement and communication work. The main issue will be if any restrictions are imposed which would affect in-person events.

12. Risks

The risks and mitigation around communication and engagement are set out in the below table.

	Risk	Mitigation
1	Limited number of stakeholders are informed and engaged	Engagement plan in place, clearly identifying stakeholders and channels
2	The Town Deal is not clear to local communities and partners	Having a clear plan to communicate the vision
3	Seldom heard groups are not engaged in the process	Identify channels to reach these groups either directly or through partners or other agencies
4	Resource hinders communication and engagement	Ensuring there is adequate support available either in-house from the Council or being able to commission support

13. Evaluation

The Council’s communications team records key metrics for communications activity and these will be monitored for Town Deal activity. They will include media coverage, social media reach and engagement, engagement levels for consultations and attendance for any events.

LOUGHBOROUGH TOWN DEAL

APPENDIX A: Stakeholder list

Key stakeholders – List A

Stakeholder	Category
Loughborough MP Jane Hunt	Government / Board Member
CBC Borough Councillors	Government
County Councillors	Government
BEIS	Government
Loughborough University	Board member / Project lead / Education
Loughborough College	Board member / Project lead / Education
Environment Agency	Project lead
Loughborough Bell Foundry Trust	Project lead / Heritage / Tourism
Love Loughborough	Board member / Project lead / Business
Generator CIC	Project lead
Canals and River Trust	Project lead
Great Central Railway	Project lead / Heritage / Tourism
Loughborough Chamber of Commerce	Business
Loughborough Town Team	Business

Stakeholder - List B

Stakeholder	Category
Charnwood Arts	Arts and Culture
Charnwood Campus	Business
Federation of Small Businesses	Business
Loughborough Advanced Technology Initiative	Business
Landlords (commercial properties / student accommodation)	Business
Carillon Court shopping centre	Business
The Rushes Shopping Centre	Business
Loughborough Market Traders	Business / Town Centre

John Storer Charnwood	Charity / Community / Seldom Heard
Fearon Hall	Community
Grange Park Community Centre	Community centre
Gorse Covert	Community Centre
Leicestershire Police Authority	Crime / Community Safety
Charnwood Police	Crime / Community Safety
Baldwin Trust	Disabilities
Peter Le Marchant Trust	Disabilities / Charity
Parish Church / Rev Wendy Dalrymple	Faith
Loughborough Council of Faiths	Faith
Shree ram Krishna Project	Faith
Bangladeshi Association	Faith / Community Centre
Loughborough Mosque Islamic Cultural Association	Faith
Loughborough Heritage Forum	Heritage / Arts and Culture
Carillon War Memorial Trust	Heritage
Friends of Charnwood Museum	Heritage / Tourism
Storer & Ashby Area Residents Group (SARG)	Residents' Association
Haddon Way Residents Association	Residents' Association
Nanpantan Residents' association	Residents' Association
CBC Neighbourhoods team	Seldom Heard / residents / deprived wards
Equality Action	Seldom Heard / BAME / Deprived wards
JobCentre Plus	Skills
Active Charnwood	Sports and leisure
Friends of Queens Park	Town Centre / Tourism
Leicestershire Promotions	Tourism
Arriva Midlands	Transport
Kinchbus	Transport
East Midlands Trains	Transport

Student Union President	Young people

Appendix B: Project Stakeholder Engagement Plan Template

Loughborough Town Deal

Project Stakeholder Engagement Plan

This is a template for projects to use to assist them plan stakeholder engagements. It is not intended to replace project's stakeholder plans if they have them, but it would be excepted their plans to cover similar areas.

Projects are expected to provide updates to the Board about engagement work and consider any feedback from the board or the Community Engagement and Consultation Group.

1. Project name and summary		
2. Who are your key stakeholders? (be as descriptive as possible and include their level of influence)		
Core - Those highly affected		

LOUGHBOROUGH TOWN DEAL

	Direct - Those moderately affected	Indirect- Those minimally affected

3. How will you engage with hard-to-reach groups?

4. How will they be engaged? (please include channels and frequency)

5. Please outline any existing stakeholder engagement work that you have carried out as part of your project and give examples of how that engagement has helped shape your project.

If you require any further information or have any questions, please contact:
Mike Roberts
Communications Manager
Charnwood Borough Council
mike.roberts@charnwood.gov.uk / 01509 634705

CABINET – 10TH FEBRUARY 2022

Report of the Strategic Director – Commercial Development, Assets and Leisure
Lead Member: Councillor Jonathan Morgan

Part A

ITEM 13 FEASIBILITY STUDIES FOR RENEWABLE ENERGY GENERATION

Purpose of Report

The report seeks approval and delegation to commission a feasibility study for the construction of a solar farm on Council owned land.

Recommendation

1. That Cabinet approves spend of up to of £150,000 to undertake feasibility studies for the construction of solar (PV) installations on Council owned land.

2. That authority for the same be delegated to the Strategic Director – Commercial Development, Assets and Leisure to commission the studies.

3. That the activity be added to the Council's Annual Procurement Plan.

Reason

1. To understand the Council's options and ability to build solar PV installations or other renewable energy options in the Borough.

2. To allow for the timely completion of studies such that that any following phases of a project can be planned and submitted for scrutiny and approval.

3. To allow contracts of the Council to be let in accordance with Contract Procedure Rules

Policy Justification and Previous Decisions

In June 2019, Charnwood Borough Council committed to achieving carbon neutrality for the Council's own operations by 2030. This builds on the success of our 2015-2020 Carbon Management Plan, which saw us reduce our carbon footprint by 37% between 2012 and 2018. Since then, our footprint has fallen by a further 3%.

The Council's Carbon Neutral Plan, approved at Cabinet on the 16th September 2021, sets out a series of actions (also approved) to move the Council further towards its carbon neutral target. Actions 15-18 come under energy feasibility studies for which this report seeks approval to progress.

