The Treasury Management Strategy Statement (TMSS) 2022/23

Report of the Cabinet Member for Finance, Procurement and Revenues & Benefits

Date:	3 February 2022
Agenda Item:	
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Key Decision?	**YES**
Local Ward Members	Full Council

Lichfield district council

AUDIT AND MEMBER STANDARDS COMMITTEE

1. Executive Summary

Introduction

1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice 2018 Edition (the CIPFA) Code which requires the Authority to approve a treasury management strategy before the start of each financial year.

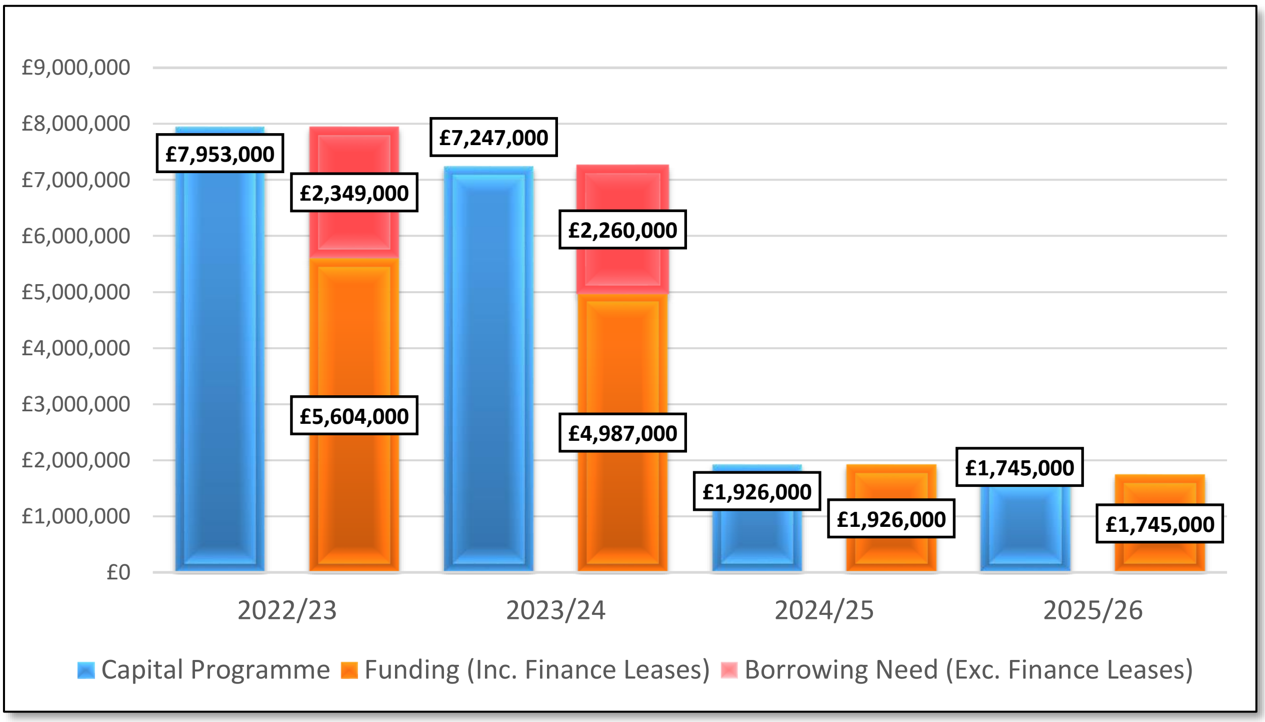
1.2 CIPFA released the latest version of the Prudential and Treasury Management Codes in December 2021 although the accompanying guidance notes are yet to be published. The revised Prudential Code takes immediate effect although the revised reporting requirements can therefore be deferred until the 2023/24 financial year.

1.3 This report fulfils the Authority's legal obligation, under the Local Government Act 2003, to have regard to both the CIPFA Code and the Department of Levelling Up, Housing and Communities (DLUHC) Guidance.

The Capital Strategy and Capital Programme

1.4 The Capital Programme is part of the Medium Term Financial Strategy (MTFS) and shows longer term investment for our **Strategic Plan**.

1.5 The Capital Strategy required by the Prudential Code is outlined at **APPENDIX A** and the Capital Programme is outlined in **APPENDIX B** and below:



Treasury Management

1.6 The Treasury Management Strategy Statement incorporates the Annual Investment Strategy and it covers the financing and investment strategy for the forthcoming financial year.

1.7 The purpose of this paper is, therefore, to review:

- The Capital Strategy and Capital Programme, outlined in **APPENDICES A & B.**
- Minimum Revenue Provision Statement for 2022/23 **(APPENDIX C).**
- Treasury Management Strategy Statement for 2022/23 **(APPENDIX D).**
- Treasury Investments and their Limits **(APPENDIX D)**.
- The Investment Strategy Report for 2022/23 **(APPENDIX E)** as required under Statutory Guidance in January 2018.
- The Capital and Treasury Prudential Indicators 2021-26 in the financial implications section.

1.8 All treasury activity will comply with relevant statute, guidance and accounting standards.

2. Recommendations

That Members consider the Treasury Management Strategy Statement and highlight any changes or recommendations to Cabinet in relation to:

2.1 The Capital Strategy and Capital Programme, outlined in **APPENDICES A** & **B**.

2.2 The Minimum Revenue Provision Statement for 2022/23, at **APPENDIX C**, which sets out the Council's policy of using the asset life method for making prudent provision for debt redemption.

2.3 Treasury Management Strategy Statement for 2022/23 including proposed limits shown at **APPENDIX D**.

2.4 The plan to undertake further Strategic Fund investments with a recommended increase of:

- **£1m** in the counterparty limit for strategic funds (from **£4m** to **£5m** per fund)
- **£5m (**from **£10m** to **£15m)** in the Prudential Indicator for Principal Sums invested for periods longer than a year.
- **£4m** in any group of pooled funds under the same management limit (from **£11m** to **£15m)**.

2.5 The Investment Strategy Report **(APPENDIX E)** including the proposed limits for 2022/23.

2.6 The Capital and Treasury Prudential Indicators for 2021-26 in the financial implications section.

2.7 The Authorised Limit Prudential Indicator shown within the financial implications section.

2.8 The potential repayment of one of the two external loans outstanding to generate further savings.

3. Background

The Capital Strategy

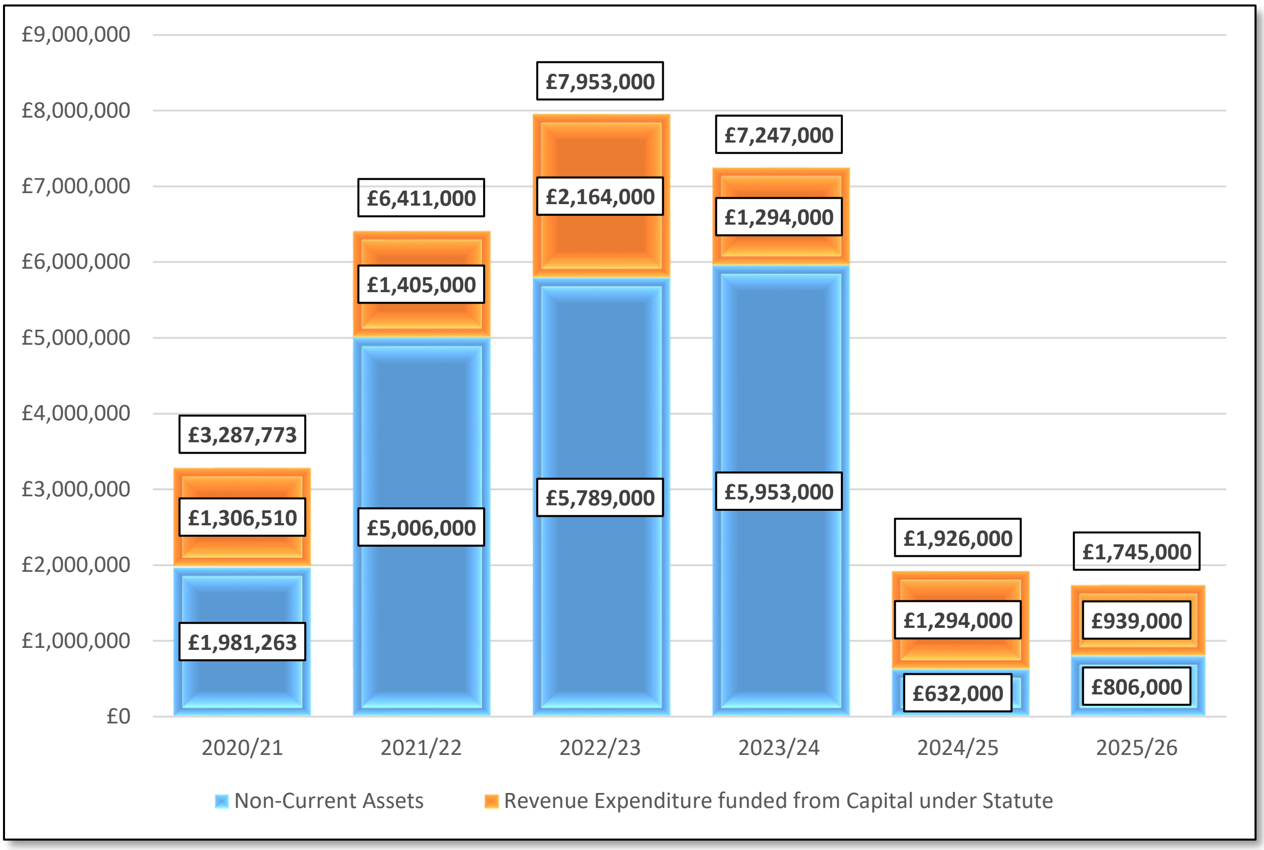
3.1 The Capital Strategy at **APPENDIX A** sets out the Council's framework for managing the Capital Programme including:

- **Capital expenditure**, including the approval process, long-term financing strategy, asset management, maintenance requirements, planned disposals and funding restrictions.
- **Debt and borrowing and treasury management**, including projections for the level of borrowing, capital financing requirement (Borrowing Need) and liability benchmark, provision for the repayment of debt, the authorised limit and operational boundary for the coming year and the authority's approach to treasury management.
- **Commercial activities**, including due diligence processes, the authority's risk appetite, proportionality in respect of overall resources, requirements for independent and expert advice and scrutiny arrangements.
- **Other long-term liabilities**, such as financial guarantees.
- **Knowledge and skills**, including a summary of that available to the authority and its link to the authority's risk appetite.

3.2 The Council's Chief Financial Officer has assessed the current risk for the Capital Strategy as **material (yellow)**.

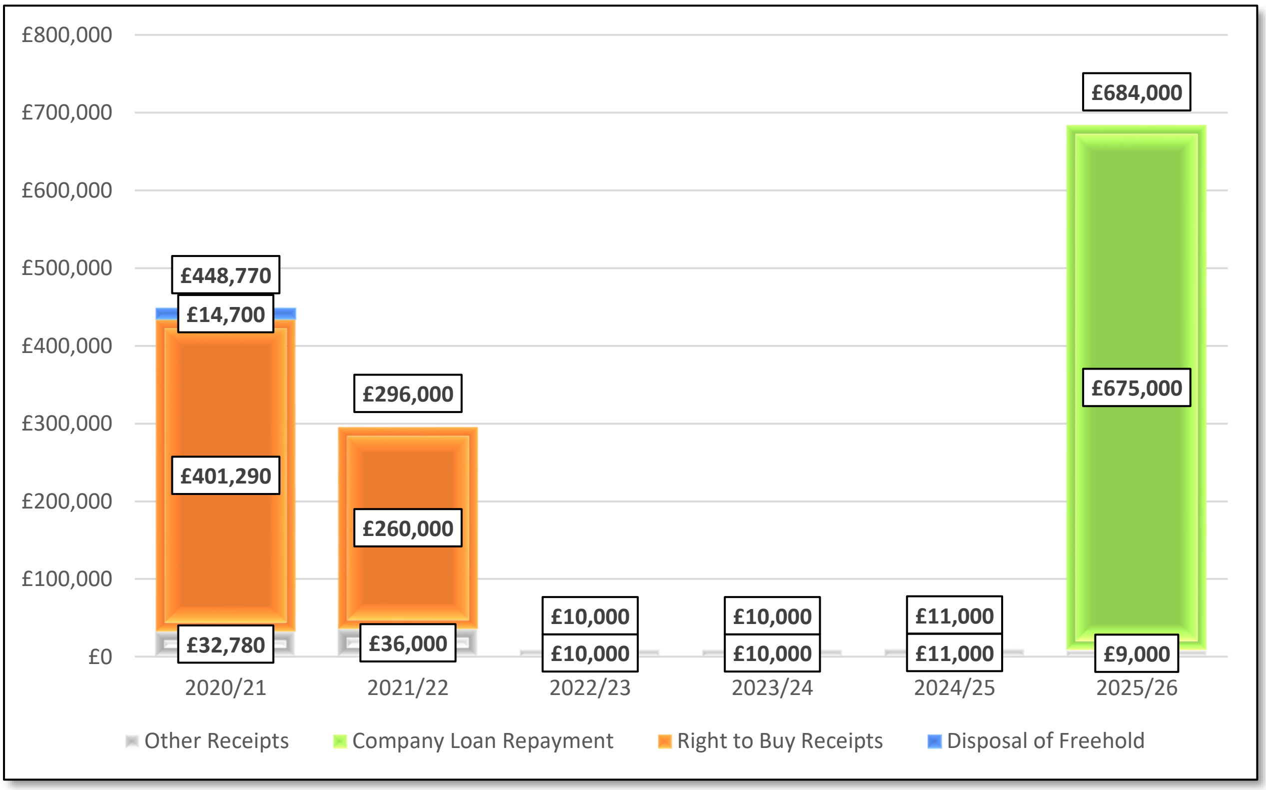
The Capital Programme

3.3 The Capital Programme (Revenue Expenditure Funded from Capital Under Statute relates to projects such as Disabled Facilities Grants) is shown in detail at **APPENDIX B** and below:



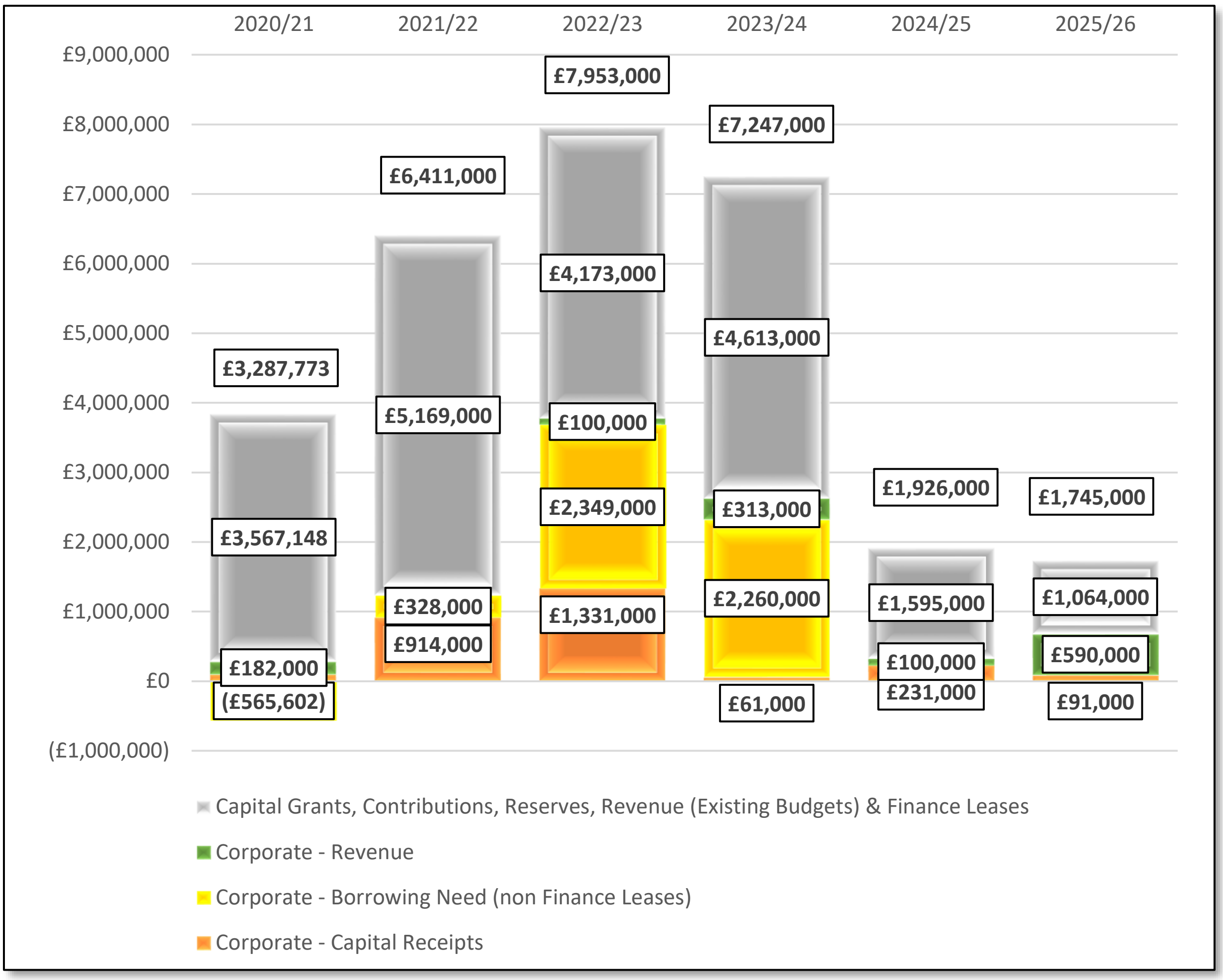
Capital Receipts

3.4 The projected Capital Receipts included in the Medium Term Financial Strategy are shown below:



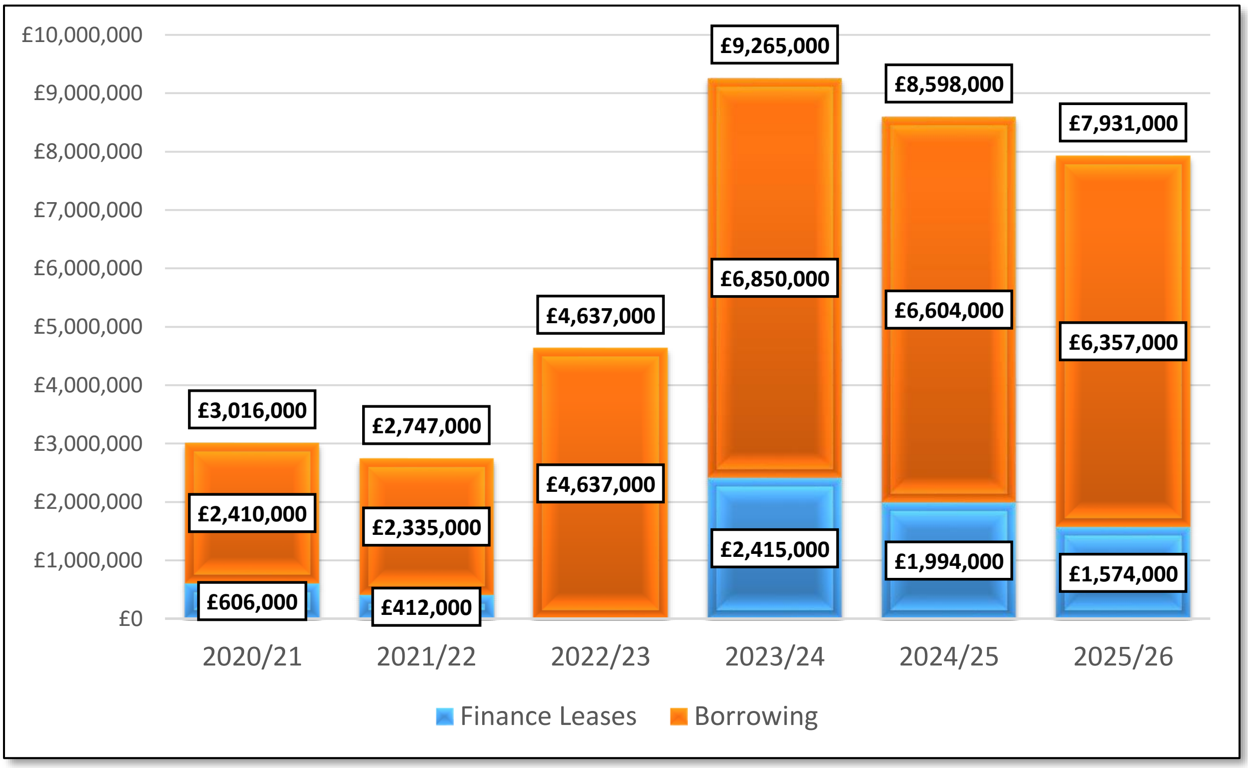
The Funding of the Capital Programme

3.5 The funding of the Capital Programme, including the element funded by the corporate sources of capital receipts, borrowing and revenue, is shown at **APPENDIX B** and below:

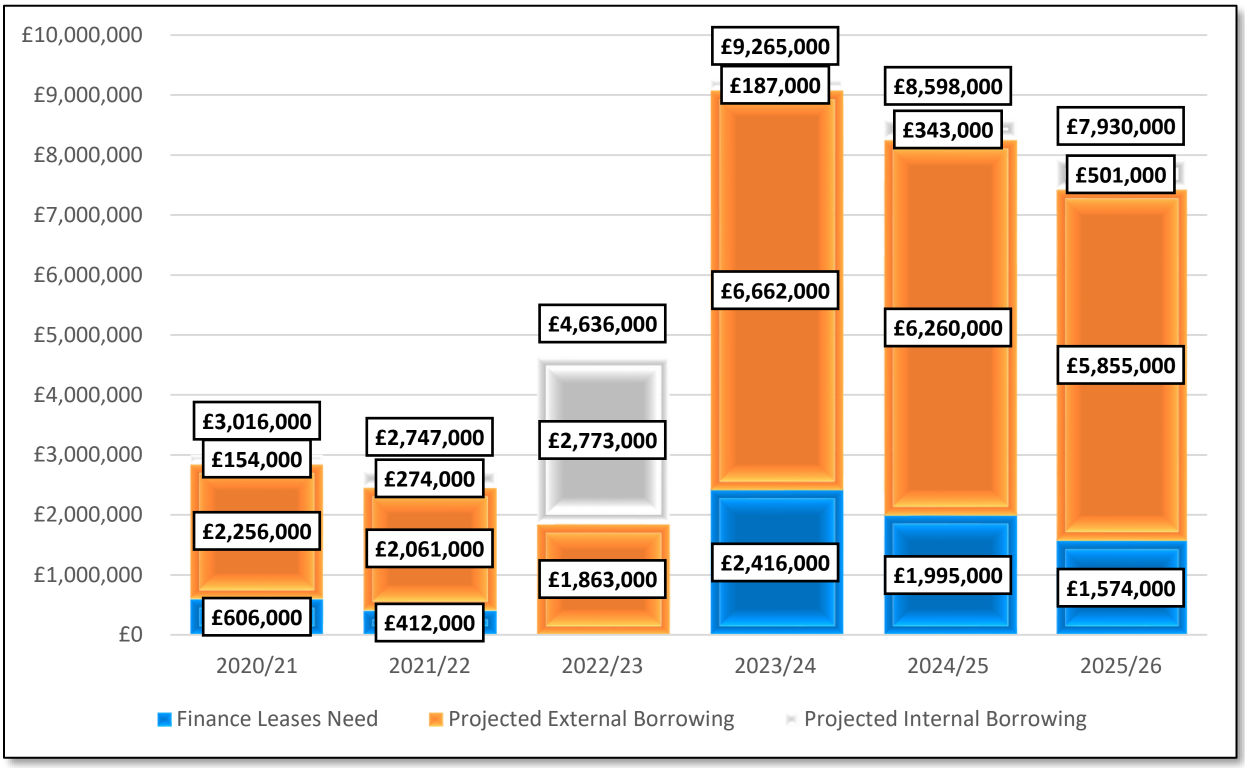


The Capital Financing Requirement (Borrowing Need) and its Financing

3.6 The projected Cumulative Borrowing Need related to the Capital Programme with increases from 2023/24 due to the planned new waste fleet and the planned new leisure centre is shown below:



3.7 The projected financing of this Cumulative Borrowing Need is shown at **APPENDIX A** and below:



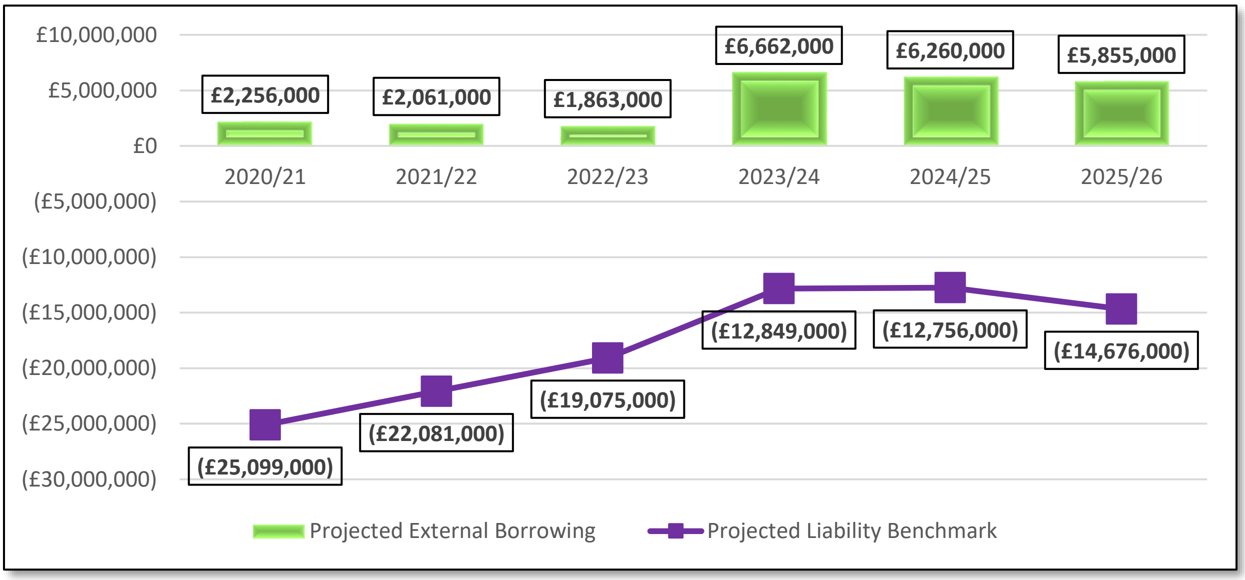
3.8 The Council currently has relatively low levels of external borrowing with two Public Works Loans Board Loans totalling **£2.061m** outstanding as at 31 March 2022.

3.9 One of the loans has **£0.934m** outstanding, a cost of finance of **1.71%**, a maturity in **6.5** years and would cost **£0.041m** to repay early.

3.10 The Capital Financing Requirement or Borrowing Need for Burntwood Leisure Centre capital investment has been funded as part of an Invest to Save project to produce annual savings in Minimum Revenue Provision. Therefore the potential to repay this external loan will also be evaluated to generate further annual savings in external interest.

3.11 The **liability benchmark** is the lowest risk level of external borrowing by keeping cash and investment balances to a minimum level of **£10m,** at each year end, to maintain liquidity but minimise credit risk.

3.12 The projected level of external borrowing together with the projected liability benchmark in the Medium Term Financial Strategy is shown at **APPENDIX A** and below:



3.13 The chart above indicates that based on current Balance Sheet projections where usable reserves are reducing, the Council has sufficient resources to fund additional internal borrowing.

Current Revenue Implications of the Capital Programme

3.14 The Revenue Implications related to the Capital Programme are shown at **APPENDIX A** and below:

Revenue Implications	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**
Interest on Loan to the LA Company	0	(4)	(18)	(22)	(22)
Friary Grange - Refurbishment	135	135	135	135	0
Coach Park Operation Costs	0	0	50	50	50
IT Hardware	9	4	(38)	9	9
Replacement Leisure Centre Debt Costs	0	0	0	294	290
Financial Information System	(20)	(40)	(40)	(40)	(40)
Revenue Budget - Bin Replacement	240	150	150	150	0
Revenue Budget - Other Projects	223	0	0	0	0
Revenue Budget - Corporate	0	0	213	0	0
Sub Total - Approved Budget	**587**	**245**	**452**	**576**	**287**
Revenue Budget - Corporate	0	100	100	100	590
Revenue Budget - Bin Replacement	0	0	0	0	150
Sub Total - Service and Financial Planning	**0**	**100**	**100**	**100**	**740**
Capital Programme Total	**587**	**345**	**552**	**676**	**1,027**

Treasury Management

3.15 CIPFA has defined Treasury Management as :

> *"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

3.16 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are an important and integral element of its treasury management activities. The main risks to the Council's treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal and Regulatory Risk

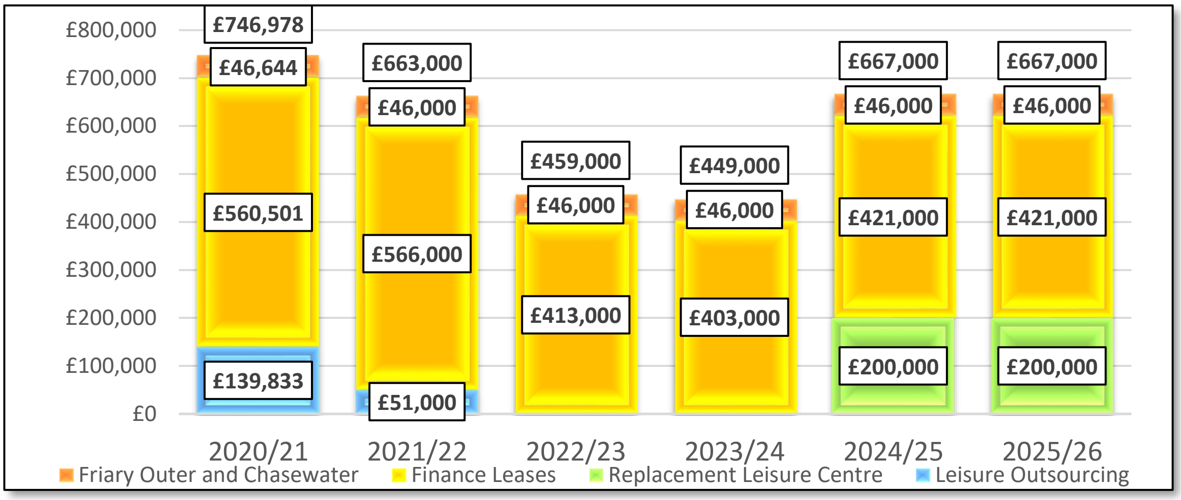
3.17 The Strategy also takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators and the outlook for interest rates.

3.18 **International Financial Reporting Standard 16 (Leases)**

- The new Standard has been further delayed for implementation until **1 April 2022**. This Standard will require more arrangements, where there is a right to use an asset, to be included on the Council's Balance Sheet. The level of non-current assets is likely to increase and these will be matched by a liability to reflect the lease payments to be made. Our initial assessment is that this standard will have a relatively small impact on the Council's Balance Sheet with the most significant lease for the Joint Waste Fleet already being in line with the new Standard.

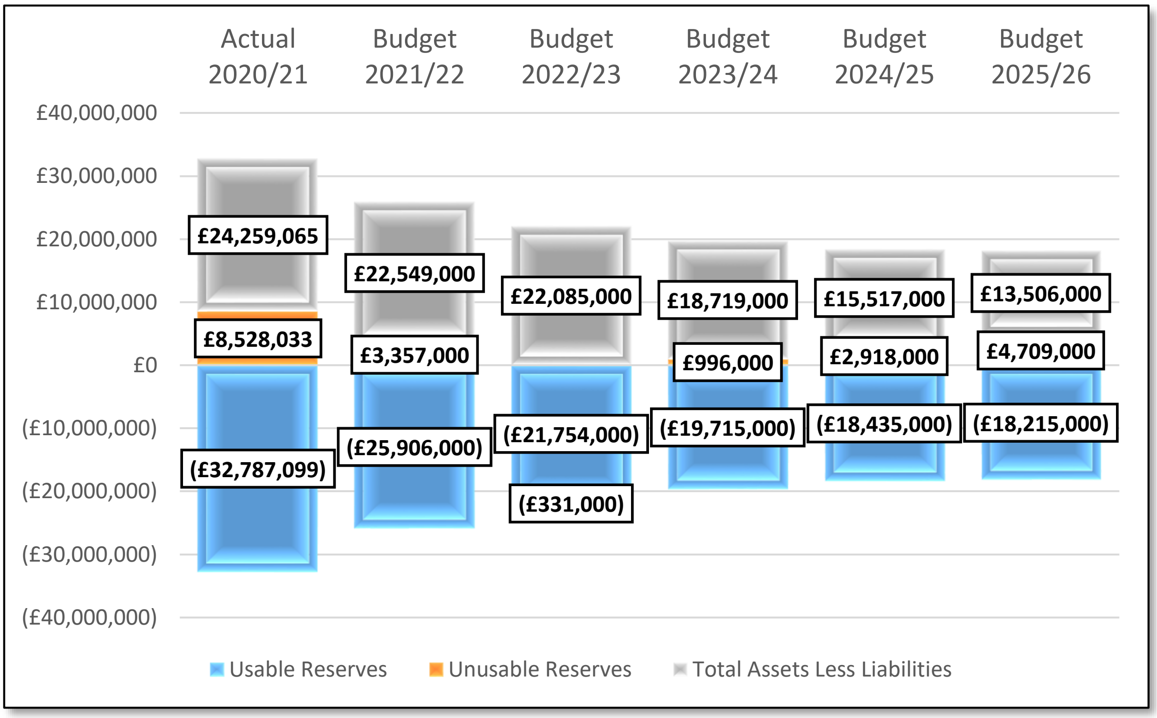
3.19 **Minimum Revenue Provision Statement 2022/23**

- The Council is required to make prudent provision for debt redemption (known as Minimum Revenue Provision (MRP)) and each year the Council must approve its MRP statement and this will include an allowance for finance leases that appear on the Council's Balance Sheet.
- The MTFS proposed the early repayment of the MRP in 2020/21 related to the capital investment Burntwood Leisure Centre undertaken as part of the leisure outsourcing. This project has been completed in 2021/22 and results in annual savings of **(£140,000)**.
- As in previous years, the Council proposes to base its MRP on the estimated life of the asset **(APPENDIX C)**. The estimated MRP chargeable during the MTFS is shown below:



3.20 **Balance Sheet Projections**

- Integrated Revenue Budgets and a Capital Programme budgets are prepared. These budgets together with the actual Balance Sheet from the previous financial year are used to prepare Balance Sheet projections.
- These Balance Sheet projections (**APPENDIX D**) are significant in assessing the Council's Treasury Management Position in terms of borrowing requirement, investment levels and the Investment Strategy.
- A summary of the budgeted Balance Sheet from 2021/22 to 2025/26 is:



<u>Non-Current Assets (an increase of £8,586,000)</u>

- Non-Current Assets will increase mainly due to the replacement waste fleet and the capital provision for a replacement Leisure Centre

<u>Borrowing and Leasing (an increase of (£4,567,000))</u>

- The capital investment in Non-Current Assets will partly be financed through an increase in external debt (borrowing and leases).

<u>Long Term Debtors, Investments and Working Capital (a reduction of £5,524,000)</u>

- The levels are projected to reduce due to the financing of the Capital Programme from earmarked reserves, grants and contributions and the potential use of general reserves throughout the MTFS to ensure a balanced budget.

<u>Pension Fund Obligation (an increase of (£9,247,000))</u>

- This value is projected to increase in line with previous trends (although COVID-19 may impact).

