BROMSGROVE DISTRICT COUNCIL

MEETING OF THE CABINET

WEDNESDAY 15TH FEBRUARY 2023
AT 6.00 P.M.

PARKSIDE SUITE - PARKSIDE

MEMBERS: Councillors K.J. May (Leader), G. N. Denaro (Deputy Leader), M. A. Sherrey, P.L. Thomas, M. Thompson and S. A. Webb

AGENDA

1. **To receive apologies for absence**

2. **Declarations of Interest**

   To invite Councillors to declare any Disclosable Pecuniary Interests or Other Disclosable Interests they may have in items on the agenda, and to confirm the nature of those interests.

3. **To confirm the accuracy of the minutes of the meeting of the Cabinet held on 18th January 2023** (Pages 7 - 18)

4. **Overview and Scrutiny Board**

   (a) To consider any recommendations from the Overview and Scrutiny Board.

5. **Homelessness Prevention Grant 2023/24** (Pages 19 - 26)

6. **Pay Policy Statement 2023/24** (Pages 27 - 38)

7. **2023/24 Budget and Medium Term Financial Plan 2023/24 to 2025/26 (Including Treasury Management Strategy and Capital Programme)**
(Pages 39 - 94)

8. **To consider any urgent business, details of which have been notified to the Head of Legal, Democratic and Property Services prior to the commencement of the meeting and which the Chairman, by reason of special circumstances, considers to be of so urgent a nature that it cannot wait until the next meeting**

K. DICKS
Chief Executive

Parkside
Market Street
BROMSGROVE
Worcestershire
B61 8DA

7th February 2023

If you have any queries on this Agenda please contact
Jo Gresham

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BROMSGROVE DISTRICT COUNCIL

MEETING OF THE CABINET

WEDNESDAY, 18TH JANUARY 2023, AT 6.00 P.M.

PRESENT: Councillors K.J. May (Leader), G. N. Denaro (Deputy Leader), M. Thompson and S. A. Webb

Officers: Mr. K. Dicks (via Microsoft Teams), Mrs. S. Hanley, Mr P. Carpenter, Mrs. C. Felton (via Microsoft Teams), Ms M. Howell, Mrs L. Berry and Mrs J. Gresham

57/22 **TO RECEIVE APOLOGIES FOR ABSENCE**

Apologies for absence were received on behalf of Councillors M. Sherrey and P.L. Thomas.

58/22 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

59/22 **TO CONFIRM THE ACCURACY OF THE MINUTES OF THE MEETING OF THE CABINET HELD ON 23RD NOVEMBER 2022**

The minutes of the meeting of Cabinet held on 23d November 2022 were submitted.

RESOLVED that the minutes of the meeting of Cabinet held on 23d November 2022 be approved as a true and correct record.

60/22 **MINUTES OF THE MEETING OF THE OVERVIEW AND SCRUTINY BOARD HELD ON 21ST NOVEMBER 2022**

The Chairman of the Overview and Scrutiny Board, Councillor C. Hotham, presented the minutes of the meeting of the Board held on 21st November 2022.

Cabinet was informed that during the meeting, Members had received an update on the Performance Dashboard and the Fuel Poverty Task Group. Councillor Hotham took the opportunity to thank Councillor S. Webb for her work alongside the Task Group.

At this meeting the Board had also received an update on the CCTV Digitalisation Upgrade where Members had learned that, although most CCTV transmission lines within the District were now digital, three camera locations in the District remained on analogue transmission. It was with this in mind, that the Overview and Scrutiny Board had made a recommendation to Cabinet that the CCTV digitalisation upgrade project be completed and that the three outstanding camera locations in Brook Road (Rubery), Wythall and Alvechurch be upgraded. Cabinet was informed that the cost of the completion of the upgrade would be £48,600, to be included in the Capital Programme and a further £6,030 per annum would be needed for maintenance costs from the revenue budget.

During consideration of this item, there were some queries regarding the impact of analogue transmission of these cameras given that they were digital and of good quality. It was noted that there may be an impact on the quality of transmission of images, however it did not appear that there were significant gaps in the transmission through the analogue lines.

Reference was also made to Recommendation 2, which proposed that that all options for obtaining external funding for CCTV system upgrades be pursued. Officers confirmed that currently there was no indication that any additional funding would be available from the Police and Crime Commissioner fund for this project.

Cabinet agreed that they were happy to support this recommendation and therefore it was

RECOMMENDED that

1) £48,600 be included in the Capital Programme and £6,030 per annum in the revenue budget as part of the review of the Medium Term Financial Plan for the upgrade of CCTV cameras at Brook Road (Rubery), Wythall and Alvechurch.

RESOLVED that

2) all options for obtaining external funding for CCTV system upgrades be pursued.

61/22 **BROMSGROVE CENTRES STRATEGY**

The Bromsgrove Centres Manager presented the Bromsgrove Centres Strategy for Members' consideration.

Members were informed that the Bromsgrove Centres Strategy covered a three-year period for Bromsgrove High Street and the seven outlying centres within Bromsgrove District.

Cabinet was advised that the Bromsgrove Centres Strategy was a high-level document that outlined the work to be undertaken in order to make all Bromsgrove Centres more attractive to businesses, shoppers, workers, residents and visitors. It was hoped that this would result in a varied and eclectic mix of outlets and venues.

In addition to this it was also reported to Members that the purpose of the Bromsgrove Centres Strategy was to understand the baseline performance of the Centres and to identify any opportunities for change. This included the following:

- Outlining a vision for the Centres that was supported by key objectives.
- Identifying the priorities for improvement and regeneration in the Centres in line with the key objectives.
- Developing an action plan that outlined the priorities needed and the mechanisms for delivery.

Cabinet was informed that the Bromsgrove Centres Strategy focussed on the key themes which were linked to specific outputs. These key themes were outlined as follows:

1. Accessibility
2. Safety and Security
3. Marketing and Promotion
4. Markets
5. Business Support
6. Public Realm
7. Historic Environment
8. Future

Members were advised that the outputs listed under these key themes were not exhaustive and may change as dialogue progressed with Ward Members, Parish Councils and Community Groups.

Furthermore, it was reported to Members that a detailed Action Plan sat alongside the Bromsgrove Centres Strategy and that performance indicators were included within this Action Plan. Members were advised that the Action Plan would be presented to Members annually in order to monitor progress and review for the following year. The Bromsgrove Centres Manager reported that the review of the Action Plan would help to support the vibrancy of the Centres and that communication with the both the Portfolio Holder, Members and eternal stakeholders remained key throughout the process in order to enable businesses to thrive.

Members were advised as part of the presentation that the Bromsgrove Centres Strategy would complement and support the work of the Parish Councils, Business and Trader Associations and other key stakeholders in each of the Centres with a focus on developing shared ambitions and actions.

Following the presentation, Members stated that they were excited with the new Bromsgrove Centres Strategy and that it would be a catalyst to reinvigorate Bromsgrove High Street and the seven outlying Centres within the District.

During consideration of this item, there was some discussion with regard to potentially including the smaller Centres in order to ensure that event clashes across the District were not experienced. Members were informed that Officers were currently working on establishing an Events Calendar for the District in order to avoid any potential event clashes and that this would also be a useful tool in highlighting the vibrancy of Bromsgrove District.

RESOLVED that the Bromsgrove Centres Strategy & Action Plan 2023-2026 as attached at Appendix 1 be approved.

62/22 **COUNCIL TAX BASE REPORT**

The Interim Section 151 Officer presented the Council Tax Base report.

Cabinet was advised that this was a standard report that was provided as part of the Council Tax setting process for Bromsgrove District Council and the precepting authorities. It was reported that the data included within the report was information available as of 1st December 2022.

Members were informed that the Council Tax Base had increased from 37,511.05 to 37,919.44 and that the report took into account the revised

Council Tax Support Scheme, due to be considered later at this meeting. In addition to this, the Interim Section 151 Officer stated that the proposals had been included in the Medium Term Financial Plan.

During consideration of this item, a query was raised regarding the figures detailed in the report**,** which appeared not to be consistent with those detailed in Appendix 1 of the report. Officers confirmed that the figures included in Appendix 1 were for both the 2022/23 year and the previous municipal year.

RESOLVED that the amount calculated by Bromsgrove District Council as the Council Tax Base for the whole area for 2023/24 be approved at 37,919.44 as detailed in Appendix 1 to include the individual parish elements.

63/22 **COUNCIL TAX SUPPORT SCHEME**

The Interim Section 151 Officer presented the Council Tax Support Scheme report.

Members were reminded that the Council Tax Support Scheme had previously been presented to Cabinet at the meeting held in October 2022, whereby it was agreed that Option B be put out for consultation. Officers explained that Option B had included changes to income level and introduced disregards to childcare charges and critical payments. It was expected that the increase in costs would be £140k and that Bromsgrove District Council would be responsible for £13-14k of these costs.

Cabinet was informed that the consultation period was completed in December 2022 and that there had been 87 respondents. Of these responses, 65% had agreed with the changes to income level changes, 72% of respondents had agreed with the disregard to childcare allowances and 80% had agreed with the critical payment disregards.

A response was also received from one of the preceptors, Worcestershire County Council (WCC) who had indicated they were not supportive of the revisions due to the impact on WCC budgets.

Members were advised that it was considered that if Council Tax Support was not given to those identified within the report, it may result in an increase in default payments ultimately impacting on future Council Tax payments.

Following the presentation of the report, Members noted that these were positive revisions particularly at a time when residents were facing significant financial challenges.

RECOMMENDED that

1) Council be asked to approve the introduction of a revised and more supportive Council Tax Reduction scheme for working age applicants with effect from 1st April 2023, in line with 1.2 below

RESOLVED to note that

2) the scheme was designed to assist the lowest income households and to allow the Council to operate the scheme more flexibly by:

   (a) increasing the maximum level of support for working age applicants in certain income bands and to increase the income levels within the 'income - grid' scheme. Both of these changes were designed to provide more support to low income households;
   (b) disregarding certain childcare charges where an applicant (and their partner if they have one) was working more than 16 hours per week;
   (c) disregarding certain payments paid to taxpayers under special schemes (Local Welfare Provision); and
   (d) where the Government makes emergency increases to national welfare benefits to assist in a crisis, the scheme would give the Council the discretion to disregard those increases if they were to have a negative effect on ~~of~~ Council Tax Reduction.

3) all other parts of the existing scheme to remain unchanged.

64/22 **FINANCIAL OUTTURN REPORT**

The Interim Section 151 Officer presented a report on the Updated Position to the Financial Outturn 2020/21 following submission of the Draft Accounts for the consideration of Members.

Cabinet was informed that following the closure of the 2020/21 Accounts, Officers had felt it prudent to rerun the Financial Outturn Report for 2020/21. This had resulted in an overspend of £228,736, which was previously reported to Members**,** being corrected and that the position was now an underspend of £50,005. In addition to this, it was reported that General Fund Reserves were at £4.502m and Earmarked Reserves at £13.289m. Members were advised that the Earmarked Reserves included approximately £5m received from Central Government for non-collection of tax income in 2021, which would decrease over three years.

Members were advised that some reserves had not changed over a number of years and that the Corporate Management Team (CMT) had met in December 2022 to look at the applicability of the current reserves. Members' attention was drawn to the information included within the report regarding the amount of Covid-19 Grant funding received from Central Government during the pandemic. It was highlighted that £29m worth of grant funding had to be administered during 2020/21 which was a huge increase from the usual £15m received in grant funding.

During consideration of the report, the significant amount of work undertaken by the Finance Team, at a time when there were lower staffing levels, was acknowledged by Members.

Reference was made to the work currently being undertaken with the external auditors, Grant Thornton. It was reported that the Council had been presented with a list of 84 deliverables by Grant Thornton, all of which were currently being worked through. In addition to this, it was confirmed that Officers were meeting regularly with Grant Thornton, both face-to-face and virtually.

Members queried whether it would be usual for external auditors to carry out hybrid meetings. It was confirmed that as hybrid working arrangements were embedded within Council, Grant Thornton were content to undertake work in this way. However, it was reported that Grant Thornton had not requested training on the Council's Enterprise Resource Planning (ERP) system, which could potentially result in a large amount work being carried out by Officers over the coming months. Members requested that they be kept informed of matters in this area.

Reference was also made to the administering of the grant funding and whether this would form part of the external audit; particularly in light of fraud being identified nationally during the administering of Covid-19 grant funding. Members were informed that regular returns had been made by the Council to Government in respect of the Covid-19 Grant funding and these returns had been accepted. Officers reported that a combination of the Council's use of BACS payments and the measured way in which the grants were initially administered had limited potential fraudulent activity in this area.

RESOLVED that

1) the revenue outturn position, which was reported as an overspend of £228,736 be corrected to a position of an underspend of £50,005;
2) the final Covid-19 Grant position was £766k;
3) the final level of General Fund and Earmarked Reserves were £4.502m and £13,289m respectively;
   and
4) the final capital position for the year was an underspend of £1.616m.

65/22 **MEDIUM TERM FINANCIAL PLAN 2023/24 TO 2025/26 - UPDATE**

The Interim Section 151 Officer presented the update in respect of the Medium Term Financial Plan (MTFP) 2023/24 to 2025/26.

Members were reminded that Tranche 1 of the Medium Term Financial Plan had identified £1.6m of savings against a budget deficit of £1.6m. However, additional pressures including inflation had resulted in the identification of the “real gap” which amounted to £1.58m.

Cabinet was advised that confirmation on the Local Government Settlement had been provided on 19th December 2022 and the Council received £1.198m, significantly more funding than had been anticipated. The Settlement had included New Homes Bonus funding of £127k, a Services Grant of £68k, a Funding Guarantee of £1.27m and a reduction in the Council Tax Base of £24k. As a result of the Settlement, it was reported that the funding gap would be reduced.

Reference was made to the allocated £700k (200%) reserves for Utilities and it was highlighted that as a result of the review undertaken by CMT in December 2022, it was proposed that in Tranche 2 of the MTFP some of the reserves would be reallocated and the Utilities reserves would be set at £1m and drawn down annually if needed.