The level of spend required to undertake these studies is above the Key Decision threshold in the Council's constitution and therefore requires Cabinet approval to spend.

The budget will be taken from the Carbon Neutral Action Fund, approved and allocated in the Council’s Capital plan.

Implementation Timetable including Future Decisions and Scrutiny

The decision will come into effect immediately (subject to Call-in).

Following this decision, future reports will come before Cabinet to determine the direction forward and will be open to Scrutiny.

Report Implications

The following implications have been identified for this report.

Financial Implications

The Carbon Neutral Action Fund forms part of the approved Capital Plan, however if the Capital scheme does not go ahead this will be funded from the Reinvestment Reserve.

Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

Risk Identified	Likelihood	Impact	Overall Risk	Risk Management Actions Planned
Surveys return results that are financially unfavourable	Unlikely 2	Serious 3	Moderate (6)	Officers will investigate if external funding or partnership opportunities exist.
The budget identified is insufficient to thoroughly understand the potential.	Unlikely 2	Significant 2	Low 4	There is a significant contingency built into the figure for approval. The money need not be spent if not warranted but must be available if needed. The nominated individuals will manage this process as it happens, and robust procurement routes will be used.

Equality and Diversity

No implications

Crime and Disorder

No implications

Sustainability

This decision forms part of the adopted Carbon Neutral Plan

Key Decision:	Yes
Background Papers:	None
Officer to contact	Justin Henry Strategic Director – Commercial Development, Assets and Leisure justin.henry@charnwood.gov.uk

Part B

Background

1. The Council's Carbon Neutral Plan was approved by Cabinet on the 16th September 2021.

2. The two major contributors to the Council's carbon footprint are Buildings (15%) and Transport (84%). Reductions in emissions with both areas will take time as the council investigates the options for future accommodation and adoption of green technologies for our fleet as they emerge.

3. Carbon offsetting, in the form of renewable energy installations, provides the best opportunity to significantly reduce the Council's carbon footprint in the shorter term and is one of the main 3 challenges outlined in the Carbon Neutral Plan.

Location choices for studies

6. In this undertaking, financial prudence must be exercised. In considering any potential location, use of land and buildings owned by the Council is preferred as it would not incur the costs of land purchase to be factored into consideration.

7. Two primary sites will be studied for the possibility of solar farms: land near the new cemetery at Nanpantan (8.7 hectares) and land at Allsopp's Lane (16.2 hectares)

8. Council owned buildings will be examined for the potential of rooftop installations.

9. Council owned car parks will also form part of the same feasibility work to understand any potential with these locations.

10. In these studies, careful consideration will be paid not only to the level of energy generation possible, but also to the financial implications of any installation, ensuring that any proposal is financially balanced and sustainable.

CABINET – 10TH FEBRUARY 2022

Report of the Head of Strategic Support
Lead Member: Councillor Margaret Smidowicz

Part A

ITEM 14 REGULATION OF INVESTIGATORY POWERS ACT: POLICY AND REVIEW OF USE DURING 2021

Purpose of Report

To approve a Regulation of Investigatory Powers Act (also known as RIPA, or the 2000 Act) Policy, and consider a summary of the use of RIPA during 2021.

Recommendations

1. That it be noted that there has been no use of RIPA by the Council during the calendar year 2021.

2. That the Audit Committee be requested to continue its responsibility for receiving a quarterly report on the use of RIPA, and to report to Cabinet any concerns arising from those reports that may indicate that the use of RIPA is not consistent with the Policy or that the Policy may not be fit for purpose.

3. That the updated RIPA Policy Statement 2022, attached as Appendix A to this report, be approved.

Reasons

1. To ensure compliance with the requirements of the Home Office's current 'Code of Practice – Covert Surveillance and Property Interference' relating to the involvement of elected Members in approving the RIPA policy and reviewing the Council's use of RIPA on at least an annual basis.

2. To ensure compliance with the requirements of the Home Office's latest 'Code of Practice – Covert Surveillance and Property Interference' relating to elected Members considering reports on the use of RIPA on at least a quarterly basis to ensure that is it being used consistently with the policy and the policy remains fit for purpose.

3. To ensure that the Council's RIPA Policy Statement remains up to date and consistent with the relevant legislation and codes of practice.

Policy Justification and Previous Decisions

The use of RIPA to conduct covert surveillance in appropriate instances may support many of the Council's enforcement and anti-fraud policies. The Home Office Code of Practice, which relevant bodies are obliged to follow when using RIPA, requires that elected Members should set a RIPA policy on an annual basis.

Implementation Timetable including Future Decisions and Scrutiny

The Audit Committee will continue to receive regular quarterly monitoring reports on any use of RIPA by the Council.

Report Implications

The following implications have been identified for this report.

Financial Implications

None.

Risk Management

There are no identified risks associated with the decision Cabinet is asked to make.

Key Decision:	No
Background Papers:	None
Officer to contact:	Adrian Ward (01509) 634573 adrian.ward@charnwood.gov.uk

Part B

Background

1. RIPA provides for the authorisation of covert surveillance by the Council where that surveillance is likely to result in the obtaining of private information about a person.

2. Surveillance includes monitoring, observing or listening to persons, their movements, conversations or other activities and communications. Surveillance is covert if it is carried out in a manner calculated to ensure that any persons who are subject to the surveillance are unaware that it is or may be taking place.

2. The Council only has the power to authorise covert surveillance under RIPA for the purpose of preventing or detecting crime, or of preventing disorder.