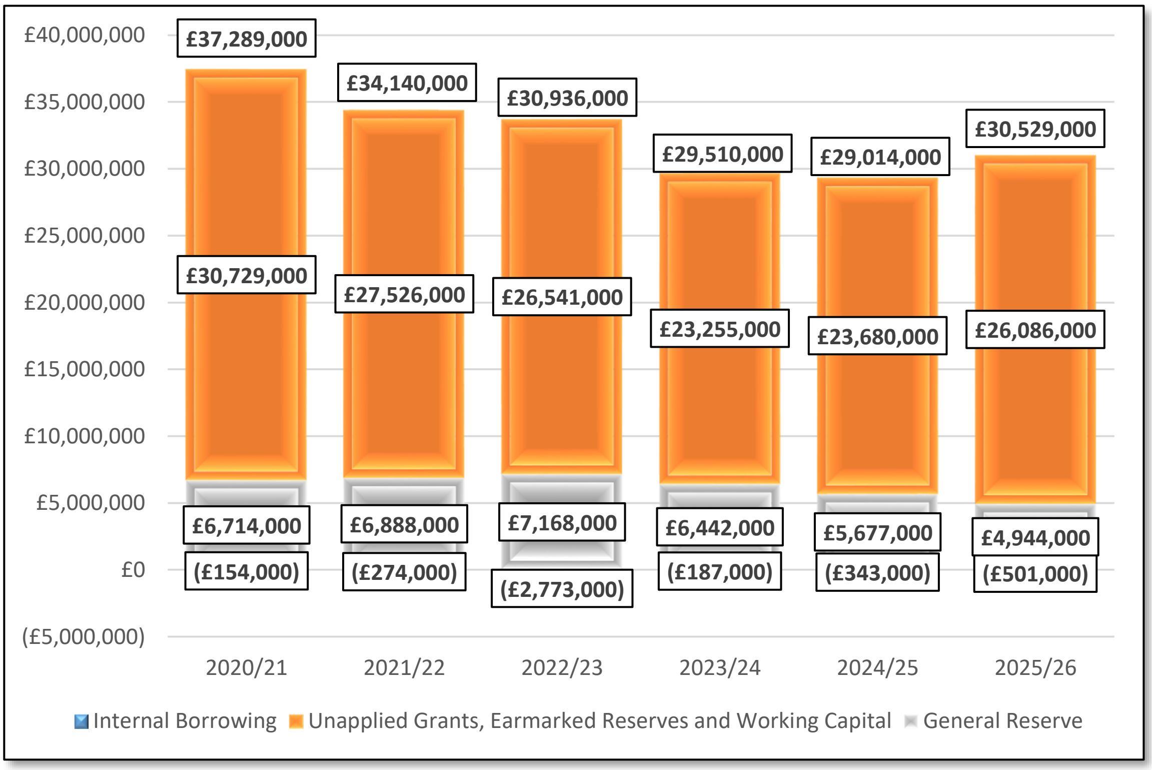
<u>Unusable Reserves (an increase of £3,819,000):</u>

- **Pensions Reserve** – the negative value of this statutory reserve will increase to offset projected increases in the long term liability for pensions.
- **Collection Fund** – the projected large deficit on Council Tax and Business Rate collection as a result of COVID-19 in 2020/21 is being transferred to the revenue budget over the three years 2021/22 to 2023/24 in line with regulatory requirements.

<u>Usable Reserves (a reduction of £14,571,000):</u>

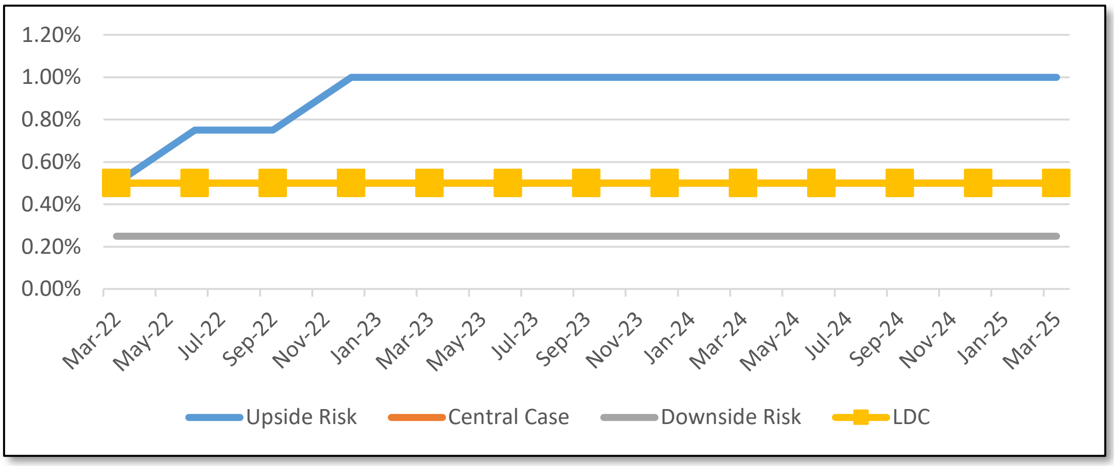
- **Earmarked Reserves** – these will reduce as they are used to fund both revenue expenditure and the Capital Programme. The Business Rates Volatility Reserve will reduce as it is transferred to the revenue budget to offset the deficit from 2021/22 to 2023/24.
- **General Reserve** – there will be a projected reduction to reflect the potential use of general reserves throughout the MTFS to ensure a balanced budget.

- The Balance Sheet Projections **(APPENDIX D)** also show the projected year end investment levels and the sources of cash:



3.21 **Treasury Management Advice and the Expected Movement in Interest Rates**

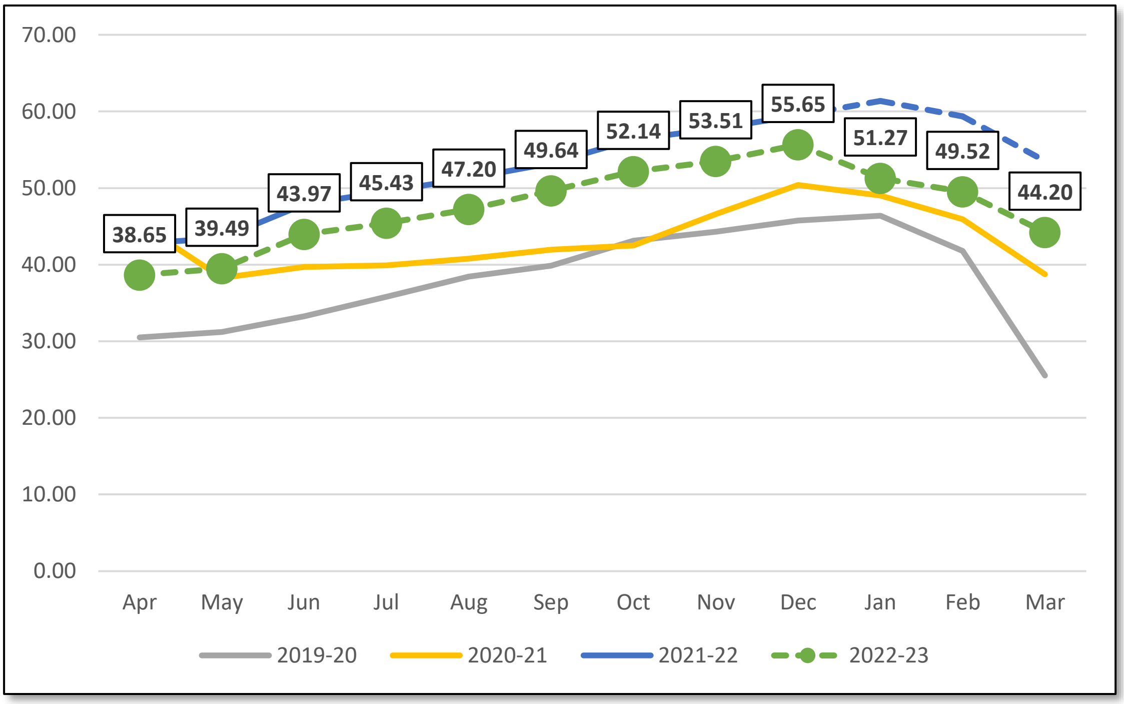
- The Official Bank Rate outlook provided by the Council's Treasury Advisor, together with the Council's assumption (also the central case) where interest rates will climb to **0.50%** in March 2022 and then remain at that level, is shown below:



- The Council assumptions have been used as the basis for preparation of the investment income and borrowing budgets for 2022/23 and future years.

3.22 **Cash Flow Forecast**

- Treasury Management includes the management of the Council's cash flows as a key responsibility. The cash flow forecast takes account of the income the Council receives including Housing Benefits Grant, Council Tax and Business Rate income and expenditure such as payments to precepting bodies, employee costs and Housing Benefit Payments.
- The graph below shows average investment levels throughout the financial year with a significant reduction in February and March due to minimal Council Tax income being received.



- The planned monthly cash flow forecast for the 2022/23 financial year has been used to calculate the investment income budget. The key components of this calculation are the average level of investment balances and the rate or yield achieved.

- The Treasury Management estimates for 2022/23 for both investment income and borrowing are shown in the table below:

Treasury Management	2022/23 Original Budget Investment Income	2022/23 Original Budget Borrowing
Average Balance	£47.56m	£1.93m
Average Rate[1]	1.45%	2.20%

Gross Investment Income	(£690,000)	
Corporate Revenue funding Capital		£100,000
External Interest		£44,000
Internal Interest		£1,000
Minimum Revenue Provision (less Finance Leases)		£47,000
Net Treasury Position	**(£690,000)**	**£192,000**
	(£498,000)	

- The gross investment income been estimated as **(£690,000)** and this equates to **5%** of The Council's total funding of **(£12,551,000)** in 2022/23**.**

3.21 **Treasury Management Strategy Statement (TMSS) and the Annual Investment Strategy**

- The Treasury Investments and their limits are shown in detail at **APPENDIX D**.
- The approved TMSS includes a Prudential Indicator for investments for periods longer than a year of **£10m**. At present, the Council has **£10m** (cash value) invested in Strategic Funds. Therefore due to the relative success of these investments, Balance Sheet Projections and benchmarking, the recommendation is to increase the Prudential Indicator for Principal Sums invested for periods longer than a year to **£15m,** the counterparty limit for each strategic fund from **£4m** to **£5m** and any group of pooled funds under the same management limit from **£11m** to **£15m**.

3.22 **Investment Strategy Report for 2022/23**

- The investment strategy that is shown at **APPENDIX E** meets the requirements of statutory guidance issued by the government in January 2018. It focuses on how the Authority invests its money to support local public services and earns investment income from any commercial investments.

Alternative Options	There are no alternative options.
Consultation	This Committee and the Overview and Scrutiny Committee.

Financial Implications

Prudential and Local Indicators (PIs)

The Prudential and Local Indicators are shown below (rounding may result in slight differences):

Capital Strategy Indicators

Prudential Indicators

Indicators	2020/21 Actual	2021/22 Original	2021/22 Revised	2022/23 Original	2023/24 Original	2024/25 Original	2025/26 Original
Capital Investment							
Capital Expenditure (£m)	£3.264	£6.530	£6.411	£7.953	£7.247	£1.926	£1.745
Capital Financing Requirement (£m)	£3.016	£2.444	£2.747	£4.637	£9.265	£8.598	£7.931
Gross Debt and the Capital Financing Requirement							
Gross Debt	(£2.295)	(£2.167)	(£2.473)	(£1.863)	(£9.079)	(£8.255)	(£7.429)
Borrowing in Advance - Gross Debt in excess of the Capital Financing Requirement	No	No	No	No	No	No	No
Total Debt							
Authorised Limit (£m)	£6.591	£15.435	£15.435	£15.238	£20.688	£20.440	£19.755
Operational Boundary (£m)	£6.591	£7.007	£7.007	£6.811	£11.610	£11.208	£10.803
Proportion of Financing Costs to Net Revenue Stream (%)	5%	5%	6%	4%	5%	6%	6%

1 Budgeted average rate for the entire financial year.

Local Indicators

Indicators	2020/21 Actual	2021/22 Original	2021/22 Revised	2022/23 Original	2023/24 Original	2024/25 Original	2025/26 Original
Replacement of Debt Finance or MRP (£m)	(£0.747)	(£0.561)	(£0.663)	(£0.459)	(£0.449)	(£0.667)	(£0.667)
Repayment of Burntwood Leisure Centre Loan and new additions	(£0.542)	(£0.000)	(£0.306)	(£0.000)	(£0.000)	(£0.000)	(£0.000)
Capital Receipts (£m)	(£0.000)	(£0.537)	(£0.036)	(£0.010)	(£0.010)	(£0.011)	(£0.684)
Housing Capital Receipts (£m)	(£0.434)	£0.000	(£0.260)	£0.000	£0.000	£0.000	£0.000
Liability Benchmark (£m)	£25.033	£11.755	£22.081	£19.075	£12.849	£12.756	£14.676
Treasury Management Investments (£m)	£37.330	£23.813	£34.140	£30.936	£29.510	£29.014	£30.529

Treasury Management Indicators

Prudential Indicators

	Lower Limit	Upper Limit	As at 31/03/21	As at 31/12/21
Refinancing Rate Risk Indicator	0%	100%	0%	0%
Under 12 months	0%	100%	8.67%	9.61%
12 months and within 24 months	0%	100%	8.77%	9.72%
24 months and within 5 years	0%	100%	26.95%	29.87%
5 years and within 10 years	0%	100%	29.96%	25.69%
10 years and within 20 years	0%	100%	25.64%	25.12%
20 years and within 30 years	0%	100%	0%	0%
30 years and within 40 years	0%	100%	0%	0%
40 years and within 50 years	0%	100%	0%	0%
50 years and above	0%	100%	0%	0%

Investment Income - Interest Rate Exposure	2022/23	2023/24
Revenue budget - Investment Income	(£690,000)	(£758,000)
Budget subject to Interest Rate Exposure	**(£150,000)**	**(£218,000)**
Budget with a 1% fall in interest rates	(£540,000)	(£540,000)
Budget with a 1% rise in interest rates	(£1,017,000)	(£1,070,000)

External Borrowing - Interest Rate Exposure	2022/23	2023/24
Revenue budget - External Interest	£44,000	£40,000
Budget subject to Interest Rate Exposure	**£0**	**£0**
Budget with a 1% fall in interest rates	£44,000	£40,000
Budget with a 1% rise in interest rates	£44,000	£40,000

Indicators	2020/21 Actual	2021/22 Original	2021/22 Revised	2022/23 Original	2023/24 Original	2024/25 Original	2025/26 Original
Principal Sums invested for periods longer than a year (£m)	£6.000	£10.000	£10.000	£15.000	£15.000	£15.000	£15.000

Local Indicators

Indicators	2020/21 Actual	2021/22 Original	2021/22 Revised	2022/23 Original	2023/24 Original	2024/25 Original	2025/26 Original
	£m	£m	£m	£m	£m	£m	£m
Balance Sheet Summary and Forecast							
Borrowing Capital Financing Requirement	£2.410	£2.336	£2.334	£4.636	£6.849	£6.603	£6.356
Internal (over) Borrowing	£0.155	£0.277	£0.274	£2.773	£0.187	£0.343	£0.501
Investments (or New Borrowing)	(£37.330)	(£23.813)	(£33.962)	(£30.758)	(£29.333)	(£28.837)	(£30.351)
Liability Benchmark	(£25.033)	(£11.755)	(£22.081)	(£19.075)	(£12.849)	(£12.756)	(£14.676)

	Target
Security	
Portfolio average credit rating	A-
Liquidity	
Temporary Borrowing undertaken	£0.000
Total Cash Available within 100 days (maximum)	90%

Approved by Section 151 Officer	Yes

Legal Implications	The grant must be allocated in line with the qualifying criteria set by the Government.
Approved by Monitoring Officer	Yes

Contribution to the Delivery of Lichfield District Council's Strategic Plan	The report directly links to overall performance and especially the delivery of Lichfield District Council's Strategic Plan.

Equality, Diversity and Human Rights Implications	These areas are addressed as part of the specific areas of activity prior to being included in Lichfield District Council's Strategic Plan.

Crime & Safety Issues	These areas are addressed as part of the specific areas of activity prior to being included in Lichfield District Council's Strategic Plan.

Environmental Impact	None identified in this report.

GDPR/Privacy Impact Assessment	None identified in this report.

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
Strategic Risk SR1 - Non achievement of the Council's key priorities contained in the Strategic Plan due to the availability of finance				
A	Council Tax is not set by the Statutory Date of **11 March 2022**	Likelihood : Green Impact : Red Severity of Risk : Yellow	Full Council set with reference to when major preceptors and Parishes have approved their Council Tax Requirements.	Likelihood : Green Impact : Red Severity of Risk : Yellow
B	Implementation of the Check, Challenge and Appeal Business Rates Appeals and more frequent revaluations	Likelihood : Yellow Impact : Red Severity of Risk : Red	To closely monitor the level of appeals. An allowance for appeals has been included in the Business Rate Estimates.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
C	The review of the New Homes Bonus regime	Likelihood : Red Impact : Red Severity of Risk : Red	The Council responded to the recent consultation. Not all of the projected New Homes Bonus is included as core funding in the Base Budget. In 2022/23 £400,000 is included with the balance transferred to general/earmarked reserves. At this stage, no income is assumed from 2023/24 onwards.	Likelihood : Red Impact : Yellow Severity of Risk : Yellow
D	The increased Localisation of Business Rates and the Review of Needs and Resources	Likelihood : Red Impact : Red Severity of Risk : Red	To assess the implications of proposed changes and respond to consultations to attempt to influence the policy direction in the Council's favour.	Likelihood : Red Impact : Red Severity of Risk : Red
E	The affordability and risk associated with the Capital Strategy	Likelihood : Yellow Impact : Red Severity of Risk : Red	An estates management team has been recruited to provide professional expertise and advice in relation to property and to continue to take a prudent approach to budgeting.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
F	The public sector pay	Likelihood : Yellow	The current MTFS assumes that the pay freeze	Likelihood : Yellow

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
	freeze in 2021/22 is not applicable to Local Government	Impact : Red Severity of Risk : Red	for those earning more than £24,000 per annum is applicable to Local Government. If this does not prove to be the case, an element of general reserves can be utilised to fund the increase in 2021/22 and projections for later years will be updated in the MTFS.	Impact : Yellow Severity of Risk : Yellow
G	Sustained higher levels of inflation in the economy	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow	To maintain a watching brief on economic forecasts, ensure estimates reflect latest economic projections and where possible ensure income increases are maximised to mitigate any additional cost.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
Strategic Risk SR3: Capacity and capability to deliver / adapt the new strategic plan to the emerging landscape				
H	The financial impact of COVID-19 is not fully reimbursed by Government and exceeds the reserves available resulting in a Section 114 notice	Likelihood : Yellow Impact : Red Severity of Risk : Yellow	The use of general and earmarked reserves to fund any shortfall	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
I	The Council cannot achieve its approved Delivery Plan for 2022/23	Likelihood : Yellow Impact : Red Severity of Risk : Red	There will need to be consideration of additional resourcing and/or reprioritisation to reflect the ongoing impact of the pandemic	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
J	The resources available in the medium to longer term to deliver the Strategic Plan are diminished	Likelihood : Yellow Impact : Red Severity of Risk : Red	The MTFS will be updated through the normal review and approval process	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
K	Government and Regulatory Bodies introduce significant changes to the operating environment	Likelihood : Red Impact : Red Severity of Risk : Red	To review all proposed policy changes and respond to all consultations to influence outcomes in the Council's favour	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow

Background documents:

- CIPFA Code of Practice for Treasury Management in the Public Services.
- The Prudential Code for Capital Finance in Local Authorities.
- Money Matters: Medium Term Financial Strategy (Revenue and Capital) 2020-25 – Cabinet 9 February 2021.
- Money Matters: Medium Term Financial Strategy (Revenue and Capital) 2020-25 – Council 16 February 2021.
- Money Matters: 2020/21 Review of Financial Performance against the Financial Strategy – Cabinet 8 June 2021.
- Medium Term Financial Strategy – Cabinet 6 July 2021.
- Money Matters: 2021/22 Review of Financial Performance against the Financial Strategy – Cabinet 7 September 2021.
- Money Matters: Calculation of Business Rates in 2022/23, Council Tax Base for 2022/23 and the Projected Collection Fund Surplus / Deficit for 2021/22 - Cabinet 7 December 2021.
- Money Matters: 2021/22 Review of Financial Performance against the Financial Strategy – Cabinet 7 December 2021.
- Service and Financial Planning Submissions.
- Full Budget Consultation Results and Business Survey Results

