



Jacqui Sinnott-Lacey  
Chief Operating Officer

52 Derby Street  
Ormskirk  
West Lancashire  
L39 2DF

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Friday, 10 February 2023

**TO: COUNCILLORS     A OWENS, J FINCH, P BURNSIDE, I ECCLES, A FOWLER,  
S GREGSON, R MOLLOY, D OWEN, E POPE, I RIGBY,  
D WESTLEY AND D WHITTINGTON**

Dear Councillor,

Please find attached Revised Reports for the **SPECIAL EXECUTIVE OVERVIEW & SCRUTINY COMMITTEE (BUDGET MEETING)** in the **CABINET/COMMITTEE ROOM, 52 DERBY STREET, ORMSKIRK L39 2DF** on **TUESDAY, 14 FEBRUARY 2023** at **7.00 PM** at which your attendance is requested.

Yours faithfully

A handwritten signature in black ink, appearing to be "JS", with a long horizontal stroke at the end.

Jacqui Sinnott-Lacey  
Chief Operating Officer

**AGENDA**  
**(Open to the Public)**

- |           |   |           |
|-----------|---|-----------|
| <b>7.</b> | <b>GRA REVENUE &amp; CAPITAL BUDGET REPORT &amp; MTFS UPDATE</b><br>To consider the report of the Head of Finance, Procurement and Commercial Services. | 755 - 794 |
| <b>8.</b> | <b>CAPITAL FINANCE &amp; TREASURY MANAGEMENT STRATEGY</b><br>To consider the report of the Head of Finance, Procurement and Commercial Services.        | 795 - 820 |

**We can provide this document, upon request, on audiotape, in large print, in Braille and in other languages.**

For further information, please contact: -  
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## AGENDA ITEM:



**Special Executive Overview &  
Scrutiny: 14 February 2023**

**Council:  
22 February 2023**

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**Report of:** Head of Finance, Procurement and Commercial Services

**Relevant Portfolio Holder:** Councillor Adam Yates

**Contact:** James Pierce  
(E-mail: james.pierce@westlancs.gov.uk)

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**SUBJECT: GRA Revenue and Capital Budget Report and MTFS Update 2023/24 to 2025/26**

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Wards affected: Borough Wide

### **1.0 PURPOSE OF THE REPORT**

- 1.1 To enable the Council to set a balanced Revenue Budget for the forthcoming financial year 2023/24.
- 1.2 To present to members the updated Medium-Term Financial Forecast (MTFF) for the following financial years 2024/25 to 2025/26, noting the latest forecast budget gap of £2.708m, comprising:
  - £1.470m in 2024/25
  - £1.238m in 2025/26
- 1.3 To inform members of the reserves position as at 31 March 2022 and the forecast position to 2025/26.
- 1.4 To present to members the Capital Strategy 2023/24 to 2025/26.
- 1.5 To enable the Council set the Capital Programme for the three years 2023/24 to 2025/26.

## 2.0 RECOMMENDATIONS

### **Special Executive Overview & Scrutiny**

Are asked to recommend the following items to Council for approval:

- 2.1 That the General Revenue Account (GRA) budget for 2023/24 be approved based on the proposals to be presented at the Council meeting.
- 2.2 That the latest GRA Medium-Term Financial Forecast (MTFF) budget gap for 2024/25 to 2025/26 be noted.
- 2.3 That the latest GRA reserves position as at 31 March 2022 and forecast to 2025/26 be noted and the GRA reserves policy be approved.
- 2.4 That the Capital Strategy along with the Capital Programme of £13.556m for the three years 2023/24 to 2025/26 be approved, that includes
  - New bids of £651k;
  - Additional approvals for UK Shared Prosperity Fund £1.726m.
- 2.5 Approve the Capital Strategy for 2023/24 to 2025/26, that includes the change of use of HRA right to buy capital receipts, to be used in delivering the capital business plan of the HRA from 2024/25.
- 2.6 That delegated authority be given to the Chief Operating Officer and the Corporate Director to take all necessary action to implement the changes resulting from the budget proposals.

### **Council**

- 2.7 That the General Revenue Account (GRA) budget for 2023/24 be approved based on the proposals to be presented at the Council meeting.
  - 2.8 That the latest GRA Medium-Term Financial Forecast (MTFF) budget gap for 2024/25 to 2025/26 be noted.
  - 2.9 That the latest GRA reserves position as at 31 March 2022 and forecast to 2025/26 be noted and the GRA reserves policy be approved.
  - 2.10 That the Capital Strategy along with the Capital Programme of £13.556m for the three years 2023/24 to 2025/26 be approved, that includes
    - New bids of £651k;
    - Additional approvals for UK Shared Prosperity Fund £1.726m.
  - 2.11 Approve the Capital Strategy for 2023/24 to 2025/26, that includes the change of use of HRA right to buy capital receipts, to be used in delivering the capital business plan of the HRA from 2024/25.
  - 2.12 That delegated authority be given to the Chief Operating Officer and the Corporate Director to take all necessary action to implement the changes resulting from the budget proposals.
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### 3.0 BACKGROUND

#### 2021/22 Outturn

- 3.1 The 2021/22 GRA Mid-Year report to Council in January 2022 projected a £427k underspend outturn position, whilst the 2021/22 GRA Outturn Report to Council in July 2022 reported a balanced revenue outturn position.
- 3.2 Although there is an adverse variance of £427k between the mid-year and outturn position, this is a strong outcome for the Council, due to only £49k of a budgeted £1.239m contribution from reserves being required, as detailed below:

<u>2021/22</u>	Revised Budget £000s	Mid-Year Variance £000s	Outturn Variance £000s
Corporate and Customer Services	3,167	0	(427)
Environmental Services	7,279	(50)	(46)
Finance, Procurement and Commercial Services	59	0	(619)
Housing and Regulatory	1,864	(100)	(140)
Growth and Development	1,264	0	(39)
Wellbeing and Leisure	3,092	(385)	(481)
Central Service: Corporate Budgets	432	0	(127)
Central Service: Corporate Staff Vacancy Factor	(445)	0	445
<b>NET SERVICE BUDGET</b>	<b>16,712</b>	<b>(535)</b>	<b>(1,434)</b>
Non Service: Treasury Management	(163)	108	250
Non Service: Capital Charges	(1,413)	0	-5
Non Service: Reserves	(1,239)	0	1,189
<b>NET BUDGET</b>	<b>13,897</b>	<b>(427)</b>	<b>0</b>
Council Tax	(7,886)	0	0
Business Rates: Retained Income	(3,559)	0	0
Business Rates: S31 Grants	(3,568)	0	0
Prior Year Collection Fund (Surplus)/Deficit	2,658	0	0
New Homes Bonus	(802)	0	0
Other Government Grants	(740)	0	0
<b>FUNDING</b>	<b>(13,897)</b>	<b>0</b>	<b>0</b>

- 3.3 Details of the key variances include:
- Savings on the leisure contract, achieved by the close management of the contract which involved the release of surplus monies set aside for repairs in addition to savings flowing from management of the contract activity on a routine and regular basis;
  - Agency management fee income in regard to work of Disabled Facilities grants being better than budget;
  - Staff vacancies within Corporate and Customer Services and Housing and Regulatory Services;
  - Accounting for pension fund contributions having a favourable effect on outturn;
  - Treasury investment returns, due to delays implementing the SORP recommendation of investing in short and long-term investments, available cash balances and low interest rates continue to have a detrimental effect on investment income receivable.

## 2022/23 Quarter 2 Forecast Outturn

- 3.4 The budget report presented to Council on 23 February 2022 set out the Council's budget requirement for the 2022/23 financial year and provided details on the Council's reserves position. This process is in accordance with statutory requirements and proper accounting practices.
- 3.5 Council agreed a Net Budget of £14.953m for 2022/23.
- 3.6 The table below reflects changes to the original budget approved by Council in February 2022. The changes reflect in-year budget and technical realignments to better reflect statutory reporting requirements, and changes in team structures. The approved net budget of £14.953m has not changed.
- 3.7 The table below provides quarter 2 forecast outturn estimates against the revised budget. The mid-year net forecast position is a shortfall of £500k, this compares with £240k forecast shortfall at quarter 1.

<u>2022/23</u>	Revised Budget £000s	Q1 Var. £000s	Q2 Var. £000s	Comments
Corporate and Customer Services	5,760	0	(200)	Vacancies
Legal and Democratic Services	1,123	0	0	
Environmental Services	6,556	0	200	Staffing
Finance, Procurement and Commercial Services	(755)	0	(70)	Various running cost budgets
Housing	839	0	0	Vacancies Energy costs
Planning and Regulatory	1,947	0	0	Vacancies Planning income down
Wellbeing and Place	1,232	0	0	Review of repairs pending
Central Service: Corporate Budgets	728	0	0	
Central Service: Corporate Staff Vacancy Factor	(1,014)	0	400	Pay award
<b>NET SERVICE BUDGET</b>	<b>16,416</b>	<b>0</b>	<b>330</b>	
Non Service: Treasury Management	(122)	240	170	Rising interest rates
Non Service: Reserves	(1,341)	0	0	
<b>NET BUDGET</b>	<b>14,953</b>	<b>240</b>	<b>500</b>	To be met from reserves
Council Tax	(8,227)	0	0	
Business Rates: Retained Income	(2,793)	0	0	
Business Rates: S31 Grants	(2,850)	0	0	
Government Grants	(1,083)	0	0	
<b>FUNDING</b>	<b>(14,953)</b>	<b>0</b>	<b>0</b>	

- 3.8 The overspend relates to:
- The effect of above budgeted pay offer of £518k, now makes the achievement of the corporate vacancy factor target unlikely and an under achievement of £400k is being reported at quarter 2
  - The under achievement of the SORP investment income target, (as discussed in 3.3 above). The forecasted shortfall in treasury management income, reported at quarter 1 of £240k, is expected to reduce by £70k to around £170k at quarter 2, due to rising interest rates.

- 3.9 Both the 2021/22 outturn position and 2022/23 mid-year forecast outturn position, assist forming the starting position for both the 2023/24 GRA revenue budget and the MTFF ending 2025/26. Though clearly the current mid-year forecast position can change throughout the year for emerging and recurring cost pressures and any in-year opportunities and savings that are identified.

## 4.0 FINANCIAL OVERVIEW

### 4.1 Economic update - Office for Budget Responsibility (OBR) November 2022:

Over the past six months, the global energy and food supply shocks emanating from Russia's invasion of Ukraine have intensified. The further curtailment of Russian imports saw European wholesale gas prices rise ten-fold from pre-pandemic levels, and markets now expect prices to remain four times higher in the medium-term. Rising energy, food, and other goods prices have pushed up the interest rates set by inflation-targeting central banks to levels not seen since the 2008 financial crisis. This has taken much of the wind out of the global economic recovery from the pandemic and ratcheted up the financial pressure on governments that emerged from it with higher debt and are again being called upon to help households and businesses through this latest crisis.

- CPI inflation is set to peak at a 40-year high of 11 per cent in the current quarter, and the peak would have been a further 2½ percentage points higher without the energy price guarantee (EPG) limiting a typical household's annualised energy bill to £2,500 this winter and £3,000 next winter. Rising prices erode real wages and reduce living standards by 7 per cent in total over the two financial years to 2023-24 (wiping out the previous eight years' growth), despite over £100 billion of additional government support.
- The squeeze on real incomes, rise in interest rates, and fall in house prices all weigh on consumption and investment, tipping the economy into a recession lasting just over a year from the third quarter of 2022, with a peak-to-trough fall in GDP of 2 per cent. Unemployment rises by 505,000 from 3.5 per cent to peak at 4.9 per cent in the third quarter of 2024.
- The Bank of England Monetary Policy Committee sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 2 November 2022, the MPC voted by a majority of 7-2 to increase Bank Rate by 0.75 percentage points, to 3%.

### 4.2 Economic outlook - Office for Budget Responsibility (OBR) November 2022:

Since the OBR March forecast, wholesale gas prices have reached new highs, interest rate expectations have surged, and the value of sterling has dropped. While UK-specific factors appear to have exacerbated some of these movements around the time of the 23 September Growth Plan, by early November differences in key market determinants largely reflected global developments since March: further curtailing of Russian gas exports to Europe, rising government bond yields internationally, and a strengthening US dollar.

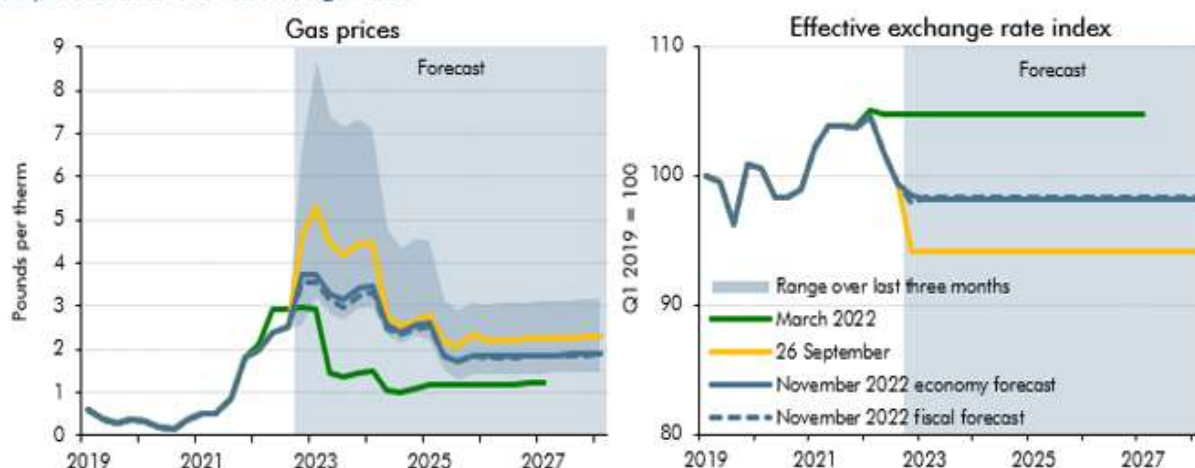
- Gas prices remain historically high and are expected to peak at £3.70 a therm in the first quarter of 2023, around 80p a therm higher than the peak in our March forecast. Prices then fall back sharply to settle at £1.90 a therm in the final quarter of 2025, after which we hold them constant in real terms – at around 70p a therm above our March forecast and around four times pre-pandemic norms.

Market expectations for gas prices have been volatile, with prices for the first quarter of 2023 having risen as high as £8.70 a therm and fallen as low as £3.20 since the start of August. The dollar cost of oil in 2023 is little changed since March at \$85 a barrel, but the weaker pound means the cost of oil is up by 19 per cent in sterling terms.

- Inflation is expected to peak at a 40-year high of 11.1 per cent in the fourth quarter of 2022, revised up from the peak of 8.7 per cent in our March forecast. The peak would have been even higher still at 13.6 per cent (and come one quarter later) without the reduction in utility prices that results from the EPG. The EPG continues to hold inflation down next year, though the increase from £2,500 to £3,000 in April 2023 adds 1 percentage point to quarterly CPI inflation in the second quarter of 2023. On a calendar-year basis, CPI inflation falls back from 9.1 per cent in 2022 to 7.4 per cent in 2023. Near-term fiscal support boosts demand (offsetting much of the reduction in demand that would otherwise have resulted from higher energy bills), with tighter monetary and fiscal policy then putting some downward pressure on domestic prices later in the forecast. Conditional on market expectations for Bank Rate and gas prices, inflation falls below zero for eight quarters from mid-2024 and by the end of our forecast, the price level is 0.8 per cent lower than our March forecast.

