

The public and press are welcome to attend.

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If you would like any further information or have any special requirements in respect of this Meeting, please contact Laura Allen, Democratic Services Officer on 01507 613471

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Date: Tuesday, 16 January 2024

Dear Councillor,

Audit and Governance Committee

You are invited to attend a Meeting of the **Audit and Governance Committee** to be held at **the Hub, Mareham Road, Horncastle, Lincolnshire LN9 6PH** on **Wednesday, 24th January, 2024** at **10.15 am**, for the transaction of the business set out in the attached Agenda.

The public and the press may access the meeting via the following link <https://bit.ly/ELDCYT> where a livestream and subsequent recording of the meeting will be available or by attending the Meeting.

Yours sincerely



Robert Barlow
Chief Executive

Conservatives

Will Grover, Sam Kemp, Thomas Kemp and James Knowles

Labour

Rosalind Jackson (Chairman)

Independent

Stef Bristow

East Lindsey Independent Group (ELIG)

Jill Makinson-Sanders (Vice-Chairman) and Edward Mossop

Skegness Urban District Society (SUDS)

Danny Brookes

Independent Co-Optees

Mr Walter Leschenko and Vacancy

AUDIT AND GOVERNANCE COMMITTEE AGENDA

Wednesday, 24 January 2024

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| 3. | <u>MINUTES:</u> To confirm the Minutes of the Meeting held on 22 November 2023. | 1 - 18 |
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| 6. | <u>DRAFT BUDGET REPORT 2024/25 - 2028/29:</u> To receive a report from the Section 151 Officer. | 23 - 64 |
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| 8. | <u>EXTERNAL AUDITORS PROGRESS REPORT 2023/24:</u> To receive an update from KPMG, External Auditors. | Verbal Report |
| 9. | <u>APPOINTMENT OF INDEPENDENT CO-OPTED MEMBER:</u> To receive an update. | Verbal Report |
| 10. | <u>COMMITTEE WORK PROGRAMME 2023/24:</u> To consider the Audit & Governance Committee Work Programme 2023/24. | 113 - 116 |
| 11. | <u>DATE OF NEXT MEETING:</u> The programmed date for the next Meeting of this Committee will be 27 March 2024. | |

Minutes of a Meeting of the Audit and Governance Committee held in the Hub, Mareham Road, Horncastle, Lincolnshire LN9 6PH on Wednesday, 22nd November, 2023 at 10.15 am.

PRESENT

Councillor Rosalind Jackson (Chairman)
Councillor Jill Makinson-Sanders (Vice-Chairman)

Councillors Will Grover, Sam Kemp, Thomas Kemp and Robert Watson (In place of Edward Mossop).

Councillor James Knowles attended the Meeting as an Observer.

Mr Walter Leschenko attended the Meeting as an Independent Co-Optee.

OFFICERS IN ATTENDANCE:

| | |
|--------------------|---|
| Christine Marshall | - Deputy Chief Executive (Corporate Development) and S151 Officer |
| John Medler | - Assistant Director Governance & Monitoring Officer |
| Matthew Waller | - Internal Audit Manager, Assurance Lincolnshire |
| Sean Howsam | - Treasury and Investment Manager, PSPS Limited |
| Christian Allen | - Assistant Director - Regulatory |
| Richard Steele | - Data Protection Officer |
| Suzanne Rolfe | - Insights & Transformation Manager |
| Mark Surridge | - Mazars LLP Representative |
| Ann Good | - Democratic Services Manager |
| Lynda Eastwood | - Democratic Services Officer |
| Laura Allen | - Democratic Services Officer |

35. APOLOGIES FOR ABSENCE:

Apologies for absence were received from Councillor Stef Bristow and Councillor Danny Brookes.

It was noted that in accordance with Regulation 13 of the Local Government (Committees and Political Groups) Regulations 1990, notice had been given that Councillor Robert Watson had been appointed to the Committee in place of Councillor Edward Mossop for this Meeting only.

36. DISCLOSURE OF INTERESTS (IF ANY):

At this point in the meeting, Members were invited to declare any relevant interests.

There were no disclosures of interest received.

37. MINUTES:

The Open and Exempt Minutes of the Meeting held on 27 September 2023 were agreed as a correct record.

38. ACTION SHEET:

Members were referred to the Action Sheet, pages 31 to 36 of the Agenda refer.

Members noted that the actions from previous meetings were confirmed as completed or in hand as follows:

An update on the only outstanding Action No. 33 was provided to Members with a report expected at the next meeting of the Audit and Governance Committee on the 24th January 2024.

A Member queried whether there was a timeline for when the Independent Member of this committee would be reimbursed. In response, the Assistant Director Governance and Monitoring Officer advised that the Independent Remuneration Panel was to examine and make a recommendation regarding allowances for co-opted members to the Full Council by March 2024.

A Member further enquired whether this delay was having any effect on the recruitment of an Independent member. In response, the Chairman confirmed this was for future discussion.

No further comments or questions were received.

39. CHAIRMAN'S UPDATE:

Councillor Ros Jackson, Chairman of the Audit and Governance Committee provided Members with an update as follows:

The working group have agreed a new deadline for the recruitment of the Independent Member by extending the recruitment period for a further three weeks.

Members were invited to put their comments and questions forward.

A Member queried what interest the advert had received. The Chairman advised that personnel matters could be responded to outside of the meeting.

No further questions or comments were received.

40. INTERNAL AUDIT PROGRESS REPORT:

Internal Audit Manager, Matthew Waller presented the Internal Audit Progress Report November 2023 to members summarising East Lindsey District Council's responsibilities to undertake effective internal audit, pages 37 to 100 of the Agenda refer.

The report was issued in a new format and provided the Audit and Governance Committee with an overview of progress including any outstanding actions to provide a robust picture of the work carried out by Internal Audit.

Members were invited to put their comments and questions forward.

- A Member referred to the Performance Dashboard, and queried if the percentages given reflected that performance was on track, page 41 of the Agenda refers. In response, the Internal Audit Manager explained that previous year audits had run into the next year, for 2023-24 the Council was late getting started but were back on track to deliver Quarter 3 and 4. There was an element of reliance on managers, however the Council was well resourced and working with managers to maintain good communications to get audits scheduled and completed as quickly as possible. The Internal Audit Manager confirmed that he was satisfied with current performance and will provide an annual opinion at the end of the year.
- A Member sought clarification on why equalisation of pay was not included in the report as it was perceived as a big issue for audit to pick up on, especially when staff dissatisfaction has been voiced, page 54 of the Agenda refers. In response, the Internal Audit Manager advised that the Council always tried to cover all the risks and processes as much as possible during audit, elements not picked up on would be taken forward and addressed in future.

The Section 151 Officer wished to clarify that the pay matters raised in the Peer Review had been actioned and significant progress had been made. For instance, in relation to the high level of cyber risk that was identified, robust action was taken in October by ensuring the relevant training was completed by the cut-off date.

- A Member acknowledged that there was a lot of work going on at pace which provided strong assurances, however concerns were highlighted in the report regarding payroll reconciliation. An update was requested on what progress was being made. In response, the Section 151 Officer confirmed that payroll audit was an area of concern and that she was following up with the team involved to ensure strong progress was made and that the appropriate measures were in place.
- A Member expressed concerns that little appeared to be happening since the data was provided by PSPS in April 2022, page 65 of the

Agenda refers. This was particularly in relation to S106 agreements, noting that the situation could be improved to ensure contributions from developers were captured for communities and not lost. It was further queried whether there was an issue with resourcing and PSPS in responding to audits not only in relation to S106's but also in other areas, pages 66 and 67 of the Agenda refer.

In response, the Section 151 Officer advised that all S106 reconciliations were now up to date and any final adjustments had been undertaken. There were no concerns with S106's at this point in time and quarterly reports were provided to the senior management team as part of governance reporting. Capacity and expertise within PSPS had been a challenge, however a detailed review of resourcing and management had been undertaken.

It was advised that that these measures were not a quick fix as six to twelve months for training was required to bring new starters up to speed on Local Government Finance. The Council would then have a stable team moving forward and was maintaining a positive outlook in addressing any issues. The Internal Audit Manager also confirmed that a follow up audit on S106's was to be performed to provide more assurance.

- A Member queried if the S106's could be shared with Councillors and not just senior leadership as there was significant interest in the community that the process occurred correctly. The S151 Officer advised that a response would be brought back to the committee on what reporting mechanisms were in place.
- A Member queried the lessons learned on Invest East Lindsey, noting four remaining actions on the September report and requested an update on the remaining actions, page 59 of the Agenda refers. The Section 151 Officer advised that an update would be provided to members of the committee following the meeting.

No further questions or comments were received.

The Chairman thanked the Internal Audit Manager for his report.

Following which it was,

RESOLVED:

That the Internal Audit Progress Report November 2023 be noted.

41. EXTERNAL AUDIT PROGRESS REPORT:

Mark Surridge was in attendance on behalf of Mazars LLP, External Auditors, to present the External Audit Progress Report November 2023, pages 101 to 122 of the Agenda refer. The report provided the Audit and Governance Committee with an update on progress made by Mazars LLP

in delivering its responsibilities as East Lindsey District Council's external auditors.

The representative of Mazars LLP advised the committee that the report covered three financial years audits and any other significant matters to date. The 2020/21 audit was concluded over the summer after receiving instructions from the National Audit Office, the 2021/22 audit was now very close to completion as the final set of group accounts was awaited before being able to proceed with 2022/23.

Members were invited to put their comments and questions forward.

- A Member queried whether it was normal for local authorities to be a couple of years behind in completing audits and whether this would change. In response, the External Auditor advised that defining normal was difficult and that whilst the 21/22 Accounts were technically complete, many local authorities were in a similar position especially after the effects of the pandemic. In 2022, there were issues around accounting for infrastructure assets and pension accounting which was not resolved until July. These issues were not unique, and a backlog was created for a vast number of local authorities across the country. The proposal was to work with a new external auditor for 23/24 with the aim to bring everything back on track for September 2024.

The Section 151 Officer alternatively advised that the situation was not normal and usually audits were signed off in a timely manner. However, the pandemic, changes to pensions accounting, asset valuation and infrastructure accounting has meant that authorities accounts have needed to stay open longer and restating them has caused more delay. Clarification on the catch-up process was also needed from the Financial Reporting Council who were currently examining the issues with government.

- A Member expressed dissatisfaction that the group accounts for Invest East Lindsey had not yet been provided, page 105 of the Agenda refers. In response, the External Auditor explained the challenges for the partnership and that it was not a simple process especially taking into consideration the challenges to find good accountants with the right competencies.
- A Member raised concern over how Invest East Lindsey affected overall opinion and requested an update on the Council's going concern assessment. In response, the Section 151 Office reassured there were no concerns for the going concern assessment for ELDC, but it was acknowledged that the company must carry out its own assessment to satisfy Company Act requirements, this was also reiterated and supported by the representative from Mazars LLP.
- Referring to Section 3 of the report, a Member queried if there was anything the Council should take note of going forward, pages 113

to 120 of the Agenda refer. In response, the External Auditor suggested background reading on Number 8. Croydon Council Public Interest Report - February 2023 as a thematically strong piece to examine.

No further questions or comments were received.

Following which it was,

RESOLVED:

That the External Audit Progress Report November 2023 be noted.

42. PREMATURE REPAYMENT OF PWLB BORROWING:

The Interim Treasury and Investments Manager (PSPS), Sean Howsam presented Members with the Premature Repayment of PWLB Borrowing Report, pages 123 to 134 of the Agenda refer. A copy of the Link Document for ELDC Premature Repayment of PWLB Borrowing was attached at Appendix A, pages 131 to 132 of the Agenda refer.

Members were advised that the Council borrowed £20m from the PWLB in 2018 following the Council's decision to purchase additional property fund investments. Based on market rates on the 5 October 2023 the Council was eligible for a discount of £8.344m if it were to prematurely repay the £20m of loans. This was to require a payment of £11.656m to fully redeem the PWLB borrowing.

Following a review of the Council's overall treasury position the Deputy Chief Executive (Corporate Development) & S151 Officer in consultation with the Portfolio Holder for Finance made a delegated decision to prematurely repay all the PWLB borrowing of £20m at a cost of £11.656m.

The net general fund impact of the decision was an overall revenue gain each year in the first 10 years ranging from £740k to £930k.

This report was being submitted to Executive Board as an Appendix to the Quarter 2 Monitoring Report on 13 December 2023 and was currently being submitted to Audit and Governance Committee as the body responsible for receiving all treasury management reports.

Members were invited to put their comments and questions forward.

- A Member commented that it was a good move to repay the loan early and queried if any problems were foreseen to obtain short term bank loans when there was a dip in cashflow. In response, the Interim Treasury and Investments Manager advised that due to the Council planning its investments and making sure it does not hold too much money in the short term, three loans totalling £10 million was borrowed from other Local Authorities. Since the report was

written those loans have been repaid and if the Council require temporary borrowing again future it was not likely to present any issues.

- A Member expressed gratitude for the smart decision and timing that had enabled the Council to benefit from the premature repayment of the PWLB borrowing. In response, the Section 151 Officer advised that the window for redemption was very tight, giving thanks to the Interim Treasury and Investments Manager for closely monitoring the rates and working together to lock in the redemption.