Relevant web link:

Recommended Capital Strategy

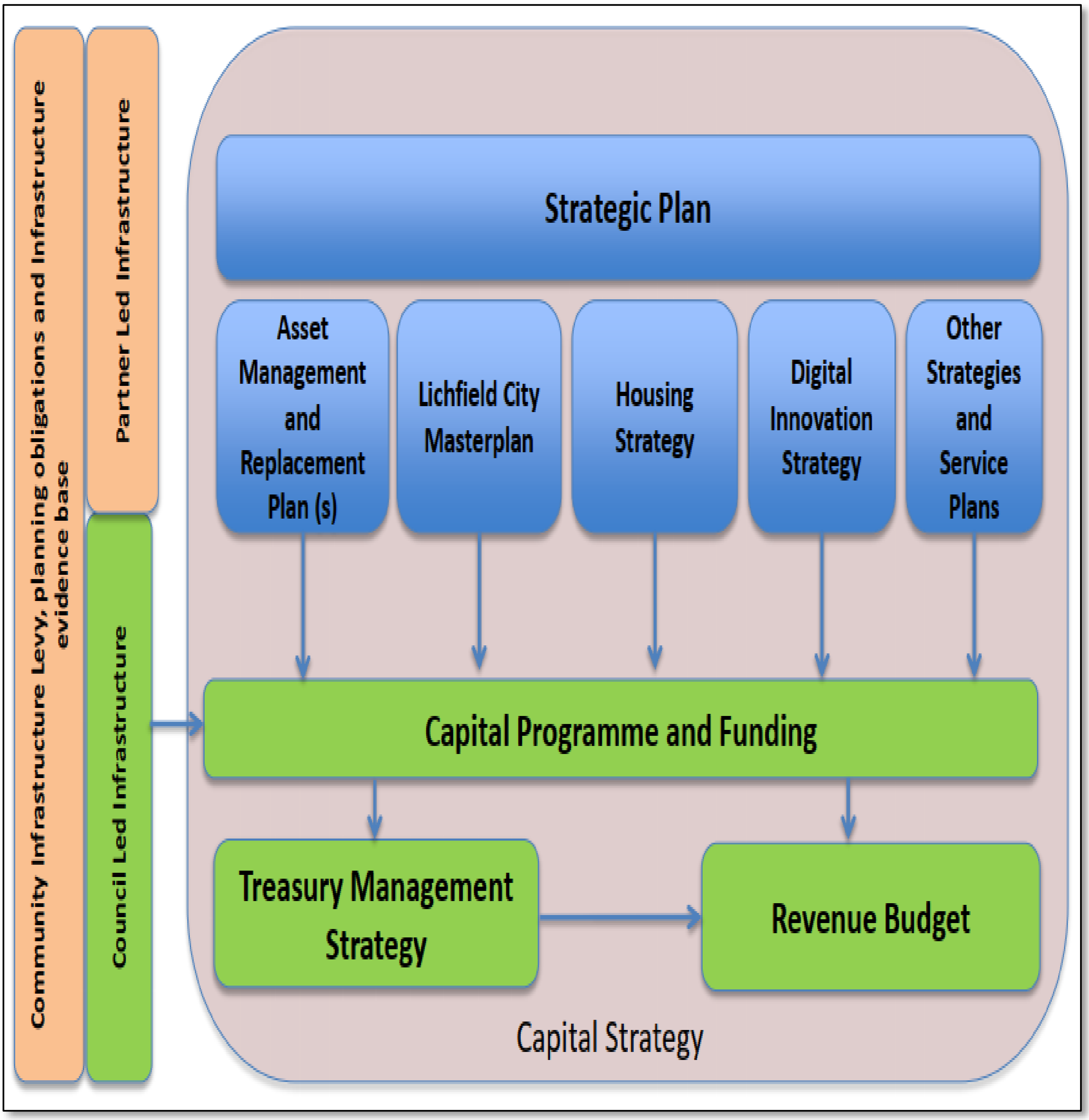
1. Introduction

1.1. The Prudential Code requires the completion of a Capital Strategy that is approved by Full Council.

1.2. The Capital Strategy provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.3. It forms part of the Councils integrated revenue, capital and balance sheet planning. The Council already undertakes elements of the requirements although some areas, such as Asset Management Planning, are subject to ongoing development.

1.4. The Prudential Code now requires all of this information to be brought together in a single place as shown below:



APPENDIX A

2. The Capital Programme

2.1. The financial planning process and its Governance is shown below:

The Financial Planning Timetable and Governance Responsibility

Internal / Committee / Council	Month	Cabinet / Overview and Scrutiny
Service and Financial Planning	July	Medium Term Financial Strategy
	August	
Review Medium Term Financial Strategy	September	Money Matters as at 30 June
	October	Medium Term Financial Strategy
Review Medium Term Financial Strategy Mid Year Treasury Management Report	November	
	December	Money Matters as at 30 September Medium Term Financial Strategy Set Council Taxbase and approve Collection Fund Projections
Review Medium Term Financial Strategy	January	
Review Treasury Management and Capital Strategies Approve the Medium Term Financial Strategy and set the Council Tax	February	Money Matters as at 30 November Recommend Medium Term Financial Strategy and Council Tax to Council
	March	
	April	
Draft Statement of Accounts	May	
	June	Money Matters as at 31 March
Annual Treasury Management Report	July	
	August	
Statement of Accounts (was 31 July but for 2 years extended to 30 September)	September	

Key:
Pink = internal timelines
Blue = Cabinet
Salmon = Cabinet & Overview and Scrutiny Committee
Amber = Overview and Scrutiny Committee
Green = Audit & Member Standards Committee
Purple = Council

The Capital Programme Process

2.2. Given our current financial position, our priorities and responsibilities and as Asset Management Plans are developed, it is probable that capital needs will be identified that exceed resources available thus necessitating a more transparent and robust process to inform Members during the development of the MTFS.

2.3. The capital bid process has been incorporated into the service and financial planning process to provide a holistic approach. The capital bid element of the process has been designed to ensure consistency, objectivity, equity and transparency to the prioritisation and allocation of capital funding, while ensuring maximum value for money.

2.4. A summary of the process is identified below:

- Service identifies a budget requirement and consults with the Finance and Procurement Team.
- Service requests funding by completing and submitting a funding bid form.
- Service completes a funding bid financial profile form and submits this with their bid.
- Service completes a funding bid assessment form and submits this with their bid.
- The Finance and Procurement Team reviews all bids and assessments and requests clarification where required.
- The Finance and Procurement Team reviews bids using the assessment criteria and ensure the bids are included in the relevant service and financial planning submission.
- Leadership Team review all service and financial planning submissions and before recommending the allocation of funding either through a Cabinet Report or through the MTFS.
- Finance and Procurement monitor funding allocations and spend, reporting to Leadership Team as part of Money Matters Reports.
- Where the project budget or annual allocation is **£500,000 or more**, a review of performance is not already separately monitored, and the service completes work / project outlined within the bid, the service will undertake a review (i.e. post-project review) within 6 months of work being completed, providing this to Finance and Procurement to include in a report to Leadership Team.

Planning Obligations - Section 106 and Community Infrastructure Levy (CIL)

2.5. As part of the planning process, financial contributions from planning obligations, including the Community Infrastructure Levy, are received from new developments. The vast majority is spent directly on infrastructure works or will be spent in line with the Infrastructure Delivery Plan (IDP).

2.6. In some cases there is an element of discretion on how they are allocated. These contributions towards social and community facilities are linked to the development proposed.

2.7. The Council's Capital Programme includes a number of projects that are to be funded by Section 106 and CIL; this is a significant source of funding and there is a significant level of interest from the community in relation to the allocation of sums to projects.

2.8. The **Draft Capital Programme** and its **funding** by Strategic Priority is summarised below:

	Draft Capital Programme						
Strategic Priority	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**	**Total £'000**	**Corporate £'000**
Enabling People	£2,794	£4,792	£3,596	£1,315	£939	£13,436	£55
Shaping Place	£1,984	£421	£3,127	£280	£300	£6,112	£338
Developing Prosperity	£577	£1,676	£193	£0	£0	£2,446	£415
Good Council	£1,056	£1,064	£331	£331	£506	£3,288	£2,923
Grand Total	**£6,411**	**£7,953**	**£7,247**	**£1,926**	**£1,745**	**£25,282**	**£3,731**

	Draft Capital Programme						
Funding Source	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**	**Total £'000**	
Capital Receipts	£909	£1,331	£61	£231	£91	£2,623	
Capital Receipts - Statue	£5	£0	£0	£0	£0	£5	
Revenue - Corporate	£0	£100	£313	£100	£590	£1,103	
Corporate Council Funding	**£914**	**£1,431**	**£374**	**£331**	**£681**	**£3,731**	
Grant	£1,633	£2,741	£1,316	£1,315	£914	£7,919	
Section 106	£708	£254	£0	£0	£0	£962	
CIL	£44	£35	£0	£0	£0	£79	
Reserves	£1,885	£993	£329	£130	£0	£3,337	
Revenue - Existing Budgets	£463	£150	£150	£150	£150	£1,063	
Sinking Fund	£64	£0	£0	£0	£0	£64	
Leases	£372	£0	£2,818	£0	£0	£3,190	
Internal Borrowing	£0	£0	£0	£0	£0	£0	
Total	**£6,083**	**£5,604**	**£4,987**	**£1,926**	**£1,745**	**£20,345**	**£25,282**
External Borrowing	**£328**	**£2,349**	**£2,260**	**£0**	**£0**	**£4,937**	
Grand Total	**£6,411**	**£7,953**	**£7,247**	**£1,926**	**£1,745**	**£25,282**	

2.9. The Revenue implications of the Capital Programme are shown below:

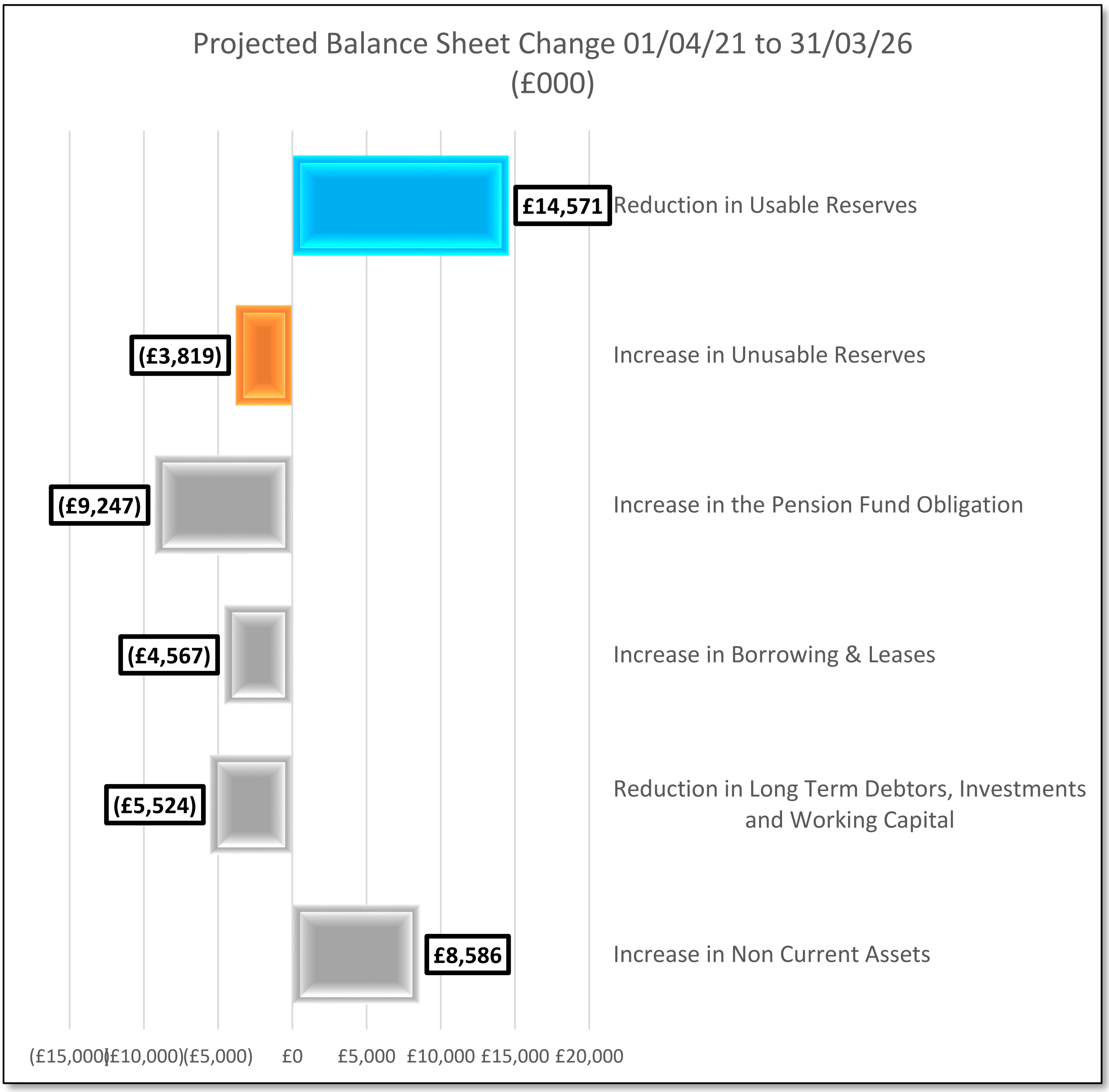
Revenue Implications	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**
Interest on Loan to the LA Company	0	(4)	(18)	(22)	(22)
Friary Grange - Refurbishment	135	135	135	135	0
Coach Park Operation Costs	0	0	50	50	50
IT Hardware	9	4	(38)	9	9
Replacement Leisure Centre Debt Costs	0	0	0	294	290
Financial Information System	(20)	(40)	(40)	(40)	(40)
Revenue Budget - Bin Replacement	240	150	150	150	0
Revenue Budget - Other Projects	223	0	0	0	0
Revenue Budget - Corporate	0	0	213	0	0
Sub Total - Approved Budget	**587**	**245**	**452**	**576**	**287**
Revenue Budget - Corporate	0	100	100	100	590
Revenue Budget - Bin Replacement	0	0	0	0	150
Sub Total - Service and Financial Planning	**0**	**100**	**100**	**100**	**740**
Capital Programme Total	**587**	**345**	**552**	**676**	**1,027**

2.10. Projected Capital Receipts are shown in the table below:

Capital Receipts	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
Opening Balance	**(2,578)**	**(1,689)**	**(368)**	**(317)**	**(97)**	**(2,578)**
Repayment of Company Loan	0	0	0	0	(675)	(675)
Other Receipts	(36)	(10)	(10)	(11)	(9)	(76)
Utilised in Year	909	1,331	61	231	91	2,623
Repayment of BLC Investment	16	0	0	0	0	16
Closing Balance	**(1,689)**	**(368)**	**(317)**	**(97)**	**(690)**	**(690)**
Housing Receipts						
Opening Balance	**(434)**	**(694)**	**(694)**	**(694)**	**(694)**	**(434)**
Right to Buy Receipts	(260)					(260)
Closing Balance	**(694)**	**(694)**	**(694)**	**(694)**	**(694)**	**(694)**

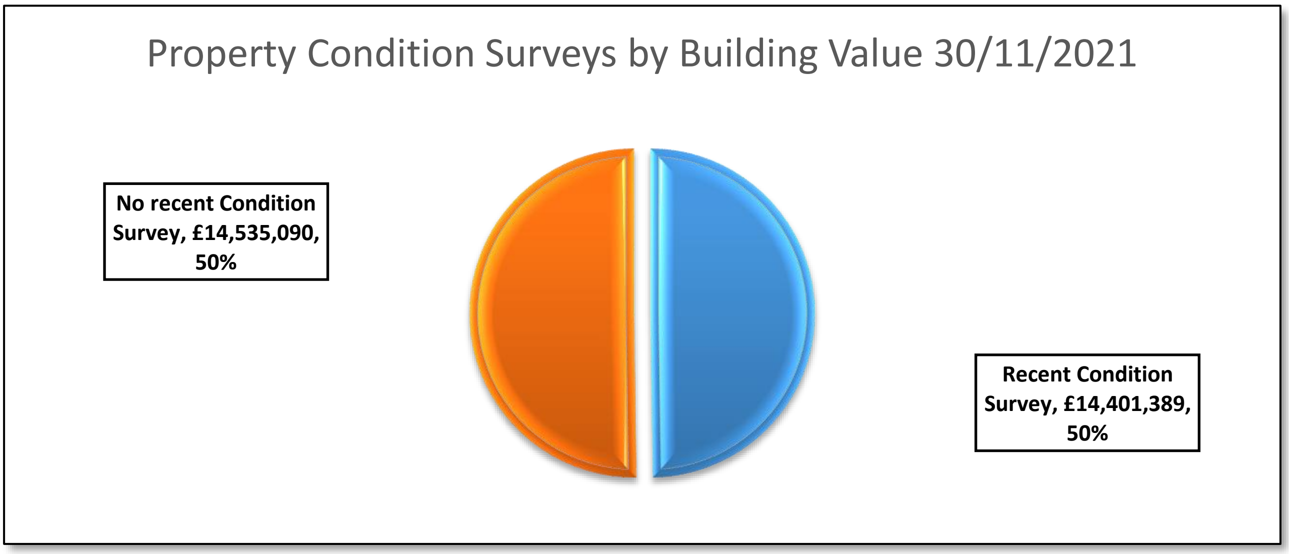
3. The Balance Sheet (in £000s)

