


Agenda Item No:	6	
Committee:	Cabinet	
Date:	26 February 2024	
Report Title:	Revised General Fund Budget and Capital Programme 2023/24; General Fund Budget Estimates 2024/25 and Medium Term Financial Strategy (MTFS) 2024/25 to 2028/29; Capital Programme 2024 - 2027	

## Cover sheet:

### 1 Purpose / Summary

To consider and approve:

- the revised General Fund Budget and Capital Programme for 2023/24 and;

To consider and recommend to Council:

- the General Fund Budget Estimates 2024/25 and the Medium Term Financial Strategy 2024/25 to 2028/29;
- the Council Tax levels for 2024/25;
- the Capital Programme 2024-2027;
- the Treasury Management Strategy Statement, Capital Strategy and Annual Treasury Investment Strategy for 2024/25.

### 2 Key issues

- The Final Local Government Finance Settlement was announced on 5 February 2024. This provided £254,887 additional resources (excluding business rates income) compared with what was included in the draft budget report in December 2023.
- As a result of the de-coupling of the Business Rates multiplier and the decision to freeze the Small Business Rates multiplier while increasing the Standard Business Rates multiplier by inflation, the Business Rates Baseline and Tariff Payments have been amended in 2024/25 (see Table 1).
- Council at their meeting of 17 July 2023 (Minute C8/23), agreed that the cash amount of Council Tax raised be kept at the current level for 2024/25 and over the MTFS period rather than the 0% increase previously adopted by Council in July 2019. This report shows an increase in the level of Council Tax income raised in 2024/25 to fund the forecast shortfall. This level of Council Tax has then been extended across the MTFS.
- Council Tax Referendum limits for 2024/25 have been set at an increase of 3% or £5 whichever is the higher.
- Latest projections for 2023/24 are showing a shortfall of £548k (Section 7 of the report).
- Current forecasts for 2024/25 show a shortfall of £114k based on the assumptions detailed in Appendix C, before any adjustment to the level of Council Tax and a surplus of £2.5k after adjusting the level of Council Tax for 2024/25. It is proposed that a contribution of £2.5k to the Budget Equalisation Reserve be made to achieve

a balanced budget. The MTFs projects shortfall increases year on year, reaching £2.728m in 2028/29. Projected shortfalls in the MTFs are usual, both in FDC and in Local Government generally. They represent the challenge to be faced in future years in reaching a balanced budget position each year. The projected shortfalls are however significantly higher than previous years forecasts and represent significant challenges for the Council. Any decision this year to not increase the level of Council Tax necessarily increases the scale of that challenge.

- Although there are currently many uncertainties regarding the budget for 2024/25 and the MTFs, there remains a significant structural deficit which the Council will need to address. The ongoing Transformation 2 programme (of re-basing the establishment and underlying operation environments of the Council) will be crucial in helping to address that long-standing structural deficit.
- An updated Capital Programme for 2023/24 and for the medium term 2024-27 is proposed.

### **3 Recommendations**

- It is recommended that:
  - (i) the revised estimates for 2023/24 as set out in Section 7 and Appendix A showing an estimated shortfall of £548k (to be funded from the Budget Equalisation Reserve), be approved;
- It is recommended to Council that:
  - (ii) the General Fund revenue budget for 2024/25 as set out in Section 8 and Appendix A be approved;
  - (iii) the Medium Term Financial Strategy as outlined in this report and Appendix B be adopted;
  - (iv) the Capital Programme and funding statement as set out in Appendix D be approved;
  - (v) the adoption of the additional Business Rates Relief measures as detailed in Section 6 using Discretionary Relief Powers be approved;
  - (vi) the expenses detailed in Section 11 be approved to be treated as general expenses for 2024/25;
  - (vii) the Port Health levy for 2024/25 be set as shown in Section 12;
  - (viii) the current working age Council Tax Support Scheme be adopted with effect from 1 April 2024 as set out in Section 14, with appropriate changes to the prescribed pensioner scheme as determined by regulations;
  - (ix) the Long Term Empty Premium and Second Homes premium be amended as detailed in Section 15 as follows:
    - (a) to agree to shorten the period that a 100% Council Tax premium on long term empty dwellings is payable from the current 2 years (empty) to 1 year from 1 April 2024.
    - (b) to agree to implement the 100% Council Tax premium on all second homes from 1 April 2025.
    - (c) to agree that the classes of properties detailed in paragraph 15.10 do not attract the long term empty premium for the periods specified.
  - (x) the Treasury Management Strategy Statement, Minimum Revenue Provision, Treasury Investment Strategy, Prudential and Treasury Indicators for 2024/25 and Capital Strategy 2024/25 as set out in Section 16 and Appendix E be approved;