The Chairman thanked both the Section 151 Officer and Interim Treasury and Investments Manager for their successful efforts.

No further comments or questions were received.

Following which it was,

RESOLVED:

That the Premature Repayment of PWLB Borrowing Report be noted.

43. MID TERM TREASURY MANAGEMENT UPDATE 2023/24:

Sean Howsam, Interim Treasury and Investment Manager proceeded to present Members with the Mid Term Treasury Management Report 2023/24 on the Council's Treasury Management Strategy Statement and Annual Investment Strategy for the period ending 30 September 2023, pages 135 to 162 of the Agenda refer.

The Interim Treasury and Investment Manager detailed and highlighted pertinent information to Members from the Treasury Management Update at Appendix A, pages 141 to 159 of the Agenda refer, supported by the Capital Programme 2023/24 and Quarter 2 Forecast Outturn at Appendix A1, pages 160 to 162 of the Agenda refer.

Members were advised that the purpose of the report was to provide members with an update on Treasury Management performance and activity for the first six months of the financial year to ensure best practice was maintained.

Members were invited to put their comments and questions forward.

- A Member requested insight on how the viability and financial status of banks was assessed to protect investments. In response, the Interim Treasury and Investment Manager advised that the institutions the Council can invest in was detailed in the Annual Treasury Strategy. ELDC utilise the services of Link Group which were external treasury advisors who produce counterparty matrices to assess information and ratings to make recommendations for

where to invest and for what duration. They had also introduced overlay measures to look at and monitor the cost of insuring against financial institutions defaulting on their debts. This also influenced the maximum duration they would recommend investing for or if the Council should make no further investments.

- A Member queried if Invest East Lindsey had repaid their housing development loans. In response, the Section 151 Officer advised that repayment was phased in accordance with the disposal of properties. Work was underway and the loans were expected to be repaid when the disposals were complete. There were no current concerns, although sufficient time was needed for disposal to occur.
- A member enquired what was the Council's risk appetite and who made the decision to change that, page 159 of the Agenda refers. In response, the Section 151 Officer advised that the risk appetite was set out in regulation and principles were used known as security, liquidity and yield (SLY). Security of the assets was the most important factor, followed by liquidity to enable short notice cash availability and yield was the overriding criteria. In addition, the Council consider counterparties to determine where to invest and for how long, this control framework is approved every year through the Treasury Management Strategy and further overlay strategies were used to make recommendations to protect where the Council's money is invested. The Section 151 Officer was ultimately responsible for agreeing where the Council's overall risk resides.
- The Chairman requested clarification on the relationship between the redemption of the M&G Investments UK Property Fund and the financial position of the property investments, page 156 of the Agenda refers. In response, the Interim Treasury and Investment Manager explained that in relation to the original cost and deducting the amount received back, the revised book cost of £881,928 compared to the net asset value of that fund as at 30th September 2023 was £979,691. Assuming the fund could liquidise those assets at the book price based at that date, the Council would make an overall gain of just under £98,000 on the M&G Fund. Investments were made as long-term investment decisions, however as property values fluctuate and as interest rates start to fall properties become more affordable. It was anticipated that being close to the bottom of the cycle property valuations were to start rising again.
- In reference to an approximate 2% return on loans to Invest East Lindsey, a Member queried if this was a favourable rate, page 155 of the Agenda refers. In response, the Section 151 Officer advised that the rate was based on when the loan was taken out and this was at a fixed and more favourable rate in 2022. Current rates would be substantially higher when reflecting the marketplace and

timing was critical for when taking out loans. The interest rate stated was the half year position and double that would reflect the full year amount.

- A Member enquired if the ethical status of financial institutions was given consideration when investing the Council's funds. In response, Interim Treasury and Investment Manager stated that certain international banks had been invested in when they met the Council's investment criteria. Where there had been concerns in relation to human rights and similar issues, the Section 151 Officer had made the decision made not to invest in that area. It would benefit to have a formal mechanism in place to continually review all financial institutions, although that would require a lot of resources and was not currently available. This has been raised with Link Group, the external treasury advisors and was being examined, however uncertainly remains on whether anything would materialise.

The Section 151 Officer stated it was beneficial to have such mechanisms available and there needs to be industry pressure on providers to deliver indicators to assist us. This was to continue being an area of focus going forward.

- In relation to surplus from the Towns and Levelling Up Funding, a Member queried if the surplus was from the Sutton Colonnade Fund and what happens to the surplus, page 137 of the Agenda refers. In response, the Section 151 Officer advised in instances when there was a delay in incurring capital expenditure, and the grant funding was not received in advance, spending was estimated for it was actually going to occur. It was clarified that the profile of the income was not narrowed down to a particular project as it relied on when the spend was anticipated to take place. In addition, the Capital Program was not controlled according to the grant received, but instead the Council manages the overall total in the Town's Fund and reports accordingly.

No further comments or questions were received.

The Chairman thanked the Interim Treasury and Investment Manager for their report.

Following which it was,

RESOLVED:

That the Mid Term Treasury Management Update 2023/24 be noted.

44. RISK MANAGEMENT REPORT Q2 - 2023/24:

Suzanne Rolfe, Group Manager (Insights and Transformation) presented Members with the Risk Management Report, pages 163 to 210 of the Agenda refer. A copy of the Draft Risk Management Framework was attached at Appendix A, pages 171 to 188 of the Agenda refer and Q2 Strategic Risks was attached at Appendix B, pages 189 to 210 of the Agenda refer.

Members were advised that paragraph 1.4 in the covering report sets out items that were previously raised by the committee and these had been addressed in the Risk Framework or in the body of the report. The full Risk Register now includes target risk score and future actions. The Risk Management Framework was based on good practice and had incorporated elements from across the partnership to ensure consistency. The report was being taken forward to the Executive Board and then for Council approval.

Members were invited to put their comments and questions forward.

- A Member made comment that the newly incorporated heat map would benefit from being placed at the front of the report so that Committee Members can identify red and amber areas to examine more quickly, page 207 of the Agenda refers.
- A Member referred to the review of risk mitigation which showed that risks tend to be general and high level rather than specific, and requested assurance that measures will be incorporated in the mitigations of the new risk framework which may benefit from more specific information such as target dates. In response, Group Manager (Insights and Transformation) provided assurance that work was underway, a thorough review of Quarter 2 had been performed and a planned audit of strategic risks was to follow. The framework provided a better opportunity to demonstrate what good mitigation looks like and target dates were to be included where possible to be effective. Overall good progress has been made and there was more work in progress.
- Referring to Risk 19 'Identification and Suitability of future Depot Accommodation' and noting the report was still in development, a Member commented that it would be beneficial to look into the inclusion of a significant waste reduction communication campaign, page 195 of the Agenda refers.
- A Member reiterated concerns on flooding and emphasised that the risk to the coastal defences needs to be fully appreciated by the Council. Stating that Environment Agency work had lost momentum and the reliance on beach nourishment was not sustainable. This had also led to stagnation of the coastal economy and deprivation due to loss of facilities and new residential developments being hindered by regulations. The Member concluded this was a

significant risk that should not be underestimated. In response, Group Manager (Insights and Transformation) confirmed these concerns were noted and would be relayed to the lead officers.

No further comments or questions were received.

Following which it was,

RESOLVED:

That the Risk Management Q2 - 2023/24 Report be noted.

45. INFORMATION GOVERNANCE ANNUAL UPDATE:

The Chairman welcomed Group Information Manager and Data Protection Officer, Richard Steele to provide the Information Governance Annual Update, pages 211 to 218 of the Agenda refer.

The report provided Members of the Audit and Governance Committee with an overview of activity in relation to information governance, including data protection for the Authority and highlighted any changes or risks for the forthcoming year.

Members were advised that the report was written to cover the period between October 2022 to October 2023. The first area of focus was access to information and transparency, which includes the Freedom of Information (FOI) Act and Environmental Information Regulations (EIR) and noted that signoff was imminent to replace the Council's FOI Policy.

Key information was highlighted to Members as follows:

- It was highlighted that the Council was consistently exceeding 95% compliance rate when responding to FOI and EIR which exceeds the Information Commissioner's Office (ICO) target for good performance.
- FOI and EIR had seen a 10% increase in the number of requests based on the previous year which is consistent with other Council's in the partnership.
- 693 Freedom of Information requests met the requirements to be considered and outlined in the report.
- In most instances, the use of exemptions was to protect personal data.
- Low number of internal reviews whereby FOI's have been challenged demonstrated the quality of the response provided. Out of 633, only 5 were internally reviewed including one that was referred to the ICO which was not upheld.

- Data Protection Act 2018 was due for replacement by the Data Protection and Digital Information Bill in 2024 which would impact on requirements to update the Council's Policy.
- Assurance was given that 53 incidents reported across the organisation including subprocesses compared to the number of transactions the Council undertakes including PSPS was a very small.
- There were only 13 Subject Access Requests (SAR) in the 12-month period.
- Significant work in the Information Governance team was underway to facilitate data reuse and sharing with third parties such as the Police, Home Office and HMICFRS.

The Group Information Manager and Data Protection Officer concluded that the report provided assurance that the Council demonstrated good governance in respect of information management and compliance with legislation.

Members were invited to put their comments and questions forward.

- A Member queried how the 10% increase in the number of requests compared to other councils. In response the Group Information Manager and Data Protection Officer, advised that in terms of the Councils in the South and East Lincolnshire Partnership, East Lindsey had seen the greatest increase. The total requests were 733, South Holland has had a 9% increase and Boston a similar amount. The figures were thought to be representative of wider local authorities as a sector.
- A Member queried if the response time was fulfilled for the 13 Subject Access Requests received. The Group Information Manager and Data Protection Officer responded that this information would be obtained and provided back to the committee.
- A Member sought clarification on what checks were undertaken on requests for information to ensure personal information was kept secure. In response, the Group Information Manager and Data Protection Officer advised that responders were trained in both FOI and data protection and have a good awareness of GDPR. There were also processes in place to make sure inadvertent release of data does not occur through technology related measures, for example to prevent any vulnerabilities when using Microsoft Excel.
- In reference to services such as PS2, a Member queried how ELDC dealt with FOI requests on their behalf. In response, the Group Information Manager and Data Protection Officer advised that the triage process would determine the best person to respond. The Council would respond for third party services, but not for third party

employees. In general, it was ELDC who would answer the majority of requests.

- A Member sought further clarification on who would respond to requests for Magna Vitae. In response, the Group Information Manager and Data Protection Officer advised if Magna Vitae were formed as a Local Authority Trading Company they would respond to their own requests. However, the Assistant Director Governance & Monitoring Officer advised that Magna Vitae was its own Charitable Trust, therefore the Council would determine whose data it was and how best to respond.

No further comments or questions were received.

Following which it was,

RESOLVED:

That the Information Governance Annual Update be noted.

46. REGULATION OF INVESTIGATORY POWERS ACT (RIPA) 2000 - UPDATE:

The Chairman welcomed Christian Allen, Assistant Director - Regulatory to provide an update on Regulation of Investigatory Powers Act (RIPA) 2000, pages 219 to 226 of the Agenda refer.

Members were advised that the purpose of this report was to provide Audit and Governance Committee with an update on the Councils activities in respect of the Regulation of Investigatory Powers Act (RIPA) 2000 during the last 12 months, to ensure arrangements remain up to date, and to provide assurance that the Council's legal obligations were effectively managed.

The report also sought to update members on anticipated changes necessary to ELDC Policy and Procedures to reflect current guidance issued by the Home Office and the Investigatory Powers Commissioners Office (IPCO), which was the regulatory body that oversees compliance with RIPA by public bodies.

The Assistant Director – Regulatory advised members that ELDC were due a RIPA Audit in 2024, however this was deferred after briefing IPCO on the formation of the partnership and the intention to harmonise RIPA arrangements across all three councils.

Members were invited to put their comments and questions forward.

- A Member queried if work was performed outside of the partnership, with external authorities and across borders. In response, the Assistant Director - Regulatory explained that work was carried out with partner agencies particularly the police and that the responsibilities for RIPA

reside with each sovereign council. ELDC did not work with other councils outside borders, however common working arrangements and policy would allow work across borders within the partnership.

- A Member further queried who the policy was targeting. In response, the Assistant Director – Regulatory advised that the policy framework governed the way the Council undertakes certain aspects of enforcement. It was exceptionally rare that as a local authority, powers such as covert directed surveillance were used and that was the same across the country.
- The Chairman sought clarification on what was the key differences between ELDC's and South Holland's approaches. The Assistant Director – Regulatory advised there were no key differences as the approach was highly regulated and frequently audited by the IPCO to protect people's human rights. It was reemphasised that the power was rarely used by district councils because of the nature of enforcement that was carried out.
- A Member noted there had been no RIPA relevant activity in the last twelve months and requested clarification on the level of activity. In response, Assistant Director – Regulatory advised RIPA was infrequently used as it was extremely difficult to demonstrate that covert directed surveillance was proportionate when considering legislation. The Police would have more cause to use RIPA than a local authority.
- A Member acknowledged that the level of demand was low and queried whether the Council dealt with RIPA regulations in the most cost-effective way. In response, Assistant Director – Regulatory advised that councils are obliged to comply with the regulations and undertake the processes involved. Working across the partnership to unite working arrangements was seen as a positive and best use of the resources available. Although it was a relatively unused power, officers were fully aware of the requirements and were kept up to date through training and professional competency which was demonstrated when undertaking audit.

