Medium Term Financial Strategy

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

Lichfield district council

Cabinet

Date:	8 February 2022
Agenda Item:	3
Contact Officer:	Simon Fletcher / Anthony Thomas
Tel Number:	01543 308001 / 01543 308012
Email:	simon.fletcher@lichfielddc.gov.uk Anthony.thomas@lichfielddc.gov.uk
Key Decision?	**YES**
Local Ward Members	Full Council

1. Executive Summary

The Medium Term Financial Strategy (MTFS)

1.1 The ability to deliver the outcomes set out in the **Strategic Plan** is dependent on the resources available in the MTFS.

1.2 The MTFS is the overall budget framework and consists of the Revenue Budget, Capital Strategy and Capital Programme, Earmarked Reserves and General Reserves.

1.3 The timetable for consideration of the various elements of the MTFS is detailed in the table below:

Date		Meeting	Topics
	06/07/2021	Cabinet	Budget timetable, Budget principles, MTFS update, Budget consultation and budget assumptions for 2022/23
	16/09/2021	Overview and Scrutiny Committee	To review the Draft Medium Term Financial Strategy
Budget Consultation (Oct to Nov)	05/10/2021	Cabinet (withdrawn)	An update on the Draft Medium Term Financial Strategy
	18/11/2021	Overview and Scrutiny Committee	To review the Draft Medium Term Financial Strategy
	07/12/2021	Cabinet	Set the Council Taxbase for 2022/23
	20/01/2022	Overview and Scrutiny Committee	To review the Draft Medium Term Financial Strategy
	03/02/2022	Audit and Member Standards Committee	To review the Treasury Management Strategy Statement
	08/02/2022	Cabinet	To recommend the Medium Term Financial Strategy and Council tax increase to Council
	22/02/2022	Council	Approve the Medium Term Financial Strategy and set the Council tax

1.4 There remains an inherently high level of uncertainty surrounding the Local Government Finance regime that has been compounded by the COVID-19 pandemic and other potential Government Policy changes.

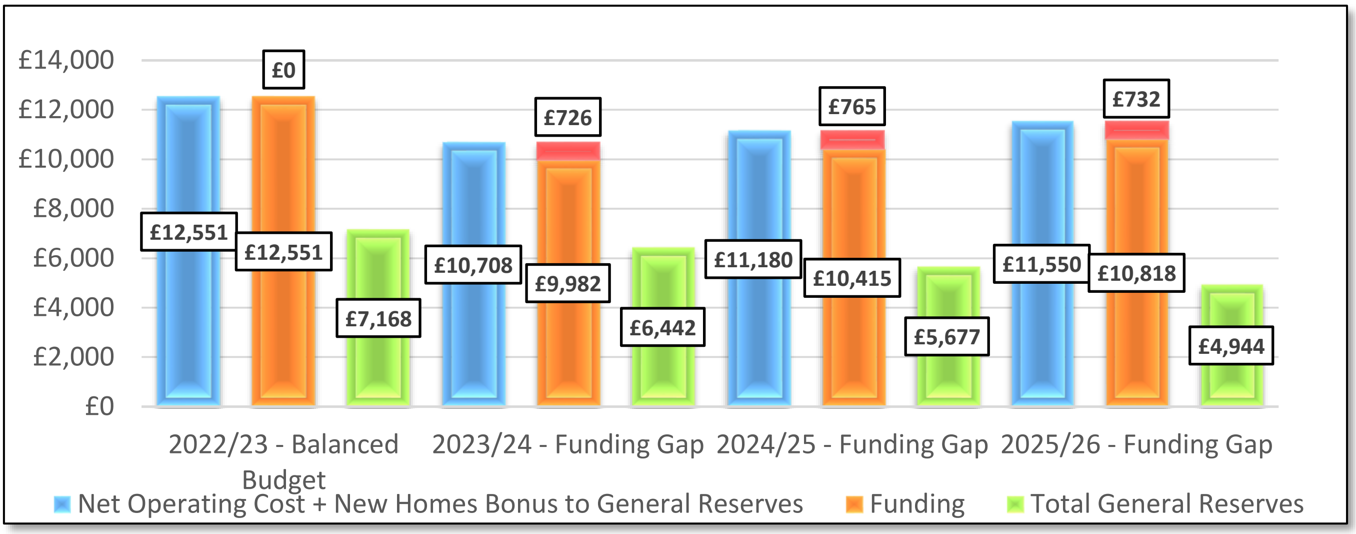
1.5 The Council has a statutory duty to undertake budget consultation, set a balanced budget and to calculate the level of Council tax for its area.

1.6 This report updates forecasts from those provided at the Cabinet meeting on 6 July 2021, following review by Overview and Scrutiny Committee, review by Audit and Member Standards Committee, receipt of the Provisional Local Government Finance Settlement for 2022/23 and further develops the planned approach to closing the projected funding gap in the revenue budget.

1.7 A very small number of updates have been made to detailed information contained in earlier reports to Overview and Scrutiny Committee and Audit and Member Standards Committee to reflect the availability of more up to date or accurate information.

The Revenue Budget

1.8 The Revenue Budget (in £000) with a balanced budget in 2022/23 and Funding Gaps (shown in red in the graph below) in later years is shown in detail at **APPENDIX A** and in summary below:



1.9 The Original Budget for 2021/22 approved by Council on 16 February 2021 approved a balanced budget.

1.10 A report elsewhere on this agenda related to financial performance in 2021/22 shows a projected contribution to General Reserves of **£173,670** compared to the Approved Budget with a **£199,350** contribution to General Reserves.

1.11 The MTFS from 2022/23 onwards has been prepared in the context of unprecedented volatility and uncertainty and whilst estimates have been made on the potential impact, there remains significant uncertainty in 2022/23 and subsequent years.

1.12 The Council is legally required to balance the budget in the first year of 2022/23 and to set out its proposals to balance the further financial years. In 2022/23 a 'balanced budget' where income equals expenditure is recommended.

1.13 In later years, it is assumed that the Review of Needs and Resources (Fair Funding Review), Business Rates Reform and a new housing incentive scheme will be implemented from 2023/24. It is projected that District Councils including Lichfield DC will be detrimentally impacted by these changes through lower funding and therefore at this stage Funding Gaps are projected.

1.14 At the end of 2022/23, the Council is projected to have **£5,568,000** of general reserves available (£7,168,000 of total general reserves less the Minimum Level of Reserves of £1,600,000) to assist with balancing the budget in future years, if needed.

1.15 General Reserves based on current projections, are sufficient to balance the budget until 2025/26. However this is not a sustainable approach and the Council will need to continue to make savings or achieve additional income to close the Funding Gap.

1.16 As part of the Revenue Budget, a Corporate Fees and Charges Policy shown at **APPENDIX B** is also recommended for approval.

The Capital Strategy, the Capital Programme and Treasury Management

1.17 The Capital Strategy, the Capital Programme and Treasury Management related items are outlined in **APPENDICES C, D, E, F and G.**

The CFO's Report on the Robustness of the Budget and the Adequacy of Reserves

1.18 In accordance with the Local Government Act 2003 (Sections 25-27) and to comply with CIPFA Guidance on Local Authority Reserves and Balances, the CFO is required to formally report to Members on the robustness of the Budget and the adequacy of Reserves **(APPENDIX H)**.

Budget Consultation

1.19 The results of the Budget Consultation for 2022/23 are summarised in the consultation section and the executive summary is provided at **APPENDIX I** with the full results on the website.

2. Recommendations

That Cabinet recommend to Council for approval:

2.1 The 2022/23 Revenue Budget, including the Amount to be met from Government Grants and Local Taxpayers of **£12,551,000**, the District Council Tax Requirement of **£7,456,000** and a proposed level of Council Tax (the District Council element) for 2022/23 of **£187.85** (an increase of **£2.78** or **1.50%**) for a Band D equivalent property.

2.2 The MTFS 2021-26 Revenue Budgets and 25 year Revenue Budget model set out in **APPENDIX A**.

2.3 The Corporate Fees and Charges Policy at **APPENDIX B**.

2.4 The MTFS 2021-26 Capital Strategy including the 25 year capital investment model and the Capital Programme shown in **APPENDICES C & D**.

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

2.6 Treasury Management Strategy Statement for 2022/23 including proposed limits shown at **APPENDIX F**. The only change being proposed is to increase the limits and indicators to enable an increase in Strategic Pooled Fund investments from **£10m** to **£15m**.

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

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

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

2.10 The CFO's report on the robustness of the Budget and adequacy of Reserves shown in **APPENDIX H** in compliance with the requirements and duties of the Local Government Act 2003.

That Cabinet:

2.11 Delegate responsibility to the Cabinet Member for Finance, Procurement and Revenues & Benefits and the Head of Finance and Procurement to repay any external loans where there is an economic benefit to the Council and this can be achieved through the use of existing approved budgets.

3. Background

MTFS Budget Principles

3.1. To assist in preparing the Medium Term Financial Strategy, in common with a number of Councils, a set of principles were established to guide the preparation and management of the MTFS.

3.2. Council, on 15 October 2019, approved the budget principles identified below:

- Council will consider the medium term outlook when setting the level of Council Tax to ensure that a sustainable budget position is maintained;
- Council will prioritise funding for statutory and regulatory responsibilities to ensure these are delivered in a way that meets our legal requirements and customer needs;
- Council will continue to seek continuous improvement to enable further savings, efficiencies and income gains and provide budgets that are appropriate to service needs;
- Council will ensure that all growth in the staffing establishment will be fully understood through robust business cases in order to ensure our resources match service and customer needs. Growth will usually be allowed where costs are offset by external funding, savings or additional income.
- Council will not add to other ongoing revenue budgets unless these are unavoidable costs or corresponding savings are identified elsewhere.
- Council will use robust business cases to prioritise capital funding so that we have a sustainable Capital Programme that meets statutory responsibilities, benefits the Council's overall revenue budget position, and ensures that existing assets are properly maintained.
- Council will maintain an overall level of revenue reserves that are appropriate for the overall level of risks that the organisation faces, in order to overcome any foreseeable financial impact.

The Provisional Local Government Finance Settlement for 2022/23

3.3. The elements of the Provisional Finance Settlement for 2022/23 received on **16 December 2021**, relevant to this Council are:

Core Spending Power (CSP)

- A one-year settlement has been announced for 2022-23.
- Priority in the settlement is "stability in the immediate term", with a more fundamental review of local government funding starting in 2022.
- Core Spending Power is the Government's preferred measure of Local Government resources including the income from Council Tax, retained Business Rates (based on Government baselines and therefore excluding any retained growth) and grants such as New Homes Bonus.
- For Lichfield District Council, Core Spending Power from 2021/22 to 2022/23 is assumed to increase by **5.2%** compared to the average for Shire Districts of **4.3%** and for England of **6.9%** (**4%** in real terms):

	Core Spending Power		
	2021/22 £	**2022/23 £**	**Change £**
Retained Business Rates - Baseline	£2,116,752	£2,117,089	£337
Additional Business Rate related Income	£110,292	£173,922	£63,630
Council Tax (assumes maximum allowable increase and average historic growth in properties)	£7,197,631	£7,488,089	£290,458
Lower Tier Services Grant	£151,399	£94,952	(£56,447)
Services Grant	£0	£145,924	£145,924
New Homes Bonus	£1,282,298	£1,401,105	£118,807
Total	**£10,858,372**	**£11,421,081**	**£562,709**
			5.2%

- A comparison of Lichfield District Council's **5.2%** increase to other comparators is shown at **APPENDIX A**.
- The **5.2%** assumes Council Tax will increase by the maximum allowed – **c70%** of the additional income is assumed to come from this option.
- In its CSP figures, DLUHC has assumed that the tax base will increase in 2022-23 by **1.4%** in line with the CTB1 submitted in 2021 – **c30%** of the additional income is assumed to come from this option.

Local Government Funding Reform

- Ministers will be re-starting the local government funding reforms in the spring of 2022. This means that the Fair Funding Review and Business Rates baseline reset are both going to be under consideration again, for possible implementation in 2023-24.
- The following announcement was made:

  Government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources. The data used to assess this has not been updated in a number of years, dating from 2013-14 to a large degree, and even as far back as 2000. Over the coming months, we will work closely with the sector and other stakeholders to update this and to look at the challenges and opportunities facing the sector before consulting on any potential changes. As part of this we will look at options to support local authorities through transitional protection. Councils should note the one-off 2022/23 Services Grant provided in the Local Government Finance Settlement in 2022/23 will be excluded from potential transitional protections

Business Rates

- Staffordshire and Stoke on Trent Business Rates Pool announced for 2022/23 subject to all authorities confirming participation following the Provisional Settlement.
- The Business Rates reset has not been implemented for 2022/23 and therefore the Council will retain its accumulated Business Rates growth in excess of the Government set baseline level.

Council Tax Principles

- District Councils will be able to increase their Band D by the higher of **1.99%** or **£5**. A **£5** increase for Lichfield District Council equates to an increase of **2.70%**.
- Parish councils will continue to not be subject to the referendum limits. As in previous years, the government has indicated it will keep this approach under review for future years.

New Homes Bonus (NHB)

- A one year only allocation for 2022/23 which for Lichfield District Council is **£721,230** and the total payment including legacy payments for previous years is **£1,401,105**. This compares to the payment in 2021/22 of **£1,282,298**, and is an increase of **£118,807** (**9%**).
- There have been no changes to the scheme for 2022/23, with a single year's new allocation made alongside the outstanding legacy payment for 2019/20. There is no planned legacy payment for 2022/23 (as in 2020/21 and 2021/22).

Negative Revenue Support Grant

- This has once again been abated for 2022/23.

Lower Tier Services Grant

- The 'one off' grant for 2021/22 of £111m has been extended into 2022/23 to ensure no authority has a reduction in Core Spending Power.
- For Lichfield District Council, the allocation is **£94,952.**

Services Grant

- This new £822m grant has been distributed using the same methodology as is used for Revenue Support Grant.
- For Lichfield District Council, the allocation is **£145,924.**
- It would appear that this means of distribution is for one year only and that (a) whilst the funding will remain in future years, it will be distributed differently and (b) the government has confirmed there will be no transition arrangements for changes to this aspect of the CSP in future years.

3.4. The Provisional Settlement is subject to the outcome of consultation and the Council responded to this by 13 January 2022.

3.5. The Settlement is more advantageous that the assumptions used in the Draft MTFS. This because the Provisional Settlement included an additional New Homes Bonus payment for 2022/23, some additional 'one off' grant funding and because Local Government Finance Reform has been delayed by at least a further year, business rate growth will be retained. This additional funding means that the level of uncertainty for 2022/23 can be reduced to **Medium**.

3.6. However the financial benefits at this stage, only impact on 2022/23 with the majority of key income streams (Business Rates, Review of Needs and Resources/Fair Funding Review and New Homes Bonus) currently being reviewed for implementation potentially in 2023/24. Therefore the level of uncertainty or risk from **2023/24** remains as **High**.

The Revenue Budget

3.7. The Draft Revenue Budget has been updated to reflect:

- The inclusion of updated projections from the 6 and 8 month Money Matters Reports.
- The inclusion of financial implications from any further Approved Reports.
- The Provisional Local Government Finance Settlement with the 'windfall' benefit recommended to be transferred to the Strategic Priorities earmarked reserve which can then be used to fund enabling works for economic growth based projects.
- Any significant inflationary or other changes identified from the detailed review of base budgets.
- The removal of the savings proposals detailed below following consultation with Cabinet:

Description	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Remove civic car	(3)	(3)	(3)	(3)
Remove civic function	(2)	(2)	(2)	(2)
No refreshments at elections	0	(1)	(1)	(1)
Closure of the Lichfield Shop mobility Service.	(4)	(4)	(4)	(4)
Closure of the three Burntwood Public Conveniences.	(7)	(7)	(7)	(7)
Sub Total - items removed	**(16)**	**(17)**	**(17)**	**(17)**

3.8. The inflationary impact compared to the approved Medium Term Financial Strategy is shown below:

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Inflation Changes	**10**	**17**	**24**	**31**

3.9. The budget variations compared to the approved Medium Term Financial Strategy are shown below:

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Employee profile changes	(3)	11	37	42
Additional contingency for COVID affected income streams	0	0	113	189
Windfall allocated to Strategic Priorities Earmarked Reserve	1,993	0	0	0
MTFS Savings/Income and Growth Bids				
Total growth bids	564	722	745	751
Total savings/income proposals	(2,087)	(2,424)	(2,505)	(2,595)
Total Budget Variations	**467**	**(1,691)**	**(1,610)**	**(1,613)**

3.10. The funding changes compared to the approved Medium Term Financial Strategy are shown below:

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Retained Business Rates – additional retained growth	(974)	(8)	(197)	(418)
Business Rates Cap – additional compensation grant	(174)	0	0	0
Council Tax – lower income from lower projected increases	95	234	289	303
New Homes Bonus – allocation in 2022/23 and then no awards	(721)	0	0	0
Lower Tier Services Grant – additional year	(95)	0	0	0
Services Grant – new one year grant	(146)	0	0	0
Council Tax Collection Fund – projected surpluses	(33)	(13)	0	0
Total Funding Changes	**(2,048)**	**213**	**92**	**(115)**

Modelled Changes and their Impact on the Revenue Budget and the Funding Gap

3.11 The Revenue Budget central scenario modelled changes and their impact on the Funding Gap, together with scenarios based on more optimistic and more pessimistic assumptions, is summarised below:

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Approved MTFS Revenue Budget Funding Gap	**1,571**	**2,187**	**2,259**	**2,429**
Inflation Changes	10	17	24	31
Budget Variations	467	(1,691)	(1,610)	(1,613)
Funding Changes	(2,048)	213	92	(115)
Sub Total Modelled Changes	**(1,571)**	**(1,461)**	**(1,494)**	**(1,694)**
Central Scenario Funding Gap	**0**	**726**	**765**	**732**
More Optimistic scenario	**(558)**	**(310)**	**(386)**	**(517)**
More Pessimistic scenario	**869**	**1,422**	**1,484**	**1,695**

3.12 The Recommended Revenue Budget using the Central Scenario is shown in detail at **APPENDIX A** and in summary below:

	2021/22		2022/23	2023/24	2024/25	2025/26
	Original Budget £000	Approved Budget £000	£000	£000	£000	£000
LEVEL OF UNCERTAINTY / RISK	**HIGH**	**MEDIUM**	**MEDIUM**	**HIGH**	**HIGH**	**HIGH**
Enabling people	1,483	1,453	1,513	1,547	1,579	1,538
Shaping place	3,402	3,515	4,083	4,348	4,449	4,580
Developing prosperity	(621)	(311)	(436)	(373)	(346)	(290)
A good council	6,321	6,291	6,463	6,697	6,991	7,310
Windfall Income allocated to Strategic Priorities	0	0	1,993	0	0	0
MTFS Savings and Bids	0	0	(1,523)	(1,702)	(1,760)	(1,844)
COVID-19 Impacts	1,137	1,012	377	189	189	189
Corporate Expenditure (inc. New Homes Bonus)	229	238	82	1	78	68
Revenue Expenditure	**11,951**	**12,199**	**12,551**	**10,708**	**11,180**	**11,550**
Revenue Funding	(11,951)	(11,962)	(12,551)	(9,982)	(10,415)	(10,818)
Central Scenario Funding Gap	**0**	**237**	**0**	**726**	**765**	**732**

	2021/22		2022/23	2023/24	2024/25	2025/26
	Original Budget £000	Approved Budget £000	£000	£000	£000	£000
LEVEL OF UNCERTAINTY / RISK	**HIGH**	**MEDIUM**	**MEDIUM**	**HIGH**	**HIGH**	**HIGH**
Employees	13,916	14,006	14,713	15,171	15,636	16,117
Premises	1,124	1,071	1,134	1,174	1,212	1,203
Transport	1,653	1,628	1,649	1,664	1,679	1,696
Supplies and Services	5,278	6,246	6,671	4,713	4,720	4,734
Third Party Payments	664	668	505	513	525	448
Transfer Payments	13,492	13,492	13,492	13,492	13,492	13,492
COVID-19 Impacts	1,430	1,012	377	189	189	189
External Income	(25,654)	(26,161)	(26,072)	(26,209)	(26,351)	(26,397)
Corporate Expenditure	(363)	(173)	(198)	1	78	68
Revenue Expenditure	**11,540**	**11,788**	**12,271**	**10,708**	**11,180**	**11,550**
Revenue Funding	**(11,951)**	**(11,962)**	**(12,551)**	**(9,982)**	**(10,415)**	**(10,818)**
New Homes Bonus to general reserves	411	411	280	0	0	0
Central Scenario Funding Gap	**0**	**237**	**0**	**726**	**765**	**732**

Income Scenarios

3.13 The headline assumptions used in each of the three scenarios are detailed below:

Central Scenario

- **Council Tax** – lower annual property growth, a **20%** increase in working age Council Tax support in 2022/23 reducing to **10%** in 2024/25 and **1.5%** annual Band D Council Tax increases.
- **New Homes Bonus** – legacy payments and a one year payment paid in 2022/23 and no replacement scheme from 2023/24.
- **Business Rates** – negative Revenue Support Grant is abated in 2022/23 and then forms part of funding regime from 2023/24 with no transitional arrangements. Business Rate Growth is retained in full in 2022/23 and then an element is retained from 2023/24. The Council is part of the Business Rates Pool in 2022/23.
- **Sales, Fees and Charges** – a risk based (high **100%** impacted, medium **80%** impacted and low **60%** impacted) headline reduction of **4.5%** in 2022/23 reducing to **2.5%** from 2024/25.