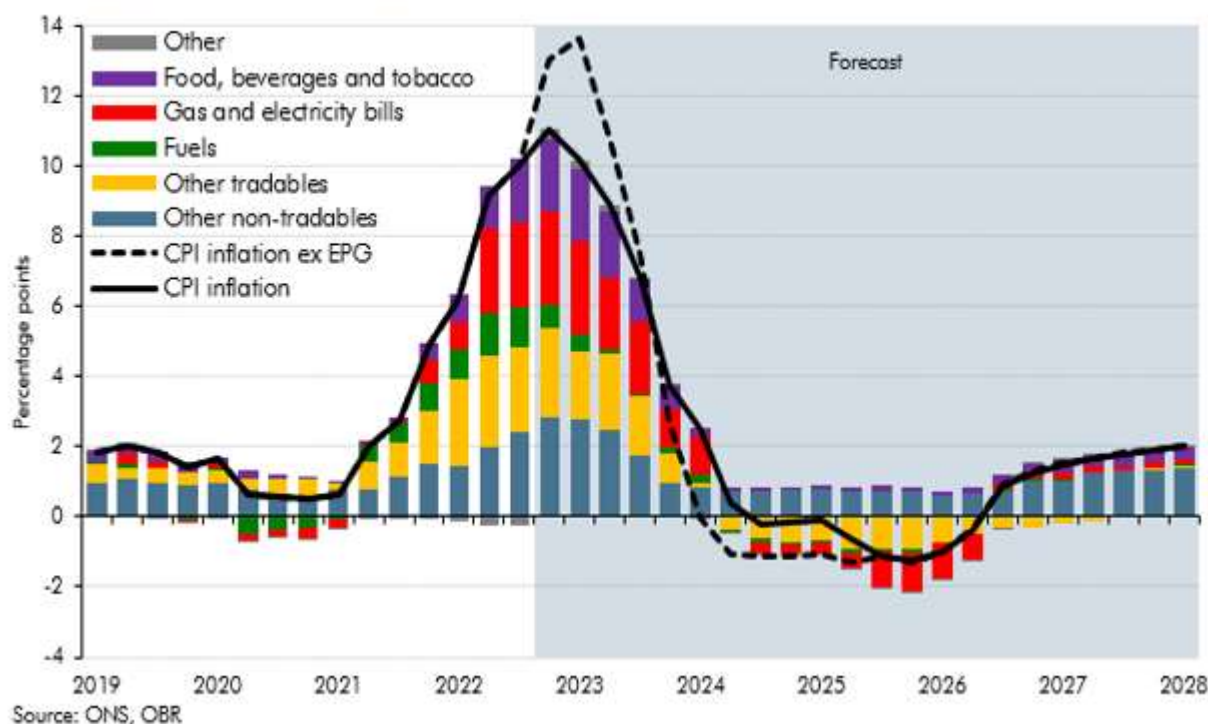
The charts below are taken from the *Office for Budget Responsibility: Economic and Fiscal Outlook*, published in November 2022.

Gas prices and the exchange rate





## Contributions to CPI inflation



### 4.3 Autumn Statement November 2022

On 17 November 2022, the Chancellor delivered his Autumn Statement, this follows the previous Chancellor's Growth Plan announcements in late September 2022, the majority of which have since been rolled back – with the notable exception that the Health and Social Care Levy has been, and remains, cancelled.

The Chancellor has set two new fiscal policy rules which guide the Autumn Statement:

- Public sector net debt (excluding the Bank of England) needs to be falling as a percentage of GDP by the fifth year of the rolling forecast; and
- Public sector net borrowing (the deficit) needs to be below 3% of GDP by the fifth year of the rolling forecast.

The Autumn Statement confirms that departmental DEL budgets in 2023/24 and 2024/25 will be maintained at least in line with the budgets set at the Spending Review. After this Spending Review period, departmental resource spending will grow at 1% a year in real terms. Departmental capital spending will continue at the same level in cash terms.

To help identify further savings in departmental budgets, the government is launching an Efficiency and Savings Review. The Review will target increased efficiency, reprioritise spending away from lower-value programmes, and review the effectiveness of public bodies. Savings will be reinvested in public services, and the government will report on progress in the spring.

Announcements directly impacting Local Government:

#### Council Tax

- The government will provide local authorities in England with additional flexibility in setting council tax, by increasing the referendum limit for increases in council tax from 2% to 3% per year from April 2023.

- The government has not formally announced that the assumptions made on council tax increases will apply after 2023/24, although there are signs this has been priced in for at least 2024/25.

#### Business Rates

- From 1 April 2023, business rates bills in England will be updated to reflect changes in property values since the last revaluation in 2017. A package of targeted support worth £13.6 billion over the next five years is intended to support businesses as they transition to their new bills. It is stated that local authorities will be fully compensated for the loss of income as a result of these business rates measures and will receive new burdens funding for administrative and IT costs.
- The business rates multipliers will be frozen in 2023-24 at 49.9p and 51.2p, preventing them from increasing to 52.9p and 54.2p.
- Upwards Transitional Relief will cap bill increases caused by changes in rateable values at the 2023 revaluation. This £1.6 billion of support will be funded by the Exchequer, rather than by limiting bill decreases, as at previous revaluations. The 'upward caps' will be 5%, 15% and 30%, respectively, for small, medium, and large properties in 2023/24, and will be applied before any other reliefs or supplements. The caps will increase in later years of the scheme.
- Retail, Hospitality and Leisure Relief - support for eligible retail, hospitality, and leisure businesses is being extended and increased from 50% to 75% business rates relief up to £110,000 per business in 2023/24.
- Bill increases for the smallest businesses losing eligibility or seeing reductions in Small Business Rates Relief (SBRR) or Rural Rate Relief (RRR) will be capped at £600 per year from 1 April 2023. This is support worth over £500 million over the next 3 years and will protect over 80,000 small businesses who are losing some or all eligibility for relief. This means no small business losing eligibility for SBRR or RRR will see a bill increase of more than £50 per month in 2023-24.

#### Local Welfare

- £1 billion (including Barnett impact) will be provided to enable the extension of the Household Support Fund in England over 2023/24. The Fund is administered by local authorities who will deliver support to households to help with the cost of essentials.

- 4.4 Local Government Finance Policy Statement 2023/24 to 2024/25 December 2022  
On 12 December 2022, the Secretary of State for Levelling Up, Communities and Local Government published a written ministerial statement which was accompanied by a policy statement on the 2023/24 Local Government Finance Settlement and assumptions about the 2024/25 Local Government Finance Settlement.

#### 2023/24 Policy Statement:

The Government's policy statement sets out detailed assumptions, but local authority-level figures will be published as part of the provisional local government finance settlement.

#### Core Settlement

- Councils will be compensated for the business rates multiplier freeze up to the Consumer Price Index (CPI) inflation measure, rather than previously used – and – higher Retail Price Index (RPI). However, it is important to note that the "freeze in the multiplier" already includes an element of inflation (estimated at

- 3.9%) and therefore only the balance of the CPI owing (6.2%) is expected to be refunded through the multiplier compensation grant.
- Revenue support grant will increase in line with CPI and 'negative revenue support grant' will continue to be eliminated.
  - The Government will proceed to make the adjustments to tariffs and top-ups to reflect the 2023 business rates revaluation and transfers of certain hereditaments to the Central Rating List. The methodology and adjustments will be confirmed alongside the provisional 2023/24 settlement. Adjustments will subsequently be made to account for compiled rating list data for the 2023 list as at 1 April 2023 and for Outturn Business Rates data for 2022/23 at the 2024/25 local government finance settlement, with the final adjustment at the 2025/26 settlement.

#### Council Tax

- Shire district councils will have a referendum principle of 3% or £5, whichever is higher.

#### Government Grants

- The Services Grant will be reduced (estimated by £200m). The Government suggests this is to account for the cancelation of the increase in National Insurance Contributions and to route some funding to the Supporting Families programme. The distribution of the remaining grant will continue to follow the Settlement Funding Assessment as previously.
- The New Homes Bonus will continue in 2023/24 with a new round which will attract no legacy payments.
- The lower tier services grant (£111m) and a proportion of expired new homes bonus legacy payments (estimated at £276m) will be repurposed to guarantee that all authorities will see an increase in core spending power of at least 3%, before additional council tax income is factored in (please see paras 4.9 to 4.14).

#### 2024/25 Policy Statement:

The Government has set out some planning assumptions for the 2024/25 local government finance settlement as follows:

- The Review of Relative Needs and Resources ('Fair Funding Review') and a reset of Business Rates growth will not be implemented in the next two years.
- The council tax referendum principles will continue the same as 2023/24.
- Revenue support grant will continue and be uplifted in line with baseline funding levels (assumed now to be now based on September 2023 CPI), while social care grants will increase as set out in the table above.
- Business rates pooling will continue.
- The Government will set out the future position of New Homes Bonus ahead of the 2024/25 local government finance settlement.

#### 4.5 Provisional Local Government Finance Settlement (LGFS) December 2022:

To provide funding certainty and allow councils to plan ahead, in December 2015 the Government offered councils a four-year funding settlement for the period 2016/17 to 2019/20. Over the past three years of 2020/21, 2021/22 and 2022/23 the Government has limited this to one-year settlements.

On 19 December, the Government published for statutory consultation, the provisional LGFS for 2023/24. The provisional settlement is once again a holding position, this time based on proposed allocations for 2023/24 and a fairly full set of policy principles for 2024/25.

The broad approach is based on a uniform roll-over of the core elements of the settlement; additional resources for priority services; balancing service pressures with taxpayer concerns, through council tax referendum principles; and a fallback, by way of a minimum funding guarantee, for outlying councils.

Finance reform is deferred, once again, until at least 2025/26 and possibly later, as even this could be an ambitious timetable for designing and delivering reform. that makes it extremely difficult for councils to forecast with any certainty and plan medium-term.

#### Core Spending Power (CSP):

Core Spending Power is a measure of the resources available to local authorities to fund service delivery. It sets out the money that has been made available to local authorities through the LGFS.

The table below sets out the figures for local authority CSP from 2015-16 through to 2023-24. Figures for 2015-16 have been adjusted to ensure a consistent measure of local authority income over time.

CORE SPENDING POWER									
West Lancashire									
Illustrative Core Spending Power of Local Government:									
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	£ millions	£ millions	£ millions	£ millions	£ millions	£ millions	£ millions	£ millions	£ millions
Settlement Funding Assessment	£5.465	£4.609	£3.966	£3.622	£3.262	£3.315	£3.315	£3.315	£3.595
Compensation for under-indexing the business rates multiplier	£0.044	£0.044	£0.046	£0.073	£0.106	£0.133	£0.173	£0.339	£0.586
Council Tax Requirement excluding parish precepts	£6.165	£6.354	£6.595	£6.878	£7.171	£7.498	£7.847	£8.227	£8.641
New Homes Bonus	£1.369	£1.714	£1.723	£1.172	£0.967	£0.875	£0.802	£0.703	£0.768
New Homes Bonus returned funding	£0.010	£0.007	£0.007	£0.000	£0.000	£0.000	£0.000	£0.000	£0.000
Transition Grant	£0.000	£0.007	£0.007	£0.000	£0.000	£0.000	£0.000	£0.000	£0.000
Lower Tier Services Grant	£0.000	£0.000	£0.000	£0.000	£0.000	£0.000	£0.141	£0.152	£0.000
Services Grant	£0.000	£0.000	£0.000	£0.000	£0.000	£0.000	£0.000	£0.229	£0.134
Grants rolled in	£0.135	£0.152	£0.150	£0.145	£0.141	£0.142	£0.157	£0.156	£0.000
Funding Guarantee	£0.000	£0.000	£0.000	£0.000	£0.000	£0.000	£0.000	£0.000	£0.036
<b>Core Spending Power</b>	<b>£13.187</b>	<b>£12.887</b>	<b>£12.496</b>	<b>£11.890</b>	<b>£11.646</b>	<b>£11.962</b>	<b>£12.435</b>	<b>£13.120</b>	<b>£13.760</b>
Change since 2015-16 (£ millions)									£0.573
Change since 2015-16 (% change)									4.34%

For 2023/24 the table shows that the Council CSP has increased by £640k, from £13.120m to £13.760m. However, the compensation grant and Council Tax figures are assumed figures totalling £9.227m, actual figures have been calculated that total £9.168m, a shortfall of £59k, that is largely due to actual tax base growth being 1.13% rather than an assumed 1.98%.

#### Settlement Funding Assessment (SFA):

The Settlement Funding Assessment amount consists of Revenue Support Grant (RSG) and Business Rates Retention.

## Key Information for Local Authorities (£m)

### West Lancashire

	2016-17	2017-18 <sup>1</sup>	2018-19 <sup>1</sup>	2019-20 <sup>1</sup>	2020-21 <sup>1</sup>	2021-22 <sup>1</sup>	2022-23 <sup>1</sup>	2023-24 <sup>1</sup>
Settlement Funding Assessment	£4.609	£3.966	£3.622	£3.262	£3.315	£3.315	£3.315	£3.595
of which:								
Revenue Support Grant	£1.576	£0.871	£0.433	£0.000	£0.000	£0.000	£0.001	£0.156
Baseline Funding Level	£3.034	£3.096	£3.189	£3.262	£3.315	£3.315	£3.315	£3.439
Tariff/Top-Up <sup>2</sup>	(£9.633)	(£8.227)	(£8.367)	(£13.287)	(£8.698)	(£8.698)	(£8.698)	(£10.140)
2017-18 Tariff and Top-up reconciliation			£0.104					
Safety Net Threshold	£2.806	£2.863	£2.949	£3.099	£3.066	£3.066	£3.066	£3.181
Individual Authority Business Rates Baseline	£12.667	£11.322	£11.556	£16.549	£12.013	£12.013	£12.013	£13.578

<sup>1</sup> From 2017-18 onwards, figures have been adjusted to reflect authorities with increased Business Rates Retention arrangements. Please refer to the Settlement Funding Assessment Model and the explanatory note on authorities with increased Business Rates Retention arrangements.

<sup>2</sup> Tariffs and top-ups have been recalculated in 2017-18 and 2018-19 to reflect the adjustment for the 2017-18 business rates revaluation.

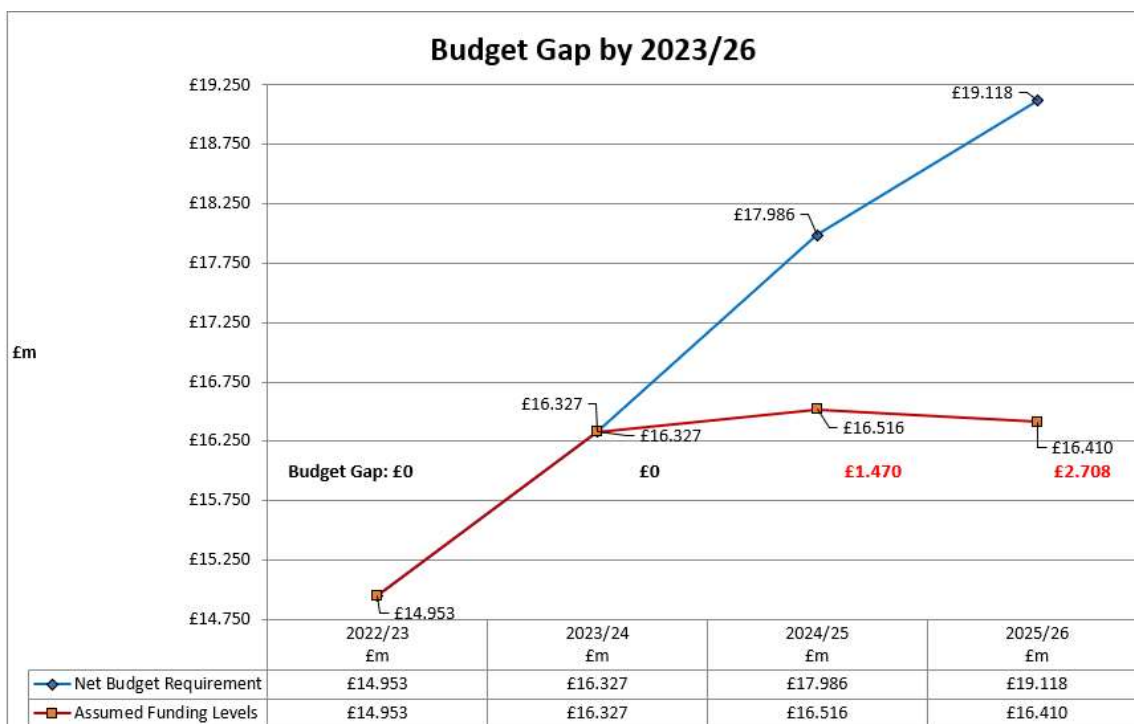
For 2023/24 the table shows that the Council SFA has Increased by £280k, from £3.315m to £3.595m, as a result of grants rolled into RSG and a 3.74% inflation increase to the Business Rates Baseline.