No further comments or questions were received.

The Chairman thanked the Assistant Director – Regulatory for their report.

Following which it was,

RESOLVED:

That the Regulation of Investigatory Powers Act (RIPA) 2000 Update be noted.

47. AUDIT AND GOVERNANCE ANNUAL REPORT 2022/23:

The Assistant Director Governance & Monitoring Officer, John Medler presented Members with the Audit and Governance Committee Annual Report 2022/23, pages 227 to 238 of the Agenda refer.

The report provided Members with an overview of the activity of the Audit and Governance Committee during the municipal year 2022/23.

Members were referred to Appendix A, pages 231 to 238 of the Agenda refer.

Assistant Director Governance & Monitoring Officer advised Members that it was best practice for the Audit and Governance Committee to report its previous year's work to full Council and a revision was made across the partnership in the style and detail of the report to become more effective in future year reporting.

Members were invited to put their comments and questions forward.

- A Member stated their appreciation for the clear and concise report and commented that an ongoing review of performance should be measured against the Committee's terms of reference. It was also queried why work on Invest East Lindsey was not mentioned in the report. In response, Assistant Director Governance & Monitoring Officer advised that Invest East Lindsey would be included next year's report as the information was retrospective of the previous financial year.
- A Member made further request for inclusion of training needs and training assessment in next year's report. Assistant Director Governance & Monitoring Officer confirmed that discussions had taken place to examine self-assessment of the committee as part of best practice and was to be included in the schedule later this financial year.

No further comments or questions were received.

Following which it was,

RESOLVED:

That the Audit and Governance Committee's Annual Report 2022/23 be approved and presented to Full Council on 13th December 2023.

48. CONSTITUTION WORKING PARTY REPORT:

The Assistant Director Governance & Monitoring Officer outlined a report on the recent work undertaken by the Constitution Working Party. Advising that the constitution working group had examined the matters raised by Members and reviewed outcomes. The main outcome was the recommendation that Area Forums were removed from the Constitution as

they had not taken place for many years. The power to convene an informal meeting would still be available to Parish Council Clerks and Councillors in liaison with Ward Members who could attend. The view taken by the working group was to remove the legacy of Area Forums from the Constitution.

Members were invited to put their comments and questions forward.

A Member expressed concerns that there was still a need for strong links between District and Parish Councils and commented on the wide variation in attendance of Ward Members at Parish Council meetings. It was expressed that communications should not be weakened by the removal of Area Forums and Ward Members were to be encouraged to attend meetings.

The Chairman clarified that a formalised agreement for Area Forums was effectively abolished a number of years ago, however the power to convene meetings as and when was still being retained. The Chairman supported that communication was vital and new ways could be put forward to satisfy the issues.

No further comments or questions were received.

Following which it was,

RESOLVED:

That the Constitution Working Party Report be noted and a recommendation be made to Council that the Constitution be amended to remove references to Area Forums.

49. DRAFT AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME 2023/24:

Members were presented with the Audit & Governance Committee Work Programme 2023/24, pages 243 to 246 of the Agenda refer.

The Assistant Director Governance & Monitoring Officer advised Members that the Information Governance Audit Report was to be removed from the schedule for January 2024 as the report was provided at today's meeting.

No further comments or questions were received.

Following which it was,

RESOLVED:

That the Work Programme 2023/24 be noted.

50. DATE OF NEXT MEETING:

The programmed date for the next Meeting of this Committee was noted as 24 January 2024.

The meeting closed at 12.17 pm.

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| <u>ACTIONS FROM THE AUDIT AND GOVERNANCE COMMITTEE MEETING</u> <u>HELD ON WEDNESDAY 22 NOVEMBER 2023.</u> | | | | |
|--|------------|---|--|--|
| <u>MIN NO.</u> | | <u>AGENDA ITEM</u> | <u>OFFICER</u> | <u>ACTION TAKEN</u> |
| 40. | | INTERNAL AUDIT PROGRESS REPORT: | | |
| * | (a) | An update to be provided on the reporting mechanisms in place for S106's and whether they can be distributed to councillors in addition to senior leadership. | <u>CHIEF FINANCE OFFICER (CM)</u> | 10/01/24: Following the resolution of all outstanding S106 matters this information was to be provided in the Annual Report available online prepared by Planning Team. A timeline for the final report being made available is yet to be confirmed. |
| ✓ | (b) | An update to be provided on the four outstanding actions for Invest East Lindsey as noted on the Lessons Learned Audit Review. | <u>CHIEF FINANCE OFFICER (CM)</u> | The response has been attached to the actions as an appendix. |
| 45. | | INFORMATION GOVERNANCE ANNUAL UPDATE: | | |
| ✓ | | Information to be provided on whether the 13 Subject Access Requests received between October 22 and October 23 were fulfilled and responded to on time. | <u>GROUP INFORMATION MANAGER AND DATA PROTECTION OFFICER (RS)</u> | 05/01/24: An update was provided that out of the 3 Subject Access Rights requests recorded by the IG team, only 1 was over the statutory deadline, and then only by 3 days. The requestor was advised of the delay in advance. This means 12 were responded to within time frame. |
| 49. | | AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME 2023/24: | | |
| ✓ | | The following item to be removed from the Work Programme: <ul style="list-style-type: none"> Information Governance Audit Report. | <u>DEMOCRATIC SERVICES</u> | This item has been removed from the A & G Committee's Work Programme for January 2024 due to being covered during the November 2023 meeting. |

ACTIONS FROM THE AUDIT AND GOVERNANCE COMMITTEE MEETING
HELD ON WEDNESDAY 5 JULY 2023.

| | | | | |
|------------|--|---|---|---|
| 13. | | ANNUAL SAFEGUARDING REPORT 2022/23: | | |
| ✓ | | The Community Safety Partnership Officer to provide a report back to Committee on Hate Crime when a format had been agreed. | <u>COMMUNITY SAFETY PARTNERSHIP OFFICER (SC)</u> | This item was to be referred to the next meeting of the Overview Committee. |

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Outstanding Actions for Invest East Lindsey – Appendix A1

| | Recommendation | Agreed Action |
|----|--|---|
| 6 | The Council should review its programme of formal oversight and scrutiny of the Company. At least annual reporting by the Shareholder Supervisory Board to the Executive Board and / or Council should be undertaken. | The Council has agreed with the Shareholder Supervisory Board that an update will be provided each July to Executive Board. |
| 9 | An agreement should be drawn up to formalise the arrangements for the payment of dividends. This should include proportion of profits to be paid, level of profit to be reached for a dividend to be paid and timing of dividend payment. As a minimum a formal process should be agreed between the Council and Company for the agreement and approval of dividend payments. | Paragraphs 36 – 42 of the Company's Articles of Association deal specifically with declaration, calculation, and distribution (payment) of dividends. We believe this constitutes the formal process. However, a separate document detailing the formal process will be agreed between the Council and the Company. This is currently being drafted and will be taken for approval in early 2024. |
| 12 | Updates on the Company's activities and governance framework should be provided to the A&G for review and discussion on a periodic (minimum 6 monthly) basis. This should include a review of the Company's risk register. | The Council has agreed with the Shareholder Supervisory Board that there will be updates to A&G committee every 6 months, to be agreed in line with the A&G work programme', and to include company activity, governance updates and risk register review. |
| 15 | <ol style="list-style-type: none"> 1. Provide reporting and oversight assurance, as specified in the terms of reference on the effectiveness of the SSB. 2. Review and update the terms of reference as to ensure they remain fit for purpose. 3. Reporting should ensure that Members outside of the Shareholder Supervisory Board have adequate oversight of the Company's performance, financial position, or management of risks. | <ol style="list-style-type: none"> 1. The Council will receive assurance through the provision of a summary of minutes, actions, and decisions as part of the annual reporting to Executive Board and A&G as detailed on actions 6, 12 and 13. 2. This has been completed, the Terms of Reference were reviewed and approved in July 2023 3. This is covered by the reporting agreed in actions 6, 12, 13. |

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| | |
|--------------------------|---|
| REPORT TO: | Audit and Governance Committee |
| DATE: | 24th January 2024 |
| SUBJECT: | Draft Budget Report 2024/25-2028/29 |
| PURPOSE: | To consider the draft budget position for 2024/25 |
| KEY DECISION: | <i>N/A</i> |
| PORTFOLIO HOLDER: | Councillor Richard Fry |
| REPORT OF: | Christine Marshall, Deputy Chief Executive Corporate Development |
| REPORT AUTHOR: | Colleen Warren – (Head of Finance - Client) and Stuart Leafe (Strategic Finance Manager) |
| WARD(S) AFFECTED: | All |
| EXEMPT REPORT? | <i>No</i> |

SUMMARY

Attached to this report is the draft detail of the 2024/25 budget, the 5-year Medium Term Financial Strategy (MTFS) from 2024/25 to 2028/29.

The report also includes the recommended level of Council Tax for 2024/25.

The proposed budget shows that efficiencies will be required to support the medium-term financial strategy (MTFS).

Audit and Governance Committee are asked to review the attached draft budget provide comment and feedback to Executive Board.

RECOMMENDATIONS

It is recommended:-

1. *The Draft Budget and Medium Term Financial Strategy for the period 2024/25 – 2028/29 is scrutinised by the Audit and Governance Committee and feedback is provided to Executive Board on 14th February 2024 and Council on 28th February 2024 when they consider these documents as part of the budget report.*

REASONS FOR RECOMMENDATIONS

To comply with the budgetary and policy framework and legislative requirement.

OTHER OPTIONS CONSIDERED

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

1. BACKGROUND

- 1.1 The attached Budget Report and Financial Policies set out the Council's Revenue and Capital Budgets for 2024/25 and the Medium Term Financial Strategy (MTFS) to 2028/29.
- 1.2 The preparation of the budget for 2024/25 has been a detailed process involving officers working groups, Management Team and member meetings amidst a background of uncertainty, continued 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 challenges. In addition, the Council has been and continues to be successful in drawing in significant capital and revenue investment for the area.
- 1.3 The draft Local Government Settlement announced on 18th December 2023 provided additional detail of continuing and additional one off support to councils including confirmation of allocations of Revenue Support Grant (RSG), Rural Services Delivery Grant (RSDG), New Homes Bonus and Minimum Funding guarantee.
- 1.4 The report below sets out the basis for draft budget and MTFS for the next five years and assumptions used in its development.

2. KEY BUDGET PRESSURES

- 2.1. Identified below are the major changes and key pressures that are being included within the proposed budget:
 - An award for 2023/24 was agreed November 2023 being a rise of up to 9.42% for the lowest paid through to 3.88% for those on the highest bands. For 2024/25 a 3.5% increase has been assumed with this moving to 3% for 2025/26 and then 2.5% from 2026/27 onwards.

- Pension contributions will be 23.8% in 2024/25 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 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 on Wednesday 20th December 2023 held rates at 5.25%.
- Electricity and gas costs have been based on actuals for 2024/25.
- Vehicle fuel costs have been based on 2023/24 actuals and current fuel prices.
- Increased Internal Drainage Board levy.
- 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;
 - PSPS contract increase

3. COUNCIL TAX AND BUSINESS RATES

- 3.1. The previous Medium Term Financial Strategy (MTFS) committed to a Council Tax increase in line with the maximum allowed under the recent Local Government Settlement. For ELDC in 2024/25 this is a £4.95 (3.06%) per annum increase (for band D properties). This will generate additional income of £370k and the increase is reflected throughout the life of the MTFs.
- 3.2. The tax base projections for 2024/25 indicate growth of 845 band D equivalent properties (1.82%). Future growth has been projected at 1.5%.
- 3.3. 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 economic impacts and changes in Government Policy and will be finalised on 31st January 2024 and be one of the final components of the budget to be finalised between draft and final
- 3.4. In order to manage and review this important income stream and the changes within it regular review meetings are taking place internally. There have also been some significant changes which need further and detailed consideration in terms of growth, appeals and new hereditaments.

4. LOCAL GOVERNMENT SETTLEMENT

4.1. The provisional local government settlement delivered on 18th December has provided the following support:

| Local Government Settlement Information | East Lindsey District Council | | |
|---|-------------------------------|--------------------------------|--------------------------|
| | 2023/24 Budget | 2024/25 PROVISIONAL Settlement | Difference 23/24 - 24/25 |
| | £'000 | £'000 | £'000 |
| Revenue Support Grant | 1,310 | 1,396 | 86 |
| Rural Services Delivery grant | 779 | 779 | 0 |
| Lower Tier Services Grant | 0 | 0 | -0 |
| Service Grant | 249 | 39 | (210) |
| Sub Total | 2338 | 2214 | (124) |
| Funding Guarantee (3%) | 888 | 940 | 52 |
| Sub Total | 3226 | 3,154 | (72) |
| New Home Bonus | 378 | 434 | 56 |
| Total Funding | 3,604 | 3,588 | (16) |

4.2. The 2024/25 local government finance settlement is for one year only. The main points are set out below:

- 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.
- 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.
- 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 still being finalised and will be 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 2024/25 cost is £5.2m and the estimated increases range from 2% to 10% 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, worsening weather events and contract inflation. Representations have been and

continue to be made to government due to the substantial loss of income to the Council. 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 that the estimated IDB levy will consume 48% of all the Council's proposed Council Tax increase for 2024/25 which should be used to finance and support services but also requires additional efficiencies/funding to be identified to finance this

| Council | Total Council Tax Received per year 24/25 | Total IDB levy per year 24/25 | Increase 2024/25 | Council Tax 24/25 Increase £4.95 | Increase from 21/22 to 24/25 |
|-------------------------------|---|-------------------------------|------------------|----------------------------------|------------------------------|
| East Lindsey District Council | £8.0m | £5.2m | £176k | £370k | £1,351k (35%) |

5.4. The Council has been in detailed discussion with 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 and a Special Interest Group has been set up to lobby Government on this matter with the SELCP partnership leading on this work.