3. RIPA applications are required to be approved by a Justice of the Peace (JP) at the Magistrates' Court in addition to an internal authorisation process. The Protection of Freedoms Act 2012 requires that local authority authorisations and notices under RIPA for the use of particular covert investigation techniques can only be given effect once an order approving the authorisation or notice has been granted by a Justice of the Peace (JP). This would require the Council to make a formal application to a Magistrates' Court, followed by a hearing at Court in private at which the application for a surveillance order may be granted or declined by the Magistrates.

4. A local authority can only obtain an authorisation under RIPA for the use of directed surveillance where the local authority is investigating particular types of criminal offences. These are:

   - Criminal offences which attract a custodial sentence of six months or more; or
   - Certain criminal offences under sections 146, 147 or 147A of the Licensing Act 2003 involving the sale of alcohol to children; or
   - Certain criminal offences under section 7 of the Children and Young Persons Act 1933 relating to the sale of tobacco to minors.

5. Examples of offences which would not meet the above conditions are:

   - Any fine-only offences, such as littering, dog fouling or a householder failing the duty of care to check that household waste taken for disposal was taken by a person authorised to transfer waste (section 34 of the Environmental Protection Act 1990).
   - Any offences attracting a penalty of less than 6 months imprisonment, for instance false representations for obtaining benefit (s. 112 of the Social Security Administration Act 1992), which has a maximum penalty of 3 months imprisonment.

6. Examples of offences which <u>would</u> meet the above conditions are any offence attracting a penalty of 6 months or more imprisonment, such as:
   - Fly tipping (section 33 of the Environmental Protection Act 1990), which has a penalty of up to 5 years imprisonment.
   - Offences given special status under RIPA (as amended), such as the selling of alcohol or tobacco to children.

7. The requirements around the RIPA authorisation process are complex, and the Home Office has responsibility for issuing a Code of Practice under the Act to specify the processes and procedures which must be followed. The Code of Practice includes a best practice requirement that:

   'Elected members of a local authority should review the authority's use of the 2000 Act and set the policy at least once a year. They should also consider internal reports on use of the 2000 Act on a regular basis to ensure that it is being used consistently with the local authority's policy and that the policy remains fit for purpose', (s3.35).

8. The Cabinet is therefore responsible for receiving an annual overall report on the use of RIPA and for approving the RIPA policy each year, and the Audit Committee are responsible for receiving quarterly reports on the use of RIPA and for reporting back to Cabinet any concerns relating to potential inconsistency with the policy, or if the policy does not appear to be fit for purpose.

9. The Council received an inspection report by the Investigatory Powers Commissioner's Office (IPCO) in September 2021 (attached as Appendix B) which made some recommendations regarding updating the RIPA policy, which have been incorporated into the policy statement that Cabinet are being asked to approve (Appendix A).

<u>Appendices</u>

Appendix A: RIPA Policy Statement (February 2022)
Appendix B: IPCO inspection report

APPENDIX A

CHARNWOOD BOROUGH COUNCIL

COVERT SURVEILLANCE

REGULATION OF INVESTIGATORY POWERS ACT 2000

POLICY STATEMENT

(February 2022)

Policy Statement
Regulation of Investigatory Powers Act 2000

Introduction

The Regulation of Investigatory Powers Act 2000 (RIPA) provides a legal framework for covert surveillance activities by public authorities (including local authorities). The Investigatory Powers Commissioner's Office (IPCO) operates as an independent inspector to monitor these activities.

The use of surveillance (both overt and covert) to provide information is a valuable resource for the protection of the public and the maintenance of law and order. To discharge their responsibilities local authorities and law enforcement agencies use unaided surveillance and surveillance devices. RIPA and codes of practice under it provide a legal framework and procedure to authorise the use of covert surveillance. Surveillance is covert if it is carried out in a manner that is calculated to ensure that people who are subject to is are unaware that it is or may be taking place.

In some circumstances, it may be necessary for Council employees, in the course of their duties, to make observations of people in a covert manner. Actions of this sort may constitute an interference with a person's right to privacy. This may give rise to legal challenge as a potential breach of "the right to respect for private and family life" under Article 8 of the European Convention on Human Rights and the Human Rights Act 1998. RIPA provides a procedure to defend the Council against such challenges.

Purpose

This policy statement is designed to ensure that Charnwood Borough Council meets the legal requirements in relation to the use of covert surveillance. It also promotes a professional approach in undertaking surveillance so that those affected may have confidence that the Council will act effectively and in a fair and lawful manner. It should be read in conjunction with the Regulation of Investigatory Powers Act 2000 and the current versions of the Code of Practice on the use of Covert Human Intelligence sources and the Code of Practice on Covert Surveillance.

STATEMENT OF INTENT

This policy statement applies only to the use of covert surveillance, although it is expected that usually any surveillance activity undertaken by or on behalf of the Council will be overt.

The Council will fulfil its lawful obligations and use directed surveillance within the terms of the Regulation of Investigatory Powers Act 2000 and the directions of the IPCO.

The Council will keep its policy and procedures under review and update them as necessary and in accordance with any changes in the law.

The Council will take necessary steps to ensure that all employees and councillors are aware of all relevant policy standards, procedures, legislation and best practice. Employees have a duty to follow this policy and its procedures and any employee acting outside this policy will be subject to the Council's disciplinary procedures.

Evidence gathered by surveillance will be treated as confidential and will only be disclosed to persons (internal and external) whose authority has been explicitly established. Such evidence may only be removed by employees from a Council office with the authority of their Head of Service of another senior officer formally designated by the Head of Service. Employees will be responsible for any misuse, security breach of unauthorised disclosure while such evidence is in their control.

Evidence gathered by covert surveillance will be held for as long as the law requires (a minimum of 5 years) after which it may be destroyed in a secure manner.

The Council will keep in place appropriate security measures as required.

Appropriate physical security will be provided for visitors being received and supervised at all times within the Council offices where evidence gathered by surveillance is stored.

