

Audit and
Governance
Committee

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27 January 2023

To All Members of the Audit and
Governance Committee,
Internal and External Circulation and
Press

**PLEASE NOTE: THE MEETING WILL BE HELD IN THE HUB, MAREHAM
ROAD, HORNCastle, LINCOLNSHIRE LN9 6PH**

Dear Councillor,

**Re: Audit and Governance Committee Agenda - Wednesday, 1st
February, 2023**

Further to the compilation of the above Audit and Governance Committee
Agenda, please find enclosed the following report which was detailed to follow on
your Agenda:

Agenda Item 8. Annual Budget Report, Medium Term Financial Strategy,
Financial Strategies & Council Tax: (Pages 1 - 78)

To receive a report from the Section 151 Officer.

Please accept my apologies for any inconvenience caused.

Yours sincerely,



Senior Democratic Services Officer

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REPORT TO:	Audit and Governance Committee
DATE:	1st February 2023
SUBJECT:	Annual Budget Report, Medium Term Financial Strategy, Financial Strategies & Council Tax
PURPOSE:	To consider the Draft Budget for 2023/24 and Treasury Management Policy and Strategy
KEY DECISION:	No
PORTFOLIO HOLDER:	Councillor Richard Fry
REPORT OF:	Christine Marshall, Deputy Chief Executive Corporate Development
REPORT AUTHOR:	Steven Houchin, Chief Finance Officer- Public Sector Partnership Services Ltd Samantha Knowles – Assistant Director – Finance
WARD(S) AFFECTED:	All
EXEMPT REPORT?	No

SUMMARY

This report sets out the draft budget at Appendix A including the areas of pressure that will be considered as part of this year's budget setting process, the details of the Councils Provisional Funding Settlement and the proposed level of Council Tax for 2023/24.

The Treasury Management Policy and Draft Strategy Statement for the 2023/24 financial year is also included as Appendix B to the report.

Both are required to be submitted to Audit and Governance Committee for scrutiny prior to submission to Executive Board and Council.

Audit and Governance Committee is asked to consider the attached report.

RECOMMENDATIONS

That the Audit and Governance Committee scrutinise the Budget Report (**Appendix A**) and Treasury Management Policy (**Appendix B1**) and the Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy 2023/24 (**Appendix B2**) and

make any comments and suggestions for consideration by Executive Board on 15 February 2023 and Council on 1 March 2023 when they consider these documents as part of the budget report.

REASONS FOR RECOMMENDATIONS

To comply with the budgetary and policy framework.

OTHER OPTIONS CONSIDERED

It is best practice to consult with scrutiny as part of the budget setting process. No other options were considered.

1. BACKGROUND

- 1.1. This year's budget is being set within a background of unprecedented inflationary pressures and significant changes in resident, customer and business needs. Despite these challenges the Councils financial position means that it is well placed and able to take a considered approach to mitigating these exceptional challenges. In addition, the Council has been and continues to be successful in drawing in significant capital and revenue investment for the area.
- 1.2. Due to the complex financial environment specific elements of the budget at Appendix A are still being finalised as certain budgets are reviewed with the latest information available including a complete review of the Capital programme and its profiling.
- 1.3. The report also includes as Appendix B Treasury Management Statements, Strategy and Policies for the Committees consideration.

2. KEY BUDGET PRESSURES

- 2.1 Identified below are major changes and key pressures that are being included within the proposed budget:
 - 2.1.1 A pay award for 2022/23 was agreed in November 2022 averaging 5% across the pay spine. For 2023/24 a 5% award has been assumed, this allowance will be held corporately and adjusted to any savings target should it be settled at a lower level. This is one of the most significant impacts in the budget.
 - 2.1.2 Pension contributions will be 23.8% in 2023/24 with an additional lump sum amount payable towards the deficit on the pension scheme. This rate is applied only to those staff in the local government pension scheme. The pension contribution rate is assumed to stay at 23.8% throughout the life of the MTFs. The lump sum towards the deficit is confirmed for 2023/24.
 - 2.1.3 The return on cash investment reflects recent increases to Bank of England base rates which has increased significantly from the recent historic low levels. A further meeting of the MPC is on Thursday 2nd February.

- 2.1.4 Electricity and gas costs have been inflated for 2023/24, as a result of increased wholesale prices.
- 2.1.5 Vehicle fuel costs have also experienced inflationary pressures.
- 2.1.6 Increased contract and service costs are similarly a feature of the budget, albeit officers and members are working closely to seek to manage these implications and impacts, these include:
 - Increased demand for homelessness support;
 - External audit fees;
 - External contracts pay and inflation pressures.

3 COUNCIL TAX AND BUSINESS RATES

- 3.1 The previous Medium Terms Financial Strategy (MTFS) committed to a Council Tax increase in line with the maximum allowed under the recent Local Government Settlement for ELDC in 2023/24 this is a £4.95 (3.16%) per annum increase (for band D properties). This will generate additional income of £321k and the increase is reflected through the life of the MTFS.
- 3.2 The tax base projections for 2023/24 indicate growth of 584 band D equivalent properties (1.28%). Future growth has been projected at 1.5%.
- 3.3 Business Rates information for 2023/24 has only just been made available and is now being reviewed. This was more complex this year due to a number of changes, including the inflation measure used to increase the local government funding amount within the Settlement Funding Amount using the CPI September indicator 10.2% instead of the RPI September Indicator (12.6%).
- 3.4 The National Non-Domestic Rates Form (NNDR1) production is now particularly important in terms of changes to the business rate yield which heavily influences not just our own budgets, but also the Pool we are part of within Lincolnshire and significantly the County Council. This is an area of focus as we seek to understand the changes within the yield, particularly as a result of Covid and changes as a result of the Business Rate Revaluation 2023.
- 3.5 In order to manage and review this important income stream and the changes within it regular review meetings are taking place internally.

4 LOCAL GOVERNMENT SETTLEMENT

4.1 The provisional local government settlement delivered on 19th December 2022 provided the following support:

Local Government Provisional Settlement Information	East Lindsey District Council		
	2022/23 Budget	2023/24 Provisional Settlement	Difference 22/23-23/24
	£'000	£'000	£'000
Revenue Support Grant	964	1,310	346
Rural Services Delivery grant	697	697	0
Lower Tier Services Grant	281	0	-281
Service Grant	424	239	-185
Sub Total	2,366	2,246	-120
Funding Guarantee (3%)	0	980	980
Sub Total	2366	3226	860
New Home Bonus	1,244	378	-866
Total Funding	3,610	3,604	-6

4.2 The 2023/24 local government finance settlement is for one year only and is based on the Spending Review 2021 (SR21) funding levels, updated for the 2022 Autumn Statement announcements. The main points are set out below:

- 4.2.1 The Funding Guarantee replaces the Lower Tier Services Grant. This grant is intended to provide a funding floor for all local authorities, so that no local authority would see an increase in Core Spending Power that is lower than 3% before any decisions about organisational efficiencies, use of reserves or council tax levels are taken.
- 4.2.2 Revenue Support Grant has been increased in line with what would have been the increase to the multiplier; there have also been existing grants worth rolled into the RSG amounts.
- 4.2.3 Local Government Funding Reform – as per the published Policy Statement, the Review of Relative Needs and Resources ('Fair Funding Review') and a reset of Business Rates growth will not be implemented in the next two years.

5 INTERNAL DRAINAGE BOARDS

5.1 Internal Drainage Board (IDB) levy figures are in the process of being finalised and are expected to be very substantial increases on previous years due to the extensive use of power and fuel for the activities that these organisations undertake, along with other pressures. The 2022/23 cost is £3.9m and a number of increases have been indicated, ranging from 8% to 30% for next year.

5.2 The Council is liaising with the local Internal Drainage Boards who have been trying to limit future increases, where possible, but proving impossible with the pressures from power costs being experienced, particularly standing charges, in addition to pay, pension and contract inflation. Representations have been and continue to be made to government due to the substantial loss of income to the Council, as this was previously funded through Revenue Support Grant (RSG). This embedded levy can no longer be afforded having a significant impact, every year that passes, on the ability of the Council to finance the services it is providing and putting it at a disadvantage to the majority of Councils in England, with only a handful of councils impacted upon in this way.

5.3 The table below illustrates this point clearly. IDB levy will not only consume all of the Council's proposed increase for 23/24 which should be used to finance and support services but also require additional finance of £815k (estimate) to be identified.

Council	Total Council Tax Received per year 22/23	Total IDB levy per year 22/23	Proposed increase 23/24 (Estimate)	Council Tax 22/23 Increase 3%/£5 raises
East Lindsey District Council	£7.2m	£3.9m	£1,136k	£321k

5.4 The Council has been in detailed discussion and government officers regards this position over the past year. We are also aware that the IDBs have made extensive representations to DEFRA and via ADA of this significant issue. A meeting with the Minister has now taken place and we await a response on this key issue.

6 BALANCING THE BUDGET

6.1 In terms of balancing the budget the following areas have been considered as part of the budget setting process:

Short Term

- The potential use of reserves to support one off pressure and for invest to save initiatives.
- Use of the New Homes Bonus to support service efficiencies whilst medium term activity is actioned.
- Continued work to engage on the Internal Drainage Board financing challenge.
- Review of all new pressures and service budgets to consider efficiency opportunities and alternative options.

Medium Term

- Work with PSPS in terms of its transformation plans for the future and to help finance contract cost pressures.
- Driving transformational change using the SELCP sub-regional partnership as a driver for innovation and efficiency.
- Reviewing all assets to maximise income and efficiency of use.

- Delivering and supporting economic growth
- Reviews of fees and charges in light of inflationary increases in costs, where appropriate.