In respect of the Local Government Pension Scheme, it was reported that an additional saving in contributions of £356k would result in an improvement for the Council’s budget in the future.

However, in spite of the Settlement and savings identified, Officers informed Members that there were still additional pressures facing the Council in the future, which included the existing Leisure contract, the refurbishment of the Fleet, the staff pay award received in September 2022 and the increased costs of Worcestershire Regulatory Services.

A key area of focus moving forward was staffing, including the use of apprentices and introducing more career graded roles within the Council. In addition, it was proposed that a Data Analyst position be created in order to identify areas of improvements across the Council.

Following the presentation of the report, Members discussed the Utilities reserves and that it seemed sensible to amend these reserves as it currently appeared unlikely that the charges for Utilities would increase so significantly.

During consideration of this item, Members commented on the cost of LED lighting within the High Street and that Officers should ensure that an updated, unmetered consumption reading on these lights be provided by the supplier. Officers undertook to make enquiries in this area.

Following the detailed discussion, Members noted that they were happy with the progress being made and hoped that this would continue moving forward.

RESOLVED that

Officers continued to work on additional options now the “real gap” for the 2023/24 budget was known, as outlined in the Strategy section of the Tranche 1 Report for presentation to Cabinet in February 2023 as Tranche 2 of the Budget.

66/22 **QUARTERLY RISK MONITORING UPDATE REPORT**

The Interim Section 151 Officer presented the Quarterly Risk Monitoring Update Report for Members’ consideration.

Members were reminded that Internal Audit had concluded no assurance in respect of Risk Management Strategies at the Council in March 2022. This had resulted in the implementation of an action plan by CMT in order to embed effective risk management across the Council. The action plan included the formation of an Officer Risk Board and regular Directorate Management Team meetings.

Cabinet was advised that the number of risks had decreased from those identified initially from 100 departmental risks to 55 departmental risks at the time of the meeting. It was highlighted that an additional risk would be added regarding damp and mould issues in Private Sector Rentals. However, there was no confirmation at the current time as to which operation department would be the lead for this risk.

In terms of Corporate Risk, Members were informed that there were currently 10 Corporate Risks with a further risk in respect of Cost of Living likely to be added in the near future.

Following the presentation Members were pleased with the progress being made in the area of Risk within the Council.

RESOLVED that

the report be noted.

67/22 **WORCESTERSHIRE REGULATORY SERVICES BUDGET RECOMMENDATIONS**

The Interim Section 151 Officer provided an update in respect of the Worcestershire Regulatory Services Budget (WRS) Recommendations report.

Prior to the presentation, an error contained within the report was highlighted for Members' attention. It was confirmed that the increase in contributions for 2022/23 to WRS would be £18,861 not £167,843 as stated in the report.

Cabinet was advised that at a WRS Board meeting held on 17th November 2022 Members considered the pressures facing WRS including the staff pay award and increased hosting charges. As a result, it was proposed that contributions be increased for 2022/23 by £18,861.

In addition to this, and as a result of future salary pressures, it was proposed that WRS contributions be increased to £510,000 in 2023/24, which Members were informed was an increase of £39k from last year's contributions.

Following consideration of this report, Members noted that WRS provided an excellent service, and that Bromsgrove District Council did an excellent job in hosting the service.

RECOMMENDED that

1) WRS contributions be increased by £18,861 in 2022/23 due to the national pay award of £1,925 per pay point and increases in hosting costs due to the “cost of living” crisis;

2) WRS Budget contributions be increased to £510,000 in 2023/24 to take account of pay awards and the impact of the “cost of living” crisis.

The meeting closed at 6.52 p.m.

Chairman

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BROMSGROVE DISTRICT COUNCIL

CABINET 15th February 2023

Homelessness Prevention Grant Allocation for 2023/24

Relevant Portfolio Holder		Councillor Shirley Webb
Portfolio Holder Consulted		Yes
Relevant Head of Service		Judith Willis Head of Community and Housing Services
Report Author	Job Title: Amanda Delahunty Contact email:a.delahunty@bromsgroveandredditch.gov.uk Contact Tel: 01527 881269	
Wards Affected		All
Ward Councillor(s) consulted		Not Applicable
Relevant Strategic Purpose(s)		• Work and financial independence • Living independent, active and healthy lives • Affordable and sustainable homes • Communities which are safe, well maintained and green
Key Decision		
If you have any questions about this report, please contact the report author in advance of the meeting.		

1. RECOMMENDATIONS

The Cabinet RESOLVE that:-

1.1 That the initiatives in 3.5 be approved to receive allocation of funding 2023/24.

1.2 That delegated authority be granted to the Head of Community and Housing Services following consultation with the Portfolio Holder for Strategic Housing to use any unallocated Grant during the year or make further adjustments as necessary to ensure full utilisation of the Grants for 2023/24 in support of existing or new schemes.

2. BACKGROUND

2.1 This report seeks Members approval to award the DLUHC Homelessness Prevention Grant and Homelessness Grant to specific schemes recommended by the Strategic Housing Manager. Additionally, it seeks to delegate authority to the Head of Community and Housing Services, in consultation with the Portfolio Holder for Housing, to allocate any underspend of grant during 2023/24 on schemes to prevent homelessness and assist those who become homeless.

2.2 The purpose of the ringfenced Homelessness Prevention Grant fund is to give local authorities control and flexibility in managing homelessness pressures and supporting those who are at risk of homelessness. The Government expects local authorities to use it to deliver the following priorities:

- To fully enforce the Homelessness Reduction Act and contribute to ending rough sleeping by increasing activity to prevent single homelessness.

- Reduce family temporary accommodation numbers through maximising family homelessness prevention

- Eliminate the use of unsuitable bed and breakfast accommodation for families for longer than the statutory six week limit.

2.3 The council received a number of applications for this funding and this criteria was used to support the award of this grant.

3. FINANCIAL IMPLICATIONS

3.1 In addition to the annual Homelessness Grant, the Council has been awarded by the Department of Levelling Up, Housing and Communities (DLUHC), Homelessness Prevention Grant £165,612. This report sets out how the Council intends to utilise this funding to create a package of support and services to prevent homelessness and support those who become homeless.

3.2 The Homelessness Prevention Grant has been ring fenced by DLUHC for activities that prevent and deal with homelessness.

3.3 The Council has agreed a budget of £112,000 for the 2023/24 Homelessness Grant allocation. In addition, the DLUHC Homelessness Prevention Grant award is £158,594.

3.4 The Council therefore has the following for Homelessness Prevention Services and Housing Options in 2023/24 as follows:

Grant	2023/24
Homelessness Grant	£112,000
Homelessness Prevention Grant	£165,612

Underspend from 2022/23	£40,000
Total Grant Available	£317,612

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3.5 It is recommended that the Grant monies are allocated as follows:

Grant Allocation	**2023/24 £ (up to)**
Housing Agency Agreement Top Up	52,475
Young Persons Pathway Worker – support to prevent homelessness for under 25's	18,811
Worcestershire Strategic Housing Partnership Co-ordinator – contribution towards county-wide development and delivery of housing initiatives in partnership with other agencies	8,300
Single Person and Childless Couples Homelessness Prevention Service	18,347
St Basils Crash Pad – provide a unit of emergency accommodation to young homeless people	12,409
NewStarts - Provide Furniture and Volunteering Opportunities for Ex-Offenders – supports tenancy sustainment and provides future employment opportunities/reduces risk of reoffending	10,000
GreenSquare Accord Housing Related Support – helping ex-offenders remain housed/seek employment	24,114
St Basils Foyer – provides stable accommodation/support for young people - 14 units – fully occupied during last financial year	30,000
CCP- outreach and prevention service targeting rough sleepers and those at risk of rough sleeping.	27,852
North Worcestershire Basement Project - Support for young people at risk of homelessness	26,666
Step Up – Private Tenancy Scheme	22,000
Sunrise Project intensive support (2 year project agreed 2021)	39,000
Citizens Advice – Targeted Debt Intervention	16,333
Total committed expenditure	**306,307**

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3.7 These are voluntary organisations and without this funding it is unlikely this support would be offered or available which in turn would lead to increase direct revenue costs for the council.

3.8 An element of the grant supplements the cost of the Housing Agency Agreement 5 year contract.

3.9 The difference between the grant available and grant expenditure of £11,305 is being held in reserve for anticipated additional spend on Bed and Breakfast during 2023/24.

3.10 Delegated authority be granted to the Head of Community and Housing Services following consultation with the Portfolio Holder for Housing to use any unallocated Grant during the year or make further adjustments to current initiatives as necessary to ensure full utilisation of the Grant for 2023/24.

4. LEGAL IMPLICATIONS

4.1 The Council has statutory duty under the Housing Act 1996 (as amended) to assist those who are threatened with homelessness or experiencing actual homelessness and has placed additional duties on the Council regarding preventing and relieving homelessness

4.2 The Homelessness Prevention Grant has been ring fenced to homelessness prevention and tackling homelessness by the Department of Levelling Up, Housing and Communities.

5. STRATEGIC PURPOSES - IMPLICATIONS

Relevant Strategic Purpose

5.1 Homelessness Prevention Grant allows the Council to support a range of holistic services to help prevent or tackle homelessness and rough sleeping in the District. The combination of practical support such as furniture compliment those services that provide outreach support to help clients access accommodation, sustain tenancies, manage budgets, engage in positive activities and access employment. The breadth of services available provide opportunities for:

- Work and financial independence through the provision of support services and debt advice
- Living independent, active and healthy lives through the provision of support to access positive activities including healthy eating and exercise.

- Affordable and sustainable homes through the provision of supported accommodation.
- Communities which are safe, well maintained and green through the provision of supported accommodation.

Climate Change Implications

5.2 The recycling of furniture supports the Council's green thread as it minimises waste and provides reuse and recycling of household items wherever possible.

6. OTHER IMPLICATIONS

Equalities and Diversity Implications

6.1 The Homelessness Grant and Homelessness Prevention Grant will benefit customers by offering household's more options to prevent their homelessness, support them to remain in their own homes or help the Council to manage and support households in Temporary Accommodation.

6.2 The grant will also benefit the larger community as opportunities to prevent homelessness will be maximised.

Operational Implications

6.3 The management and administration of grant forms a significant part of the Strategic Housing Team's day to day operations.

7. RISK MANAGEMENT

7.1 If the recommended schemes are not approved there is a risk that more households who are threatened with homelessness, or who are in housing need, will have limited alternative options. There is also therefore the risk that they may have to make a homeless approach and this could consequently lead to the following negative outcomes:

- Increased B&B costs with 80% having to be picked up by the local authority.
- Increased rough sleeping in the District
- Impacts on physical and mental health, educational achievement, ability to work and similar through increased homelessness.

7.2 All recipients of Grant will enter into a grant agreement and have regular monitoring with officers on the delivery of the service

8. APPENDICES and BACKGROUND PAPERS

None.

BROMSGROVE DISTRICT COUNCIL

CABINET 15th February 2023

9. REPORT SIGN OFF

Department	Name and Job Title	Date
Portfolio Holder	Councillor Shirley Webb	1st Dec 2022
Lead Director / Head of Service	Judith Willis Head of Communities and Housing Services	10/1/2023
Financial Services	Peter Carpenter, Interim Deputy Section 151 Officer	10/1/2023
Legal Services	Claire Felton, Head of Legal, Democratic and Property Services	10/1/2023
Policy Team (if equalities implications apply)	Not applicable	10/1/2023
Climate Change Officer (if climate change implications apply)	Matt Bough, Strategic Housing Manager	10/1/2023

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BROMSGROVE DISTRICT COUNCIL

Cabinet

15th February 2023

Pay Policy 23/24

Relevant Portfolio Holder		Councillor Denaro
Portfolio Holder Consulted		**Yes** / No
Relevant Head of Service		Deb Poole – Head of Transformation, OD & Digital
Report Author	Job Title: HR & OD Manager Contact email:becky.talbot@bromsgroveandredditch.gov.uk Contact Tel:01527 64252	
Wards Affected		N/A
Ward Councillor(s) consulted		N/A
Relevant Strategic Purpose(s)		Enabling
Key Decision / **Non-Key Decision**		
If you have any questions about this report, please contact the report author in advance of the meeting.		

1. **RECOMMENDATIONS :-**

Cabinet is asked to RECOMMEND to Council that

the Pay Policy as detailed in Appendix 1 to the report be approved.

2. **BACKGROUND**

The Localism Act requires English and Welsh local authorities to produce a Pay Policy statement ('the statement'). The Act requires the statement to be approved by Full Council and to be adopted by 31st March each year for the subsequent financial year. The Pay Policy Statement for the Council is included at Appendix 1.

The Statement must set out policies relating to-

(a) The remuneration of its chief officers,
(b) The remuneration of its lowest-paid employees, and
(c) The relationship between-
    (i) The remuneration of its chief officers, and

(ii) The remuneration of its employees who are not chief officers.

The provisions within the Localism Act bring together the strands of increasing accountability, transparency and fairness in the setting of local pay.

In common with the majority of authorities the Council is committed to the Local Government Employers national pay bargaining framework in respect of the national pay spine and annual cost of living increases negotiated with the trade unions. West Midlands Employers engage with the Council and facilitates Regional Pay briefings, to ensure the view of the West Midlands Region is represented in future pay considerations.

3. OPERATIONAL ISSUES

There are no implications in relation to this report

4. FINANCIAL IMPLICATIONS

All financial implications have already been included as part of the budget setting process and posts are fully budgeted for.

The information provided is based on the current pay structure and is subject to any national pay award for 2022/23 being agreed

5. LEGAL IMPLICATIONS

As detailed in the background section

6. OTHER - IMPLICATIONS

Relevant Strategic Purpose

6.1 The Pay Policy sets out the remuneration of the Council and recognises the importance of our staff as a resource central to our success in delivering our strategic purposes and services to our communities.