3.1. The Revenue Budget, Capital Programme and its funding will impact on the Council's Balance Sheet:



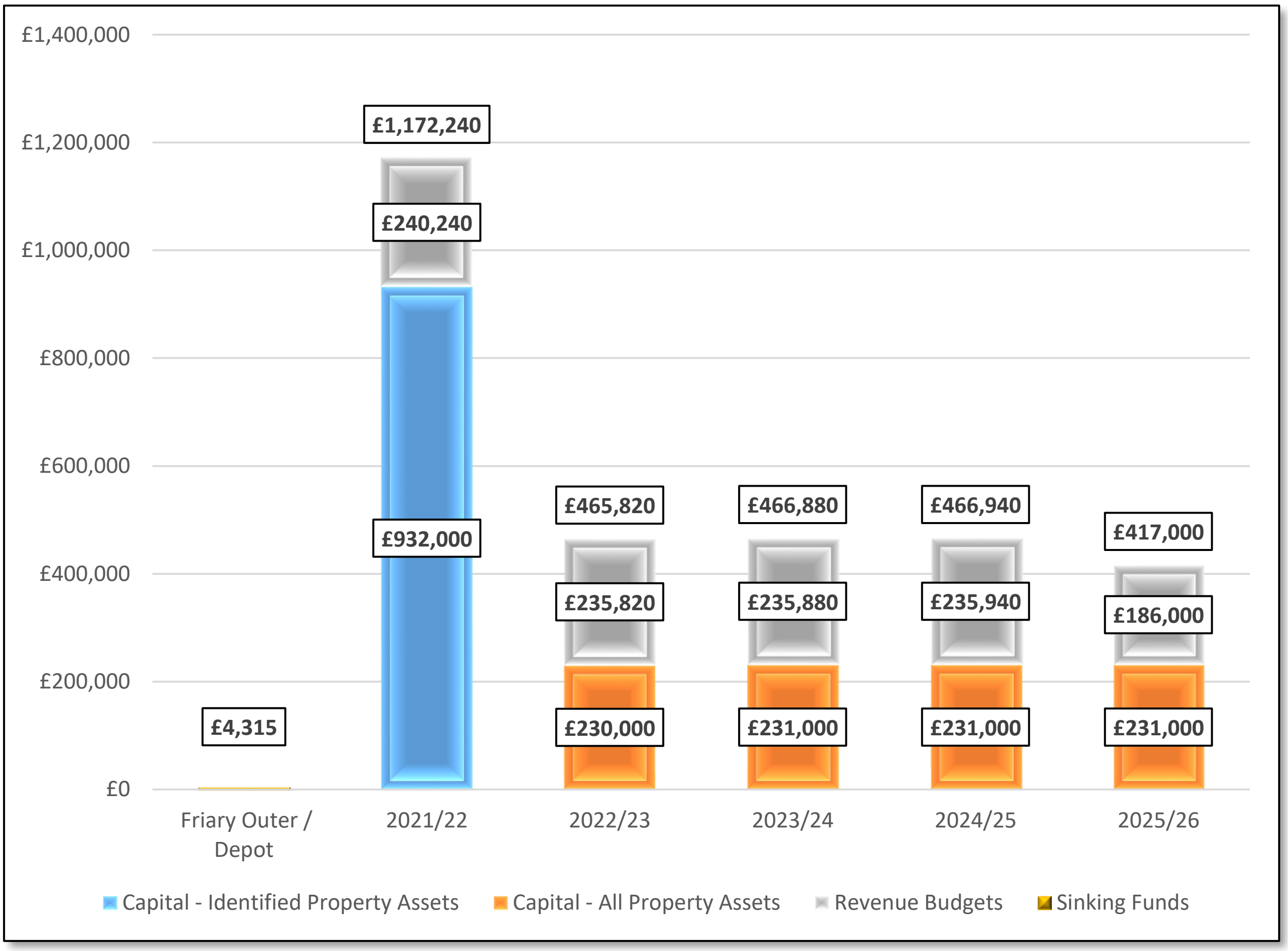
4. Asset Management Planning

4.1. The Estates Team is currently in the process of undertaking Property Condition Surveys for Property Assets owned by the Council. Progress to date is shown below:

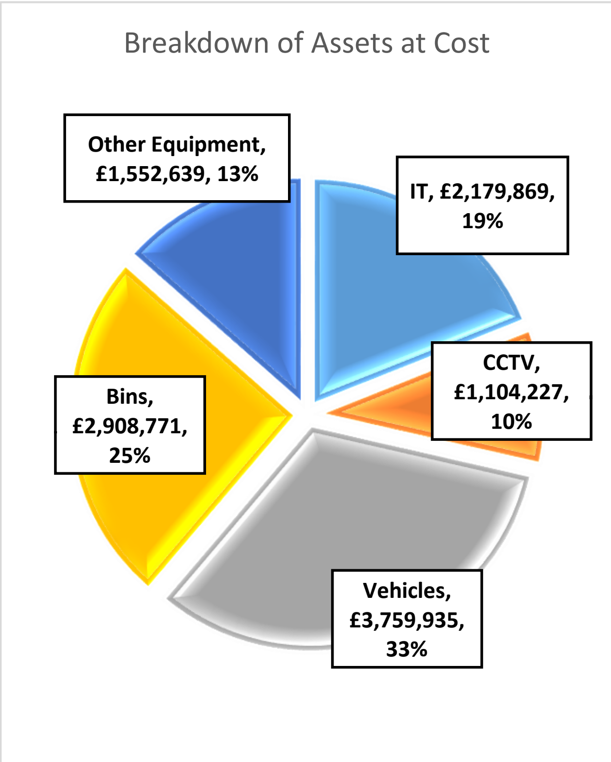


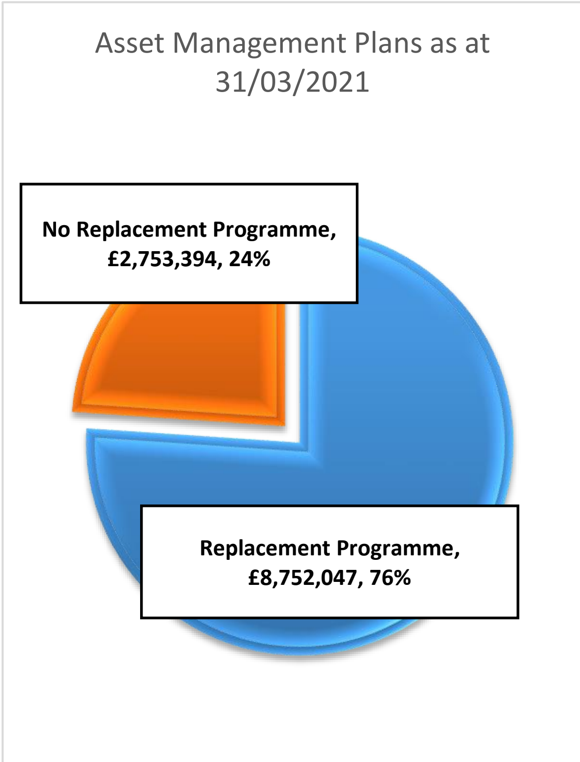
4.2. For financial planning purposes, an annual budget of **£230,000** (based on a % of projected asset value) has been included in the Capital Programme and Longer Term Capital Investment Plan.

4.3. The resources identified for enhancement and maintenance of property assets are:

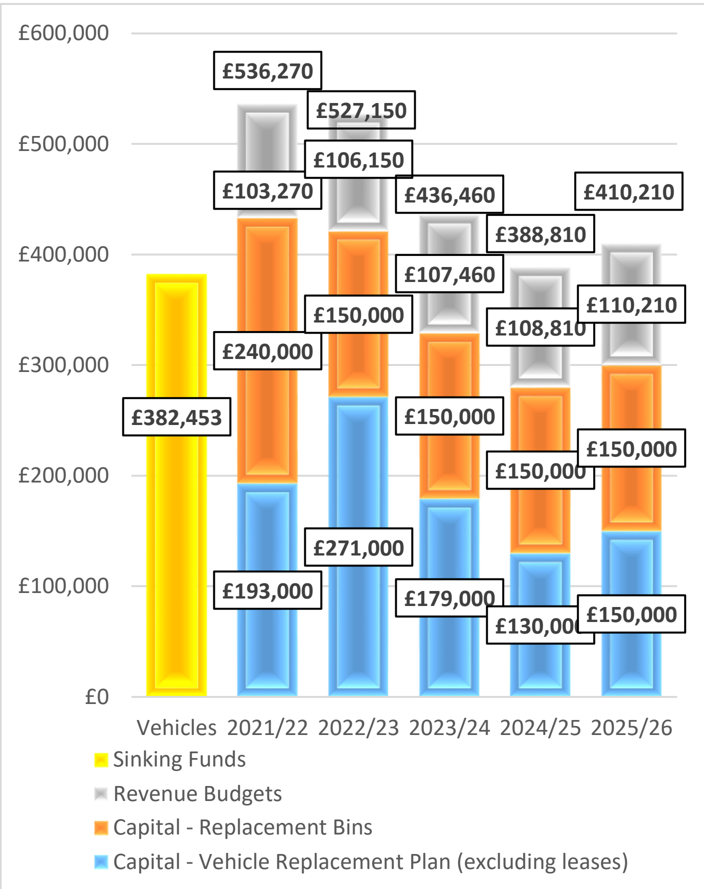


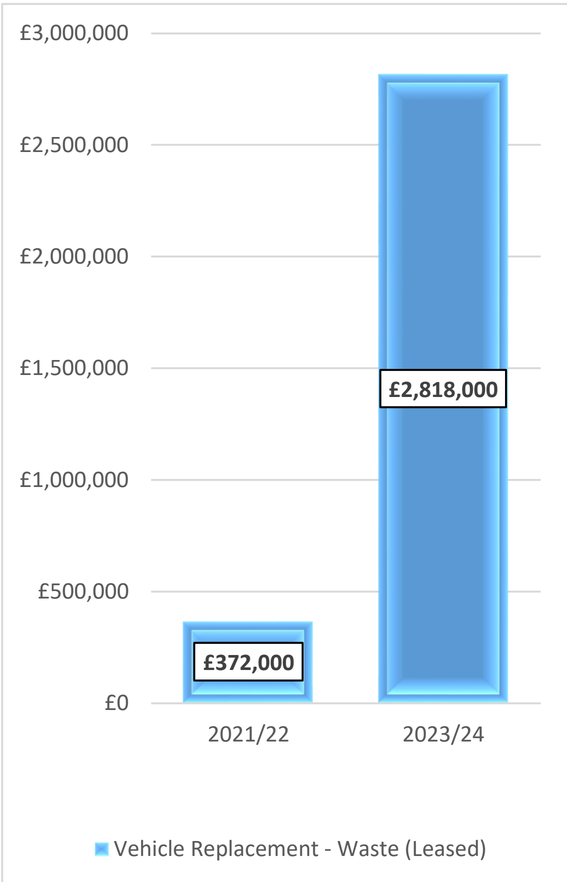
4.4. The Asset Management Plans in place for vehicles, plant and equipment assets are:





4.5. The resources identified for replacement and maintenance of vehicles, plant and equipment are:





5. Longer Term Capital Investment Planning

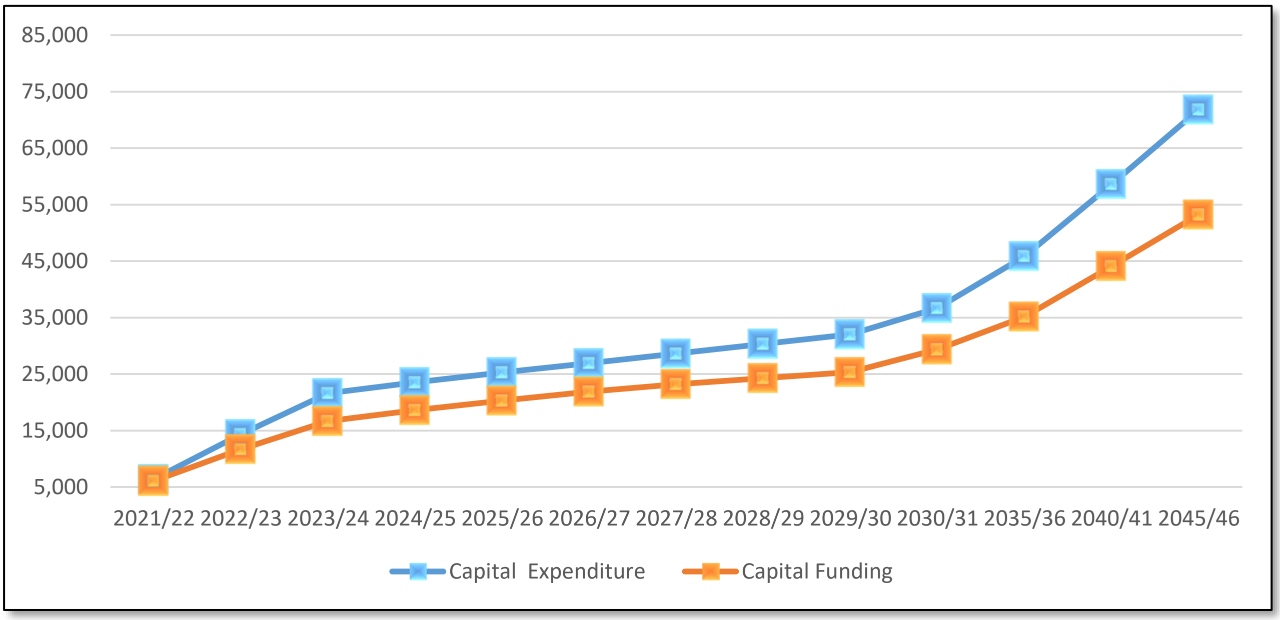
5.1. The Medium Term Financial Strategy covers a relatively short period of time (current financial year plus the next four years) and this short horizon is not reflective of the longer term investment needs associated with asset ownership.

5.2. Therefore it is prudent to also produce financial plans that cover a longer term financial planning horizon such as 25 years.

5.3. The following key assumptions have been utilised in producing the longer term financial plan:

- Annual core inflation of **2%**.
- Population in Lichfield District increases by an annual average of **0.33%**.
- The proportion of the population aged 65 and over increases from **24%** in 2021/22 to **28%** by 2045/46.
- The value of building assets increases from **£35m** in 2021/22 to **£46m** in 2025/26 with the building of a new Leisure Centre.
- An assessment of Property Planned Maintenance budgets at a percentage of building value or **£230,000** per annum has been utilised with annual inflationary increases.
- An assessment of ICT investment using the average level of investment in the last Capital Bid submitted of **£175,000** from 2025/26 has been utilised with annual inflationary increases.

5.4. The longer term capital investment plan is shown in detail at **ANNEX 1** and in the chart below:



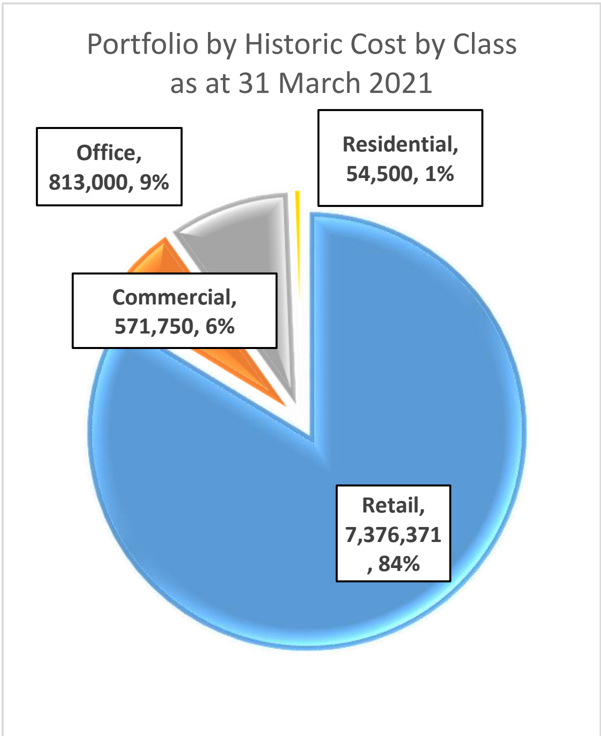
5.5. The difference between capital expenditure and funding would result in an increase in the cumulative level of borrowing need of **£19m** (including £5m approved for the new Leisure Centre).

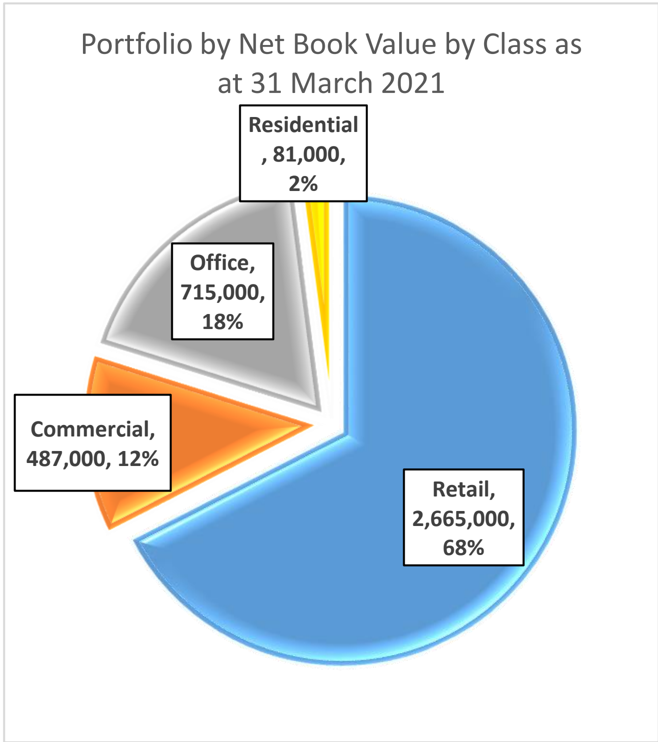
5.6. This additional borrowing need would result in additional and increasing debt repayment costs in the revenue budget thereby further increasing the Funding Gap.

5.7. However the borrowing need can be reduced through actions such as the receipt of external funding or sale of assets.