Each service will be responsible for the security of evidence collected by it. Security arrangements will be reviewed regularly. All reported breaches or potential weaknesses will be investigated by the Head of Service concerned and where necessary further or alternative measures introduced.

A reporting structure will be established headed by the RIPA Monitoring Officer with a liaison officer in each service so that authorisation, review, renewal and cancellation forms and procedures are:

- co-ordinated and consistent, and
- available for inspection by the IPCO;

and so that any problems can be identified and investigated.

The intention is that subjects of covert surveillance carried out by or on behalf of the Council can be assured that evidence collected (including personal data) will be processed with care and in accordance with the law.

Council employees will not carry out intrusive surveillance within the meaning of the Regulation of Investigatory Powers Act 2000. This is covert surveillance carried out in relation to anything taking place on any residential premises or in any private vehicle; and involves the presence of an individual or a device on the premises or in the vehicle, or by means of a surveillance device capable of providing information of the same quality and detail as might be expected to be obtained from a device actually present on the premises or in the vehicle.

Although the law does not impose a requirement on the Council to seek or obtain authorisations, it will seek to adhere to the authorisation, review, renewal and cancellation procedure provided for by RIPA and the codes of practice before conducting any covert surveillance. The Council will not gather evidence by covert surveillance of individuals where it is disproportionate or unnecessary in relation to the purposes of the investigation.

Surveillance carried our by a third party on behalf of the Council shall be subject to a contract which stipulates compliance with the law and this policy.

PRINCIPLES OF SURVEILLANCE

In planning and carrying out covert surveillance Council employees shall comply with the following principles:

<u>Lawful Purposes</u>

Directed surveillance shall only be carried out where necessary to achieve one or more of the permitted purposes (see section 28(3) of RIPA) available to local authorities, namely;

a) for the purposes of preventing or detecting crime or the prevention of disorder.

Employees carrying out surveillance shall not interfere with any property or harass any person.

<u>Confidential Material</u>

Applications where a significant risk of acquiring confidential material has been identified shall always require the authorisation of the Chief Executive (or in his absence a Director) after consulting with the RIPA Monitoring Officer.

Confidential material consists of;

- matters subject to legal privilege (eg. between a professional advisor and client)
- confidential personal information (eg. relating to a person’s spiritual, physical or mental health), or
- confidential journalistic material.

DEFINITIONS

Unless the context otherwise requires, in this document the expressions in the first column shall have the meaning in the second column and any reference to a statute or statutory instrument or code of practice within the document shall include amendments to it.

Authorising Officer	means a person entitled to give an authorisation for directed surveillance or for the use of a covert human intelligence source in accordance with section 30 of RIPA and the Regulation of Investigatory Powers (Prescription of Offices, Ranks and Positions) Order SI. No. 2417, as adapted to the organisational structure of the Council and who is included in the list of officers designated as such by the Council within the Delegations to Officers section of the Council's Constitution.
Council	means Charnwood Borough Council
Covert Human Intelligence Source (CHIS)	means a person who establishes or maintains a personal or other relationship with a person for the covert purpose of facilitating the doing of anything falling within sections 26(8)(b) or (c) of RIPA, namely: (b) to covertly use such a relationship to obtain information or to provide access to any information to another person; or (c) to covertly disclose information obtained by the use of such a relationship, or as a consequence of the existence or such a relationship
Covert Surveillance	means surveillance carried out in a manner that is calculated to ensure that persons who are subject to this surveillance are unaware that it is or may be taking place
Directed Surveillance	means covert surveillance which is not intrusive and is undertaken; (a) for the purpose of a specific investigation or a specific operation, (b) in such a manner as is likely to result in the obtaining of private information about a

	person (whether or not one specifically identified for the purposes of the investigation or operation), and (c) otherwise than by way of an immediate response to events or circumstances, the nature of which is such that it would not be reasonably practicable for an authorisation under Part II of RIPA to be sought for carrying out the surveillance
Private Information	means information about a person relating to his or her private or family life
Private Vehicle	means any vehicle that is used primarily for the private purposes of the person who owns it or of a person otherwise having the right to use it
Residential Premises	means so much of any premises as is for the time being occupied or used by any person, however temporarily, as living accommodation (including hotels or prison accommodation that is being so occupied or used)
Social Media	means websites and applications that enable users to create and share content or to participate in social networking (eg. Twitter and Facebook)
Surveillance Device	means any apparatus designed or adapted for use in surveillance
Surveillance *	is defined in section 48 of RIPA, and includes: (a) monitoring, observing or listening to persons, their movements, their conversations or their activities or communications, (b) recording anything monitored, observed or listened to in the course of the surveillance, and (c) surveillance by or with the assistance of s surveillance device * surveillance does not include

	references to: (a) any conduct of a covert human intelligence source for obtaining or recording (whether or not using a surveillance device) any information which is disclosed in the presence of the source, (b) the use of a covert human intelligence sources for so obtaining or recording information, or (c) any such entry on or interference with property or with wireless telegraphy as would be unlawful unless authorised under section 5 of the Intelligence Services Act 1994 (warrants for the intelligence services, or Part III of the Police Act 1997 (powers of the police and of customs officers)
Necessity	means that the use of covert surveillance is considered to be necessary, and that there are no other suitable means or processes which can be applied to obtain the information required
Proportionality	means that the following considerations must have been applied: (a) balancing the size and scope of the proposed activity against the gravity and extent of the perceived crime or offence (b) explaining how and why the methods to be adopted will cause the least possible intrusion on the subject and others (c) considering whether the activity is an appropriate use of the legislation and a reasonable way, having considered all reasonable alternatives, of obtaining the necessary result (d) evidencing, as far as reasonably practicable, what

	other methods have been considered and why they were not implemented.