Climate Change Implications

6.2 N/A

Equalities and Diversity Implications

There are no implications in relation to this report

7. RISK MANAGEMENT

7.1 N/A

8. APPENDICES and BACKGROUND PAPERS

Appendix one: Pay Policy 2022/23

9. REPORT SIGN OFF

Department	**Name and Job Title**	**Date**
Portfolio Holder	Councillor Denaro	
Lead Director / Head of Service	Deb Poole – Head of Transformation, OD & Digital	
Financial Services	Michelle Howell – Head of Finance & Customer Services	
Legal Services	Mike Rowan Legal Services Manager	
Policy Team (if equalities implications apply)	N/A	
Climate Change Team (if climate change implications apply)	N/A	

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APPENDIX 1

BROMSGROVE DISTRICT COUNCIL
PAY POLICY STATEMENT

Introduction and Purpose

1. Under section 112 of the Local Government Act 1972, the Council has the "power to appoint officers on such reasonable terms and conditions as authority thinks fit". This pay policy statement sets out the Council's approach to pay policy in accordance with the requirements of Section 38 of the Localism Act 2011. It shall apply for the financial year 2022 and each subsequent financial year, until amended.

2. The purpose of the statement is to provide transparency with regard to the Council's approach to setting the pay of its employees by identifying;

   a. the methods by which salaries of all employees are determined;
   b. the detail and level of remuneration of its most senior staff i.e. 'chief officers', as defined by the relevant legislation;
   c. the Committee(s) responsible for ensuring the provisions set out in this statement are applied consistently throughout the Council and for recommending any amendments to the full Council

3. Once approved by the full Council, this policy statement will come into immediate effect and will be subject to review on a minimum of an annual basis, in accordance with the relevant legislation prevailing at that time.

Legislative Framework

4. In determining the pay and remuneration of all of its employees, the Council will comply with all relevant employment legislation. This includes the Equality Act 2010, Part Time Employment (Prevention of Less Favourable Treatment) Regulations 2000, The Agency Workers Regulations 2010 and where relevant, the Transfer of Undertakings (Protection of Earnings) Regulations. With regard to the equal pay requirements contained within the Equality Act, the Council ensures there is no pay discrimination within its pay structures and that all pay differentials can be objectively justified through the use of equality proofed Job Evaluation mechanisms. These directly relate salaries to the requirements, demands and responsibilities of the role.

Pay Structure

5. The Council's pay and grading structure comprises grades 1 – 11. These are followed by grades for Managers 1 - 2, Head of Service 1, Head of Service 2, Head of Service 3, Executive Director, Deputy Chief Executive and then Chief Executive; all of which arose following the introduction of shared services with Redditch Borough Council.

6. Within each grade there are a number of salary / pay points. Up to and including grade 11 scale, at spinal column point 43, the Council uses the nationally negotiated pay spine. Salary points above this are locally determined. The Council's Pay structure is set out below.

Grade	Spinal Column Points		Nationally determined rates	
			Minimum £	Maximum £
1	1	2	20,258	20,441
2	2	5	20,441	21,575
3	5	9	21,575	23,194
4	9	14	23,194	25,409
5	14	19	25,409	27,852
6	19	24	27,852	31,099
7	25	30	32,020	36,298
8	30	34	36,298	40,478
9	34	37	40,478	43,516
10	37	40	44,516	46,549
11	40	43	46,549	49,590
Manager Hay Grade 1	Hay evaluated	43%	60,068	62,416
Manager Hay Grade 2	Hay evaluated	45%	62,437	64,922
Head of Service 1	Hay evaluated	51%	71,075	73,898
Head of Service 2	Hay evaluated	61%	84,905	88,292
Head of Service 3	Hay evaluated	68%	94,501	97,889
Executive Director	Hay evaluated	74%	102,403	106,356
Deputy Chief Executive	Hay evaluated	80%		114,824
Chief Executive	Hay evaluated	100%		143,049

7. All Council posts are allocated to a grade within this pay structure, based on the application of a Job Evaluation process. Posts at Managers and above are evaluated by an external assessor using the Hay Job Evaluation scheme. Where posts are introduced as part of a shared service, and where these posts are identified as being potentially too ‘large’ and ‘complex’ for this majority scheme, they will be double tested under the Hay scheme, and where appropriate, will be taken into the Hay scheme to identify levels of pay. This scheme identifies the salary for these posts based on a percentage of Chief Executive Salary (for ease of presentation these are shown to the nearest whole % in the table above). Posts below this level (which are the majority of employees) are evaluated under the “Gauge” Job Evaluation process..

8. In common with the majority of authorities the Council is committed to the Local Government Employers national pay bargaining framework in respect of the national pay spine and annual cost of living increases negotiated with the trade unions.

9. All other pay related allowances are the subject of either nationally or locally negotiated rates, having been determined from time to time in accordance with collective bargaining machinery and/or as determined by Council policy. In determining its grading structure and setting remuneration levels for all posts, the Council takes account of the need to ensure value for money in respect of the use of public expenditure, balanced against the need to recruit and retain employees who are able to meet the requirements of providing high quality services to the community; delivered effectively and efficiently and at all times those services are required.

10. New appointments will normally be made at the minimum of the relevant grade, although this can be varied where necessary to secure the best candidate. From time to time it may be necessary to take account of the external pay market in order to attract and retain employees with particular experience, skills and capacity. Where necessary, the Council will ensure the requirement for such is objectively justified by reference to clear and transparent evidence of relevant market comparators, using appropriate data sources available from within and outside the local government sector.

11. For staff not on the highest point within the salary scale there is a system of annual progression to the next point on the band.

Senior Management Remuneration

12. For the purposes of this statement, senior management means ‘chief officers’ as defined within S43 of the Localism Act. The posts falling within the statutory definition are set out below, with details of their basic salary as at 1st April 2022 (assuming no inflationary increase for these posts).

13. Bromsgrove District Council is managed by a senior management team who manage shared services across both Bromsgrove District and Redditch Borough Councils. All of the posts listed below have been job evaluated on this basis, with the salary costs for these posts split equally between both Councils.

Title	**% of Chief executive salary**	**Pay range (minimum) £**	**Pay range (maximum) £**	**Incremental points**	***Cost to Broms-grove District Council £***
Chief Executive	100%		143,049		*71524.50*
Deputy Chief Executive	80%		111,230		*55615*
Executive Director of Finance and Resources. (Also S151 Officer)	74%	102,403	106,356	3	*53178*
Head of Worcestershire Regulatory Services	68%	94,501	97,889	3	*This is a shared post across 6 district Authorities at a cost of £16,314 each*
Head of Finance and Customer Services	61%	84,905	88,292	3	*44146*
Head of Planning, Regeneration and Leisure Services	61%	84,905	88,292	3	*44146*
Head of Transformation, Organisational Development	61%	84,905	88,292	3	*44146*

and Digital Services					
Head of Legal, Democratic and Property Services	61%	84,905	88,292	3	*44146*
Head of Environmental and Housing Property Services	61%	84,905	88,292	3	*44146*
Head of Community and Housing Services	61%	84,905	88,292	3	*44146*

Recruitment of Chief Officers

14. The Council's policy and procedures with regard to recruitment of chief officers is set out within the Officer Employment Procedure Rules as set out in the Council's Constitution. When recruiting to all posts the Council will take full and proper account of its own equal opportunities, recruitment and redeployment Policies. The determination of the remuneration to be offered to any newly appointed chief officer will be in accordance with the pay structure and relevant policies in place at the time of recruitment. Where the Council is unable to recruit to a post at the designated grade, it will consider the use of temporary market forces supplements in accordance with its relevant policies.

15. Where the Council remains unable to recruit chief officers under a contract of service, or there is a need for interim support to provide cover for a vacant substantive chief officer post, the Council will, where necessary, consider and utilise engaging individuals under 'contracts for service'. These will be sourced through a relevant procurement process ensuring the council is able to demonstrate the maximum value for money benefits from competition in securing the relevant service. The Council does not currently have any Chief Officers under such arrangements.

Performance-Related Pay and Bonuses – Chief Officers

16. The Council does not apply any bonuses or performance related pay to its chief officers. Any progression through the incremental scale of the relevant grade is subject to satisfactory performance which is assessed on an annual basis.

Additions to Salary of Chief Officers (applicable to all staff)

17. In addition to the basic salary for the post, all staff may be eligible for other payments under the Council's existing policies. Some of these payments are chargeable to UK Income Tax and do not solely constitute reimbursement of expenses incurred in the fulfilment of duties. The list below shows some of the kinds of payments made.
    a. reimbursement of mileage. At the time of preparation of this statement, the Council pays an allowance of 45p per mile for all staff, with additional or alternative payments for carrying passengers or using a bicycle;
    b. professional fees. The Council pays for or reimburses the cost of one practicing certificate fee or membership of a professional organisation provided it is relevant to the post that an employee occupies within the Council.
    c. long service awards. The Council pays staff an additional amount if they have completed 25 years of service and having completed 40 years service.
    d. honoraria, in accordance with the Council's policy on salary and grading. Generally, these may be paid only where a member of staff has performed a role at a higher grade;
    e. fees for returning officer and other electoral duties, such as acting as a presiding officer of a polling station. These are fees which are identified and paid separately for local government elections, elections to the UK Parliament and EU Parliament and other electoral processes such as referenda;
    f. pay protection – where a member of staff is placed in a new post and the grade is below that of their previous post, for example as a result of a restructuring, pay protection at the level of their previous post is paid for the first 12 months. In exceptional circumstance pay protection can be applied for greater than 12 months with the prior approval of the Chief Executive.
    g. market forces supplements in addition to basic salary where identified and paid separately;
    h. salary supplements or additional payments for undertaking additional responsibilities such as shared service provision with another local authority or in respect of joint bodies, where identified and paid separately;
    i. attendance allowances.

Payments on Termination

18. The Council's approach to discretionary payments on termination of employment of chief officers prior to reaching normal retirement age is set out within its policy statement in accordance with Regulations 5 and 6 of the Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations 2006 and Regulations 12 and 13 of the Local Government Pension Scheme (Benefits, Membership and Contribution) Regulations 2007.

19. Any other payments falling outside the provisions or the relevant periods of contractual notice shall be subject to a formal decision made by the full Council or relevant elected members, committee or panel of elected members with delegated authority to approve such payments.

20. Redundancy payments are based upon an employee's actual weekly salary and, in accordance with the Employee Relations Act 1996, will be up to 30 weeks, depending upon length of service and age.

Publication

21. Upon approval by the full Council, this statement will be published on the Council's website. In addition, for posts where the full time equivalent salary is at least £50,000, the Council's Annual Statement of Accounts will include a note on Officers Remuneration setting out the total amount of:
    a. Salary, fees or allowances paid to or receivable by the person in the current and previous year;
    b. Any bonuses so paid or receivable by the person in the current and previous year;
    c. Any sums payable by way of expenses allowance that are chargeable to UK income tax;
    d. Any compensation for loss of employment and any other payments connected with termination;
    e. Any benefits received that do not fall within the above.

Lowest Paid Employees

22. The Council's definition of lowest paid employees is persons employed under a contract of employment with the Council on full time (37 hours) equivalent salaries in accordance with the minimum spinal column point currently in use within the Council's grading structure. As at 1st April 2022 this is £20,441 per annum.

23. The Council also employs apprentices (or other such categories of workers) who are not included within the definition of 'lowest paid employees' (as they are employed under a special form of employment contract; which is a contract for training rather than actual employment).

24. The relationship between the rate of pay for the lowest paid and chief officers is determined by the processes used for determining pay and grading structures as set out earlier in this policy statement.

25. The statutory guidance under the Localism Act recommends the use of pay multiples as a means of measuring the relationship between pay rates across the workforce and that of senior managers, as included within the Hutton 'Review of Fair Pay in the Public Sector' (2010). The Hutton report was asked by Government to explore the case for a fixed limit on dispersion of pay through a requirement that no public sector manager can earn more than 20 times the lowest paid person in the organisation. The report concluded that "it would not be fair or wise for the Government to impose a single maximum pay multiple across the public sector". The Council accepts the view that the relationship to median earnings is a more relevant measure and the Government's Code of Recommended Practice on Data Transparency recommends the publication of the

ratio between highest paid salary and the median average salary of the whole of the authority's workforce.

26. As part of its overall and ongoing monitoring of alignment with external pay markets, both within and outside the sector, the Council will use available benchmark information as appropriate.

Accountability and Decision Making

28. In accordance with the Constitution of the Council, the Council is responsible for setting the policy relating to the recruitment, pay, terms and conditions and severance arrangements for employees of the Council. Decisions about individual employees are delegated to the Chief Executive.

29. The Appointments Committee is responsible for recommending to Council matters relating to the appointment of the Head of Paid Service (Chief Executive), Monitoring Officer, Section 151 Officer and Chief Officers as defined in the Local Authorities (Standing Orders) Regulations 2001 (as amended);

30. For the Head of Paid Service, Monitoring Officer and the Chief Finance Officer, the Statutory Officers Disciplinary Action Panel considers and decides on matters relating to disciplinary action.

BROMSGROVE DISTRICT COUNCIL

Cabinet 15th February 2023

MEDIUM TERM FINANCIAL PLAN 2023/4 to 2025/6

Relevant Portfolio Holder		Councillor Geoff Denaro, Finance and Enabling Portfolio Holder
Portfolio Holder Consulted		Yes
Relevant Head of Service		Michelle Howell
Report Author	Job Title: Head of Finance & Customer Services email:michelle.howell@bromsgroveandredditch.gov.uk Contact Tel: 0152764252	
Wards Affected		N/A
Ward Councillor(s) consulted		N/A
Relevant Strategic Purpose(s)		All
Non-Key Decision		
If you have any questions about this report, please contact the report author in advance of the meeting.		

1. SUMMARY OF PROPOSALS

1.1 The Council has set its budget in two Tranches this year. The initial Tranche was published on the 17th October this contained £1.6m of savings against a carried forward deficit of £1.6m. This was presented to Council for approval on the 7th December. This report finalises the overall budget, building on data that was presented to Cabinet following the Provisional Local Government Settlement on the 19th December.