6. CAPITAL PROGRAMME 2024/25 – 2028/29

6.1. The capital programme included in Appendix A, is subject to final additions and other announcements that may be received by the time of publication. A final version of the programme will be presented to Council on 1st March 2023 for approval.

6.2. The five year General Fund Capital Programme includes provision for Investment and Growth linked to the Councils Strategic objectives. Final decisions on individual projects will be subject to approval and detailed business case.

Due to the nature of some capital projects, it can be common for large scale project timing to change over the medium term. This budget provides the best estimates of deliverability available at the time of production and the programme will be flexed over time as reported in quarterly reports to Executive Board and Council.

7. RESERVES

7.1. General Fund Specific Reserves are budgeted to increase by £6.670m in 2024/25, this is predominantly NNDR surplus. This figure will be adjusted once the outturn for 2023/24 is known.

8. BALANCING THE BUDGET

8.1. 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.
- 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.
- Commercialisation/opportunities
- Alternative service delivery.

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.

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

9. AREAS FOR PRIORITY INVESTMENT AND CONSULTATION

9.1 Some Particular areas of investment for consultation have been identified by Members:

- Market Towns and Rural Areas
- Driving and supporting Economic Growth
- Supporting the Delivery of Affordable Housing
- Supporting the Vulnerable
- Supporting Healthy Living
- Decarbonisation and continued investment in green initiatives
- Invest to Save

9.2 A new Corporate Priorities reserve has been established to facilitate the delivery of these areas of focus.

10. CONCLUSION

10.1. Members of the Audit and Governance Committee are asked to review the attached budget report and provide feedback to the Executive Board prior to the finalisation of the budget and MTFs for 2024/25 to 2028/29.

EXPECTED BENEFITS TO THE PARTNERSHIP

This report enables East Lindsey District Council to consult on its budget and the level of Council Tax for 2024/25.

IMPLICATIONS

SOUTH AND EAST LINCOLNSHIRE COUNCILS PARTNERSHIP

This budget support the SELCP partnership arrangements

CORPORATE PRIORITIES

This budget has been built in line with corporate priorities.

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.

WORKFORCE CAPACITY IMPLICATIONS

Contained within the report.

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

As contained within this report.

RISK MANAGEMENT

Risk management is considered as part of the budget setting process

STAKEHOLDER / CONSULTATION / TIMESCALES

The Council has a legal duty to consult residents on its draft budget proposals.

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

NOP – National Portfolio Organisation

LUF – Levelling Up Funding

UKSPF – UK Shared Prosperity Funding

APPENDICES

Appendix A

BACKGROUND PAPERS

None

CHRONOLOGICAL HISTORY OF THIS REPORT

Executive Board 10th January 2024.

Overview Committee 23rd January 2024

REPORT APPROVAL

| | |
|---------------------------|---|
| Report author: | Colleen Warren (Head of Finance – Client) and Stuart Leafe (Strategic Finance Manager) |
| 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 |



EAST LINDSEY DISTRICT COUNCIL

**REPORT OF RICHARD FRY, Portfolio Holder Finance,
(Authors: Christine Marshall (Deputy Chief Executive Corporate Development (S151)) and –
Colleen Warren (Head of Finance - Client))**

DRAFT BUDGET SETTING REPORT 2024/25 -2028/29

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

The creation of next year's budget has been one of the 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, however the concerns remain significant 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.

Another key component of the council budget is its share of business rates income which has seen changes following the settlement in December. In addition, inflationary pressures have been seen across all areas of the council's budget, particularly pay, contracts, utilities and fuel.

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 and looking at our ability to generate future capital receipts. In addition, the Council has a significant commitment towards de-carbonisation, climate change related initiatives and supporting residents during one of the most challenging financial environments for many years.

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

Appendix A

The Budget for 2024/25 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.
- Significant additional capital and revenue spending supported by Grant Funding
- Setting aside funds to support de-carbinisation activities and support for the most vulnerable in our community.



Councillor Richard Fry, Portfolio Holder for Finance

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Appendices:-

- 1 – Revenue Budget and Medium Term Financial Strategy Summary**
- 2 – Capital and Treasury Management Strategy**
- 3 -Treasury Management Policy and Investment Strategy**
- 4 – Fees and Charges 2023/24**
- 5 – South and East Lincolnshire Councils Partnership Annual Delivery Plan 2023/24**
- 6 – Pay Policy Statement**
- 7 - Consultation Report**

EXECUTIVE SUMMARY

| | 2023/24 | 2024/25 |
|--|----------------|----------------|
| ELDC Precept | £7.496m | £7.867m |
| Council Tax Increase | 3.16% | 3.06% |
| Council Tax Band D | £161.64 | £166.59 |
| Government Funding | £1.310m | £1.396m |
| Retained Business Rates used to support budget | £10.365m | £10.760m |
| Reserves | £17.756m | £30.337m |
| Capital Programme (General Fund) | £24.2m | £33.654m |

1. INTRODUCTION

- 1.1** This appendix sets out the draft combined 2024/25 budget estimates and Medium Term Financial Strategy (MTFS) for the period 2024/25 to 2028/29 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 Sub-regional Plan and Annual 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:

Appendix A

- The Council's Medium Term Financial Strategy for the period 2024/25 to 2028/29.
- The 2024/25 General Fund Revenue Budget & Financing.
- The General Fund Reserves Position.
- The General Fund Capital Programme and Financing.
- Risks, key issues, sensitivity and monitoring.
- Treasury management policy and investment strategy.

1.4 The unprecedented challenges faced through recent years have continued into 2024/25, with significant inflationary pressures. The government settlement delivered in mid December for East Lindsey included New Homes Bonus (£434k) and 3% funding guarantee (£940k).

1.5 In 2024/25 a budget is proposed that allows expenditure to be financed through the use of reserves 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 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|--|----------|-----------------|----------|----------|----------|----------|
| Budgeted inflation ¹ | 0% | 0% | 0% | 0% | 0% | 0% |
| Pay costs increase ² | 5.0% | 3.5% | 3.0% | 2.5% | 2.5% | 2.5% |
| Full Time Equivalent Employees | 424.41 | 447.65 | 447.65 | 447.65 | 447.65 | 447.65 |
| Staffing levels ³ | 96% | 96% | 96% | 96% | 96% | 96% |
| Pension contribution rate applied to staff budgeted in pension scheme ⁴ | 23.8% | 23.8% | 23.8% | 23.8% | 23.8% | 23.8% |
| Pension contribution cash amount to fund deficit on scheme | £649,000 | £674,000 | £700,000 | £700,000 | £700,000 | £700,000 |
| Return on cash investments ⁵ | 4.40% | 3.30% | 2.60% | 2.50% | 2.50% | 2.50% |
| Utility cost rises ⁶ | 50% | 0% | 0% | 0% | 0% | 0% |
| Fuel cost rises ⁷ | 25% | 0% | 0% | 0% | 0% | 0% |
| Tax base increase ⁸ | 1.28% | 1.82% | 1.50% | 1.50% | 1.50% | 1.50% |

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 7).

1. Although inflation does affect the price of supplies and services that the Council procures, because services are given cash limited budgets they have 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, we expect that contract costs will substantially increase on renew.
2. The nationally agreed pay award ended on 31st March 2023. An award for 2023/24 was agreed November 2023 being a rise of up to 9.42% for the lowest paid through to 3.88% for those on the highest bands. For 2024/25 onwards a 3.5% award has been assumed, reducing to 3% for 2025/26 and then 2.5% from 2026/27 onwards.
3. An annual General Fund saving in staff costs (£629k) is built into the budget (equivalent to 4% of the staff budget) due to anticipated staff vacancies during the year.
4. Based on the 2022/23 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

Appendix A

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 2024/25.

5. These are the estimated returns on cash and the estimated yield on the current budgeted £25m property funds (subject to further review).
6. Utility costs have been inflated for 2024/25 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.
7. The tax base projections for 2024/25 has provided for a growth of 845 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 Appendix 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 18 December 2023 the Local Government Finance Settlement 2024/25 was delivered. The papers included a continuation of New Homes Bonus for 2024/25 and 3% Funding Guarantee that replaced 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 2024/25 and provisional figures for 2025/26 through to 2028/29.

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- 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

*NNDR 1 expected 31st January, this table displays 23/24 information and will be updated

| | Estimate 2023/24 £'000 | Estimate 2024/25 £'000 | Draft 2025/26 £'000 | Draft 2026/27 £'000 | Draft 2027/28 £'000 | Draft 2028/29 £'000 |
|---|------------------------------|------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Net Rates | (10,016) | (11,087) | (12,566) | (14,050) | (14,331) | 0 |
| Transitional Relief ¹ | (3,224) | (2,418) | (2,418) | (1,209) | - | 0 |
| Retained Business Rates | (13,240) | (13,505) | (13,775) | (14,050) | (14,331) | 0 |
| Renewables – Standard | (867) | (884) | (902) | (920) | (938) | 0 |
| Total Renewables | (867) | (884) | (902) | (920) | (938) | 0 |
| Tariff | 7,827 | 7,983 | 8,143 | 8,306 | 8,472 | 0 |
| Net Retained Business Rates Income | (6,280) | (6,406) | (6,534) | (6,664) | (6,797) | 0 |
| S 31 Grants relating to Business Rates | (8,060) | (8,221) | (8,386) | (8,554) | (8,725) | 0 |
| Pre-levy income | (14,340) | (14,627) | (14,920) | (15,218) | (15,522) | 0 |
| Levy Payment to Lincolnshire Pool | 882 | 900 | 918 | 936 | 955 | 0 |
| Net gain to ELDC from the Pool contributed to the Economic Growth Reserve | 1,323 | 1,349 | 1,376 | 1,404 | 1,432 | 0 |
| Contribution to Reserves | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 | 0 |
| Business rate used to support the budget | (10,635) | (10,878) | (11,126) | (11,378) | (11,635) | 0 |
| Estimated (Surplus)/Deficit on Collection Fund ² | (1,432) | - | - | - | - | - |
| Renewables – Additional ³ | (4,086) | (4,176) | (4,267) | (4,361) | (4,457) | 0 |
| Total NNDR 1 Income | (16,153) | (15,054) | (15,393) | (15,739) | (16,092) | 0 |

1. Business Rates Revaluation effective from 1st April 2023, increases in rates are tapered over 3 years and the Council receives Transitional premium
2. 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.
3. In December 2022 a new renewables hereditament was added to the local rating list.

- 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

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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 2024/25 this is a £4.95 (3.06%) per annum increase (for band D properties). The increase is reflected through the life of the MTFs. See Table 3 below for the estimated changes in the tax base and council tax collected.

Table 3 – Council Tax

| | | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| a | Council Tax Base (band D equivalents) | 46,377 | 47,222 | 47,930 | 48,649 | 49,379 | 49,379 |
| b | Council Tax band D (£.p) | 161.64 | 166.59 | 171.54 | 176.49 | 181.44 | 186.39 |
| | Annual Increase £ | 4.95 | 4.95 | 4.95 | 4.95 | 4.95 | 4.95 |
| | Annual Increase % | 3.16% | 3.06% | 2.97% | 2.89% | 2.80% | 2.73% |
| c | Annual Council Tax collected(a x b) £ | (7,496,378) | (7,866,713) | (8,221,912) | (8,586,062) | (8,959,326) | (9,341,680) |
| | Annual Increase in Council Tax collected £ | (321,073) | (370,335) | (355,199) | (364,150) | (373,264) | (382,355) |
| d | Surplus on the Collection Fund £ | (69,097) | (128,303) | 0 | 0 | 0 | 0 |
| | Gross Council tax (c + d) £ | (7,565,475) | (7,995,016) | (8,221,912) | (8,586,062) | (8,959,326) | (9,341,680) |

- 4.7 The tax base for 2024/25 has been increased by 1.82% and by 1.50% per annum thereafter. This is based on the latest projected house building trajectory.

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Table 4 – Precepting Authority Band D charges

| Authority | Proposed Band D amount (£.p) | Increase over 2024/25 £ | Increase over 2024/25 % |
|--------------------------------|---------------------------------|-------------------------------|-------------------------------|
| Lincolnshire County Council* | 1,503.63 | 71.46 | 4.99% |
| Police and Crime Commissioner* | 291.24 | 14..94 | 5.41% |
| East Lindsey DC | 166.59 | 4.95 | 3.06% |
| Parishes (average)* | 74.17 | 4.16 | 5.94% |

*Figures based on 23/24 until information is available – this will be amended for final budget

Revenue Support Grant and Other 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 2024/25 is proposed to be £779k and the Funding Guarantee grant is £940k for 2024/25, the future of this grant into the longer term is not known however it now incorporates the previous Lower Tier Grant.