SCOPE OF PROCEDURE

The procedure does not apply to:

- Observations that are not carried out covertly, or
- Ad-hoc covert observations that do not involve the systematic surveillance of a specific person(s)
- Unplanned observations made as an immediate response to events.

In cases of doubt, the authorisation procedure described below should be followed.

AUTHORISATION PROCEDURE

General

All directed surveillance and the use of covert human intelligence sources must be for a purpose that is necessary and proportionate to enable the Council to perform its duties and services and is subject to the inspection of the IPCO.

Authorisation will be obtained using the forms based on the current Home Office Model and approved by the Council's RIPA Monitoring Officer.

Forms, codes of practice and supplementary material will be available on the Council's intranet and will be maintained by the RIPA Monitoring Officer.

Applications for directed surveillance will only be made to an Authorising Officer. Officers responsible for management of an investigation will normally be no lower than a Team Leader and will not be graded below Senior Officer grade.

Authorising Officers will be at least Head of Service level, and will be trained to properly understand the requirements of RIPA. Authorising Officers should avoid authorising their own activities wherever possible and only do so in exceptional circumstances. An alternative Authorising Officer will otherwise be the Authorising Officer for such activities.

Authorising Officers shall ensure they are fully aware of their responsibilities and comply with the requirements of the law including the requirement to obtain magistrate's approval, the relevant codes of practice and the Council's policies and procedures in respect of the authorisation, review, renewal and cancellation of authorisations for covert surveillance.

Where an application for authorisation is refused, the Authorising Officer shall record the refusal on the application and the reasons for it on the case file and supply a copy of it to the RIPA Monitoring Officer as with other authorisations as quickly as possible and in any event within 7 days. The Authorising Officer shall also ensure that any supplementary information and supporting documents submitted with any application for authorisation, review, renewal or cancellation are recorded and retained on the case file as required by the codes of practice or other legal requirement.

Consideration needs to be given at the start of the investigation as to whether or not the criminal offence that is being investigated meets the threshold criteria for RIPA authorisations:

- Criminal offences which attract a custodial sentence of six months or more; or
- Certain criminal offences under sections 146, 147 or 147A of the Licensing Act 2003 involving the sale of alcohol to children; or
- Certain criminal offences under section 7 of the Children and Young Persons Act 1933 relating to the sale of tobacco to minors.

If the Authorising Officer is satisfied that these criteria have been met then a further form requesting authorisation by the Magistrates' Court must be completed and sent to the Court together with a completed copy of the internal RIPA authorisation and any other appropriate evidence to support the application. Prior to this a hearing date must be listed with the Leicester Magistrates' Court for hearing the application by a Justice of the Peace.

Guidance on the process for obtaining Magistrate's authorisation can be obtained from the RIPA Monitoring Officer, and is available on the relevant section of the Council's intranet.

The effective authorisation period only commences once magisterial concurrence is given.

Directed Surveillance

All applications for directed surveillance authorisation will be made on **Form 1** (reference *RIPA 1 DS authorising* form). The applicant in all cases should complete this, and approval must be obtained from an Authorising Officer and from a magistrate. In urgent cases there are arrangements in place for out of hours approval to be obtained from a magistrate.

All applications for review of directed surveillance authorisation will be made on **Form 2** (reference *RIPA 2 DS review* form). The applicant in all cases should complete this where the investigation/operation is to be continued or cancelled.

All applications for directed surveillance renewals will be made on **Form 3** (reference *RIPA 3 DS renewal* form). The applicant in all cases should complete this where surveillance requires to continue beyond the previously authorised period (including previous renewal). As well as approval from an Authorising Officer, Magistrates approval is required for all renewals.

Where authorisation ceases to be either necessary or appropriate the Authorising Officer will cancel an authorisation using **Form 4** (reference *RIPA 4 DS cancellation* form).

Any person giving an authorisation for the use of directed surveillance must record on the appropriate form the matters they took into account in reaching their decision and they must be satisfied that:

- no overt means are suitable for the purpose
- the authorisation is for a prescribed lawful purpose
- account has been taken of the likely degree of intrusion into the privacy of persons other than those directly implicated/targeted in the operation or investigation (collateral intrusion)
- measures are being taken, wherever practicable, to avoid unnecessary intrusion into the lives of those affected by collateral intrusion
- the authorisation is necessary
- the proposed surveillance is proportionate and any equipment to be used is specified.

<u>Necessity</u>
Surveillance operations shall only be undertaken where there is no reasonable and effective alternative way of achieving the desired objective(s).

<u>Effectiveness</u>
Surveillance operations shall be undertaken only by suitably trained employees (or under their direct supervision). The Authorising Officer will determine which employees are to be involved in an operation and ensure that they are suitably trained.

<u>Proportionality</u>
The use of surveillance shall not be excessive but shall be in proportion to the significance/harm of the matter being investigated. Consideration of proportionality will be based on the factors set out in the Definitions section of this policy.

<u>Authorisation</u>
All directed surveillance shall be authorised in accordance with this procedure. Care must be taken by Authorising Officers to ensure that each authorisation is completed in its entirety by them, and in handwriting.

Use of a Covert Human Intelligence Source (CHIS)

Proper records must be kept of the authorisation and use of a source as required by Regulation 3 of Regulation of Investigatory Powers (Source Records) Regulations 2000, namely:

(a) the identity of the source
(b) the identity, where known, used by the source
(c) any relevant investigating authority other than the authority maintaining the records
(d) the means by which the source is referred to within each relevant investigating authority
(e) any other significant information connected with the security and welfare of the source
(f) any confirmation made by a person granting or renewing an authorisation for the conduct or use of a source that the information in (e) above has been considered and that any identified risks to the security and welfare of the source have, where appropriate, been properly explained to and understood by the source
(g) the date when, and the circumstances in which, the source was recruited

(h) the identities of the persons who, in relation to the source, are discharging or have discharged the functions mentioned in section 29(5)(a) to (c) of RIPA or in any order made by the Secretary of State under section 29(2)(c)
(i) the periods during which those persons have discharged those responsibilities
(j) the tasks given to the source and the demands made of him or her in relation to the activities as a source
(k) all contacts or communications between the source and a person acting on behalf of any relevant investigating authority
(l) the information obtained by each relevant investigating authority by the conduct or use of the source
(m) any dissemination by that authority of information obtained in that way, and
(n) in the case of a source who is not an undercover operative, every payment, benefit or reward and every offer of a payment, benefit or reward that is made of provided by or on behalf of any relevant investigating authority in respect of the source's activities for the benefit of that or any other relevant investigating authority.