6.2 Detailed efficiency and transformation plans are being put together for members consideration.

7. TREASURY MANAGEMENT

7.1 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 this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

7.2 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 management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

7.3 CIPFA defines treasury management as:

“The management of the local authority's borrowing, investments and cash flows, including 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.”

7.4 There are no proposed changes to the Treasury Management Policy Statement in **Appendix B1**, and it is attached for completeness.

7.5 Council is required to set out its Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy for the forthcoming year. These outline the Council's strategy for borrowing and its policies for managing its investments and for giving priority to the security and liquidity of those investments. Our strategy statements for 2022/23 are attached at **Appendix B2**. The strategy statements cover:

- reporting requirements
- capital prudential indicators 2022/23 to 2027/28
- the borrowing requirement
- the MRP policy
- the use of the Council's resources and the investment position
- prudential and treasury indicators
- treasury limits in force which will limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling

- the investment policy
- creditworthiness policy
- country limits
- investment strategy

7.6 The strategy document presented to Audit and Governance for scrutiny is currently at draft stage. This is because the future Capital Programme has yet to be finalised and approved by Council. Once this is known the tables within the strategy document shown at **Appendix B2** will be amended and considered by Executive Board prior to submission to Council for approval before the commencement of the 2023/24 financial year.

7.7 The Council's strategy statement has been prepared in accordance with the revised CIPFA Treasury Management Code and will require approval by Full Council. In addition, there will be Quarterly and Mid-Year Treasury Reports and an Annual Report submitted to Governance and Audit Committee. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

8 CONCLUSION

8.1 Work is still underway on the budget working with our key Partner in the provision of this service, PSPS Ltd, as figures are still being finalised and reviewed.

EXPECTED BENEFITS TO THE PARTNERSHIP

This report enables East Lindsey District Council to consult on its budget the level of Council Tax for 2023/24 and key strategies.

IMPLICATIONS

SOUTH AND EAST LINCOLNSHIRE COUNCIL'S PARTNERSHIP

None

CORPORATE PRIORITIES

None

STAFFING

The Equality Act requires ELDC to consider any equality impacts in relation to staff from these plans. As projects within the programme are developed a draft impact assessment will be discussed with Trades Unions and staff, and especially as individual projects are delivered.

CONSTITUTIONAL AND LEGAL IMPLICATIONS

This report is required by virtue of the Local Government Finance Act 1992, as amended by the Localism Act 2011.

DATA PROTECTION

None

FINANCIAL

None

RISK MANAGEMENT

Done

STAKEHOLDER / CONSULTATION / TIMESCALES

The Council has a legal duty to consult residents on its draft budget proposals. Views expressed during the consultation period will be included within the financial budget setting report.

REPUTATION

None

CONTRACTS

None

CRIME AND DISORDER

None

EQUALITY AND DIVERSITY/ HUMAN RIGHTS/ SAFEGUARDING

New Equality Impact Assessments will be developed and published wherever these are required and will be made available during the management and decision-making of the Programme.

HEALTH AND WELL BEING

None

CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

None

ACRONYMS

ADA – Association of Drainage Authorities

IDB – Internal Drainage Board

APPENDICES

Appendix A – Draft Budget

Appendix B1 – Treasury Management Policy

Appendix B2 – Treasury Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy 2022/23

BACKGROUND PAPERS

None

CHRONOLOGICAL HISTORY OF THIS REPORTExecutive Board – 11th January 2023**REPORT APPROVAL**

Report author:	Samantha Knowles, Assistant Director Finance sknowles@sholland.gov.uk Steven Houchin, Chief Finance Officer, Public Sector Partnership Services Ltd Steven.Houchin@PSPSL.co.uk
Signed off by:	Christine Marshall, Deputy Chief Executive Corporate Development Christine.Marshall@sholland.gov.uk
Approved for publication:	Councillor Richard Fry, Portfolio Holder for Finance

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East Lindsey

DISTRICT COUNCIL

EAST LINDSEY DISTRICT COUNCIL

**REPORT OF RICHARD FRY, EXECUTIVE MEMBER FOR FINANCE
(Authors: Christine Marshall (Deputy Chief Executive Corporate Development) and
Samantha Knowles (Assistant Director - Finance))**

BUDGET SETTING REPORT AND ASSOCIATED FINANCIAL STRATEGIES - 2023/24-2027/28

FOR CONSULTATION

APPENDIX A

FOREWORD TO THE BUDGET FROM COUNCILLOR RICHARD FRY – EXECUTIVE BOARD MEMBER FOR FINANCE

The creation of next year's budget has been most challenging. It has been set within a background of unprecedented inflationary pressures and significant changes in resident, customer and business needs. Despite these challenges, the Council's financial position means that it is well placed and able to take a considered approach to mitigating these exceptional challenges.

The Government has provided a one-year settlement which has taken some uncertainty away regarding certain grants, however, the uncertainty remains significant and into the medium-term.

East Lindsey District Council remains sovereign in terms of its constitution and budget, as do the Councils we partner with, and our ELDC priorities are to ensure that the Council remains financially resilient, able to deliver services it has to by law, and to provide support to the District's most vulnerable residents. Secondly, to continue the process of redressing the imbalances created by the COVID-19 pandemic by appropriately focussing on the provision of financial support to underpin economic recovery for the District and seeking to invest in our places.

Despite the challenges of the pandemic over the past few years, work to develop new opportunities, efficiencies and income streams to support the Council's revenue budget have continued.

A significant element of the Council's budget is the Drainage Board Levy. Like the Council, the drainage boards are also experiencing increased cost demands. The Council is liaising with the Boards, who are attempting to limit future increases, where possible. This is proving increasingly difficult with significant increases in power costs being experienced. Representations to government have been made and continue to be made due to the substantial loss of income to the Council (as the levy was previously funded through Revenue Support Grant (RSG) but this is no longer the case).

Another key component of the council's budget is its share of business rates income which is currently being reviewed and will be updated before the budget is finalised. In addition, inflationary pressures have been seen across all areas of the council's budget, particularly pay, contracts, utilities and fuel.

The proposed council tax increase for 2023/24 is an annual increase of £4.95 for a band D property.

A series of short and medium term mitigations have been identified to balance the budget and these will be detailed further once the final budget for 2023/24 is produced.

APPENDIX A

The Council's revenue budget already provides for some annual contributions towards capital investment and we are delivering on our commitment to increase these by operating in a more commercial and business-like way to increase our ability to generate future capital receipts.

The Council has maintained a capital resource base commensurate with our capital delivery ambitions.

The Budget for 2023/24 proposes:

- A Council Tax increase of £4.95p per year (for Band D homes this is equivalent to 9.5p per week).
- To continue with the generation of additional efficiencies, shared services and income from commercial activities guided by our Delivery Plans.
- Increased capital investment in Council assets to help generate new income streams, reduce running costs and help deliver services more efficiently.



Councillor Richard Fry, Portfolio Holder for Finance

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EXECUTIVE SUMMARY

	2022/23 (estimate)	2023/24 (estimate)
ELDC Precept	£7.175m	£7.496m
Council Tax Increase	3.26%	3.16%
Council Tax Band D	£156.69	£161.64
Revenue Support Grant	£0.964m	£1.310m
Retained Business Rates used to support budget	£9.596m	£9.596m*
Reserves (as at 1 April)	£24.572m	**
Capital Programme (as at 1 April)	£53.162m	**

*Business rates income will be updated once the NNDR return is completed, current assumption is based on 2022/23.

**The Reserve and Capital Programme are under review and will be detailed as part of the final budget papers and the investment income levels / NNDR1 are part of that process.

1. INTRODUCTION

- 1.1 This Appendix sets out the draft combined 2023/24 budget estimates and Medium Term Financial Strategy (MTFS) for the period 2023/24 to 2027/28 for the Council's General Fund. The Medium Term Strategy sets out the current and forecast future costs of the Council and is linked to the Corporate Plan and Delivery Plan, which sets out the aims and ambitions of the Council.
- 1.2 The MTFS establishes a set of financial policies and principles which aim to provide a sound basis for maintaining the financial integrity of the Council over the medium term.
- 1.3 This Appendix sets out:
- The Council's Medium Term Financial Strategy for the period 2023/24 to 2027/28.
 - The 2023/24 General Fund Revenue Budget & Financing.
 - The General Fund Reserves Position (subject to finalisation).
 - The General Fund Capital Programme and Financing (subject to finalisation).
 - Risks, key issues, sensitivity and monitoring.
 - Treasury Management Policy and Investment Strategy (to follow in final budget report).

APPENDIX A

- 1.4 The unprecedented challenges faced by all of us in 2021/22 and 2022/23 have continued into 2023/24, with significant inflationary pressures. The government settlement delivered in mid-December for East Lindsey included New Homes Bonus (£378k) and a 3% funding guarantee (£980k).
- 1.5 In 2023/24, a budget is proposed that allows expenditure to be financed using reserves and creation of efficiencies and appropriate funding in order to smooth the impact of the council's ongoing pressure. Significant savings are required going forward as a result of increased inflationary costs and other cost pressures, including substantial pressure from the IDB levy. This means that the Council can continue to provide services whilst also supporting its overall objectives. The Council will continue to strive to be as efficient as possible in all its work, building on the South and East Lincolnshire Council's Partnership with its partners at South Holland District Council, Boston Borough Council and PSPS, whilst ensuring it maximises the income it receives.