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

| | 2023/24 £'000 | 2024/25 £'000 | Draft 2025/26 £'000 | Draft 2026/27 £'000 | Draft 2027/28 £'000 | Draft 2028/29 £'000 |
|------------------------------------|------------------|------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Revenue Support Grant | (1,310) | (1,396) | (1,396) | (1,396) | (1,396) | (1,396) |
| Rural Services Delivery Grant | (779) | (779) | (779) | (779) | (779) | (779) |
| Services Grant | (249) | (39) | (39) | (39) | (39) | (39) |
| Lower Tier Services Grant | - | - | - | - | - | - |
| Funding Guarantee (3% - New Grant) | (888) | (940) | (940) | (940) | (940) | (940) |
| Total Received | (3,226) | (3,154) | (3,154) | (3,154) | (3,154) | (3,154) |
| Annual Change in Resource £ | (864) | 72 | - | - | - | - |

New Homes Bonus

4.9 New Homes Bonus (NHB) allocations were announced as part of the Local Government Finance Settlement for 2024/25 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 2024/25 allocation. If the scheme was to be continued in its current form next years payment would reflect just the growth in the previous year.

4.10 The New Homes Bonus will be fully transferred to Reserves in 2024/25

Table 6 - New Homes Bonus

| | 2023/24 £ | Draft 2024/25 £ | Draft 2025/26 £ | Draft 2026/27 £ | Draft 2027/28 £ | Draft 2028/29 £ |
|-----------------|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| New Homes Bonus | (378) | (434) | (434) | (434) | (434) | (434) |

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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 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. The Council has been subject to expenditure inflationary pressures over the last 24 months. It is proposed that the budget should apply RPI increases to all discretionary fees and charges on an annual basis, where supported by the S151 Officer and Finance Portfolio Holder.

Table 7 - Fees, Charges and Rental Income

| Budget Area | 2023/24 £'000 | 2024/25 £'000 | 2025/26 £'000 | 2026/27 £'000 | 2027/28 £'000 | 2028/29 £'000 |
|---|------------------|--------------------------------|------------------|------------------|------------------|------------------|
| Building Control Fees | (445) | (445) | (445) | (445) | (445) | (445) |
| Planning Fees (including pre-planning advice) | (1,571) | (1,488) | (1,488) | (1,488) | (1,488) | (1,488) |
| Car Parking Income | (3,490) | (3,490) | (3,490) | (3,490) | (3,490) | (3,490) |
| Market Stall Fees | (100) | (100) | (100) | (100) | (100) | (100) |
| Kingfisher Caravan Park | (1,054) | (1,054) | (1,054) | (1,054) | (1,054) | (1,054) |
| Waste Services | (1,424) | (1,728) | (1,728) | (1,728) | (1,728) | (1,728) |
| Commercial property rental income | (2,208) | (2,343) | (2,343) | (2,343) | (2,343) | (2,343) |
| Sales, Fees and other Direct Income | (4,807) | (4,517) | (4,517) | (4,517) | (4,517) | (4,517) |
| TOTAL | (15,099) | (15,165) | (15,165) | (15,165) | (15,165) | (15,165) |

Note: Fees and Charges are subject to review in future years due to inflationary pressures.

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Other Income

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

Table 8 - Other Income

| | 2023/24 £'000 | 2024/25 £'000 | 2025/26 £'000 | 2026/27 £'000 | 2027/28 £'000 | 2028/29 £'000 |
|--|------------------|--------------------------|------------------|------------------|------------------|------------------|
| Interest on Investments* | (1,305) | (3,415) | (3,415) | (3,415) | (3,415) | (3,415) |
| Housing Benefit Subsidy and Rent Rebates Subsidy. | (28,472) | (26,243) | (26,243) | (26,243) | (26,243) | (26,243) |
| Housing Benefit/Universal Credit Overpayments | (270) | (270) | (270) | (270) | (270) | (270) |
| Council Tax and Housing Benefit Administration Grant | (628) | (426) | (426) | (426) | (426) | (426) |
| Specific Government Grants , UKSPF, NSAP, Levelling Up and RSAP) | (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) | (1,916) | (1,916) | (1,916) | (1,916) | (1,916) |
| Other Government Grants (incl. Register of Electors, Discretionary Housing Payments, Flexible Homelessness grant, Homelessness Reduction new burdens grant and Towns Fund) | (39,930) | (2,180) | (2,180) | (2,180) | (2,180) | (2,180) |
| Other Grants and contributions | (2,016) | (2,695) | (2,695) | (2,695) | (2,695) | (2,695) |
| Use of Reserves | (18,994) | (1,583) | (418) | (451) | (353) | (283) |
| TOTAL | (93,714) | (39,229) | (38,064) | (38,097) | (37,999) | (37,929) |

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

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- Use of Reserve values will change as and when new schemes are approved for inclusion within programme.
- Reductions in the Housing Benefit Subsidy income is due to a realignment of the budget to reflect current anticipated levels of activity – especially with the roll out of Universal Credit. There is a corresponding reduction in expenditure in section 4 below.
- Reduction in Other Government Grants primarily relates to Towns Funds and Sustainable Warmth Grant.

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Summary

Table 9 – All sources of income

| | 2023/24 £'000 | 2024/25 £'000 | 2025/26 £'000 | 2026/27 £'000 | 2027/28 £'000 | 2028/29 £'000 |
|--|------------------|--------------------------|------------------|------------------|------------------|------------------|
| Business Rates (Table 2) | (18,977) | (18,745) | (18,745) | (18,745) | (18,745) | (18,745) |
| Revenue Support Grant (Table 5) | (1,310) | (1,396) | (1,396) | (1,396) | (1,396) | (1,396) |
| Lower Tier Services Grant (Table 5) | 0 | 0 | 0 | 0 | 0 | 0 |
| Services Grant (Table 5) | (249) | (39) | (39) | (39) | (39) | (39) |
| Funding Guarantee (3%) (table 5) | (888) | (940) | (940) | (940) | (940) | (940) |
| Rural Services Delivery Grant (Table 5) | (779) | (779) | (779) | (779) | (779) | (779) |
| New Homes Bonus (Table 6) | (378) | (434) | (434) | (434) | (434) | (434) |
| Council Tax (Table 3) | (7,565) | (7,995) | (8,222) | (8,586) | (8,959) | (9,342) |
| Funding subtotal | (30,146) | (30,328) | (30,555) | (30,919) | (31,292) | (31,675) |
| Fees, Charges, Rents (Table 7) | (15,099) | (15,165) | (15,165) | (15,165) | (15,165) | (15,165) |
| Other Income (Table 8) | (81,191) | (39,389) | (38,224) | (38,257) | (38,159) | (38,089) |
| Fees, Charges & Other Income subtotal | (96,290) | (54,553) | (53,388) | (53,422) | (53,324) | (53,254) |
| Gross Budgeted Income | (126,436) | (84,881) | (83,943) | (84,341) | (84,616) | (84,928) |

2023/24 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.

4.15.1 The table below summarises the main changes in expenditure budgets between 2023/24 and 2024/25. The ongoing delivery of the Council's Efficiencies and Transformation Programme may introduce further changes in the year ahead and over the Medium Term.

Table 10 – Spending Plans

| Description | 2023/24 £'000 | 2024/25 £'000 | 2025/26 £'000 | 2026/27 £'000 | 2027/28 £'000 | 2027/28 £'000 |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Employees | 18,344 | 20,764 | 21,476 | 22,078 | 22,663 | 23,235 |
| Premises | 3,125 | 3,523 | 3,523 | 3,523 | 3,523 | 3,523 |
| Transport | 1,217 | 1,555 | 1,555 | 1,555 | 1,555 | 1,555 |
| Supplies & Services | 6,367 | 6,440 | 6,440 | 6,440 | 6,440 | 6,440 |
| Drainage Board Levies | 4,888 | 5,158 | 5,158 | 5,158 | 5,158 | 5,158 |
| Transfer Payments | 48,754 | 29,562 | 29,562 | 29,562 | 29,562 | 29,562 |
| Capital Charges | 24,484 | 100 | 100 | 100 | 100 | 100 |
| Third Party Payments | 10,155 | 11,166 | 11,166 | 11,166 | 11,166 | 11,166 |
| Interest on Borrowing | 495 | 3 | 3 | 3 | 3 | 3 |
| Contributions From Reserves | 10,215 | 8,253 | 7,795 | 7,820 | 7,645 | 6,563 |
| Gross Expenditure | 128,044 | 86,524 | 86,778 | 87,405 | 87,815 | 87,305 |

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 3.5% increase in 2024/25 and 3.0% to 2.5% thereafter. Pension cost estimates have been prepared on the basis of current staff in the pension scheme at October 2023/24, and all vacant posts assumed to be within the 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 2022/23 Pension Triennial Review.

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Premises budgets have increased in 2024/25. The main increase being the cost of utility wholesale increases in the price of gas and electricity.

Transport costs have increased from 2023/24 levels due to an increase in maintenance costs associated with the vehicle fleet.

Supplies and Services budgets have increased slightly due to agreed increases in council contracts in relation to RPI, additional project costs offset by grant, offset by the removal of the cost of living support scheme now held in reserve.

Internal Drainage Board (IDB) increases, in total average 3.6% for 2024/25. The cost of 2024/25 have been estimated as the base throughout the MTFs until further information has been provided by the Internal Drainage Boards. At a time of significant increases in rising energy cost it would be safe to assume that 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 with the impact of this loss of revenue to the Council due to the embedded levy having an impact every year that passes. The table below breaks down the levy by each Board.

| Internal Drainage Board | 2022/23 (Actual) £ | 2023/24 (Actual) £ | 2024/25 Budget £ | Increase over 2023/24 £ |
|---|-----------------------------------|-----------------------------------|---------------------------------|--|
| Lindsey Marsh Drainage Board | 3,148,320 | 4,091,378 | 4,197,754 | 106,376 |
| The Witham Third District Internal Drainage Board | 382,480 | 446,085 | 481,773 | 35,688 |
| Witham Fourth Internal Drainage Board | 410,100 | 443,015 | 478,456 | 35,441 |
| Total | 3,940,900 | 4,980,478 | 5,157,983 | 177,505 |

Transfer Payments – Linked to Capital Programme activity primarily Towns Fund

Capital Charges – The Capital Programme does not feature in the draft budget for 24/25 at present. The figure shown from 24/25 onwards represents MRP £100k.

Third party payments - These budgets reflect payments to 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.

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5.2 **Appendices 1a and 1b** bring together the budgeted expenditure and income and show the overall MTFS position analysed by income and expenditure type, service area and by portfolio budgets.

Table 11 – Budget Requirement

| | 2023/24 Estimate £'000 | 2024/25 Estimate £'000 | 2025/26 Estimate £'000 | 2026/27 Estimate £'000 | 2027/28 Estimate £'000 | 2028/29 Estimate £'000 |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Fees, Charges & Other Income (table 9) | (96,290) | (54,553) | (53,388) | (53,422) | (53,324) | (53,254) |
| Gross Expenditure (table 10) | 128,044 | 86,524 | 86,778 | 87,405 | 87,815 | 87,305 |
| Parish Precepts | 3,440 | 3,509 | 3,579 | 3,650 | 3,723 | 3,798 |
| Efficiency Target (table 15) | (1,608) | (1,643) | (2,835) | (3,065) | (3,200) | (2,377) |
| Net Budget | 33,586 | 33,837 | 34,134 | 34,568 | 35,014 | 35,472 |
| Funded By | | | | | | |
| Retained Business rates (table 2) | (17,545) | (18,745) | (18,745) | (18,745) | (18,745) | (18,745) |
| Business Rates Collection Fund (table 2) | (1,432) | 0 | 0 | 0 | 0 | 0 |
| Revenue Support Grant (table 5) | (1,310) | (1,396) | (1,396) | (1,396) | (1,396) | (1,396) |
| Specific Grants (table 5) | (1,916) | (1,758) | (1,758) | (1,758) | (1,758) | (1,758) |
| New Homes Bonus (table 6) | (378) | (434) | (434) | (434) | (434) | (434) |
| Parish Precepts | (3,440) | (3,509) | (3,579) | (3,650) | (3,723) | (3,798) |
| ELDC Council tax (table 3) | (7,496) | (7,867) | (8,222) | (8,586) | (8,959) | (9,342) |
| Council Tax Collection Fund Surplus (table 3) | (69) | (128) | 0 | 0 | 0 | 0 |
| Total Funding | (33,586) | (33,837) | (34,134) | (34,569) | (35,015) | (35,473) |

5.3 Based on current assumptions the Council has a significant efficiency target for 2024/25 in respect of which plans are already underway to address, in addition to the continued liaison with Government on the IDB issue. With uncertainty around Business Rates after 2024/25 as mentioned earlier it is very unclear at this stage what the financial impact will be.

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 £1.822m for the next five years, which the Council's Section 151 Officer believes to be prudent for the Council at this time.