- (xi) the Band D Council Tax level for Fenland District Council Services for 2024/25 be set at £254.79, a decrease of 0.18% (£0.45) on the current year.

<b>Wards Affected</b>	All
<b>Portfolio Holder(s)</b>	Cllr Chris Boden, Leader and Portfolio Holder, Finance
<b>Report Originator(s)</b>	Peter Catchpole, Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
<b>Contact Officer(s)</b>	Paul Medd, Chief Executive Peter Catchpole, Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
<b>Background Paper(s)</b>	Final Finance settlement – Department for Levelling Up, Housing & Communities (DLUHC). Autumn Statement 2023 (HM Treasury) Medium Term Financial Strategy working papers. Government announcements since February 2023.

This report contains the following Appendices:

### **Appendices**

- A. (i) General Fund Revenue Estimates - Summary  
(ii) General Fund Revenue Estimates – Individual Services
- B. Medium Term Financial Strategy (MTFS)
- C. Assumptions built into Budget and Medium Term Strategy
- D. Capital Programme
- E. Treasury Management Strategy Statement, Minimum Revenue Provision Strategy, Annual Treasury Investment Strategy and Prudential Indicators
- E. Annex A Capital Strategy
- F. Parish Precepts
- G. Earmarked Reserves

## Report:

### 1 INTRODUCTION

- 1.1 This report sets out the financial implications of the council's priorities described in the Business Plan 2024/25. The Revenue budget estimates and the Capital Programme are final at this stage for approval. The draft Business Plan 2024/25 and draft Budget Estimates 2024/25 considered by Cabinet on 18th December 2023 together were subject to a public and stakeholder consultation from 2<sup>nd</sup> January to 4<sup>th</sup> February 2024, prior to final budget and council tax setting for 2024/25 on 26th February 2024. The results from the consultation are published on the Council's website. There were a small number of comments in favour of increasing Council Tax.
- 1.2 The Overview and Scrutiny Panel considered the Draft Budget 2024/25 and MTFs on 15 January 2024 and made its comments to the Cabinet. Members asked questions, made comments and received responses from Officers and Portfolio Holders. The Panel agreed to note the revised General Fund Budget and Capital Programme for 2023/24 and agreed to send the Draft General Fund Budget Estimates 2024/25 and the Draft Medium Term Financial Strategy 2024/25 to 2028/29 for consultation. They also approved the Capital Programme 2024-2027.
- 1.3 Much of the financial information is necessarily based on a number of assumptions which are wholly or partly influenced by external factors. However, where final actual costs and revenue is known then they are included, for example the Final Local Government Finance Settlement for 2024/25 was announced on 5 February 2024. In addition, the Business Rates income estimates have been finalised following completion of the 2024/25 NNDR1 return at the end of January 2024, which incorporated the impact of the de-coupling of the multipliers effective from 1 April 2024. Equally, some additional costs and income discussed later in this report have been updated since the Draft Budget Estimates were prepared.

### 2 AUTUMN STATEMENT 2023

- 2.1 On 22 November 2023, the Chancellor delivered his Autumn Statement and confirming the Government's spending plans for 2024-25.
- 2.2 The relevant points for this Council from these announcements are as follows:

#### **Council Tax**

- A Council Tax referendum limit of up to 3% (or £5 whichever is the higher), together with an additional 2% increase for authorities with responsibilities for Adult Social Care (the same as for 2023/24).