In addition, the Code of Practice requires records to be kept of:

- a copy of the authorisation together with the supporting documentation and notification of the approval given by the Authorising Officer
- a copy of any renewal of an authorisation, together with the supporting documentation submitted when the renewal was requested
- the reason why the person renewing the authorisation considered it necessary to do so
- any risk assessment made in relation to the source
- the circumstances in which tasks were given to the source
- the value of the source to the investigating authority
- a record of the results of any reviews of the authorisation
- the reasons why, if any, for not renewing an authorisation
- the reasons for cancelling an authorisation
- the date and time when any permission was given by the Authorising Officer to cease using a source.

Authorising Officers must not grant an authorisation for a CHIS unless they believe that there are arrangements in place to ensure at all times there is a person responsible for maintaining a record of the use of that source, and that the person responsible is fully aware of their duty of care towards, and the safeguarding of, the CHIS.

Only the Chief Executive, or in his absence a Strategic Director, may authorise the use of a juvenile or vulnerable CHIS. In such instances the authorisation can be for a maximum period of 4 months, and must be subject to a review of the authorisation at least monthly.

All applications for authorisation for the use or conduct of a CHIS will be made on **Form 5** (reference *RIPA 5 CHIS authorising* form). The applicant in all cases should complete this. All applications need to be approved by a Magistrate as well as by an Authorising Officer.

All applications for review of authorisation for the use or conduct of a CHIS will be made on **Form 6** (reference *RIPA 6 CHIS review* form). The applicant in all cases should complete this where the investigation/ operation is to be continued or cancelled.

All applications for authorisation for the use or conduct of a CHIS renewals will be made on **Form 7** (reference *RIPA 7 CHIS renewal* form). The applicant in all cases should complete this where the surveillance requires to continue beyond the previously authorised period (including a previous renewal). As well as approval from an Authorising Officer, Magistrates approval is required for all renewals.

Where authorisation ceases to be either necessary of appropriate the Authorising Officer will cancel an authorisation using **Form 8** (reference *RIPA 8 CHIS cancellation* form).

Forms and other relevant material will be available on the Council's intranet and will be maintained by the RIPA Monitoring Officer.

Any person giving an authorisation for the use of CHIS must record on the appropriate form matters taken into account in reaching their decision and must be satisfied that:

- no overt means are suitable for the purpose
- the authorisation is for a prescribed lawful purpose
- account has been taken of the likely degree of intrusion into the privacy of persons other than those directly implicated/targeted in the operation or investigation (collateral intrusion)
- measures are being taken, wherever practicable, to avoid unnecessary intrusion into the lives of those affected by collateral intrusion
- the authorisation is necessary
- the proposed surveillance is proportionate and any equipment to be used is specified.

Necessity

Surveillance operations shall only be undertaken where there is no reasonable and effective alternative way of achieving the desired objective(s).

Effectiveness

Surveillance operations shall be undertaken only by suitably trained or experienced employees (or under their direct supervision). The Authorising Officer will determine which employees are to be involved in an operation and ensure that they are suitably trained.

Proportionality

The use of surveillance shall not be in excess but shall be in proportion to the significance/harm of the matter being investigated. Consideration of proportionality will be based on the factors set out in the Definitions section of this policy.

Authorisation

All directed surveillance shall be authorised in accordance with this procedure. Care must be taken by Authorising Officers to ensure that each authorisation is completed in its entirety by them, and in handwriting.

DURATION TIME OF AUTHORISATIONS

Authorisations

Written authorisations for directed surveillance expire after 3 months, starting on the day from which they took effect.

Written authorisations for the use of a CHIS expire after 12 months beginning on the day on which they took effect, except for a juvenile CHIS where the expiry period will be 4 months.

Renewals

If at any time before an authorisation expires, an Authorising Officer considers it necessary for the authorisation to continue for the purpose for which it was given, it may be renewed in writing for a further period of 3 months for directed surveillance of 12 months for a CHIS (or 4 months for a juvenile CHIS), in each case starting on the day on which the previous authorisation ceases to have effect. Applications should only be made approximately two weeks before the authorisation is due to expire, as this will allow time for a magistrate's approval to be sought. In the case of a CHIS, a review must be carried out immediately beforehand.

Authorising Officers may renew authorisations more than once, provided they continue to meet the criteria for authorisation.

Renewals must be approved by a magistrate.

Review

Authorising Officers shall review all authorisations at regular intervals or not more than one month. In the case of a CHIS the review shall be as frequently as considered necessary and practicable and include: the use made of the source during the period authorised, the tasks given to the source and the information obtained. Details of the review and the decision reached shall be noted on the original application.

Cancellation

Authorising Officers must cancel an authorisation if they are satisfied that the need for it no longer satisfies the criteria for authorisation or, additionally in the case of a CHIS, that satisfactory arrangements for the source's case no longer exist. Where necessary, the safety and welfare of the CHIS shall continue to be taken into account after the authorisation has been cancelled.