Optimistic Scenario

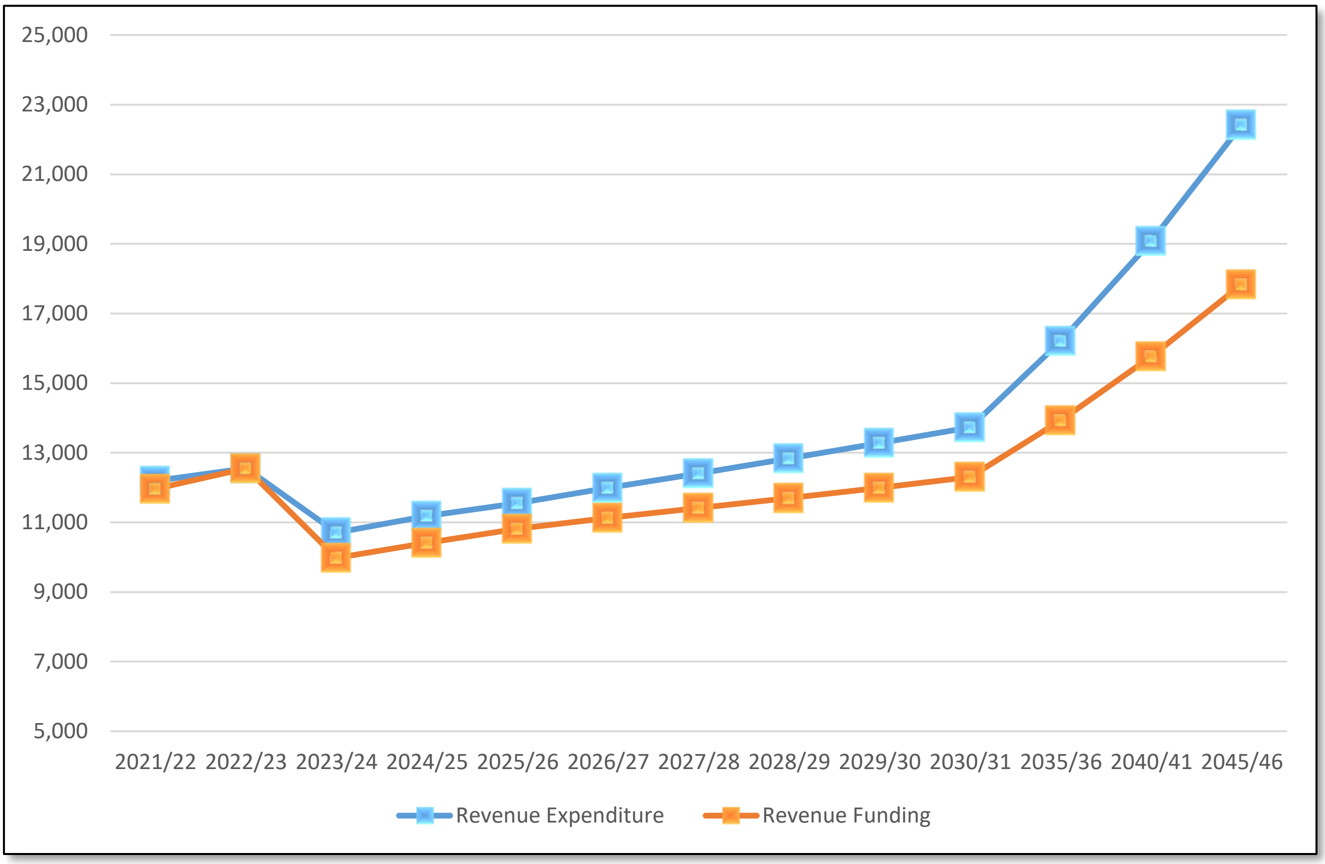
- **Council Tax** – lower annual property growth, a **20%** increase in working age Council Tax support in 2022/23 reducing to **0%** in 2024/25 and **£5** Band D Council Tax increases in all years.
- **New Homes Bonus** – legacy payments paid until 2022/23 and a replacement scheme from 2023/24 with an annual income commencing at **(£300,000)** in 2023/24 and reducing to **(£100,000)** from 2025/26.
- **Business Rates** – negative Revenue Support Grant is abated in 2022/23 and then forms part of funding regime from 2023/24 with no transitional arrangements. Business Rate Growth is retained in full in 2022/23 and then a larger element is retained from 2023/24. The Council is part of the Business Rates Pool in 2022/23.
- **Sales, Fees and Charges** – a risk based (high **50%** impacted, medium **30%** impacted and low **10%** impacted) headline reduction of **1.0%** in all years.

Pessimistic Scenario

- **Council Tax** – lower annual property growth, a **50%** increase in working age Council Tax support in 2022/23 reducing to **10%** in 2024/25 and **1.50%** Band D Council Tax increases in all years.
- **New Homes Bonus** – legacy payments paid until 2022/23 and no replacement scheme from 2023/24.
- **Business Rates** – negative Revenue Support Grant is abated in 2022/23 and then forms part of funding regime from 2023/24 with no transitional arrangements. Minimal Business Rate Growth is retained from 2022/23. The Council is not part of the Business Rates Pool in 2022/23.
- **Sales, Fees and Charges** – a risk based (high **100%** impacted, medium **100%** impacted and low **60%** impacted) headline reduction of **7.0%** in 2022/23 reducing to **2.5%** from 2024/25.

Longer Term Financial Planning

3.14 The updated longer term financial plan is shown in detail at **APPENDIX A** and in the chart below:



3.15 The MTFS assumes an ongoing saving from the Being a Better Council Programme of **£995,000** that will need to be identified during 2022/23.

3.16 The Being a Better Council ongoing saving along with other savings and additional income proposals totalling **£1,092,000** assumed in the MTFS may not be fully delivered in 2022/23. Therefore in the event that not all of the proposals are delivered at the start of the financial year, then general reserves may be required to balance the revenue budget in the short term.

3.17 A funding gap after the incorporation of these savings is projected from 2023/24 onwards and this will mean that subject to the outcome of the local government finance reforms, the identification of options to deliver further sustainable savings/additional income will remain necessary.

Corporate Fees and Charges Policy

3.18 The Finance and Procurement Team instigated a review of the approach being taken to setting fees and charges within the Council to ensure best practice is being applied to this increasingly important set of local income streams.

3.19 One of the recommendations of the review was the implementation of a corporate charging policy based on best practice.

3.20 The Corporate Fees and Charges Policy is shown at **APPENDIX B** following review by the Overview and Scrutiny Committee on 20 January 2022.

3.21 The policy will be used to ensure a consistent approach to setting fees and charges is adopted across the Council in the development of future Medium Term Financial Strategies.

The Capital Strategy

3.22 The Capital Strategy is shown at **APPENDIX C** and 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 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.

3.23 As the Council's Chief Financial Officer, I have assessed the current overall risk as **Material (yellow)**.

The Capital Programme

3.24 The Draft Capital Programme has been updated to reflect:

- The inclusion of updated projections from the 6 and 8 month Money Matters Reports.
- The inclusion of financial implications from any further Approved Reports.
- The inclusion of a Capital Contingency budget to manage the risk of construction inflation.

3.25 The recommended additional capital investment is summarised below:

Details	Assessed Score	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Car Park Barriers Property Planned Maintenance Budget	70		36 (36)			
Council Meeting Broadcast Equipment Property Planned Maintenance Budget	54		90 (90)			
IT Hardware Council Funding	25 year model					175 (175)
Property Maintenance Council Funding	25 year model					140 (140)
Bin Purchases Existing Revenue Budgets	25 year model					150 (150)
Vehicles Council Funding	25 year model					150 (150)
Disabled Facilities Grants External Funding	25 year model					914 (914)
Home Repair Assistance Council Funding	25 year model					25 (25)
Capital Contingency	Inflation Risk		100	100	100	100

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Projected Capital Spend	**0**	**226**	**100**	**100**	**1,654**
External Funding					(914)
Existing Revenue Budgets					(150)
Existing Capital Budgets		(126)			
Council Funding - Revenue Budget		(100)	(100)	(100)	(590)
Total Funding	**0**	**(226)**	**(100)**	**(100)**	**(1,654)**
Shortfall in Funding & Borrowing Need	**0**	**0**	**0**	**0**	**0**

3.26 A number of projects contained in the Approved Capital Programme have revenue implications such as operating costs, the cost of debt repayment, revenue funding or savings.

3.27 Capital Bids submitted as part of the Service and Financial Planning process are also required to identify any ongoing revenue implications and where debt is to be utilised for funding, debt repayment costs are calculated.

3.28 The Capital Programme revenue implications contained in the Approved Budget (at the 8 month's stage of 2021/22) and the revenue implications of Capital Bids 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**

3.29 The Capital Programme is summarised below and is shown in detail at **APPENDIX D**:

	2021/22		**2022/23**	**2023/24**	**2024/25**	**2025/26**
	Original Budget £000	**Revised Budget £000**	**£000**	**£000**	**£000**	**£000**
LEVEL OF UNCERTAINTY / RISK	**HIGH**	**MEDIUM**	**MEDIUM**	**HIGH**	**HIGH**	**HIGH**
Enabling people	3,375	2,794	4,792	3,596	1,315	939
Shaping place	1,102	1,984	421	3,127	280	300
Developing prosperity	935	577	1,676	193	0	0
A good Council	1,118	1,056	1,064	331	331	506
Capital Expenditure	**6,530**	**6,411**	**7,953**	**7,247**	**1,926**	**1,745**
Capital Funding	(6,252)	(6,083)	(5,604)	(4,987)	(1,926)	(1,745)
Borrowing Need	278	328	2,349	2,260	0	0

General Capital Receipts	(888)	(1,689)	(368)	(317)	(97)	(690)
Capital Receipts earmarked to Housing	(197)	(694)	(694)	(694)	(694)	(694)
Total Capital Receipts	**(1,085)**	**(2,383)**	**(1,062)**	**(1,011)**	**(791)**	**(1,384)**

Treasury Management

3.30 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."*

3.31 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

3.32 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.

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

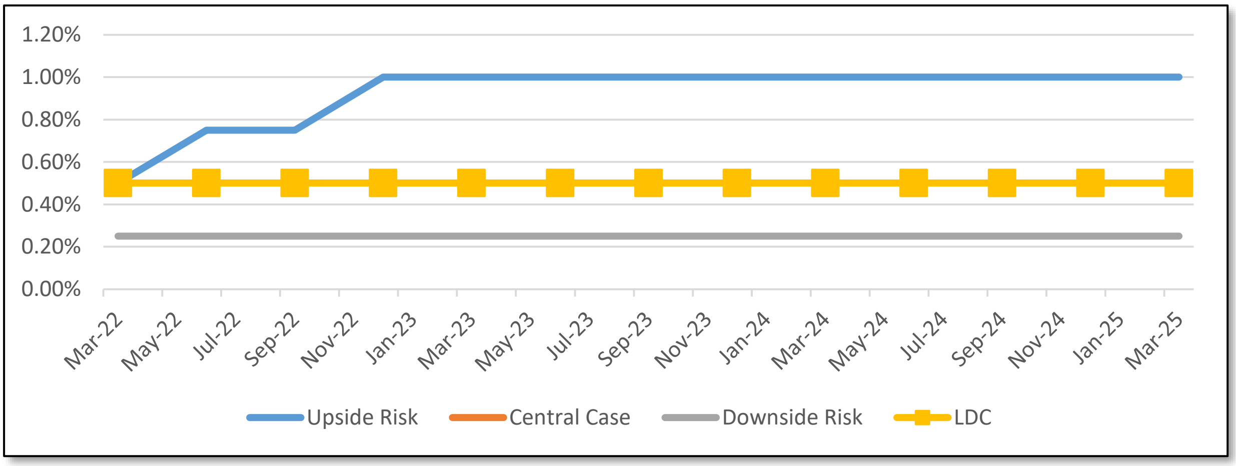
- The Council is required to make prudent provision for debt redemption (known as Minimum Revenue Provision (MRP)) and each year the Council must approve its MRP statement and this will include an allowance for finance leases that appear on the Council's Balance Sheet.
- The Council proposes to continue basing its MRP on the estimated life of the asset **(APPENDIX E)**.

3.34 **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.
- Balance Sheet projections (**APPENDIX F**) are significant in assessing the Treasury Management Position in terms of borrowing requirement, investment levels and the Investment Strategy.

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

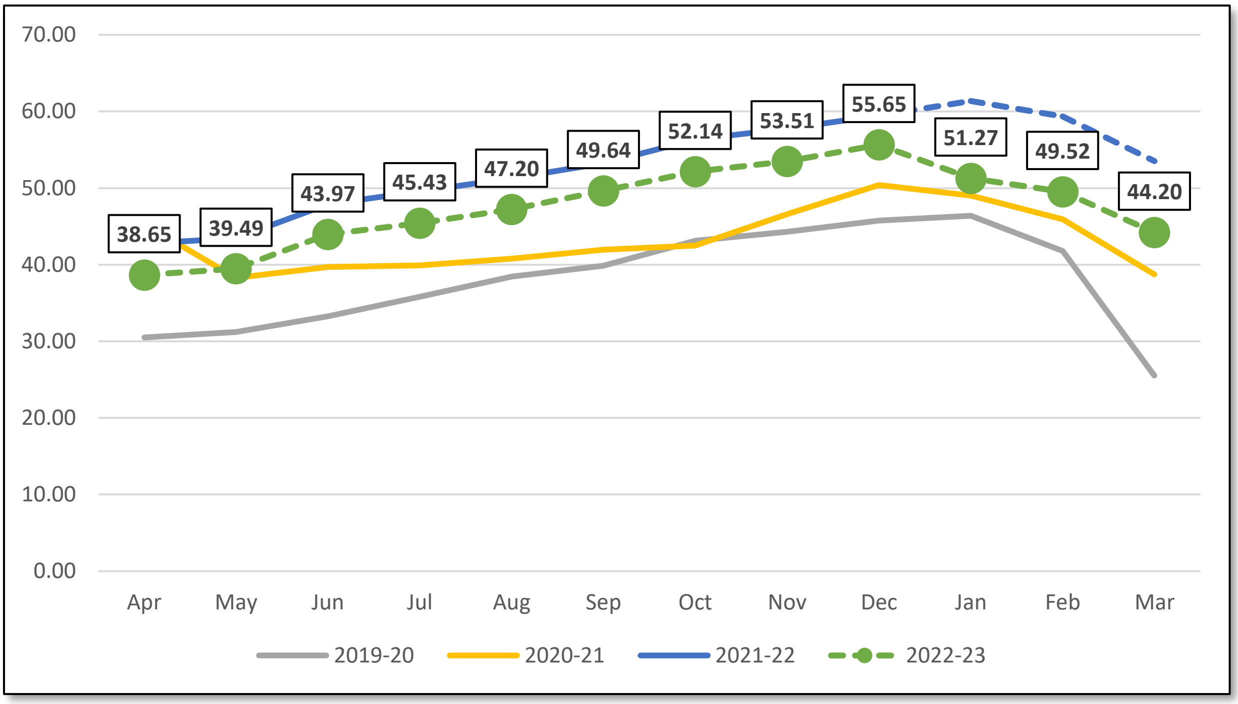
- The Official Bank Rate outlook provided by the Council's Treasury Advisor, together with the Council's assumption (also the central case) where interest rates will climb to **0.50%** in March 2022 and then remain at that level, is shown below:



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

3.36 **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	**Borrowing**
Average Balance Average Rate[1]	£47.56m 1.45%	£1.93m 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.

[1] Budgeted average rate for the entire financial year.

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

- The Treasury Investments and their limits are shown in detail at **APPENDIX F**.
- 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**.

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

- The investment strategy that is shown at **APPENDIX G** 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.

Opinion of CFO on the Adequacy of Reserves and the Robustness of the Estimates

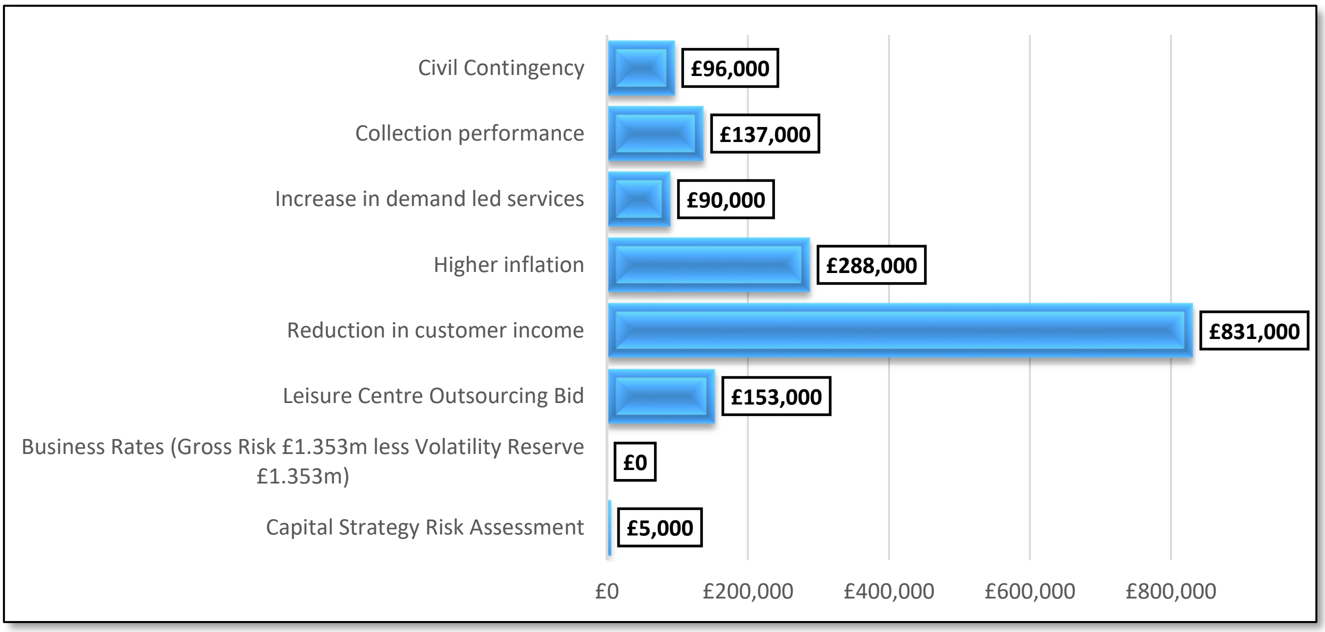
3.39 The Chartered Institute of Finance and Accountancy (CIPFA) provided the second release of its Financial Resilience Index February 2021 and the third release is imminent (Lichfield DC's information compared to all District Councils and Nearest Neighbours is shown at **APPENDIX H**). The index showed this Council's position on a range of measures associated with financial risk.

3.40 The release is still based on backward looking measures rather than the future financial challenges identified in forward looking Medium Term Financial Strategies, therefore it will not take into account the significant and ongoing impact of the COVID-19 pandemic but will provide a baseline for future comparison.

3.41 The Resilience Index for 2021 identified that in the majority of the measures selected, including those related to the level and change in reserves, this Council was at the lower end of the risk spectrum compared to all other District Councils and Nearest Neighbour Authorities. This has meant that the added financial resilience and sustainability concerns presented by COVID-19 whilst being challenging, has not been a significant risk at this stage for this Council.

3.42 It remains prudent for the Council to maintain an adequate 'working balance' or Minimum Level that is part of its general reserves. A risk assessment approach in line with Best Practice is used to determine the required Minimum Level and the level of general and earmarked reserves.

3.43 The main elements of the risk assessment are shown in detail at **APPENDIX H** and below:



3.44 The Chief Finance Officer (CFO) has been involved throughout the entire budget process, including revising the MTFS, input to the drafting of the budget, the ongoing financial monitoring and reporting process, evaluation of investments and savings, engagement with Members of the Cabinet and Overview and Scrutiny Committee, advising colleagues, the strategic choices activities, challenge and evaluation activities, and scrutiny of the budget.

3.45 I am of the opinion that for a Council of this size and with our recent record of prudent spending, effective Risk Management, robust budgeting and effective Budget monitoring and control, a General Minimum Reserve level of **£1,600,000** remains adequate.

3.46 It is important to note that whilst the level for 2022/23 is the same as 2021/22, there have been changes to specific risks such as an allowance for higher inflation. In addition, several risks such as Business Rates have specific earmarked reserves and specific budget risk based reductions related to income streams including sales, fees and charges have been incorporated within the MTFS.

Projected General Reserves

3.47 The total projected level of general reserves are shown below using the central scenario together with projections using more optimistic and pessimistic scenarios[2]:

	2021/22		2022/23	2023/24	2024/25	2025/26
	Original Budget £000	Approved Budget £000	£000	£000	£000	£000
LEVEL OF UNCERTAINTY / RISK	**HIGH**	**MEDIUM**	**MEDIUM**	**HIGH**	**HIGH**	**HIGH**
Available General Reserves Year Start	**5,114**	**5,114**	**5,288**	**5,568**	**4,842**	**4,077**
(Funding Gap)	0	(237)	(0)	(726)	(765)	(732)
New Homes Bonus in excess of the 'Cap'	411	411	280	0	0	0
Available General Reserves Year End	**5,525**	**5,288**	**5,568**	**4,842**	**4,077**	**3,344**
Minimum Level	1,600	1,600	1,600	1,600	1,600	1,600
Total Projected General Reserves	**7,125**	**6,888**	**7,168**	**6,442**	**5,677**	**4,944**
More Optimistic scenario	**7,125**	**6,888**	**7,726**	**8,036**	**8,421**	**8,938**
More Pessimistic scenario	**7,125**	**6,888**	**6,299**	**4,877**	**3,392**	**1,697**

3.48 There is currently an unprecedented level of uncertainty in relation to Local Government Finance with a number of planned reforms. This unprecedented uncertainty has been amplified by the COVID-19 pandemic that will likely have an ongoing and long term impact on revenue budgets.

3.49 Financial planning in these circumstances with any degree of certainty is incredibly difficult especially when it is not clear when or if any of the planned reforms will be implemented.