#### **Business Rates**

- **Retail, Hospitality and Leisure Relief (RHL)** will continue in 2024/25 with the level of relief continuing at 75% with a maximum of £110,000 per business. Local authorities will be compensated in the usual way through S31 grants;
- **The small business rates multiplier in 2024/25 will be frozen** (currently 49.9p which normally would increase in line with the CPI rate as at September 2023, ie.6.62%), while **the standard multiplier will be uprated by September CPI to 54.6p** (from 51.2p currently). Local authorities will be fully compensated for the decision to freeze the small business multiplier;
- De-coupling the multipliers for 2024/25 will impact on the Council's Business Rates Baseline and the Baseline Funding Level which could potentially have either a positive or negative impact on the Council's overall business rates income, although the intention is for the changes to be financially neutral;

- A further distribution of the surplus from the national Levy Account will be made (£100m in 2023/24 in respect of 2022/23). The individual allocations to authorities will be detailed in the final settlement. The last surplus distribution in 2022/23 (in respect of 2021/22) resulted in an additional £31k allocation for Fenland.

### Local Authority Housing Fund

- There will be a further £450m for a third round of the Local Authority Housing Fund to deliver 2,400 new housing units nationally to house Afghan refugees and ease wider housing and homelessness pressures.

### Core Spending Power and Other Announcements

- There will be cash-terms growth in Core Spending Power (CSP) in 2024/25 because of the increases in social care funding and Band D thresholds. Growth is likely to be less than inflation, however.
- Full details of the allocation of funding within CSP will be announced later this month in the 2024/25 Finance Settlement. There are still a number of issues remaining to be resolved, even though there is unlikely to be a change in the overall allocations announced as part of last year's settlement. Decisions will have to be made about the Services Grant, Core Spending Power Guarantee Grant and the New Homes Bonus.
- Local government funding reforms (Fair Funding Review and business rates retention changes) are not likely until at least 2025/26;
- A decision about the future of the New Homes Bonus (NHB) was promised before the provisional settlement but none has yet been released. We are expecting that there will be one more further year of NHB in 2024/25;

2.3 Details of how these have been converted into specific funding allocations for individual local authorities were announced as part of the final local government finance settlement on 5 February 2024.

## 3 LOCAL GOVERNMENT FINANCE SETTLEMENT 2024-25

3.1 The Final Finance Settlement for 2024/25 was announced on 5 February 2024. An additional £600m of funding for local government was announced over and above the previous overall allocations detailed in the Provisional Finance Settlement. £500m of the additional funding is for social care with a £15m increase in the Rural Services Delivery Grant, an increase in the funding guarantee from 3% to 4% (£72m) and an increase in the Services Grant (£11m).

3.2 The Council's Settlement Funding Assessment for 2024/2 is detailed in Table 1 below:

**Table 1 – Settlement Funding Assessment (Core Funding)**

	<b>Actual 2023/24 £000</b>	<b>Actual 2024/25 £000</b>	<b>2024/25 % Increase</b>
<b>Settlement Funding Assessment</b>			
<b>Revenue Support Grant (RSG)</b>	<b>173</b>	<b>184</b>	<b>6.4%</b>
<b>Business Rates income</b>	<b>11,207</b>	<b>11,559</b>	
<b>Tariff Payment to government</b>	<b><u>-7,367</u></b>	<b><u>-7,554</u></b>	
<b>Business Rates Baseline Funding</b>	<b>3,840</b>	<b>4,005</b>	<b>4.3%</b>
<b>Services Grant</b>	<b>150</b>	<b>26</b>	<b>-82.7%</b>
<b>Core Spending Power Guarantee Grant</b>	<b>601</b>	<b>789</b>	<b>31.3%</b>