2. BUDGET ASSUMPTIONS

2.1 Table 1 - Assumptions Which Influence The 5 Year Financial Strategy

Assumption	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Budgeted inflation ¹	0%	0%	0%	0%	0%	0%
Pay costs increase ²	2%	5%	2%	2%	2%	2%
Full Time Equivalent Employees ³	408.5	424.41	424.41	424.41	424.41	424.41
Staffing levels ⁴	99%	96%	96%	96%	96%	96%
Pension contribution rate applied to staff budgeted in pension scheme ⁵	17.50%	23.80%	23.80%	23.80%	23.80%	23.80%
Pension contribution cash amount to fund deficit on scheme ⁵	£1,067,000	£649,000	£674,000	£700,000	£700,000	£700,000
Return on cash investments ⁶	0.48%	3.90%	2.80%	2.10%	2.00%	2.30%
Return on property fund investments ⁶	3.81%	3.10%	3.10%	3.10%	3.10%	3.10%
Utility cost rises - electricity ⁷	30%	50%	0%	0%	0%	0%
Fuel cost rises ⁸	0%	25%	0%	0%	0%	0%

APPENDIX A

Tax base increase ⁹	1.61%	1.28%	1.50%	1.50%	1.50%	1.50%
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Notes to Assumptions

These assumptions reflect, where known, future changes which may arise from the implementation of the council's organisational development plans including the South and East Lincolnshire Councils Partnership with Boston Borough Council and South Holland District Council (see Section 10).

1. Although inflation does affect the price of supplies and services that the Council procures, because services are given cash limited budgets, they are required to absorb the cost of inflation within the resources they have. As such, the net impact of inflation is reduced to zero within the estimates. The only exceptions are those contracts which have an agreed inflationary arrangement built into them.
2. The nationally agreed pay award ended on 31st March 2022. An award for 2022/23 was agreed in November 2022 averaging 5% across the pay spine. For 2023/24, a 5% award has been prudently assumed.
3. Increase in FTE is as a result of Fixed Term contracts and transferred posts from previous shared arrangements.
4. An annual General Fund saving in staff costs (£660k) is built into the budget (equivalent to 4% of the staff budget) due to anticipated staff vacancies during the year.
5. Based on the Pension Triennial Valuation the pension contribution will be 23.8% in 2023/24 with an additional lump sum amount payable towards the deficit on the pension scheme – this rate is applied only to those staff in the local government pension scheme. A further review will take place which could change the amount from 2027/28 onwards. Any vacant posts are assumed to be within the pension scheme. The pension contribution rate is assumed to stay at 23.8% throughout the life of the MTFs. The lump sum towards the deficit is confirmed for 2023/24.
6. These are the estimated returns on cash investments and the estimated yield on the current budgeted £25m property funds (subject to further review).
7. Utility costs have been inflated by 50% for 2023/24 as a result of increased wholesale prices. These will need to be kept under review as it is an area that could be subject to future inflationary pressures.
8. Vehicle fuel costs are predicted to increase by 25% due to national trends.
9. The tax base projections for 2023/24 has provided for a growth of 584 band D equivalent properties. Future growth has been projected at 1.5% (see section 4.6 and Table 3).

3. RESOURCES

- 3.1 The following section of the report outlines the resources that will be available to the Council under 6 headings: Business Rates, Council Tax, Revenue Support Grant and other Government Grants, New Homes Bonus, Fees and Charges and Other Income.
- 3.2 On 19th December 2022 the Local Government Finance Settlement 2023/24 was delivered. The papers included a continuation of New Homes Bonus for 2023/24 and a new grant stream called Funding Guarantee, replacing the Lower Tier Service grant.
- 3.3 As part of the policy statement, it was confirmed there would be no review of business rates or funding formula for at least 2 years.
- 3.4 As a result of this announcement it makes planning the years from 2025/26 onwards very difficult as many things could change because of these planned reviews and resets. As and when further announcements are made Members will be kept up to date accordingly and the financial impact assessed.

4. SPENDING PLANS

- 4.1 Under the current arrangements for retained Business Rates, where a Council collects rates above an assessed baseline level set by the Government, a 50% levy is applied that is paid to the Government. In order to avoid this 50% levy a business rates pool was adopted with the County Council and other districts within Lincolnshire.
- 4.2 A revaluation exercise for business rates will take effect from 1 April 2023. The Council is expecting a number of appeals against the revaluation. A provision has been put aside based on intelligence from the Council's advisors to hopefully cover any effects from this but there still remains a large amount of uncertainty in this area.
- 4.3 Table 2 provides details of the anticipated business rates figures for 2023/24 and provisional figures for 2024/25 through to 2027/28.

APPENDIX A

- 4.4 It is important that members note that the potential changes to the retention of Business Rates from 2023/24 presents a significant uncertainty around future funding levels. It is very likely that as part of the ongoing reassessment of Area Needs the Government may significantly change the current baseline levels. As such, the current amount of retained business rates that the Council is experiencing could be significantly reduced under these new arrangements.

Table 2 – Business Rates (Subject to Review)

	2022/23 £'000	Estimate 2023/24 £'000	Draft 2024/25 £'000	Draft 2025/26 £'000	Draft 2026/27 £'000	Draft 2027/28 £'000
Retained Business Rates	(12,631)	(12,631)	(13,615)	(13,650)	(13,685)	(13,721)
S 31 Grants relating to Business Rates	(6,069)	(6,069)	(6,191)	(6,315)	(6,441)	(6,570)
Tariff	7,412	7,412	7,560	7,712	7,866	8,023
Pre- levy income	(11,288)	(11,288)	(12,245)	(12,253)	(12,260)	(12,268)
Levy payment to Lincolnshire Pool	677	677	643	608	572	536
Estimated (Surplus)/Deficit on Collection Fund*	6,985	-	-	-	-	-
Net Retained Business Rates Income	(3,626)	(10,611)	(11,603)	(11,645)	(11,688)	(11,732)
Net gain to ELDC from the Pool, and 100% business rates retention pilot in 18/19 contributed to the Economic Growth Reserve	1,015	1,015	964	911	858	804
Business rates used to support the budget	(2,611)	(9,596)	(10,639)	(10,733)	(10,830)	(10,928)

*The unusually high deficit is mainly as a result of retail reliefs granted to businesses because of the COVID-19 pandemic. These reliefs have been fully funded by the government and the income received in 2020/21 and 2021/22 therefore is covered by a reserve contribution shown in table 8.

APPENDIX A

4.5 As well as the potential for the authority to attract additional income through retained business rates there is also the risk of uncertainty through a reduction in the amount of business rates that it collects, this has been further exacerbated by the COVID-19 pandemic. This coupled with uncertainties relating to appeals against rateable values for business premises, with the potential for successful appeals being backdated makes estimating income accurately extremely challenging and potentially volatile.

Council Tax

4.6 The MTFs assumes a Council Tax increase in line with the maximum allowed under the Local Government Settlement. In the case of ELDC for 2023/24 this is a £4.95 (3.16%) per annum increase (for band D properties). The increase is reflected through the life of the MTFs. See Table 3 for the estimated changes in the tax base and council tax collected.

Table 3 – Council Tax

		2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
a	Council Tax Base (band D equivalents)	45,793	46,377	47,073	47,779	48,495	49,223
b	Council Tax band D (£.p)	156.69	161.64	166.59	171.54	176.49	181.44
	Annual Increase £	4.95	4.95	4.95	4.95	4.95	4.95
	Annual Increase %	3.26%	3.16%	3.06%	2.97%	2.89%	2.80%
c	Annual Council Tax collected(a x b) £	(7,175,305)	(7,496,378)	(7,841,724)	(8,195,838)	(8,558,883)	(8,930,840)
	Annual Increase in Council Tax collected £	(336,838)	(321,073)	(345,346)	(354,114)	(363,044)	(371,957)
d	Surplus on the Collection Fund £	(77,822)	(69,097)	-	-	-	-

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Gross Council tax (c + d) £	(7,253,127)	(7,565,475)	(7,841,724)	(8,195,838)	(8,558,883)	(8,930,840)
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- 4.7 The tax base for 2023/24 has been increased by 1.28% and by 1.5% per annum thereafter. This is based on the latest projected house building trajectory. The District's Council Tax remains one of the lowest in the country and the lowest in Lincolnshire.

Table 4 – Precepting Authority Band D Charges

Authority	Proposed Band D amount (£.p)	Increase over 2022/23 £	Increase over 2022/23 %
Lincolnshire County Council	TBC	TBC	TBC
Police and Crime Commissioner	TBC	TBC	TBC
East Lindsey DC	161.64	4.95	3.16
Parishes (average)	TBC	TBC	TBC

Revenue Support Grant and Other S31 Government Grants

- 4.8 The table below currently builds in the assumption that RSG will continue throughout the MTFs period until such time as we have more information regarding the outcome of the fairer funding review. Other than S31 grants for Business Rates (see table 2) the other main non-specific grants received by the Council relate to the Rural Services Delivery Grant (RSDG) and the newly announced Funding Guarantee grant. RSDG for 2023/24 is proposed to be £697k and the Funding Guarantee grant is £980k for 2023/24, the future of this grant into the longer term is not known however it now incorporates the previous Lower Tier Grant.

Table 5 - Revenue Support Grant and other Non-Specific S31 Government Grants

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	2022/23 £	2023/24 £	Draft 2024/25 £	Draft 2025/26 £	Draft 2026/27 £	Draft 2027/28 £
Revenue Support Grant	(964,253)	(1,310,000)	(1,310,000)	(1,310,000)	(1,310,000)	(1,310,000)
Rural Services Delivery Grant	(697,156)	(697,156)	(697,156)	(697,156)	(697,156)	(697,156)
2022/23 Services Grant	(424,036)	(239,000)	(239,000)	-	-	-
Lower Tier Services Grant	(275,918)	-	-	-	-	-
Funding Guarantee	-	(980,000)	(768,000)	-	-	-
Total Received	(2,361,363)	(3,226,156)	(3,014,156)	(2,007,156)	(2,007,156)	(2,007,156)
Annual Change in Resource	(467,184)	(864,793)	212,000	1,007,000	-	-

New Homes Bonus

- 4.9 New Homes Bonus (NHB) allocations were announced as part of the Local Government Finance Settlement for 2023/24 only as far as we are aware. The government has added a year of additional grant, as previously announced, the 2021/22 “in year” allocations did not have future years legacy payments nor has the 2023/24 allocation. If the scheme was to be continued in its current form, next year’s payment would reflect just the growth in the previous year.
- 4.10 The use of the NHB will be considered as part of the final budget setting process to offset one-off price increases.