3.50 However the scenarios in this report provide an <u>indication</u> of the impact on the MTFS from the use of different assumptions. Two of the three scenarios utilised currently project a funding gap in 2023/24 and up to 2025/26. The projected funding gaps are principally due to:

- The projected impact of the Review of Needs and Resources (formerly the Fair Funding Review) and the review of Business Rate Baselines where resources are likely to be redistributed from District Councils to Upper Tier authorities. These reviews reflect the need for additional funding to address the increasing demographic demands in adult social care and children's services.
- The additional costs related to delivering existing services such as inflation, pension costs, an increasing population and more properties.
- The desire to deliver new or enhanced often discretionary services such as a replacement leisure centre.

[2] The information in this table has been updated from the version presented to Overview and Scrutiny on 20 January 2022 to reflect updated projections used elsewhere in the Medium Term Financial Strategy such as the chart at para 1.7 and the Balance Sheet Projections in Appendix F.

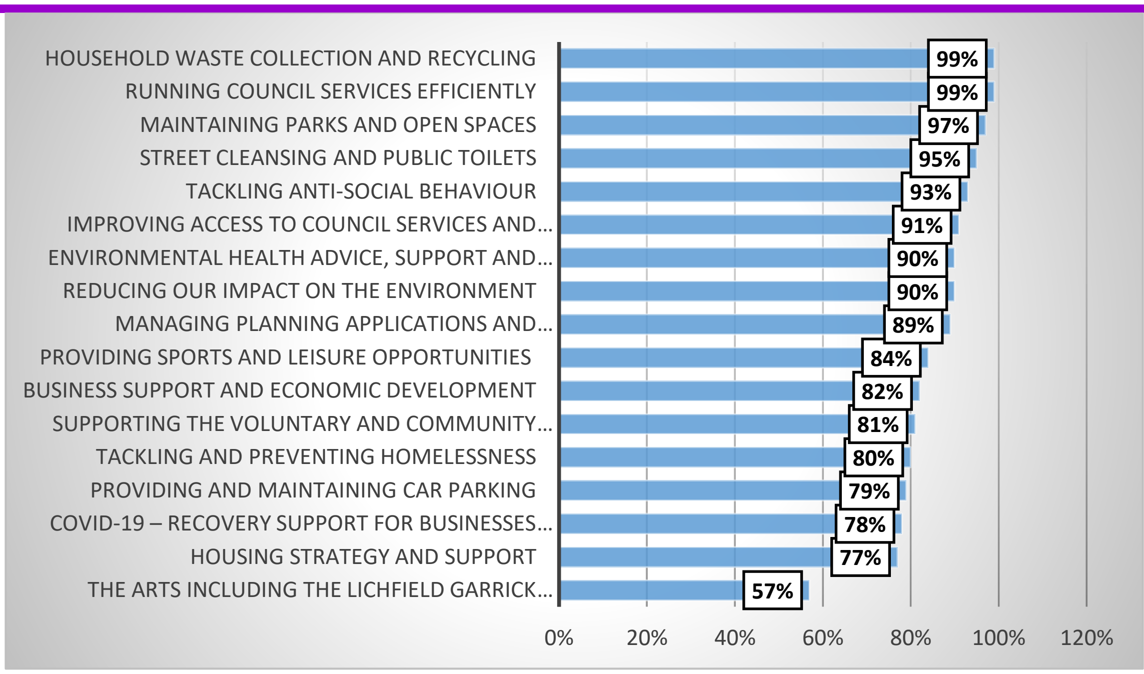
3.51 A replacement leisure centre of **£5,000,000** funded by borrowing has been included in the Approved MTFS. The estimated cost of borrowing of **£294,000** impacting from 2024/25 onwards for a budgeted period of 25 years has also been included in the Approved Revenue Budget.

3.52 This borrowing will be a long term financial commitment for the Council. Therefore given the range of financial projections at this time of unprecedented uncertainty, Council will need to be aware that to enter into long term commitments of this nature carry a very high risk that a balanced budget cannot be achieved or maintained.

3.53 It is very important therefore to highlight that to mitigate the risk of a statutory notice, focused on the inability to deliver a balanced budget, a robust and deliverable savings plan will need to be agreed together with a commitment to its delivery before any financial commitment can take place.

Alternative Options	In the main, the options are focused on the level of resource allocated to Strategic Priorities and the level of Council Tax increase.

Consultation	Overview and Scrutiny Committee at its meeting on 20 January 2022 scrutinised the MTFS 2021-2026 and the following enhancements to the Draft Corporate Fees and Charges Policy were identified and have been incorporated into the draft for Cabinet to consider: • Greater clarity where the term cost recovery has been used – updated to full cost recovery in line with the legislative framework. • Greater clarity over the use of terms such as revenue, income and profit – these terms have been updated to income and surplus. Audit and Member Standards Committee reviewed the Treasury Management Strategy Statement at its meeting on 3 February 2022 and the Chair will provide feedback to Cabinet as appropriate. The budget consultation was launched on 4 October 2021 and was open until 30 November. The primary method of response to the consultation was via an online questionnaire. The questionnaire was based on a similar question set to that used in 2020 to enable comparison with previous results. The questionnaire included a range of questions derived originally from Staffordshire County Council's Feeling the Difference survey and giving residents an opportunity to express their views on trust in, and satisfaction with, local public services. This was followed by questions asking respondents to rate service areas in terms of importance and spending priority. The final set of questions asked respondents for their views on the council's approach to fees and charges and to potential future levels of Council Tax. A total of **264** people responded to the survey. This represents **0.316**% of the adult population of the district and represents an increase of **116** respondents from the previous budget consultation in 2020 The summary results of the Budget Consultation are included at **APPENDIX I** and the key areas are summarised in the paragraphs below. **Service Areas and their level of Importance** Respondents were asked to consider a wide range of service priority areas that align to strategic priorities. Areas that were highlighted as most important were; household waste collection and recycling, running the council and its services efficiently, and maintaining parks and open spaces. Also in the top five areas of importance were street cleansing and tackling anti-social behaviour. The top four priority areas are the same as highlighted in the 2020 survey.



Spending Priorities and Council Tax

There was a continued feeling from respondents to the survey that spending should be maintained rather than increased across the majority of service areas. Only in one area were the majority of respondents in favour of reducing spending – the Arts including the Lichfield Garrick.

Fees and income

The largest proportion of respondents (69%) felt that either Lichfield District Council's approach to fees was currently about right or that no additional fees should be introduced.

Only 32% felt that there was scope for increases and put forward alternative suggestions for sources of income generation which ranged from commercial sponsorship, increased or more regular fines, large-scale events or ideas for reductions in spending.

Council Tax

The majority of respondents (87%) indicated that an increase in Council Tax would be acceptable with 54% of the total expressing that an increase of 2% or £5 would be acceptable to them.

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	(£2.862)[3]	(£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%

[3] Updated from £2.295m to include £0.607m for the long term element of finance leases.

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)	£8.000	£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	£34.140	£30.936	£29.510	£29.014	£30.529
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	Yes

Legal Implications	No specific legal implications. The recommended Medium Term Financial Strategy, is part of the Budget Framework and will therefore require the approval of Full Council.
Approved by Monitoring Officer	Yes

Contribution to the Delivery of the Strategic Plan	The report directly links to overall performance and especially the delivery of the 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 the Strategic Plan.

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

Environmental Impact	These areas are addressed as part of the specific areas of activity prior to being included in Lichfield District Council's Strategic Plan.

GDPR/Privacy Impact Assessment	There are no specific implications related to the Medium Term Financial Strategy

	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 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	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. In addition, a Capital Contingency Budget has been included in the Capital Porgramme.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
Strategic Risk SR3: Capacity and capability to deliver / strategic plan to the emerging landscape				
G	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 : Green Impact : Green Severity of Risk : Green
H	The Council cannot achieve its approved Delivery Plan or Being a Better Council objectives 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 impact of the pandemic and the BABC Programme	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
I	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
J	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

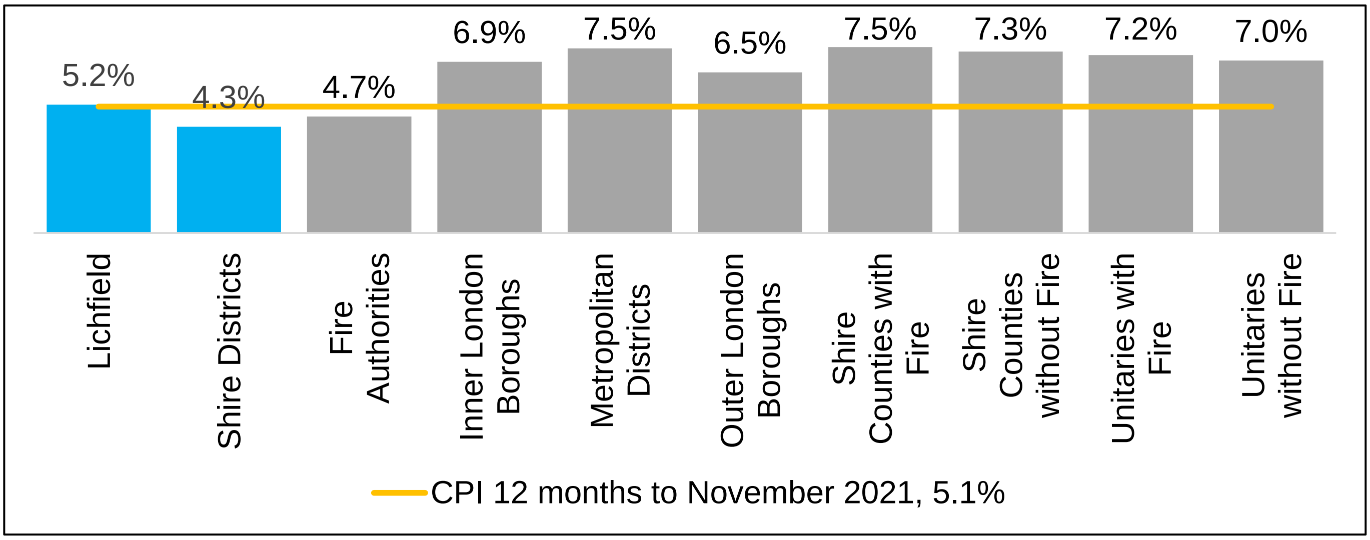
Relevant web links

MTFS Background Budget Consultation Feedback Report January 2022 - AMENDED DRAFT.pdf (lichfielddc.gov.uk)

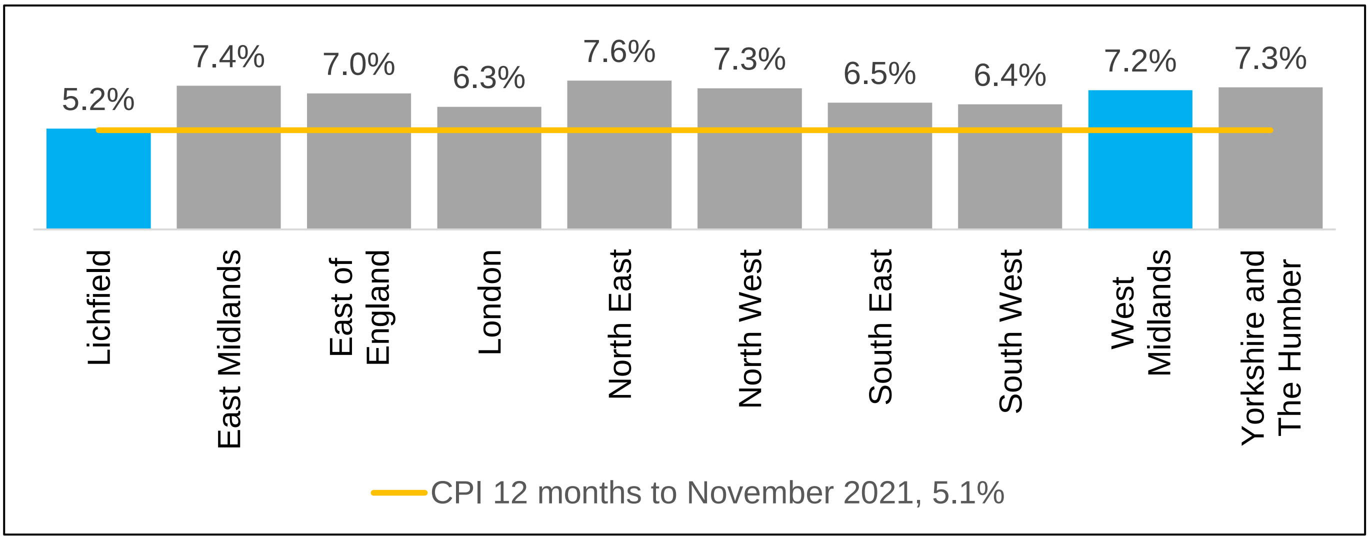
APPENDIX A

Core Spending Power Increase Comparators

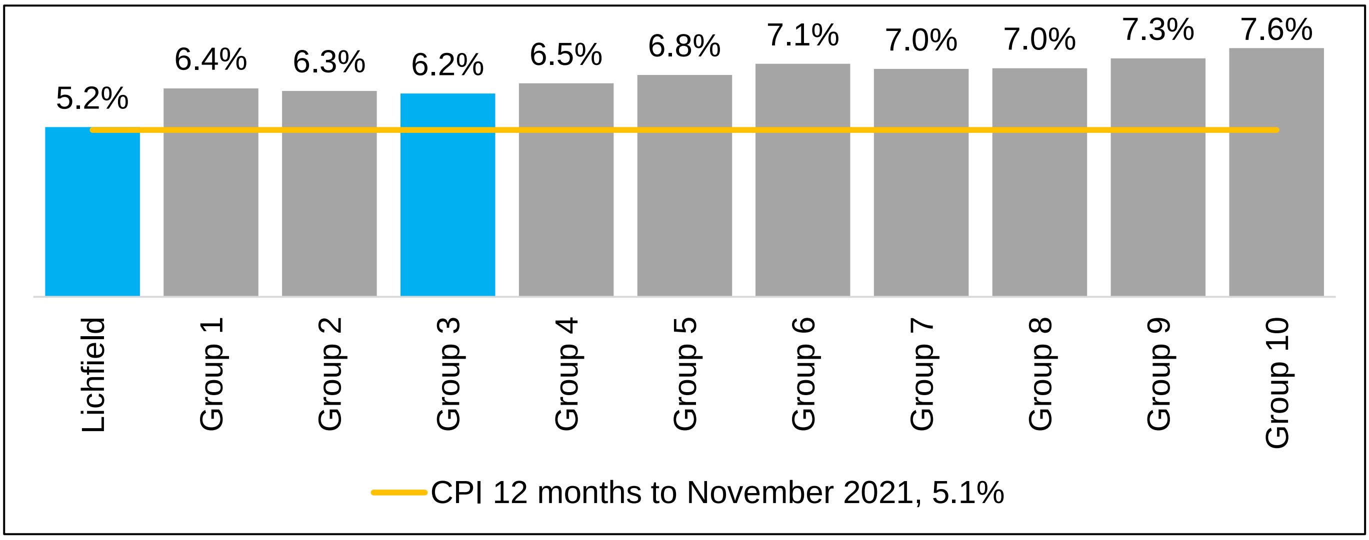
Change in Core Spending Power by Authority Type



Change in Core Spending Power by Region



Change in Core Spending Power by level of Deprivation (IMD deciles)



APPENDIX A

Recommended Revenue Budget 2021/22 to 2025/26 (£000)

	2021/22 Original Budget £000	2021/22 Approved Budget £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
LEVEL OF UNCERTAINTY / RISK	**HIGH**	**MEDIUM**	**MEDIUM**	**HIGH**	**HIGH**	**HIGH**
Developing prosperity	(621)	(311)	(436)	(373)	(346)	(290)
A good council	6,321	6,291	6,463	6,697	6,991	7,310
Enabling people	1,483	1,453	1,513	1,547	1,579	1,538
Shaping place	3,402	3,515	4,083	4,348	4,449	4,580
MTFS Savings and Bids	0	0	(1,523)	(1,702)	(1,760)	(1,844)
Windfall Income allocated to Strategic Priorities	0	0	1,993	0	0	0
COVID-19 - General Recovery	(4)	(129)	377	189	189	189
COVID-19 - Specific Risks	1,141	1,141	0	0	0	0
Net Cost of Services	**11,722**	**11,961**	**12,469**	**10,707**	**11,102**	**11,482**
Corporate expenditure	(182)	(173)	(198)	1	78	68
Net Operating Cost	**11,540**	**11,788**	**12,271**	**10,708**	**11,180**	**11,550**
Retained Business Rates Baseline Funding	(3,122)	(3,122)	(3,311)	(2,341)	(2,480)	(2,628)
Business Rates Cap	(110)	(110)	(174)	0	0	0
Lower Tier Services Grant	(151)	(151)	(95)	0	0	0
Local Council Tax Support Grant	(126)	(126)	0	0	0	0
Services Grant	0	0	(146)	0	0	0
New Homes Bonus - Base Budget	(500)	(500)	(400)	0	0	0
New Homes Bonus - to General Reserve	(411)	(411)	(280)	0	0	0
New Homes Bonus - Contingency Budget	(371)	(371)	(721)	0	0	0
Collection Fund (Surplus)/Deficit	38	27	32	52	0	0
Council Tax	(7,198)	(7,198)	(7,456)	(7,693)	(7,935)	(8,190)
Total Funding	**(11,951)**	**(11,962)**	**(12,551)**	**(9,982)**	**(10,415)**	**(10,818)**
New Homes Bonus to general reserves	411	411	280	0	0	0
MTFS Funding Gap / (transfer to general reserves)	**0**	**237**	**0**	**726**	**765**	**732**
Council Tax Base	**39,032**	**39,032**	**39,695**	**40,350**	**41,004**	**41,695**
Band D Council Tax	**£180.07**	**£180.07**	**£187.85**	**£190.66**	**£193.52**	**£196.43**

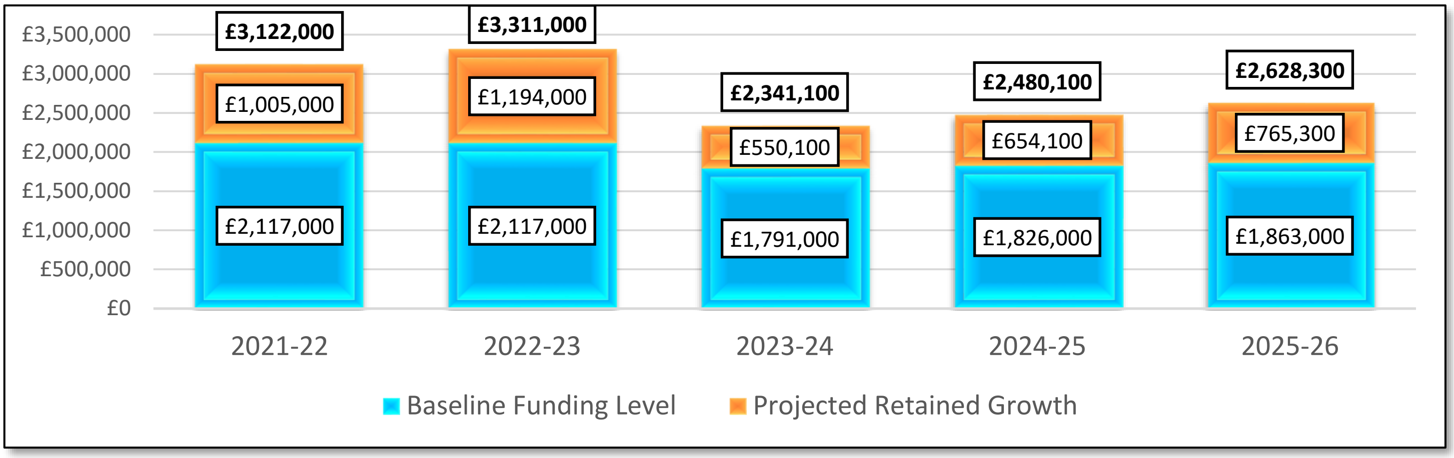
Reconciliation of Original Funding Gap to Recommended Revenue Budget Funding Gap

	Financial Year				
	2021/22	2022/23	2023/24	2024/25	2025/26
ORIGINAL FUNDING GAP	**£0**	**£1,324**	**£2,005**	**£2,121**	**£2,309**
<u>Budget Monitoring in 2021/22</u>					
3 Month's Money Matters	(24)	(3)	(3)	(3)	(3)
6 Month's Money Matters	0	(2)	(2)	(2)	(2)
8 Month's Money Matters	26	0	0	0	0
Cabinet and Council Reports	236	253	188	144	125
Approved Budget	**237**	**1,571**	**2,187**	**2,259**	**2,429**
<u>Modelled Changes</u>	Included in 8 Month's Money Matters Report				
Inflation		10	17	24	31
Budget Variations		(3)	11	150	231
MTFS Savings and Bids		(1,523)	(1,702)	(1,760)	(1,844)
Transfer 'Windfall' income from one year Provisional Finance Settlement to strategic priorities earmarked reserve		1,993	0	0	0
Retained Business Rates		(974)	(8)	(197)	(418)
Business Rates Cap		(174)	0	0	0
Council Tax		95	234	289	303
New Homes Bonus		(721)	0	0	0
Lower Tier Services Grant		(95)	0	0	0
Services Grant		(146)	0	0	0
Council Tax Collection Fund		(33)	(13)	0	0
MTFS FUNDING GAP	**£237**	**£0**	**£726**	**£765**	**£732**