2. RECOMMENDATIONS

Cabinet are asked to Recommend to Council:

1 The tranche 2 growth proposals.
2 The additional funding to the Council as per the Local Government Settlement on the 19th December 2022, including the estimated levels for 2024/5 and 2025/6.
3 The tranche 2 savings proposals, including an Increase of Council Tax at 1.99%.
4 The Capital Programme 2023/4 to 2025/6 and associated projects where outstanding budgets will be allowed to be carried forward at the end of the 2022/23 financial year.
5 The levels of reserve being carried forward into future years.
6 The level of General Fund balances being used to balance budgets over the Medium-Term Financial Plan (MTFP) period.

Cabinet

15th February 2023

Cabinet note

1. The Chief Financial Officer (CFO) Opinion on Estimates and Reserve Levels – the Robustness Statement (Section 25 Statement)

3. Background

Introduction

3.1 The Council sets a 3-year Medium Term Financial Plan every year, with the final Council Tax Resolution being approved by Council in February. This year's process has been more difficult due to the following factors and as such has been split into two Tranches to ensure maximisation of delivery in the 2023/24 financial year:

- Starting the process with an initial deficit amount from the 2022/23 MTFP.
- This being the first year that the Government starts to pay for the C-19.
- The present cost of living crisis.
- A change of Prime Minister and Cabinet.
- Limited Reserves and balances.

Tranche 1 Proposals

3.2 The Tranche 1 Report was discussed on the 26th October and approved for implementation by the Cabinet and then Council on the 7th December. In that report, the Interim Director of Finance noted in his draft robustness statement set out that the MTFP highlights that the current financial position is untenable without some form of intervention. We now know, following the Provisional Local Government Settlement that following the work undertaken in Tranche 1 that a £1.6m gap still remained in 2023/24 to be mitigated.

3.3 It is important, for planning purposes that those initial savings proposals are approved by Council as soon as possible in order to achieve the maximum benefit in the 2023/24 financial year. As per the Q2 Monitoring Report, which was presented to Cabinet in November 2022, prior years "unallocated savings" have now been fully allocated to service budgets.

3.4 The table below sets out the position at the end of Tranche 1. As per previous discussions the largest issues are the inflationary increases that are impacting all Local Authorities.

Cabinet

15th February 2023

Bromsgrove Position Statement			
	2023/24 £000	2024/25 £000	2025/26 £000
Base Budget Position 22/23 MTFP			
Expenditure	11,948	12,077	12,347
Funding	-10,360	-10,864	-10,724
Net	**1,588**	**1,213**	**1,623**
Revised Gap	**1,588**	**1,213**	**1,623**
Pressures			
50% Funding for Climate Change Officer	**30**	**30**	**30**
Savings Options			
Environmental Services Partnership	0	-25	-50
Service Reviews	-140	-330	-405
Town Hall	-70	-70	-70
Finance Vacancies	-100	-100	-100
MRP	-100	-100	-100
Pension Fund	-663	-663	-663
Engage Capacity Grid (One Off)	-200	-200	0
10% Increase in Fees and Charges	-382	-389	-390
Total Savings	**-1,625**	**-1,847**	**-1,748**
Revised Position	**-37**	**-634**	**-125**
Pressures			
Pay Pressure Year 1	718	718	718
Pay Pressure Future Years (1%)	0	0	155
Transport Pressure	32	33	34
Contracts Pressures	150	155	160
Core Pressures	**900**	**906**	**1,067**
Updated Position	**863**	**272**	**942**
Utilties Inflation	702	702	702
Final Draft Position	**1,565**	**974**	**1,644**

Table 1 – Tranche 1 Position

3.5 The Council's Capital Programme must prioritise the spending of Levelling Up and UK Shared Prosperity Grant Funding – both of which have to be delivered by April 2025. Therefore, the new rationale is for any scheme not yet started (unless grant or S106 funded) that they must rebid for funds as part of the 2023/24 budget process.

Assumptions

3.6 There are a number of key assumptions that underpin the budget. It is important that all Stakeholders understand these as the budget has been constructed in a period of high uncertainty, as set out in 3.1 above, and any one of these assumptions might change due to any number of external factors.

3.7 Tax Base underlying assumptions are as follows

- Council Tax – Figures assume the full 1.99% increase. As per the Chancellors Statement, this can now increase, subject to approval, by another 1%.
- We have reduced the Council Tax base by £24k
- Business Rates Increases – business rates assume all reliefs as per the Chancellors Statement. More work has been undertaken to validate the final business rates position, which is set out in 3.16 below, taking into account various S31 Grants and the effect of the Worcestershire and Herefordshire Pool. It is expected that this pool will continue into 2024/25.

3.8 Grant support assumptions are as follows (Revenue and Capital). It should be noted that these are budgeted figures and final grant figures will not be confirmed until the time of the final Local Government Settlement.

- The main Revenue Grants are (at 22/23 levels pending the final Local Government Settlement):
  - S-31 Grant (for Business Rate reductions) - £1.126m
  - Housing Benefit - £14.7m
  - Housing Benefit Administration - £0.148m
  - Cost of Revenues Collection Grant - £0.119m
  - Discretionary Housing Payment
  - Homelessness Grant
- The Council has £14.492m of Levelling Up Grant to be spent by April 2026 which is match funded by £1.610m of Council funding.
- The Council has £2.681m of UK Shared Prosperity Fund to spend by April 2025. This is both revenue (£2.068m) and capital (£0.613m) in nature

3.9 Inflationary increases are significant due to factors already identified in previous sections. The following are the current base assumptions.

- The Employers agreed a 2022/23 pay award of £1,925 per pay point plus on costs. We have a pressure of £718k in Tranche1. This increase has been included in ongoing budgets. An assumption of 2% for future pay awards has also been built in for future years.
- An assumption of General inflation increases of 10% was made in Tranche 1 in relation to transport and contract budgets. Its impact on 2023/24 was

transport budgets £32k and base contracts £150k. It is assumed that 2024/25 will move back to normal levels of 2%.
- We have assumed utility increases of 200% which amount to a £720k ongoing pressure. Our existing Utility contracts requiring renewal by the end of this financial year, and we have seen increases in some areas of up to 400%.

Tranche 2 of the Budget following the Provisional Local Government Settlement – Additional Revenues

3.10 The Provisional Local Statement was announced on the 19 December. This announcement confirmed the following funding sources for the Council:
- The Provisional Local Government Settlement has the following effect
    - New Homes Bonus - £127k
    - Services Grant - £68k
    - Funding Guarantee - £1,027k
    - Reduction in Council Tax Base £24k pressure

3.11 The Provisional Local Government Settlement is only for 1 year. For planning purposes, the Council must take a medium-term view over three years. The net Government funding of £1,198k is in line with previous years equivalent grants. **Therefore, for planning purposes an assumption has been made that Grant levels will remain at the net level of £1.0m for the 2nd and 3rd years of the 3 year plan**. This will be adjusted once there is clarity on future years Settlement details.

3.12 There is the also now the opportunity to increase Council Tax by an additional 1% to 2.99%.

3.13 With the receipt of the final Triennial Pension Fund Valuation from the Actuary there are addition savings, over and above the levels in Tranche 1. The projected contributions over the next 3 years are £5,693m – which is £1,897k a year. In Tranche 1 we reduced the base budget to £2,253k – this is an additional £356k savings.

3.14 We have spent significant time reviewing reserves (see Appendix A). This review has resulted in the Council being able to set up an Earmarked Reserve for Utilities Pressures. Our overall assumption still remains, that utilities costs could increase by up to 200%. However, half that increase should it happen, will be funded from this earmarked reserve for the next three years leading to a reduction in base budget of £351k a year over the next three years. Should increases be less than this figure this reserve can be released back to the General Fund.

3.15 This has the impact of reducing the funding gap identified in Tranche 1 from a £1.565m deficit to a surplus of £0.340m. However, this is before additional pressures as set out in section 3.16 below.

3.16 We have now reviewed base budget across the combined areas of Business Rates, Investment Income, and Investment Payments is a net benefit of £1,255k as per the table below. For planning purposes, we have assumed a £400k upside – with £300k supporting the ongoing base budget and £100k going to support reserves in 23/24 and a ongoing amount of £200k.

	23/4 Base Budget £000	**Combined Totals £000**	**Re – Based Budgets £000**	**Combined Totals £000**
Investment Income	(333)		(100)	
Investment Payments	595	262	617	517
Business Rates Income	(11,215)		(11,196)	
Business Rates Tariff Payment	8,804		9,276	
S31 Grant	(1,126)		(3,120)	
Business Rates Levy Payment (net)	912	(2,625)	686	
Business Rates Deficit (based on 22/3)			1,085	
CARF Grant			**(742)**	
Tax Income Guarantee Grant			**(124)**	**(4,135)**
Total		**(2,363)**		**(3,618)**

These are draft figures based on NNDR3 forms and government grants. The overall £1,255k credit is proposed to be split:

- 2023/24
  - £517k to support the budget
  - £100k to support the General Fund Reserve
  - The £638k balance to the Financial Services Reserve
- 2024/5 and 2025/6
  - £200k to support the budget
  - £200k to support the General Fund Reserve
  - It is assumed this balance will be adjusted by the Government in future years and so the remaining £855k has not been allocated.

Tranche 2 Pressures

3.16 There are also other pressures that have now been quantified. We do know that there are changes in Government legislation which have yet to be received. Key items include:

- The future waste operating model – further consultation is just about to start for implementation in 2025, this will include transitional arrangements and funding.
- Possible commercial opportunities to maximise income.
- Climate Change – The Council is forecasting a possible £180k increase in costs for the new HVO fuel to be used by the fleet. This is under review (a 100% increase in costs) with alternate providers being assessed as well as reduced conversion. This has not yet been included in the budget and if it becomes an additional cost will be taken from the Utilities Reserve.

3.17 Other service-based pressures identified for inclusion in the Tranche 2 include:

- Refurbishment of the fleet, which extends life for 5 years and lets the Council buy replacements in 2028 when supply will be more stable. Refurbishment costs circa £70k, a new diesel vehicle is £200k, and electric Vehicle is £400k.
- Leisure Contract is a £550k net payment to the Council but is only delivering a £100k surplus. This has been reviewed with the contractor and budgets can be adjusted to a £150k surplus in 2023/24, increasing to £209k in 2024/25, and £275k in 2025/26. This includes absorbing the present costs of utilities. If these costs reduce, which is the present trend, these savings will come to the Council in addition to the above amounts.
- A fund for apprentices across the Council which assumes 5 positions at a base rate £20k a position in order for the Council to take advantage of apprenticeship levies and “grow” our own staff. The overall amount of circa £100k across both Councils.
- We will need to fund a data analyst as we move forward with all the work on automation, robotics, etc, to take the Council forward. The costs are £50k spread across both Councils. This will indirectly lead to further savings as these processes/changes are embedded in future years budgets.
- Planning Enforcement – the use of WRS to speed up this process has additional cost implications across both Councils. An initial figure of £50k (which is spend to date) is added split across both Councils.
- The increased costs of Worcestershire Regulatory Services due to the pay award and other inflationary increases.

- Bringing employee budgets up to the full 2% level for pay awards in 2023/24 and 2024/25.
- The cost of all out election in Bromsgrove. This expense happens every 4 years and is forecast to be £167k in 2023/24.
- The Council Tax Collection Fund is projected to under-recover by £1,020k. The Council portion of this is 13% which is £132k – this would be a one-off issue for 2023/24.

3.18 The Local Government Provisional Settlement Updates along with the pressures set out in this section result in a resultant identified gap for the Council of £0.250m which is set out in the following table.

Bromsgrove Position Statement				
		2023/24 £000	2024/25 £000	2025/26 £000
Base Budget Position 22/23 MTFP				
	Expenditure	11,948	12,077	12,347
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	Net	**1,588**	**1,213**	**1,623**
Revised Gap		**1,588**	**1,213**	**1,623**
Pressures				
	50% Funding for Climate Change Officer	**30**	**30**	**30**
Savings Options				
	Environmental Services Partnership	0	-25	-50
	Service Reviews	-140	-330	-405
	Town Hall	-70	-70	-70
	Finance Vacancies	-100	-100	-100
	MRP	-100	-100	-100
	Pension Fund	-663	-663	-663
	Engage Capacity Grid (One Off)	-200	-200	0
	10% Increase in Fees and Charges	-382	-389	-390
	Total Savings	**-1,625**	**-1,847**	**-1,748**
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Pressures				
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Updated Position		**863**	**272**	**942**
	Utilties Inflation	702	702	702
Tranche 1 Final Draft Position		**1,565**	**974**	**1,644**
Draft Local Government Financial Settlement				
	New Homes Bonus	-127		
	Services Grant	-68		
	Funding Guarantee	-1,027		
	C Tax Base Reduction	24		
	Business Rates/Investment Inc Rebaseline	-517	-200	-200
	Future Years Settlements - assumption		-1,000	-1,000
Settlement Draft Amounts		**-1,715**	**-1,200**	**-1,200**
	Additional Pensions Savings	**-356**	**-356**	**-356**
	Converstion of 50% of Utilities to a Reserve	**-351**	**-351**	**-351**
Revised Deficit		**-857**	**-933**	**-263**
New Pressures (Known/Ongoing)				
	Fleet Refurbishment	129	258	258
	SLM Contract Rebasing	400	341	275
	Apprentiship Scheme	50	50	50
	Data Analyst	25	25	25
	Planning Enforcement	25	25	25
	WRS Increase	39	50	61
	Cost of all out Elections	167	0	0
	Under Recovery of 22/23 Council Tax	132	0	0
	Increased pay award - so 2%	140	140	0
Total		**1,107**	**889**	**694**
Revised Draft Position		**250**	**-44**	**431**

Impact on Reserves

3.19 The Council's position in respect of reserves is attached in Appendix A. As part of the Tranche 2 budget a thorough review of Reserves has taken place.