However, it can also be seen that both the Tariff and Individual Authority Business Rates Baseline figures significantly change in 2023/24. This is a result of the 2023 Business Rates Revaluation where the 2017 local Rateable Value list value of £81.166m, increases by £11.486m to £92.652m in 2023.

The intention is that these changes will offset the impact of Revaluation 2023 and therefore make it revenue neutral locally.

## 5.0 BASE BUDGET MOVEMENT: BUDGET ASSUMPTIONS and UPDATES

- 5.1 As the cost-of-living crisis deepens with rising inflation and energy costs forecast to continue into 2023 as shown in both 4.1 and 4.2 and the lack of detail from Government on the Local Government Finance Settlements from 2024/25 onwards, along with deferral of the introduction of the long-awaited funding reforms to both the funding settlement formula and the business rates system. Makes the production of the medium-term plan with any certainty difficult and therefore some key assumptions have been made on producing the latest forecast position for 2024/25 and 2025/26.
- 5.2 The key assumptions can be split between net budget requirement and funding and are then applied the starting base position being the 2022/23 base budget of £14.953m.
- 5.3 The graph below shows the 2023/24 net budget requirement and funding of £16.327m for approval, and the latest forecast net budget requirement and funding levels for 2024/25 to 2025/26, resulting in a budget gap of £2.708m.



- 5.4 In September the reported budget gap was £3.014m over the three-year period 2023/24 to 2025/26 (£0.539m 2023/24, £1.474m 2024/25 and £1.001m 2025/26), a summary of the movements since September are set out in the table below:

BUDGET MOVEMENTS	2023/24 £000s	2024/25 £000s	2025/26 £000s
<b>ANNUAL BUDGET GAP SEPTEMBER 2022</b>	<b>539</b>	<b>1,474</b>	<b>1,001</b>
Salary - Additional 3% 22/23 Pay Award, Budget at Top SCP, Vacancy/Scale Factor, FTCs Base Changes, 2023 Pension Triennial Valuation	438	(643)	8
Contract Inflation - Insurance, Energy, Fuel and Fleet	320	38	(3)
Solar PV System Tariff Income	(120)	0	0
Review of Unspent Budgets	(72)	0	0
Council Elections Delivery	5	101	2
PSAA Reset of External Audit Fees	85	0	0
Treasury Investment Income & Capital Financing	7	165	74
Complete Removal of Returns from TVD	50	0	0
Other Budget Movements	(1)	3	0
<b>2023 Budget Proposals</b>	<b>354</b>	<b>89</b>	<b>(25)</b>
Reserves - One-Off Use of Reserves to Balance the 2023/24 budget and the complete phasing out of the Use of Reserves by 2025/26	(466)	926	162
<b>Net Budget Movements</b>	<b>600</b>	<b>679</b>	<b>218</b>
Council Tax - 3% Council Tax Increase	(19)	(66)	(1)
Business Rates - further delay to the reset of Baselines	0	(826)	(427)
Use of Collection Fund Smoothing Reserve	(40)	40	0
23/24 LGFS - Business Rates Baseline & Tariff	16	(186)	0
23/24 NNDR1 Local Share & Section 31 Grants	(614)	0	0
23/24 LGFS Other Grants - NHB, Lower Tier and Services Grants	(482)	355	446
<b>Funding Movements</b>	<b>(1,139)</b>	<b>(683)</b>	<b>18</b>
<b>TOTAL MOVEMENTS</b>	<b>(539)</b>	<b>(4)</b>	<b>236</b>
<b>ANNUAL BUDGET GAP FEBRUARY 2023</b>	<b>0</b>	<b>1,470</b>	<b>1,238</b>



5.5 The key inflationary assumptions over the period 2023/24 to 2025/26 include:

Budget Assumptions	2023/24 £000s	2024/25 £000s	2025/26 £000s
<b>Net Budget</b>	<b>1,305</b>	<b>714</b>	<b>564</b>
Pay Award	3.00%	2.00%	2.00%
	590	401	407
2023 Pension Triennial Valuation - Future Service	1.40%	0%	0%
	207	4	4
Contractual Obligations: Inflation Energy	82.50%	40.00%	5.00%
	228	193	34
Contractual Obligations: Inflation Fuel	10.00%	5.00%	5.00%
	48	33	35
Contractual Obligations: Inflation Insurance	30.00%	5.00%	5.00%
	103	22	23
Contractual Obligations: Inflation Other	Variable	Variable	Variable
	48	10	10
Contractual Obligations: Inflation General	3.00%	2.00%	2.00%
	81	51	51
<b>Net Central Service Budget</b>	<b>(446)</b>	<b>(19)</b>	<b>(20)</b>
Contractual Obligations: External Audit Fees	150%	0%	0%
	85	0	0
2023 Pension Triennial Valuation - Past Service	(3.70%)	0%	0%
	(532)	(20)	(21)
Apprenticeship Levy: Pay Award	3.00%	2.00%	2.00%
	1	1	1
<b>Funding</b>	<b>(342)</b>	<b>(397)</b>	<b>(341)</b>
Council Tax Rate Increase (Relevant Basic Amount)	2.99%	2.99%	£5
	(250)	(261)	(199)
Council Tax Base Increase	1.13%	1.60%	1.60%
	(92)	(136)	(142)

5.6 The table below summarises the movements over the period 2023/24 to 2025/26:

Movements to the 2022/23 Base Budget	2023/24 £000s	2024/25 £000s	2025/26 £000s
<b>Net Service Base Budget b/f</b>	<b>17,089</b>	<b>17,812</b>	<b>18,110</b>
Permanent Virements	(112)	0	0
RODs	(40)	0	0
<b>NET SERVICE BASE BUDGET</b>	<b>16,937</b>	<b>17,812</b>	<b>18,110</b>
Pay, NI & Pensions - Inflation	797	405	412
Pay, NI & Pensions - Base Movements	(223)	(725)	0
Employee Vacancy/Scale Factor	(45)	33	(40)
Contractual Inflation	507	309	154
Volume/Activity Base Movements	176	80	0
Legislative/Regulatory	219	(143)	(43)
Grants & Contributions	(30)	0	0
<b>Sales, Fees &amp; Charges Levels</b>	<b>(231)</b>	<b>(98)</b>	<b>(17)</b>
Recharges HRA & Capital	18	0	0
New / Cease / Transfer of Services	(22)	0	0
Service Reserve Movements	(152)	393	44
Other	35	0	0
<b>Total Budget Assumptions</b>	<b>1,050</b>	<b>253</b>	<b>509</b>
Growth Items	(438)	(44)	0
Policy Proposals	(91)	0	0
<b>Total Approved Budget Proposals</b>	<b>(529)</b>	<b>(44)</b>	<b>0</b>
Growth Items	502	38	(25)
<b>Income Generation</b>	<b>0</b>	<b>0</b>	<b>0</b>
Efficiency Proposals	0	102	0
Savings Proposals	(198)	0	0
Policy Proposals	51	(51)	0
<b>Total New Budget Proposals</b>	<b>354</b>	<b>89</b>	<b>(25)</b>
<b>NET SERVICE BUDGET</b>	<b>17,812</b>	<b>18,110</b>	<b>18,594</b>
<b>Net Service Base Budget b/f</b>	<b>(700)</b>	<b>148</b>	<b>129</b>
Permanent Virements	1,217	0	0
<b>NET CENTRAL SERVICE BASE BUDGET</b>	<b>517</b>	<b>148</b>	<b>129</b>
External Audit	85	0	0
Pensions	(533)	(20)	(21)
Apprenticeship Levy	1	1	1
Corporate Employee Vacancy/Scale Factor	19	0	0
Provision & Contingency	264	0	0
Covid-19	(191)	0	0
Other Corporate Items	(15)	0	0
<b>Total Central Service Budget Assumptions</b>	<b>(369)</b>	<b>(19)</b>	<b>(20)</b>
<b>NET CENTRAL SERVICE BUDGET</b>	<b>148</b>	<b>129</b>	<b>109</b>
<b>Net Service Base Budget b/f</b>	<b>(1,436)</b>	<b>(1,633)</b>	<b>(254)</b>
<b>NET NON SERVICE BASE BUDGET</b>	<b>(1,436)</b>	<b>(1,633)</b>	<b>(254)</b>
Treasury Management - Interest Received	161	0	0
Treasury Management - Interest Payments	0	53	19
Capital Charges - MRP	87	113	54
Dividends	50	0	0
Reserves	(494)	1,213	595
<b>Total Non Service Budget Assumptions</b>	<b>(197)</b>	<b>1,379</b>	<b>668</b>
<b>NET NON SERVICE BUDGET</b>	<b>(1,633)</b>	<b>(254)</b>	<b>414</b>
<b>NET BUDGET</b>	<b>16,327</b>	<b>17,986</b>	<b>19,118</b>



Movements to the 2022/23 Base Budget	2023/24 £000s	2024/25 £000s	2025/26 £000s
<b>BASE FUNDING</b>	<b>(14,953)</b>	<b>(16,327)</b>	<b>(16,516)</b>
Council Tax - Base Increase	(93)	(137)	(143)
Council Tax - % General Increase	(249)	(260)	(197)
Business Rates: Retained Income	(338)	(186)	0
Business Rates: S31 Grants	(643)	0	0
Prior Year Collection Fund (Surplus)/Deficit	(1,421)	(1,035)	0
Use of Collection Fund Smoothing Reserve	1,381	1,076	0
New Homes Bonus	(65)	768	0
Other Government Grants	54	(413)	446
<b>Total Funding Assumptions</b>	<b>(1,374)</b>	<b>(188)</b>	<b>106</b>
<b>FUNDING</b>	<b>(16,327)</b>	<b>(16,516)</b>	<b>(16,410)</b>
<b>ANNUAL BUDGET (HEADROOM)/GAP</b>	<b>0</b>	<b>1,470</b>	<b>1,238</b>
<b>CUMULATIVE BUDGET (HEADROOM)/GAP</b>	<b>0</b>	<b>1,470</b>	<b>2,708</b>

5.7 Other notable movements to the Net Base Budget include the following items and a full detailed listing is provided in Appendix 1 of the report:

- An exercise has been performed to fully cost the establishment at top-of scale, including building into the base the additional 3% not budgeted for as part of the 2022/23 budget setting for the £1,925 pay settlement, the introduction of a vacancy/scale factor at 10%, along with removing budgets for fixed-term contracts end dates, these have now been built into the base budget.
- The discontinuation of temporary or one-year approved Record of Decisions Under Delegated Authority (RODs), growth items and policy proposals approved at February Council.
- Base budget adjustments relating to fuel and the fleet contract.
- Council elections delivery: creation of smoothing reserve and contribution of £100k.
- **Reinstatement of Solar PV System Tariff Income, £120k**
- Provisions and contingency: insertion of insurance fund provision top-up of £80k and replenish the contingency budget to £166k.
- Reduction of £161k to the interest received from treasury investments.
- Capital financing costs: insertion of **£325k** over the three-year period.
- Removal of all TVD Dividend returns.
- The one-off increase in the use of reserves in 2023/24 of £512k and the complete phasing out of the contribution from reserves by the end of the three-year MTFF period.

5.8 The 2023 budget proposals include the following items and a full detailed listing is provided in Appendix 2 of the report:

- Staffing: extension of existing posts and the creation of new posts to the establishment totalling £729k over the three-year period.
- Centralisation of budgets saving: computing savings of £100k and printing and stationery saving of £99k.
- Leisure review £153k, funded by a £102k one-off use of reserve and a £51k one-year base budget increase.

- 5.9 Other notable movements to the Funding include the following items and a full detailed listing is provided in Appendix 1 of the report:
- The assumption on the timing of the Business Rates Baseline reset and reform is now assumed to be implemented following the next general election, however there is some uncertainty whether this will be aligned to the Fairer Funding (Settlement Formula) review due in 2025/26 or 2026/27, at present this has been excluded from the three-year period.
  - An increase of £981k for retained Business Rates and Section 31 Compensation Grants.
  - An increase of £11k in Other Government Grants, that relates to New Homes Bonus, Lower Tier and Services Grants.

## **6.0 PROPOSED 2023/24 REVENUE BUDGET AND MEDIUM-TERM FINANCIAL FORECAST 2024/25 to 2025/26**

- 6.1 The Council is required to set a balanced budget and determine its council tax level before the start of each financial year in accordance with statutory requirements and proper accounting practices.
- 6.2 The purpose of the Medium-Term Financial Forecast is to provide the strategic framework and a forward-looking approach to achieving long-term financial sustainability. It is central to the delivery of priority outcomes in the Council's strategy and plans in an affordable way over the next three years to 2025/26. It aids robust and methodical planning as it forecasts the Council's financial position, considering known pressures, major issues affecting the Council's finances, including national and regional influences as well as local priorities and factors.
- 6.3 Planning over the medium-term helps the Council to respond in a considered manner, to pressures and changes because of many internal and external influences. This is particularly important during a period where the Council is facing unprecedented changes and challenges. The recovery from the pandemic, the cost-of-living crisis, inflationary pressures and the changes in National funding are examples of this. The MTFF recognises the key role that financial resources play in the future delivery of outcomes and in enabling the effective planning, management and delivery of services that contribute towards the delivery of the Council's Strategic Plan.
- 6.4 The MTFF model provides the framework within which decisions relating to future service provision can be made. The detailed budget, taking account of constantly changing circumstances is regularly reviewed and the Council will be provided with updated budget monitoring reports as things progress.