- 3.3 **Revenue Support Grant (RSG)** for 2024/25 has been increased by inflation and FDC's allocation is £184,901. This is £11,487 higher than included in the draft budget.
- 3.4 **New Homes Bonus (NHB)** payment for 2024/25 will be £442,392 for this Council, £2,392 higher than included in the draft budget report. The government say that 2024/25 will be the final year of NHB and they will set out the future position of the NHB ahead of the 2025/26 finance settlement. Consequently, the future of the NHB is a considerable risk to the Medium Term Strategy from 2025/26 onwards.
- 3.5 The **Services Grant** continues in 2024/25 but at a much reduced level (national total reducing from £483m in 2023/24 to £87m in 2024/25). FDC's allocation is £25,846 which is £123,874 lower than included in the draft budget.
- 3.6 **The CSP Funding Guarantee** was introduced in 2023/24 to ensure that no authority received a Core Spending Power increase of less than 3% without having to increase their Band D council tax. This funding guarantee has continued for 2024/25 but at a higher level of 4%. FDC's allocation is £788,558 which is £187,601 higher than included in the draft budget.
- 3.7 **Core Spending Power (CSP)** for local government as whole has increased by 7.5% and for Shire Districts by 5.9%. Our increase in CSP is 5.8%. CSP is a measure of the revenue funding available for local authority services. This includes council tax; business rates; Revenue Support Grant; New Homes Bonus; adult social care grants and other grants (including the Services Grant and new CSP Guarantee Grant).
- These government forecasts assume that every local authority will raise their council tax by the maximum permitted without a referendum.
- Assumed Council Tax increases make up 46% of the increase in CSP and Council Tax is now around 56% of the total CSP. The increased reliance on increasing council tax has been a feature of the finance settlements and CSP over the past few years.
- 3.8 **Internal Drainage Board (IDB)** grant funding of £3m nationally was provided in 2023/24 to the 15 councils most affected by increases in IDB levies. FDC's allocation was £177,281. A further £3m of funding is being provided for 2024/25 although no allocations have yet been made. The same amount of grant funding has been included in the final estimates for 2024/25 as was received in 2023/24. As this was announced only at the final settlement, no allowance for this grant had been made in the draft budget.
- 3.9 Although the settlement was for 2024/25 only, the Medium Term forecasts detailed in Appendix B have assumed a continuation of the current policy of increasing business rates baselines by inflation based on current Treasury forecasts over the medium term. In addition, the forecasts assume a continuation of the funding currently allocated as Services Grant and CSP Guarantee Grant.
- 3.10 In summary, the final settlement (excluding Business Rates income) has provided a total of £254,887 of additional resources compared with what was included in the draft budget report.

### **Fair Funding Review**

- 3.11 Local government funding reforms (Fair Funding Review and business rates retention changes) have been pushed back to at least 2025/26.

## **4 NEW HOMES BONUS**

- 4.1 As mentioned earlier, a decision about the future of the New Homes Bonus (NHB) was promised before the provisional settlement but none has yet been released. There will be one further year of NHB in 2024/25 with no legacy payments.
- 4.1 Actual NHB received in 2023/24 was £369k and for 2024/25 will be £442k (calculation based on the increase in dwelling numbers between October 2022 – October 2023).
- 4.2 The Future of the New Homes Bonus is very uncertain. The government have now said that they will set out the future position of the NHB ahead of the 2025/26 finance settlement. The current national total of £291m allocated by way of NHB may also change in future spending reviews. There is however expected to be some form of housing growth incentive scheme. The impact on this Council's funding could be significant. We have included £442k of NHB funding in the MTFS from 2025/26 onwards. These could be replaced by allocations we receive from whatever the new Housing Incentive system will look like
- 4.3 **The lack of clarity around the future of the NHB is a significant risk to the MTFS.**

## **5 BUSINESS RATES**

- 5.1 Members will be aware that the Business Rates Retention system was introduced in April 2013. Under this system, authorities would benefit if their actual Business Rates income collected in a year was higher than the baseline funding determined by government.
- 5.2 There has been real business rates growth in Fenland over the last six years, however how this impacts on the resources available to this Council is complex, due to the rules and the operation of the current 50% Business Rates Retention system. The complexity of the system has been exacerbated by the number of business rates relief schemes and multiplier caps and freezes implemented by the government over the last few years.