Revenue Budget Key Revenue Streams

Retained Business Rates

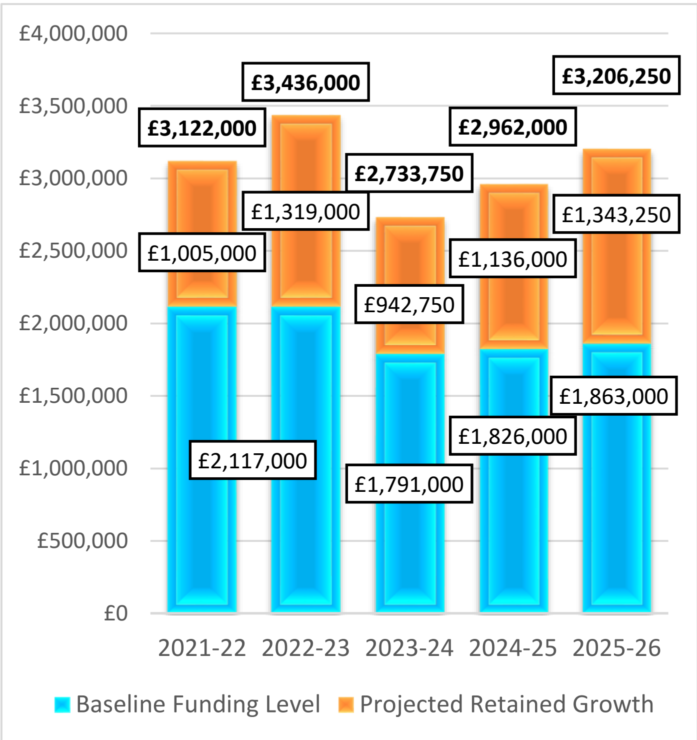
The Central Scenario budget for Retained Business Rates income, with Business Retention reform and the Review of Needs and Resources (Fair Funding Review) presenting significant risks to the assumptions made from 2023/24, are:

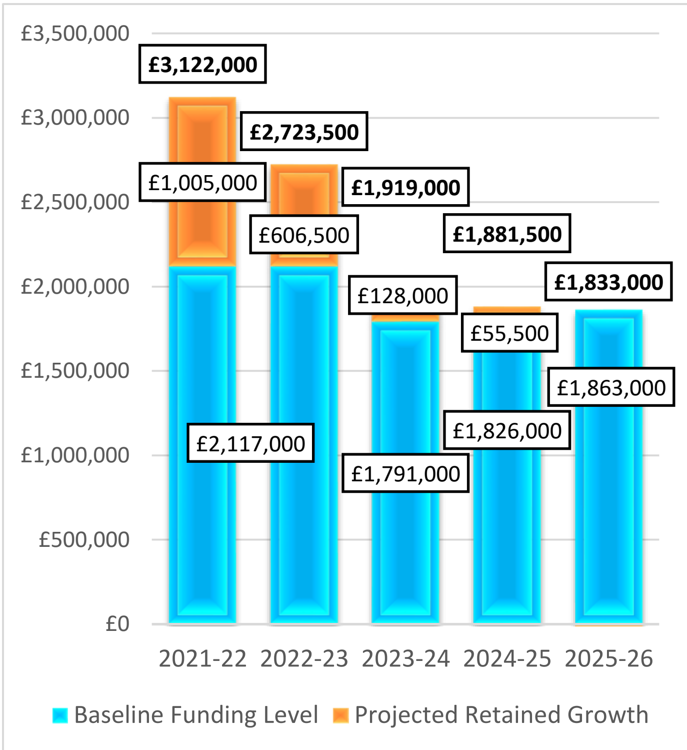


The change in retained Business Rates compared to the Approved Medium Term Financial Strategy is shown below:

	2021-22	2022-23	2023-24	2024-25	2025-26
Approved MTFS (assumed Review of Needs and Resources and Business Rates Reset from 2022/23)	(£3,122,000)	(£2,337,000)	(£2,333,000)	(£2,283,000)	(£2,210,000)
Draft MTFS (assumes Review of Needs and Resources and Business Rates Reset from 2023/24)	(£3,122,000)	(£3,311,000)	(£2,341,100)	(£2,480,100)	(£2,628,300)
Change – higher income	-	**(£974,000)**	**(£8,100)**	**(£197,100)**	**(£418,300)**

The budgets based on more optimistic (including from 2023/24 the majority of growth being retained) or more pessimistic (including the majority of growth from 2023/24 being redistributed) assumptions are also provided below:



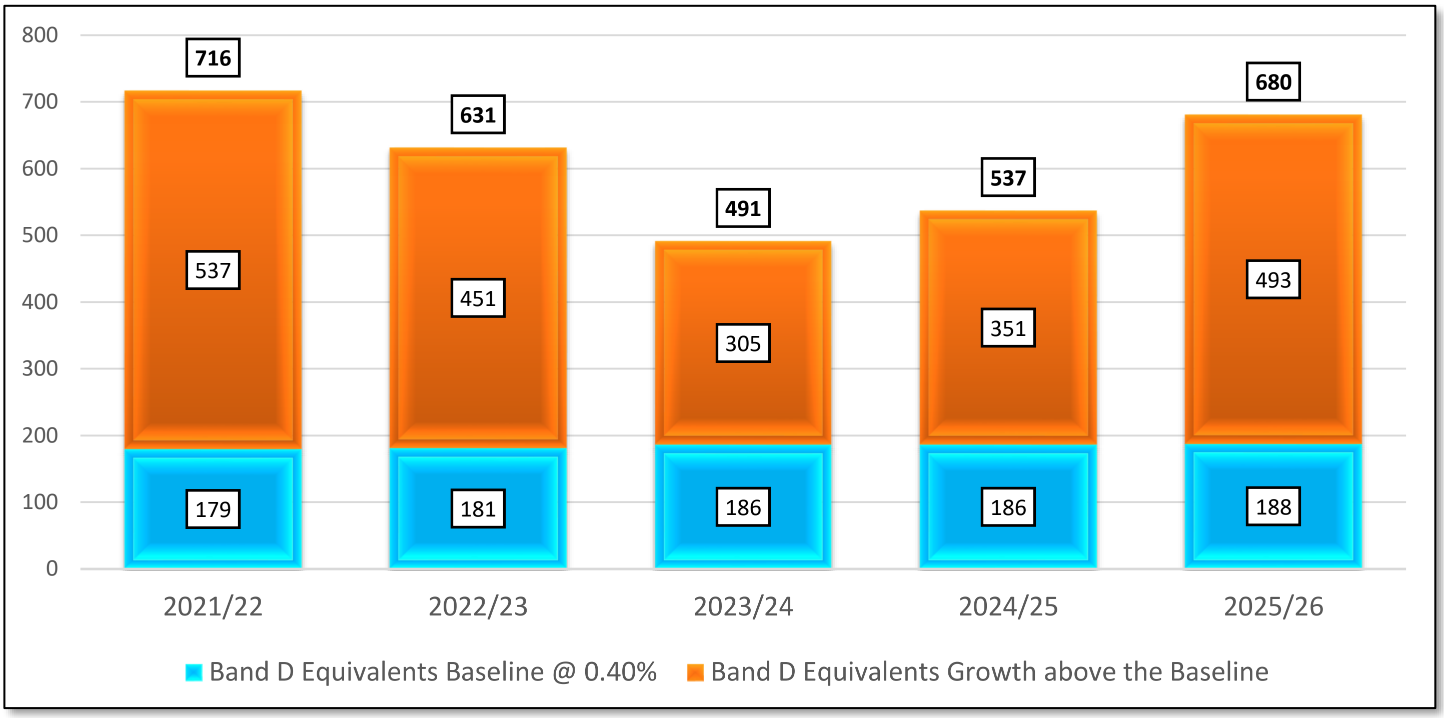


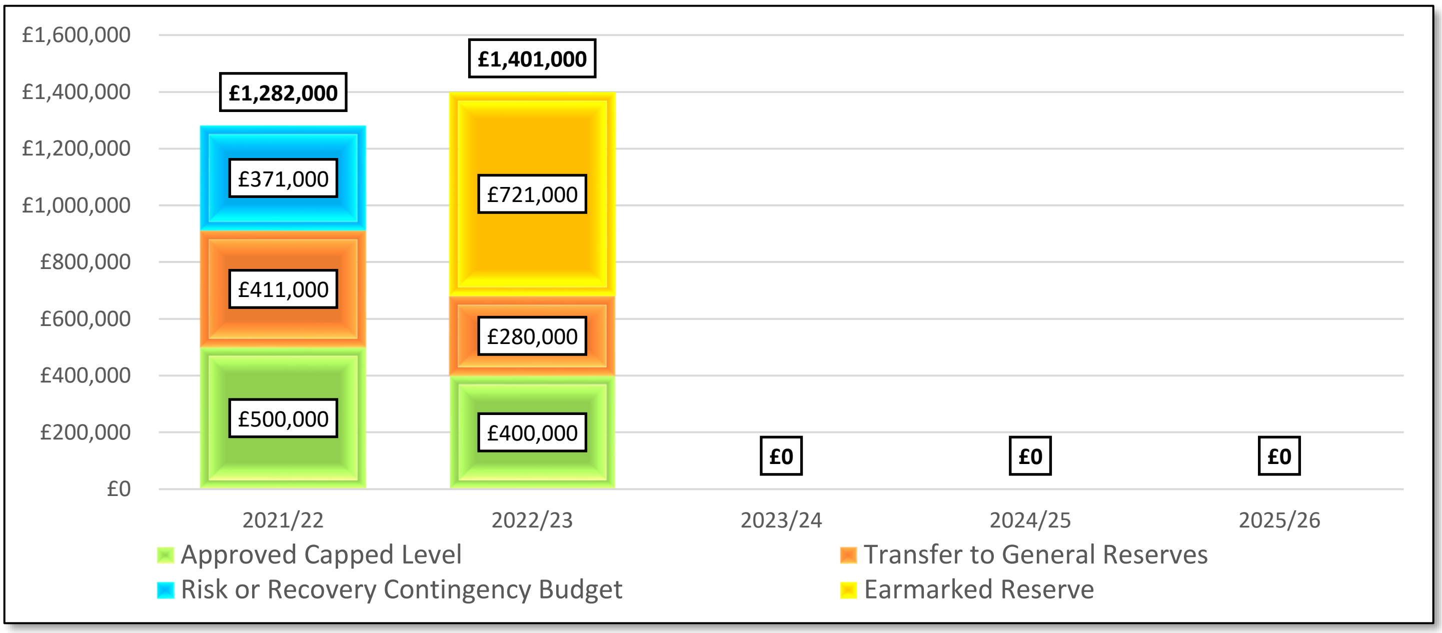
At present, the Medium Term Financial Strategy does not include any allowances for managing the transition from the current Local Government Finance system to the new Local Government Finance System.

APPENDIX A

New Homes Bonus

The budgets for housing supply (based on the current New Homes Bonus reward system) and New Homes Bonus, with the planned review in 2022/23 providing uncertainty beyond 2023/24 are:





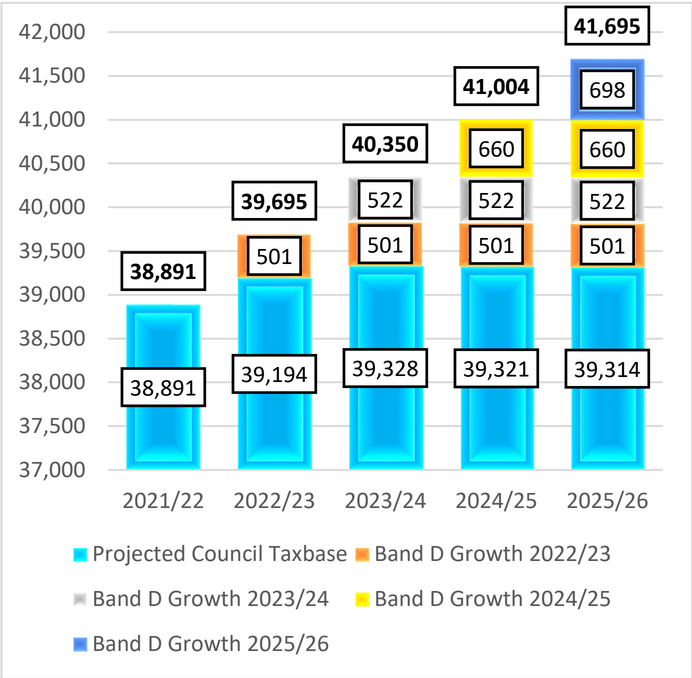
The change in New Homes Bonus income compared to the Approved Medium Term Financial Strategy is shown below:

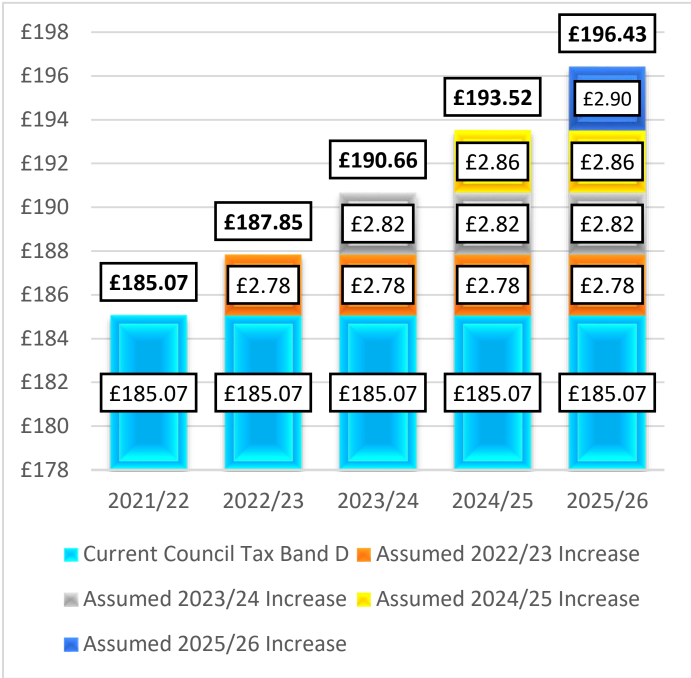
Capped Level	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Approved MTFS	(£500,000)	(£400,000)	-	-	-
Draft MTFS	(£500,000)	(£400,000)	-	-	-
Change	-	-	-	-	-

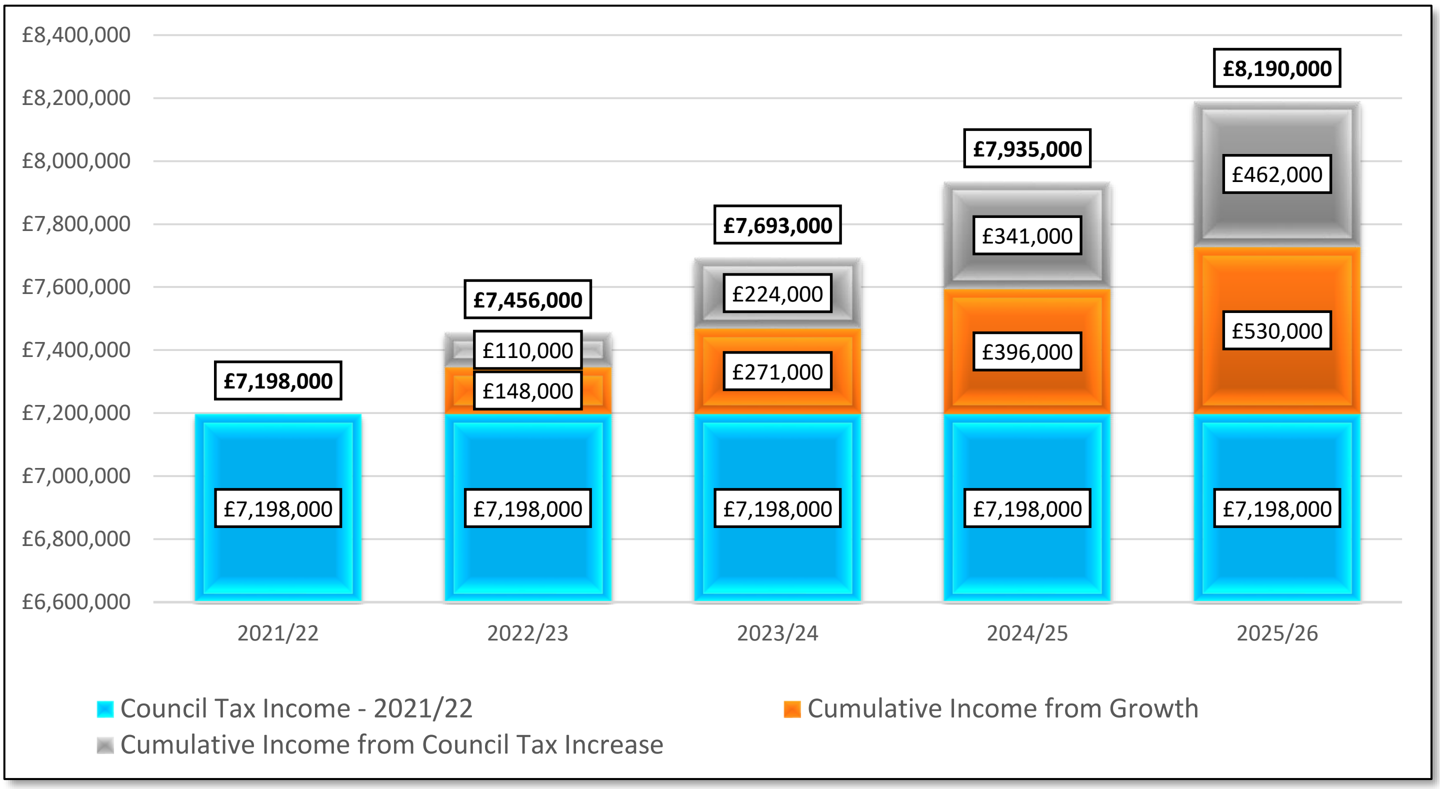
Total amount of New Homes Bonus	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Approved MTFS	(£911,000)	(£680,000)	-	-	-
Draft MTFS	(£911,000)	(£1,401,000)	-	-	-
Change – higher income	-	**(£721,000)**	-	-	-

Council Tax

The Approved Budgets for Council Tax base (with a modelled increases to Council Tax Band D) and income are:







The change in Council Tax income compared to the Approved Medium Term Financial Strategy is shown below:

	2021/22	2022/23	2023/24	2024/25	2025/26
Approved MTFS	(£7,198,000)	(£7,551,000)	(£7,927,000)	(£8,224,000)	(£8,493,000)
Draft MTFS	(£7,198,000)	(£7,456,000)	(£7,693,000)	(£7,935,000)	(£8,190,000)
Change – lower projected income	**-**	**£95,000**	**£234,000**	**£289,000**	**£303,000**

Revenue Budget – 25 Year Model (1 to 10 years, 15 years, 20 years and 25 years)

Key Assumptions													
Year	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**2035/36**	**2040/41**	**2045/46**
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**15**	**20**	**25**
Council Tax Base	38,891	39,695	40,350	41,004	41,695	42,167	42,167	42,470	42,773	43,076	44,591	46,106	47,621
Projected Residential Growth - LHN							303	303	303	303	303	303	303
Projected Council Tax Base							**42,470**	**42,773**	**43,076**	**43,379**	**44,894**	**46,409**	**47,924**
Council Tax Band D	£185	£188	£191	£194	£196	£199	£203	£207	£212	£216	£238	£263	£290
Modelled Council Tax Increase	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.99%	1.99%	1.99%	1.99%	1.99%	1.99%	1.99%
LG Futures Property Based Unit Cost	£53	£54	£55	£56	£57	£58	£59	£61	£62	£63	£70	£77	£85
Core Budget Inflation Allowance						2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Funding and Pension Inflation Allowance						2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

	Medium Term Financial Strategy					**Additional Projections**							
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**2035/36**	**2040/41**	**2045/46**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**15**	**20**	**25**
Modelled Total Expenditure	**12,199**	**12,551**	**10,708**	**11,180**	**11,550**	**11,550**	**11,993**	**12,451**	**12,924**	**13,412**	**16,097**	**19,232**	**22,888**
<u>Inflation and Budget Variations</u>													
Provision for Pay and Other Inflation						274	296	308	319	332	398	476	567
Budget Pressure - Residential Growth						27	18	18	19	19	21	23	26
Provision for Budget Variations													
Revenue Implications of Capital Bids						0							
Sub Total	**12,199**	**12,551**	**10,708**	**11,180**	**11,550**	**11,851**	**12,307**	**12,777**	**13,262**	**13,763**	**16,516**	**19,732**	**23,481**
<u>Other Projections</u>													
Annual Increase in Past Service Pensions						145	148	151	154	157	173	191	211
Replacement for FGLC Debt Costs						(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Total Modelled Expenditure	**12,199**	**12,551**	**10,708**	**11,180**	**11,550**	**11,993**	**12,451**	**12,924**	**13,412**	**13,916**	**16,686**	**19,919**	**23,688**

APPENDIX A

	Medium Term Financial Strategy					Additional Projections							
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**2035/36**	**2040/41**	**2045/46**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Modelled Funding:													
Retained Business Rates													
Baseline Funding Level	(2,117)	(2,117)	(1,799)	(1,826)	(1,863)	(1,900)	(1,938)	(1,977)	(2,017)	(2,057)	(2,271)	(2,507)	(2,768)
Retained Growth - full & phased resets	(1,005)	(1,194)	(542)	(654)	(765)	(781)	(796)	(812)	(829)	(845)	(933)	(1,030)	(1,137)
New Homes Bonus / Replacement													
New Homes Bonus - total receipt	(1,282)	(1,401)	0	0									
New Homes Bonus - Replacement					0	0	0	0	0	0	0	0	0
Council Tax and Other Funding													
Collection Fund and one off funding	(360)	(383)	52	0	0	0	0	0	0	0	0	0	0
Council Tax	(7,198)	(7,456)	(7,693)	(7,935)	(8,190)	(8,407)	(8,636)	(8,871)	(9,111)	(9,358)	(10,687)	(12,192)	(13,894)
Total Modelled Funding	**(11,962)**	**(12,551)**	**(9,982)**	**(10,415)**	**(10,818)**	**(11,088)**	**(11,371)**	**(11,660)**	**(11,956)**	**(12,260)**	**(13,891)**	**(15,730)**	**(17,800)**

Modelled Funding Gap/(General Reserves)	**237**	**0**	**726**	**765**	**732**	**905**	**1,080**	**1,264**	**1,456**	**1,656**	**2,795**	**4,190**	**5,888**

Memorandum Item	**Legacy Payments**				**New Scheme**			
New Homes Bonus - Base Budget	(500)	(400)	0	0	0	0	0	0

	Medium Term Financial Strategy					Additional Projections							
General Reserves Year Start	**5,114**	**5,288**	**5,568**	**4,842**	**4,077**	**3,345**	**2,441**	**1,361**	**97**	**(1,360)**	**(3,016)**	**(3,016)**	**(3,016)**
Contributions from Revenue Account	(237)	0	(726)	(765)	(732)	(905)	(1,080)	(1,264)	(1,456)	(1,656)	0	0	0
New Homes Bonus in excess of the 'Cap'	411	280	0	0	0								
Available General Reserves Year End	**5,288**	**5,568**	**4,842**	**4,077**	**3,344**	**2,441**	**1,361**	**97**	**(1,360)**	**(3,016)**	**(3,016)**	**(3,016)**	**(3,016)**
Minimum Level	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600			
Total General Reserves	**6,888**	**7,168**	**6,442**	**5,677**	**4,944**	**4,041**	**2,961**	**1,697**	**240**	**(1,416)**			

Corporate Fees and Charges Policy

Introduction

There are a range of reasons why authorities should have a corporate charging policy in place:

- Charging has a significant role to play as a policy instrument, contributing towards the achievement of corporate and service objectives.
- Charges can be used as a tool to manage demand or influence behaviour, through encouraging/discouraging the use of services and/or the patterns of use of services.
- The policy can provide clarity over why different charges are set for different user groups e.g. through the use of discounts/concessions.
- Charging as an income source can contribute towards the achievement of financial objectives, linked to the Medium-Term Financial Strategy, given its significance, particularly in the context of decreasing external funding.