- 6.5 Based on the current set of key assumptions set out in section 5, the 2023/24 net budget requirement and funding of £16.327m for approval, and the latest forecast net budget requirement and funding levels for 2024/25 to 2025/26, resulting in a budget gap of £2.708m by service is shown below:

2023/24 Budget and 2024/25 to 2025/26 MTFF	2023/24 £000s	2024/25 £000s	2025/26 £000s
Corporate and Customer Services	5,860	5,898	6,006
Environmental Services	6,677	6,822	6,969
Finance Procurement and Commercial Services	(488)	(391)	(326)
Housing Services	941	1,035	1,046
Legal and Democratic Services	1,167	1,270	1,299
Planning and Regulatory Services	1,845	1,845	1,918
Wellbeing and Place Services	1,457	1,272	1,314
Chief Officers	353	361	368
<b>NET SERVICE BUDGET</b>	<b>17,812</b>	<b>18,110</b>	<b>18,594</b>
Treasury & Banking	41	41	41
External Audit	142	142	142
Pensions	(148)	(168)	(188)
Apprenticeship Levy	45	46	47
GRA Recharges	(187)	(187)	(187)
Provision & Contingency	166	166	166
Parish Council Grants	89	89	89
<b>NET CENTRAL SERVICE BUDGET</b>	<b>148</b>	<b>129</b>	<b>109</b>
Treasury Management - Interest Received	(319)	(319)	(319)
Treasury Management - Interest Payments	95	147	167
Capital Charges - MRP	400	513	567
Reserves	(1,808)	(595)	0
<b>NET NON SERVICE BUDGET</b>	<b>(1,633)</b>	<b>(254)</b>	<b>414</b>
<b>NET BUDGET</b>	<b>16,327</b>	<b>17,986</b>	<b>19,118</b>
Council Tax	(9,247)	(9,645)	(9,985)
Council Tax - Parish Precepts	679	679	679
Business Rates: Retained Income	(3,130)	(3,316)	(3,316)
Business Rates: S31 Grants	(3,493)	(3,493)	(3,493)
Prior Year Collection Fund (Surplus)/Deficit	1,035	0	0
Use of Collection Fund Smoothing Reserve	(1,076)	0	0
New Homes Bonus	(768)	0	0
Other Government Grants	(327)	(740)	(294)
<b>FUNDING</b>	<b>(16,327)</b>	<b>(16,516)</b>	<b>(16,410)</b>
<b>ANNUAL BUDGET (HEADROOM)/GAP</b>	<b>0</b>	<b>1,470</b>	<b>1,238</b>
<b>CUMULATIVE BUDGET (HEADROOM)/GAP</b>	<b>0</b>	<b>1,470</b>	<b>2,708</b>

## **7.0 RESERVES AND BALANCES**

- 7.1 In accordance with statutory regulations and CIPFA guidance, the levels of balances and reserves are reviewed during the budget process to ensure that they are currently sufficient, and that they will remain adequate over the medium term.
- 7.2 The Council's medium-term financial approach involves using reserves to support the budget position while savings are being realised. The assumption made at budget setting in February 2022, was that £1.314m of reserves would be required in 2022/23 to enable the Council to achieve a balanced budget.
- 7.3 Whilst the reserves position as at 31 March 2022 in 7.7 shows a balance of £16.849m, the Collection Fund Stabilisation Reserve balance of £6.271m is earmarked to fund future years losses on the Collection Fund and smooth the impact of reforms to the Business Rates System and Baseline Reset. Excluding this reserve, the position as at 31 March 2022 is £10.578m.
- 7.4 Utilising of reserves of £1.314m in 2022/23 and a proposed £1.808m in 2023/24, presents an un-sustainable position on the overall reserves position, therefore the complete phasing out of the contribution from reserves has now been assumed over the remaining two-years of the MTFF in 2024/25 and 2025/26.
- 7.5 To reduce the dependence on reserves it is recommended further savings, efficiencies or income generation are identified over the three-year period 2023/24 to 2025/26, to reduce the drawdown on reserves and stabilise the Council's finances over the medium-term.
- 7.6 Reserves Protocol
1. Details for each GRA reserve held by the Council are set out in 7.7 below.
  2. Each reserve is managed and controlled by the s151 Officer of the Council who will act as the responsible officer for the reserve.
  3. The responsible officer can authorise amounts, commensurate with the current limit for Record of Decision (RoD) actions, to be taken from a reserve provided that its use is in line with the stated purpose of the reserve.
  4. Reserves are reviewed and updated as part of the annual budget preparation and as part of the closure of accounts process to ensure that they continue to be required and are adequate in size.
  5. Earmarked reserves represent money that has been set aside for a clearly defined purpose, and which is available to meet future expenditure in that area.
  6. Balances represent unallocated funds which have not been earmarked and consequently are available to support any service area.

## 7.7 Reserves Balances and Forecast

Classification	Sub-Classification	2021/22 YE Balance £000s	2022/23 Forecast In-Year Movement £000s	2022/23 Forecast YE Balance £000s	2023/24 Forecast In-Year Movement £000s	2023/24 Forecast YE Balance £000s	2024/25 Forecast In-Year Movement £000s	2024/25 Forecast YE Balance £000s	2025/26 Forecast In-Year Movement £000s	2025/26 Forecast YE Balance £000s
General Fund Balance	Core Balances	(£690)	£0	(£690)	£0	(£690)	£0	(£690)	£0	(£690)
General Fund Balance	Contingency Balances	(£270)	£0	(£270)	£0	(£270)	£0	(£270)	£0	(£270)
<b>CORE and CONTINGENCY BALANCES</b>		<b>(£960)</b>	<b>£0</b>	<b>(£960)</b>	<b>£0</b>	<b>(£960)</b>	<b>£0</b>	<b>(£960)</b>	<b>£0</b>	<b>(£960)</b>
Corporate Reserves	SORP / Policy Options Reserve	(£172)	£0	(£172)	£0	(£172)	£0	(£172)	£0	(£172)
Corporate Reserves	Budget Smoothing Reserve	(£837)	(£1,798)	(£2,635)	£1,808	(£827)	£595	(£232)	£0	(£232)
Corporate Reserves	Benefits Equalisation Reserve	(£908)	£0	(£908)	£0	(£908)	£0	(£908)	£0	(£908)
Corporate Reserves	Planning Income Equalisation Reserve	(£125)	£0	(£125)	£0	(£125)	£0	(£125)	£0	(£125)
Corporate Reserves	Collection Fund Stabilisation Reserve	(£6,271)	£3,957	(£2,314)	£1,076	(£1,238)	£0	(£1,238)	£0	(£1,238)
Corporate Reserves	Major Projects Reserve	(£399)	£69	(£330)	£69	(£261)	£0	(£261)	£0	(£261)
Corporate Reserves	Strategic Investment Reserve	(£613)	£0	(£613)	£0	(£613)	£0	(£613)	£0	(£613)
Corporate Reserves	Service Reserves	(£2,662)	£737	(£1,925)	£476	(£1,449)	(£50)	(£1,499)	(£100)	(£1,599)
<b>CORPORATE RESERVES</b>		<b>(£11,986)</b>	<b>£2,965</b>	<b>(£9,021)</b>	<b>£3,429</b>	<b>(£5,592)</b>	<b>£545</b>	<b>(£5,047)</b>	<b>(£100)</b>	<b>(£5,147)</b>
Insurance Reserve	Insurance Reserve	(£2,006)	£1,000	(£1,006)	£0	(£1,006)	£0	(£1,006)	£0	(£1,006)
<b>INSURANCE RESERVES</b>		<b>(£2,006)</b>	<b>£1,000</b>	<b>(£1,006)</b>	<b>£0</b>	<b>(£1,006)</b>	<b>£0</b>	<b>(£1,006)</b>	<b>£0</b>	<b>(£1,006)</b>
Ring Fenced Reserves	P&D Machine Replacement Fund	(£29)	£0	(£29)	(£5)	(£34)	(£5)	(£39)	(£5)	(£44)
Ring Fenced Reserves	Solar Panel R&R Fund	(£261)	£0	(£261)	£0	(£261)	£0	(£261)	£0	(£261)
Ring Fenced Reserves	Community Related Assets - R&R Fund	(£222)	£0	(£222)	(£40)	(£262)	(£40)	(£302)	(£40)	(£342)
Ring Fenced Reserves	Industrial Portfolio Fund	(£996)	£0	(£996)	(£92)	(£1,088)	(£143)	(£1,231)	(£137)	(£1,368)
Ring Fenced Reserves	Investment Centre Reserve	(£389)	£0	(£389)	(£50)	(£439)	(£50)	(£489)	(£50)	(£539)
<b>RING FENCED RESERVES</b>		<b>(£1,896)</b>	<b>£0</b>	<b>(£1,896)</b>	<b>(£187)</b>	<b>(£2,083)</b>	<b>(£238)</b>	<b>(£2,321)</b>	<b>(£232)</b>	<b>(£2,553)</b>
<b>TOTAL GRA RESERVES</b>		<b>(£16,849)</b>	<b>£3,965</b>	<b>(£12,884)</b>	<b>£3,242</b>	<b>(£9,642)</b>	<b>£307</b>	<b>(£9,335)</b>	<b>(£332)</b>	<b>(£9,667)</b>

## 8.0 CAPITAL PROGRAMME

8.1 The Capital Strategy for 2023/24 – 2025/26 is presented in Appendix 3.

8.2 The proposed Capital Programme for the period 2023/24 to 2025/26 totals £9.158m.

General Fund (GRA) Service Area	2022/23 F/cast Expenditure £'000s	2023/24 £'000s	2024/25 £'000s	2025/26 £'000s
Corporate and Customer Services	£1,560	£601	£250	£250
Environmental Services	£236	£297	£45	£0
Finance Procurement and Commercial Services	£235	£772	£60	£210
Housing Services	£1,722	£1,941	£1,608	£1,608
Planning and Regulatory Services	£254	£211	£0	£0
Wellbeing and Place Services	£8,910	£4,129	£1,568	£6
<b>Total GRA Capital Programme Expenditure</b>	<b>£12,917</b>	<b>£7,951</b>	<b>£3,531</b>	<b>£2,074</b>

8.3 The above table includes Capital Bids totalling £651k and new approval relating to the UK Shared Prosperity Fund award, detailed in the table below:

Service	Budget Issue Name	2023/24 £'000s	2024/25 £'000s	2025/26 £'000s
Environmental	Littering T&F group equipment	£23	£0	£0
Environmental	Street recycling bins	£10	£0	£0
Finance	Fixed Asset Register	£30	£0	£0
Finance	Capital Works Required (Est)	£230	£10	£180
Wellbeing and Place	Chapel Gallery building repairs	£50	£33	£6
Regulatory Services	CCTV monitoring costs	£79	£0	£0
<b>New Service Bids 2023/24</b>		<b>£422</b>	<b>£43</b>	<b>£186</b>
Wellbeing and Place	UK Shared Prosperity	£191	£1,535	£0
<b>New Approvals 2023/24</b>		<b>£191</b>	<b>£1,535</b>	<b>£0</b>

8.4 The Capital Programme is to be funded by the following resources with any remaining balance funded with the use of prudential borrowing.

FUNDING	2022/23 F/cast Expenditure £'000s	2023/24 £'000s	2024/25 £'000s	2025/26 £'000s
Capital Receipts	£3,306	£1,228	£0	£0
GRA Contributions	£0	£0	£0	£0
Prudential Borrowing	£5,284	£1,506	£552	£630
Community Infrastructure Levy (CIL)	£1,053	£3,191	£0	£0
Section 106	£698	£36	£0	£0
Other Grant Funding	£2,576	£1,991	£2,979	£1,444
<b>Total GRA Capital Programme Funding</b>	<b>£12,917</b>	<b>£7,951</b>	<b>£3,531</b>	<b>£2,074</b>

8.5 Further detail on the proposed Capital Programme and funding is provided in Appendix 4.

## **9.0 ROBUSTNESS of ESTIMATES and ADEQUACY of RESERVES**

- 9.1 It is a requirement of the Local Government Act 2003 for the Council's Chief Finance Officer to give an opinion as to the robustness of the budget estimates and the adequacy of the financial reserves (s25) and the minimum level of reserves (s26). These opinions are provided to Members to assist in their determination as to whether the proposed budget is sufficient to meet the needs of the Council.
- 9.2 In determining the budget for the forthcoming year there have been important decisions about the continued use of reserves. The planned use of reserves totalling £3.242m in 2023/24 from 7.7 above, includes £1.808m of general reserves to support the budget that is a one-off source of funding. As the reliance on reserves is removed the budget gap over the period 2024/25 to 2025/26 increases by this amount.
- 9.3 All aspects of the budget have been reviewed to ensure that reasonableness (robustness) tests have been carried out, that detailed calculations are sound, and that the risks have been quantified and provided for as far as possible.
- 9.4 Statement by the Head of Finance, Procurement and Commercial Property in his capacity as the s151 Officer of the Council:

*This statement is not a guarantee that expenditure will be contained within each budget line, as budget estimates are exactly that. Estimates of the financial environment, spending and income made at a point in time, which will change as circumstances change.*

*Therefore, it is an assessment of the overall budget package and whether there is a reasonable expectation that the budget overall will not be breached.*

*On the basis, good financial management, and the sound monitoring of budgets and performance which exists. I am satisfied that sufficient management processes are present within the Council to deliver this budget and to identify and deal with issues which may arise unexpectedly during the year.*

*As the Council s151 Officer I'm able to report (in accordance with Section 25 of the Local Government Act 2003) that the estimates made for the purposes of the calculation of the budget are robust and the level of reserves and balances are adequate and (in accordance with Section 26 of the Local Government Act 2003) the minimum level of general reserve be set at £960k.*

## **10.0 MEDIUM-TERM OUTLOOK**

- 10.1 The Government continued with a detailed one-year funding settlement for 2023/24 and set out through a LGFS Policy Statement issued on 12 December 2022, the planning assumptions rather than detailed allocations for 2024/25.
- 10.2 We also await confirmation of the details to the long-awaited Government reforms to the settlement formula (Fairer Funding), together with a new business rates retention system and baseline reset. In the December LGFS Policy Statement Government announced that this will not be implemented in the next two years.

- 10.3 Economic outlook, early forecasts had shown inflation, prices and interest rates once peaking, falling mid to late 2023 but more recent forecasts now show falling in mid-2024 and flatlining in 2025/26. Forecasting the impact of the current economic climate with any certainty on the MTFF, is therefore extremely difficult especially with growing uncertainty over the coming months ahead as the cost-of-living crisis deepens.
- 10.4 Consequently, the MTFF will be continually refreshed once new information becomes available to establish the Council's financial position going forward.
- 10.5 The current MTFF position to 2025/26 shows a budget gap of £2.605m, the Council has undertaken some preliminary work to identify high level saving targets themes as shown in the table below:

HIGH LEVEL SAVING TARGET	2024/25 £'000s	2025/26 £000s
<b>CUMULATIVE BUDGET GAP FEBRUARY 2023</b>	<b>1,495</b>	<b>2,605</b>
All Service Efficiency Target of 3%	(930)	0
Review of Statutory and Non-Statutory Services	(125)	(125)
Accommodation Review	0	(250)
<b>TOTAL HIGH LEVEL SAVING TARGETS</b>	<b>(1,055)</b>	<b>(375)</b>
<b>UPDATED CUMULATIVE BUDGET GAP</b>	<b>440</b>	<b>1,175</b>

- 10.6 Indicative workplan:
- Undertake detailed service budget reviews
  - Undertake detailed budget analysis work to include statutory and non-statutory
  - Review sales, fees and charges register
  - Sensitivity and scenarios analysis modelling

## 11.0 SUSTAINABILITY IMPLICATIONS

- 11.1 There are no significant sustainability impacts associated with this report and no significant impact on crime and disorder.

## 12.0 RISK ASSESSMENT

- 12.1 The formal consideration and reporting of the budget estimates is part of the overall budgetary management and control framework that is designed to minimise the financial risks facing the Council. This process is resource intensive for both Members and Officers but ensures that a robust and achievable budget is set.
- 12.2 The challenging financial position facing local authorities has been evaluated and assessed as being a key risk, and consequently is included on the Council's key risk register.

## 13.0 HEALTH AND WELLBEING IMPLICATIONS

- 13.1 The health and wellbeing implications arising from this report will be dependent on the budget proposals put forward at the Council meeting. Details of any significant implications will be provided at the Council meeting if required.



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### **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this report.

### **Equality Impact Assessment**

The direct impact on members of the public, employees, elected members and / or stakeholders is dependent on the proposals to be put forward at the Council meeting. Therefore no Equality Impact Assessment has been produced at this time.