### **Business Rates Pooling Arrangement – 2023/24**

- 5.3 The Council has joined with the County Council, Peterborough City Council, Fire Authority, East Cambridgeshire and South Cambridgeshire to become part of a pooling arrangement for business rates since 2020/21 up to and including 2023/24. Unlike the Business Rates Pilot schemes, this is not a bidding process against other pools but is part of the existing system whereby authorities can choose to apply to become a pool with the agreement of the constituent authorities.
- 5.4 The benefit of being in a pool is that authorities will not be liable to levy payments on their business rates growth, which is then shared amongst the pooled authorities by a mutually agreed method. This will be based on where the growth has originated from with an appropriate share allocated to the County Council and Fire Authority.
- 5.5 Depending on actual business rates received in 2023/24, the net effect of the pooling arrangement could be considerable for the authorities in the pool. Current forecasts indicate that this Council could receive up to £450k additional income according to the sharing methodology agreed between the pooled authorities.

### **2024/25 Pool**

- 5.6 As a result of further detailed analysis of forecast business rates income, the current pool members decided that the most financially beneficial arrangement for 2024/25 would be a pool without Fenland. As recompense for not being in the pool, agreement has been reached with the other pool members that Fenland would be no worse off as a result of the revised pooling arrangement for 2024/25.
- 5.7 Consequently, an amount of £300k per annum has been included in 2024/25 as a 'pooling' benefit. We are still awaiting final estimated figures as all authorities in the pool will now have completed the annual statutory business rates estimate, the NNDR1 form, and returned this to MHCLG by the end of January 2024.

- 5.8 There will be no further major changes to the rates retention system until 2025/26 at least. Consequently, assuming the proposed pooling and 'no detriment' arrangements to this Council continue, an amount of £300k per annum has been included in the MTFs as a pooling benefit to this Council.

### **Business Rates Reform – 2025/26 onwards**

- 5.9 As stated earlier, no major changes will take place until 2025/26 at least. At that time, it is likely that the Baseline Funding Level of all Councils will be reset with all 'growth' income being taken into account nationally and redistributed in the new system. In the estimate for 2024/25 and the medium term forecasts, around £1.4m of business rates above the Council's Baseline Funding Level is being retained. Under a baseline reset, this would mean that initially the additional £1.4m business rates income would be removed and redistributed. What remains unclear, is how much of this £1.4m will be returned to the Council as part of its recalculated Baseline Funding Level.
- 5.10 In theory therefore, the Council could lose all of this additional £1.4m in the absolute worst case scenario. However, this is unlikely and would create significant volatility within future funding allocations nationally, which the government does not wish to see. There will also undoubtedly be some kind of transitional arrangements which would also limit the extent of any gains and losses in funding arising from the new system.
- 5.11 Although it is extremely difficult to exemplify the impact of this redistribution, in broad terms, if the Council were to lose 50% of its growth income then this would add a further £700k per annum from 2025/26 to the current forecast MTFs shortfalls. A 20% loss of growth income would add a further £280k per annum to the current shortfalls.
- 5.12 In addition, the current system of retaining 100% of business rates from businesses generating Renewable Energy (estimated £1.476m in 2024/25) and the benefits from current pooling arrangements (estimated £300k in 2024/25) could also be reviewed and amended.
- 5.13 At the time of writing, the Fair Funding Review, the implementation of Business Rates Reform and the changes to the New Homes Bonus are all major risk areas for this Council over the medium term.**

## **6 ADDITIONAL BUSINESS RATES RELIEF MEASURES 2024/25**

### **2024/25 Retail, Hospitality and Leisure Relief Scheme**

- 6.1 At the Autumn Statement on 22 November 2023, the Chancellor announced that the Retail, Hospitality and Leisure (RHL) Business Rates Relief scheme will be extended for a fifth year into 2024/25 to continue to provide eligible, occupied, retail, hospitality and leisure properties with a 75% relief, up to a cash limit of £110,000 per business.
- 6.2 Guidance about the operation and delivery of this relief has been provided by government. Billing authorities and major precepting authorities will be fully reimbursed for their loss of income under the rates retention scheme as a result of awarding relief in accordance with the guidance, using a S31 grant.
- 6.3 The reliefs will be granted using discretionary relief powers under Section 47 of the Local Government Finance Act 1988 and is available to reduce chargeable amounts in respect of rates due in 2024/25.