Corporate Charging Principles

It is recommended that, when setting charges, these are set so as to:

1. Contribute to the achievement of corporate and service objectives
2. Maximise potential income, to achieve financial objectives, unless there is an explicit policy decision to subsidise the service
3. Be capable of being justified, in comparison with other similar providers
4. Take account of the ability of different users to pay, through the use of discounts and concessions, where appropriate
5. Differentiate between differing levels of a service being provided
6. Take account of the views of and minimise the impact upon users, where new or significantly higher charges are proposed, and where this is possible
7. Optimise the ease of collection of charges and minimise the costs of collection
8. Be regularly reviewed, using the latest available market information, and revised/updated, based upon such new information

The rationale for each of these charging principles is discussed further below.

1. Contribute to the achievement of corporate and service objectives

1.1 Charges are clearly not an end in themselves, but should be used as a means to contribute towards the achievement of specific corporate and service objectives. Managers should therefore be able to identify whether or not a service can legally be charged for and, if so, clearly articulate how, through charging for the service and in the level and application of the charge, they are contributing towards these objectives.

1.2 As identified above, there will be instances where charging is prohibited or restricted; however, even under such statutory frameworks, it is still good practice to make the link between the levels of service provided e.g. basic, enhanced, and the policy objective being addressed.

1.3 A summary of the current pricing policies adopted and the policy objective that they are primarily intended to achieve are summarised in the table below:

Pricing Policy	Policy Objective
Full commercial	The Council seeks to maximise income within an overall objective of generating surpluses to offset related overheads e.g. trading companies for property and investment, trade refuse collection.
Fair charging	The Council seeks to maximise income, but subject to a defined policy constraint e.g. charges for car parking. Alternatively, a full commercial rate may not be determinable or the Council may be a monopoly supplier of services.
Full Cost recovery	A Council wishes to make the service generally available, but does not wish to subsidise the service e.g. street naming. Therefore prices are based on the direct cost and overheads related to the activity.
Subsidised	Council policy is to make the service widely accessible, but believe users of the service should make some contribution from their own resources e.g. leisure charges.
Nominal	The Council wishes the service to be fully available, but sets a small user charge e.g. confirmation of residency letter.
Free	Council policy is to make the service fully available and funded through corporate resources, rather than specific fees e.g. free access to parks/public open spaces.
Statutory	Charges are set in line with national legal requirements and there is no local discretion over the level of the charge e.g. planning application fees. In some instances, there might be statutory constraints, whereby there is some limited, but not complete, and discretion over the level of the charge.

2. Maximise potential income, to achieve financial objectives, unless there is an explicit policy decision to subsidise the service

2.1 There will clearly be a need for charges to contribute towards the achievement of financial objectives, particularly in the context of the current financial climate (assuming that these do not conflict with the overall policy framework). If the legal powers exist to charge, managers will need to justify the reasons for any instances where charges are not being made.

2.2 Generating/maximising income not only has financial benefits, but can also allow the service to develop capacity, deliver efficiency and sustain continuous service improvement. The example financial policies for charging/constraints set out in the table above should assist in identifying what financial objective is intended to be achieved from the charge, and, as can be seen, there will be a range of circumstances where it is not appropriate to maximise potential income.

2.3 However, the key issue for the Council in financial terms, is to ensure that managers do not inadvertently provide a subsidised service where there is no explicit policy objective to do so. This could take place for a number of reasons, such as:

- Not taking account of the full costs of service provision e.g. capital costs, overheads/recharges, costs of collection, as well as direct costs of provision
- Not increasing charges for inflation or only rolling forward by inflation annually and not taking account of the increased costs of service provision e.g. where fuel costs increase significantly above inflation
- Charging the same amount for different types of service user e.g. a commercial operator and a member of the public
- Instances where the charge is set inappropriately low, resulting in over-use or abuse of the service

2.4 In order for charges to be set at an appropriate level, therefore, this will require managers to have a robust understanding of the full range of costs associated with the provision of the service.

2.5 In addition, when setting charges, managers will need to be aware of the relationship between the level of charge and the potential impact upon demand, in terms of optimum price sensitivity e.g. as a higher charge may not necessarily maximise total income, if usage decreases disproportionately.

3. Be capable of being justified, in comparison with other similar providers

3.1 Clearly, where Councils have discretion over the level of their charges, they are free to exercise local member and service choice, taking into account factors such as the type and quantity of chargeable services that they provide and therefore the level of charges and associated subsidy.

3.2 Charges often vary considerably, even between similar authorities, and there may be reasons why charges may vary in this manner e.g. the use of alternative models of service provision. However, there are equally areas for which authorities are unable to explain why their service charges (or even expenditure as a whole) differs so widely from other similar providers and where they may not even be aware of such differences in the first instance.

3.3 There is therefore a need to compare charges, both with other authorities and with private sector providers, where there is an external market, and understand reasons for any differences. Such differences are not necessarily a cause for concern e.g. higher charges may have been levied as a result of a deliberate policy to provide a higher level of service, to seek to discourage excessive use etc., but should be capable of being validated.

4. Take account of the ability of different users to pay, through the use of discounts and concessions

4.1 As identified previously, there will be a number of instances where it is appropriate for charges to be subsidised for different types of users. These could include, for example:

- To achieve a specific policy objective e.g. encouraging healthy living through subsidised use of leisure facilities
- Structuring charges differently e.g. a lower rate per hour for car parking at off-peak times, to ration service use at peak times when demand exceeds supply
- Where users have limited financial means e.g. as measured by receipt of certain types of benefit and/or reduced rates for children and older people
- Applying concessions for certain types of users e.g. free parking for local residents
- Discounts linked to loyalty/take-up of the service e.g. for frequent users

4.2 The Council may have a corporate policy on service user groups which receive subsidised access to all (or many) services e.g. children's and older people's discounts. For certain services, eligibility criteria for services may also be established.

4.3 Key factors that the Council will need to take into account when considering the use of eligibility criteria/discounts/concessions include:

- The link between the discount/concession and the policy/service objective that the charge is intended to contribute towards
- The link between the discount/concession and the Council's diversity/equalities policies
- Whether a generic concession should be applied for all services e.g. those in receipt of means-tested benefits, or whether the concession should be targeted towards a specific user group, depending upon individual service issues
- How the discount/concession will be funded e.g. from other users of the same service, from Council Taxpayers more widely, and the financial implications of the subsidy
- The need to review the degree to which eligibility criteria/discounts/concessions remain appropriate over time e.g. as take-up increases
- Minimising the burden upon those applying for discounts/concessions e.g. ensuring that they do not have to provide duplicate information to more than one Council service
- The link between take-up of benefits and maximising overall Council resources e.g. if benefit take-up contributes towards funding received from central government
- Whether the concession or discount is funded through cross-subsidy by other service users, through higher charges, or whether it is funded corporately.
- The costs of determining and managing the discount or concession.

5. Differentiate between differing levels of a service being provided

5.1 Where the Council has discretion over the level of charge and also the level of service provided, it is important that the charge reflects the degree of usage of service resources and value added.

5.2 Whilst the same level of staffing resources may be required in some cases, the service user could be receiving higher added value under a quicker turnaround option or a more frequent service, for example, and therefore a higher premium for the service may be appropriate.

6. Take account of the views of and minimise the impact upon users, where new or significantly higher charges are proposed, and where this is possible

6.1 Where the Council is operating in a competitive environment, users have the freedom to use alternative providers if similar services are provided at lower cost. Consultation can be highly important, however, where the Council is in a monopoly position and needs to provide equity to service users.

6.2 Where charges are being regularly reviewed, there will be instances where the review identifies that higher service charges are required e.g. to take account of higher service costs. This may be even more of an issue where service charges have not been reviewed for some time, and have not therefore kept pace with increasing costs.

6.3 It is important that the impact upon service users of any proposed changes to charges is identified, both from an individual perspective e.g. affecting their ability to pay/use the service, and also from a Council-wide perspective e.g. affecting the extent to which policy objectives will now be achieved and the potential demand for, and therefore the level of income received for, the service.

6.4 This will be assisted by an understanding of the impact of previous changes in charges on levels of service use for different groups of service users; although, as such information may not be readily available, it will be important that this is collected in future, whenever such changes are made. In addition, consultations on services should take account of user views on levels of charges and the perceived value for money received.

7. Maximise the ease of collection of charges and minimise the costs of collection

7.1 The efficient collection of charges clearly has significant benefits in terms of minimising potential arrears levels i.e. the easier that it is made for charges to be paid, the more likely that payment will be made in practice.

7.2 In terms of administering charges, there are a number of areas which should be explicitly considered:

- Service charges and the way in which they will be paid/collected should be transparent to users
- The costs of collection should be proportionate to the actual level of income being collected
- A range of alternative payment methods e.g. format, frequency, venues, should be offered to users, with potential incentives being considered for the most efficient payment methods e.g. electronic payment, direct debit
- Procedures for the collection of arrears and write-off of debts should be clearly set out and consistently followed for all service users
- Where arrears have built up, this information should be reported to managers responsible for providing the service, in order that they are aware of any such issues from a service management perspective

8. Be regularly reviewed, using the latest available market information, and revised where appropriate

8.1 As identified previously, service charges should be contributing to the achievement of defined policy, service and financial objectives and it is therefore vital that charges (and eligibility criteria/discounts/concessions) are reviewed on a regular basis to ensure that this continues to be the case.

8.2 The council may wish to distinguish between those fees and charges that need approval by members and those that do not. In addition, a de-minimis limit could also be set for such a review, although clearly, it will be important that areas not currently charged for (but which could potentially be) are also considered. In terms of scope, all external charges should be considered, and it may also be appropriate to include charges made through external Service Level Agreements e.g. traditional 'blue collar' services.

8.3 In order for such review to be effective, managers will need to take into account relevant market information e.g. changes in legislation; patterns of service use; benchmarking data; price sensitivity; opportunities to introduce or extend charges etc.

8.4 This need not necessarily be a highly detailed exercise, but managers should at least be certain that charges are achieving their intended objective(s) and have been set appropriately. If this is not the case, clearly managers will need to amend charges accordingly e.g. increasing charges if the costs of provision have increased or amending discount/concession schemes if they are no longer relevant

Recommended Capital Strategy

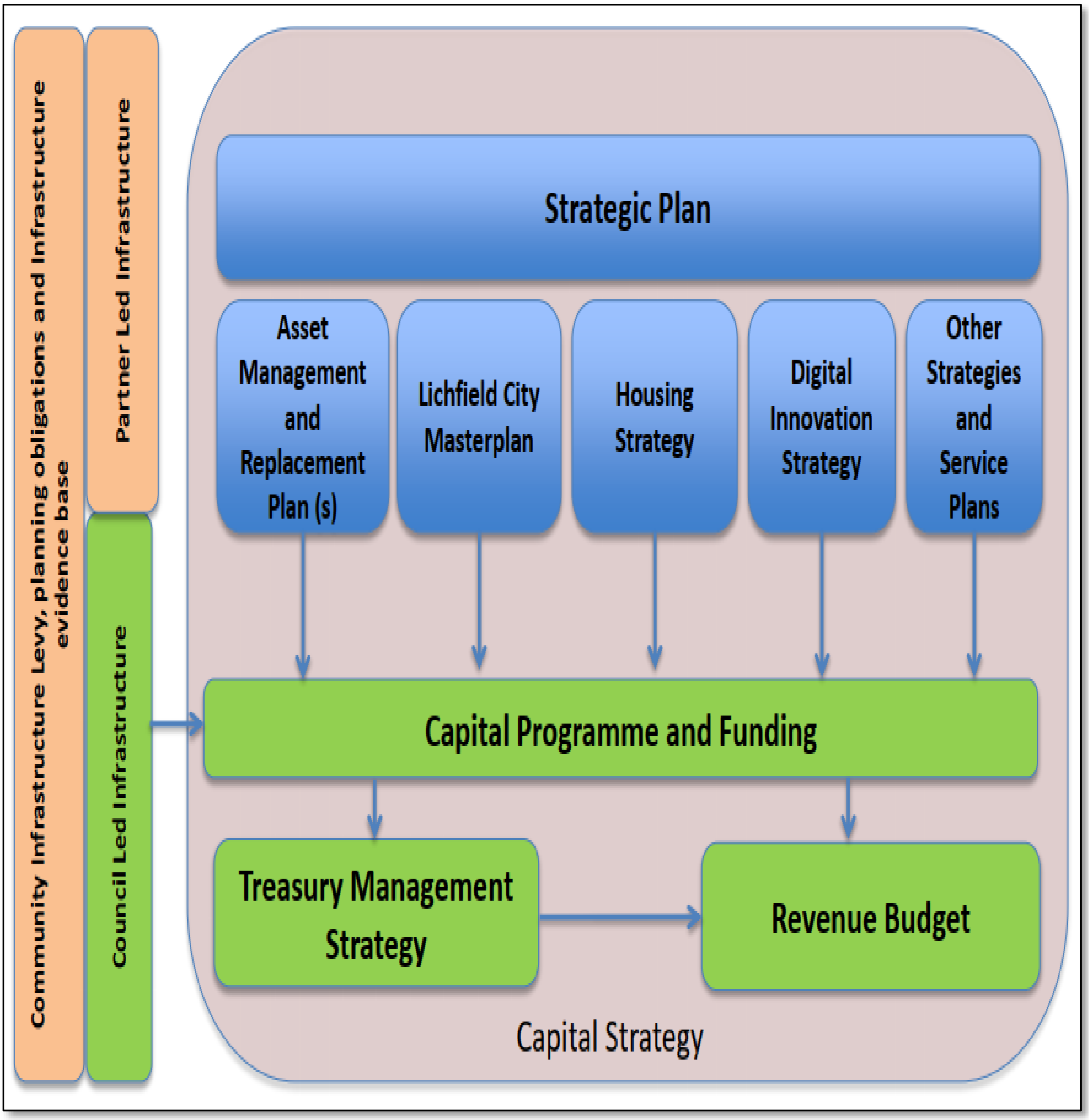
1. Introduction

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. The Capital Strategy 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:



2. The Capital Programme

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

The Financial Planning Timetable and Governance Responsibility

Service and Financial Planning	July	Medium Term Financial Strategy
	August	
	September	Money Matters as at 30 June
Review Medium Term Financial Strategy		
	October	Medium Term Financial Strategy
Review Medium Term Financial Strategy	November	
Mid Year Treasury Management Report		
	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	February	Money Matters as at 30 November
Approve the Medium Term Financial Strategy and set the Council Tax		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 ongoing capital investment needs identified in the 25 year capital investment model 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:

Strategic Priority	Draft Capital Programme 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**

Funding Source	Draft Capital Programme 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:

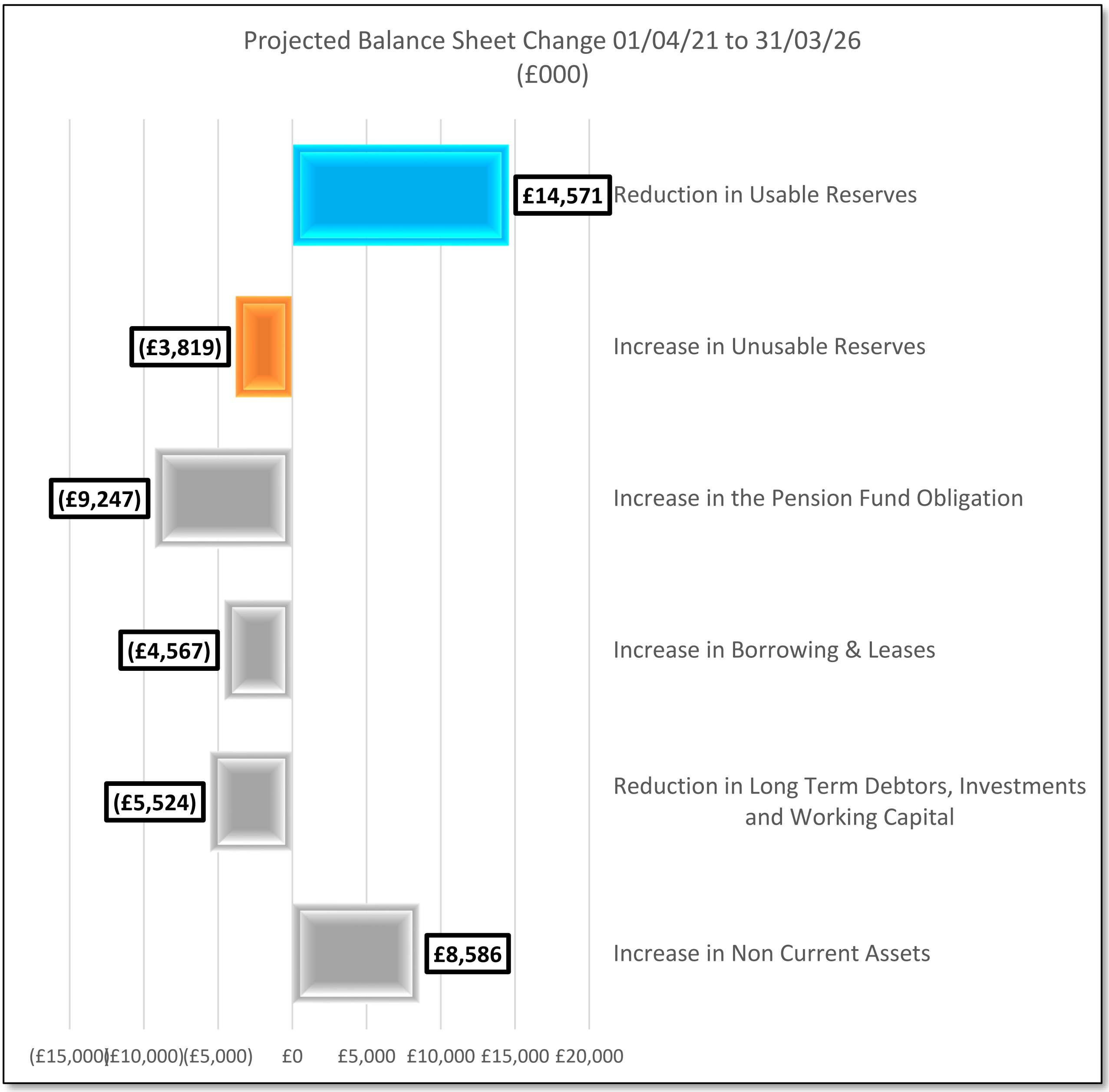
Revenue Implications	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Interest on Loan to the LA Company	0	(4)	(18)	(22)	(22)
Friary Grange - Refurbishment	135	135	135	135	0
Coach Park Operation Costs	0	0	50	50	50
IT Hardware	9	4	(38)	9	9
Replacement Leisure Centre Debt Costs	0	0	0	294	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)**

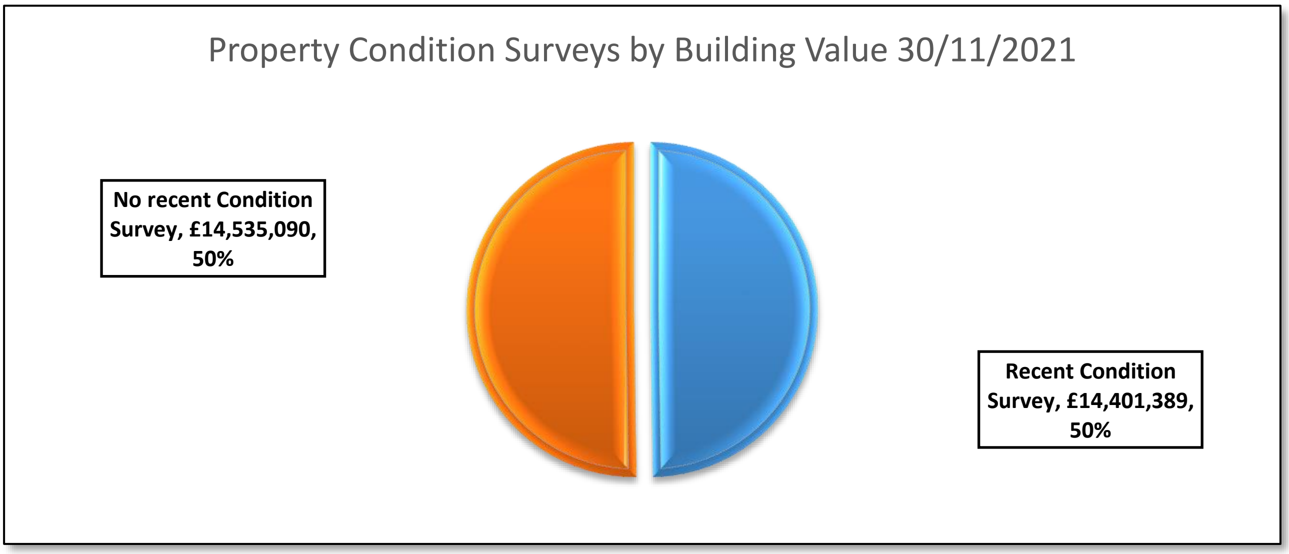
3. The Balance Sheet (in £000s)