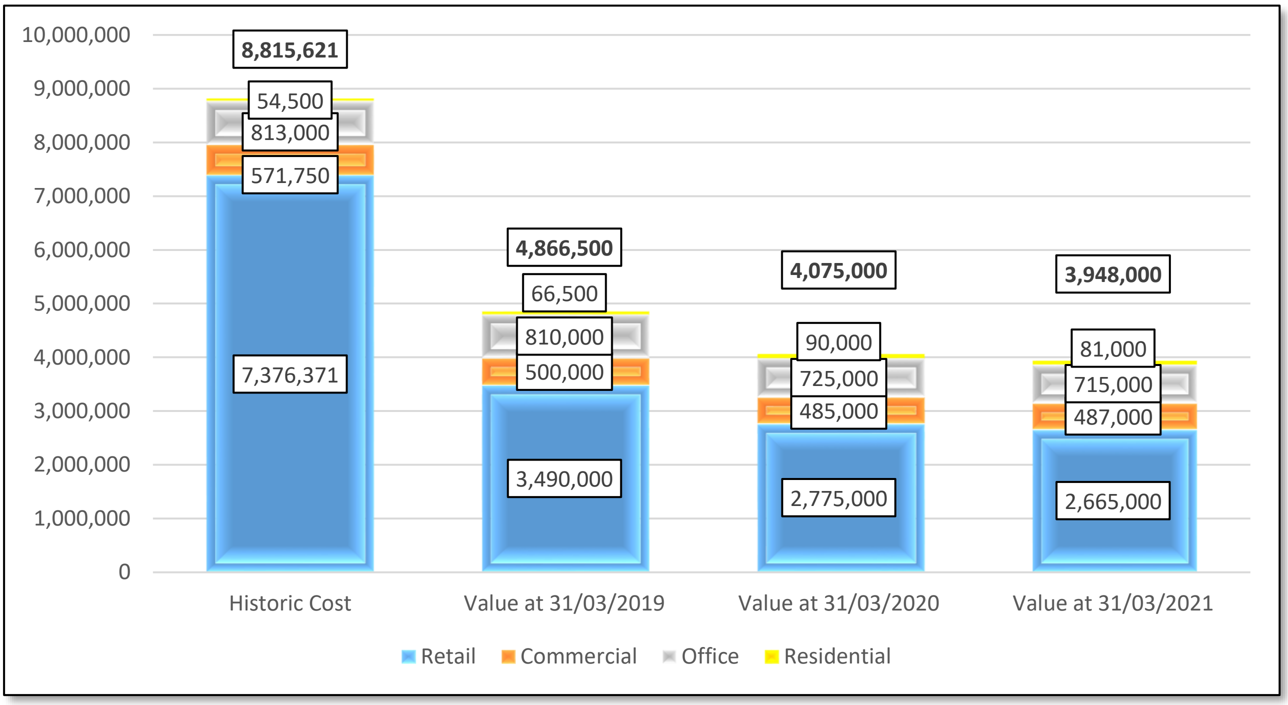
6. Current Investment in Property

6.1. The Council also owns a number of properties that provide an income return and the composition of the portfolio at 31 March 2021 is shown below:





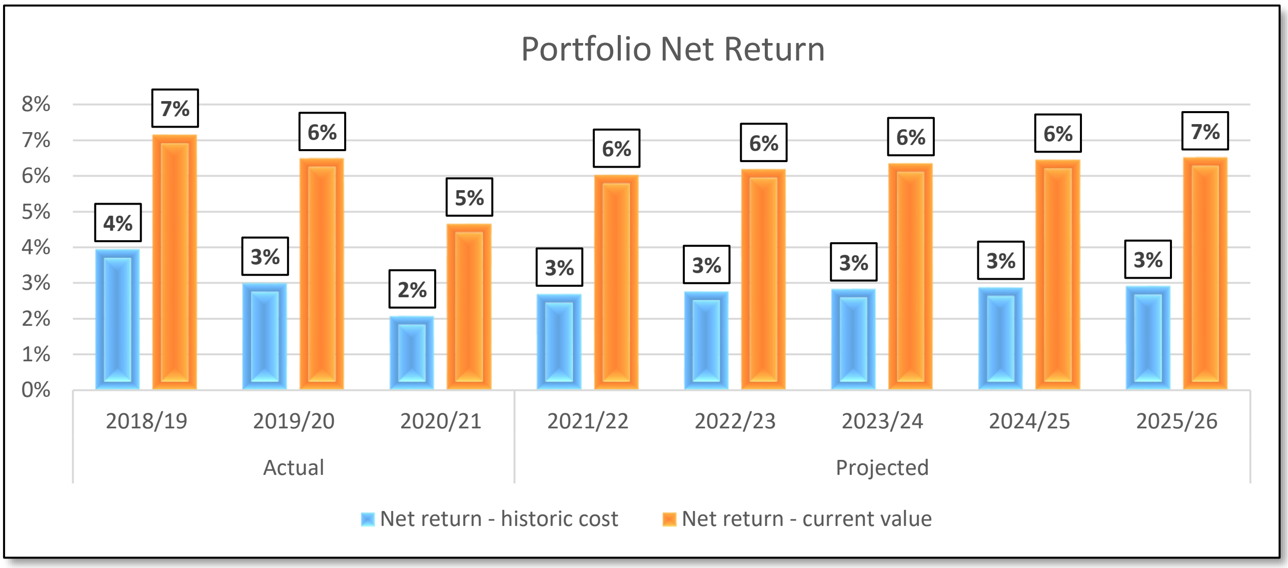
6.2. The value of these properties over the last three years is shown below:



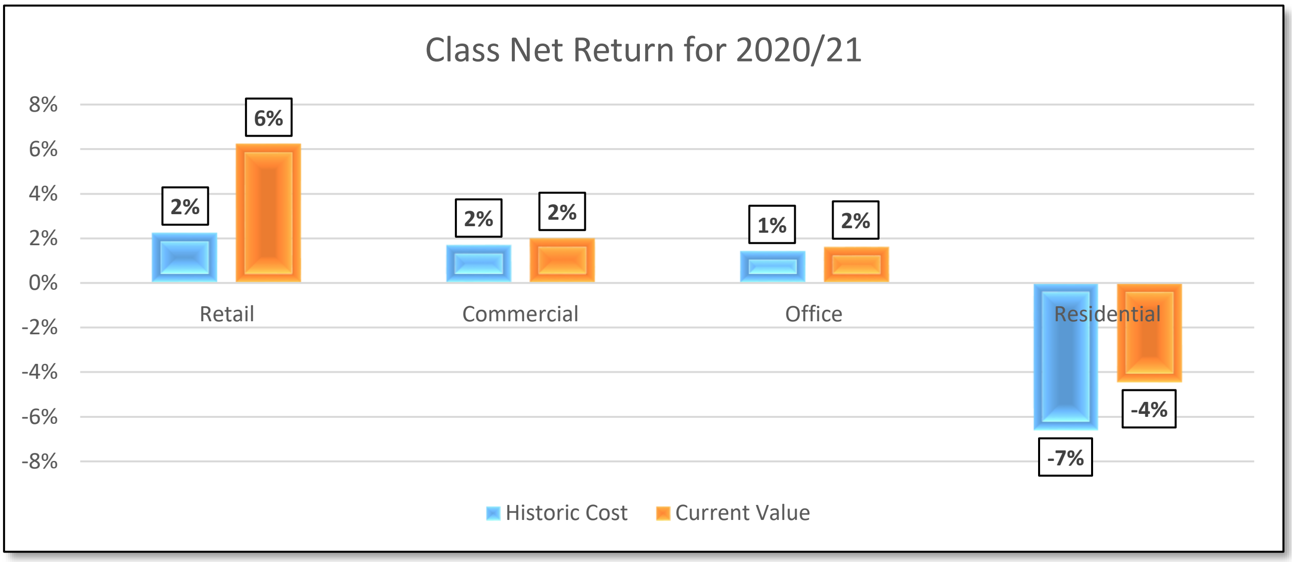
6.3. The value of these properties (mainly those classed as retail) have reduced because the value assessed by the external valuer is based on prevailing rental levels.

6.4. These properties were acquired without the need for borrowing and therefore the loan to value ratio for the portfolio is **0%**.

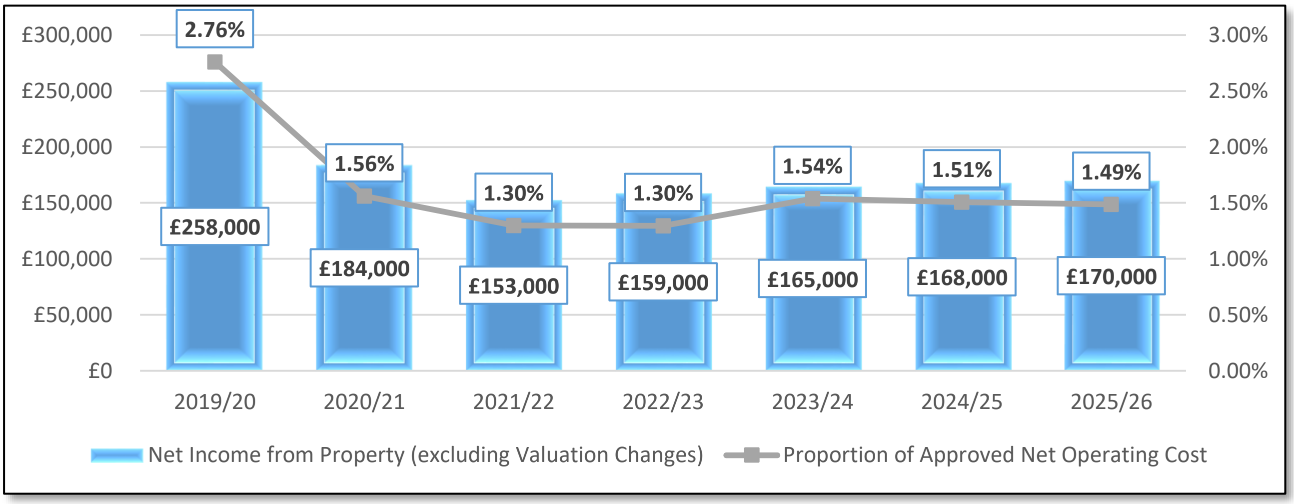
6.5. The portfolio net return based after taking account of management costs using historic asset cost and current value is shown in the chart below:



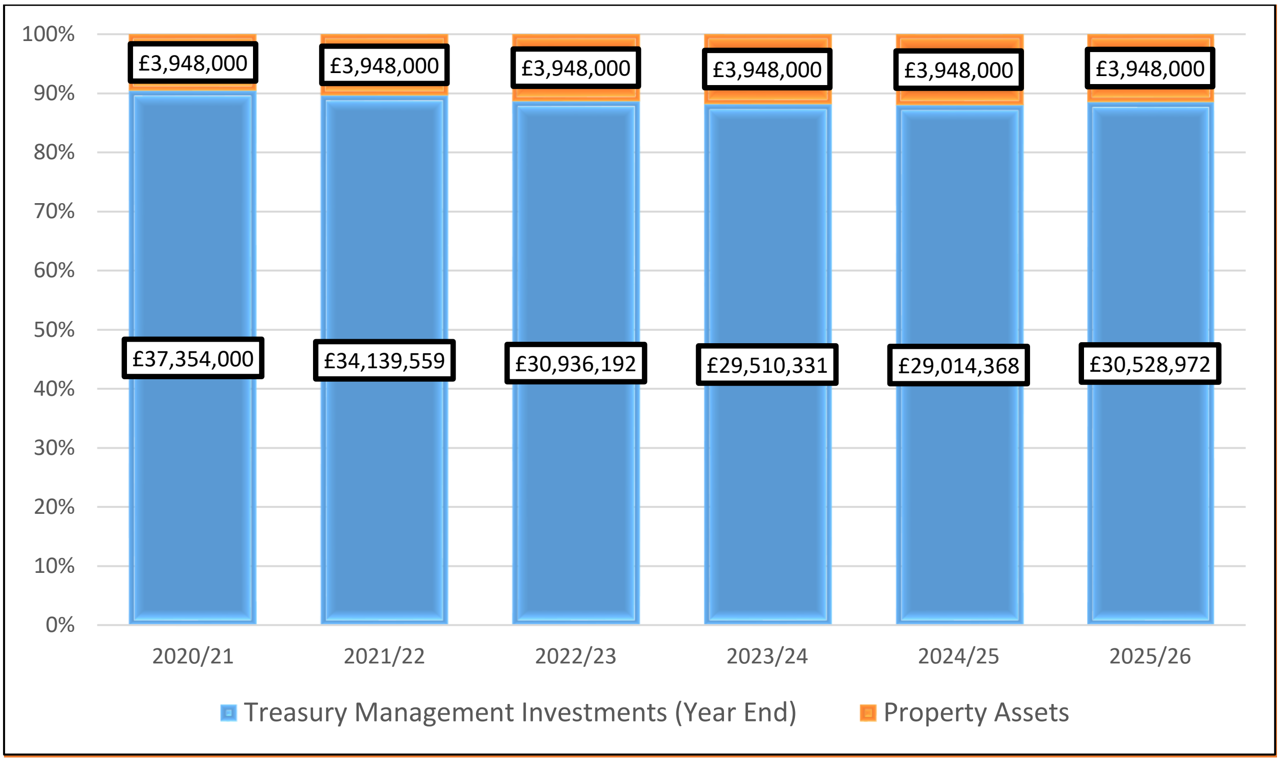
6.6. The net return is further analysed for 2020/21 by class of investment within the portfolio:



6.7. The proportion of the Revenue Budget supported by income from these properties is shown below:



6.8. The ratio of Treasury Management investments to property asset investments is shown below:



6.9. The Council has a Local Authority Trading Company Lichfield Housing Limited, which was incorporated in September 2019 with an aim to deliver housing development although the potential for other services to be delivered by the Company is currently being reviewed.

6.10. The Council undertook an equity investment of **£225,000** in 2020/21 and plans to advance a loan of up to **£675,000** to Lichfield Housing Limited in 2021/22 for a period of up to **5 years,** to facilitate housing development, subject to appropriate schemes being identified.

6.11. The loan to the Company will produce an income stream at **4%** from the company and the loan repayment will be treated as a capital receipt in 2025/26 in the Medium Term Financial Strategy. At present, no dividend income is assumed to be received from the Company.

7. Debt Management

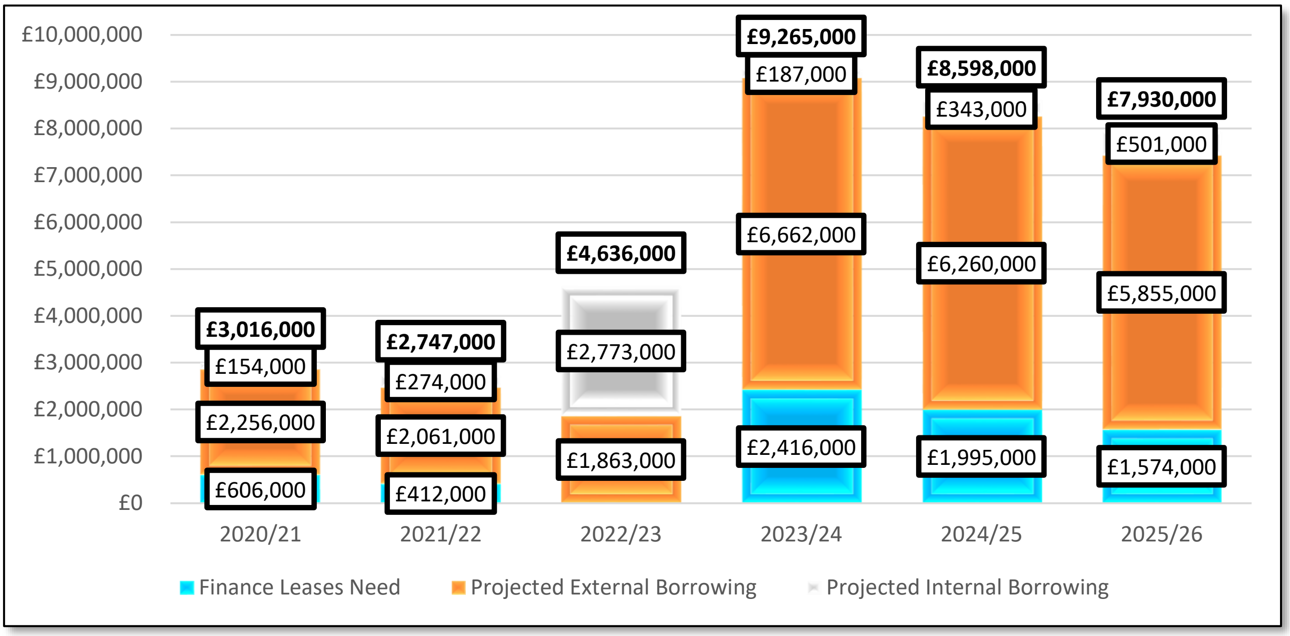
7.1. The Capital Programme is funded from a variety of sources. A number of these sources such as capital receipts, the revenue budget, grants, contributions and reserves utilise resources that are immediately available or are receivable. However when capital expenditure is approved, and these resources are not available, then a **Capital Financing Requirement** (CFR) or borrowing need results.

7.2. The CFR is managed through the approval by Council of the Medium Term Financial Strategy including the Capital Programme and Prudential Indicators.

7.3. The CFR must be financed through borrowing or finance leases (external debt) or by temporarily utilising internal resources (internal borrowing).

7.4. At 31 March 2021 the Council had a relatively low level of external debt outstanding of **£2.862m**. The new leisure centre and the renewal of the waste fleet will mean external debt is projected to increase to **£7.429m** by 31 March 2026.

7.5. The projected CFR (the total for each column), **external debt** (finance leases and external borrowing) and **internal borrowing** is shown below:



7.6. The CFR is related to:

- Historic capital expenditure for the Chasewater Dam, Friary Outer Car Park and vehicles funded by finance leases.
- Planned capital expenditure for the new Leisure Centre and the renewal of the waste fleet funded by a lease type arrangement.

7.7. The Council manages its external debt through setting Prudential Indicators, related to the statutory maximum, known as the **Authorised Limit** and a lower warning level known as the **Operational Boundary**.

7.8. The external debt projections are based on the approved Capital Programme however to manage unforeseen events, an element of flexibility or 'headroom' is included in the Prudential Indicators:

- **Operational Boundary** – flexibility is included to enable internal borrowing to be converted to external debt or for example, to ensure accounting changes such as those proposed for all leases to be classed as finance leases, to be incorporated without breaching the limit.
- **Authorised Limit** – this provides additional flexibility to manage unusual cash flows that necessitate temporary borrowing such as Government Grants not being paid.