### **Appendices**

- Appendix 1 Budget Movements
- Appendix 2 2023 Budget Proposals
- Appendix 3 Capital Strategy 2023/24 to 2025/26
- Appendix 4 GRA Capital Programme 2023/24 to 2025/26

## APPENDIX 1: BUDGET MOVEMENTS

Movement Heading	Description	2023/24 £000s	2024/25 £000s	2025/26 £000s
<b>NET BUDGET</b>		<b>161</b>	<b>874</b>	<b>614</b>
<b>Net Service Budget</b>		<b>(936)</b>	<b>(505)</b>	<b>(55)</b>
Permanent Virements	Budget Re-alignment of Contingency	(16)	0	0
Permanent Virements	Salary - Pay Award Catchup of the 22/23 £1,925 additional 3%	588	0	0
Permanent Virements	Salary - Budget at Top SCP & Introduction of Vacancy/Scale Factor @ 10%	(669)	0	0
Permanent Virements	Budget Re-alignment of Brokers Fee	(15)	0	0
<b>Permanent Virements</b>		<b>(112)</b>	<b>0</b>	<b>0</b>
RODs (2021/22)	Costs re transmission of CCTV images & for the new Skelmersdale TC cameras	(10)	0	0
RODs (2021/22)	Private Sector House Condition Review - Statutory Duty	(30)	0	0
<b>RODs</b>		<b>(40)</b>	<b>0</b>	<b>0</b>
Budget Assumptions	Salary - Base Movements FTCs	(223)	(725)	0
Budget Assumptions	Employee Vacancy/Scale Factor Increase for Pay Award	(45)	33	(40)
Budget Assumptions	Volume/Activity Base Movements - Fuel	134	0	0
Budget Assumptions	Volume/Activity Base Movements - Fleet Contract	114	0	0
Budget Assumptions	Review of Budget Underspend	(72)	0	0
Budget Assumptions	Insurance Fund Provision Top-Up	0	80	0
Budget Assumptions	National Fraud Initiative	0	3	0
Budget Assumptions	Insurance Fund Actuarial Review	6	0	0
Budget Assumptions	Commercial Property: Minimum Energy Efficiency Standards (MEES)	52	(51)	6
Budget Assumptions	Commercial Property: Use of Investment Property Portfolio Reserve to Fund MEES	(52)	51	(6)
Budget Assumptions	LG Futures: Collection Fund Suite Subscription	10	0	0
Budget Assumptions	Council Elections Delivery	151	(95)	(48)
Budget Assumptions	Council Elections Budget Stabilisation Reserve	(146)	196	50
Budget Assumptions	Fund new post from RSI & Homelessness grant	(30)	0	0
Budget Assumptions	Investment Properties - Service Charge (Energy)	(111)	(98)	(17)
Budget Assumptions	Solar PV System Tariff Income	(120)	0	0
Budget Assumptions	Recharges HRA - 23/24 Fleet SLA	18	0	0
Budget Assumptions	Transfer of Service - Home Link Care - Consultant Fees	(40)	0	0
Budget Assumptions	cc4131: 61 WESTGATE vacated	18	0	0
Budget Assumptions	Service Reserve Movements / Reversals	46	145	0

Movement Heading	Description	2023/24 £000s	2024/25 £000s	2025/26 £000s
Budget Assumptions	cc2021: HOUSING/HOMELESSNESS ADV - Error in previous years	4	0	0
Budget Assumptions	cc4148: STANLEY DEPOT - SFCs (cc1329 Transport)	31	0	0
<b>Budget Assumptions</b>		<b>(255)</b>	<b>(461)</b>	<b>(55)</b>
Approved - Growth Bids (FEB22)	Additional EHO post - Environmental Protection (22/23 funded from Covid)	44	0	0
Approved - Growth Bids (FEB22)	Additional post of Inward Investment Officer	(43)	0	0
Approved - Growth Bids (FEB22)	Additional income and/or efficiencies to be generated from the Finance FBP	(60)	(10)	0
Approved - Growth Bids (FEB22)	Supporting the business & Visitor economy & attracting inward investment	(3)	(42)	0
Approved - Growth Bids (FEB22)	Employment Debt recovery task force for 3 months	(20)	1	0
Approved - Growth Bids (FEB22)	Upgrade of IT equipment for Planning Services following Planning Service Review	(12)	0	0
Approved - Growth Bids (FEB22)	Regeneration Project Development Manager plus extension of existing post to Dec 2022	(60)	0	0
Approved - Growth Bids (FEB22)	Revenue consequences of Capital bid - C7 - Purchase Glutton Urban Vacuum Cleaner	2	0	0
Approved - Growth Bids (FEB22)	Revenue consequences of Capital bid - C8 - Beconsall Closed Church Yard	7	2	0
Approved - Growth Bids (FEB22)	Temporary post of Development Planning Surveyor for 12 months	(53)	0	0
Approved - Growth Bids (FEB22)	Continued Membership of Growth Lancashire (1 year)	(15)	0	0
Approved - Growth Bids (FEB22)	Replace WebaspX system	(80)	0	0
Approved - Growth Bids (FEB22)	Microsoft Site Licences	140	5	0
Approved - Growth Bids (FEB22)	Council Tax Discount/Relief Scheme (Cost of Living)	(260)	0	0
Approved - Growth Bids (FEB22)	Dial-a-Ride Contribution	(25)	0	0
<b>Approved Growth Items</b>		<b>(438)</b>	<b>(44)</b>	<b>0</b>
Approved - Policy Proposals (FEB21)	Customer Services staff resources	(9)	0	0
Approved - Policy Proposals (FEB21)	North Meols	(40)	0	0
Approved - Policy Proposals (FEB22)	Initial 1Yr Holiday re Reserves Contributions	239	0	0
Approved - Policy Proposals (FEB22)	Leisure Contract - 1 yr Contract Extension	(231)	0	0
Approved - Policy Proposals (FEB22)	Free car parking promotion Ormskirk Mons and Tues from 1pm - 1 year trial	(50)	0	0
<b>Approved Policy Proposals</b>		<b>(91)</b>	<b>0</b>	<b>0</b>
<b>Net Central Service Budget</b>		<b>1,294</b>	<b>0</b>	<b>0</b>
Permanent Virements	Introduction of Employee Costs Vacancy/Scale Factor @ 10%	995	0	0
Permanent Virements	Budget Re-alignment of the Provision & Contingency	16	0	0
Permanent Virements	Salary - Base Movements & Budget at Top SCP	191	0	0
Permanent Virements	Budget Re-alignment of Brokers Fee	15	0	0
<b>Permanent Virements</b>		<b>1,217</b>	<b>0</b>	<b>0</b>
Central Service: Corporate Budget	Employee Vacancy/Scale Factor Adj for Base Movements FTCs	19	0	0

Movement Heading	Description	2023/24 £000s	2024/25 £000s	2025/26 £000s
Central Service: Corporate Budget	Replenish the Provision & Contingency Budget	264	0	0
Central Service: Corporate Budget	Salary - Base Movements FTCs	(191)	0	0
<b>Budget Assumptions</b>		<b>92</b>	<b>0</b>	<b>0</b>
Approved - Growth Bids (FEB22)	County Deal	(15)	0	0
<b>Approved Growth Items</b>		<b>(15)</b>	<b>0</b>	<b>0</b>
<b>Net Non Service Budget</b>		<b>(197)</b>	<b>1,379</b>	<b>669</b>
Non Service: Treasury Management	Reduction of Interest Received from Investments	240	0	0
Non Service: Treasury Management	Additional Interest Received from Increased Interest Rates	(79)	0	0
Non Service: Treasury Management	Capital Programme 23/24 to 25/26: Interest on Borrowing	0	53	19
Non Service: Capital Charges MRP	MRP - Change of Policy	7	11	12
Non Service: Capital Charges MRP	Capital Programme 23/24 to 25/26: MRP	79	101	43
Non Service: Dividends	Returns from TVDC	(200)	0	0
Non Service: Dividends	Deletion of the Returns from TVDC	250	0	0
Non Service: Reserves	Phasing out of the contribution from Reserves	0	702	595
Non Service: Reserves	One-Off Use of Reserves in 23/24 to Balance the Budget Gap	(512)	512	0
<b>Budget Assumptions</b>		<b>(215)</b>	<b>1,379</b>	<b>669</b>
Approved - Policy Proposals (FEB22)	Reversal of the use of Reserves agreed at Council Feb 2022	18	0	0
<b>Approved Policy Proposals</b>		<b>18</b>	<b>0</b>	<b>0</b>
<b>FUNDING</b>		<b>(1,032)</b>	<b>209</b>	<b>446</b>
2023/24 LG Finance Settlement	Business Rates: Individual Authority Baseline	(1,566)	(735)	0
2023/24 LG Finance Settlement	Business Rates: Tariff	1,442	549	0
2023/24 NNDR1 Forecast	Business Rates: (Growth)/Decline	(214)	0	0
2023/24 NNDR1 Forecast	Business Rates: S31 Grants	(643)	0	0
Collection Fund Forecast	Estimated in-year Collection Fund Outturn position	(£1,422)	(£1,035)	0
Collection Fund Forecast	Movement on Collection Fund Stabilisation Reserve	£1,382	£1,075	0
2023/24 LG Finance Settlement	Government Funding: New Homes Bonus	(64)	767	0
2023/24 LG Finance Settlement	Government Funding: RSG, Lower Tier, Services & Funding Guarantee Grants	53	(412)	446

## APPENDIX 2: 2023 BUDGET PROPOSALS

Service	Manager	Budget Issue Description	Budget Group	2023/24 £000s	2024/25 £000s	2025/26 £000s
NET BUDGET				£354	£89	(£25)
Net Service Budget				£354	£89	(£25)
Environmental Services	Kathryn Sephton	Depot Transport Services Manager	Staff	64	0	0
Environmental Services	Kathryn Sephton	Assistant Waste Services Manager	Staff	48	0	0
Environmental Services	Kathryn Sephton	Technical Support Officer Apprentice	Staff	22	0	(22)
Finance Procurement and Commercial Services	James Pierce	Senior Estates Surveyor	Staff	65	0	0
Finance Procurement and Commercial Services	James Pierce	Finance Manager	Staff	76	0	0
Housing Services	Alan Leicester	Staffing - Homelessness Triage	Staff	20	0	(20)
Legal and Democratic Services	Kay Lovelady	Planning Assistant Solicitor	Staff	54	0	0
Legal and Democratic Services	Kay Lovelady	Contracts & Procurement Lawyer	Staff	54	0	0
Planning and Regulatory Services	Paul Charlson	Strategic Planning Manager	Staff	0	53	17
Planning and Regulatory Services	Paul Charlson	CCTV Contract Monitoring Staff	Staff	15	(15)	0
Planning and Regulatory Services	Paul Charlson	CCTV Monitoring & Maintenance	Operational	45	0	0
Planning and Regulatory Services	Paul Charlson	Corporate Health & Safety Staff	Staff	39	0	0
Growth Items				£502	£38	(£25)
Corporate and Customer Services	Lisa Windle	Staffing - Extend Temporary Team staffing	Staff	0	102	0
Finance Procurement and Commercial Services	James Pierce	Procurement Staffing	Staff	157	0	0
		Procurement Contract Efficiency Savings	Operational	(157)	0	0
Efficiency Proposals				£0	£102	£0
Corporate and Customer Services	Lisa Windle	Centralisation of Budgets: Computing	Operational	(100)	0	0
		Centralisation of Budgets: Printing & Stationery	Operational	(99)	0	0
Saving Proposals				(£199)	£0	£0
Wellbeing and Place Services	Simon Kirby	Leisure Facilities Growth	Operational	153	(153)	0
		Leisure Facilities Budget Stabilisation Reserve	Reserves	(102)	102	0
Policy Proposals				£51	(£51)	£0

Staff	£614	£140	(£25)
Operational	(£158)	(£153)	£0
Reserves	(£102)	£102	£0
<b>Proposals Total</b>	<b>£354</b>	<b>£89</b>	<b>(£25)</b>



# **WEST LANCASHIRE BOROUGH COUNCIL**

## **CAPITAL STRATEGY**

**2023/2026**

## **Contents**

- 1. Introduction**
- 2. Background**
- 3. Objectives**
- 4. Capital Programme**
- 5. Risk Management**
- 6. Knowledge and Skills**



## **1. Introduction**

- 1.1 The Prudential Code for Capital Finance in Local Authorities (updated December 2021) sets out the requirement for councils to prepare a Capital Strategy, and this document has been produced in accordance with the latest guidance.
- 1.2 This strategy updates the capital strategy for both the general fund (GRA programme) and for the HRA, and sets out the direction for the Council's capital programme management and investment decisions in support of our outcomes. It sets out the principles for prioritising our capital investments, the governance, scrutiny and assurance process. It also provides an overview of the asset management process and approach to risk management.
- 1.3 The effective management of capital resources is an integral aspect in the delivery of the Council's corporate objectives. The Capital Strategy provides the framework for this delivery and ensures there is a focused approach to our capital investment. The Strategy maintains a strong link to its key strategy documents notably the Medium-Term Financial Strategy (MTFS), Treasury Management Strategy, Investment strategy. The Strategy will be reviewed annually and updated to take account of the challenges facing the Council and the residents of West Lancashire.

## **2. Background**

- 2.1 The Council formulates its capital investment programme as part of its annual budget setting process. The aim is to ensure that the programme is affordable, deliverable and in line with the Council's priorities for expenditure.
- 2.2 The key priorities continue to be supported by our capital investment programme, for instance through our greener energy initiatives and the development of cycleways, we are working towards cleaner with increased provision of litter bins and CCTV initiatives to deter and address fly tipping. The programme funding for the provision of healthy hubs, to achieve the healthier community objective.
- 2.3 Although not currently in the strategy, there is work well underway to look at the long-term leisure service needs, including provision of new leisure facilities, to replace existing centres. At this stage, the affordability is still being worked upon, as we have been informed that the Council's £11m bid for levelling up funding has not been successful.

### 3. Objectives

- 3.1 To support the MTFS by ensuring that capital investment decisions are not taken in isolation from revenue spending with specific emphasis on delivering future savings and income streams capable of supporting the revenue budget.

Also ensuring the right capital assets are fit for purpose for the Council and partners and supports the Council's priorities.

### 4. Capital Programme – General Fund

General Fund – the programme includes £2.987m of new expenditure in 2023/24. In addition to this there will be estimated slippage of £4.964m, that is expenditure shown under the 2022/23 programme, that is not likely to occur until 2023/24. This forms part of the programme of £7.951m for 2023/24 shown below.

General Fund (GRA) Service Area	2022/23 F/cast Expenditure £'000s	2023/24 £'000s	2024/25 £'000s	2025/26 £'000s
Corporate and Customer Services	£1,560	£601	£250	£250
Environmental Services	£236	£297	£45	£0
Finance Procurement and Commercial Services	£235	£772	£60	£210
Housing Services	£1,722	£1,941	£1,608	£1,608
Planning and Regulatory Services	£254	£211	£0	£0
Wellbeing and Place Services	£8,910	£4,129	£1,568	£6
<b>Total GRA Capital Programme Expenditure</b>	<b>£12,917</b>	<b>£7,951</b>	<b>£3,531</b>	<b>£2,074</b>

#### 4.1 General Fund New Bids 2023/24

There is £651k of new expenditure included in the overall capital programme shown above. This is to support the six schemes identified below.

Service	Budget Issue Name	2023/24 £'000s	2024/25 £'000s	2025/26 £'000s
Environment	Littering T&F group equipment	£23	£0	£0
Environment	Street recycling bins	£10	£0	£0
Finance & Procurement	Civica fixed asset register	£30	£0	£0
Finance & Procurement	Capital Works Required (Est)	£230	£10	£180
Wellbeing and leisure	Chapel Gallery building repairs	£50	£33	£6
Regulatory services	CCTV monitoring costs	£79	£0	£0
<b>New Service Bids 2023/24</b>		<b>£422</b>	<b>£43</b>	<b>£186</b>

In addition to the service bids presented here, the capital programme includes £1.726m of expenditure for the UK Shared Prosperity Fund, (£191k in 2023/24 and £1.535m in 2024/25), in addition to the £170k already in the capital programme for 2022/23.