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



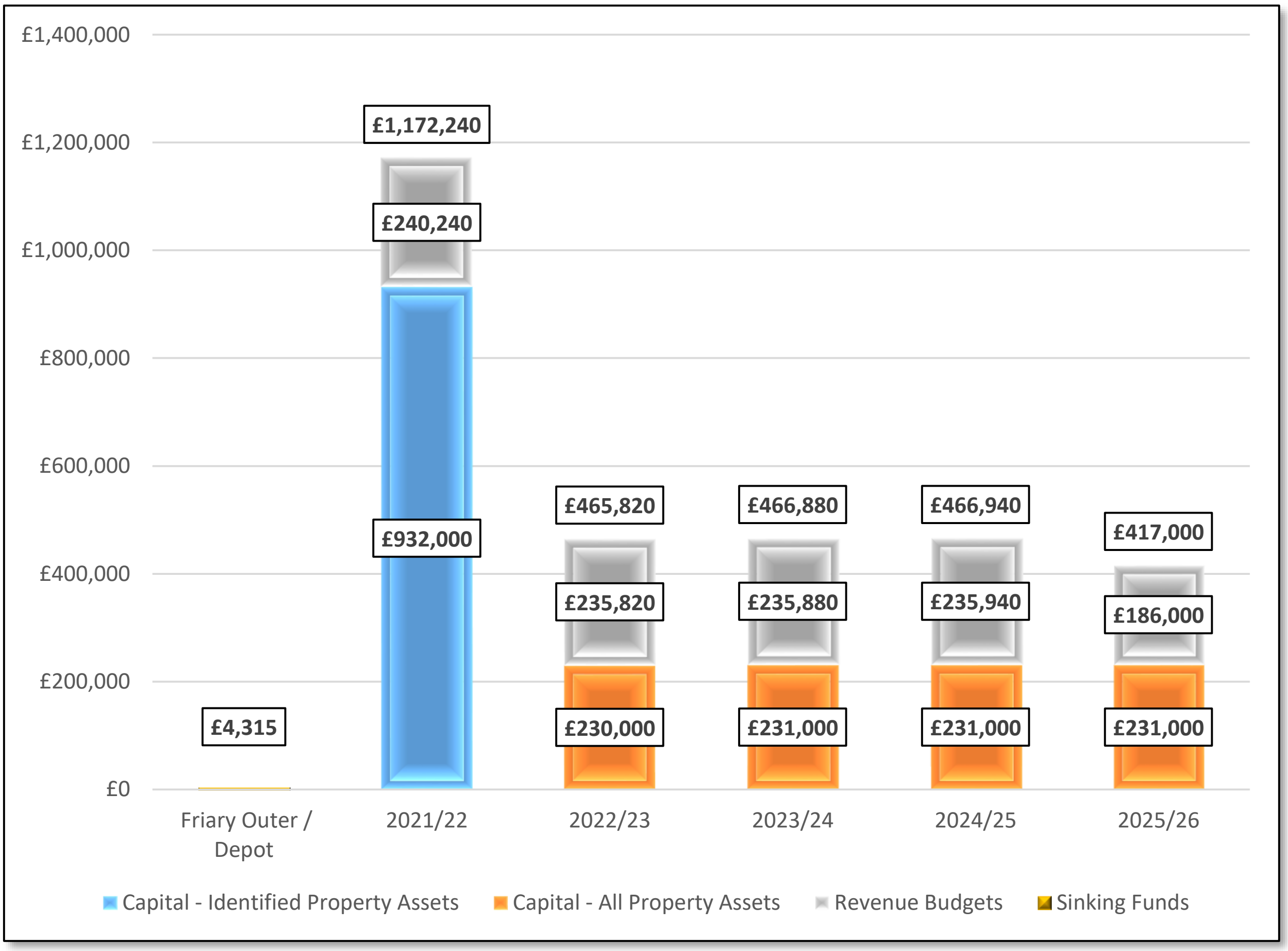
4. Asset Management Planning

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:

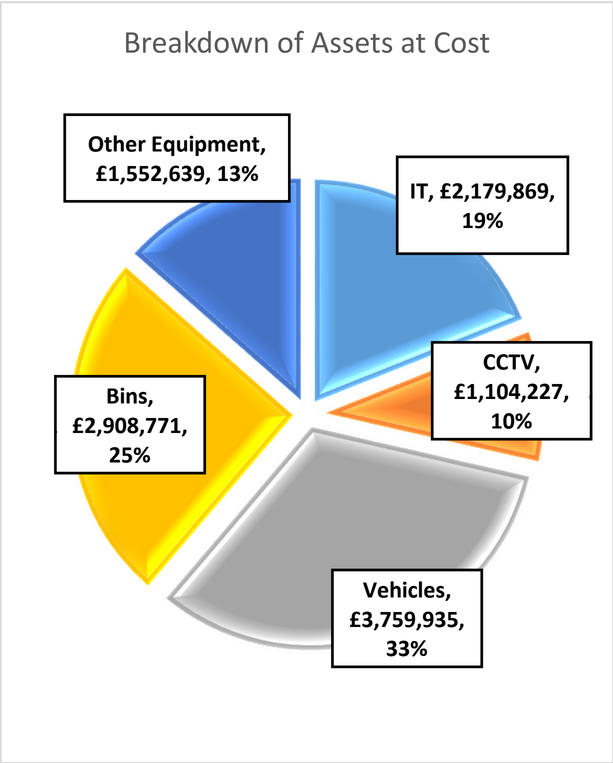


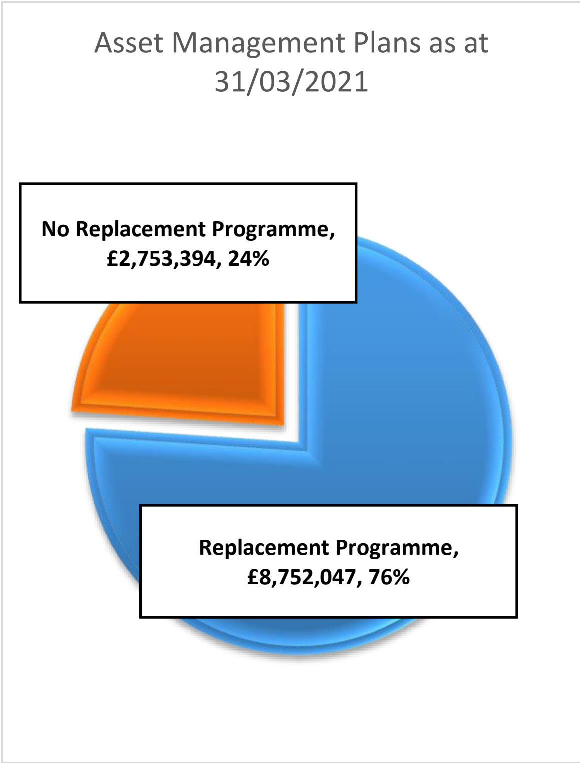
4.2. For financial planning purposes, an annual budget of **£230,000** (based on a % of projected asset value) has been included in the Capital Programme and Longer Term Capital Investment Plan.

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

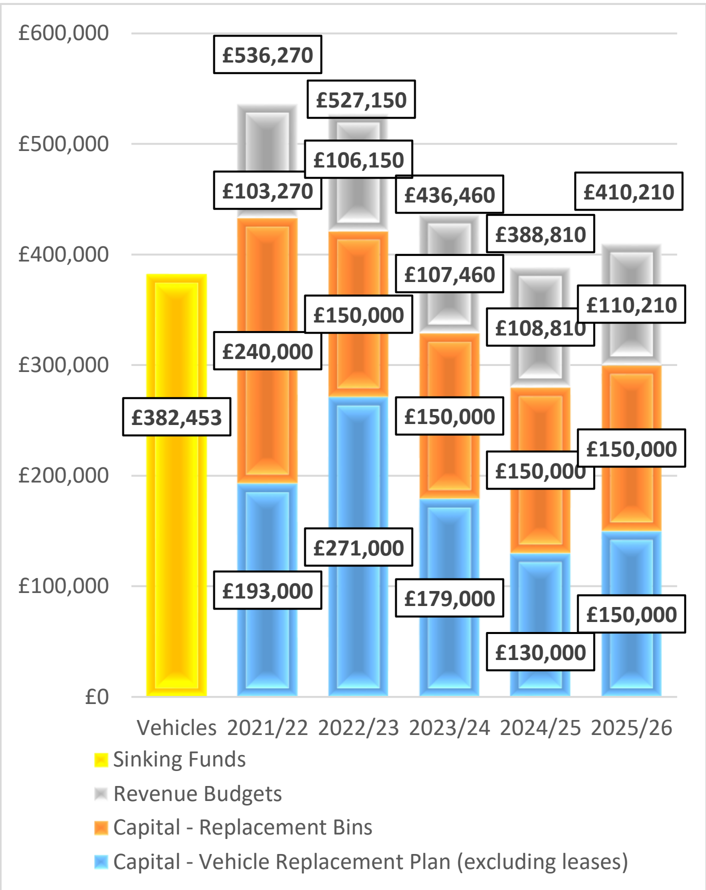


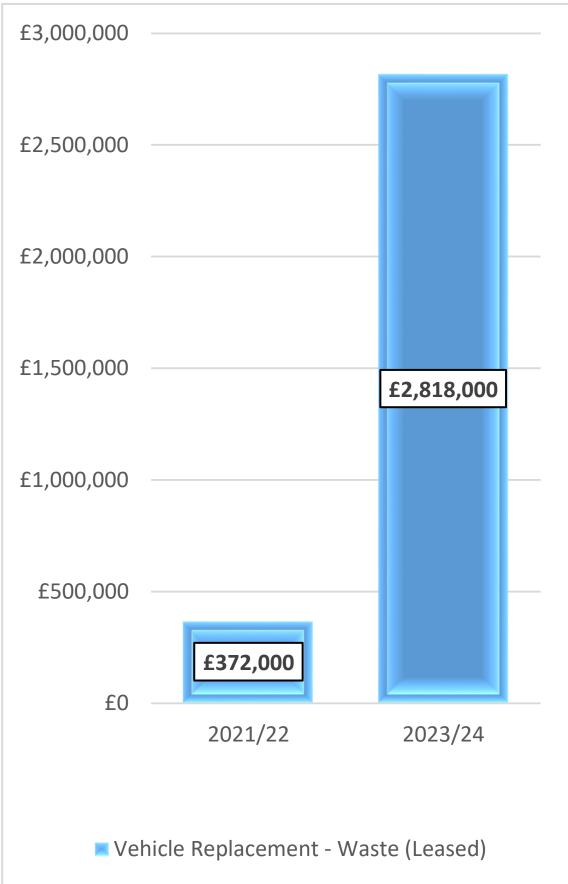
4.4. The Asset Management Plans in place for vehicles, plant and equipment assets are:





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





5. Longer Term Capital Investment Planning

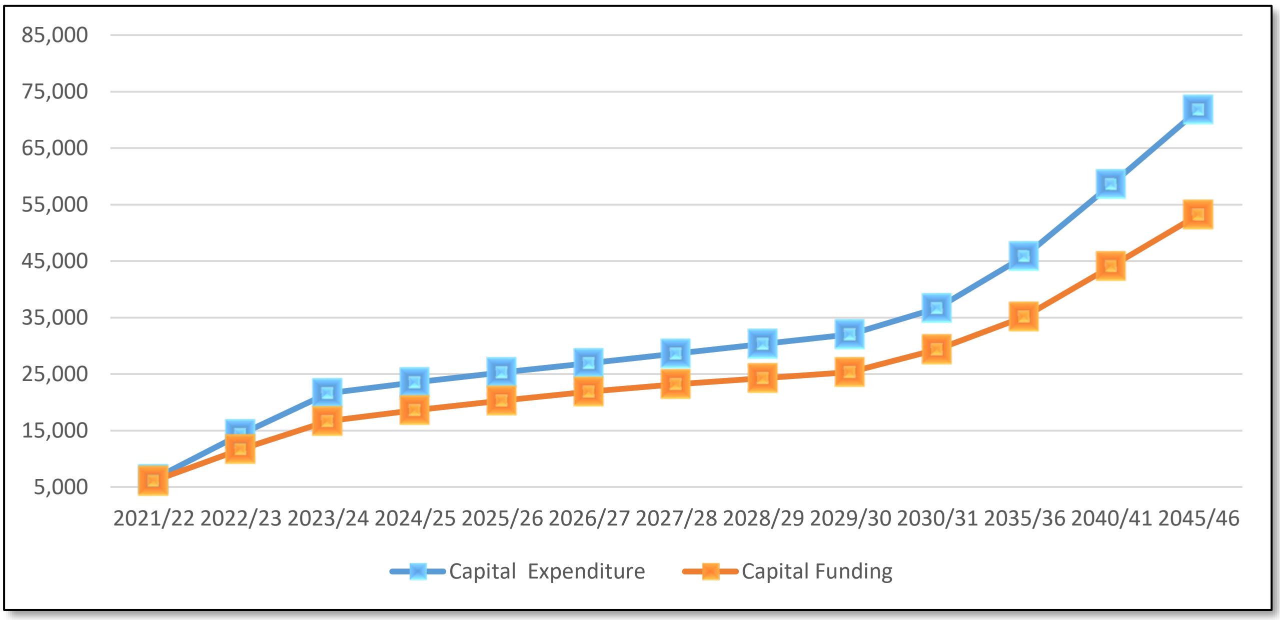
5.1. The Medium Term Financial Strategy covers a relatively short period of time (current financial year plus the next four years) and this short horizon is not reflective of the longer term investment needs associated with asset ownership.

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:



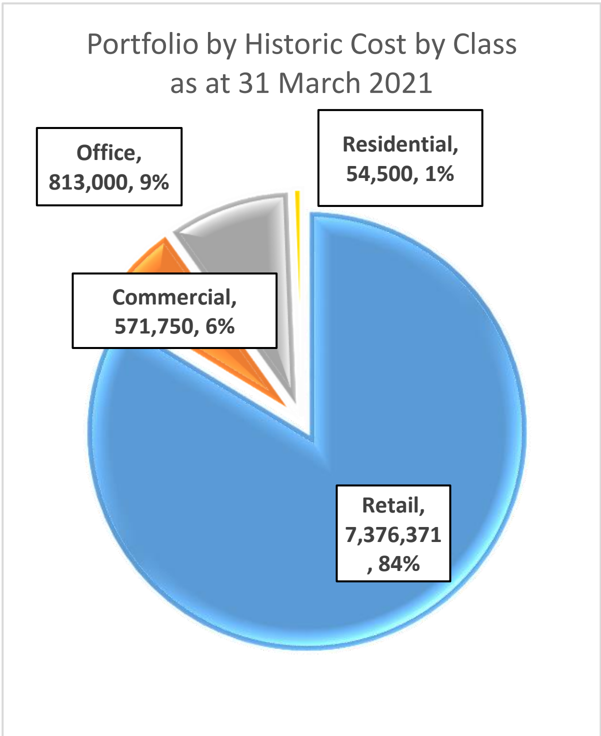
5.5. The difference between capital expenditure and funding would result in an increase in the cumulative level of borrowing need of **£19m** (including £5m approved for the new Leisure Centre).

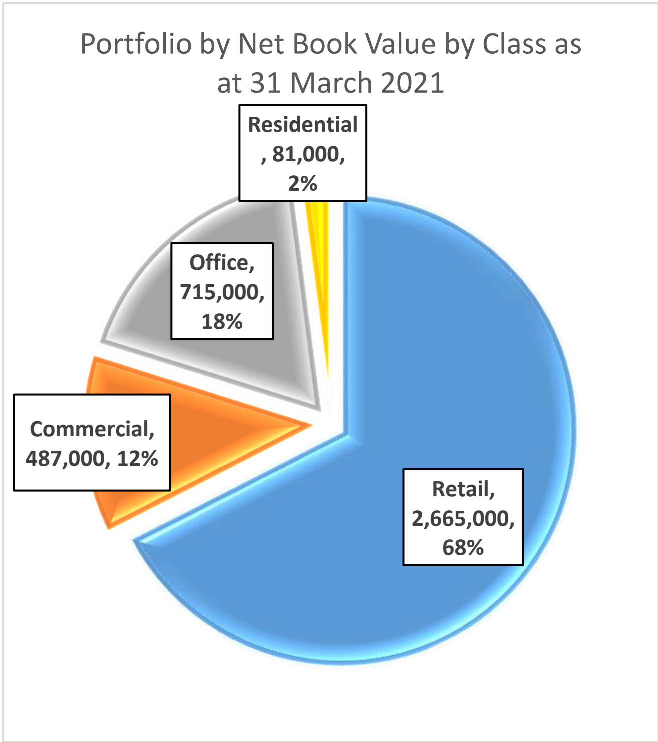
5.6. This additional borrowing need would result in additional and increasing debt repayment costs in the revenue budget thereby further increasing the Funding Gap.

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

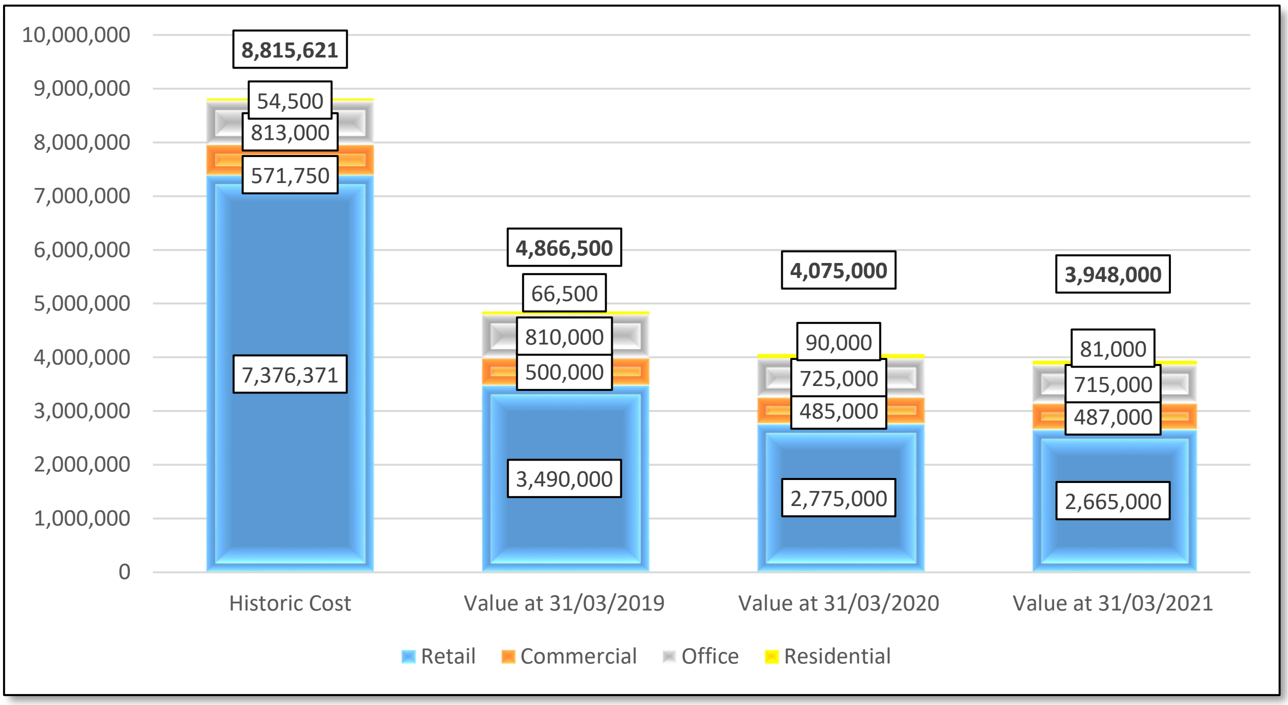
6. Current Investment in Property

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:





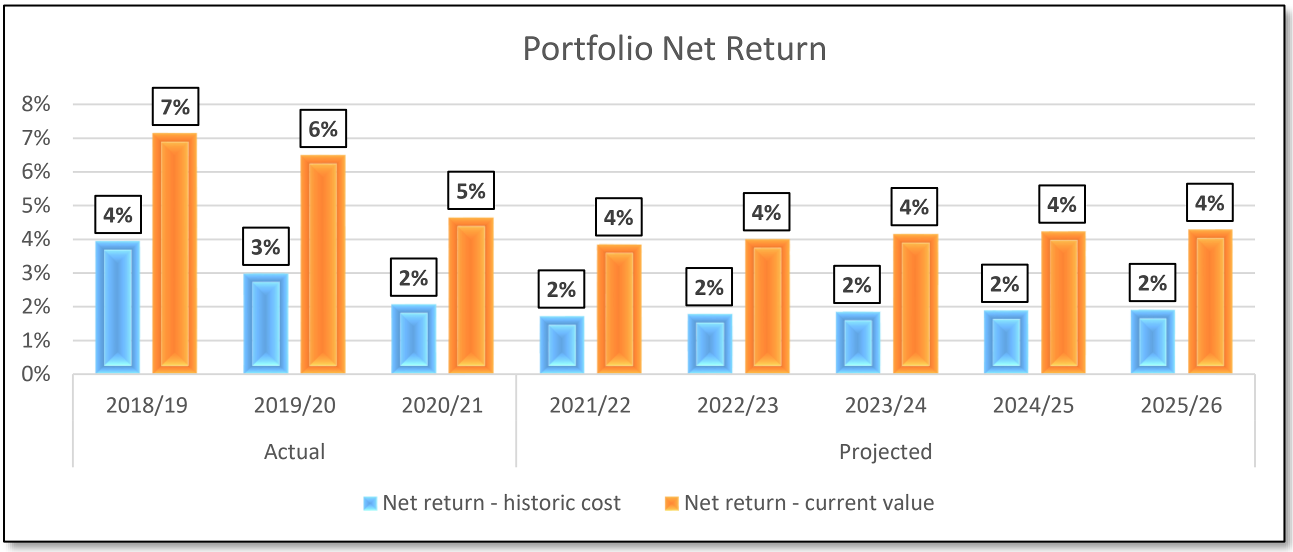
6.2. The value of these properties over the last three years is shown below:



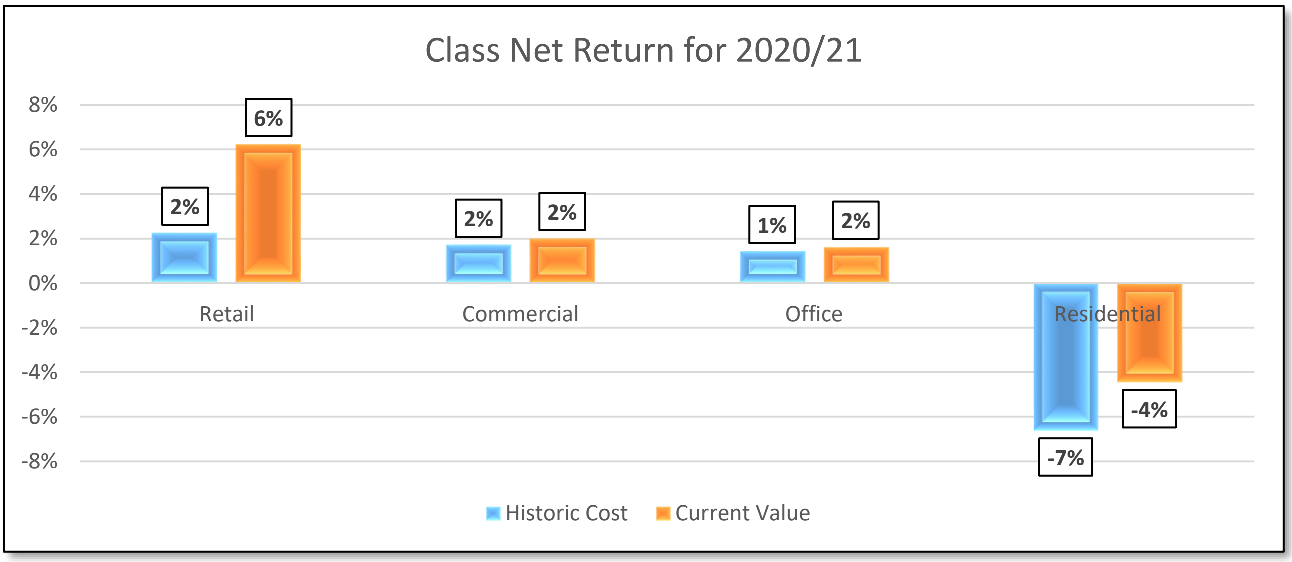
6.3. The value of these properties (mainly those classed as retail) have reduced because the value assessed by the external valuer is based on prevailing rental levels.

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

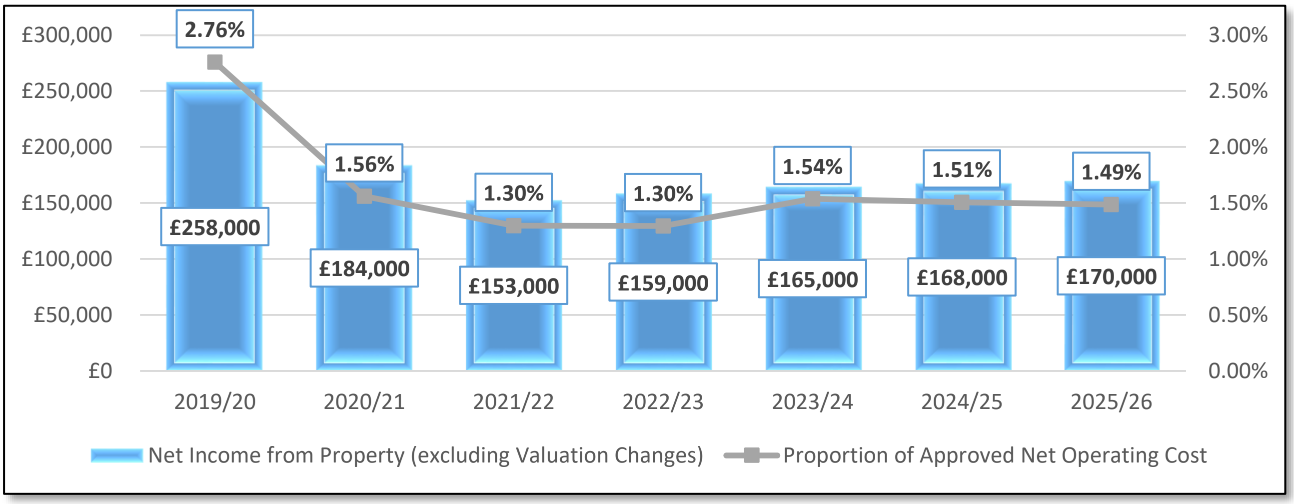
6.5. The portfolio net return based after taking account of management costs using historic asset cost and current value is shown in the chart below:



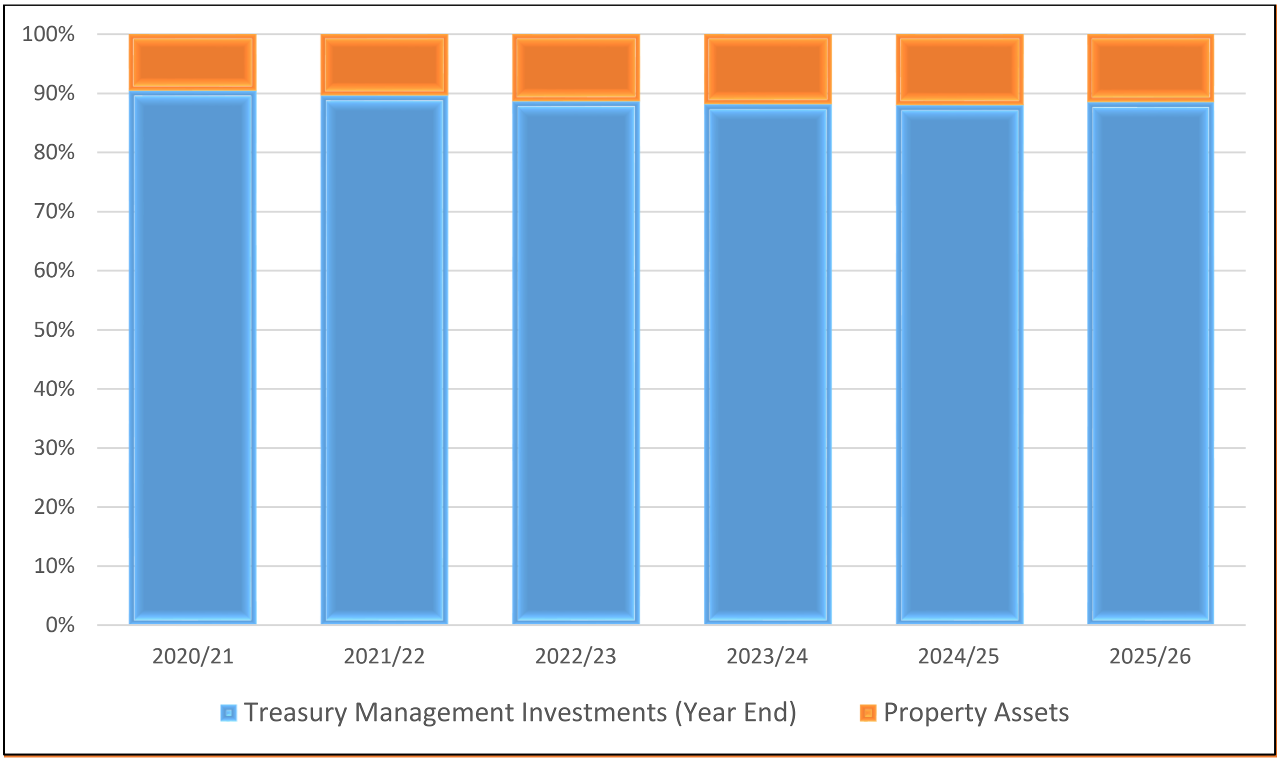
6.6. The net return is further analysed for 2020/21 by class of investment within the portfolio:



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 a gross 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

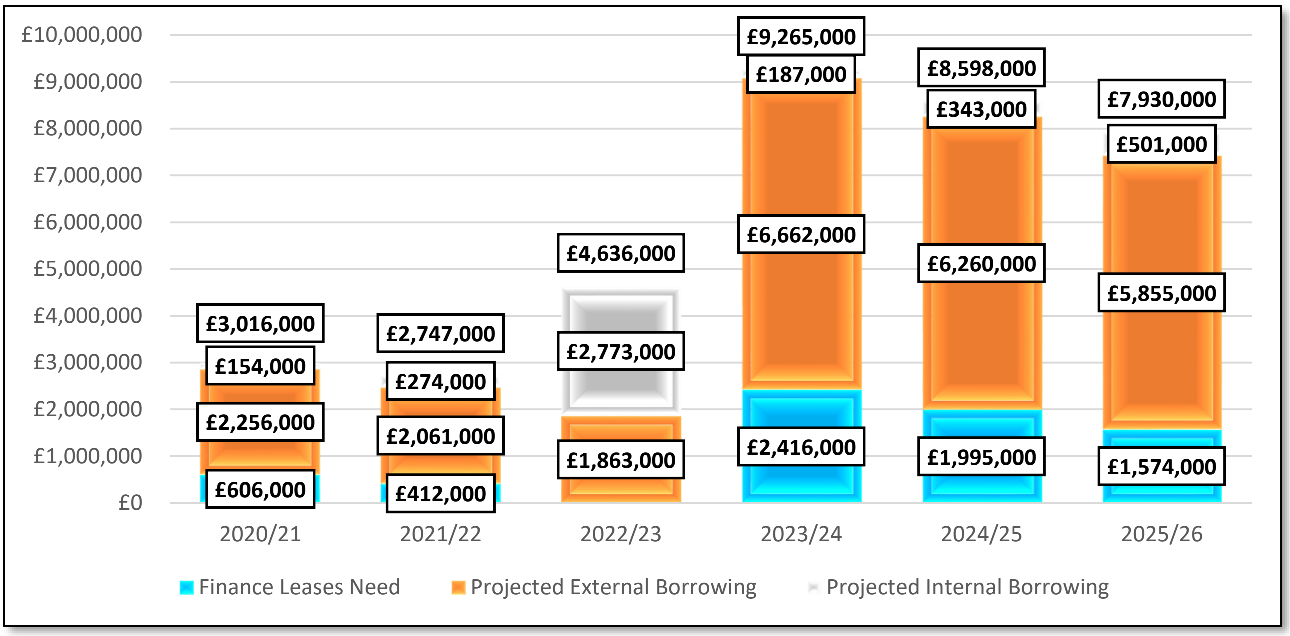
7.1. The Capital Programme is funded from a variety of sources. A number of these sources such as capital receipts, the revenue budget, grants, contributions and reserves utilise resources that are immediately available or are receivable. However when capital expenditure is approved, and these resources 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 potentially 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.

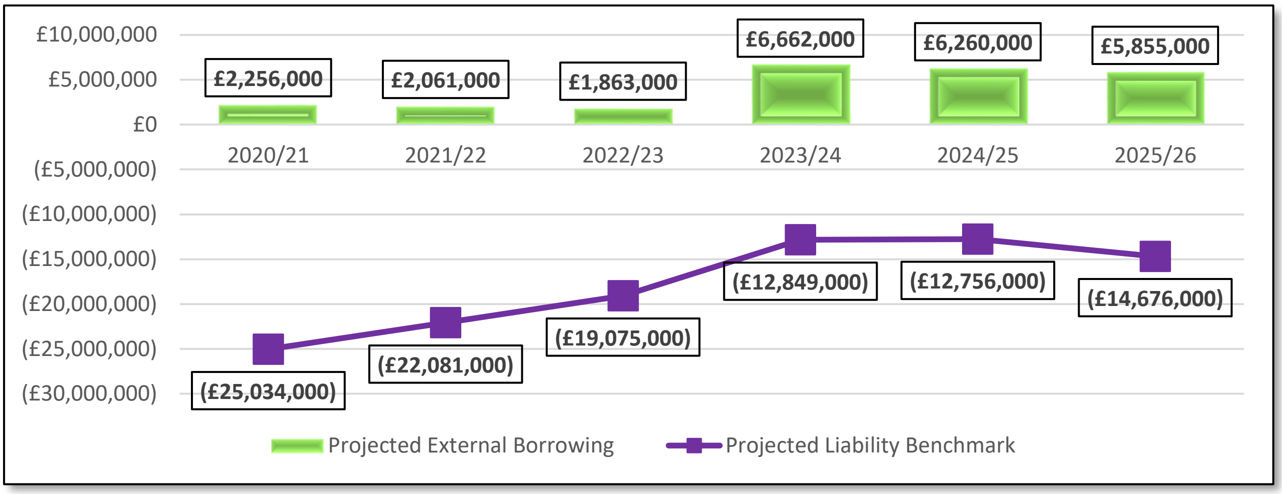
7.9. The external debt and Prudential Indicator projections based on the Capital Programme are:

	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**

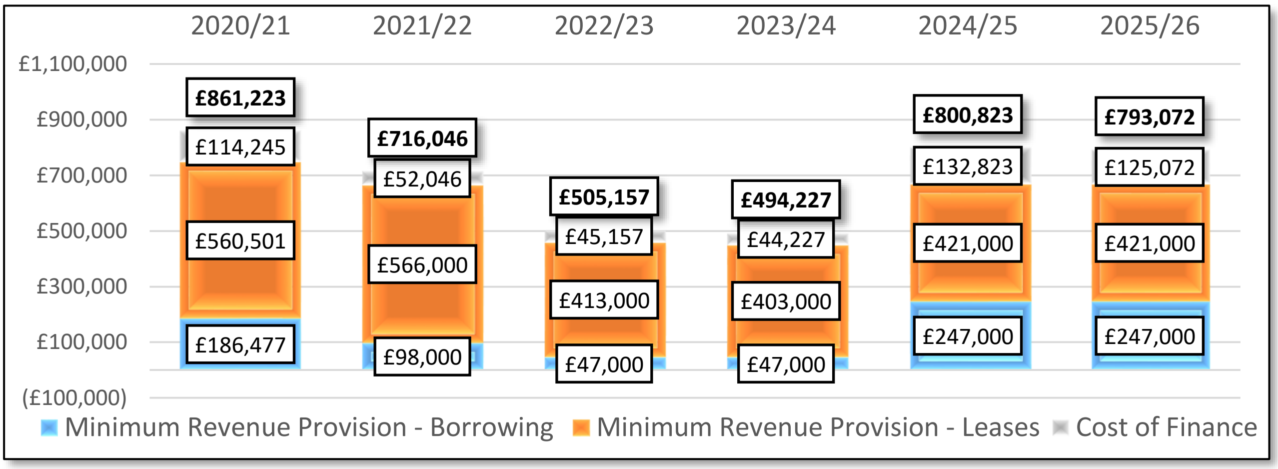
7.10. The **liability benchmark** is the lowest risk level of external borrowing by keeping cash and investments to a minimum of **£10m** at each year end to maintain liquidity but minimise credit risk.

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

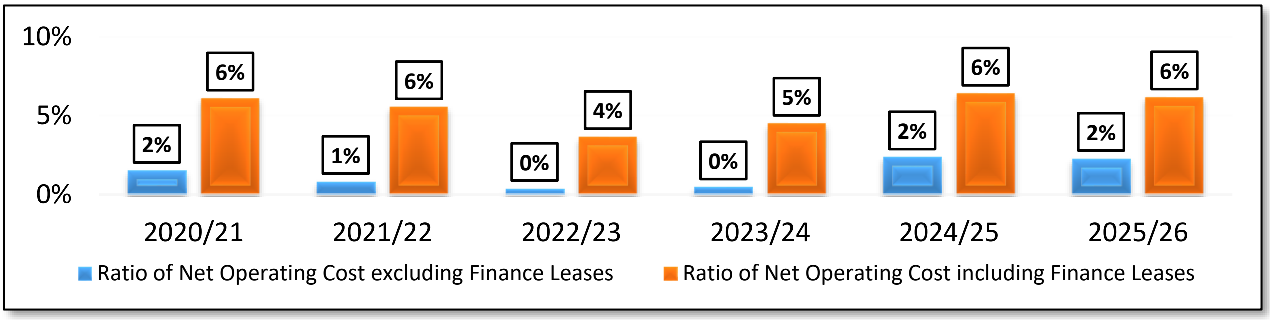


7.12. The chart above indicates that based on current Balance Sheet projections where usable reserves are reducing, the Council has sufficient resources to fund additional internal borrowing.

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, although 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	(£2.862)[4]	(£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%

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).

[4] Updated from £2.295m to include £0.607m for the long term element of finance leases.

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

Key Assumptions													
Year	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**2035/36**	**2040/41**	**2045/46**
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**15**	**20**	**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	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**2035/36**	**2040/41**	**2045/46**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
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 D

Recommended Capital Programme

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

Funding Source	Draft Capital Programme 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**
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**	
Approved Changes							
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
Other Proposed Changes							
Construction Contingency		100	100	100	100	400	08/02/2022
Projections for 2025/26							
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**	

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.

APPENDIX F

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 F

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[5]	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**	**22,550**	**22,086**	**18,720**	**15,518**	**13,507**	**(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		**(24,258)**	**(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**

[5] Investments used in Prudential Indicator of £37.330m in 2020/21 is £37.289m for investments + £0.041m 'book loss' shown in the available for sale financial instruments reserve. The projected 'book gain' in future years has been excluded from the investment figures in the Prudential Indicators.

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.

Investment limits

	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 **3.60%** 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 and Revenues & 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 C**.

Loan Commitments and Financial Guarantees

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

Proportionality

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

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 C**.

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	31/03/21 Actual £000	31/03/22 Forecast £000	31/03/23 Forecast £000	31/03/24 Forecast £000	31/03/25 Forecast £000	31/03/26 Forecast £000
Treasury Management Investments	£37,330	£34,140	£30,936	£29,510	£29,014	£30,529
Commercial Investments: Property	£3,948	£3,948	£3,948	£3,948	£3,948	£3,948
TOTAL INVESTMENTS	**£41,278**	**£38,088**	**£34,884**	**£33,458**	**£32,962**	**£34,477**
Commitments to Lend	£0	£675	£675	£675	£675	£675[6]
TOTAL EXPOSURE	**£41,278**	**£38,763**	**£35,559**	**£34,133**	**£33,637**	**£35,152**

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[7]	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 %
Net Return – Historic Cost	2%	2%	2%	2%	2%	2%
Net Return – Current Value	4%	4%	4%	4%	4%	4%

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

[6] Repayment is assumed during 2025/26.
[7] Net rate assumes 1% loss of investment income

CFO Report on Robustness of the Budget and Adequacy of Reserves – Supporting Information

Context

In accordance with the Local Government Act 2003 (Sections 25-27) and to comply with CIPFA Guidance on Local Authority Reserves and Balances, the CFO is required to formally report to Members on the robustness of the Budget and the adequacy of Reserves. The CFO is appropriately qualified under the terms of Section 113 of the Local Government Finance Act 1988.

Adequacy of Reserves

The CFO assesses and determines the appropriate level of Reserves and Provisions using a variety of mechanisms, including:

- Being significantly involved in the Budget setting process, the annual financial cycle and engaged in the strategic leadership of the organisation as a member of the Leadership Team including wider corporate roles beyond that of finance;
- Leading and writing on the annual revision of the MTFS;
- Challenging the budget at various stages of preparation, including the reasonableness of the key budget assumptions and sensitivities such as estimates for inflation and corporate financial pressures, realism of income targets and the extent to which known trends and liabilities are provided for:
  - Meetings with specific colleagues to examine particular areas or issues;
  - An in-depth review of the financial risks assessment;
  - Review of the movements, trends (including a comparison to the level at other Councils) and availability of contingency, provisions and earmarked reserves to meet unforeseen cost pressures in the context of future pressures and issues;
  - The use of professional experience and best professional judgement;
  - The use of appropriate professional, technical guidance and local frameworks;
  - Knowledge of the colleagues involved in the process, particularly finance professionals, including their degree of experience and qualifications;
  - Review of the strength of financial management and reporting arrangements, including internal control and governance arrangements. This is undertaken in consultation with relevant colleagues and Members of the Cabinet.

It is prudent for Councils to maintain an adequate 'working balance', that is part of General Reserves. A Risk Assessment approach is used to determine the required level of General Reserves and Provisions.

The Council's aim is to have a prudent level of General Reserves available for unforeseen financial risks. The Council projects available general reserves of **£6,888,000** at 31 March 2022 and **£7,168,000** at 31 March 2023. This is **55%** and **57%** of the amount to be met from Government Grants and Local Taxpayers in 2022/23 of **£12,551,000**.