## **7 FORECAST OUTTURN 2023/24**

- 7.1 The approved budget set by Council in February 2023, showed a balanced budget without any funding required from either the Budget Equalisation Reserve or the General Fund Balance.
- 7.2 The approved budget set by Council in February 2023, showed a shortfall of £203k which was to be funded from the Budget Equalisation Reserve to the extent that it was needed at the end of 2022/23.
- 7.3 An updated projection for 2023/24, taking into account the latest estimate of spending and income pressures, was included in the draft budget report presented to Cabinet on 18 December 2023. At that time, a shortfall of £707k was being projected for 2023/24. The reasons for the increase in the projected shortfall were detailed in the draft budget report.
- 7.4 The latest projected outturn for 2023/24 is set out at Appendix A and show the likelihood of a shortfall in the region of £548k by the end of this financial year.
- 7.5 The main reasons for the changes since the draft budget report are additional investment income (-£35k), reduced interest payable and MRP charge from reprofiling of capital programme (-£97k), adjustments to the 2023/24 business rates tariff payment and S31 Grants due (-£75k), allocation from the national business rates levy account surplus (-£31k) and additional grant from the Planning Skills Delivery Fund (-£75k).
- 7.6 To off-set these additional income variances, there have been a number of additional cost pressures, mainly premises costs relating to repairs and maintenance (+£51k) and utilities (+£42k), supplies and services costs relating to ICT Software and Maintenance (+£12k) and Legal Fees (+£20k) together with additional recycling gate fees (+£37k).
- 7.7 There are still uncertainties around the final position for 2023/24 and there is no requirement at this time, to formally approve an amount to be transferred to reserves. Any shortfall at the year end will be funded from the Budget Equalisation Reserve. At the present time, Corporate Management Team, Senior Managers and the Accountancy Team are managing and monitoring the position carefully and will continue to review spending levels to ensure where possible, the projected surplus at year-end is maintained.

## **8 BUDGET ESTIMATES 2024/25 AND MTFS**

- 8.1 The Council's MTFS has to ensure that the commitments made in the Business Plan are funded not only in the year for which formal approval of the budget is required (2024/25) but for forecast years as well, within a reasonable level of tolerance.
- 8.2 The impact of the Final Local Government Finance Settlement has been incorporated into the figures in this report.
- 8.3 The Council's medium term forecasts are shown at Appendix B and summarised in Table 2 below. The table includes for Council Tax income to remain at its' current level from 2024/25 onwards.

**Table 2 - MTF5 – Council Tax income constant level from 2024/25 onwards**

	Estimate	Forecast	Forecast	Forecast	Forecast
	2024/25	2025/26	2026/27	2027/28	2028/29
	£000	£000	£000	£000	£000
<b>Expenditure</b>					
Net Service Expenditure	16,706	16,731	16,777	16,973	17,041
Corporate Items	1,344	1,776	1,802	1,918	2,237
Contribution to/from(-) Earmarked Reserves	-653	-90	118	39	125
<b>Net Expenditure (before use of balances)</b>	<b>17,397</b>	<b>18,417</b>	<b>18,697</b>	<b>18,930</b>	<b>19,403</b>
<b>Funding</b>					
Revenue Support Grant	-185	-185	-185	-185	-185
Business Rates Funding ( <i>detailed in Appendix B</i> )	-7,821	-8,050	-8,085	-8,271	-8,396
Business Rates Collection Fund Surplus(-)	-1,292	0	0	0	0
Council Tax Collection Fund Surplus(-)	-58	-50	-50	-50	-50
Council Tax ( <i>cash level constant from 24/25 onwards</i> )	-8,044	-8,044	-8,044	-8,044	-8,044
<b>Total Funding</b>	<b>-17,400</b>	<b>-16,329</b>	<b>-16,364</b>	<b>-16,550</b>	<b>-16,675</b>
<b>Surplus(-)/Shortfall(+) before use of balances</b>	<b>-3</b>	<b>+2,088</b>	<b>+2,333</b>	<b>+2,380</b>	<b>+2,728</b>
Contribution to Budget Equalisation Reserve	3	0	0	0	0
<b>Shortfall(+) after use of balances</b>	<b>0</b>	<b>+2,088</b>	<b>+2,333</b>	<b>+2,380</b>	<b>+2,728</b>