Earmarked Reserves

3.20 The Council entered 2022/23 with almost £12.7m in Earmarked Reserves. It should be noted that the Council has not yet fully closed the 2021/22 Accounts however data is taken on reserve levels as per the Period 11 Monitoring Statement for the year which assumes a £367k underspend for the year. The key reserves going into this financial year are:

- The Financial Services (Mostly Business Rates Retention Scheme) Reserve held for Business Rates appeals/non collection. This stands at £4.345m.
- The Economic Regeneration Reserve which stands at £0.998m.
- The General C-19 Reserves (funded from Grant Payments) which stands at £1.177m.
- The C-19 Collection Fund Reserve which stands at £3.094m. This will reduce to 0 over the next two years as it was grant funding for Council to smooth the effects of the Tax collection levels in the 2020/21 financial year due to pandemic reducing collection rates in 2020/21.

3.21 The Corporate Management Team reviewed Earmarked Reserves at the assurance meeting on the 21st December. At this meeting, as highlighted in an individual column in Appendix A:

- £1.053m has been able to be reallocated to a Utilities Reserve and £2.682m transferred to the General Fund.
- The majority of funding to support these changes came from the C-19 Reserve (£1.177m), the Finance Reserve (£1.000m), and the Economic Regeneration Reserve (£0.600m).
- It is assumed that the Utilities Reserve will reduce to 0 over the MTFP period.

General Fund

3.22 The General Fund assumes the following support over the three years of the MTFS of:

- £0.250m for 2023/24
- £0.044m Cr for 2024/25
- £0.431m for 2025/26

This is after transferring balances of £2.682m as part of the reallocation of Reserves.

3.23 The significant issue for the General Fund is the impact of the 2022/23 overspend position. Following Q2 monitoring, and taking into account the Pay award and existing support in last year's MTFP, there is a call of £1.472m on the General Fund. Management actions are in place to try and partially mitigate this but a significant portion of the difference is due to the Pay Award.

3.24 The Impact of all these factors is that at the end of the MTFP period, the 31st March 2026, General Fund Reserve levels are projected to be £5.558m.

3.25 The benchmark minimum level for General Fund Reserves is 5% of net expenditure. 5% of the Councils net expenditure (ignoring Housing Benefit which is passported to Clients) is circa £28m – for which 5% is £1.4m. However
- As 2022/23 has shown, this level of reserves would not cover the level of overspend being reported for this financial year.
- General fund reserves are all the Council has to fund transformation initiatives, redundancy and any service overspends.

3.26 It is prudent therefore to plan to build a level of General Fund Reserves which are 10% of Gross Expenditure less just Housing Benefits. This would mean General Fund Reserves should be at a level of at least £2.8m. General Fund levels are presently above this level.

Strategic Approach

3.27 The Council came into the 2023/24 budget process with a number of conflicting issues. These included:
- An ongoing budget deficit position from the 2022/23 MTFS of £1.6m which has now been resolved.
- Significant inflationary increase due to the "cost of living" crisis.
- Limited reserves to call on to reduce any deficit, which is still the case due to inflationary pressures. Earmarked reserves stand at just over £13m, and the General Fund at £4.5m.
- Increases in Council Tax are limited at 3%, which is significantly lower than the present rates of inflation.

3.28 The Council must move to financial sustainability as soon as is practically possible due to the present inherent risks. The strategy must be to move the Council to financial sustainability by the 2024/25 financial year. To get to this position there will be the need for investment and possibly the requirement to fund redundancy (both from reserves). Both these requirements will be outputs from the Council having to implement changes to the way it operates to continue to become a viable entity going forward and this will take 18 months to implement fully.

3.29 As set out in the Tranche 1 report, the strategy must be to move the Council to financial sustainability by the 2024/25 financial year. To get to this position there will be the need for investment and possibly the requirement to fund redundancy (both from reserves). Both these requirements will be outputs from the Council having to implement changes to the way it operates to continue to become a viable entity going forward and this will take 18 months to implement fully.

3.30 As set out later in the Robustness Statement assumptions have been made based on the best information held now. Issues the Council is facing are not unique, they are being faced by almost all Councils. However, the Council must continue to maintain reserves to fund transformational changes, and to do this it must continue to drive down its expenditure. This includes:

- Ensuring Grants are maximised.
- Ensuring Agency work reflects the income provided for its delivery.
- Minimisation of Bed and Breakfast Temporary Accommodation costs
- Reviewing the effectiveness of the Council's largest Contracts.
- Maximising the effectiveness of our refuse fleet
- Reviewing the location and effectiveness of our Depot
- Assessing the Council's leisure and cultural strategy in terms of affordability
- Reviewing recharging mechanisms between the Councils for appropriateness
- Rationalisation of Back Office services as we embrace technology.

3.31 Cost and calls for the Council's services will continue to rise unless managed correctly. This includes, in addition to those highlighted in 3.16 above, the following issues being tackled:

- Rationalisation of our asset estate, especially given energy efficiency requirements by 2026.
- Replacement of a highly skilled but relatively old (49) workforce.
- Implementation of a new operating model, required through the rollout of new digital solutions to our customers
- Redevelopment of our Depots
- Resources required to deliver Damp/Mildew inspections in the Private Rented Sector
- Redundancy payments – if we restructure the workforce – also cost of voluntary redundancies.
- The impact on Services if inflation continues above the 2% level
- Review of the overall delivery of cultural and leisure services.

3.32 Many of these initiatives will require investment, for which the only present source of funding is reserves (General Fund and Earmarked Reserves). Key areas of investment will be:

- Documentation of Processes
- Investment in automation and robotic processes
- Possible redundancy – through restructures

Capital Programme

3.33 In Tranche 1 the existing Capital Programme was split into Schemes that have started and those where no expenditure had happened to date. This final report follows a full review of all schemes on the Capital Programme by CMT in January.

3.34 The following table sets out the Capital Programme schemes that are approved for the MTFP time horizon. Many of these schemes are already in partial delivery in the 2022/23 financial year. By approving this list, as per Recommendation 4, the Council are also agreeing for sums not spent in 2022/23 (and 2021/22 by default if schemes originated earlier than 2022/23 as sums have been carried forward through last year's final MTFS Report into 2021/22) to be carried forward into 2023/4. The table also splits amounts by funding Source, Council or third party.

Financial Year	Total Budget £000	Council Funded £000	External Funded £000
2021/22	16,511	12,146	4,366
2022/23	8,126	1,485	6,641
2023/24	10,852	1,694	9,158
2024/25	4,921	2,224	2,697
2025/26	3,156	1,558	1,598

3.35 External Funding is made up of a number of Sources. The Council has large schemes. This includes:
- The two Levelling Up schemes – Old Fire Station and Market which are funded via £14.5m of Government Funding, and the Council is funding £1.6m of works.
- UK Share Prosperity Schemes totalling £2.8m.
- The Burcot Lane development at £10.275m.

3.36 The following changes have been made to the Capital Programme:
- The Regeneration Fund, which amounted to over £6m, has been applied to the £1.6m of Levelling Up Funding. As we now have Levelling Up and UKSPF funding from the Government, the remainder of this budget is now no longer required.
- The Vehicles Replacement fund has been updated, with many Waste Collection vehicles now being refurbished instead of new purchases being made as Council still await the publishing of the Governments Green Paper.

- New rolling programmes have been created to ensure that key council assets/intervention are maintained. These include:
    - £100k for a planned building maintenance programme.
    - £75k for a planned footpath maintenance programme.
    - £60k for a planned wheelie bin programme.
    - £50k for ongoing support for Home Repair Grants/Assistance.

3.37 The full list of schemes, including 6 funded via S106 receipts, are set out in Appendix B. The Capital Programme links to the Asset Strategy, Treasury Management Strategy, Minimum Revenue Provision Policy and Asset Investment Strategy, including the Prudential Indicators are set out in Appendix C.

Robustness Statement

3.38 The opinion of the Interim Chief Finance Officer is that the 2023/24 budget estimates contain considerable risk due to the continued level of uncertainty in the Council's operating environment and a single year financial settlement, making it problematic to develop meaningful assumptions.

3.39 The revenue budget and capital programme have been formulated having regard to several factors including:

- Funding Available.
- Inflation.
- Risks and Uncertainties.
- Council Priorities.
- Service Pressures.
- Commercial Opportunities.
- Operating in a Post C-19 environment.

3.40 The MTFP highlights that the 1-year Local Government Financial Settlement announced on the 19th December was to continue at the present levels then the Council starts to move to financial viability in year 2 before needing additional savings in year 3. This is a substantial improvement on the previous years budget where £3.2m of reserves were needed to balance the budget over the three financial years.

3.41 There are also still significant risks for the Council to manage:

- The Council has not yet closed its 2021/22 accounts. It is using the Period 11 Monitoring Report estimated outturn of £367k underspend. This still needs to be validated.
- The 2022/23 financial monitoring is showing an overspend position of £1.472m. This needs to be managed down as it removes half the present General Fund balances.
- The core risks of implementation of any MTFP

    - All savings proposals have passed the S151 Officers tests for robustness and delivery.
    - Implementation of savings to time and budget – we now move through to the implementation processes which needs to be documented to ensure all items are within timescales and variances are reported and mitigated through the correct governance processes – to minimise risk.
- Loss of key personnel, with the average age of staff being 49. Mitigation plans will need to be drawn up. There is an acute recruitment issue across Worcestershire and succession planning is a necessity for key roles.
- The time limited nature of the large Levelling Up and UK Shared Prosperity Funds. If programmes are not delivered within the Government Specified timescales, then the Council is liable for ongoing delivery expenditure.
- Business Rate Income – especially with the 1st April 2023 revaluations that are being undertaken, actual income received will vary depending on actual Business Rates growth, and levels of appeals. As highlighted in the Collection Fund section, there is also an issue with collection this year being under target which is an impact of the "cost of living" crisis.
- The ongoing impact of inflation, especially around utilities. We have allowed for 200% increases and prices are now coming down, however this is still a substantial risk especially with the Council having "Corporate Buildings" including leisure buildings for the delivery of services directly to the public.
- Possible change of corporate direction/priorities following the elections in May.

3.42 In line with Section 25 of the Local Government Act 2003, this report of the Chief Financial Officer (CFO) sets out the robustness of estimates included in the budget and the adequacy of the Council's reserves.

The Chief Financial Officer's opinion is that the estimates are robust.

3.43 Relevant budget holders are responsible for individual budgets and their preparation. All estimates are then scrutinised by Financial Services staff and the Corporate Management Team prior to submission to Members.

3.44 The two tranche 2023-4 budget process has ensured that all budget assumptions have been reviewed and reconsidered by Officers, and then Members, through the Finance and Budget Scrutiny Working Group, Cabinet and Council.

3.45 However, as per the strategy section, the Council needs to move to a fully sustainable budget, with no support from reserves, by the 2024/5 financial year.

Adequacy of Reserves

3.46 Budget and MFTP proposals forecast the level of General Fund balances at £5.6m as at 31st March 2026 which is £2.8m above minimum set levels of £2.8m as set out in the Reserves section.

3.47 Taking account of the above, the strategy to move to a fully sustainable budget by the 2024/25 financial year, and the level of risk within the budget, theChief Finance Officer judges that reserves are at an appropriate level throughout the period of the MTFP. This will be subject to ongoing review.

3.48 Further work will be undertaken to ensure that expenditure levels are sustainable and matched by income over the medium to long term. Plans are therefore in place to continue to review budgets and identify further savings opportunities.

Collection Fund and Precepts

3.49 The Council Tax collection fund is anticipated to be in deficit by surplus based on December data of £1.020m which will be distributed amongst the major preceptors using the prescribed formulae. The Council's share of the surplus payable as a one-off sum in the following financial year 13% of the total which amounts to £132k.

3.50 The precepts from Worcestershire County Council, Hereford and Worcester Fire Authority and the West Mercia Police and Crime Commissioner are due to set their precepts in the week commencing 8th February. This will enable the Council to set the Council Tax on 27th February 2023. The precepting bodies Council Tax requirements will be included in the formal resolutions which will be presented to Council on 27th February.

3.51 Business Rates collection data as at December is projected to be £1.220m below target.

4. **IMPLICATIONS**

Financial Implications

4.1 Financial implications are set out in section 3.

Legal Implications

4.2 A number of statutes governing the provision of services covered by this report contain express powers or duties to charge for services. Where an express power to charge does not exist the Council has the power under Section 111 of the Local Government Act 1972 to charge where the activity is incidental or conducive to or calculated to facilitate the Council's statutory function.

Service / Operational Implications

4.3 Service implications of savings proposals are set out in the Savings Proposal Document in the background papers.

Customer / Equalities and Diversity Implications

4.4 There are none of these in Tranche 1, although it is expected there will be impacts in Tranche 2 where further savings will be required.

5. RISK MANAGEMENT

5.1 There is a risk that if fees and charges are increased that income levels will not be achieved, and the cost of services will increase. This is mitigated by managers reviewing their fees and charges annually. The ongoing risks are set out in the Robustness Statement section.