Table 6 - New Homes Bonus

	2022/23 £'000	2023/24 £'000	Draft 2024/25 £'000	Draft 2025/26 £'000	Draft 2026/27 £'000

New Homes Bonus	(1,244)	(378)	-	-	-
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Fees and Charges

- 4.11 The Council is dependent on direct payment for many of its services in the form of various fees, charges and rents. Fees and charges play an important role in the effective delivery of services; they not only raise income but can also control access to services, help the council respond to competition, fund investment and guide client behaviour.
- 4.12 In some cases, the levels of fees are set by the Government and the Council has no control over what is charged. Where the Council has had control, it has not always increased these charges in line with inflation or other market conditions. Given future uncertainty around levels of government grant support and business rates income, the Council will have to develop policies for continually reviewing its fees and charges in order to maintain this income at current or higher levels. A review of fees and charges in light of inflationary pressures is currently underway and will be finalised as part of the budget setting process.

Table 7 - Fees, Charges and Rental Income (under review)

Budget Area	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Building Control Fees	(445)	(445)	(445)	(445)	(445)	(445)
Planning Fees (including pre-planning advice)	(1,571)	(1,571)	(1,571)	(1,571)	(1,571)	(1,571)
Car Parking Income	(3,305)	(3,490)	(3,490)	(3,490)	(3,490)	(3,490)
Market Stall Fees	(100)	(100)	(100)	(100)	(100)	(100)
Kingfisher Caravan Park	(1,020)	(1,054)	(1,054)	(1,054)	(1,054)	(1,054)
Waste Services	(1,468)	(1,424)	(1,424)	(1,424)	(1,424)	(1,424)

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Commercial property rental income	(2,149)	(2,208)	(2,208)	(2,208)	(2,208)	(2,208)
Sales, Fees and other Direct Income	(4,758)	(4,807)	(4,807)	(4,807)	(4,807)	(4,807)
TOTAL	(14,816)	(15,099)	(15,099)	(15,099)	(15,099)	(15,099)

Other Income

4.13 The Council also receives other forms of income, as shown in the following table.

Table 8 - Other Income

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Interest on Investments*	(1,305)	(2,400)	(1,723)	(1,292)	(1,230)	(1,415)
Use of Reserves	(18,994)	(1,485)	(537)	(547)	(450)	-
Housing Benefit Subsidy/ Universal Credit	(28,472)	(25,125)	(25,125)	(25,125)	(25,125)	(25,125)
Housing Benefit/Universal Credit Overpayments	(270)	(270)	(270)	(270)	(270)	(270)
Council Tax and Housing Benefit Administration Grant	(628)	(600)	(554)	(511)	(472)	(472)
Specific Government Grants	(80)	(64)	(64)	(64)	(64)	(64)
Court Income & Council Tax Penalties	(436)	(436)	(436)	(436)	(436)	(436)
Local Authority Grants including Disabled Facility Grants	(1,583)	(1,583)	(1,583)	(1,583)	(1,583)	(1,583)

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Other Government Grants (including Register of Electors, Discretionary Housing Payments, Flexible Homelessness grant, Homelessness Reduction new burdens grant and Towns Fund)	(39,930)	(40,074)	(1,085)	(1,085)	(1,085)	(1,085)
Other Grants and contributions	(2,016)	(2,226)	(941)	(921)	(921)	(921)
TOTAL	(93,714)	(74,263)	(32,318)	(31,834)	(31,636)	(31,371)

*Assumptions have been made on investment income levels due to a variety of factors

Use of Reserve values will change as and when new schemes are approved for inclusion within the programme.

Summary

Table 9 – All Sources of Income

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Business Rates	(3,626)	(10,611)	(11,602)	(11,645)	(11,688)	(11,733)
Revenue Support Grant	(964)	(1,310)	(1,310)	(1,310)	(1,310)	(1,310)
Lower Tier Services Grant	(276)	-	-	-	-	-
2022/23 Services Grant	(424)	(239)	(239)	-	-	-
Rural Services Delivery Grant	(697)	(697)	(697)	(697)	(697)	(697)
Core Spending Power (new)	-	(980)	(768)	-	-	-
New Homes Bonus	(1,244)	(378)	-	-	-	-
Council Tax	(7,253)	(7,565)	(7,842)	(8,196)	(8,559)	(8,931)
Funding subtotal	(14,484)	(21,780)	(22,458)	(21,848)	(22,254)	(22,671)
Fees, Charges, Rents	(14,816)	(15,099)	(15,099)	(15,099)	(15,099)	(15,099)
Other Income	(93,714)	(74,263)	(32,318)	(31,834)	(31,636)	(31,371)
Fees, Charges & Other Income subtotal	(108,530)	(89,362)	(47,417)	(46,933)	(46,735)	(46,470)

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Gross Budgeted Income	(123,014)	(111,142)	(69,875)	(68,781)	(68,989)	(69,141)
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4.14 There is uncertainty with regard to the reliability of estimates from 2024/25 onwards.

2022/23 SPENDING PLANS

4.15 Table 10 below shows the estimated Council spending plans for the next 5 years. It shows expenditure analysed by the CIPFA Standard classification. The paragraphs below the table provide explanations for the main variances across the MTFS.

Table 10 – Spending Plans

Description	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Employees	15,835	17,867	18,217	18,711	18,447	18,863
Premises	3,002	3,125	3,125	3,125	3,125	3,125
Transport	1,114	1,217	1,217	1,217	1,217	1,217
Supplies & Services	4,353	4,524	4,489	4,489	4,489	4,489
Drainage Board Levies	3,941	5,035	5,035	5,035	5,035	5,035
Transfer Payments	64,612	61,379	27,609	27,609	27,609	27,609
Capital Charges	16,596	7,900	1,875	1,875	1,875	1,425
Third Party Payments	9,041	10,005	10,009	10,006	10,003	9,973
Interest on Borrowing	495	495	495	495	495	495
Contributions to Reserves	4,710	2,018	1,385	1,327	340	133
Gross Expenditure	123,699	113,565	73,456	73,889	72,635	72,364

Employee costs have been prepared in accordance with the Council's Pay Policy. Pay generally has been increased by salary increments due to staff, and by an estimated 5% increase in 2023/24 and 2% thereafter. Pension cost estimates have been prepared on the basis of current staff in the pension scheme at October 2022, and all vacant posts assumed to be within the

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pension scheme. There have been some staffing changes which are mainly grant funded as a result of successful bidding to government departments. The employee costs also include the latest results of the Pension Triennial Review.

Premises budgets have increased in 2023/24. The main increase being the cost of utility wholesale increases in the price of gas and electricity. There has been an assumption of a 50% increase in the cost of utilities.

Transport costs have increased from 2022/23 levels due to the increase in fuel and additional maintenance costs associated with the vehicle fleet.

Supplies and Services budgets have increased slightly mainly due to increases in audit fees, banking charges, agreed increases in council contracts in relation to RPI, additional inflationary costs in Environmental services and Homelessness.

At a time of significant increases in rising energy cost it would be safe to assume that Internal Drainage Board (IDB) increases will be greater than in previous years. The Council is liaising with the local Internal Drainage Boards to work towards limiting future increases, where possible. Lobbying of government is also underway because of the impact of this loss of revenue to the Council due to the embedded levy having an impact every year that passes.

Transfer Payments – There is a reduction to reflect the current estimated expenditure on benefits, there is a reduction in the budget for rent allowance payments (with an offsetting reduction in benefits income – see table 8 above).

Capital Charges – Changes in capital charges relate to revisions to the capital programme between years which do not affect the General Fund bottom line as they funded from reserves.

Third party payments - These budgets reflect payments to Magna Vitae, Public Sector Partnership Services and other outside bodies.

5. BUDGET REQUIREMENT

5.1 The budget requirement is formed by comparing resource prediction and spending plans.

Table 11 – Budget Requirement

	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Fees, Charges & Other Income (table 9)	(108,530)*	(89,362)*	(47,417)*	(46,933)	(46,735)	(46,470)
Gross Expenditure (table 10)	123,699	113,565	73,456	73,889	72,635	72,364
Efficiency Target	(685)	(2,420)	(3,580)	(5,106)	(3,645)	(3,222)
Net Budget	14,484	21,782	22,459	21,849	22,255	22,671
<u>Funded By</u>						
Retained Business rates	(10,611)	(10,611)	(11,603)	(11,645)	(11,688)	(11,732)
Business Rates Collection Fund	6,985	-	-	-	-	-
Revenue Support Grant	(964)	(1,310)	(1,310)	(1,310)	(1,310)	(1,310)
Specific Grants	(1,397)	(1,916)	(1,704)	(697)	(697)	(697)
New Homes Bonus	(1,244)	(378)	-	-	-	-
ELDC Council tax (table 3)	(7,175)	(7,496)	(7,842)	(8,196)	(8,559)	(8,931)
Council Tax Collection Fund Surplus	(78)	(69)	-	-	-	-
Total Funding	(14,484)	(21,782)	(22,459)	(21,849)	(22,255)	(22,671)

*Fluctuations are due to Town's Fund transactions

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- 5.2 Based on current assumptions the Council has a significant efficiency target for 2023/24; plans are already underway to address this. Currently, the following areas of the budget are being finalised: IDB's, use of Reserves, New Homes Bonus and NNDR1.