SAFEGUARDS (including privileged or confidential information)

The Council must ensure that any information it obtains through surveillance (or via a CHIS) is handled in accordance with the safeguards the Council has put in place, any relevant frameworks (such as data protection), and the Home Office Codes.

Dissemination, copying and retention of material must be limited to the minimum necessary for authorised purposes. Something is necessary for the authorised purposes where the material:

(a) is (or is likely to become) necessary for the surveillance purposes set out in the legislation;
(b) is necessary for facilitating the carrying out of the functions of the Council under the surveillance legislation;

(c) is necessary for facilitating the carrying out of any functions of the Commissioner or Investigatory Powers Tribunal;

(d) is necessary for the purposes of legal proceedings; or

(e) is necessary for the performance of the functions of any person by or under any enactment.

When information obtained under a surveillance authorisation is used evidentially, the Council should be able to demonstrate how the evidence has been obtained, to the extent required by the relevant rules of evidence and disclosure.

Where the product of surveillance could be relevant to pending or future criminal or civil proceedings, it should be retained in accordance with established disclosure requirements.

All information and material obtained through surveillance and all copies, extracts or summaries must be stored securely to minimise the risk of theft or loss. Only those with appropriate legal authority and security clearance should be able to access the information.

The Council will ensure that it has in place:

(a) physical security to protect premises where the information is stored or can be accessed;

(b) IT security to minimise risk around unauthorised access to IT systems;

(c) An appropriate security clearance regime to provide assurance that those who have access to the information are reliable and trustworthy.

SOCIAL MEDIA

RIPA implications must be considered in relation to the use of social media sites (such as Twitter and Facebook) for gathering evidence to assist in enforcement activities, as set out below:

- officers must not create a false identity in order to 'befriend' individuals on social media networks without authorisation under RIPA

- officers viewing an individual’s public profile on a social media network should do so only to the minimum degree necessary and proportionate in order to obtain evidence to support or refute the suspicions or allegations under investigation
- repeated viewing of open profiles on social media networks to gather evidence or to monitor an individual’s status, must only take place once RIPA authorisation has been obtained
- officers should be aware that it may not be possible to verify the accuracy of information on social media networks and, if such information is to be used as evidence, take reasonable steps to ensure its validity.

RECORD KEEPING, TRAINING AND MONITORING

Security and Retention of Records

Each service or discrete location within a service which makes use of RIPA must maintain a record of all applications for authorisations (including refusals), renewals, reviews and cancellations on the appropriate forms. Each individual form will be given a unique central reference number by the RIPA Monitoring Officer, although services may also allocate their own investigation or operation numbers as well. The unique central reference number should follow on in sequential order from the used for previous forms. The lead officer in each service responsible for the investigation or operation will maintain progress record sheets for directed surveillance and CHISs.

Documents created under this procedure are confidential and shall be treated as such. Services shall make appropriate arrangements for their retention, security and destruction in accordance with RIPA and the codes of practice. In the case of a CHIS, special care will be taken to preserve the confidentiality of any source and information provided by them.

The Authorising Officer shall retain, together, the original authorisation, review and renewal forms until cancelled. On cancellation, the original forms and any associated documents shall be retained in a secure place for at least 5 years after cancellation.

All completed RIPA forms must be submitted to the RIPA Monitoring Officer as soon as possible, and in any event, within 7 days of their completion. This will include forms which have resulted in an authorisation being refused.

Training

The RIPA Monitoring Officer will be responsible for ensuring that RIPA training for the Senior Responsible Officer and Authorising Officer takes place and must retain a record of all training undertaken. Refresher training will be provided at intervals of no more than 2 years.

Central Register

The RIPA Monitoring Officer will maintain the central register of authorisations. Authorising Officers shall notify the RIPA Monitoring Officer as soon as reasonably practicable of the grant, renewal and cancellation of any authorisation and the name of the applicant officer to ensure the accuracy of the central register. They shall send on a regular monthly basis a signed and dated photocopy of any authorisation (including refusals), renewals, reviews and cancellation forms for directed surveillance and similarly for those for the use of a CHIS.

The RIPA Monitoring Officer

The Council has designated an officer to act as the RIPA Monitoring Officer (currently the Head of Strategic Support). The RIPA Monitoring Officer will have responsibility for keeping an oversight of the Council's RIPA administration arrangements, and in particular:

- for organising RIPA training within the Council,
- raising awareness of RIPA and its regulatory framework amongst officers and Members, for example by maintaining appropriate guidance on the Intranet and by publishing articles about RIPA in internal publications,
- maintaining the Central Record of Authorisations, and
- Examining submitted RIPA documents to ensure they are of the required standard.

The Senior Responsible Officer

The Council has designated the Strategic Director of Corporate Services to act as the Senior Responsible Officer, who is responsible for:

- the integrity of the process in place within the Council for the management of CHIS and Directed Surveillance;
- compliance with Part 2 of the Act and with the Codes;
- engagement with the IPCO inspectors when they conduct their inspections, where applicable; and
- where necessary, oversight of the implementation of post-inspection action plans approved by the relevant oversight Commissioner.

The Authorising Officers

The Council's designated authorising officers are:

- Chief Executive
- Strategic Director of Corporate Services
- Head of Customer Experience, and
- Head of Neighbourhoods and Communities.

Elected Members

Elected Members:

- should review the Authority's use of the RIPA and set the policy at least once a year,
- should also consider reports on the use of RIPA Act on at least a quarterly basis to ensure that is it being used consistently with the policy and the policy remains fit for purpose,
- they should not however be involved in making decisions on specific authorisations.

The Investigatory Powers Commissioner’s Office (IPCO)

The IPCO provides an independent overview of RIPA powers. This scrutiny includes inspection visits to local authorities by inspectors appointed by the IPCO.

RIPA established an independent tribunal. This tribunal has full powers to investigate and decide any cases within its jurisdiction.