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Table 12 – Reserve Balances

| Reserve | Forecast Balances at 31st March 2024 | Forecast Balances at 31st March 2025 | Forecast Balances at 31st March 2026 | Forecast Balances at 31st March 2027 | Forecast Balances at 31st March 2028 | Forecast Balances at 31st March 2029 |
|------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Investments Volatility Reserve | 871 | 871 | 871 | 871 | 871 | 871 |
| Housing Reserve | 2,244 | 2,161 | 2,077 | 1,994 | 1,911 | 1,827 |
| Repair and Replacement Reserve | 1,054 | 792 | 871 | 817 | 861 | 975 |
| Carbon Reduction Reserve | 398 | 398 | 398 | 398 | 398 | 398 |
| Insurance Reserve | 767 | 707 | 647 | 587 | 527 | 467 |
| Capital Reserve | 4,970 | 5,373 | 5,800 | 6,234 | 6,668 | 7,102 |
| Economic Growth | 658 | 966 | 2,098 | 3,255 | 4,437 | 4,337 |
| Service Transformation Reserve | 934 | 984 | 1,034 | 1,084 | 934 | 984 |
| Business Rates Volatility Reserve | 4,488 | 4,488 | 4,488 | 4,488 | 4,488 | 4,488 |
| Legal and Appeals Reserve | 2,632 | 2,632 | 2,632 | 2,632 | 2,632 | 2,632 |
| Technology Reserve | 334 | 402 | 470 | 538 | 606 | 674 |
| Wellbeing Reserve | 185 | 92 | - | - | - | - |
| Property Fund Reserve | 138 | 138 | 138 | 138 | 138 | 138 |
| Budget Pressures Smoothing Reserve | 742 | 742 | 742 | 742 | 742 | 742 |
| Climate Change Reserve | - | 481 | 481 | 481 | 481 | 481 |
| Corporate Priorities Reserve | - | 5,857 | 11,714 | 17,571 | 23,428 | 29,285 |
| De-carbonisation Reserve | 1,432 | 1,432 | 1,432 | 1,432 | 1,432 | 1,432 |
| Specific Reserves Total | 21,846 | 28,515 | 35,892 | 43,261 | 50,553 | 56,832 |
| General Fund | 1,822 | 1,822 | 1,822 | 1,822 | 1,822 | 1,822 |
| Total | 23,668 | 30,337 | 37,714 | 45,083 | 52,375 | 58,654 |

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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 13 – Specific Reserves

| Contribution To Reserves | 2024/25 £'000 | Contribution From Reserves | 2024/25 £'000 |
|--|--------------------------|---|--------------------------|
| - | | <u>Housing Reserve</u> | |
| - | | Rough Sleeper Initiative | 83 |
| | | - | |
| <u>Repair & Replacement Reserve</u> | | <u>Repair & Replacement Reserve</u> | |
| Replacement and Refurbishment - Payback | (154) | Capital Programme | 166 |
| | | Fleet Maintenance | 250 |
| - | | - | |
| - | | <u>Insurance Reserve</u> | 60 |
| | | | |
| <u>Capital Reserve</u> | | <u>Capital Reserve</u> | |
| New Homes Bonus | (434) | Capital Programme | 31 |
| | | | |
| <u>Economic Growth</u> | | <u>Economic Growth</u> | |
| NNDR | (1,208) | Capital Programme | 900 |
| | | | |
| <u>Service Transformation Reserve</u> | | | |
| Elections contribution | (50) | | |
| | | | |
| <u>Technology Reserve</u> | (68) | | |
| | | | |
| - | | <u>Wellbeing Reserve</u> | 93 |

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| | | | |
|---------------------------------------|----------------|--|----------------|
| <u>Climate Change Reserve</u> | | - | |
| Sustainable Warmth | (481) | - | |
| <u>Corporate Priorities Reserve</u> | (5,857) | | |
| Contribution To Reserves Total | (8,252) | Contribution From Reserves | 1,583 |
| | | Net Contribution (To)/From Reserves | (6,669) |

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7. CAPITAL PROGRAMME AND TREASURY MANAGEMENT

7.1 The Council's proposed 5 year Capital Programme and its 5 year capital resource projections are shown in the table below:
Table 14 – 5 year Capital Programme, funding and resource implications

| Capital Schemes | 2024/25 £'000 | 2025/26 £'000 | 2026/27 £'000 | 2027/28 £'000 | 2028/29 £'000 | Total |
|---|------------------|------------------|------------------|------------------|------------------|---------------|
| 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 | 7,810 |
| IT Investment | 198 | 198 | 429 | 769 | 100 | 1,694 |
| Neighbourhoods Vehicles | | | 168 | 4,270 | | 4,438 |
| Sustainable Warmth | 8,400 | | | | | 8,400 |
| CDF - Phase 2 | 2,539 | 117 | | | | 2,656 |
| CDF - Pier Transformation | 3,597 | 149 | | | | 3,746 |
| Horncastle Industrial Estate | 400 | | | | | 400 |
| Total Projects (Excl Towns Funds, UKSPF & LUF) | 17,146 | 2,476 | 2,609 | 7,051 | 2,112 | 31,394 |
| Towns Fund - Mablethorpe Leisure and Learning | 895 | | | | | 895 |
| Towns Fund - Skegness Railway Station | 39 | | | | | 39 |
| Towns Fund - Skegness Town Centre Transformation | 812 | 122 | | | | 934 |
| Towns Fund - Skegness Learning Campus | 4,158 | 189 | | | | 4,347 |
| Towns Fund - Mablethorpe Campus for Future Living | 2,124 | 267 | | | | 2,391 |
| Towns Fund - Mablethorpe High Street | 478 | 302 | | | | 780 |
| Towns Fund | 8,506 | 880 | 0 | 0 | 0 | 9,386 |
| UKSPF | 564 | | | | | 564 |
| UKSPF - Rural | 900 | | | | | 900 |
| UKSPPF | 1,464 | 0 | 0 | 0 | 0 | 1,464 |
| LUF: Spilsby Sessions House | 3,592 | | | | | 3,592 |
| LUF: Alford Manor House | 913 | 45 | | | | 958 |
| LUF: Alford Windmill | 15 | | | | | 15 |

Appendix A

| | | | | | | |
|---|---------------|--------------|--------------|--------------|--------------|---------------|
| LUF Projects | 4,520 | 45 | 0 | 0 | 0 | 4,565 |
| Total Current Approved Programme | 31,636 | 3,401 | 2,609 | 7,051 | 2,112 | 46,809 |

| Scheme | 2024/25 £'000 | 2025/26 £'000 | 2026/27 £'000 | 2027/28 £'000 | 2028/29 £'000 | Total |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|---------------|
| New Capital Bids | | | | | | |
| Disabled facilities Grant (inc Discretionary Grants) | 955 | 955 | 955 | 955 | 955 | 4,775 |
| Capital Enhancements Programme | 177 | 65 | 170 | (10) | 195 | 597 |
| Neighbourhoods Vehicles (EL04a only includes inflationary increases from yellow columns from already approved expenditure) | 720 | 34 | 57 | 1,065 | | 1,876 |
| Enforcement - Van | | 35 | | | | 35 |
| Neighbourhoods Growth | 100 | | | | | 100 |
| Environmental Services | 66 | 40 | 40 | 40 | 40 | 226 |
| Capital Bids | 2,018 | 1,129 | 1,222 | 2,050 | 1,190 | 7,609 |
| | | | | | | |
| Total Draft Programme | 33,654 | 4,530 | 3,831 | 9,101 | 3,302 | 54,418 |

- 7.2 The Capital Strategy, Asset Management Plans 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.
- 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. NHB is assumed to cease over the life of the MTFs and as such the Council will need to create additional future revenue capacity if it is to maintain contributions for capital expenditure.
- 7.4 Funding for Disabled Facility Grants (DFGs) comes from the Better Care Fund via Lincolnshire County Council's Health and Wellbeing Board.

Appendix A

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

Table 15 – Treasury Assumptions

| Treasury Assumptions | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Average Investment Balances | £75.4m | £59.5m | £40.6m | £39.4m | £42.0m | £45.2m |
| Investment assumptions - cash investments return | 4.40% | 4.70% | 3.20% | 3.00% | 3.25% | 3.25% |
| Investment assumptions – property fund return (revenue return only) | 3.60% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| External Borrowing | £20.0m | - | - | - | - | - |
| Average Borrowing Rate | 2.465% | - | - | - | - | - |

7.5 These assumptions include:

- 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.

12. EFFICIENCY TARGETS

- 12.1 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 to both improve economic development and maximise funding to the Council to help offset ongoing reductions in overall resources.
- 12.2 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 16 – Efficiency Targets

| | 2024/25 £000 | 2025/26 £000 | 2026/27 £000 | 2027/28 £000 | 2028/29 £000 |
|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Budget Savings Requirement | 426 | 1,618 | 1,848 | 1,983 | 1,160 |
| IDB Savings Requirement | 1,217 | - | - | - | - |

- 12.3 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.

13. SOUTH AND EAST LINCOLNSHIRE COUNCILS PARTNERSHIP PLANS

- 13.1 As we think of 2024/25, there is great uncertainty with the central funding which could be allocated to South Holland. 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 Councils assumptions on future budget gaps whilst prudent could well be understated.
- 13.2 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.

Appendix A

13.3 As we look forward into 2024/25, the Cabinet 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 is possible through greater collaboration through the South and East Lincolnshire Councils Partnership. Some of these key projects to be developed during 2023/24 include:-

- 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

14. RISK AND SENSITIVITY

14.1 The following table shows the key risks and how we intend to treat them through our risk management practices

Table 17 - Key Risks

| Risk | Likelihood | Impact | Mitigating Action |
|---|-------------------|---------------|--|
| Fairer Funding and Business Rate reset/changes | High | High | To lobby as required |
| Financial pressure as a result of the IDB levy | High | High | Lobbying underway |
| 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. |
| Universal Credit | High | Medium | The implementation of the Universal credit may impact on the General Fund in terms of running costs for the Benefits service and additional demand on other council services and on the HRA in terms of increased arrears. This will be closely monitored. |
| Fluctuation in business rates | High | High | Growth plans and accurate monitoring |

Appendix A

| | | | |
|--|--------|--------|---|
| Fair Funding Review could take into account actual levels of commercial | Medium | Medium | Prudent budget set to provide best estimate. |
| 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 were necessary |
| Lack of funding to partners causing displacement of service demand | High | High | Engagement and realism |
| Inadequate capital resources to finance future desired plans | High | High | Proportionate spending and sale of surplus assets |
| Central Government policy changes | High | High | Engagement in consultation and policy creation |

Appendix A

| | | | |
|--|--------|--------|--|
| Reductions in NHB impacting on future plans | High | High | Lobbying and service transformation |
| VAT – partial exemption | High | High | Close forecasting VAT partial exemption position |
| Failure to deliver the required transformation programme | Medium | High | Effective programme and project management |
| Reduction in Investment Values | Medium | Medium | Regular Monitoring, allocation of specific Reserve |
| Central Government policy changes | High | High | Engagement in consultation and policy creation |
| A poor settlement for rural councils | Medium | Medium | Lobbying as a special interest group |
| Increased demand for services in general | Medium | Medium | A robust performance management framework |

15. OPTIONS

15.1 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

16.RECOMMENDATION

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

- Recommendation –That Audit and Governance Committee review the draft medium term financial strategy and associated financial strategies and provide feedback to Executive Board.

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| | |
|--------------------------|--|
| REPORT TO: | Audit and Governance Committee Full Council – 28 February 2024 |
| DATE: | 24 January 2024 |
| SUBJECT: | Draft Treasury Management Policy and Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2024/25 |
| PURPOSE: | To provide pre-decision scrutiny to the strategy being proposed. |
| KEY DECISION: | No |
| PORTFOLIO HOLDER: | Councillor Fry, Portfolio Holder for Finance |
| REPORT OF: | Christine Marshall – Deputy Chief Executive (Corporate Development) & S151 |
| REPORT AUTHOR: | Sean Howsam (Interim Treasury & Investments Manager PPSPL) |
| WARD(S) AFFECTED: | None |
| EXEMPT REPORT? | No |

SUMMARY

This report is the Draft Treasury Management Policy and Strategy Statement for the 2024/25 financial year and is included as part of the Budget Setting Report that is submitted to Executive Board and Council for approval.

As the report is a treasury report it is being submitted to Audit and Governance Committee for scrutiny prior to submission to Executive Board and Council.

RECOMMENDATIONS

That the Audit and Governance Committee scrutinise the Treasury Management Policy (**Appendix A**) and the Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy 2024/25 (**Appendix B**) and make any comments and suggestions for consideration by Executive Board on 14 February 2024 and Council on 28 February 2024 when they consider these documents as part of the budget report.

REASONS FOR RECOMMENDATIONS

To comply with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management.

OTHER OPTIONS CONSIDERED

Members have the option of making comments to Executive Board and Council in respect of the proposed strategy or alternatively making no comments.

1. BACKGROUND

1.1 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.

1.2 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.

1.3 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".

1.4 The Council's treasury function is undertaken by Public Sector Partnership Services Limited (PSPSL) on behalf of the Council.

1.5 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. The capital strategy is being reported separately.