OTHER BUDGET ISSUES

In order to meet its obligations, equality impact assessments will be carried out when the nature of proposed changes to services and the potential mitigation (if any) is clear, so that the implications of decisions are fully understood as they affect specific groups and communities. These have been, and will continue to be, regularly undertaken and considered as part of the decision making process.

6. RESERVES

In order to comply with the requirements of the Local Government Act 2003, the Authority must undertake a review of the level of reserves as part of annual budget preparation. A review of the reserves has been undertaken to make sure that they have a defined purpose, identified and approved values for additions to and usage of each reserve, and that they are set at an appropriate value which identifies the current and future requirements and risks the Council might face. This has included an assessment of risk registers, pressures upon services, inflation and interest rates and any underwriting arrangements. The proposed budget has been developed on the basis of not requiring any long term support from reserves for the revenue budget.

General reserves

The General Fund balance is estimated to stand at £2.0m for the next five years, which the Council's Section 151 Officer believes to be prudent for the Council at this time.

Specific Reserves

Specific reserves are set up to provide funds for known future commitments or provide resources for unexpected events. Given the risks and uncertainties facing both the local and national economy the Council is committed to retaining robust levels of reserves, whilst ensuring resources are available to enable efficient service delivery.

Table 12 – Specific and General Fund reserves over the MTFS

The following table sets out the net contributions to and from earmarked reserves in 2023/24.

	2023/24 £'000		2023/24 £'000
<u>Contribution To Reserves</u>		<u>Contribution From Reserves</u>	
<u>Repair and Replacement Reserve</u>		<u>Insurance Reserve</u>	
Embassy Units Sinking Fund	(29)	Insurance Reserve	60
Green Waste Surplus	(232)	<u>Capital Reserve</u>	
R&R Repaid	(5)	Capitalised Planned Enhancements - 2020/21 provision reduced due to COVID savings.	870
MV Payback - Skegness Pool Refurbishment	(31)	<u>Technology Reserve</u>	
Solar PV FIT income	(67)	Members Refresh	90
Fleet Maintenance - smoothing over pressures	(51)	Laptop Refresh	90
<u>Technology Reserve</u>		<u>Wellbeing Reserve</u>	-
Technology Reserve	(68)	<u>Economic Growth</u>	
<u>Economic Growth</u>		Station Sports Redevelopment	125
Business Rates Pooling Benefit	(1,015)	Towns Fund - Foreshore	250
High Wires - Payback	(113)	Contribution From Reserves Total	1,485
Invest East Lindsey - Loan Payback	(29)	Net Contribution From / (To) Reserves	(533)
<u>Capital Reserve</u>			
New Homes Bonus	(378)		
Contribution To Reserves Total	(2,018)		

7. CAPITAL PROGRAMME AND TREASURY MANAGEMENT

7.1 The Council's current draft 5 year Capital Programme is shown in the table below. This is being reviewed and will be finalised for the final budget.

Table 13 – 5 Year Capital Programme, Funding and Resource Implications

CAPITAL PROGRAMME £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	Total £'000
Capitalised Planned Enhancements	200	200	200	200	200	1,000
Car Park Resurfacing	250	250	250	250	250	1,250
Disabled Facilities Grants	1,562	1,562	1,562	1,562	1,562	7,812
ICT Improvements	100	100	100	100	100	500
Traveller Sites	170	-	-	-	-	170
PSPS Investment	125	-	-	-	-	125
NON TOWNS FUND PROJECTS	2,407	2,112	2,112	2,112	2,112	10,857
Leisure and Learning Hub	3,250	-	-	-	-	3,250
Skegness Foreshore	1,750	-	-	-	-	1,750
Skegness Railway Station	871	-	-	-	-	871
Skegness Town Centre Transformation	1,256	969	142	-	-	2,367

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CAPITAL PROGRAMME £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	Total £'000
Learning Campus	4,215	381	-	-	-	4,596
Campus for Future Living	489	119	-	-	-	607
Mobihub	1,164	-	-	-	-	1,164
Mablethorpe High Street	446	531	61	-	-	1,038
TOWNS FUND PROJECTS	13,440	2,000	204	-	-	15,643
GRAND TOTAL	15,847	4,112	2,316	2,112	2,112	26,500
FUNDED BY:						
External Grants	14,422	-	-	-	-	14,422
To Be Financed	-	3,662	1,866	1,662	2,112	9,302
Other Reserves	555	450	450	450	-	1,905
Capital Reserve	870	-	-	-	-	870
TOTAL	15,847	4,112	2,316	2,112	2,112	26,500

7.2 The Capital Strategy, Asset Management Strategy and Economic Action Plan identify and will generate potential future capital investment requirements. Specific schemes and values will only be included in the recommended programme when the need and likely costs have been further established in detailed business cases, and the Council has ensured that it has sufficient capital and revenue resources to implement such schemes.

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- 7.3 The Council has limited capital resources and must look to new ways of financing its capital expenditure. It must also seek to reduce the running costs of its assets and maximise capital receipts. The MTFS contributes all New Homes Bonus (NHB) into the Capital Reserve. NHB is assumed to cease over the life of the MTFS and as such the Council will need to create additional future revenue capacity to maintain adequate contributions to the Capital Reserve.
- 7.4 Funding for Disabled Facility Grants (DFGs) comes from the Better Care Fund via Lincolnshire County Council's Health and Wellbeing Board.

The Treasury Management Strategy Statement pulls together the decisions of capital investment and our cash flow and revenue budgets.

Table 14 – Treasury Assumptions (subject to review)

Treasury Assumptions	2022/23	2023/24	2025/26	2025/26	2026/27	2027/28
Investment Balances	£25.8m	£55.5m	£47.0m	£45.4m	£44.7m	£44.7m
Investment assumptions – cash investments return	0.48%	3.90%	2.80%	2.10%	2.00%	2.30%
Investment assumptions – property fund return (revenue return only)	3.35%	3.10%	3.10%	3.10%	3.10%	3.10%
External Borrowing	£20.0m	£20.0m	£20.0m	£20.0m	£20.0m	£20.0m
Average Borrowing Rate	2.465 %	2.465 %	2.465 %	2.465 %	2.465 %	2.465 %

- 7.5 These assumptions include:

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- The Council's available cash balances and investment returns will be influenced by the future development of the Council's Asset Management Plan and all decisions made regarding the use of the Council's Reserves for capital and revenue purposes.

8. CONSULTATION

8.1 Under the Gunning Principles, the following points are the golden rules of consultation:

- Proposals being consulted upon must be at a formative stage;
- Proposals must contain enough information for the respondent to provide intelligent consideration;
- Must give adequate time for a response;
- Responses must be conscientiously taken into account.

Using these principles, the budget consultation process for the 2023/24 budget comprised a number of elements. It was published on the Council's website for consultation by all stakeholders, including the local business community.

8.2 In addition to this the Council consulted through a number of Member forums including Executive Board and Scrutiny; and on the governance aspects of its preparation through the Audit and Governance Committee.

8.3 Following the budget consultation process, comments received through the Member forums, preceptors and the public exercise were taken into account in preparing and recommending the proposed budget for Executive Board review and formal Council approval on 15th February and 1st March 2023, respectively.

9. SAVINGS TARGETS

9.1 The projected budgets recognise an increasingly challenging and uncertain position through the five year period of our financial strategy. A key factor is that the Local Government Finance Act 2012 and future finance reviews demand a significant transformation in the way public services are both paid for and provided, with an emphasis on business and housing growth

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to both improve economic development and maximise funding to the Council to help offset ongoing reductions in overall resources.

- 9.2 Based upon current budget assumptions the value of efficiency savings required to set a balanced budget for the next five years are as follows:

Table 15 – Savings Targets

	2023/24	2024/25	2025/26	2026/27	2027/28
	£'000	£'000	£'000	£'000	£'000
Budget Savings Requirement	2,420	3,580	5,106	3,645	3,222

- 9.3 The ongoing delivery of a significant level of savings is recognised as a key challenge to the Council that will require both political and cultural direction to ensure it is met. Of this sum, £1.1m currently relates to the IDB budgeted uplift.

10. SOUTH AND EAST LINCOLNSHIRE COUNCILS PARTNERSHIP PLANS

- 10.1 As we think of 2023/24, there is great uncertainty with the central funding which could be allocated to East Lindsey. This is driven by several financial matters which remain unresolved such as the implications of the Fairer Funding Review, Business Rates baseline reset and a review of the Business Rates retention scheme. It should therefore be noted the Council's assumptions on future budget gaps, whilst prudent, could well be understated.
- 10.2 The Council is taking a positive response to this uncertainty by seeking to influence those matters raised above through both engagement and lobbying to ensure a fair deal is delivered for rural communities.
- 10.3 As we look forward into 2023/24, the Executive will be promoting projects which aim to drive commercial opportunities, place the customer at the centre of everything we do and achieve as much as possible through greater collaboration through the South and East Lincolnshire Councils Partnership. Some of these key projects to be developed during 2023/24 include:-

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- Residential house building
- Realising efficiencies working together with Boston Borough Council and South Holland District Council through the South and East Lincolnshire Councils Partnership, with annual delivery plans.
- A Council service modernisation programme
- Building the case for investment in infrastructure
- Empowering communities in the way services are provided
- Commercialisation of services
- Addressing Deprivation in the district
- Tackling Climate Change through the Green Homes Initiative.