This expenditure is fully funded from a grant of £4.3m split across revenue (£2.361m) and capital (£1.896m). At this stage, the apportionment between revenue and capital is under review, to ensure that it is accounted for in accordance with local authority accounting practice, which may result in some of the expenditure and grant being accounted for as revenue.

## 4.2 Capital Resources – General Fund

The above programme is to be resourced by the resources as identified below:

General Fund (GRA) Funding:	2022/23 F/cast Expenditure £'000s	2023/24 £'000s	2024/25 £'000s	2025/26 £'000s
Capital Receipts	£3,306	£1,228	£0	£0
GRA Contributions	£0	£0	£0	£0
Prudential Borrowing	£5,284	£1,506	£552	£630
CIL funding	£1,053	£3,191	£0	£0
S106 funding	£698	£36	£0	£0
Other Grant Funding	£2,576	£1,991	£2,979	£1,444
<b>Total GRA Capital Programme Funding</b>	<b>£12,917</b>	<b>£7,951</b>	<b>£3,531</b>	<b>£2,074</b>

## 4.3 Sources of Finance for the Capital Programme

There are both external and internal sources of financing available to fund the capital programme. When these resources are depleted, the council needs to resort to prudential borrowing.

### External Funding

Where external resources available to support the Capital Programme these are applied first, to reduce the borrowing burden on the council. These can include grants from government bodies such as funding to enable the award of disabled facilities grants, statutory and other developer contributions (e.g. S.106/CIL - Community Infrastructure Levy) and partner contributions from bodies interested in specific projects. It can be seen from the table in 4.2 that £5.219m of CIL, s106 and other grant funding will be used in delivering the 2023/24 capital programme.

Forecast Movement on Capital Resources	31 Mar '22	22/23 receipts	22/23 utilised	31 Mar '23
<b>Unfinanced:</b>				
Prudential borrowing			(5,284)	0
<b>Capital Resources</b>				
Capital Receipts Reserve	2,978	799	(3,306)	471
S106	2,606	0	(698)	1,908
HCA	1,402			1,402
Capital Grants unapplied Account	779	1,911	(2,576)	114
Community Infrastructure Levy	11,622	0	(1,053)	10,569
<b>Available Resources Applied 2022/23</b>	<b>19,386</b>	<b>2,710</b>	<b>(7,633)</b>	<b>14,463</b>
<b>Capital financing available and used 2022/23</b>	<b>19,386</b>	<b>2,710</b>	<b>(12,917)</b>	<b>14,463</b>

In addition to this, a further £191k for 2023/24 and £1.535m for 2024/25 has been identified in delivering UK prosperity fund scheme objectives. This forms part of a total grant of £4.257m which is split across revenue (£2.361m) and capital (£1.896m). The apportionment of the expenditure will need to be made in accordance with proper accounting practice across revenue and capital, and agreed with the awarding body to ensure that we both account for this correctly and act in accordance with the terms and conditions of the grant.

The Council has also secured funding in the form of a Heritage Action Zone grant. The total project is for £3.426m, of which the council's share is £1.130m. The current programme all of which is included in the capital programme presented. This includes s106 receipts held for transport initiatives which have been applied in agreement with the Lancashire County Council.

The Council has not yet received an award letter for 2023/24 Disabled Facilities Grant funding, but has included in the strategy £1.444m annually, shown as fully funded, which will be modified when the actual award is published.

It is expected that projects with 100% external funding will be added to the programme once business case requirements are met: namely, that the scheme meets the Council's strategy objectives; the scheme is subject to investment appraisal to ensure best use of funders resources; an assessment is made of the ongoing financial impact on the Council; there is evidence of a commercial approach to the decision; and that the Council has the availability of management resources to deliver the project effectively.

### Internal Funds

When the Council has exhausted its available external grant funding, it then applies its own resources. These may include the setting aside of earmarked reserves to deliver capital priorities, or the use of the Council's capital receipts.

### Capital receipts

The largest source of capital receipts available to the council are from right to buy sales. These are sales from the disposal of council owned dwellings.

From 2024/25, it is proposed that these receipts are used exclusively in the HRA capital programme. This is to recognise that these are assets lost to the HRA, and the income streams that would have been due to the HRA from these assets is now not available to undertake the essential capital works in achieving carbon targets on dwellings. The policy does not undo the commitments already included within the capital programme, so the receipts for 2023/24 will still be available to meet those projects previously planned to be financed.

### Revenue and reserves

The Council may also, if affordable, make a GRA revenue contribution to the capital programme. As can be seen from the financing in the table above, there are no proposed GRA contributions.

At the end of the 2021/22 the Council had £19.4m in capital resources available (internal and external). There are £7.6m of commitments against these in 2022/23.

### Unfinanced expenditure / Prudential borrowing

Where there is no identified source of either internal or external financing for a scheme, this is said to be unfinanced, and requires borrowing. It may be that the council will need to borrow from the PWLB, incurring an interest charge.

Where available, the Council may use its own cash balances to delay the need for borrowing. These balances could be, for example, cash sitting in reserves which has not been spent yet, or cash set aside to meet a future provision. Where internal cash is used there is still an interest cost in the form of a loss of interest earned on investments, but this will be cheaper than the market rate.

In addition to interest, the council will be required to set aside a 'minimum revenue provision'; essentially setting aside funds for the repayment of debt. This is paid back over the life of the asset.

The Council has £7.972m in the general fund capital strategy that is not financed, which requires prudential borrowing.

## 4.4 Capital Expenditure – Housing Revenue Account

HRA Service Area	2022/23 £'000s	2023/24 £'000s	2024/25 £'000s	2025/26 £'000s
Housing investment Plan	£7,612	£6,328	£6,328	£6,328
Other Housing Schemes	£4,977	£6,421	£6,203	£2,203
TVDC Expenditure	£9,781	£0	£0	£0
Emerging Capital Requirements	£0	£2,010	£2,575	£0
<b>Total HRA capital programme</b>	<b>£22,370</b>	<b>£14,759</b>	<b>£15,106</b>	<b>£8,531</b>

The HRA capital programme includes the four themed headings above. The first section, housing investment plan, ensures decency and that homes are maintained to a habitable standard.

Tawd Valley Developments Limited (TVD) is the Council's commercial company, which builds affordable homes across Skelmersdale and Westhead and has so far delivered 81 new homes for the residents of West Lancashire.

There is a further scheme at Fairlie, Skelmersdale. This is due to be completed by June 2024 that will provide a further 50 affordable homes to the people of Skelmersdale.

This project has a project team that covers all disciplines and when required external professional advice will be sought.

#### 4.5 Financing HRA Capital Programme

HRA Financing	2022/23 £'000s	2023/24 £'000s	2024/25 £'000s	2025/26 £'000s
Capital Receipts	£0	£0	£798	£799
Government Grants	£2,708	£500	£0	£0
HRA Contributions	£3,521	£3,403	£3,281	£3,155
Major Repairs Reserve	£3,948	£4,066	£4,188	£4,314
Prudential Borrowing	£12,193	£6,790	£6,839	£263
<b>Total Capital Funding</b>	<b>£22,370</b>	<b>£14,759</b>	<b>£15,106</b>	<b>£8,531</b>

### 5. Risk Management

- 5.1 An important part of the Council's investment and risk strategy is that all potential risks are investigated. This is done by logging all risks on the Council's risk platform (Pentana) which analyses the likelihood of the risk occurring and mitigations are put in place to manage these risks.

The monitoring and management of mitigating these risks is a key part of the Capital programme.

### 6. Knowledge and Skills

- 6.1 The Council's Capital and Treasury Programmes are managed by professionally qualified Accountants. All Finance Business Partners at the Council are qualified Chartered Accountants with extensive Local Government Experience, and all keep up to date with new developments and complete Continuous Professional Development (CPD) on an ongoing basis.
- 6.2 The Council's Head of Finance, Procurement and Commercial Property is the S151 officer and has overall control and responsibility for the Capital Programme. He is also a professionally qualified accountant and follows an ongoing CPD programme.
- 6.3 The Council's Investment Project Manager reviews all commercial and investment activity from inception right through to project completion and ongoing performance management and is also a professionally qualified Chartered Public Financial Accountant (CPFA).

## APPENDIX 4: GRA CAPITAL PROGRAMME 2023/24 - 2025/26

Service	Capital Scheme	2022/23			2023/24						2024/25				2025/26		
		Total Budget	Forecast Spend	Potential Slippage	Recurring and Continuation of Schemes	Approved Budget Feb 2021 / 2022	In-Year Approvals Dec 2022	Slippage from 2022/23	New Capital Bids Feb 2023	Total Budget	Recurring and Continuation of Schemes	Approved Budget Feb 2022	New Capital Bids Feb 2023	Total Budget	Recurring and Continuation of Schemes	New Capital Bids Feb 2023	Total Budget
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Corporate and Customer Services	Etarmis System	£17	£17	£0				£0		£0				£0			£0
Corporate and Customer Services	I C T Infrastructure	£100	£100	£0	£50			£0		£50	£50			£50	£50		£50
Corporate and Customer Services	ICT Development Programme	£423	£423	£0	£200			£0		£200	£200			£200	£200		£200
Corporate and Customer Services	Website	£20	£20	£0				£0		£0				£0			£0
Corporate and Customer Services	CRM System	£67	£67	£0				£0		£0				£0			£0
Corporate and Customer Services	Right Kit Right Role Right Refresh - support agile working	£128	£128	£0				£0		£0				£0			£0
Corporate and Customer Services	Microsoft Enterprise Site Licence	£70	£4	£66				£66		£66				£0			£0
Corporate and Customer Services	Corporate wifi upgrade	£85	£85	£0				£0		£0				£0			£0
Corporate and Customer Services	Website development	£170	£16	£154		£30		£154		£184				£0			£0
Corporate and Customer Services	Communication devices	£40	£40	£0				£0		£0				£0			£0
Corporate and Customer Services	Invest to Save Digital Services	£59	£59	£0				£0		£0				£0			£0
Corporate and Customer Services	Egress Secure Email & File Transfer	£0	£0	£0				£0		£0				£0			£0
Corporate and Customer Services	Digital Transformation - Implementation of IT Strategy	£384	£384	£0				£0		£0				£0			£0
Corporate and Customer Services	Less HRA funding for Strategy	(£200)	(£200)	£0				£0		£0				£0			£0
Corporate and Customer Services	Hybrid, Remote and Streaming Council Meetings	£92	£92	£0				£0		£0				£0			£0
Corporate and Customer Services	Mastercard Gateway Upgrade	£40	£40	£0				£0		£0				£0			£0
Corporate and Customer Services	Microsoft M365 Phase 3	£150	£150	£0		£100		£0		£100				£0			£0
Corporate and Customer Services	Digital innovation and the continued development of ServiceNow	£80	£80	£0				£0		£0				£0			£0
Corporate and Customer Services	Shop Front Improvement Fund	£50	£50	£0				£0		£0				£0			£0
Corporate and Customer Services	Digital Transformation	£6	£6	£0				£0		£0				£0			£0
Environmental Services	Culvert Debris Screens	£2	£2	£0				£0		£0				£0			£0
Environmental Services	Purchase of Vehicles	£2	£2	(£0)				(£0)		(£0)				£0			£0
Environmental Services	Purchase of Wheelie Bins	£0	£0	£0				£0		£0				£0			£0
Environmental Services	Expand In Cab System	£1	£1	£0				£0		£0				£0			£0
Environmental Services	Waste Collection Projects	£2	£0	£2				£2		£2				£0			£0
Environmental Services	Litter Bin Policy Review (Cabinet November 2019)	£73	£73	£0	£5	£55		£0		£60	£5	£30		£35			£0
Environmental Services	Street Cleansing Tools	£0	£0	£0				£0		£0				£0			£0
Environmental Services	Liverpool Road Cemetery	£1	£0	£1				£1		£1				£0			£0
Environmental Services	Waste Management Service	£35	£0	£35				£35		£35				£0			£0
Environmental Services	Glutton Vacuum Cleaner	£20	£20	£0				£0		£0				£0			£0
Environmental Services	Beaconsall Closed Church Yard	£30	£0	£30				£30		£30				£0			£0
Environmental Services	Tree Management	£50	£50	£0		£50		£0		£50				£0			£0
Environmental Services	Culvert Management	£50	£30	£20		£50		£20		£70				£0			£0
Environmental Services	Replace faulty domestic bins	£10	£10	£0	£10			£0		£10	£10			£10			£0
Environmental Services	5 additional mobile CCTV bundles to address flytipping	£6	£6	£0				£0		£0				£0			£0
Environmental Services	Littering T&F 23/24	£0	£0	£0				£0	£23	£23				£0			£0
Environmental Services	Street Recycling Bins 23/24	£0	£0	£0				£0	£10	£10				£0			£0
Environmental Services	Free Trees	£20	£20	£0		£6		£0		£6				£0			£0
Environmental Services	Conservation Area Enhancement	£14	£14	£0				£0		£0				£0			£0
Environmental Services	Abbey Lake Quarry	£20	£0	£0				£0		£0				£0			£0
Environmental Services	Mill Dam Lane	£3	£3	£0				£0		£0				£0			£0
Environmental Services	Alder Lane	£5	£5	£0				£0		£0				£0			£0
Environmental Services	Electric Vehicle Charging point	£0	£0	£0				£0		£0				£0			£0
Finance Procurement and Commercial Services	Parish Capital Schemes	£42	£32	£10	£30			£10		£40	£30			£30	£30		£30
Finance Procurement and Commercial Services	Restructuring Costs	£152	£0	£152				£152		£152				£0			£0