2. REPORT

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

2.2 The 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 2024/25 are attached at **Appendix B**. The strategy statements cover:

- reporting requirements
- capital prudential indicators 2023/24 to 2028/29
- 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

2.3 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 B** will be amended and considered by Executive Board prior to submission to Council for approval before the commencement of the 2024/25 financial year.

2.4 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 Audit and Governance 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.

- 2.5** The rules in relation to accounting for leases is changing from 1 April 2024. The new rules require leases to be brought onto the balance sheet and will increase the Council's Capital Financing Requirement (CFR). Work will be carried out over the next few months to assess the likely impact on the Council's CFR and where changes are required to the treasury and prudential indicators, a separate report will be brought to the Committee for scrutiny prior to submission to Council for approval.
- 2.6** The Government has recently released amended Minimum Revenue Provision Guidance which is currently out to consultation and likely to be effective from the 2024/25 financial year. The Minimum Revenue Provision Policy Statement will be reviewed prior to submission to Full Council.

3. CONCLUSION

- 3.1** This report has been produced based on information available from the budget setting process. As this process is ongoing the information is subject to amendment prior to its final submission to Council.

4. EXPECTED BENEFITS TO THE PARTNERSHIP

- 4.1 None

5. IMPLICATIONS

5.1 SOUTH AND EAST LINCOLNSHIRE COUNCILS PARTNERSHIP

- 5.1.1 None

5.2 CORPORATE PRIORITIES

- 5.2.1 The Treasury Management Strategy (incorporating the Annual Investment Strategy) aims to achieve the optimum performance from the Council's cash flow, debt and investment operations and effectively control the associated risks. This will help to finance the corporate priorities of the Council.

5.3 STAFFING

- 5.3.1 None

5.4 CONSTITUTIONAL AND LEGAL IMPLICATIONS

- 5.4.1 This Council is required to produce a Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy before the commencement of each financial year to comply with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. The report has no implications which would affect the constitution and does not therefore warrant a further change in the constitution.
- 5.4.2 Plans and strategies for control of the Council's borrowing, investments, capital expenditure and minimum revenue provision form part of the Council's policy framework and are therefore a non-executive (Council) function under the Council's Constitution.

5.5 DATA PROTECTION

5.5.1 None

5.6 FINANCIAL

5.6.1 Adoption of the proposed Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy will ensure sound financial controls associated with the management of the authority's investments and cash flows, its banking, money market and capital market transactions and safeguard these assets.

5.7 RISK MANAGEMENT

5.7.1 The Strategy will put in place measures for the effective control of the risks associated with Treasury Management and the pursuit of optimum performance consistent with those risks. The Council's priority is the security of its investments.

5.8 STAKEHOLDER / CONSULTATION / TIMESCALES

5.8.1 This report is being submitted for pre decision scrutiny prior to submission to Executive Board and Council.

5.8.2 Link Group, who are external treasury advisors to the Council, have been consulted in relation to the compilation of this report.

5.9 REPUTATION

5.9.1 The security of investments is the Council's main priority when investing surplus cash.

5.10 CONTRACTS

5.10.1 None

5.11 CRIME AND DISORDER

5.11.1 None

5.12 EQUALITY AND DIVERSITY/ HUMAN RIGHTS/ SAFEGUARDING

5.12.1 None

5.13 HEALTH AND WELL BEING

5.13.1 None

5.14 CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

5.14.1 None directly from the report. The Council is currently liaising with external treasury advisors to establish how these issues can be taken into considering when assessing the suitability of financial institution for investment purposes.

5.15 LINKS TO 12 MISSIONS IN THE LEVELLING UP WHITE PAPER

5.15.1 None

6. ACRONYMS

- 6.1 *Bps – basis points*
- 6.2 *CDS – Credit Default Swap*
- 6.3 *CFR – Capital Financing Requirement*
- 6.4 *CIPFA – Chartered Institute of Public Finance and Accountancy*
- 6.5 *CPI – Consumer Price Index*
- 6.6 *DLUHC – Department for Levelling Up, Housing and Communities*
- 6.7 *DMADF – Debt Management Agency Deposit Facility*
- 6.8 *GDP – Gross Domestic Product*
- 6.9 *LB – Liability Benchmark*
- 6.10 *LOBO - Lender Option Borrower Option*
- 6.11 *LUF – Levelling Up Fund*
- 6.12 *MHCLG – Ministry of Housing, Communities and Local Government*
- 6.13 *MPC – Monetary Policy Committee*
- 6.14 *MRP – Minimum Revenue Provision*
- 6.15 *OLTL – Other Long Term Liabilities*
- 6.16 *PFI – Public Finance Initiative*
- 6.17 *PSPSL - Public Sector Partnership Services Limited*
- 6.18 *PWLB – Public Works Loan Board*
- 6.19 *QT – Quantitative Techniques*
- 6.20 *SONIA – Sterling Overnight Index Average*
- 6.21 *UKSPF – UK Shared Prosperity Fund*
- 6.22 *VRP – Voluntary Revenue Provision*

| APPENDICES | |
|---|--|
| Appendices are listed below and attached to the back of the report: - | |
| <i>APPENDIX A</i> | <i>Treasury Management Policy Statement 2024-25</i> |
| <i>APPENDIX B</i> | <i>Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Plan 2024-25</i> |

| BACKGROUND PAPERS | |
|--|---|
| Background papers used in the production of this report are listed below: - | |
| Document title | Where the document can be viewed |
| Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management. | CIPFA website |

CHRONOLOGICAL HISTORY OF THIS REPORT

A report on this item has not been previously considered by a Council body for the 2024/25 financial year.

REPORT APPROVAL

| | |
|---------------------------|--|
| Report author: | Sean Howsam – Interim Treasury & Investments Manager (PSPSL) Sean.Howsam@pspsl.co.uk |
| Signed off by: | Christine Marshall – Deputy Chief Executive (Corporate Development) & S151 christine.marshall@sholland.gov.uk |
| Approved for publication: | CLlr Fry - Portfolio Holder for Finance |

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Treasury Management Policy Statement 2024/25

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 2024/25

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 2024/25

The strategy for 2024/25 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, Department for Levelling Up, Housing and Communities (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 2023/24 – 2028/29

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 | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Towns Fund Projects | 43,859 | 8,506 | 880 | - | - | - |
| UKSPF Projects | 1,527 | 1,464 | - | - | - | - |
| LUF Projects | 3,527 | 4,520 | 45 | - | - | - |
| Other General Fund Projects | 20,899 | 19,164 | 3,605 | 3,831 | 9,101 | 3,302 |
| Total | 69,812 | 33,654 | 4,530 | 3,831 | 9,101 | 3,302 |
| Financing | (69,154) | (32,209) | (3,883) | (2,825) | (2,727) | (2,657) |
| Net financing need for the year | 658 | 1,445 | 647 | 1,006 | 6,374 | 645 |

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 | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| CFR – General Fund | 658 | 2,006 | 2,397 | 3,067 | 8,955 | 8,457 |
| CFR - Non-treasury investments | 17,898 | 17,898 | 17,898 | 17,898 | 17,898 | 17,898 |
| Total CFR | 18,556 | 19,904 | 20,295 | 20,965 | 26,853 | 26,355 |
| Movement in CFR | (2,045) | 1,348 | 391 | 670 | 5,888 | (498) |

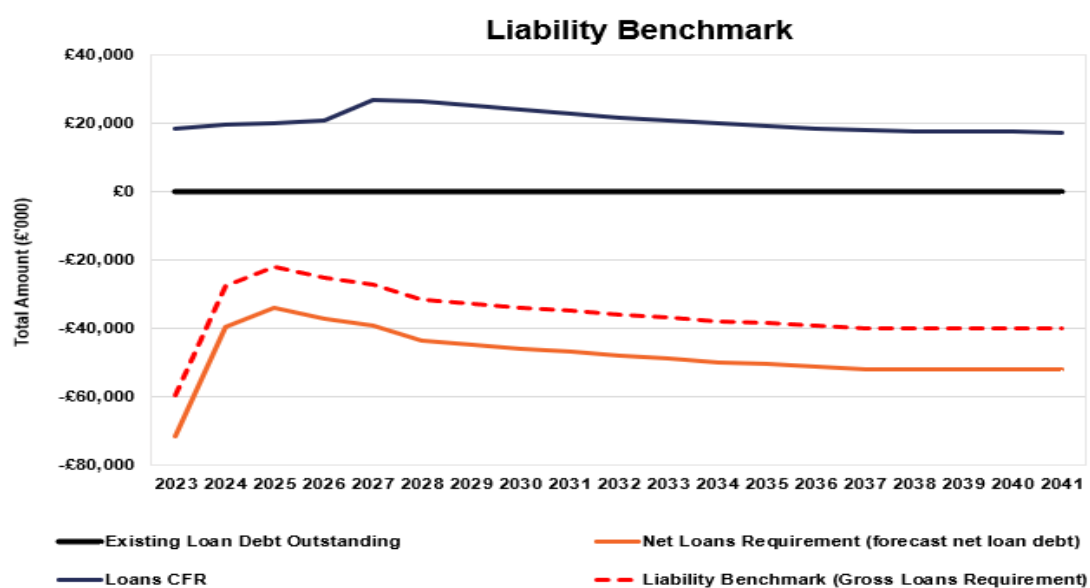
| | | | | | | |
|--|----------------|--------------|--------------|--------------|--------------|----------------|
| Net financing need for the year above) | 658 | 1,445 | 647 | 1,006 | 6,374 | 645 |
| Less MRP/VRP and other financing movements | (2,703) | (97) | (256) | (336) | (486) | (1,143) |
| Movement in CFR | (2,045) | 1,348 | 391 | 670 | 5,888 | (498) |

2.3 Liability Benchmark

The Council is required to estimate and measure the Liability Benchmark (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)
- **asset life method (annuity)** – MRP will be based on the estimated life of the assets.

Capital expenditure incurred during 2024/25 will not be subject to an MRP charge until 2025/26, 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.

Where the Council holds investment assets, the Council will have regard to the revised Statutory MRP Guidance when calculating its MRP charge. This amended guidance is currently out for consultation and is expected to be implemented from the 1 April 2024. It is the intention to charge MRP based on the asset life method (annuity basis).

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. Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan on an annuity basis if the loans become impaired or in accordance with amended statutory guidance once issued by Government.

MRP Overpayments

Under the MRP guidance, charges can be 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 2022/23 financial year the Council had made VRP contributions of £1,662,054. If this changes during the 2023/24 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 2023 and for the position as at 31 December 2023 based on cost are shown below for both borrowing and investments.

| TREASURY PORTFOLIO | | | | |
|---|--------------------|--------------------|---------------------|---------------------|
| | Actual 31/03/23 | Actual 31/03/23 | Current 31/12/23 | Current 31/12/23 |
| Treasury Investments | £000 | % | £000 | % |
| Banks | 29,019 | 36% | 10,842 | 12% |
| Building Societies - Rated | 0 | 0% | 0 | 0% |
| Local Authorities | 0 | 0% | 3,000 | 3% |
| DMADF (H.M.Treasury) | 0 | 0% | 2,700 | 3% |
| Money Market Funds | 2,380 | 3% | 5,100 | 6% |
| Certificates of Deposit | 25,000 | 31% | 45,000 | 50% |
| Total Managed In House | 56,399 | 70% | 66,642 | 73% |
| Bond Funds | 0 | 0% | 0 | 0% |
| Property Funds (At Cost) | 24,264 | 30% | 24,074 | 27% |
| Total Managed Externally | 24,264 | 30% | 24,074 | 27% |
| Total Treasury Investments | 80,663 | 100% | 90,716 | 100% |
| Treasury External Borrowing | | | | |
| Local Authorities | 0 | | 0 | |
| PWLB | 0 | | 0 | |
| LOBOs | 0 | | 0 | |
| Total External Borrowing | 0 | | 0 | |
| Net Treasury Investments / (Borrowing) | 80,663 | | 90,716 | |

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 | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Debt at 1 April | 20,000 | 0 | 0 | 0 | 0 | 0 |
| Expected change in Debt | (20,000) | 0 | 0 | 0 | 0 | 0 |
| Actual gross debt at 31 March | 0 | 0 | 0 | 0 | 0 | 0 |
| The Capital Financing Requirement | 18,556 | 19,904 | 20,295 | 20,965 | 26,853 | 26,355 |
| (Under) /over borrowing | (18,556) | (19,904) | (20,295) | (20,965) | (26,853) | (26,355) |

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 2024/25 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) | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Debt | 35,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Other long term liabilities | 3,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Total | 38,000 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |

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) | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Borrowing | 39,000 | 24,000 | 24,000 | 24,000 | 24,000 | 24,000 |
| Other long term liabilities | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Total | 44,000 | 29,000 | 29,000 | 29,000 | 29,000 | 29,000 |

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 07 November 2023. These are forecasts for certainty rates, gilt yields plus 80 basis points (bps).

| Link Group Interest Rate View 07.11.23 | | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 |
|--|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| BANK RATE | | 5.25 | 5.25 | 5.25 | 5.00 | 4.50 | 4.00 | 3.50 | 3.25 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 3 month ave earnings | | 5.30 | 5.30 | 5.30 | 5.00 | 4.50 | 4.00 | 3.50 | 3.30 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 6 month ave earnings | | 5.60 | 5.50 | 5.40 | 5.10 | 4.60 | 4.10 | 3.60 | 3.40 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 |
| 12 month ave earnings | | 5.80 | 5.70 | 5.50 | 5.20 | 4.70 | 4.20 | 3.70 | 3.50 | 3.30 | 3.30 | 3.30 | 3.30 | 3.30 |
| 5 yr PWLB | | 5.00 | 4.90 | 4.80 | 4.70 | 4.40 | 4.20 | 4.00 | 3.80 | 3.70 | 3.60 | 3.50 | 3.50 | 3.50 |
| 10 yr PWLB | | 5.10 | 5.00 | 4.80 | 4.70 | 4.40 | 4.20 | 4.00 | 3.80 | 3.70 | 3.70 | 3.60 | 3.60 | 3.50 |
| 25 yr PWLB | | 5.50 | 5.30 | 5.10 | 4.90 | 4.70 | 4.50 | 4.30 | 4.20 | 4.10 | 4.10 | 4.00 | 4.00 | 4.00 |
| 50 yr PWLB | | 5.30 | 5.10 | 4.90 | 4.70 | 4.50 | 4.30 | 4.10 | 4.00 | 3.90 | 3.90 | 3.80 | 3.80 | 3.80 |

Additional notes by Link on this forecast table: -

Our central forecast for interest rates was previously updated on 25 September and reflected a view that the Monetary Policy Committee (MPC) would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the Consumer Price Index (CPI) inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent Gross Domestic product (GDP) releases have surprised with their on-going robustness.