11. RISK AND SENSITIVITY

11.1 The following table shows the key risks and how they will be mitigated through risk management practices:

<u>Table 16 - Key Risks</u>	Likelihood	Impact	Action
Fairer Funding and Business Rate reset/changes	High	High	To lobby as required
Increased Interest Rates	High	High	Market advice and forecasting for continuation
Growth plans may require borrowing at some point in the future	High	High	Continue to closely monitor and prioritise the Council's Capital Financing Requirement.
Increased demand for Homelessness Support Services – relating to Homelessness Reduction Act	High	High	Monitor service demand and impact on costs. Optimise use of grant funding and closely monitor impact.
Lack of clarity for funding levels beyond 22/23 and spending review	High	Medium	Prudent budget set to provide best estimate. Transitional arrangements have been applied in similar previous changes imposed on funding arrangements.
Fluctuation in business rates	High	High	Growth plans and accurate monitoring.
Fair Funding Review could take into account actual levels of commercial activity	Medium	Medium	Prudent budget set to provide best estimate.

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<u>Table 16 - Key Risks</u>	Likelihood	Impact	Action
Pension fund deficit	Medium	Medium	Close links with LCC pension fund.
Additional bad debts as a result of economic circumstances	Medium	Medium	The Council has pro-active debt management and pre-pay fee policies.
Increased maintenance costs of ageing physical assets	Medium	Medium	Asset management plan. Pro-active rather than reactive maintenance programme.
Inflation rises by more than budgeted projections	Medium	Medium	Budget assumptions kept up to date with most recent projections.
Court Income	High	Low	Court income projections are in line with budget. The budget has not been increased due to concerns over collectability of this income. A year-end review will be undertaken to inform future year's budgets.
PSPS may be unable to deliver an effective service within the agreed contract price.	Low	Medium	Reviewing Service Level Agreements, activity levels and service priorities, develop a suitable Transformation Programme.
Fluctuation in business rates	High	High	Growth plans and accurate monitoring.
Fee Income volatility	High	High	Early monitoring of deviations.
Contract Cost volatility	High	High	To seek to pre-purchase where necessary.
Lack of funding to partners causing displacement of service demand	High	High	Engagement and realism.

11.2 The changing environment of Local Authority finance means that the Council is facing increasing risks and uncertainty in respect of the resources that it will have available to it. From 2023/24, the Business Rates baseline reset, if implemented, will contribute to the challenge faced by the Council. The Government is currently consulting on funding allocation approaches as part of the Fair Funding Review. Local government finance specialists, LG Futures, have been appointed to represent the District Councils Network in supporting district councils with their consultation responses. In order to address the risks associated with funding changes, many of which are referenced in Table 15 above, the Council will feed into the consultation and highlight local funding issues including the level of drainage board special levies currently funded by the Council.

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- 11.3 As noted in Section 4.8, reductions in Government funding is one element of risk, but there are probably even larger risks attached to the ability to generate and retain business rates. Growth in the business economy, changes in the retail price index, the impact of changing business rate valuations and the number of successful appeals against rateable values will all have an impact. Whilst the Council is working with a range of partners to address the issues the pandemic has raised, the one thing that is certain is that from 2023/24 onwards the estimates of funding could well be significantly different than anticipated.
- 11.4 While predicting and controlling the level of external funding resources may be difficult, where possible, the Council will use its budget management processes, reserves and general balances to mitigate those risks that it can try to control. It will also aim to deliver its services in a way that reduces its exposure to certain risks.

12. OPTIONS

- 12.1 There are no alternative budget options presented, however, if Council does not accept the proposed budget then any changes to income or expenditure which will produce a revised balanced budget must be presented and approved at the Council meeting.

13. RECOMMENDATION

13.1 Reason for recommendation - To comply with the budgetary and policy framework.

- Recommendation – That Executive Board recommends to Council to approve the budget setting report 2023/24 and associated financial strategies 2023/24 to 2027/28 which includes the Minimum Revenue Provision (MRP) Policy.

Treasury Management Policy Statement 2023/24

East Lindsey District Council defines its treasury management activities as:

1. The management of the local authority's borrowing, investments and cash flows, including 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.
2. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

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East Lindsey
DISTRICT COUNCIL

**Draft Treasury Management Strategy
Statement**

Minimum Revenue Provision Policy Statement and
Annual Investment Strategy 2023/24

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 this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity 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 management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

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

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, including 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."

The Council's treasury function is undertaken by Public Sector Partnership Services Ltd (PSPSL) on behalf of the Council. PSPSL is responsible for the:

- Production of the annual treasury management strategy
- Production of regular treasury management policy reports
- Production of treasury management practices
- Production of budget and budget variations relating to the treasury management function
- Production of management information reports
- Provision of adequate treasury management resources and skills, and effective division of responsibilities within the treasury management function
- Arrangement of the appointment of external service providers.

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

1.2 Reporting Requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, which will provide the following:

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

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

- **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
 - the capital plans (including prudential indicators);
 - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
 - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
 - an Annual Investment Strategy (the parameters on how investments are to be managed).
- **A mid year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Council will receive quarterly update reports.

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

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Governance Committee.

Quarterly reports

In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council/Executive Board but do require to be adequately scrutinised. This role is undertaken by the Audit and Governance Committee. The reports, specifically, should comprise updated Treasury/Prudential Indicators.

1.3 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers two main areas:

Capital Issues

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

1.4 Training

The CIPFA Treasury Management 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. The Council has addressed this by targeted training courses for relevant members.

The training needs of PSPSL treasury management officers are periodically reviewed and is supplemented by targeted training as necessary and technical advice from our treasury management advisors.

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

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

Training for members will be arranged as required and the training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function will be maintained by the Treasury and Investments Manager (PSPSL). Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by Democratic Services.

1.5 Treasury management consultants

PSPSL uses Link Group, Link Treasury Services Limited as its external treasury management advisors for the Council.

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 our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

2 The Capital Prudential Indicators 2022/23 – 2027/28

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 and financing

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 approve capital expenditure forecasts as part of the annual Budget report.

The capital expenditure plans mirror those within the budget report and will be amended throughout the year as spending plans alter.

The following table summarises the 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.

Capital Expenditure £'000's	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Non Towns Fund Projects	19,765	2,407	2,112	2,112	2,112	2,112
Towns Fund Projects	52,368	13,440	2,000	204	-	-
Total	72,133	15,847	4,112	2,316	2,112	2,112
Financing	(72,133)	(15,397)	(3,662)	(1,866)	(1,662)	(1,662)
Net financing need for the year	-	450	450	450	450	450

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

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR 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 indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the MRP is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. Public Finance Initiative (PFI) schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately

borrow for these schemes. The Council currently has no such schemes within the CFR.

As part of the formal governance process, the Council approves the cumulative CFR projections as follows:

£000's	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
CFR – General Fund	-	450	855	1,215	1,530	1,800
CFR - Non-treasury investments	25,499	23,999	23,999	23,999	23,999	23,999
Total CFR	25,499	24,449	24,854	25,214	25,529	25,799
Movement in CFR	-	(1,050)	405	360	315	270

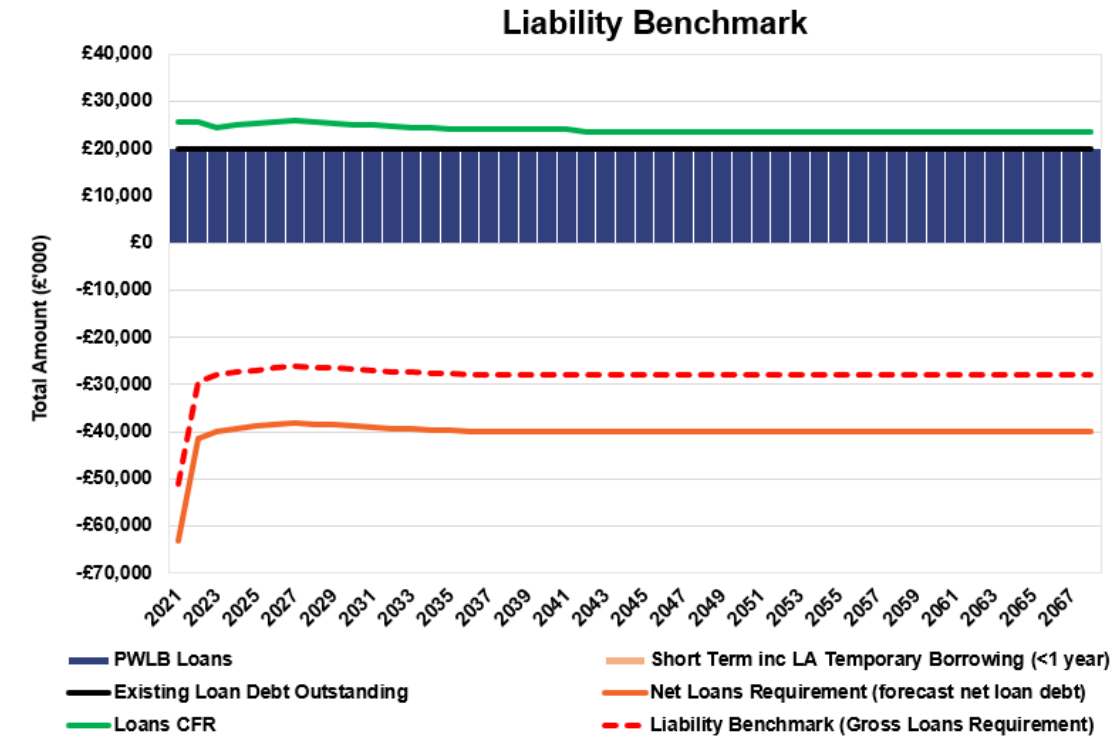
Net financing need for the year above)	-	450	450	450	450	450
Less MRP/VRP and other financing movements	-	(1,500)	(45)	(90)	(135)	(180)
Movement in CFR	-	(1,050)	405	360	315	270

2.3 Liability Benchmark

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

There are four components to the LB: -

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



2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

A full analysis will be provided in the budget setting report.