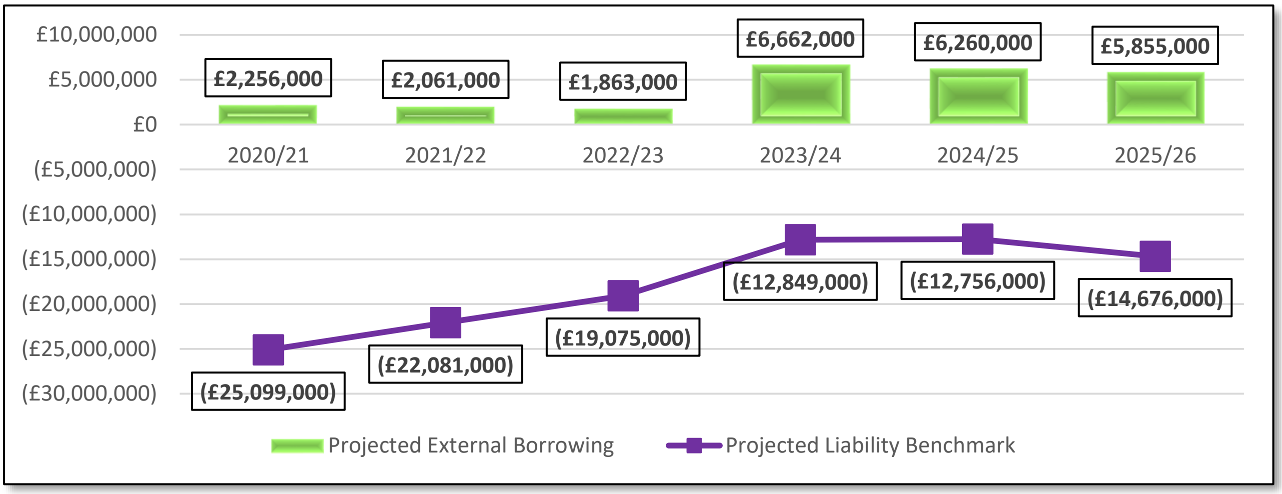
7.9. The external debt and Prudential Indicator projections based on the Capital Programme are:

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Borrowing		£10,987,000	£10,790,000	£16,240,000	£15,992,000	£15,307,000
Leases		£4,448,000	£4,448,000	£4,448,000	£4,448,000	£4,448,000
Authorised limit	**£6,591,000**	**£15,435,000**	**£15,238,000**	**£20,688,000**	**£20,440,000**	**£19,755,000**
Borrowing		£2,560,000	£2,363,000	£7,162,000	£6,760,000	£6,355,000
Leases		£4,448,000	£4,448,000	£4,448,000	£4,448,000	£4,448,000
Operational boundary	**£6,591,000**	**£7,008,000**	**£6,811,000**	**£11,610,000**	**£11,208,000**	**£10,803,000**

Projected borrowing	£2,256,000	£2,060,000	£1,863,000	£6,662,000	£6,260,000	£5,855,000
Projected leases	£606,000	£412,000	£1,000	£2,416,000	£1,995,000	£1,575,000
Projected total external debt outstanding at year end	**£2,862,000**	**£2,472,000**	**£1,864,000**	**£9,078,000**	**£8,255,000**	**£7,430,000**

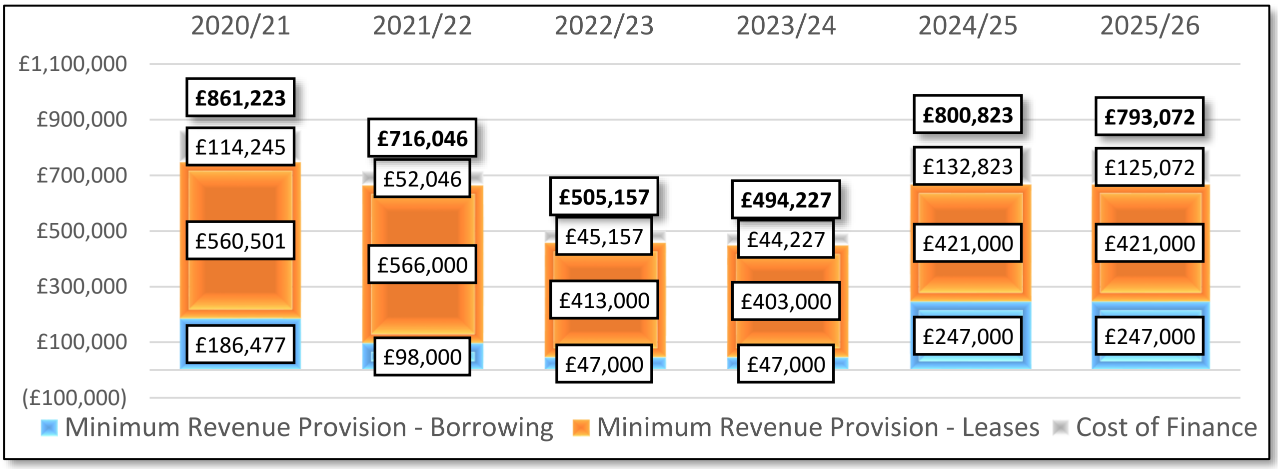
7.10. The **liability benchmark** is the lowest risk level of <u>external borrowing</u> by keeping cash and investments to a minimum of **£10m** at each year end to maintain liquidity but minimise credit risk.

7.11. The projected level of external borrowing, together with the projected liability benchmark is:

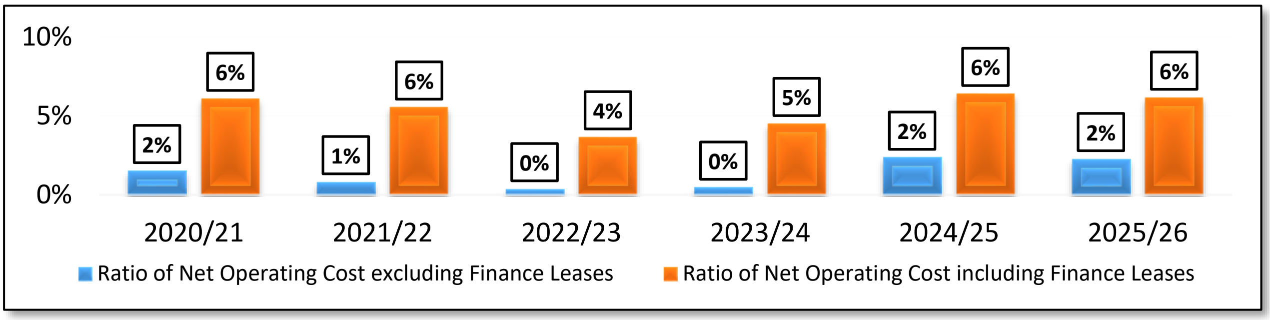


7.12. The chart above indicates that based on current Balance Sheet projections where usable reserves are reducing, the Council has sufficient resources to fund additional internal borrowing.

7.13. The cost of debt servicing includes the cost of finance and Minimum Revenue Provision (MRP). Debt is only a temporary source of finance since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as MRP:



7.14. The proportion of the net budget allocated to financing costs is:



7.15. The Minimum Revenue Provision and therefore the financing costs ratio increases in 2024/25 due to the inclusion of the debt costs commencing at **£294,000** for the new leisure centre.

8. Financial Guarantees

8.1. In addition to the debt projections shown above, in relation to external borrowing and finance leases, the Council also acts as a guarantor for an admitted body that delivers services on behalf of the Council.

8.2. In the event that it is probable that these guarantees will be required a financial provision is created to mitigate the risk. The guarantees identified in the Statement of Accounts under the Contingent Liabilities note are:

- **The Lichfield Garrick** – the guarantee relates to the pensions of transferred employees and at 31 March 2021 the risk of default was assessed as less than **1%** and therefore the financial risk to the Council is **£3,603.** This guarantee is currently being reviewed with the Pension Fund Administration Authority given the last active member has left the employ of the Lichfield Garrick.

- On 1 February 2018, **Freedom Leisure** took over the management of the **Council's Leisure Centres**. 96 staff were transferred by TUPE via a pass through agreement. An assessment has been carried out by management of the risk and potential financial consequences should the Council be called to settle these liabilities. For 2020/21, the risk is very difficult to quantify after Covid-19, but has been assessed at moderate, between **5%** or **£363,424** and **30%** or **£2,288,699**. This is based on the operating environment nationally, the overall financial position of Freedom Leisure, the contract between Freedom and the Council, and the support provided both by the Government and Lichfield District Council.

8.3. These guarantees are assessed throughout the year, in terms of the financial viability of the organisations for which the guarantee is provided, to determine whether a financial provision will need to be created. The COVID-19 pandemic has increased the level of financial risk in relation to these two guarantees, however additional funding has been provided by the Council and other funders as mitigation. However the situation will need to be kept under constant review.

9. The Authority's Risk Appetite, Knowledge and Skills

9.1. The Council's risk appetite, along with the majority of Local Government, is increasing due to the need to offset funding reductions from Central Government with income from alternative sources.

9.2. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Head of Finance and Procurement is a qualified accountant with 30 years' experience, the Council has recruited a new Estates Team to optimise the management of existing property. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA and the Association of Accounting Technicians.

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

9.4. The Council plans to utilise the flexible use of capital receipts for transformation projects such as the Being a Better Council Programme.

10. Prudential and Local Indicators

10.1. The Prudential and Local Indicators in relation to the Capital Strategy are shown below:

Prudential Indicators							
Indicators	2020/21 Actual	2021/22 Original	2021/22 Revised	2022/23 Original	2023/24 Original	2024/25 Original	2025/26 Original
Capital Investment							
Capital Expenditure (£m)	£3.264	£6.530	£6.411	£7.953	£7.247	£1.926	£1.745
Capital Financing Requirement (£m)	£3.016	£2.444	£2.747	£4.637	£9.265	£8.598	£7.931
Gross Debt and the Capital Financing Requirement							
Gross Debt	(£2.295)	(£2.167)	(£2.473)	(£1.863)	(£9.079)	(£8.255)	(£7.429)
Borrowing in Advance - Gross Debt in excess of the Capital Financing Requirement	No	No	No	No	No	No	No
Total Debt							
Authorised Limit (£m)	£6.591	£15.435	£15.210	£15.238	£20.688	£20.440	£19.755
Operational Boundary (£m)	£6.591	£7.007	£7.008	£6.811	£11.610	£11.208	£10.803
Proportion of Financing Costs to Net Revenue Stream (%)	5%	5%	6%	4%	5%	6%	6%

Local Indicators							
Indicators	2020/21 Actual	2021/22 Original	2021/22 Revised	2022/23 Original	2023/24 Original	2024/25 Original	2025/26 Original
Replacement of Debt Finance or MRP (£m)	(£0.747)	(£0.561)	(£0.663)	(£0.459)	(£0.449)	(£0.667)	(£0.667)
Repayment of Burntwood Leisure Centre Loan and new additions	(£0.542)	(£0.000)	(£0.306)	(£0.000)	(£0.000)	(£0.000)	(£0.000)
Capital Receipts (£m)	(£0.000)	(£0.537)	(£0.036)	(£0.010)	(£0.010)	(£0.011)	(£0.684)
Housing Capital Receipts (£m)	(£0.434)	£0.000	(£0.260)	£0.000	£0.000	£0.000	£0.000
Liability Benchmark (£m)	£25.033	£11.755	£22.081	£19.075	£12.849	£12.756	£14.676
Treasury Management Investments (£m)	£37.330	£23.813	£34.140	£30.936	£29.510	£29.014	£30.529

11. Chief Finance Officer Assessment of the Capital Strategy

11.1. I have assessed the current overall risk as **32** out of **64** based on the following factors:

	Likelihood	Impact	2022/23	2021/22
Minimum			**0**	**0**
Capital Strategy				
Slippage Occurs in the Capital Spend	4	2	8	8
Planned Capital Receipts are not received	2	2	4	12
The Capital Programme does include investment to realise all of the Council's Strategic aims	4	4	16	0
Actual Cashflows differ from planned Cashflows	2	2	4	4
Assessed Level of Risk			**32**	**24**
Maximum			**64**	**48**

11.2. Therefore I believe the level of risk is Material (Yellow).

Capital Programme – 25 Year Model (1 to 10 years, 15 years, 20 years and 25 years)

Key Assumptions													
Year	**2021/22 1**	**2022/23 2**	**2023/24 3**	**2024/25 4**	**2025/26 5**	**2026/27 6**	**2027/28 7**	**2028/29 8**	**2029/30 9**	**2030/31 10**	**2035/36 15**	**2040/41 20**	**2045/46 25**
Population Projections	105,293	105,709	106,073	106,432	106,749	107,070	107,398	107,724	108,040	108,335	110,002	111,955	113,959
% Increase in Population		0.40%	0.34%	0.34%	0.30%	0.30%	0.31%	0.30%	0.29%	0.27%	0.32%	0.37%	0.33%
% of population 65 and over	24.33%	24.48%	24.70%	24.88%	25.03%	25.31%	25.57%	25.80%	26.09%	26.44%	27.49%	27.90%	27.63%
Projected Council Tax Base							42,470	42,773	43,076	43,379	44,894	46,409	47,924
Asset Values (£000)													
Buildings	31,277	34,534	36,298	35,757	35,196	42,196	42,196	42,196	42,196	42,196	42,196	42,196	42,196
Leisure Centre Cost above £5m			7,000	7,000	7,000								
Land	13,292	13,292	13,292	13,292	13,292								
Vehicles, Plant and Equipment	3,228	3,974	6,379	5,766	5,349								
Other Assumptions													
Core Budget Inflation Allowance						2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Asset Management Condition Allowance						0.55%							

Key Assumptions	**Medium Term Financial Strategy**					**Additional Projections**							
	2021/22 £000	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**	**2026/27 £000**	**2027/28 £000**	**2028/29 £000**	**2029/30 £000**	**2030/31 £000**	**2035/36 £000**	**2040/41 £000**	**2045/46 £000**
Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**15**	**20**	**25**
Council Assets													
New Assets													
Loan in Council Company	675												
Replacement Leisure Centre	328	2,349	2,260										
Housing Investment	496	334	22	21									
New Coach Park		1,137	43										
New Coach Park - Land	300												
Sub Total	**1,799**	**3,820**	**2,325**	**21**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Existing Property													
Property Planned Maintenance		230	231	231	231	230	235	239	244	249	275	303	335
BRS - Short Term Redevelopment	13												
Equipment Storage	125												
Burntwood Leisure Centre	507												
Multi Storey Car Park	259												
Beacon Park Pathway	37												
Burntwood Park	116												

District Council House	425												
Construction Inflation Contingency		100	100	100	100								
Public Conveniences	85												
Sub Total	**1,567**	**330**	**331**	**331**	**331**	**230**	**235**	**239**	**244**	**249**	**275**	**303**	**335**
Vehicles, Plant and Equipment													
Bin Purchases/Dual Stream Recycling	569	150	150	150	150	150	151	152	153	154	160	165	170
Vehicles - Waste	437		2,818							2,874			
Vehicles - Other	128	239	179	130	150	165	169	172	175	179	197	218	241
ICT Investment	131				175	175	179	182	186	190	209	231	255
Building a Better Council	150	600											
Car Park Strategy		480	150										
Car Park Barriers		36											
Committee Audio-Visual Hybrid Meetings		90											
New Financial Information System	225	44											
Sub Total	**1,640**	**1,639**	**3,297**	**280**	**475**	**490**	**498**	**506**	**515**	**3,397**	**567**	**614**	**666**
Other Capital Investment													
Disabled Facilities Grants	921	1,654	1,272	1,272	914	914	926	937	951	966	1,020	1,053	1,062
Home Repair Assistance / Energy Insulation	6	4	22	22	25	25	25	25	25	25	25	25	25
Other Projects	478	506	0	0	0								
Sub Total	**1,405**	**2,164**	**1,294**	**1,294**	**939**	**939**	**951**	**962**	**976**	**991**	**1,045**	**1,078**	**1,087**
Total Modelled Expenditure	**6,411**	**7,953**	**7,247**	**1,926**	**1,745**	**1,659**	**1,684**	**1,708**	**1,734**	**4,637**	**1,886**	**1,996**	**2,088**

Key Assumptions	**Medium Term Financial Strategy**					**Additional Projections**							
	2021/22 £000	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**	**2026/27 £000**	**2027/28 £000**	**2028/29 £000**	**2029/30 £000**	**2030/31 £000**	**2035/36 £000**	**2040/41 £000**	**2045/46 £000**
Corporate Funding													
Capital Receipts	(909)	(1,331)	(61)	(231)	(91)	(475)	(225)						
Capital Receipts - Statue	(5)												
Revenue - Corporate	0	(100)	(313)	(100)	(590)								
Other Funding													
Disabled Facilities Grant - New		(1,474)	(1,272)	(1,272)	(914)	(914)	(926)	(937)	(951)	(966)	(1,020)	(1,053)	(1,062)
Disabled facilities Grant - Existing	(921)	(180)											
Home Repair Assistance / Energy Insulation	(6)	(4)	(22)	(22)									
Other Grants	(706)	(1,083)	(22)	(21)									
Section 106	(708)	(254)											
CIL	(44)	(35)											
Reserves	(1,885)	(993)	(329)	(130)									

Revenue - Existing Budgets	(463)	(150)	(150)	(150)	(150)	(150)	(151)	(152)	(153)	(154)	(160)	(165)	(170)
Burntwood Leisure Centre Sinking Fund	(64)												
Finance Leases	(372)		(2,818)			0	0	0	0	(2,874)	0	0	0
Total Modelled Funding	**(6,083)**	**(5,604)**	**(4,987)**	**(1,926)**	**(1,745)**	**(1,539)**	**(1,302)**	**(1,090)**	**(1,104)**	**(3,995)**	**(1,180)**	**(1,218)**	**(1,232)**

Annual Borrowing Need	**328**	**2,349**	**2,260**	**0**	**0**	**120**	**382**	**618**	**630**	**642**	**707**	**778**	**856**
Cumulative Borrowing Need	**328**	**2,677**	**4,937**	**4,937**	**4,937**	**5,057**	**5,439**	**6,058**	**6,688**	**7,331**	**10,733**	**14,477**	**18,597**

APPENDIX B

Recommended Capital Programme

Project		2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000	Corporate
		Draft Capital Programme (R=>500k, A=250k to 500k and G=<250k)						
Parish Office/Community Hub	R	0	92	0	0	0	92	0
Village Hall storage container	R	6	0	0	0	0	6	0
Armitage War Memorial	R	120	0	0	0	0	120	0
Artificial grass at Armitage	R	3	0	0	0	0	3	0
Burntwood LC CHP Unit	A	64	0	0	0	0	64	0
Friary Grange - Short Term Refurb	R	209	0	0	0	0	209	0
Replacement Leisure Centre	A	328	2,349	2,260	0	0	4,937	0
Beacon Park Pathway	A	37	0	0	0	0	37	30
Burntwood Leisure Centre - Decarb	A	443	0	0	0	0	443	0
Disabled Facilities Grants	R	921	1,654	1,272	1,272	914	6,033	0
Home Repair Assistance Grants	R	6	4	0	0	0	10	0
Decent Homes Standard	R	0	147	0	0	0	147	0
Energy Insulation Programme	R	0	0	22	22	25	69	25
DCLG Monies	R	0	212	0	0	0	212	0
S106 Affordable Housing Monies	A	496	334	22	21	0	873	0
Vehicle - Env Health	A	0	0	20	0	0	20	0
Burntwood Park Resurfacing	A	11	0	0	0	0	11	0
Burntwood Park Play Equipment	A	75	0	0	0	0	75	0
Burntwood Park Fencing	A	30	0	0	0	0	30	0
Enabling People Total		**2,749**	**4,792**	**3,596**	**1,315**	**939**	**13,391**	**55**
Canal Towpath Improvements	R	44	0	0	0	0	44	0
Loan to Council Dev Co.	A	675	0	0	0	0	675	116
Lichfield St Johns Community Link	R	0	35	0	0	0	35	0
Staffordshire Countryside Explorer	R	44	0	0	0	0	44	0
Lichfield Public Conveniences	A	40	0	0	0	0	40	40
Vehicles - Waste	A	437	0	2,818	0	0	3,255	32
Bin Purchase	A	240	150	150	150	150	840	0
Dual Stream Recycling	A	329	0	0	0	0	329	0
Vehicles - Other	A	128	229	159	130	150	796	150
Env. Improvements - Upper St John St	R	0	7	0	0	0	7	0
Leomansley Area Improvement Project	R	3	0	0	0	0	3	0
Cannock Chase SAC	R	44	0	0	0	0	44	0
Burntwood Public Conveniences	A	45	0	0	0	0	45	0
Shaping Place Total		**2,029**	**421**	**3,127**	**280**	**300**	**6,157**	**338**
Multi Storey Car Park Refurb Project	A	259	0	0	0	0	259	0
Vehicle - Car Parks	A	0	10	0	0	0	10	0
Coach Park	A	300	1,137	43	0	0	1,480	374
Birmingham Road Redevelopment	A	13	0	0	0	0	13	0
Car Parks Variable Message Signing	A	0	150	0	0	0	150	0
Old Mining College - Refurbish access	R	0	13	0	0	0	13	0
Pay on Exit System at Friary Car Park	A	0	150	0	0	0	150	0
Card Payment in All Car Parks	A	0	100	0	0	0	100	0
Pay on Exit System at Lombard Street	A	0	0	150	0	0	150	0
Electric Vehicle Charge Points	A	0	80	0	0	0	80	0
Car Park Barriers	A	0	36	0	0	0	36	36
St. Chads Sculpture	R	5	0	0	0	0	5	5
Developing Prosperity Total		**577**	**1,676**	**193**	**0**	**0**	**2,446**	**415**
Equipment Storage	A	125	0	0	0	0	125	111
Property Planned Maintenance	A	0	230	231	231	231	923	923
New Financial Information System	A	225	44	0	0	0	269	219
District Council House - Decarb	A	263	0	0	0	0	263	0
IT Infrastructure	A	108	0	0	0	0	108	108
ICT Hardware	A	5	0	0	0	175	180	180
IT Innovation	A	18	0	0	0	0	18	18
Building a Better Council	A	150	600	0	0	0	750	750
Audio-Visual Hybrid Meeting Platform	A	0	90	0	0	0	90	90
First Floor Office Refit	A	162	0	0	0	0	162	124
Construction Inflation Contingency	A	0	100	100	100	100	400	400
Good Council Total		**1,056**	**1,064**	**331**	**331**	**506**	**3,288**	**2,923**
Recommended Capital Programme		**6,411**	**7,953**	**7,247**	**1,926**	**1,745**	**25,282**	**3,731**