Naturally, timing on this matter will remain 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.

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 also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB Rates

- Gilt yield curve movements have broadened since our last Newsflash. The short part of the curve has not moved far but the longer-end continues to reflect inflation concerns. At the time of writing there is 60 basis points difference between the 5 and 50 year parts of the curve.

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, could keep gilt yields high for longer).
- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession 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, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

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

- Despite the recent tightening to 5.25%, the Bank of England proves too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term **US treasury yields** rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher.

- Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields compensating.

Link Group Forecasts

We now expect the MPC will keep Bank Rate at 5.25% for the remainder of 2023 and the first half of 2024 to combat on-going inflationary and wage pressures. We do not think that the MPC will increase Bank Rate above 5.25%, but it is possible.

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation starts to fall through the remainder of 2023 and into 2024.

| PWLB debt | Current borrowing rate as at 06.11.23 p.m. | Target borrowing rate now (end of Q3 2025) | Target borrowing rate previous (end of Q3 2025) |
|-----------|--|--|---|
| 5 years | 5.02% | 3.80% | 3.90% |
| 10 years | 5.15% | 3.80% | 3.80% |
| 25 years | 5.61% | 4.20% | 4.10% |
| 50 years | 5.38% | 4.00% | 3.90% |

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate has increased from 2.75% to 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, 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 will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

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

| Average earnings in each year | Now | Previously |
|-------------------------------|-------|------------|
| 2023/24 (residual) | 5.30% | 5.30% |
| 2024/25 | 4.70% | 4.70% |
| 2025/26 | 3.20% | 3.00% |
| 2026/27 | 3.00% | 2.80% |
| 2027/28 | 3.25% | 3.05% |
| Years 6 to 10 | 3.25% | 3.05% |
| Years 10+ | 3.25% | 3.05% |

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 first half of 2024.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 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 prior appraisal and subsequent reporting through the mid-year and annual reporting mechanisms.

3.6 Debt rescheduling

The Council fully repaid its external borrowing with the PWLB in 2023/24 so rescheduling borrowing is not a consideration for this Council at the moment.

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

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

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally 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 financial 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 31/3/23. More recently, a further extension to the over-ride to 31/3/25 has been 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 last year.

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

** Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.*

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. Nonetheless, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government in the autumn of 2022, 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 Authority 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 second half of 2023 and possibly reducing as early as the second half of 2024 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 have peaked at 5.25% in Q4 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: -

| Average earnings in each year | % |
|-------------------------------|-------|
| 2023/24 (residual) | 5.30% |
| 2024/25 | 4.70% |
| 2025/26 | 3.20% |
| 2026/27 | 3.00% |
| 2027/28 | 3.25% |
| Years 6 to 10 | 3.25% |
| Years 10+ | 3.25% |

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 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|---------|---------|---------|---------|---------|
| 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 2023 in excess of 1 year maturing in each year | 0 | 0 | 0 | 0 | 0 |

Loans to and equity purchases in Invest East Lindsey do not count towards this limit.

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 2023/24 – 2028/29

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 (subject to change during the budget setting process)

| Capital expenditure £m | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Towns Fund Projects | 43,859 | 8,506 | 880 | - | - | - |
| UKSPF Projects | 1,527 | 1,464 | - | - | - | - |
| LUF Projects | 3,527 | 4,520 | 45 | - | - | - |
| Other General Fund Projects | 20,899 | 19,164 | 3,605 | 3,831 | 9,101 | 3,302 |
| Total | 69,812 | 33,654 | 4,530 | 3,831 | 9,101 | 3,302 |

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.

| % | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|-------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total | (13.51%) | (7.70%) | (3.66%) | (3.19%) | (3.53%) | (1.92%) |

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

5.1.3 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 2024/25 | | |
|---|--------------|--------------|
| | 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 2024/25 | | |
| | 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% |

5.1.4 Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

APPENDIX 5.2 INTEREST RATE FORECASTS 2023-2026

| Link Group Interest Rate View 07.11.23 | | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 |
|---|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| BANK RATE | | 5.25 | 5.25 | 5.25 | 5.00 | 4.50 | 4.00 | 3.50 | 3.25 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 3 month ave earnings | | 5.30 | 5.30 | 5.30 | 5.00 | 4.50 | 4.00 | 3.50 | 3.30 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 6 month ave earnings | | 5.60 | 5.50 | 5.40 | 5.10 | 4.60 | 4.10 | 3.60 | 3.40 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 |
| 12 month ave earnings | | 5.80 | 5.70 | 5.50 | 5.20 | 4.70 | 4.20 | 3.70 | 3.50 | 3.30 | 3.30 | 3.30 | 3.30 | 3.30 |
| 5 yr PWLB | | 5.00 | 4.90 | 4.80 | 4.70 | 4.40 | 4.20 | 4.00 | 3.80 | 3.70 | 3.60 | 3.50 | 3.50 | 3.50 |
| 10 yr PWLB | | 5.10 | 5.00 | 4.80 | 4.70 | 4.40 | 4.20 | 4.00 | 3.80 | 3.70 | 3.70 | 3.60 | 3.60 | 3.50 |
| 25 yr PWLB | | 5.50 | 5.30 | 5.10 | 4.90 | 4.70 | 4.50 | 4.30 | 4.20 | 4.10 | 4.10 | 4.00 | 4.00 | 4.00 |
| 50 yr PWLB | | 5.30 | 5.10 | 4.90 | 4.70 | 4.50 | 4.30 | 4.10 | 4.00 | 3.90 | 3.90 | 3.80 | 3.80 | 3.80 |

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.

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.

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 | 5 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 17/11/23)

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating**AAA**

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
- France
- 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 Quarterly and Mid Term reports - 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.

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ELDC Audit and Governance Committee Work Programme 2023/24

JULY 2023

| EAST LINDSEY WED 5 JULY 2023 | RESPONSIBLE OFFICER |
|--|--|
| Q4 Risk Management Position 2022/23 | Group Manager – Insights and Transformation ELDC /BBC. |
| Internal Audit Annual Report and Opinion 2022/23 | Internal Audit Manager |
| Partnership Annual Safeguarding report | A.D. Wellbeing and Community Leadership |
| Combined Assurance report | Monitoring Officer (DCX) |
| Written Position Statement: response to DLUHC letter | Chief Finance Officer PSPS |
| Local Code of Corporate Governance: | Assistant Director – Governance/MO |
| Update on Property Funds | Treasury and Investment Manager PSPS |
| Draft A & G Committee Work Programme 2023/24 – In progress | Democratic Services |

SEPTEMBER 2023

| EAST LINDSEY WED 27 SEPT 2023 | RESPONSIBLE OFFICER |
|--|--|
| Invest East Lindsey Audit Report | Internal Audit Manager |
| Q1 Treasury Report 2023/24 | Treasury and Investment Manager PSPS |
| Q1 Risk Management Position | Group Manager – Insights and Transformation ELDC |
| Procurement Update – to include Exemptions (Annual Report) | Head of Procurement and Contracts PSPS |
| Adoption of new Procurement Strategy | Head of Procurement and Contracts / AD – Corporate |
| Appointment of Members to the Constitutional Working Group | Monitoring Officer |
| Independent Member Recruitment | Monitoring Officer |
| Draft A & G Committee Work Programme 2023/24 | Democratic Services |
| Presentation on Towns Fund Projects – briefing following close of meeting. | Deputy CX – Programme Delivery |
| Non-deliveries (external) projects – briefing following close of meeting. | Assistant Director – Economic Growth |

NOVEMBER 2023

| EAST LINDSEY WED 22 NOV 2023 | RESPONSIBLE OFFICER |
|--|--|
| Q2 Risk Management Position 2023/24 | Group Manager – Insights and Transformation |
| Internal Audit Progress Report | Internal Audit Manager |
| Treasury Management Mid-year report 2023/24 | Treasury and Investment Manager PSPS |
| External Audit Progress Report | External Audit Manager (Mazars) |
| Information Governance Annual Report 2022/23 | Information Manager/Data Protection Manager (RS) |
| Update in respect of RIPA 2000 | A.D. Regulatory/Information Manager/ Data Protection Officer |
| Audit and Governance Annual Report 2022/23 | Democratic Services |
| Premature Repayment of PWLB Borrowing | Treasury and Investment Manager PSPS |
| Update from Constitutional Working Group | Assistant Director – Governance and Monitoring Officer |
| Draft A & G Committee Work Programme 2023/24 | Democratic Services |

JANUARY 2024

| EAST LINDSEY WED 24 JAN 2024 | RESPONSIBLE OFFICER |
|--|---|
| Annual Budget Report, Medium Term Financial Strategy, Financial Strategies and Council Tax 2024/25 | Deputy Chief Finance Officer / Treasury & Investment Manager PSPS |
| Treasury Management Policy Statement, Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement 2024/25 | Treasury and Investment Manager PSPS |
| Internal Audit Progress Report – Procurement Card Process | Internal Audit Manager |
| External Auditors Progress Report 2023/24 | External Audit Manager (KPMG) |
| Appointment of Independent Co-Opted Member | Assistant Director – Governance and Monitoring Officer |
| Draft A & G Committee Work Programme 2023/24 | Democratic Services |

MARCH 2024

| EAST LINDSEY WED 27 MAR 2024 | RESPONSIBLE OFFICER |
|--|---|
| Annual Treasury Report 2022/23 | Treasury and Investment Manager PSPS |
| Internal Audit Progress Report | Internal Audit Manager |
| Internal Audit Section 106 Audit Review Report | Internal Audit Manager |
| Q3 Risk Management Position 2023/24 | Group Manager – Insights and Transformation |
| Q3 Treasury Report 2023/24 | Treasury and Investment Manager PSPS |

| | |
|--|--|
| Draft Internal Audit Plan 2024/25 | Internal Audit Manager |
| Financial Statements – Accounting Policies 2023/24 | Deputy Chief Finance Officer PSPS |
| External Auditors Progress Update | External Audit Manager (KPMG) |
| Draft A & G Committee Work Programme 2023/24 | Democratic Services |
| Audit Planning update and progress report – March 2024 | Internal Audit Manager |
| Review and update of fraud risks | Internal Audit Manager |
| Procurement Update – to include exemptions | Head of Procurement and Contracts PSPS |

| SEPARATE MEETING TO BE ARRANGED – DATE TO BE CONFIRMED | |
|--|-----------------------------------|
| Audited Financial Statements including Annual Governance Statement 2021/22 | Deputy Chief Finance Officer PSPS |
| Draft Financial Statements including Annual Governance Statement 2022/23 | Deputy Chief Finance Officer PSPS |
| External Audit Planning Update and Progress Report | External Audit Manager – Mazars |
| External Auditors Annual Report 2021/22 – (lines up with audited accounts) | External Audit Manager - Mazars |
| External Audit Strategy Memorandum 2022/23 | External Audit Manager - Mazars |
| External Audit Completion Report 2022/23 | External Audit Manager - Mazars |

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| <u>Briefings</u> | |
| Presentation on Towns Fund Projects – briefing following close of meeting. (Last update 27/09/2023) | Deputy CX – Programme Delivery |
| Non-deliveries (external) projects – briefing following close of meeting. (Last update 27/09/2023) | Assistant Director – Economic Growth |
| Update on Property Funds – briefing following close of meeting. (Exempt report presented to Committee on 05/07/2023) | Treasury and Investment Manager PSPS |
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| <u>Training</u> | |
| Review of Effectiveness of Audit and Governance Committee – Workshop after Jan 2024 Meeting. | Initial Meeting with Chairs/Vice Chairs of ELDC/SHDC and BBC held on 22/09/2023 |
| Link Member Treasury Management training (November 2023) – needs following up. | Robert Baxter – Link Group – Through Treasury and Investment Manager PSPS |

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| <u>Items for 2024/25:</u> | |
| Annual update on Invest East Lindsey (September 2024) | |

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