2.5 Minimum revenue provision (MRP) policy statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Council has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Council can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires Full Council approval in advance of each financial year.

The Council is recommended to approve the following MRP Statement:

For all unsupported borrowing the MRP policy will be:

- **asset life method (straight line)** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction)

This option provides for a reduction in the borrowing need over approximately the asset's life.

Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24, or in the year after the asset becomes operational.

The Council will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

MRP in respect of assets acquired under Finance Leases or PFI will be charged at an amount equal to the principal element of the annual repayment.

Assets held for investment purposes

Where the Council holds investment assets the Council's MRP Policy will be to determine the amount of MRP and VRP (voluntary revenue provision) based on the combined value of its holdings at the end of each financial year. The Council will ensure that any capital receipts generated from the sale of property fund units will be earmarked and set aside when received to reduce the CFR liability by the amount of the original borrowing for units sold if MRP/VRP has not previously been provided for.

The Council will also monitor the performance of its Property Fund holdings on a regular basis with performance reported to the Audit and Governance Committee quarterly.

For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

Any loans issued to Invest East Lindsey Ltd which are classed as capital expenditure will increase the Council's CFR if not financed from reserves. The Council will earmark the proceeds from the repayment of the loans to reduce the CFR and therefore will apply a nominal MRP charge of £1 on such loans and equity investments. This policy will be reviewed annually to ensure the approach remains prudent based on the Company's financial position. If it is deemed that an additional charge is required to ensure prudence a voluntary revenue provision (VRP) will be made.

MRP Overpayments

Under the MRP guidance, any charges made in excess of the statutory MRP, known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

At the end of the 2021/22 financial year the Council had made VRP contributions of £360,648. If this changes during the 2022/23 financial year it will be reported in the Annual Treasury Report.

3. Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. 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 and the Council's Capital Strategy. This will involve both the organisation 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

The overall treasury management portfolio as at 31 March 2022 and for the position as at 31 December 2022 based on cost are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	Actual	Actual	Current	Current
	31/03/22	31/03/22	31/12/22	31/12/22
Treasury Investments	£0	%	£000	%
Banks	35,047	46%	25,999	27%
Building Societies - Rated	0	0%	0	0%
Local Authorities	0	0%	0	0%
DMADF (H.M.Treasury)	6,000	8%	7,300	8%
Money Market Funds	7,500	10%	7,500	8%
Certificates of Deposit	0	0%	30,000	32%
Total Managed In House	48,547	64%	70,799	74%
Bond Funds	0	0%	0	0%
Property Funds	27,452	36%	24,335	26%
Total Managed Externally	27,452	36%	24,335	26%
Total Treasury Investments	75,999	100%	95,134	100%
Treasury External Borrowing				
Local Authorities	0	0%	0	0%
PWLB	20,000	100%	20,000	100%
LOBOs	0	0%	0	0%
Total External Borrowing	20,000	100%	20,000	100%
Net Treasury Investments / (Borrowing)	55,999	0	75,134	0

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£'000's	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt at 1 April	20,000	20,000	20,000	20,000	20,000	20,000
Expected change in Debt	0	0	0	0	0	0
Actual gross debt at 31 March	20,000	20,000	20,000	20,000	20,000	20,000
The Capital Financing Requirement	25,499	24,449	24,854	25,214	25,529	25,799
(Under) /over borrowing	(5,499)	(4,449)	(4,854)	(5,214)	(5,529)	(5,799)

Within the range of prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its 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 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Section 151 Officer reports that 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 budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external borrowing 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 (£'000)	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt	35,000	35,000	35,000	35,000	35,000	35,000
Other long term liabilities	3,000	3,000	3,000	3,000	3,000	3,000
Total	38,000	38,000	38,000	38,000	38,000	38,000

The authorised limit for external debt - This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the 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.

1. 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.
2. As part of the formal governance process, the Council approves the following indicators, as shown below:

Authorised Limit (£'000)	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Borrowing	39,000	39,000	39,000	39,000	39,000	39,000
Other long term liabilities	5,000	5,000	5,000	5,000	5,000	5,000
Total	44,000	44,000	44,000	44,000	44,000	44,000

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 19 December 2022. These are forecasts for certainty rates, gilt yields plus 80 basis points (bps).

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Additional notes by Link on this forecast table: -

Our central forecast for interest rates was updated on 19 December and reflected a view that the Monetary Policy Committee (MPC) would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in H1 2023.

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

The Consumer Price Index (CPI) measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening (QT)), this has started and will focus on the short,

medium and longer end of the curve in equal measure, now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.

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

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

PWLB Rates

- The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- **The Bank of England** acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

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

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

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.
- **The Government** acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.
- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term **US treasury yields** rise strongly and pull gilt yields up higher than currently forecast.
- Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields consequently

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

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

Average expected earnings in each year	
2022/23 (remainder)	4.00%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

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

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

(End of Link Group Commentary)

3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the remainder of the 2022/23 financial year.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing activity will be subject to rigorous prior appraisal and subsequent reporting through the mid-year and annual reporting mechanisms.

3.6 Debt rescheduling

Rescheduling of current borrowing in the Council's debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

If rescheduling is undertaken it will be reported to the Executive Board at the earliest meeting following its action.

3.8 New financial institutions as a source of borrowing and / or types of borrowing

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

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

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.8 Approved Sources of Long and Short-Term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock Issues	●	●
Local Temporary	●	●
Local Bonds	●	
Local Authority Bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance Leases	●	●

4 Annual Investment Strategy

4.1 Investment policy – management of risk

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

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

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

The Council's funds are managed by PSPSL with reference to a detailed cash flow forecast on a daily basis for the current year. Protocols are in place to govern the movement of funds within specific limits.

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

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

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

- 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.
- **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**" (CDS) and overlay that information on top of the credit ratings.
- **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.
- This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in **Appendix 5.3** 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 or have less than a year left to run to maturity if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.
 - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

- **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments to £5m of the total investment portfolio, (see paragraph 4.3).
- **Lending limits,** the maximum total investments to any individual financial institution or its parent group is £5m. The maximum limit for individual money market funds is £7.5m. There is no maximum limit for deposits with the UK Debt Management Agency Deposit Facility (DMADF) as this is effectively the UK Government. The maximum permitted duration of investments for each institution will be determined in accordance with paragraph 4.2.
- **Transaction limits** are set for each type of investment in paragraph 4.2
- This Council will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
- Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
- PSPSL 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 Council in the context of the expected level of cash balances and need for liquidity throughout the year.
- All investments will be denominated in **sterling**.
- As a result of the change in accounting standards for 2022/23 under IFRS 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. At the current juncture it has not been determined whether a further extension to the over-ride will be agreed by Government.

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

Changes in risk management policy from last year.

The above criteria are unchanged from the amended 2022/23 strategy approved by Council in December 2022.

4.2 Creditworthiness policy

This Council applies the creditworthiness service provided by Link Group. 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:

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

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

The Link creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, 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 daily. PSPSL is alerted to changes to ratings of all three agencies through its use of the Link 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 PSPSL will be advised of information in movements in CDS spreads against the iTraxx European Financials benchmark and other market data on a daily basis provided exclusively to it by Link. 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 and information on any external support for banks to help support its decision making process.

Creditworthiness.

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

CDS prices

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

4.3 Limits

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

- **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments to £10m of the total investment portfolio.
- **Country limit.** The Council has determined that it will only use approved counterparties from the United Kingdom or countries with a

minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix 5.4**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

- **Other limits.** In addition:
 - no more than £10m will be placed with any non-UK country at any time;
 - limits in place above will apply to a group of companies;
 - sector limits will be monitored regularly for appropriateness

4.4 Investment strategy.

In-house funds.

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

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

Investment returns expectations.

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

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

- | | |
|-----------------------|-------|
| • 2022/23 (remainder) | 4.00% |
| • 2023/24 | 4.40% |
| • 2024/25 | 3.30% |
| • 2025/26 | 2.60% |
| • 2025/26 | 2.50% |
| • Years 6+ | 2.80% |

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

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-

dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

Investment treasury indicator and limit

Total principal funds invested for greater than 365 days 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.

As part of the formal governance process, the Council approves the treasury indicator and limit, as shown below:

£'000	2023/24	2024/25	2025/26	2026/27	2027/28
Principal sums invested > 365 days (excluding non-treasury investments)	10,000	10,000	10,000	10,000	10,000
Current treasury investments as at 31 December 2022 in excess of 1 year maturing in each year	0	0	0	0	0

4.5 Investment risk benchmarking

The Council has not adopted any formal benchmarks in this area, as officers believe that decisions on counterparties and maximum investment levels are adequate to monitor the current and trend position, and amend the operational strategy to manage risk as conditions change.

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of the Average 3 Month Sterling Overnight Index Average (SONIA) rate.

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.

5 Appendices

- 5.1 Prudential and treasury indicators
- 5.2 Interest rate forecasts
- 5.3 Treasury management practice 1 – credit and counterparty risk management
- 5.4 Approved countries for investments
- 5.5 Treasury management scheme of delegation
- 5.6 The treasury management role of the Section 151 Officer

APPENDIX 5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2022/23 – 2027/28

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. Full details are provided in paragraph 2.1 and summary totals are shown below.