The Council will ensure that copies of the Tribunal’s information sheet, their complaint form and their Human Rights Act claim form will be made available at the Council’s main offices. These and the relevant codes of practice produced by the Home Office will be made available on the Council’s intranet.

ADVICE

Further advice about covert surveillance will be provided by the RIPA Monitoring Officer. In particular, advice should be sought before considering the use of a CHIS where the considerations of risk assessment, duty of care and safeguarding responsibilities, insurance, managing the source and ensuring confidentiality require specific consideration.

FURTHER INFORMATION AND ENQUIRIES

The RIPA Monitoring Officer is the first point of contact on any of the matters raised in this policy statement. Enquiries should be addressed to:

The RIPA Monitoring Officer
Head of Strategic Support
Charnwood Borough Council
Southfields Road
Loughborough
LE11 2TX

Tel: (01509) 634573

The RIPA Monitoring Officer will be responsible for dealing with all internal and external enquiries.

HOME OFFICE CODES OF PRACTICE

The Home Office have produced Codes of Practice which give guidance on the use of covert surveillance and covert human intelligence sources by public authorities under part 2 of RIPA 2000. They are available via the following link:

https://www.gov.uk/government/publications/covert-surveillance-and-covert-human-intelligence-sources-codes-of-practice

COMPLAINTS

Any complaints relating to the Council's use of RIPA or the application of this policy statement should be in writing, dated and include details of the complaint and also an account of the nature of the problem, and should be sent to:

The Chief Executive
Charnwood Borough Council
Southfields Road
Loughborough
LE11 2TX

The Council will attempt to complete internal investigations within 20 working days. An acknowledgement of the complaint will be sent as soon as possible after its receipt.

IPCO
Investigatory Powers
Commissioner's Office

PO Box 29105, London
SW1V 1ZU

Mr Robert Mitchell
Chief Executive
Charnwood Borough Council
Southfield Rd
Loughborough
LE11 2TN

Rob.Mitchell@charnwood.gov.uk

2 September 2021

Dear Mr Mitchell,

Inspection of Charnwood Borough Council

Please be aware that IPCO is not a "public authority" for the purpose of the Freedom of Information Act (FOIA) and therefore falls outside the reach of the FOIA. It is appreciated that local authorities are subject to the FOIA and that they may receive requests for disclosure of our reports. In the first instance the SRO should bring the matter to the attention of the IPCO Data Protection Officer (at: info@ipco.org.uk), before making any disclosure. This is also the case if you wish to make the content of this letter publicly available.

Your Council was recently the subject of a virtual inspection by one of my Inspectors, REDACTED . I am grateful to Mr Adrian Ward, your Head of Strategic Support and RIPA Monitoring Officer, for taking the lead in this discussion and providing all the relevant documentation. Mr Simon Jackson, your Strategic Director for Environmental Services also joined the discussion in his capacity as RIPA Senior Responsible Officer (SRO).

As a result of the inspection REDACTED has made a number of recommendations which are detailed below, and I would be grateful if they could be addressed at the earliest opportunity:

<u>Covert Surveillance Policy</u>

Your policy has recently been presented to and agreed by Elected Members, which is good to see. The policy is generally well written and covers many of the required elements well. As the key reference point for staff considering whether any proposed activity requires authorisation under RIPA, you may wish to follow the route that many councils have taken by including simple flow charts which guide the reader through the initial considerations, application process and include any necessary signposting.

While your policy recognises the impact of the IP Act and the existence of IPCO, there are still several references to one of its precursor organisations (OSC) which should be removed. Authorisation periods are included in the policy but the variation when considering the authorisation of a Juvenile Covert Human Intelligence Source should also be made clear.

Data Assurance

In the absence of any surveillance product, the inspection sought reassurance that the necessary measures were in place to manage such product should it ever be captured. Your current policy refers to the management of product and surveillance records but does not cover all the safeguarding requirements outlined in the current Home Office Codes of Practice for surveillance and CHIS. Your RIPA policy should be amended to reflect those requirements, and you may consider an addition to your Central Record to monitor the management of any such product.

Senior Responsible Officer

Mr Jackson seems aware of his responsibility as SRO but by his own admission, very much relies on Mr Ward to manage any RIPA related enquiries and issues, while his priorities lay elsewhere. Mr Ward has provided reassurance that any identified issues will be escalated appropriately to the SRO, aided by the fact that Mr Jackson is his immediate line manager. It is somewhat concerning that internally, beyond Mr Ward, there is little knowledge of RIPA across the organisation, which adds weight to the next paragraph.

Training and awareness

I note you have not conducted any training for some time. While this is not ideal, I do understand that training budgets are somewhat limited and bearing in mind Charnwood Borough Council has not conducted any RIPA activity in recent times, RIPA training could easily slip down the list of priorities. That said, many RIPA errors occur because of the lack of knowledge, and therefore some method of raising awareness across the organisation should be implemented. This would seem to have been highlighted by a recent letter received in my Office from one of your Elected Members. The letter not only highlighted a lack of awareness of the legislation but more importantly, a lack of understanding of where to go to seek advice internally. The letter was nonetheless responded to accordingly and the appropriate advice given.

In conclusion, although your Council is a limited user of its surveillance powers, I take the opportunity here to reiterate to you the importance of regular, ongoing internal oversight of the actual or potential use of these powers, which should be managed through your Senior Responsible Officer.

I hope that you find this letter to be helpful and constructive. My Office is available to you should you have any queries following the recent inspection, or at any point in the future. Contact details are provided at the foot of this letter.

I shall be grateful if you would acknowledge receipt of the report within two months and let me know your plans in regard to the compliance matters identified herein.

Yours sincerely,

SIGNATURE REDACTED

The Rt. Hon. Sir Brian Leveson
The Investigatory Powers Commissioner