6. APPENDICES and BACKGROUND PAPERS

Appendix A – Reserves Statement
Appendix B – Detailed Capital Programme
Appendix C – Asset, Treasury Management, and Investment Strategies

Background Papers

MTFP Update – Cabinet 18th January, 2023
Tranche 1 MTFP – Cabinet 26th October 2023: Agenda for Cabinet, 26/10/2022 18:00 (bromsgrove.gov.uk)
MTFP 2022/23 – Approved February 2022: Agenda Document for Council, 23/02/2022 18:00 (bromsgrove.gov.uk)

7. KEY

None

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Appendix A – Reserves Statement

	Balance at 31/3/21 £000	Transfers In 2021/22	Transfers out 2021/22	Balance at 31/3/22	Transfers In 2022/23	Transfers out 2022/23	Re-baseline 2022/23	Balance at 31/3/23	Transfers in 2023/24	Transfers out 2023/24	Balance at 31/3/24	Transfers in 2024/25	Transfers out 2024/25	Balance at 31/3/25	Transfers in 2025/26	Transfers out 2025/26	Balance at 31/3/26
General Fund Reserve	**4,613**	367	(495)	**4,485**		(1,472)	2,682	**5,695**	100	(250)	**5,545**	244	0	**5,789**	200	(431)	**5,558**
General Fund Earmarked Reserves:																	
Building Control Other	7			7			(7)	0			0			0			0
Building Control Partnerships	82			82				82			82			82			82
Business Transformation	0			0				0			0			0			0
Commercialism	0			0				0			0			0			0
Community Safety	0			0				0			0			0			0
Community Services	271			271				271		(125)	146		(125)	21			21
Economic Regeneration	1,348		(350)	998			(600)	398			398			398			398
Election Services	51			51				51			51			51			51
Environmental Services	49			49				49			49			49			49
Financial Services	4,445		(100)	4,345		(150)	(1,000)	3,195	638		3,833			3,833			3,833
Housing Schemes	488		(142)	346				346			346			346			346
ICT/Systems	197			197				197			197			197			197
Leisure/Community Safety	330			330				330			330			330			330
Litigation Reserve	0			0				0			0			0			0
Local Development Framework	0			0				0			0			0			0
Local Neighbourhood Partnerships	16			16				16			16			16			16
Other	108		(44)	64			(64)	0			0			0			0
Planning & Regeneration	133			133				133			133			133			133
Regulatory Services (Partner Share)	46			46				46			46			46			46
Replacement Reserve (Inc. Recycling)	0			0				0			0			0			0
Shared Services (Severance Costs)	311			311			(311)	0			0			0			0
Utilities Reserve				0			1,053	1,053		(351)	702		(351)	351		(351)	0
Covid-19 (General Covid Grant)	766	411		1,177			(1,177)	0			0			0			0
Covid-19 Sales Fees and Charges	0	576		576			(576)	0			0			0			0
Covid-19 (Collection Fund)	4,641		(1,547)	3,094		(1,547)		1,547		(1,547)	0			0			0
Total General Fund	13,289	987	(2,183)	12,093	0	(1,697)	0	7,714	638	(2,023)	6,329	0	(476)	5,853	0	(351)	5,502

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Appendix B – Capital Programme

Cap Proj	Description	Department	Funding detail	2021/22 Total £	21/22 Spend £	2022/23 Total £	22/23 Spend to 10/1 £	2023/24 Total £	2024/25 Total £	2025/26 Total £	Council 21/22 £	Council 22/23 £	Council 23/24 £	Council 24/25 £	Council 25/26 £	3rd Party 21/22 £	3rd Party 22/23 £	3rd Party 23/24 £	3rd Party 24/25 £	3rd Party 25/25 £
	Large Schemes																			
	Levelling Up Fund Fund																			
	- Government Funded	Planning, Regeneration & Leisure Services	Grant Funding	1,600,000	1,600,000	5,329,041	24,000	7,563,360								1,600,000	5,329,041	7,563,360	0	0
	- Council Funded		Borrowing	385,000	281,000	420,133		805,133			385,000	420,133	805,133	0	0					
	UK Shared Prosperity Fund																			
	- Capital Element	Planning, Regeneration & Leisure Services	Grant Funding			50,000										0	50,000	0	0	0
	- Revenue Element	**Planning, Regeneration & Leisure Services**	**Grant Funding**			290,499										0	290,499	0	0	0
	- Remainder (to be allocated)	Planning, Regeneration & Leisure Services	Grant Funding			20,000		680,988	1,784,215							0	20,000	680,988	1,784,215	0
	Schemes Agreed to Continue																			
200006	Burcot Lane	Financial & Customer Services	Public works loan board and grant homes england	9,275,000	1,125,000	0	5,696,000	0	0	0	9,275,000	0	0	0	0					
200007	CCTV	Community & Housing GF Services	Capital Receipts/Borrowing	67,376	28,000	0	0	0	0	0	67,376	0	0	0	0					
200008	Funding for DFGs	Community & Housing GF Services	Grant income WCC	1,416,101	620,000	913,000	728,000	913,000	913,000	0						1,416,101	913,000	913,000	913,000	0
200009	Home Repairs Assistance	Community & Housing GF Services	Long Term Debtors	111,221	-5,000	50,000	4,000	50,000	50,000	50,000	111,221	50,000	50,000	50,000	50,000					
200010	Energy Efficiency Installation	Community & Housing GF Services	Capital Receipts/Borrowing	65,988	12,000	110,000	8,000	0	0	0	65,988	110,000	0	0	0					
200011	Energy Efficiency	Community & Housing GF Services	Grant finance	5,000	3,000	0	0	0	0	0						5,000	0	0	0	0
200015	Cemetery Extension infrastructure at at North Bromsgrove Cemetery Phase Two	Environmental Services	Capital Receipts/Borrowing	8,000	0	6,500	16,000	0	0	0	8,000	6,500	0	0	0					
200016	New Finance Enterprise	Financial & Customer Services	Capital Receipts	0	1,000	0	14,000	0	0	0	0	0	0	0	0					
200017	OLEV ULEV Taxi infrastructure scheme	Community & Housing GF Services	Grants & Contributions	200,000	296,000	0	1,000	0	0	0						200,000	0	0	0	0
200019	Fleet Replacemnet new line		Borrowing	1,568,000	380,000	356,000	74,000	441,000	1,190,000	1,215,000	1,568,000	356,000	441,000	1,190,000	1,215,000					

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Cap Proj	Description	Department	Funding detail	2021/22 Total £	21/22 Spend £	2022/23 Total £	22/23 Spend to 10/1 £	2023/24 Total £	2024/25 Total £	2025/26 Total £	Council 21/22 £	Council 22/23 £	Council 23/24 £	Council 24/25 £	Council 25/26 £	3rd Party 21/22 £	3rd Party 22/23 £	3rd Party 23/24 £	3rd Party 24/25 £	3rd Party 25/25 £
200022	Replacement Parking machines	Environmental Services	Capital Receipts/Borrowing	250,000	196,000	253,000	98,000	96,000	421,000	0	250,000	253,000	96,000	421,000	0					
200030	Wheelie Bin Purchase	Environmental Services	Capital Receipts/Borrowing	139,000	102,000	144,000	0	55,000	60,000	60,000	139,000	144,000	55,000	60,000	60,000					
New	Footpaths	Environmental Services	Borrowing					75,000	75,000	75,000			75,000	75,000	75,000					
New	Buildings	Legal and Property	Borrowing					100,000	100,000	100,000			100,000	100,000	100,000					
200040	Bittell road recreation ground	Planning, Regeneration & Leisure Services	S106 B/2011/0741 - Land at Fiery Hill, Barnt Green / 18k balances	18,000	17,000	0	0	0	0	0						18,000	0	0	0	0
200044	Salix	Legal, Democratic and property services	Grants & Contributions	615,000	65,000	0	533,000	0	0	0						615,000	0	0	0	0
200045	Greener Homes	Community & Housing GF Services	Grants & Contributions	476,900	-227,000	0	5	0	0	0						476,900	0	0	0	0
200057	Hagley Scouts	Planning, Regeneration & Leisure Services	Capital Receipts/Borrowing	0	35,000	0	0	0	0	0	0	0	0	0	0					
200048	Bromsgrove Sporting		Loan		4,000		26,000									0	0	0	0	0
200061	Car Park Improvements - Oakalls				8,000		0									0	0	0	0	0
	Woodrush High Schools				134,000		0									0	0	0	0	0
200026	Rubery Redevelopment Works	Planning, Regeneration & Leisure Services	Capital Receipts/Borrowing	32,738	0	0	0	0	0	0	32,738	0	0	0	0					
200029	Sanders Park dda play provision	Planning, Regeneration & Leisure Services	S106 14/0755 Kidderminster Road and S106 13/0422 Meadows first school	35,000	0	0	0	0	0	0						35,000	0	0	0	0
200032	New Digital Service	Community & Housing GF Services	Borrowing	33,668	0	33,668	0	33,668	0	0	33,668	33,668	33,668	0	0					
200033	Bus Shelters	Environmental Services	Borrowing	36,000	0	18,000	0	0	0	0	36,000	18,000	0	0	0					
200034	Fleet Management Computer System	Environmental Services	Borrowing	16,600	0	0	0	0	0	0	16,600	0	0	0	0					
200035	Environmental Services Computer System	Environmental Services	Borrowing	157,200	0	0	0	0	0	0	157,200	0	0	0	0					
200060	Cisco Network Update	Business transformation & [illegible]	Borrowing	0	0	5,717	0	11,574	0	24,077	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					

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Cap Proj	Description	Department	Funding detail	2021/22 Total £	21/22 Spend £	2022/23 Total £	22/23 Spend to 10/1 £	2023/24 Total £	2024/25 Total £	2025/26 Total £	Council 21/22 £	Council 22/23 £	Council 23/24 £	Council 24/25 £	Council 25/26 £		3rd Party 21/22 £	3rd Party 22/23 £	3rd Party 23/24 £	3rd Party 24/25 £	3rd Party 25/25 £
200069	Cisco Network Update	Business transformation & Organisational Development	Borrowing	0	0	5,717	0	11,574	0	34,877	0	5,717	11,574	0	34,877						
200070	Server Replacement Est(Exact known Q2 2022)	Business transformation & Organisational Development	Borrowing	0	0	83,250	0	2,000	177,500	18,500	0	83,250	2,000	177,500	18,500						
200071	Laptop Refresh	Business transformation & Organisational Development	Borrowing	0	0	5,000	0	25,000	150,000	5,000	0	5,000	25,000	150,000	5,000						
new	Play Area, POS and Sport improvements at Lickey End Recreation Ground in accordance with the S106 Agreement	Planning, Regeneration & Leisure Services	S106 19/0137/FUL	0	0	37,956	0	0	0	0							0	37,956	0	0	0
200002	BDC Combined F/Path & Cycle	Environmental Services	Grants & Contributions	0	0	0	0	0	0	0							0	0	0	0	0
	Barnt Green Millenium Park - Toilet	Planning, Regeneration & Leisure Services	S106 B/2011/0741 - Land at Fiery Hill, Barnt Green / 18k balances	0	0	0	0	0	0	1,597,377							0	0	0	0	1,597,377
	Total			16,511,792	4,675,000	8,125,764	7,222,005	10,851,723	4,920,715	3,155,755	12,145,791	1,485,268	1,694,375	2,223,500	1,558,377	0	4,366,001	6,640,496	9,157,348	2,697,215	1,597,377

BROMSGROVE CAPITAL STRATEGY REPORT 2023/24

Introduction

3.1 This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes-technical areas.

3.2 Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Capital Expenditure and Financing

3.3 Capital expenditure is where the Authority spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

3.4 In 2023/24, the Authority is planning capital expenditure of £10.851as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2021/21 Actual	2022/23 Forecast	2023/24 budget	2024/25 budget	2025/26 budget
General Fund services	2.461	2.798	1.383	3.742	3.156
Regeneration	3.006	13.749	9.468	1.178	0.000
TOTAL	**5.467**	**16.547**	**10.851**	**4.920**	**3.156**

The Council is still to finalise work required for the adoption of IFRS16 linking to the accounting for leases which must be implemented by the 2024/5 financial year.

3.5 The main General Fund capital projects include the completion of the Burcot development which is reaching its conclusion at £10.3m, Levelling Up Projects of £16.1m which need to be delivered by March 2026, UK Shared Prosperity Funding of £2.8m which need to be delivered by 2025, and the replacement of the Fleet at £2.8m. Following a change in the Prudential Code, the Authority confirms it does not incur capital expenditure on investments.

3.6 **Governance**: Service managers bid annually to include projects in the Authority's capital programme. Bids are collated by corporate finance who calculate the financing cost (which can be nil if the project is fully externally financed). The Cabinet appraises all bids based on a comparison of strategic priorities against financing costs and makes recommendations to council. These recommendations are scrutinised by the Finance and Budget Scrutiny Working Group. The final capital programme is then presented to Cabinet and then Council in February each year.

- For full details of the Authority's capital programme, including the project appraisals undertaken, see: 2023/24 MTFP Phase 2 – Cabinet 15th February 2023.

3.7 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2021/21 Actual	2022/23 Forecast	2023/24 budget	2024/25 budget	2025/26 budget
External sources	2.71	8.156	9.157	2.697	1.597
Own resources	2.757	8.391	1.694	2.224	1.558
TOTAL	**5.467**	**16.547**	**10.851**	**4.921**	**3.155**

The Council is still to finalise work required for the adoption of IFRS16 linking to the accounting for leases which must be implemented by the 2024/5 financial year.

3.8 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of prior years' debt finance in £ millions

	2021/21 Actual	2022/23 Forecast	2023/24 budget	2024/25 budget	2025/26 budget
Minimum Recenue Provision	1.025	1.081	1.072	0.978	1.198
Capital Receipts	0	0.000	4.800	0.000	0.000

- The Authority's full minimum revenue provision statement is available as part of these papers.

3.9 The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to decrease by £4.1m during 2023/24. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
General Fund services	19.921	16.488	16.591	26.126	27.665
Capital investments	3.006	13.749	9.468	1.178	0.000
TOTAL CFR	**22.9**	**30.2**	**26.1**	**27.3**	**27.7**

The Council is still to finalise work required for the adoption of IFRS16 linking to the accounting for leases which must be implemented by the 2024/5 financial year.

3.10 **Asset management:** To ensure that capital assets continue to be of long-term use, the Authority has an asset management strategy in place. Within this strategy, individual properties and associated land will be further evaluated to determine:

- The operational necessity and benefit.
- Projected costs of ensuring all elements of the buildings continue to meet legislative requirements and performance standards.
- Planned and cyclical maintenance costs for elements nearing the end of their 'life' expectancy, ensuring service provision is maintained without unnecessary interruption. Costs associated with meeting future EPC rating minimum requirements.
- Rent levels (and net costs for each building) and revised leases.
- Alternative or rationalised portfolio or joint enterprises for service delivery

By evaluation of all factors cited above, informed decisions can be made to determine which assets are:

- No longer cost effective to run, where outlay exceeds earning potential
- No longer viable for effective service delivery
- Surplus to requirements

Asset considerations will be presented to Cabinet on a half yearly basis, for approval for disposal, unless there is an urgent requirement for a decision.