The minimum level of Reserves for 2022/23 onwards is **£1,600,000** and has been determined by Risk Assessment**.**

In recommending an adequate level of Reserves, the CFO considers and monitors the opportunity costs of maintaining particular levels of Reserves and Balances and compares these to the benefits accrued from having such Reserves. The opportunity cost of maintaining a specific level of Reserves is the 'lost' opportunity for example, of investing elsewhere to generate additional investment income, or using the funds to invest in service improvements.

In assessing this, it is important to consider that Reserves can only be used once and are therefore potentially only "one off" sources of funding. Therefore, any use of General Reserves above the lower minimum threshold is only ever used on one-off items of expenditure.

Expenditure - the level of Reserves is also determined by use of a comprehensive risk assessment to ensure they represent an appropriately robust "safety net" that adequately protects the Council against potential unbudgeted costs.

Use of General Revenue Reserves

The above assessment demonstrates that General Revenue Reserves are at an appropriate level as determined in accordance with the MTFS and the CFO's professional advice. The MTFS allows any Reserves above the level required by the Strategy to be used to fund one-off items of expenditure. No General Revenue Reserves below the minimum threshold are being used to support the 2022/23 budget and beyond.

CIPFA provides guidance for determining the minimum level of Reserves. The Council uses the method based on risk assessment. The approach to the risk assessment of Reserves has taken into account CIPFA guidance (LAAP 99) (Guidance note on Local Authority Reserves and Balances).

The table below shows the financial risk assessment made for **2022/23** with increases in the level of risk shown as positive numbers (red) and reductions in the level of risk enclosed in brackets (green):

Activity Area	Severity of Risk	2022/23 Reserve Amounts £	2021/22 Reserve Amounts £	Change £
Capital Strategy	Material	£5,000	£264,000	(£259,000)
Business Rates	Severe	£0	£69,000	(£69,000)
Partnerships and Outsourcing	Material	£153,000	£152,000	£1,000
High Risk Streams of Income including Fees and Charges / Savings	Severe	£831,000	£645,000	£186,000
Inflation Assumptions	Severe	£288,000	£155,000	£133,000
Demand Led Services	Material	£90,000	£90,000	£0
Collection of Income Performance	Material	£137,000	£139,000	(£2,000)
Civil Contingency	Tolerable	£127,000	£127,000	£0
Other	Tolerable	(£31,000)	(£41,000)	£10,000
Total Minimum Reserves		**£1,600,000**	**£1,600,000**	**£0**

Other Reserves (in addition to General Reserves)

A review of the level of Earmarked Reserves has been undertaken as part of the annual Budget preparation. The projected levels are shown in the Balance Sheet Projections. Ongoing review of Earmarked Reserves takes place as part of the Money Matters Reports in line with the approved earmarked reserves policy to ensure we are only holding funds for known and essential purposes.

The Council also holds other Unusable Reserves that arise out of the interaction of legislation and proper accounting practice and these are included in the Balance Sheet projections.

The **CFO** has been involved throughout the entire budget process, including revising the MTFS, input to the drafting of the budget, the ongoing financial monitoring and reporting process, evaluation of investments and savings, engagement with Members of the Cabinet and Overview and Scrutiny Committees, advising colleagues, the strategic choices activities, challenge and evaluation activities, and scrutiny of the budget. The following sections outline particular activities and documents.

Process - a robust budget process has been used within the overall context of the MTFS.

Timetable - the process started in July 2021 and the draft budget was completed in December 2021 prior to the Provisional Financial Settlement for Local Government 2022/23. This enabled formal scrutiny of the budget making process in January 2022. The final budget is due to be set at Council on 22 February 2022, well within the statutory deadline of 11 March 2022.

Member involvement and Scrutiny (including budget monitoring) - formal Member involvement has been extensive, particularly through the Cabinet in conjunction with Leadership Team, Overview & Scrutiny Committee and Audit and Member Standards Committee, which has fed upwards to Cabinet.

Consultation – from 1 October 2021 to 30 November 2021, we carried out a budget consultation to find out what people who live in the District think about the services we provide and their view on an acceptable level of Council Tax increase.

Challenge - there are various points of challenge at various stages of the Budget, meetings of Leadership Team, Cabinet and the Scrutiny process itself.

Localism Act - Right to approve or veto excessive Council Tax rises - The Secretary of State has determined a **2%** or **£5.00** (whichever is the higher) limit for Council Tax increases for 2022/23. If an Authority proposes to raise taxes above the limit they will have to hold a referendum to get approval for this from the local voters who will be asked to approve or veto the rises.

Ownership and accountability - the budget has progressed through the Service and Financial Planning process including review by management within services and Leadership Team. Budget holders were sent copies of budget estimate working papers for their respective areas of service responsibility.

Current financial position - the budget is a statement of financial intent, reflecting The Council's vision, plans and priorities. It also sets the financial spending parameters for each financial year and as such, the CFO assessment of the adequacy of Reserves, also includes the risk of services overspending and/or under-spending their budgets and the impact of this on the financial health of the Council and its level of Reserves. The current financial position has been reported throughout the year.

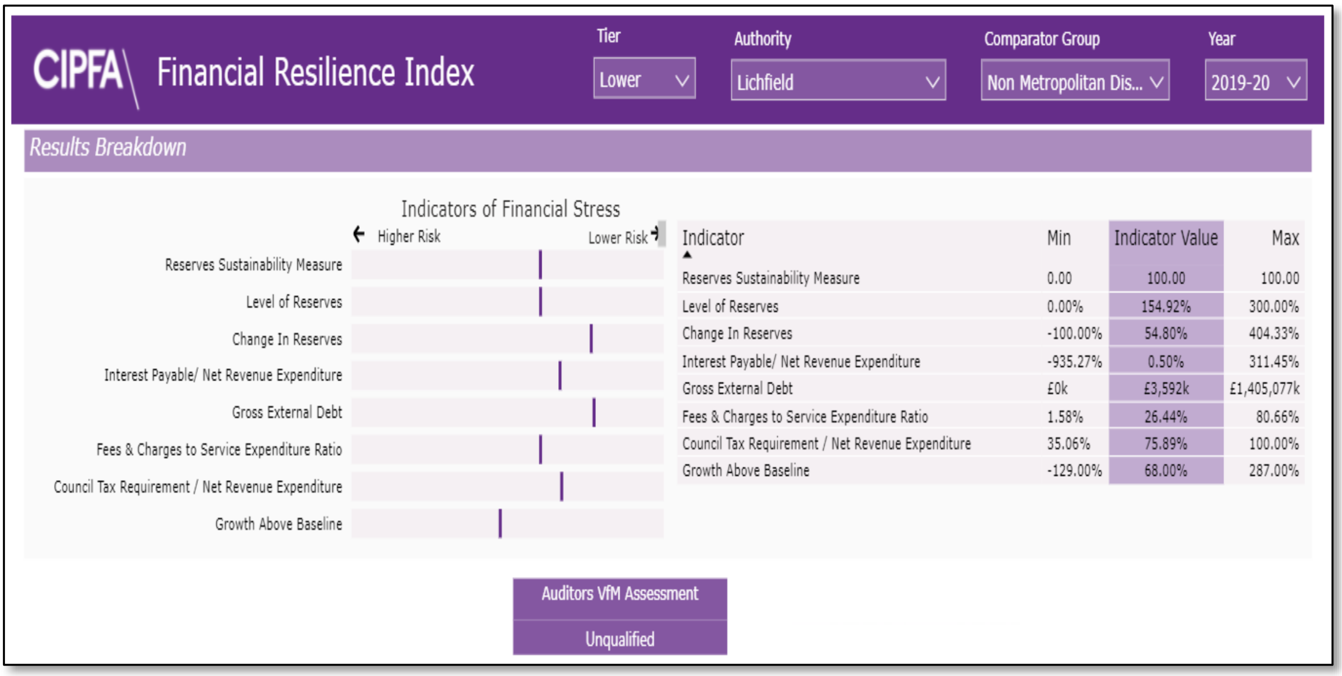
Key assumptions - The pay and prices used in the budget are derived from current intelligence, are considered appropriate and compare with those used by other Councils. Fees and charges have been reviewed and changes are reflected in the overall budget. The Capital Receipts to be used for the Capital Programme are based on estimates of both timing and value.

Financial risks – The Council continues to use an embedded good practice Risk Assessment approach both when setting the Budget and in validating estimated outturns. This continues for the 2021/22 outturn and 2022/23 plus Budget. The minimum level of General Reserves is considered to be adequate to cover all but the most unusual and serious combination of risks.

The CIPFA Resilience Index

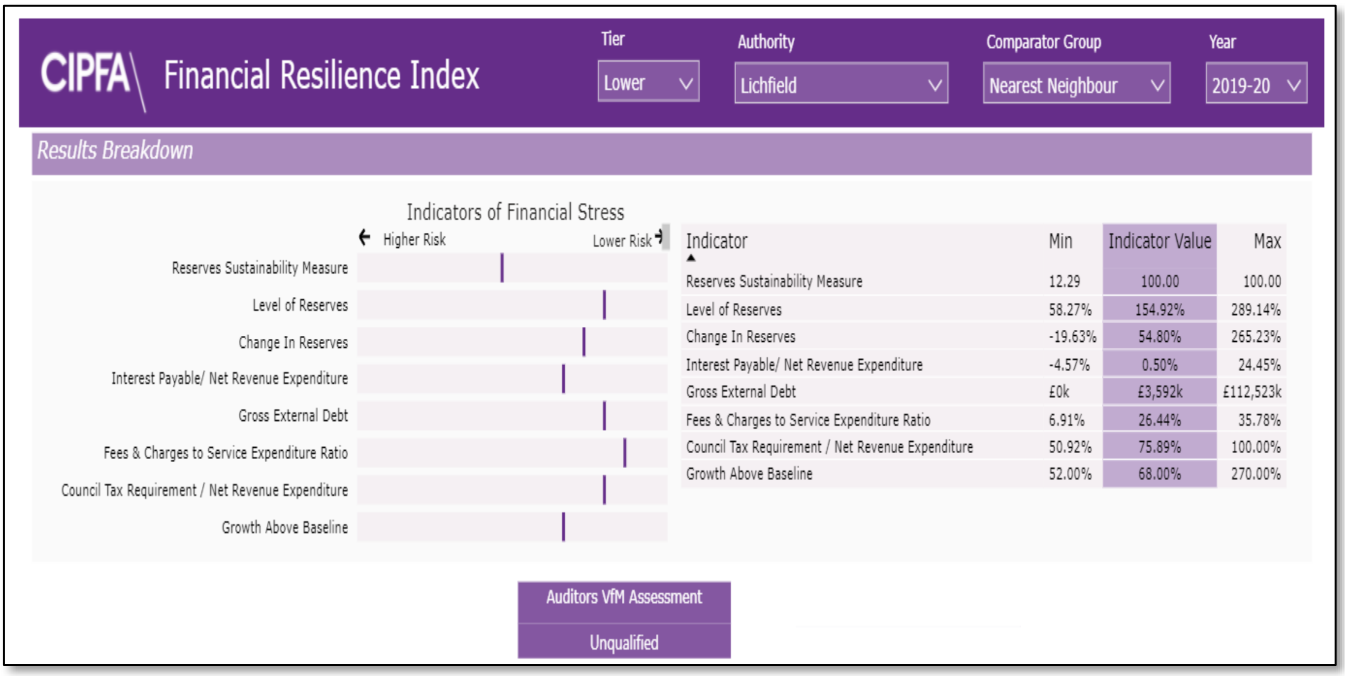
CIPFA published the first release of its Resilience Index in December 2019. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. The current Index is due to be published in early 2022. In the interim, the 2021 index using a range of measures associated with financial risk is:

District Councils



Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	0.00	100.00	100.00
Level of Reserves	0.00%	154.92%	300.00%
Change In Reserves	-100.00%	54.80%	404.33%
Interest Payable/ Net Revenue Expenditure	-935.27%	0.50%	311.45%
Gross External Debt	£0k	£3,592k	£1,405,077k
Fees & Charges to Service Expenditure Ratio	1.58%	26.44%	80.66%
Council Tax Requirement / Net Revenue Expenditure	35.06%	75.89%	100.00%
Growth Above Baseline	-129.00%	68.00%	287.00%

Nearest Neighbours



Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	12.29	100.00	100.00
Level of Reserves	58.27%	154.92%	289.14%
Change In Reserves	-19.63%	54.80%	265.23%
Interest Payable/ Net Revenue Expenditure	-4.57%	0.50%	24.45%
Gross External Debt	£0k	£3,592k	£112,523k
Fees & Charges to Service Expenditure Ratio	6.91%	26.44%	35.78%
Council Tax Requirement / Net Revenue Expenditure	50.92%	75.89%	100.00%
Growth Above Baseline	52.00%	68.00%	270.00%

Summary - Opinion of CFO on the Adequacy of Reserves and the Robustness of the Estimates

I am of the opinion that for a Council of this size and with our recent record of prudent spending, effective Risk Management, robust budgeting and effective Budget monitoring and control, a General Minimum Reserve level of **£1,600,000** remains adequate.

APPENDIX I

Priorities and Budget Consultation Feedback report

January 2022

Contents

1. Introduction

In the current financial year (2021/22) Lichfield District Council will spend around £11million (£10,991,000) on local services. Over £7million (£7,029,000) of this figure is generated through council tax. The balance (£3,962,000) is funded through business rates, other grants, surpluses and New Homes Bonus.

The government has been reducing the amount of core government grant received be local authorities every year, and next year Lichfield District Council could be required to pay an amount to the Government (although this will be subject to the Spending Review). This means facing significant and ongoing challenges providing the same level of services, and either needing to make further savings or generate additional income to fund the services delivered.

Talking to residents, businesses and community groups and getting their views plays an important part in the process of shaping future decisions on budget priorities and setting council tax.

A total of 264 people responded to the survey. This represents 0.316 of the adult population of the district and represents an increase of 116 respondents from the previous budget consultation in 2020. A full breakdown of respondents can be found in Appendix 1.

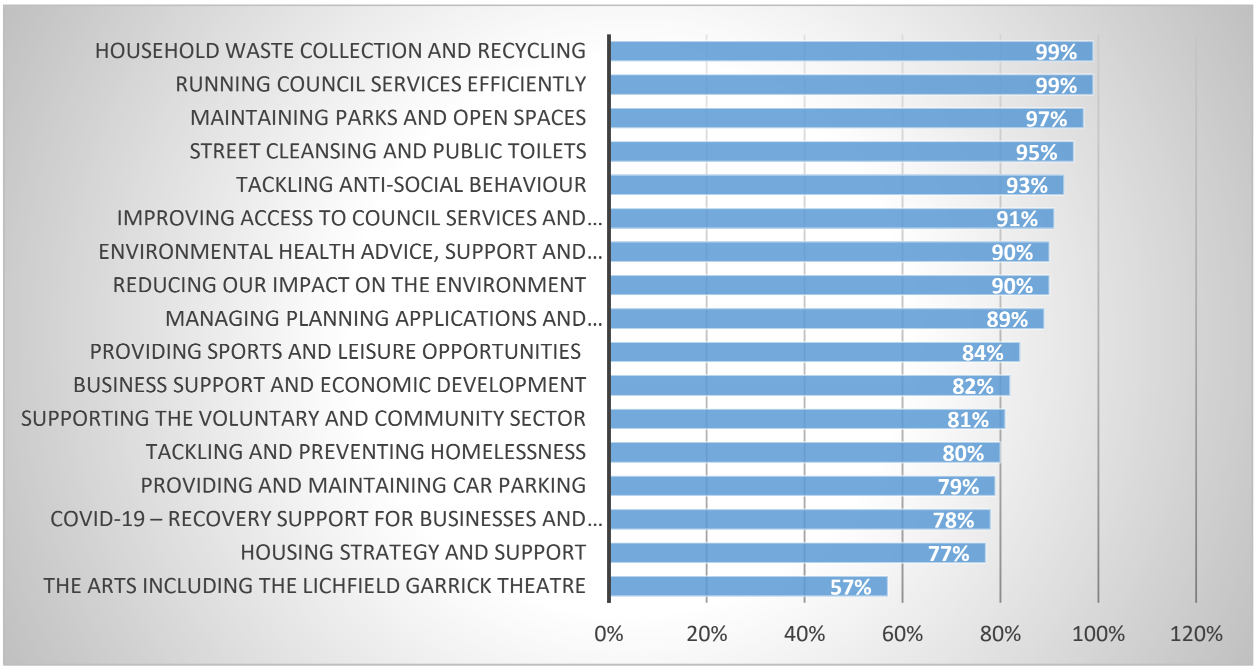
This report focuses on the results of the consultation with residents and the local community. A separate survey has been commissioned by the Economic Development Team and it was decided that this survey would be used as a guide to the priorities of the business community rather than trying to conduct two surveys in parallel aimed at the same audience.

2. Executive Summary

Using a similar question set to allow for comparison with previous budget consultation and resident surveys there was a reduction in overall levels of trust and satisfaction expressed by residents in this year's priorities and budget consultation. It is perhaps worth noting that a national residents' survey conducted by the Local Government Association in October 2021 also registered a decline in satisfaction with local councils.

Lichfield District Council has four strategic priorities set out in its Strategic Plan for 2020 to 2024. These priorities are to Enable People, Shape Place, and Develop Prosperity and Be a Good Council.

Respondents were asked to consider a wide range of service priority areas that align to these strategic priorities. Areas that were highlighted as most important were; household waste collection, recycling and running the council and its services efficiently, maintaining parks and open spaces. Also in the top five areas of importance were street cleansing and tackling anti-social behaviour. The top four priority areas are the same as highlighted in the 2020 survey.



Spending Priorities and Council Tax

There was a continued feeling from respondents to the survey that spending should be maintained rather than increased across the majority of service areas. Only in one area were the majority of respondents in favour of reducing spending – the Arts including the Lichfield Garrick.

Fees and income

The largest proportion of respondents (69%) felt that either Lichfield District Council's approach to fees was currently about right or that no additional fees should be introduced.

Only 32% felt that there was scope for increases and put forward alternative suggestions for sources of income generation which ranged from commercial sponsorship, increased for more regular fines, large-scale events or ideas for reductions in spending.

Council Tax

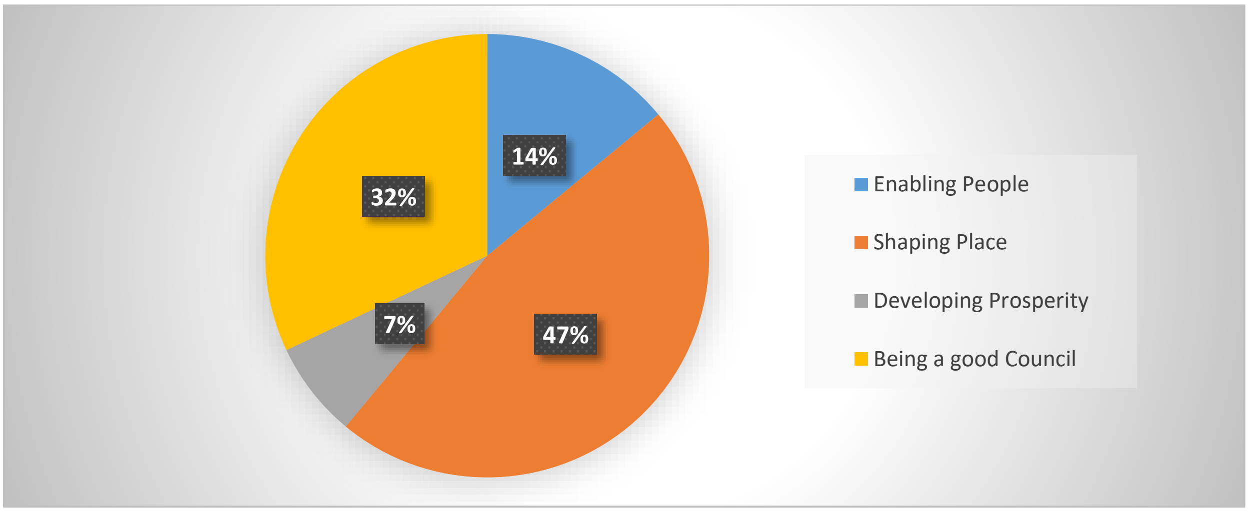
The majority of respondents (87%) indicated that an increase in Council Tax would be acceptable with 54% of the total expressing that an increase of 2% or £5 would be acceptable to them.

3. Methodology and engagement

The budget consultation was launched on 4 October 2021 and was open until 30 November.

The primary method of response to the consultation was via an online questionnaire. The questionnaire was based on a similar question set to that used in 2020 to enable comparison with previous results. The questionnaire included a range of questions derived originally from Staffordshire County Council's Feeling the Difference survey and giving residents an opportunity to express their views on trust in, and satisfaction with, local public services. This was followed by questions asking respondents to rate service areas in terms of importance and spending priority. The final set of questions asked respondents for their views on the council's approach to fees and charges and to potential future levels of Council Tax.

The questionnaire was accessible on-line through the Lichfield District Council website and a dedicated consultation platform. During the consultation period the platform had 1,772 page visits from 700 visitors. Alongside the formal questionnaire, visitors to the consultation platform we're given additional opportunities to engage with the consultation by asking questions, posting ideas and taking part in a poll on the council's strategic priorities. This poll asked respondents to rate which to them was most important of the council's four strategic priorities. The results shown below;



Promotional activity

The consultation was promoted in the October and November LDC e- News which has a mailing list of over 18,500 per edition and promoted through local media and social media. The consultation was featured on the Lichfield Live website on 4 October and in the Lichfield Chronicle.

The consultation was promoted regularly on social media using Twitter and Facebook resulting in total Twitter impressions of 6,870 and Facebook reach of 12,600 across a total of 24 social media posts.