## APPENDIX 4: GRA CAPITAL PROGRAMME 2023/24 - 2025/26

Service	Capital Scheme	2022/23			2023/24						2024/25				2025/26		
		Total Budget	Forecast Spend	Potential Slippage	Recurring and Continuation of Schemes	Approved Budget Feb 2021 / 2022	In-Year Approvals Dec 2022	Slippage from 2022/23	New Capital Bids Feb 2023	Total Budget	Recurring and Continuation of Schemes	Approved Budget Feb 2022	New Capital Bids Feb 2023	Total Budget	Recurring and Continuation of Schemes	New Capital Bids Feb 2023	Total Budget
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Finance Procurement and Commercial Services	Capitalise revenue transformation costs.	£300	£0	£300				£300		£300				£0			£0
Finance Procurement and Commercial Services	Building Compliance on Commercial Property	£40	£40	£0	£20			£0		£20	£20			£20			£0
Finance Procurement and Commercial Services	Gorsey Place Rebuild	£0	£0	£0				£0		£0				£0			£0
Finance Procurement and Commercial Services	Fixed Asset Register 23/24	£0	£0	£0				£0	£30	£30				£0			£0
Finance Procurement and Commercial Services	Capital works 23/24	£0	£0	£0				£0	£230	£230			£10	£10		£180	£180
Finance Procurement and Commercial Services	Civica Financials	£163	£163	£0				£0		£0				£0			£0
Housing Services	Robert Hodge Centre - external site improvements relating to Health and Safety Traffic Flow	£16	£0	£16				£16		£16				£0			£0
Housing Services	Affordable Housing	£247	£0	£247				£247		£247				£0			£0
Housing Services	Corporate Property Investment Programme	£239	£239	£0	£164			£0		£164	£164			£164	£164		£164
Housing Services	Housing Renewal Grants	£0	£0	£0		£50		£0		£50				£0			£0
Housing Services	Disabled Facilities Grants	£1,444	£1,444	(£0)	£1,444			(£0)		£1,444	£1,444			£1,444	£1,444		£1,444
Housing Services	Burscough Sports Centre - roofing upgrades	£20	£0	£20				£20		£20				£0			£0
Housing Services	Safer Streets	£39	£39	£0				£0		£0				£0			£0
Planning and Regulatory Services	Preservation of Buildings at Risk	£1	£1	£0				£0		£0				£0			£0
Planning and Regulatory Services	M3PP System Replacement	£90	£0	£90				£90		£90				£0			£0
Planning and Regulatory Services	CCTV	£212	£212	£0				£0		£0				£0			£0
Planning and Regulatory Services	CCTV monitoring 23/24	£0	£0	£0				£0	£79	£79				£0			£0
Planning and Regulatory Services	IDOX ERDM System	£43	£41	£2		£20		£2		£22				£0			£0
Planning and Regulatory Services	Planning/building control and land charges system upgrades	£0	£0	£0			£20	£0		£20				£0			£0
Wellbeing and Place Services	Skelmersdale Town Centre	£5,220	£5,220	(£0)				(£0)		(£0)				£0			£0
Wellbeing and Place Services	WL Play Strategy Improvements	£354	£354	(£0)		£30		(£0)		£30				£0			£0
Wellbeing and Place Services	WL Play Strategy Improvements	£102	£102	£0				£0		£0				£0			£0
Wellbeing and Place Services	Burscough Sports Centre	£321	£0	£321				£321		£321				£0			£0
Wellbeing and Place Services	Burscough Sports Centre	£65	£0	£65				£65		£65				£0			£0
Wellbeing and Place Services	Allotment Improvements	£4	£4	(£0)				(£0)		(£0)				£0			£0
Wellbeing and Place Services	WL Play Strategy Improvements	£234	£53	£181				£181		£181				£0			£0
Wellbeing and Place Services	WL Play Strategy Improvements	£47	£0	£47				£47		£47				£0			£0
Wellbeing and Place Services	Tawd Valley	£48	£23	£25				£25		£25				£0			£0
Wellbeing and Place Services	Chapel Gallery phase 3	£1	£1	(£0)				(£0)		(£0)				£0			£0
Wellbeing and Place Services	Chapel Gallery - Repair works	£48	£48	£0			£40	£0	£50	£90			£33	£33		£6	£6
Wellbeing and Place Services	Tawd Valley	£10	£0	£10				£10		£10				£0			£0
Wellbeing and Place Services	Hesketh Avenue	£40	£40	£0				£0		£0				£0			£0
Wellbeing and Place Services	Nye Bevan Pool Building Works	£9	£9	£0				£0		£0				£0			£0
Wellbeing and Place Services	Park Pool Building works	£10	£10	£0				£0		£0				£0			£0
Wellbeing and Place Services	Banks Leisure Centre	£0	£0	(£0)				(£0)		(£0)				£0			£0
Wellbeing and Place Services	Hunters Hill	£0	£0	£0				£0		£0				£0			£0
Wellbeing and Place Services	Bowling Greens	£11	£11	£0				£0		£0				£0			£0
Wellbeing and Place Services	Whittle Drive	£37	£37	£0				£0		£0				£0			£0
Wellbeing and Place Services	Abbey Lakes	£11	£0	£11				£11		£11				£0			£0
Wellbeing and Place Services	Cycle Trail at Cheshire Lines	£442	£442	£0				£0		£0				£0			£0



Service	Capital Scheme	2022/23			2023/24						2024/25				2025/26		
		Total Budget	Forecast Spend	Potential Slippage	Recurring and Continuation of Schemes	Approved Budget Feb 2021 / 2022	In-Year Approvals Dec 2022	Slippage from 2022/23	New Capital Bids Feb 2023	Total Budget	Recurring and Continuation of Schemes	Approved Budget Feb 2022	New Capital Bids Feb 2023	Total Budget	Recurring and Continuation of Schemes	New Capital Bids Feb 2023	Total Budget
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Wellbeing and Place Services	Resurfacing of Blaguegate Lane	£160	£0	£160				£160		£160				£0			£0
Wellbeing and Place Services	Leisure Facilities Project	£4,000	£1,000	£3,000				£3,000		£3,000				£0			£0
Wellbeing and Place Services	Community environmental improvements	£6	£6	£0				£0		£0				£0			£0
Wellbeing and Place Services	Christmas trees & decorations for Skelmersdale	£25	£25	£0				£0		£0				£0			£0
Wellbeing and Place Services	Moor Street Phase 2	£177	£261	(£84)				(£84)		(£84)				£0			£0
Wellbeing and Place Services	Moor Street Phase 2	£565	£481	£84				£84		£84				£0			£0
Wellbeing and Place Services	Moor Street/St Helens Road	£276	£276	£0				£0		£0				£0			£0
Wellbeing and Place Services	Moor Street (Phase 1) St Helen's Rd Ruff Lane	£104	£104	£0				£0		£0				£0			£0
Wellbeing and Place Services	Ormskirk Cycle and Pedestrian improvements	£95	£95	£0				£0		£0				£0			£0
Wellbeing and Place Services	Skelmersdale Vision	£11	£11	£0				£0		£0				£0			£0
Wellbeing and Place Services	Wheatshaf Walks	£1	£1	£0				£0		£0				£0			£0
Wellbeing and Place Services	Economic Regeneration	£5	£5	£0				£0		£0				£0			£0
Wellbeing and Place Services	Skelmersdale Gateway Improvements	£50	£50	£0				£0		£0				£0			£0
Wellbeing and Place Services	Cycle Path (S106)	£10	£10	£0				£0		£0				£0			£0
Wellbeing and Place Services	Ormskirk Town Centre (CIL)	£0	£0	£0				£0		£0				£0			£0
Wellbeing and Place Services	Changing Places Facility	£60	£60	£0				£0		£0				£0			£0
Wellbeing and Place Services	UK Shared Prosperity Fund	£63	£63	£0				£0	£191	£191			£1,535	£1,535			£0
Wellbeing and Place Services	Ginnells	£107	£107	£0				£0		£0				£0			£0
Total GRA Capital Programme Expenditure		£17,901	£12,917	£4,964	£1,923	£391	£60	£4,964	£613	£7,951	£1,923	£30	£1,578	£3,531	£1,888	£186	£2,074

Service	Capital Scheme	2022/23			2023/24						2024/25				2025/26		
		Total Budget	Forecast Spend	Potential Slippage	Recurring and Continuation of Schemes	Approved Budget Feb 2021 / 2022	In-Year Approvals Dec 2022	Slippage from 2022/23	New Capital Bids Feb 2023	Total Budget	Recurring and Continuation of Schemes	Approved Budget Feb 2022	New Capital Bids Feb 2023	Total Budget	Recurring and Continuation of Schemes	New Capital Bids Feb 2023	Total Budget
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	FUNDING:																
	Capital Receipts	£4,554	£3,306	£1,228	£0	£0	£0	£1,228	£0	£1,228	£0	£0	£0	£0	£0	£0	£0
	GRA Contributions	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
	Prudential Borrowing	£5,438	£5,284	£154	£479	£391	£60	£154	£422	£1,506	£479	£30	£43	£552	£444	£186	£630
	CIL	£4,244	£1,053	£3,191	£0	£0	£0	£3,191	£0	£3,191	£0	£0	£0	£0	£0	£0	£0
	s106	£734	£698	£36	£0	£0	£0	£36	£0	£36	£0	£0	£0	£0	£0	£0	£0
	Other Grant Funding	£2,932	£2,576	£356	£1,444	£0	£0	£356	£191	£1,991	£1,444	£0	£1,535	£2,979	£1,444	£0	£1,444
	HCA (Homes England)	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
	Total GRA Capital Programme Funding	£17,901	£12,917	£4,964	£1,923	£391	£60	£4,964	£613	£7,951	£1,923	£30	£1,578	£3,531	£1,888	£186	£2,074



## **AGENDA ITEM:**

**Special Executive Overview & Scrutiny:  
14 February 2023**

**Council:  
22 February 2023**

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**Report of:** Head of Finance, Procurement and Commercial Property

**Contact for further information:** Mr S Peet  
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**SUBJECT: CAPITAL FINANCE AND TREASURY MANAGEMENT STRATEGY**

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**Wards affected: Borough Wide**

### **1.0 PURPOSE OF REPORT**

- 1.1 To set the framework for capital financing and treasury management operations for the next financial year.

### **2.0 RECOMMENDATIONS**

#### **Special Executive Overview & Scrutiny**

Are asked to recommend the following items to Council for approval:

- 2.1 That the projected position in respect of the Prudential Indicators for 2022-23 set out in Appendix 1 be noted.
- 2.2 That the Treasury and Prudential Indicators for the next three years set out in Appendix 1 be agreed.
- 2.3 That the capital expenditure projections in Appendix 1 be agreed.
- 2.4 That the CFR projections set out in Appendix 1 be agreed.
- 2.5 That the MRP policy as set out in section 4.5 be agreed.

#### **Council**

- 2.6 That the projected position in respect of the Prudential Indicators for 2022-23 set out in Appendix 1 be noted.

- 2.7 That the Treasury and Prudential Indicators for the next three years set out in Appendix 1 be agreed.
  - 2.8 That the capital expenditure projections in Appendix 1 be agreed.
  - 2.9 That the CFR projections set out in Appendix 1 be agreed.
  - 2.10 That the MRP policy as set out in section 4.5 be agreed.
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### **3.0 BACKGROUND**

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

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

#### **3.1 Capital Strategy**

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

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

The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite. This strategy will be submitted for member consideration separately to this report.

#### **3.2 Treasury Management Strategy for 2023/24**

The strategy for 2023/24 covers two main areas Capital Issues, including expenditure plans and associated prudential indicators and Treasury Management Issues, including the current position, treasury indicators which limit risk, prospects for interest rates, borrowing and investment strategy, creditworthiness policy and the use of external service providers

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

### **3.3 Training**

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Member training was undertaken on the 26<sup>th</sup> October 2022 and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

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

### **3.4 Treasury Management Consultants**

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

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

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

## **4.0 THE CAPITAL PRUDENTIAL INDICATORS 2023/24 – 2025/26**

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

### **4.1 Capital Expenditure and Financing**

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts detailed in table 1.1 of Appendix 1.

Other long-term liabilities - the financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

The table 1.1 in Appendix 1 also details how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

## 4.2 The Authority's Borrowing Need (the Capital Financing Requirement)

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

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

The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has no such schemes within the CFR.

The Authority is asked to approve the CFR projections in table 1.2 of Appendix 1.

## 4.3 Liability Benchmark

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

There are four components to the LB: -

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

The Liability Benchmark is detailed in table 1.3 of Appendix 1.

## 4.4 Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Fund balances / reserves	17,219	16,107	12,906	12,599	12,931
Capital receipts	2,978	471	42	42	42
Provisions	1,628	1,628	1,628	1,628	1,628
Capital Grants Unapplied	12,400	13,900	11,850	12,800	13,750
<b>Total core funds</b>	<b>34,225</b>	<b>32,106</b>	<b>26,426</b>	<b>27,069</b>	<b>28,351</b>
Working capital	20,082	6,500	6,500	6,500	6,500
Under/over borrowing	23,480	22,804	22,029	21,128	20,160
<b>Expected investments</b>	<b>30,827</b>	<b>15,802</b>	<b>10,897</b>	<b>12,441</b>	<b>14,691</b>

#### 4.5 Minimum Revenue Provision (MRP) Policy Statement

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

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

The MRP policy statement requires full council approval (or closest equivalent level) in advance of each financial year.

The Authority is recommended to approve the following MRP Statement

For expenditure incurred before 1 April 2008 which forms part of supported capital expenditure, the MRP policy will be:

- **Asset life method (annuity)** – MRP will be based on an asset life of 50 years

From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- **Asset life method (annuity)** – For regeneration and income generating assets MRP will be based on the estimated life of the assets
- **Asset life method (straight line)** – For service delivery assets MRP will be based on the estimated life of the assets

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

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

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

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

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

Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

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

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

Cumulative VRP overpayments made to date are £2.365m.

## **5.0 BORROWING**

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

### **5.1 Current Portfolio Position**

The overall treasury management portfolio as at 31.3.22 and for the position as at 31.12.22 are shown below for both borrowing and investments.



TREASURY PORTFOLIO				
	Actual	Actual	Current	Current
	31.03.22	31.03.22	31.12.22	31.12.22
Treasury investments	£,000	%	£,000	%
Banks	11,500	41%	8,000	34%
Building societies - unrated	11,500	41%	10,500	45%
Building societies - rated		0%		0%
Local authorities	5,000	18%	5,000	21%
DMADF (H.M.Treasury)		0%		0%
Money Market Funds		0%		0%
Certificates of Deposit		0%		0%
<b>Total managed in house</b>	<b>28,000</b>	<b>100%</b>	<b>23,500</b>	<b>100%</b>
Bond Funds	0	0	0	0
Property Funds	0	0	0	0
<b>Total managed externally</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total treasury investments</b>	<b>28,000</b>	<b>100%</b>	<b>23,500</b>	<b>100%</b>
<b>Treasury external borrowing</b>				
Local Authorities	0	0	0	0
PWLB	88,212	100%	88,212	100%
Market Loans		0		0
LOBOs		0		0
<b>Total external borrowing</b>	<b>88,212</b>	<b>100%</b>	<b>88,212</b>	<b>100%</b>
<b>Net treasury investments / (borrowing)</b>	<b>-60,212</b>		<b>-64,712</b>	

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

£m	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
<b>External Debt</b>					
Debt at 1 April	88,212	88,212	105,689	113,985	121,376
Expected change in Debt	0	17,477	8,296	7,391	893
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual gross debt at 31 March	<b>88,212</b>	<b>105,689</b>	<b>113,985</b>	<b>121,376</b>	<b>122,269</b>
The Capital Financing Requirement	<b>111,692</b>	<b>128,493</b>	<b>136,014</b>	<b>142,504</b>	<b>142,429</b>
Under / (over) borrowing	<b>23,480</b>	<b>22,804</b>	<b>22,029</b>	<b>21,128</b>	<b>20,160</b>

Within the range of prudential indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Head of Finance reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

## 5.2 Treasury Indicators: Limits to Borrowing Activity

**The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources. Details of this indicator are shown in table 1.4 of Appendix 1.

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

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority, although this power has not yet been exercised.
- The Authority is asked to approve the following Authorised Limit in table 1.5 of Appendix 1

## 5.3 Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 19.12.22. These are forecasts for certainty rates, gilt yields plus 80 bps.

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

*Additional notes by Link on this forecast table: -*

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

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

The CPI measure of inflation appears to have peaked at 11.1% in Q4 2022 (10.7% in December). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. Wage increases, excluding bonuses, are currently running at 5.7%.

### **PWLB Rates**

Yield curve movements have become less volatile under the Sunak/Hunt government. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%. The medium to longer part of the yield curve is currently inverted (yields are lower at the longer end of the yield curve compared to the short to medium end).

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

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

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

## **5.4 Borrowing Strategy**

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

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

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

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

## 5.5 Policy on Borrowing in Advance of Need

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

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

## 5.6 Rescheduling

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

## 5.7 Approved Sources of Long and Short-term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Local Temporary	●	●
Internal (capital receipts & revenue balances)	●	●
Finance Leases	●	●

## 6.0 ANNUAL INVESTMENT STRATEGY

### 6.1 Investment Policy – Management of Risk

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

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

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

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

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

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

1. Minimum acceptable **credit criteria** are applied to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This Authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. The list is outlined in 6.2 below.