APPENDIX B

		2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000	Corporate
Non-Current Assets	A	5,006	5,789	5,953	632	806	18,186	3,701
REFCUS	R	1,405	2,164	1,294	1,294	939	7,096	30
Total		**6,411**	**7,953**	**7,247**	**1,926**	**1,745**	**25,282**	**3,731**

	Draft Capital Programme					
Funding Source	**2021/22[2] £000**	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**	**Total £000**
Capital Receipts	909	1,331	61	231	91	2,623
Capital Receipts - Statue	5	0	0	0	0	5
Revenue - Corporate	0	100	313	100	590	1,103
Corporate Council Funding	**914**	**1,431**	**374**	**331**	**681**	**3,731**
Grant	1,633	2,741	1,316	1,315	914	7,919
Section 106	708	254	0	0	0	962
CIL	44	35	0	0	0	79
Reserves	1,885	993	329	130	0	3,337
Revenue - Existing Budgets	463	150	150	150	150	1,063
Sinking Fund	64	0	0	0	0	64
Leases	372	0	2,818	0	0	3,190
Internal Borrowing	0	0	0	0	0	0
Total	**6,083**	**5,604**	**4,987**	**1,926**	**1,745**	**20,345**
External Borrowing	**328**	**2,349**	**2,260**	**0**	**0**	**4,937**
Recommended Capital Programme	**6,411**	**7,953**	**7,247**	**1,926**	**1,745**	**25,282**

Reconciliation of Original Capital Programme to this Recommended Capital Programme

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000	Cabinet or Decision Date
Original Budget Council 16/02/2021	**6,530**	**8,430**	**4,278**	**1,608**	**0**	**20,846**	
<u>Approved Changes</u>							
Acceptance of Decarbonisation Grant	263					263	09/02/2021
Slippage from 2020/21	762					762	08/06/2021
Money Matters Mth 3	(116)	86	20			(10)	07/09/2021
Introduction of Dual Stream Recycling	229					229	07/09/2021
Lichfield City Centre Car Parking Strategy	330	118	150			598	09/11/2021
Dual Stream Recycling	100					100	09/11/2021
Building a Better Council	77	257	(160)	(174)		0	09/11/2021
Money Matters Mth 6	(873)	711	25	161	0	24	07/12/2021
Rough Sleeper Grant	140					140	07/12/2021
Money Matters Mth 8	(1,031)	(1,749)	2,834	231	91	376	08/02/2022
<u>Other Proposed Changes</u>							
Construction Contingency		100	100	100	100	400	08/02/2022
<u>Projections for 2025/26</u>							
Long Term Model					1,554	1,554	16/02/2021
Recommended Capital Programme	**6,411**	**7,953**	**7,247**	**1,926**	**1,745**	**25,282**	

2 Funding sources have been updated compared to the version considered by Overview and Scrutiny Committee to reflect more up to date information.

APPENDIX C

Minimum Revenue Provision Statement 2022/23

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). Although there has been no statutory minimum since 2008. The Local Government Act 2003 requires this Council to have regard to the Department of Levelling Up, Housing and Communities (DLUHC) guidance on MRP most recently issued in 2018.

The broad aim of the DLUHC Guidance is to ensure that debt is repaid over the period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The DLUHC Guidance requires the Council to approve an annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

- For capital expenditure incurred after 1 April 2008 where no financial support is provided by the Government through the Finance Settlement, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments. MRP on purchases of **freehold land** will be charged over a maximum of **50 years**. MRP on expenditure not related to assets but that has been **capitalised by regulation or direction** (Revenue Expenditure Funded by Capital under Statute or REFCUS) will be charged over a maximum of **20 years**.
- For assets acquired by **finance leases**, MRP will be determined as being equal to the **element of the charge that is used to reduce the Balance Sheet liability**.
- Where former operating leases have been brought onto the balance sheet on 1st April 2022 due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.
- For **capital expenditure loans to third parties that are repaid** in annual or more frequent instalments of principal, the Council will make **nil MRP**, but instead apply the capital receipts arising to reduce the Capital Financing Requirement or Borrowing Need. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate delaying the MRP until the year after the assets become operational.

Treasury Management

Introduction

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

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

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

As part of the MTFS, we prepare integrated Revenue Budgets and a Capital Programme. These budgets, together with the actual Balance Sheet from the previous financial year, are used to also prepare Balance Sheet projections. These Balance Sheet Projections are shown on the next page.

These Balance Sheet projections are significant in assessing the Council's Treasury Management Position in terms of borrowing requirement (including comparison to a **Liability Benchmark** explained below), investment levels and our Investment Policy and Strategy.

A Liability benchmark compares the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as used in the Balance Sheet projections, but that cash and investment balances are kept to a minimum level (**£10m**) to maintain sufficient liquidity but minimise credit risk through the use of Internal Borrowing.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast Capital Financing Requirement (CFR) or Borrowing Need over the next three years. The table shows that the Council expects to comply with this recommendation.

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Capital Financing Requirement (Borrowing)	£2,410	£2,335	£4,636	£6,849	£6,603	£6,356
Capital Financing Requirement (Finance Leases)	£606	£412	£0	£2,416	£1,995	£1,574
Total	**£3,016**	**£2,747**	**£4,636**	**£9,265**	**£8,598**	**£7,930**

External Borrowing	(£2,256)	(£2,061)	(£1,863)	(£6,662)	(£6,260)	(£5,855)
Finance Leases	(£606)	(£412)	£0	(£2,416)	(£1,995)	(£1,574)
Total	**(£2,862)**	**(£2,473)**	**(£1,863)**	**(£9,078)**	**(£8,255)**	**(£7,429)**

Liability Benchmark	£25,033	£22.081	£19.075	£12.849	£12.756	£14.676

APPENDIX D

Balance Sheet Projections 2021-26

(Rounding may result in slight differences in figures in the wider Report)

	Type	2020/21 Actual £000s	2021/22 Budget £000s	2022/23 Budget £000s	2023/24 Budget £000s	2024/25 Budget £000s	2025/26 Budget £000s	2020/26 Change £000s
Non-Current Assets	ASSET	44,575	47,121	51,125	55,293	54,140	53,161	8,586
Equity Investment in Local Authority Company	ASSET	225	225	225	225	225	225	0
Long Term Debtors	CRED	165	165	165	165	165	165	0
Long Term Investment (Company Loan)	LOAN	0	675	675	675	675	0	0
Investments	INV	37,289	34,140	30,936	29,510	29,014	30,529	(6,760)
Borrowing	BOLE	(2,256)	(2,060)	(1,863)	(6,662)	(6,260)	(5,855)	(3,599)
Finance Leases	BOLE	(606)	(412)	(1)	(2,416)	(1,995)	(1,575)	(969)
Working Capital	CRED	(13,580)	(13,386)	(12,688)	(12,516)	(12,344)	(12,344)	1,236
Pensions	CRED	(41,554)	(43,918)	(46,490)	(45,554)	(48,103)	(50,801)	(9,247)
TOTAL ASSETS LESS LIABILITIES		**24,258**	**22,549**	**22,085**	**18,719**	**15,517**	**13,506**	**(10,752)**

Unusable Reserves								
Revaluation Reserve	REV	(10,131)	(10,131)	(10,131)	(10,131)	(10,131)	(10,131)	0
Capital Adjustment Account	CAP	(31,653)	(35,143)	(37,258)	(36,797)	(36,311)	(35,325)	(3,672)
Deferred Credits	CRED	(47)	(47)	(47)	(47)	(47)	(722)	(675)
Pension Scheme	CRED	43,821	45,136	46,490	47,884	49,321	50,801	6,980
Benefits Payable During Employment Adjustment Account	CRED	460	460	460	460	460	460	0
Collection Fund	CRED	6,037	3,457	528	0	0	0	(6,037)
Available for Sale Financial Instruments Reserve	CRED	41	(374)	(374)	(374)	(374)	(374)	(415)
Usable Reserves								0
Unapplied Grants and Contributions	UGER	(3,618)	(3,184)	(2,452)	(2,408)	(2,323)	(2,323)	1,295
Usable Capital Receipts	UGER	(3,042)	(2,408)	(1,087)	(1,036)	(816)	(1,409)	1,633
Burntwood Leisure Centre Sinking Fund	UGER	(64)	0	0	0	0	0	64
Earmarked Reserves - Unrestricted	UGER	(15,145)	(9,994)	(8,427)	(7,694)	(7,484)	(7,404)	7,741
Earmarked Reserves - Restricted	UGER	(4,204)	(3,433)	(2,620)	(2,136)	(2,136)	(2,136)	2,068
General Fund Balance	GEN	(6,714)	(6,888)	(7,168)	(6,442)	(5,677)	(4,944)	1,770
TOTAL EQUITY		**(24,259)**	**(22,550)**	**(22,086)**	**(18,720)**	**(15,518)**	**(13,507)**	**10,752**

Reserves Available to cover Investment Losses	**(21,859)**	**(16,882)**	**(15,595)**	**(14,136)**	**(13,161)**	**(12,348)**	**9,511**

Summary								
Capital Funding	CAP	(31,653)	(35,143)	(37,258)	(36,797)	(36,311)	(35,325)	(3,672)
Revaluation Reserve	REV	(10,131)	(10,131)	(10,131)	(10,131)	(10,131)	(10,131)	0
Borrowing and Leasing	BOLE	(2,862)	(2,473)	(1,863)	(9,079)	(8,255)	(7,429)	(4,567)
Non-Current Assets	ASSET	44,800	47,346	51,350	55,518	54,365	53,386	8,586
Investments	INV	37,289	34,140	30,936	29,510	29,014	30,529	(6,760)
Unapplied Grants & Earmarked Reserves	UGER	(26,073)	(19,019)	(14,586)	(13,273)	(12,758)	(13,271)	12,801
General Reserve	GEN	(6,714)	(6,888)	(7,168)	(6,442)	(5,677)	(4,944)	1,770
Long Term Debtors	DEBT	165	165	165	165	165	165	0
Long Term Investment (Company Loan)	LOAN	0	675	675	675	675	0	0
Working Capital & Pensions	CRED	(4,822)	(8,672)	(12,120)	(10,147)	(11,087)	(12,980)	(8,158)
Total		**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**0**
Internal Borrowing		**154**	**274**	**2,773**	**187**	**343**	**501**	**347**

Liability Benchmark								
Capital Financing Requirement (Borrowing)		2,409	2,333	4,635	6,848	6,601	6,355	3,946
Working Capital, Pensions & Long Term Debtors		(4,657)	(8,507)	(11,955)	(9,982)	(10,922)	(12,815)	(8,158)
Usable Reserves		(32,787)	(25,907)	(21,754)	(19,715)	(18,435)	(18,215)	14,571
Minimum Level of Investments		10,000	10,000	10,000	10,000	10,000	10,000	0
Total		**(25,033)**	**(22,081)**	**(19,075)**	**(12,849)**	**(12,756)**	**(14,676)**	**10,359**

Borrowing Strategy

The Council currently projects **£2.060 million** of loans outstanding at the 31 March 2022, a decrease of **£0.196 million** on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast on the previous page shows that the Council does not expect to need to borrow in 2022/23. The Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of **£15.238 million**.

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

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

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

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

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

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

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

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

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

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

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

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

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between **£42.7 million** and **£61.4 million** and similar levels are expected in the forthcoming year.

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

Negative interest rates: The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2022/23. This is especially the case for the estimated £15m that is available for longer-term investment. A reducing proportion of the Council's surplus cash remains invested in short-term unsecured bank deposits and money market funds. This diversification will represent a continuation of the strategy adopted in 2019.

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

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the limits shown (recommended changes are in red).

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£2m	Unlimited
Secured investments *	25 years	£2m	Unlimited
Banks (unsecured) *	13 months	£1m	Unlimited
Building societies (unsecured) *	13 months	£1m	£2m
Registered providers (unsecured) *	5 years	£1m	£5m
Money market funds *	n/a	£4m	Unlimited
UPDATE : Strategic pooled funds	n/a	**£5m (Approved £4m)**	**£15m (Approved £10m)**
Real estate investment trusts	n/a	£1m	£5m
Other investments *	5 years	£0.5m	£2m

This table must be read in conjunction with the notes below

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

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

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

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

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

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

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

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

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

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

Operational bank accounts: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below **£500,000 per bank**. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

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

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

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

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

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

Investment limits: The Council's revenue reserves available to cover investment losses are forecast to be **£16.9 million** on 31st March 2022. In order that no more than 10% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government and pooled funds) will be **£2 million**. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than **£500,000** in operational bank accounts count against the relevant investment limits.

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

<u>Investment limits</u>

	Cash limit
UPDATE: Any group of pooled funds under the same management	**£15m per manager (Approved) £11m per manager**
Negotiable instruments held in a broker's nominee account	£12m per broker
Foreign countries	£2m per country

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

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

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

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

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

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

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

Markets in Financial Instruments Directive: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Head of Finance and Procurement believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2022/23 is **£0.690 million**, based on an average investment portfolio of **£47.56 million** at an interest rate of **1.45%**. The budget for external debt interest paid in 2022/23 is **£0.044 million**, based on an average external debt portfolio of **£1.93 million** at an average interest rate of **2.20%**. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then yield in excess of **3.6%** of the revenue savings will be transferred to treasury management volatility reserves to cover the risk of capital losses or lower interest rates payable in future years.

Other Options Considered

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

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

Investment Strategy Report 2022/23

Introduction

The Council invests its money for three broad purposes:

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

This investment strategy is a new report, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

Treasury Management Investments

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between **£38.65 million** and **£55.65 million** during the 2022/23 financial year.

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

Further details: Full details of the Council's policies and its plan for 2022/23 for treasury management investments are covered in a separate document in this report, the treasury management strategy.

Service Investments: Loans

Contribution: The Council lends money to its employees for car loans, inherited housing loans from Birmingham City Council, makes loans to individuals to reduce the risk of homelessness and will lend to its subsidiary to support the development of local housing.

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

Category of borrower	31.3.2021 actual			2021/22	2022/23
	Balance owing	Loss allowance	Net figure in accounts	Projection	Proposed Limit
Subsidiaries	£0	£0	£0	£675,000	£675,000
Employees – car loans	£0	£0	£0	£0	£100,000
Housing Loans - secured	£44,320	£0	£44,320	£44,320	£45,000
Housing Loans - unsecured	£2,771	£0	£2,771	£2,771	£3,000
Homelessness Loans	£12,708	(£12,708)	£0	£0	£50,000
TOTAL	**£59,799**	**(£12,708)**	**£47,091**	**£722,091**	**£873,000**

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

Risk assessment: The most significant loan for a service purpose is the **£675,000** loan for **5 years** to the Council Development Company for the provision of housing. The Board of Directors of the Company will initially consist of Council employees and therefore the Council will be able to manage the repayment risk through project due diligence and the monitoring of selected projects.

Commercial Investments: Property

See the Capital Strategy at **APPENDIX A**.

Loan Commitments and Financial Guarantees

See the Capital Strategy at **APPENDIX A**.

Proportionality

See the Capital Strategy at **APPENDIX A**.

Borrowing in Advance of Need

Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Council does not currently plan to undertake this type of activity.

Capacity, Skills and Culture

See the Capital Strategy at **APPENDIX A**.

Investment Indicators

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

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

Total Investment Exposure	31/03/2021 Actual £000	31/03/2022 Forecast £000	31/03/2023 Forecast £000	31/03/2024 Forecast £000	31/03/2025 Forecast £000	31/03/2026 Forecast £000
Treasury Management Investments	£37,354	£33,962	£30,758	£29,332	£28,836	£30,351
Commercial Investments: Property	£3,948	£3,948	£3,948	£3,948	£3,948	£3,948
TOTAL INVESTMENTS	**£41,302**	**£37,910**	**£34,706**	**£33,280**	**£32,784**	**£34,299**
Commitments to Lend	£0	£675	£675	£675	£675	£675
TOTAL EXPOSURE	**£41,302**	**£38,585**	**£35,381**	**£33,955**	**£33,459**	**£34,974**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the Council does not currently intend purchasing any commercial type investments. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure

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

Investment rate of return (net of all costs)

Investments Net Rate of Return	31/03/21 Actual %	31/03/22 Forecast %	31/03/23 Forecast %	31/03/24 Forecast %	31/03/25 Forecast %	31/03/26 Forecast %
Treasury Management Investments	0.82%	0.73%	1.45%	1.64%	1.71%	2.12%
Loan to Council Owned Company	0.00%	0.00%	3.00%	3.00%	3.00%	3.00%
ALL INVESTMENTS	**0.82%**	**0.73%**	**4.45%**	**4.64%**	**4.71%**	**5.12%**

Other Investment Indicators	31/03/21 Actual %	31/03/22 Forecast %	31/03/23 Forecast %	31/03/24 Forecast %	31/03/25 Forecast %	31/03/26 Forecast %
Investment Property Income as a proportion on Net Operating Cost	1.56%	1.30%	1.30%	1.54%	1.51%	1.49%

See the Capital Strategy at **APPENDIX A**.