5.1.1 Capital expenditure

Capital expenditure £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Total	72,133	15,847	4,112	2,316	2,112	2,112

5.1.2 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

%	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Total	(5.46%)	(1.87%)	(5.28%)	(3.25%)	(2.71%)	(3.27%)

The estimates of financing costs include current commitments and the proposals in this budget report.

3.6 Maturity structure of borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2023/24		
	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%
Maturity structure of variable interest rate borrowing 2023/24		
	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

APPENDIX 5.2 INTEREST RATE FORECASTS 2022-2025

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

PWLB forecasts are based on PWLB certainty rates.

APPENDIX 5.3 - 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**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.).

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	N/A	In-house (no maximum limit)
Term Deposits – UK Local Authorities	N/A	In-house
Term Deposits – Banks and Building Societies	Minimum colour of green on our external treasury advisers credit rating matrix	In-house
Treasury Bills	UK sovereign rating	In-house
Certificates of Deposit Issued by Banks and Building Societies	Minimum colour of green on our external treasury advisers credit rating matrix	In-house
Bonds Issued by Multilateral Development Banks	AAA	In-house buy and hold
Money Market Funds – CCLA (Church, Charities & Local Authority)	AAA	In-house (£7.5m limit for cash flow purposes)
Money Market Funds CNAV (Constant Net Asset Value)	AAA	In-house
Money Market Funds LVAV (Low Volatility Asset Value)	AAA	In-house
Money Market Funds VNAV (Variable Net Asset Value)	AAA	In-house

Term deposits with nationalised banks and banks and building societies

	Minimum Credit Criteria	Use	Max of total investments	Max. maturity period
UK Part Nationalised Banks	Minimum colour of green on our external treasury advisers credit rating matrix	In-house	£5m	1 year
Banks Part Nationalised by AAA or AA- Sovereign Rating Countries – Non UK	Minimum colour of green on our external treasury advisers credit rating matrix	In-house	£5m	1 year

If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

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, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A maximum of £10m treasury investments may be held in aggregate in non-specified investment.

1. Maturities of ANY period

	Minimum Credit Criteria	Use	Max of non-specified investments	Max. maturity period
Fixed term deposits with variable rate and variable maturities: -Structured deposits	Sovereign rating of AAA to AA- and minimum colour of green on our external treasury advisers credit rating matrix	In-house	£5m	1 year
UK Government Gilts	UK sovereign rating	In-house buy and hold	£5m	2 year
Sovereign bond issues (other than the UK govt)	AAA	In-house buy and hold	£5m	2 year
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government (e.g. National Rail)	UK sovereign rating	In-house buy and hold	£5m	2 year
Collateralised deposits (see note 1)	UK Sovereign rating	In-house	£5m	1 year

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)				
Property Funds: (excluding non-treasury investments)		In-house	£8m	
<p><i>The use of property funds can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Council will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.</i></p> <p><i>The Section 151 and Deputy Section 151 Officer will have delegated authority to invest in property funds subject to consultation with the Portfolio Holder for Finance.</i></p>				

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -				
	Minimum Credit Criteria	Use	Max of non-specified investments	Max. maturity period
1. Government Liquidity Funds	Long-term AAA volatility rating MR1+	In-house	£10m	1 month notice period
2. Ultra-Short Dated Bond Funds with a credit score of 1.25	Long-term AAA volatility rating MR1+	In-house	£10m	1 month notice period
3. Ultra-Short Dated Bond Funds with a credit score of 1.5	Long-term AAA volatility rating MR1+	In-house	£10m	1 month notice period
4. Bond Funds	Long-term AAA volatility rating MR1+	In-house	£10m	1 month notice period
5. Gilt Funds	Long-term AAA volatility rating MR1+	In-house	£10m	1 month notice period

Note 1 : as collateralised deposits are backed by collateral of AAA rated local authority LOBOs, this investment instrument is regarded as being a AAA rated investment as it is equivalent to lending to a local authority.

2. Maturities in excess of 1 year

	Minimum Credit Criteria	Use	Max. of total investments	Max. maturity period
Term Deposits – UK Local Authorities	N/A	In-house	£5m	2 year
Term Deposits - Registered Social Landlords	None	In-house subject to due diligence report by Link Group	£5m	5 year
Term deposits – Banks and Building Societies	Sovereign rating of AAA to AA- and minimum colour of orange on our external treasury advisers credit rating matrix	In-house	£5m	2 year
Certificates of Deposit issued by Banks and Building Societies	Sovereign rating of AAA to AA- and minimum colour of orange on our external treasury advisers credit rating matrix	In-house	£5m	2 year
Bonds issued by multilateral development banks	AAA	In-house	£5m	2 year

The maximum total investment to any individual financial institution or its parent group is £5m except for the instant access money market fund which has a limit of £7.5m and the UK Debt Management Agency Deposit Facility (UK Government) which has no maximum limit.

Barclays Bank provides banking services to the Council and the above limits do not include the day to day balance in the Council's current account.

Whilst these are maximum limits, under normal circumstances the Section 151 Officer will ensure lower limits are maintained. The higher limits are required to allow flexibility in the movement of funds if a particular issue or circumstance arose e.g. global banking crisis.

Environmental, Social and Governance Considerations

The Council continues to develop its strategy in this area.

The Council is interested in undertaking actions to reduce climate change and as an ethical investor will consider the environmental, social and governance issues.

Officers are working with the Council's external treasury advisors to establish how these issues can be taken into consideration when Link Group formulate their Suggested Credit List which is used by the Council.

APPENDIX 5.4 - Approved countries for investments (as at 2/12/22)

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 credit worthiness service.

Based on lowest available rating

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 5.5 - Treasury management scheme of delegation

- | | |
|--------------------------------|--|
| Council | <ul style="list-style-type: none"> - Receive, Review and Approval of Treasury Policy Statement – February/March cycle - Receive, Review and Approval of Treasury Management Strategy Statement incorporating the Annual Investment Strategy and Minimum Revenue Provision Policy – February/March cycle followed by mid year report update. Updates or revisions at other times as required - Receive, Review and Approval of Annual Treasury Outturn Report by 30 September after the year end |
| Executive Board | <ul style="list-style-type: none"> - Recommend to Council a Treasury Policy Statement - Recommend to Council a Treasury Management Strategy Statement incorporating the Annual Investment Strategy and Minimum Revenue Provision Policy – February/March cycle followed by mid year report update - Extraordinary Activity and Investment Management arrangements – as soon as possible after significant change occurs - Recommend to Council a Treasury Management Outturn Report by 30 September after the year end |
| Audit and Governance Committee | <ul style="list-style-type: none"> - Receive Treasury Management Mid Term report - Receive Treasury Management Outturn Report - Receive Treasury Management Practices annually if amended - Scrutiny of the Treasury Management Strategy before the commencement of each financial year - Scrutiny of Treasury Management performance as part of the Mid Term report and quarterly reports. |

SCRUTINY AND MONITORING

Council delegates the scrutiny and monitoring of the Treasury Management function to the Audit and Governance Committee. As a minimum they will receive quarterly reports and a Mid Term Treasury report on investment issues and performance. Training will be made available for members of the Audit and Governance Committee to ensure they have the necessary skills to undertake this role. Recommendations will be reported to Executive Board.

The Audit and Governance Committee will also have access to professional and independent advice and support as required in order to undertake this role.

APPENDIX 5.6 - The treasury management role of the section 151 officer and deputy

The S151 Officer's main functions with regards to treasury are to:

- recommend clauses, treasury management policy/practices for approval, review the same regularly, and monitor compliance
- submit regular treasury management policy reports
- submit budgets and budget variations
- receive and review management information reports
- review the performance of the treasury management function
- ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensure the adequacy of internal audit, and liaise with external audit
- recommending the appointment of external service providers
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Council
- ensure that the Council has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the Council
- ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:
 - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
 - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;

- Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

As an added safeguard, as part of the Section 151's statutory responsibility, the Chief Finance Officer (CFO) is obliged to notify the Monitoring Officer of any material change proposed to approved treasury policies and of any major breaches which have occurred.

Any significant operational or other changes will be notified and discussed with the relevant Portfolio Holder. This is currently the Portfolio Holder for Finance. Any actions resulting from this will be reported to Audit and Governance. If timescales are such that due to urgency, the formal reporting process cannot be utilised, then emergency authorisation will be sought through existing mechanisms.

The CFO has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.

The CFO may delegate power to borrow and invest to members of staff. All dealing transactions must be conducted by the CFO, or staff authorised by the CFO, to act as temporary cover for leave/sickness. All transactions must be authorised by at least two authorised signatories, one of which must be employed by ELDC.

The CFO and the Monitoring Officer will ensure that the Policy is adhered to, and if not, will bring the matter to the attention of Councillors as soon as possible.

Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the CFO to be satisfied, by reference to the Monitoring Officer, the Council's Legal Department and external advisors, as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

It is also the responsibility of the CFO to ensure that the Council complies with the requirements of the Non Investment Products Code for principals and broking firms in the wholesale markets as well as the Financial Services Authority's Code of Market Conduct.

The CFO will ensure an accurate record of daily notifications received and document all investment decisions.

The treasury management function is administered by Public Sector Partnership Services Limited and they will supply the following information to the CFO:

- treasury management strategy statements and practices for approval
- capital strategy reports
- regular treasury management policy reports
- budget and budget variation reports
- management information reports
- adequate treasury management resources and skills, and effective division of responsibilities within the treasury management function, and;
- arranging the appointment of external treasury management advisors.

Where the use of particular instant access accounts, notice accounts and money market funds has been approved by the Section 151 Officer, PSPSL treasury officers have delegated authority to withdraw and deposit funds within the agreed limits contained in this strategy.