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

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

5. **Non-specified and loan investment limits.** The Authority has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments as set out in 6.2 below.
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 6.2.
7. **Transaction limits** are set for each type of investment in 6.2.
8. This Authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 6.2).
9. Investments will only be placed with counterparties from the UK.
10. This Authority has engaged **external consultants**, Link Treasury Services, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.
12. As a result of the change in accounting standards for 2022/23 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. At the current juncture it has not been determined whether a further extension to the override will be agreed by Government.

However, this Authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 6.5). Regular monitoring of investment performance will be carried out during the year.

#### **Changes in risk management policy from last year.**

The above criteria are unchanged from last year.

## **6.2 Creditworthiness Policy**

The primary principle governing the Authority's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Authority will ensure that: -

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.

The Head of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Full Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Authority may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Authority criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

Type of Counterparty	Maximum loan by Council	Maximum Period
Major British Based Banks and Subsidiaries with at least A- credit rating.	£5m	Up to £5m 364 days Up to £3m 3 years
British Based Building Societies. –  Only those with at least A- credit rating as advised by Link.	£5m	Up to £5m 364 days Up to £3m 3 years
Other Local Authorities, where agreed.	£5m	Up to 5 years
Property Funds, Corporate Bonds, Infrastructure Investments	£3m	Up to 3 years for Corporate, and 5 years for Property and Infrastructure
Money Market Funds AAA rated	£3m	N/A Callable deposits

#### **Use of additional information other than credit ratings**

Additional requirements under the Code require the Authority to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

### **Creditworthiness**

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

### **CDS prices**

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

## **6.3 Limits**

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

- a. **Non-specified treasury management investment limit.** The Authority has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as per paragraph 6.2.
- b. **Country limit.** The Authority has determined that it will only use approved counterparties from the UK.

## **6.4 Investment Strategy**

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

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

## **6.5 Investment Performance / Risk Benchmarking**

This Authority will use an investment benchmark of 3-month Sterling Overnight Interbank Average Rate (SONIA) to assess the investment performance of its investment portfolio.



## **6.6 MifiD II Status**

The Market in Financial Instruments Directive II (MIFID II) changed the classification of local authority investors. It reclassified local and public authorities as retail investors from 3 January 2018. Authorities could elect for a return to professional status provided they met certain criteria. If the Authority decided against opting up it would have had access to a more limited a range of financial investment instruments. Therefore, the decision has been taken to opt for profession status with all counterparties in which it currently invests and will do the same for any future eligible ones if required.

## **6.7 End of Year Investment Report**

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

## **7.0 SUSTAINABILITY IMPLICATIONS**

- 7.1 The Capital Financing and Treasury Management Framework ensures that robust financial decisions are made. The strategies in place provide for sound financial management decision making with regards to the Council's assets and their sustainability. This report has no significant impacts on crime and disorder.

## **8.0 RISK ASSESSMENT**

- 8.1 The Council is signed up to the CIPFA Treasury Management Code of Practice and it reviews the Prudential Indicators on a regular basis. It is, therefore, minimising the risks associated with financing decisions.

## **9.0 HEALTH AND WELLBEING IMPLICATIONS**

- 9.1 There are no significant health and wellbeing implications arising from this report.

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### **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this report.

### **Equality Impact Assessment**

The decision does not have any direct impact on members of the public, employees, elected members and/or stakeholders. Therefore, no Equality impact assessment is required.

# APPENDICES

1. Prudential and treasury indicators
2. Economic background
3. Treasury management practice 1 – credit and counterparty risk management
4. Treasury management scheme of delegation
5. The treasury management role of the section 151 officer

## 1. THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2023/24 – 2025/26

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

### 1.1 Capital Expenditure and Financing

Capital expenditure £,000	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Non-HRA	8,961	12,917	7,951	3,531	2,074
HRA	16,441	22,370	14,759	15,106	8,531
<b>Total</b>	<b>25,402</b>	<b>35,287</b>	<b>22,710</b>	<b>18,637</b>	<b>10,605</b>

Financing of capital expenditure £,000	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital receipts	1,197	3,306	1,228	798	799
Capital grants	8,119	5,284	2,491	2,979	1,444
Capital reserves	3,833	3,948	4,066	4,188	4,314
Revenue	4,174	5,272	6,630	3,281	3,155
<b>Net financing need for the year</b>	<b>8,079</b>	<b>17,477</b>	<b>8,296</b>	<b>7,391</b>	<b>893</b>

### 1.2 The Authority's Borrowing Need (the Capital Financing Requirement)

£m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
<b>Capital Financing Requirement</b>					
Non-HRA	23,263	28,233	29,339	29,378	29,441
Housing	88,429	100,260	106,675	113,126	112,987
<b>Total CFR</b>	<b>111,692</b>	<b>128,493</b>	<b>136,014</b>	<b>142,504</b>	<b>142,429</b>
<b>Movement in CFR</b>	<b>7,422</b>	<b>16,801</b>	<b>7,521</b>	<b>6,490</b>	<b>-76</b>
<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	8,079	17,477	8,296	7,391	893
Less MRP/VRP and other financing movements	-657	-676	-775	-901	-969
<b>Movement in CFR</b>	<b>7,422</b>	<b>16,802</b>	<b>7,521</b>	<b>6,490</b>	<b>-76</b>

External borrowing £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Service spend		16	1,202	1,711	2,155
Housing	88,212	100,405	107,195	114,034	114,297
Regeneration		5,268	5,588	5,631	5,817
Preventative action					
Treasury Management					
Projects for yield					
<b>TOTAL</b>	<b>88,212</b>	<b>105,689</b>	<b>113,985</b>	<b>121,376</b>	<b>122,269</b>

### 1.3 Liability Benchmark

West Lancashire Borough Council	£'000 Estimate 2022/23	£'000 Estimate 2023/24	£'000 Estimate 2024/25	£'000 Estimate 2025/26
Financial Year End				
PWLB Loans	88,212	88,212	88,212	88,212
Market Loans (excl LOBO loans)				
LOBO Loans				
Short Term inc LA Temporary Borrowing (<1 year)				
Variable rate loans				
<b>Existing Loan Debt Outstanding</b>	<b>88,212</b>	<b>88,212</b>	<b>88,212</b>	<b>88,212</b>
Opening Loan Debt				
<b>Less:</b> opening treasury investments				
<b>Plus:</b> planned prudential borrowing	17,477	8,296	7,391	893
<b>Less:</b> MRP & Capital Receipts set aside	-676	-775	-901	-969
+/- other forecast cashflows	13,773	4,905	-1,479	-2,251
<b>Net Loans Requirement (forecast net loan debt)</b>	<b>89,212</b>	<b>101,637</b>	<b>106,649</b>	<b>104,322</b>
Opening Loans CFR				
<b>Plus:</b> planned Prudential Borrowing	17,477	8,296	7,391	893
<b>Less:</b> MRP & Capital Receipts set aside	-676	-775	-901	-969
<b>Loans CFR</b>	<b>128,493</b>	<b>136,014</b>	<b>142,504</b>	<b>142,429</b>
Liquidity allowance above net debt (liquidity buffer)	1,500	1,500	1,500	1,500
<b>Liability Benchmark (Gross Loans Requirement)</b>	<b>90,712</b>	<b>103,137</b>	<b>108,149</b>	<b>105,822</b>
<b>Forecast Investments</b>	<b>1,500</b>	<b>1,500</b>	<b>1,500</b>	<b>1,500</b>
<b>(Over)/Under Liability Benchmark</b>	<b>2,500</b>	<b>14,925</b>	<b>19,937</b>	<b>17,610</b>

### 1.4 Operational Boundary

Operational Boundary £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt	128,493	136,014	142,504	142,429
Other long-term liabilities	0	0	0	0
<b>Total</b>	<b>128,493</b>	<b>136,014</b>	<b>142,504</b>	<b>142,429</b>

## 1.5 Authorised Limit for external debt

Authorised Limit £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt	138,493	146,014	152,504	152,429
Other long-term liabilities	500	500	500	500
Total	138,993	146,514	153,004	152,929

## 1.6 Maturity Structure of Borrowing

Maturity analysis of loans	Average Rate %	Interest Payable £'000	2022/2023 £'000
Between 5 and 10 years	3.01	132.76	4,411
Between 10 and 15 years	3.30	145.55	4,411
Between 15 and 20 years	3.44	303.45	8,821
Between 20 and 25 years	3.50	308.74	8,821
Between 25 and 30 years	3.53	621.89	17,642
Between 30 and 35 years	3.52	620.13	17,642
Between 35 and 40 years	3.50	617.48	17,642
Between 40 and 45 years	3.48	306.98	8,822
Total	3.47	3,056.99	88,212

Maturity structure of borrowing	2021/22 Actual %	2022/23 Estimate Limit %	2023/24 Estimate Limit %	2024/25 Estimate Limit %	2025/26 Estimate Limit %
Under 12 months	0	0	0	0	0
12 months and within 24 months	0	0	0	0	0
24 months and within 5 years	0	0	0	0	0
5 years and within 10 years	5%	5%	5%	5%	5%
10 years and above	95%	95%	95%	95%	95%

## 1.7 Limits for Long Term Treasury Management Investments

Limits for Long Term Treasury Management Investments	2021/22 Actual %	2022/23 Estimate Limit %	2023/24 Estimate Limit %	2024/25 Estimate Limit %	2025/26 Estimate Limit %
Limit for investments > a year	0	Higher of £3m and 20%	Higher of £3m and 20%	Higher of £3m and 20%	Higher of £3m and 20%

## 1.8 Affordability Prudential Indicators

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

### 1.8.1 Ratio of Financing Costs to Net Revenue Stream

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

Capital expenditure	2021/22	2022/23	2023/24	2024/25	2025/26
£m	Actual	Estimate	Estimate	Estimate	Estimate
Non-HRA	8,961	12,917	7,951	3,531	2,074
HRA	16,441	22,370	14,759	15,106	8,531
<b>Total</b>	<b>25,402</b>	<b>35,287</b>	<b>22,710</b>	<b>18,637</b>	<b>10,605</b>

#### Ratio of Financing Costs to Net Revenue Stream

	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
Non-HRA	1.15%	0.38%	1.05%	1.99%	2.37%
HRA	12.91%	12.37%	12.54%	12.60%	13.24%

Non-HRA £,000	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
Interest received on existing investments	-129	-349	-319	-319	-319
Interest cost for new borrowing	0	95	95	147	166
Interest cost existing finance leases/PFI	0	0	0	0	0
Interest cost for new finance leases/PFI	0	0	0	0	0
Gains and losses on the repurchase or early settlement of borrowing	0	0	0	0	0
MRP and VRP	307	314	400	513	567
<b>Total Financing Costs</b>	<b>178</b>	<b>60</b>	<b>176</b>	<b>341</b>	<b>413</b>
Taxation, precepts	13,928	11,698	12,418	12,936	13,277
Non-specific grant income	1,550	3,934	4,588	4,233	3,787
<b>Net Revenue Stream</b>	<b>15,478</b>	<b>15,632</b>	<b>16,776</b>	<b>17,108</b>	<b>17,449</b>
Ratio of Financing Costs	1.15%	0.38%	1.05%	1.99%	2.37%

HRA £,000	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
Interest received on existing investments	-5	-49	-119	-119	-119
Interest cost on existing borrowing	3,057	3,057	3,057	3,057	3,057
Interest cost for new borrowing	0	0	427	664	904
Interest cost existing finance leases/PFI	0	0	0	0	0
Interest cost for new finance leases/PFI	0	0	0	0	0
Gains and losses on the repurchase or early settlement of borrowing	0	0	0	0	0
MRP and VRP	350	362	375	388	402
HRA Depreciation	0	0	0	0	0
<b>Total Financing Costs</b>	<b>3,402</b>	<b>3,370</b>	<b>3,739</b>	<b>3,990</b>	<b>4,243</b>
<b>HRA Rental Income</b>	<b>26,354</b>	<b>27,254</b>	<b>29,810</b>	<b>31,664</b>	<b>32,062</b>
Ratio of Financing Costs	12.91%	12.37%	12.54%	12.60%	13.24%

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

### 1.8.2 Ratio of income from commercial and service investments to net revenue stream

%	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Non-HRA	7.73%	8.43%	6.39%	6.36%	6.33%
£,000	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Income from financial investments	0	0	0	0	0
Income from assets held primarily for financial return	2,408	2,253	2,364	2,463	2,480
Investment management costs	0	0	0	0	0
Other direct revenue costs of investments	-1,212	-935	-1,277	-1,370	-1,399
<b>Total Net Commercial &amp; Service Income</b>	<b>1,196</b>	<b>1,318</b>	<b>1,087</b>	<b>1,092</b>	<b>1,081</b>
Taxation, precepts	13,928	11,698	12,418	12,936	13,277
Non-specific grant income	1,550	3,934	4,588	4,233	3,787
<b>Net Revenue Stream</b>	<b>15,478</b>	<b>15,632</b>	<b>17,006</b>	<b>17,169</b>	<b>17,064</b>
Ratio of net income from commercial & service investments	7.73%	8.43%	6.39%	6.36%	6.33%

### 1.8.3 HRA Ratios

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
HRA debt £,000	88,212	100,405	107,195	114,034	114,297
HRA revenues £,000	26,354	27,254	29,810	31,664	32,062
Ratio of debt to revenues %	<b>29.88</b>	<b>27.14</b>	<b>27.81</b>	<b>27.77</b>	<b>28.05</b>
	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
HRA debt £,000	88,212	100,405	107,195	114,034	114,297
Number of HRA dwellings	5,858	5,808	5,758	5,708	5,658
Debt per dwelling £	<b>15,058</b>	<b>17,287</b>	<b>18,617</b>	<b>19,978</b>	<b>20,201</b>

Assumed RtB sales of 50 per annum without replacement

## 2. ECONOMIC BACKGROUND

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

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

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

Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.50% in December and the market expects Bank Rate to hit 4.5% by May 2023.

## 3. TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The DLUHC issued Investment Guidance in 2018, and this forms the structure of the Authority's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for local authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the Guidance requires this Authority to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 24/02/2022 and will apply its principles to all investment activity. In accordance with the Code, the Head of Finance has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

**Annual Investment Strategy** - The key requirements of both the Code and the investment guidance are for the Authority to set an Annual Investment Strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Authority will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year.



- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Authority is:

**Strategy guidelines** – The main strategy guidelines are contained in the body of the Treasury Management Strategy Statement.

**Specified investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Authority has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months once the remaining period to maturity falls to under 12 months.

These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with: -

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
- Supranational Bonds of less than one year's duration.
- A Local Authority, Housing Association, Parish Council or Community Council.
- Pooled investment vehicles (such as Money Market Funds) that have been awarded a high credit rating by a credit rating agency e.g., Standard and Poor's, Moody's and/or Fitch rating agencies.
- A body that is considered of a high credit quality.

In accordance with the Code, the Authority has set out additional criteria to limit the time and the amount of monies which will be invested in these bodies. These criteria are set out in section 4.2 above.

**Non-specified investments** – are any other type of investment (i.e., not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are also set out in 4.2.

**The monitoring of investment counterparties** - The credit rating of counterparties will be monitored regularly. The Authority receives credit rating information (changes, rating watches and rating outlooks) from Link as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Head of Finance, and if required new counterparties which meet the criteria will be added to the list.

#### **4. TREASURY MANAGEMENT SCHEME OF DELEGATION**

##### **(i) Full board/council**

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

##### **(ii) Boards/committees/council/responsible body**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

##### **(iii) Body/person(s) with responsibility for scrutiny**

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

#### **5. THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER**

##### **The S151 (responsible) officer**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe (*say 20+ years – to be determined in accordance with local priorities.*)
- ensuring that the Capital Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the Authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing

- ensuring the proportionality of all investments so that the Authority does not undertake a level of investing which exposes the Authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the Authority
- ensuring that the Authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
  - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
  - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
  - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
  - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
  - *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