The Authority's asset management strategy can be read here: Cabinet 26th October 2022.

3.11 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Authority is currently also permitted to spend capital receipts "flexibly" on service transformation projects until 2023/24 although this will not be required.. Repayments of capital grants, loans and investments also generate capital receipts. The Authority plans to receive £4.8m of capital receipts in the coming financial year from the Burcot development as follows:

Table 5: Capital receipts receivable in £ millions

	2021/21 Actual	2022/23 Forecast	2023/24 budget	2024/25 budget	2025/26 budget
Capital Receipts	0.000	0.000	4.800	0.000	0.000
Loans, etc, Repaid	0.000	0.000	0.000	0.000	0.000

Treasury Management

3.12 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

3.13 Due to decisions taken in the past, the Authority currently has no external long term (over 1 year) borrowing and £8.3m treasury investments at an average rate of 1.75% in 2022/23.

3.14 Borrowing strategy: The Authority's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

3.15 The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

3.16 Projected levels of the Authority's total outstanding debt (which comprises borrowing, leases and transferred debt) are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
Debt (incl. PFI & leases)	0.3	8.3	18.3	18.3	18.3
Capital Financing Requirement	22.9	30.2	26.1	27.3	27.7

3.17 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Authority expects to comply with this in the medium term.

3.18 Liability benchmark: To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £0.2m at each year-end. This benchmark is currently £12.2m and is forecast to rise to £15.5m over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
Forecast external borrowing	0.3	8.3	18.3	18.3	18.3
Liability benchmark	3.0	13.9	12.0	13.6	14.6

3.19 The table shows that the Authority will borrow above its liability benchmark from the 2023/24 financial year. This is because cash outflows to date have been below the assumptions made when the loans were borrowed, but this will change in 2023/24.

3.20 Affordable borrowing limit: The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2021/22 limit	2022/23 limit	2023/24 limit	2024/25 limit	2025/26 limit
Authorised limit - borrowing	40,000	50,000	55,000	60,000	65,000
Authorised limit - PFI and leases	500	1,000	1,000	1,000	1,000
Authorised limit - total external debt	40,500	51,000	56,000	61,000	66,000
Operational boundary - borrowing	35,000	45,000	50,000	55,000	60,000
Operational boundary - PFI and leases	500	1,000	1,000	1,000	1,000
Operational boundary - total external debt	35,500	46,000	51,000	56,000	61,000

3.21 **Treasury investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

3.22 The Authority's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Authority may request its money back at short notice.

Table 9: Treasury management investments in £millions

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
Near-term investments	5	8	5	5	5
Longer-term investments	0	0	0	0	0
TOTAL	**5**	**8**	**5**	**5**	**5**

- Further details on treasury investments are in the Treasury Management Strategy part of this appendix

3.24 **Risk management:** The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

- The treasury management prudential indicators are in the treasury management strategy which are part of these appendices.

3.25 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and staff, who must act in line with the treasury management strategy approved by Council. Half Yearly reports on treasury management activity are presented to Cabinet. The Audit, Standards and Governance Committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

3.26 The Authority makes investments to assist local public services, including making loans to local service providers, local small businesses to promote economic growth, the Authority's subsidiaries that provide services. Total investments for service purposes are currently valued at £0m.

3.27 **Risk management:** In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs. A limit of £2.5m is placed on total investments for service purposes to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.

3.28 **Governance:** Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance and must meet the criteria and limits laid down in the investment strategy. Most loans are capital expenditure and purchases will therefore also be approved as part of the capital programme. The relevant service director] is responsible for ensuring that adequate due diligence is carried out before investment is made.

- Further details on service investments are in the Treasury Management Strategy

Commercial Activities

3.29 With central government financial support for local public services declining, and the Change in PWLB regulations, the Council does not invest in commercial property purely or mainly for financial gain. It has Towns Funding of over £16m to deliver schemes over the next three years and the Burcot Housing Scheme is now coming to its completion.

3.30 Risk management: The Council will not make investments in commercial property purely or mainly for financial gain in the future. It might for re-generational purposes and if that is the case once regeneration have been delivered the Authority will assesses the risk of loss before entering into commercial agreements by using specialist advice to understand the market and the potential future demands of the market and the customers in it. It will also use benchmarking data from the market to determine future potential risks which need to be planned for. External advice will be sought from credible sources eg acknowledged experts in their fields, and officers ensure that they fully understand any information given to them before decision or advice is taken.

3.31 Governance: Decisions on commercial investments are made by Head of Finance and Customer Services in line with the criteria and limits approved by Council in the Investment strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme. The Head of Finance and Customer Services is responsible for ensuring that adequate due diligence is carried out before investment is made.

Table 10: Prudential indicator: Net income from commercial and service investments to net revenue stream

	2021/21 Actual	2022/23 Forecast	2023/24 budget	2024/25 budget	2025/26 budget
Total Net Income	0	0	0	0	0
Proportion of net Revenue Stream	0%	0%	0%	0%	0%

Liabilities

3.33 The Authority is committed to making future payments to cover its pension fund deficit (which is in surplus as per the 2022 Triennial revaluation and the backlog will be cleared in 2037). It has also set aside £2.4m for Business Rates Appeals.

3.24 Governance: Decisions on incurring new discretional liabilities are taken by Heads of Service in consultation with the Director of Finance. The risk of liabilities crystallising and requiring payment is monitored by corporate finance and reported quarterly to Cabinet. New liabilities exceeding £0.5m are reported to full council for approval/notification as appropriate.

Revenue Budget Implications

3.35 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 11: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Financing costs (£m)	1.081	1.072	0.978	1.198
Proportion of net revenue stream	9.4%	8.3%	8.1%	9.7%

The Council is still to finalise work required for the adoption of IFRS16 linking to the accounting for leases which must be implemented by the 2024/5 financial year.

3.36 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Director of Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable because of the current Medium Term Financial Plan (MTFP) forecasts which show that the Council is financially sustainable over that period.

Knowledge and Skills

3.37 The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Executive Director of Finance and Head of Service are qualified accountant with significant experience. The Authority pays for junior staff to study towards relevant professional qualifications including CIPFA and AAT.

3.38 Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisers, and Bruton Knowles as property consultants. This approach is more cost effective than employing such staff directly, and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

- Further details on staff training can be found in the HR Employee Development section of the website.

TREASURY MANAGEMENT STRATEGY REPORT 2023/24

Introduction

3.1 Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested] substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

3.2 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

3.3 Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

External Context

Economic background:

3.4 The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

3.5 The Bank of England (BoE) increased Bank Rate by 0.75% to 3.0% in November 2022, the largest single rate hike since 1989 and the eighth successive rise since December 2021. The decision was voted for by a 7-2 majority of the Monetary Policy Committee (MPC), with one of the two dissenters voting for a 0.50% rise and the other for just a 0.25% rise.

3.6 The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

3.7 The UK economy grew by 0.2% between April and June 2022, but the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

3.8 CPI inflation is expected to peak at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets with a peak of 5.25%. However the BoE has stated it considers this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target.

3.9 The labour market remains tight for now, with the most recent statistics showing the unemployment rate fell to 3.5%, driven mostly by a shrinking labour force. Earnings were up strongly in nominal terms by 6% for total pay and 5.4% for regular pay but factoring in inflation means real total pay was -2.4% and regular pay -2.9%. Looking forward, the MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

3.10 Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.75% in November 2022 to 3.75%-4.0%. This was the fourth successive 0.75% rise in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 8%. GDP grew at an annualised rate of 2.6% between July and September 2022, a better-than-expected rise, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

3.11 Inflation has been rising consistently in the Euro Zone since the start of the year, hitting an annual rate of 10.7% in October 2022. Economic growth has been weakening with an expansion of just 0.2% in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.75% in October, the third major increase in a row, taking its main refinancing rate to 2% and deposit facility rate to 1.5%.

Credit outlook:

3.12 Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

3.13 CDS price volatility has been higher in 2022 compared to 2021 and this year has seen a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

3.14 The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

3.15 There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

3.16 However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (November 2022):

3.17 The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

3.18 While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

3.19 Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the 3-year period to September 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

3.20 A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.

3.21 For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 2.0%, and that new long-term loans will be borrowed at an average rate of 4.57% which is the PWLB rate for 40 year debt on the 16th January 2022.

<u>Local Context</u>

3.22 On 31st December 2022, the Authority held £0m of borrowing and £8.3m of treasury investments. This is set out in further detail in this report. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.22 Actual £m	31.3.23 Estimate £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
General Fund CFR	19.921	16.488	16.591	26.126	27.665
Investments CFR	3.006	13.749	9.468	1.178	0.000
Total CFR	**22.927**	**30.237**	**26.059**	**27.304**	**27.665**
Less: External borrowing **	**0.275**	**8.275**	**18.275**	**18.275**	**18.275**
Internal (over) borrowing	22.652	21.962	7.784	9.029	9.390
Less: Usable reserves	**-17.000**	**-13.400**	**-11.200**	**-10.800**	**-10.200**
Less: Working capital	-3.100	-3.100	-3.100	-3.100	-3.100
Treasury investments (or New borrowing)	**2.552**	**5.462**	**-6.516**	**-4.871**	**-3.910**

3.23 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authority has an increasing CFR due to the capital programme, but minimal investments but will be funding the programme through internal borrowing, following the requirement for debt funding in 2022/23.

3.24 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2023/24.

3.25 Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £0.2m at each year-end to maintain sufficient liquidity but minimise credit risk.

3.26 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability benchmark

	31.3.22 Actual £m	31.3.23 Estimate £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
CFR	22.9	30.2	26.1	27.3	27.7
Less: Usable reserves	-17	-13.4	-11.2	-10.8	-10.2
Less: Working capital	-3.1	-3.1	-3.1	-3.1	-3.1
Plus: Minimum investments	0.2	0.2	0.2	0.2	0.2
Liability Benchmark	**3.0**	**13.9**	**12.0**	**13.6**	**14.6**

3.27 Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes capital expenditure funded by internal borrowing.

Borrowing Strategy

3.28 The Authority currently holds no loans, no change on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority expects not to borrow in 2023/24. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £56 million.

3.29 Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

3.30 Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

3.31 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term] borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

3.32 The Authority has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

3.33 Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

3.34 In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

3.35 Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Worcestershire Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

3.36 Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

3.27 Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

3.28 Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

3.29 Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Treasury Investment Strategy

3.31 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £2 and £15 million, and similar levels are expected to be maintained in the forthcoming year.

3.32 Objectives: The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

3.33 Strategy: As demonstrated by the liability benchmark above, the Authority expects to be a long-term investor and treasury investments will therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services.

3.34 The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Authority may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

3.35 **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code

3.36 **Business models:** Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

3.37 **Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: Treasury investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3 m 5 years	£3m 20 years	£3m 50 years	£3m 20 years	£1m 20 years
AA+	£3m 5 years	£3m 10 years	£3m 25 years	£3m 10 years	£1m 10 years
AA	£3m 4 years	£3m 5 years	£3m 15 years	£3m 5 years	£1m 10 years
AA-	£3m 3 years	£3m 4 years	£3m 10 years	£3m 4 years	£1m 10 years
A+	£3m 2 years	£3m 3 years	£3m 5 years	£3m 3 years	£1m 5 years
A	£3m 13 months	£3m 2 years	£3m 5 years	£3m 2 years	£1m 5 years
A-	£3m 6 months	£3m 13 months	£3m 5 years	£3m 13 months	£1m 5 years
None	£1.5m 6 months	n/a	£3m 25 years	£1m 5 years	£500k 5 years
Pooled funds and real estate investment trusts		£2.5m per fund or trust			

3.38 *** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

3.39 For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £500,000 per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

3.40 **Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

3.41 **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

3.42 **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

3.43 **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

3.44 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

3.45 **Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

3.46 **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

3.47 **Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

3.48 **Operational bank accounts:** The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2.0m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

3.49 **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

3.50 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

3.51 **Other information on the security of investments**: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

3.52 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

3.53 **Investment limits**: The Authority’s revenue reserves available to cover investment losses are forecast to be £13.4 million on 31st March 2023 and £11.0 million on 31st March 2024. In order that no more than 45% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

3.54 Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £2m in operational bank accounts count against the relevant investment limits.

3.55 Limits are also placed on fund managers, investments in brokers’ nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Additional investment limits

	Cash limit

Any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£5m per country
Registered providers and registered social landlords	£2.5m in total
Unsecured investments with building societies	£2.5m in total
Loans to unrated corporates	£1m in total
Money market funds	£20m in total
Real estate investment trusts	£2.5m in total

3.55 **Liquidity management**: The Authority uses detailed spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

3.56 The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

<u>Treasury Management Prudential Indicators</u>

3.57 The Authority measures and manages its exposures to treasury management risks using the following indicators.

3.58 **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**
Portfolio average credit [rating / score]	*A-*

3.59 **Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	**Target**

Total cash available within 3 months	£2.5m

3.61 Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£500,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£500,000

3.62 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

3.63 Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and above	100%	0%

As the Council holds no external debt, this maturity structure allows the Council this highest level of flexibility for future debt.

3.64 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

3.65 Long-term treasury management investments: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	2023/24	2024/25	2025/26	No fixed date
Limit on principal invested beyond year end	£1.5m	£1.0m	£0.5m	£0m

3.66 Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Related Matters

3.67 The CIPFA Code requires the Authority to include the following in its treasury management strategy.

3.68 **Financial derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

3.69 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

3.70 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

3.71 In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

3.74 **Markets in Financial Instruments Directive**: The Authority has retained retail client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a smaller range of services but with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Director of Finance believes this to be the most appropriate status.

Financial Implications

3.75 The budget for investment income in 2023/24 is £0.1 million, based on an average investment portfolio of £5.0 million at an interest rate of 2.0%. The budget for debt interest paid in 2023/24 is £0.3 million. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

3.76 Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then 50% of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

Other Options Considered

3.77 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance, having consulted the Cabinet Member for Finance and Enabling, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast – November 2022

Underlying assumptions:

- UK interest rate expectations have eased following the mini-budget, with a growing expectation that UK fiscal policy will now be tightened to restore investor confidence, adding to the pressure on household finances. The peak for UK interest rates will therefore be lower, although the path for interest rates and gilt yields remain highly uncertain.
- Globally, economic growth is slowing as inflation and tighter monetary policy depress activity. Inflation, however, continues to run hot, raising expectations that policymakers, particularly in the US, will err on the side of caution, continue to increase rates and tighten economies into recession.
- The new Chancellor dismantled the mini-budget, calming bond markets and broadly removing the premium evident since the first Tory leadership election. Support for retail energy bills will be less generous, causing a lower but more prolonged peak in inflation. This will have ramifications for both growth and inflation expectations.
- The UK economy is already experiencing recessionary conditions, with business activity and household spending falling. Tighter monetary and fiscal policy, alongside high inflation will bear down on household disposable income. The short- to medium-term outlook for the UK economy is bleak, with the BoE projecting a protracted recession.
- Demand for labour remains strong, although there are some signs of easing. The decline in the active workforce has fed through into higher wage growth, which could prolong higher inflation. The development of the UK labour market will be a key influence on MPC decisions. It is difficult to see labour market strength remaining given the current economic outlook.
- Global bond yields have steadied somewhat as attention turns towards a possible turning point in US monetary policy. Stubborn US inflation and strong labour markets mean that the Federal Reserve remains hawkish, creating inflationary risks for other central banks breaking ranks.
- However, in a departure from Fed and ECB policy, in November the BoE attempted to explicitly talk down interest rate expectations, underlining the damage current market expectations will do to the UK economy, and the probable resulting inflation undershoot in the medium term. This did not stop the Governor affirming that there will be further rises in Bank Rate.

Forecast:

- The MPC remains concerned about inflation but sees the path for Bank Rate to be below that priced into markets.
- Following the exceptional 75bp rise in November, Arlingclose believes the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects Bank Rate to peak at 4.25%, with a further 50bp rise in December and smaller rises in 2023.

- The UK economy likely entered into recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate.
- Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook, investors will price in higher inflation expectations given signs of a softer monetary policy stance.
- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales will maintain yields at a higher level than would otherwise be the case.

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.90	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.75	3.75	3.75
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.36	3.65	3.90	3.90	3.90	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.70	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.88	4.00	4.00	4.00	4.00	4.00	3.90	3.90	3.90	3.90	3.90	3.90	3.90
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.24	3.40	3.40	3.40	3.40	3.40	3.30	3.30	3.30	3.30	3.30	3.30	3.30
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B – Existing Investment & Debt Portfolio Position

	31/1/23 **Actual portfolio £m**	31/1/23 **Average rate %**
External borrowing:		
Public Works Loan Board		**0**
Local authorities		
LOBO loans from banks		
Other loans		
Total external borrowing	**0**	**0**
Other long-term liabilities:		
Private Finance Initiative		
Leases		
Transferred Debt		
Total other long-term liabilities		
Total gross external debt	0	0
Treasury investments:		
The UK Government	5.3	
Local authorities		
Other government entities		
Secured investments		
Banks (unsecured)		
Building societies (unsecured)		
Registered providers (unsecured)		
Money market funds	3.0	
Strategic pooled		
Real estate investment trusts		
Other investments		
Total treasury investments	8.3	1.75
Net debt	(8.3)	

Annual Minimum Revenue Provision Statement 2023/24

Introduction

3.1 Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The *Local Government Act 2003* requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

3.2 The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

3.3 The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

- For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate of 4%, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
- For assets acquired by leases MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- Where former operating leases have been brought onto the balance sheet due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.
- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred on the loan is fully funded over the life of the assets.

- There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial year
- Where the council makes a capital contribution or loan to another entity or where responsibility for a council asset with borrowing attached is transferred to a third party, then no MRP will be set aside if:
  - the payments are appropriately covered by assets
  - there are detailed plans demonstrating that all the expenditure will be recovered in an appropriately short time frame

To ensure that this remains a prudent approach the Council will review the expenditure and income regularly to determine if the income or asset values have decreased to the point that MRP needs to be provided for. Should evidence emerge which suggests the expenditure will no longer be recovered MRP will be provided for.

- Where the council uses internal borrowing and receipts of rental income are greater than the MRP calculated then as there are sufficient revenues to repay the capital cost no MRP will be set aside.

3.4 Capital expenditure incurred during 2023/24 will not be subject to a MRP charge until 2024/25 or later.

3.5 Based on the Authority's latest estimate of its capital financing requirement (CFR) on 31st March 2023, the budget for MRP has been set as follows:

	31.03.2023 Estimated CFR £m	**2023/24 Estimated MRP £**
Capital expenditure before 01.04.2008		
Supported capital expenditure after 31.03.2008		
Unsupported capital expenditure after 31.03.2008	30.2	1,081,000
Leases and Private Finance Initiative		
Transferred debt		
Loans to other bodies repaid in instalments		Nil
Voluntary overpayment (or use of prior year overpayments)	n/a	
Total General Fund		
Assets in the Housing Revenue Account		
HRA subsidy reform payment		
Total Housing Revenue Account		
Total	**30.2**	**1,081,000**

INVESTMENT STRATEGY REPORT 2023/24

Introduction

3.1 The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

3.2 This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

3.3 The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £2m and £15m during the 2023/24 financial year.

3.4 **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

3.5 **Further details:** Full details of the Authority's policies and its plan for 2023/24 for treasury management investments are covered in a separate document, the treasury management strategy, which is part of these appendices.

Service Investments: Loans

3.6 **Contribution:** The Council will lend money to its subsidiaries, local businesses, local charities, housing associations, to support local public services and stimulate local economic growth.

3.7 **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	**31.3.2022 actual**			**2023/24**
	Balance owing	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Subsidiaries			0	1.0
Suppliers			0	0
Parish councils			0	0
Local businesses			0	0.5
Local charities			0	0.5
Housing associations			0	1.0
Local residents			0	0
Employees			0	0
TOTAL			**0**	**3.0**

3.8 Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

3.9 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding service loans by using specialist advice to understand the market and the potential future demands of the market and the customers in it. It will also use benchmarking data from the market to determine future potential risks which need to be planned for. External advice is only sought from credible sources eg acknowledged experts in their fields, and officers ensure that they fully understand any information given to them before decision or advice is taken.

Commercial Investments: Property

3.10 **Contribution:** The Council invests via Regeneration schemes such as Levelling Up Fundings via the Government in property with the intention of making a profit that will be spent on local public services. Levelling Up funding is being investing in regenerating the Market Hall site, and clearing the existing Fire Station site for future regeneration.

Table 2: Property held for investment purposes in £ millions

Property Type	Actual	31.3.2022 actual		31.3.2023 expected	
	Purchase cost	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
N/a	0	0	0	0	0
TOTAL	**0**	**0**	**0**	**0**	**0**

3.16 **Security:** In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

3.17 *Where value in accounts is at or above purchase cost:* A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2022/23 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

3.18 *Where value in accounts is below purchase cost:* The fair value of the Authority's investment property portfolio is no longer sufficient to provide security against loss, and the Authority is therefore taking mitigating actions to protect the capital invested.

3.19 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding property investments by involving specialist advisors with expertise in the type of property being purchased, looking at historic data and speaking to other councils undertaking similar activities.

3.20 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority the Authority ensures that properties purchased are in an active market where there is demonstrable demand to ensure that the authority does not purchase assets which it will not be able to sell on at a later date.

Loan Commitments and Financial Guarantees

3.22 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and are included here for completeness.

Proportionality

3.24 The Authority does not plan to become dependent on profit generating investment activity to achieve a balanced revenue budget.

Borrowing in Advance of Need

3.25 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority would only not follow this guidance if interest rate forecasts and treasury advisor guidance set out that it was more cost effective, **in terms of significantly reduced debt interest charges**, for the Council to borrow for the **Approved 3 year capital programme** at a point of time rather than when that expenditure is taking place over that 3 year period. It is unlikely that this will happen however the option should not be closed off. Funds would be invested The Authority's policies in investing the money borrowed, including management of the risks, would be as per normal short term Treasury Investments.

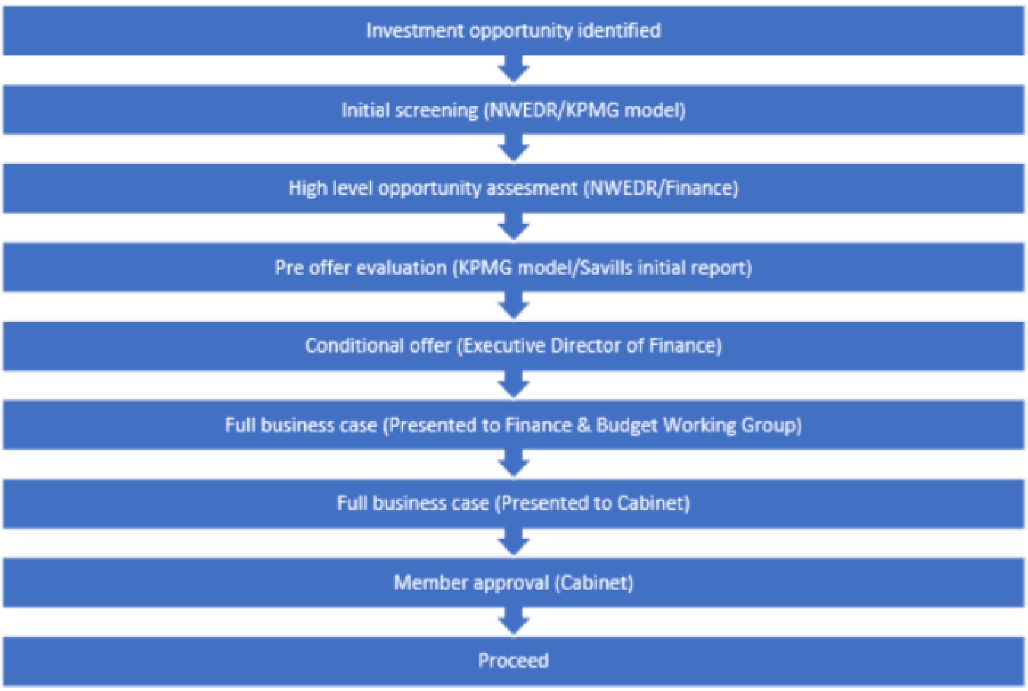
Capacity, Skills and Culture

3.26 **Elected members and statutory officers**: Member training will take place annually as part of the induction process. External advisors will provide reports to support investment decisions with officers ensuring that they fully understand them and can relate them to the strategic objectives and risk profile of the authority.

3.27 **Commercial deals:** Significant work has been undertaken using external advisors and relevant training courses have been attended to ensure that officers are fully aware of the code and statutory requirements of a local authority which is investing.

KPMG have developed a modelling tool for the authority to use when assessing potential purchases as a precursor to engaging with external consultants to ensure that potential purchases are likely to make sense from the perspective of the authority before incurring advisor costs. However, following an internal review of policy, it has been decided that the council may wish to make purchases which do not make a financial return or may indeed make a loss in the short term. On these occasions a business case will be developed which specifies the non-financial benefits of the investment. These are likely to be regenerative schemes for the greater good of the area with an intended long term impact. The regenerative and redevelopment benefits which will flow from the investment will be taken into account in the development of the business case, so if the net investment yield falls below 0.75% it can still proceed if these benefits are deemed to outweigh the lower than target yield.

3.28 **Corporate governance:** when investment decisions are to be made, they are to be led by the Council's Executive Director of Finance in consultation with the Corporate Management Team. They will assess the potential investment opportunity, consulting North Worcestershire Economic Development and Regeneration (NWEDR) and using the KPMG finance appraisal model, and should they decide it presents a strong opportunity for the authority and complies with the relevant criteria a conditional offer can be made. A business case will then be developed and presented ensuring that once greater detail is included, it makes a satisfactory income yield and/or economic redevelopment and regeneration impact. When the business case is completed, if it is still compliant with the council criteria, it will be presented to Cabinet for approval before purchase is completed.



Once a purchase has been made, the Director of Finance will provide quarterly updates, in line with finance and performance monitoring reports, on the status of the investment.

Investment Indicators

3.29 The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

3.30 Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 3: Total investment exposure in £millions

Total investment exposure	**31.03.2022 Actual**	**31.03.2023 Forecast**	**31.03.2024 Forecast**
Treasury management investments	7	8	5
Service investments: Loans			
Service investments: Shares			
Commercial investments: Property			
TOTAL INVESTMENTS	**7**	**8**	**5**
Commitments to lend			
Guarantees issued on loans			
TOTAL EXPOSURE	**7**	**8**	**5**

3.31 How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table 6: Investments funded by borrowing in £millions

Investments funded by borrowing	**31.03.2022 Actual**	**31.03.2023 Forecast**	**31.03.2024 Forecast**
Treasury management investments	0	0	0
Service investments: Loans	0	0	0
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	0
TOTAL FUNDED BY BORROWING	0	0	0

3.32 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 7: Investment rate of return (net of all costs)

Investments net rate of return	**2021/22 Actual**	**2022/23 Forecast**	**2023/24 Forecast**
Treasury management investments	0.13	0.175	0.2
Service investments: Loans			
Service investments: Shares			
Commercial investments: Property			
ALL INVESTMENTS			

Table 8: Other investment indicators

Indicator	**2021/22 Actual**	**2022/23 Forecast**	**2023/24 Forecast**
e.g. Debt to net service expenditure ratio	164%	183%	
e.g. Commercial income to net service expenditure ratio			