- 8.4 Government support for 2024/25 was confirmed as part of the final finance settlement. This Council will receive retained business rates and a small amount of Revenue Support Grant from the finance settlement. The projections for 2024/25 onwards are based on the best estimates and information available and are consistent with the announcements in the Autumn Statement 2023. However, subject to further clarity on the detailed implementation of the announcements, there remains significant uncertainty in these projections.
- 8.5 The net budget requirement for 2024/25 is currently estimated at **£17.400m** after all identified savings, contingencies and reserve transfers are included. This includes the assumptions detailed at Appendix C. With the final funding assumptions and a slight reduction in the Band D Council Tax level, a surplus of £3k is currently forecast for 2024/25. **It is proposed that a contribution of £3k to the Budget Equalisation Reserve be made at this time to achieve a balanced budget for 2024/25.**
- 8.6 The estimates for 2024/25 have benefited from a significant estimated surplus on the Business Rates Collection Fund account at the end of 2023/24. This surplus of £1.292m is a result of a significant decrease in the appeals provision required in 2023/24. There will always be an estimated surplus or deficit relating to the Business Rates Collection Fund in a particular year which is then included in the following years estimates (included in the 2023/24 estimates was a deficit of £211k). **Without this significant one-off surplus, the estimates for 2024/25 would be showing a shortfall of £1.289m.**
- 8.7 The development of the Commercial and Investment Strategy has the potential to generate additional significant returns over the MTF5. Currently, recharges to Fenland Future Ltd (FFL) for officer time and loan interest receipts have been included in the forecasts at Appendix A and B. These are based on the current business plan of FFL over the next three years. Additional returns may also be realised depending on the type and timing of investment opportunities. These are however limited at the current time due to high interest rates and the current policy of the PWLB not to lend for purely investment for yield projects. Consequently, no allowance for these further potential returns (over

and above the recharges and loan interest to FFL) have been included in the MTFs at the current time.

- 8.8** Officers are currently progressing a number of initiatives to increase the amount of Housing Benefit subsidy reclaimed and together with the anticipated reduction in temporary accommodation costs (partly resulting from the additional houses purchased with assistance from the Local Authority Housing Fund), **a significant increase in subsidy reclaimed and lower temporary accommodation costs of £370k has been included in the estimates for 2024/25.**
- 8.9** Members will be aware that the Transformation Agenda 2 (TA2) programme is now underway and together with the Accommodation Review, is critical in achieving the necessary savings over the course of the MTFs. An amount of £225k has currently been included in the 2024/25 estimates as savings from the TA2 programme, increasing to £372k per annum by 2028/29. **Significant savings over and above these will be required from this programme over the MTFs period.**
- 8.10** Taking into account the proposals in the Table 2 above, the estimated net budget requirement in 2024/25 is detailed in Appendix A. The level of forecast resources available to the Council and the estimated levels of expenditure over the medium term are set out in detail in Appendix B. **These show a funding gap of £2.088m in 2025/26 rising to £2.728m by the end of 2028/29.**
- 8.11** There is still considerable uncertainty around the estimates for 2024/25 and the forecasts for the medium term. Currently there are a number of 'unknowns' which could both positively and negatively impact on the forecasts including:

**Risks associated with the MTFs forecasts:**

- The ongoing impact of the Finance Settlements on 2024/25 and the medium term;
- Impact of potential changes to the New Home Bonus methodology and allocations from April 2025;
- Impact of the longer-term changes to the Business Rates Retention system from April 2025;
- Impact of pay awards higher or lower than currently allowed for in the MTFs (4% increase included for 2024/25 and 2% per annum from 2025/26 onwards);
- Impact of potential additional costs and income of the government's waste strategy particularly in relation to Food Waste and the Extended Producer Responsibility scheme for managing packaging waste;
- Impact on income streams being greater than anticipated due to external factors such as Port Income;
- Impact of the current review of Port operations and the future liability of the quay at Wisbech Port;
- Continuing impact of homelessness temporary accommodation costs in 2024/25 and the medium term and the impact on recovery of housing benefit subsidy;
- Potential for additional support for the Leisure Management contactor in 2025/26 as a result of the energy costs crisis;
- Impact of increases in Fees and Charges (where feasible) on the 2024/25 estimates and MTFs;
- Impact of service developments eg. Car Parking Enforcement (CPE);
- Revenue impact of funding new capital schemes not currently included in the capital programme;

- Potential impact of the Council's future transformation programme with associated savings. Further detailed work is required to quantify the extent of these savings;
- Potential positive impact over the MTFS of implementing the outcomes from the Accommodation Strategy;
- Review of the recharge of staff time to the LATCO (Fenland Future Ltd) to quantify potential revenue savings. Currently recharges of £125k in 2024/25 onwards have been assumed in the MTFS;
- Potential net benefits from FFL of loan interest and dividends from future developments over and above already included in the MTFS generating revenue income;
- Commercial and Investment Strategy and future potential positive returns to the Council;
- Review of the General Fund Balance and Earmarked Reserves to ensure they align with the future requirements of the Council.

**8.12 Whatever impact the above issues may have however, there will remain a significant structural deficit for the Council to address over the medium term.**

8.13 The forecasts for the years 2025/26 – 2028/29 are provisional at this stage and should be considered with extreme caution. Future announcements and consultation outcomes will also determine government policy and therefore the funding in the future years. In addition, the forecasts are dependent on permanently maintaining the savings identified through the My Fenland transformation initiative and the current TA2 programme.

8.14 As detailed earlier in this report, Business Rates Retention Reform, Fair Funding Review and changes to the New Homes Bonus could have a significant impact on the Council's forecast resources over the term of the MTFS. Further to the risks associated with these externally determined funding streams the Council should also ensure that income budgets are achieved and new income streams considered and implemented for medium to long term sustainability in combination with any operational and transformational benefits that the Council realises. The use of general reserves to support revenue expenditure adds to the overall risks to the Council as such reserves can only be used once but the cumulative impact of such use will continue to be felt into the future.

**Other Risks**

**Capital Programme – Future Funding**

8.15 The Council is increasingly relying on borrowing (Internal and Prudential) to fund its future programme as the amount of capital receipts and the level of reserves available to fund the capital programme are reducing considerably over the next two years. Consequently, any new capital schemes (which do not generate a return to repay borrowing costs) will have to be funded through borrowing which will result in revenue costs and therefore will impact on the MTFS and future shortfalls.

8.16 For example, a £1m scheme with a 20 year life, funded by prudential borrowing, would result in around an additional £100,000 per annum in interest (5%) and repayment costs.

8.17 Consequently, a review of the current capital programme together with potential new schemes (as detailed in Section 16) and the ongoing revenue cost impact will be undertaken to ensure the programme is sustainable within the context of the Council's Medium Term Financial Strategy.

8.18 To exemplify the effect on the MTFS of potential additional costs arising from the above risks, Table 3 below details a scenario whereby the Council loses 50% of its business rates growth income following potential reforms in 2025/26, NHB reduces from 2025/26 and the impact of an additional £1m per year borrowing associated with new capital schemes.

**Table 3: MTFS Potential Impact of Major Risks – for illustrative purposes only**

	Estimate	Forecast	Forecast	Forecast	Forecast
	2024/25	2025/26	2026/27	2027/28	2028/29
	£000	£000	£000	£000	£000
<b>MTFS Shortfall - Appendix B</b>	<b>0</b>	<b>2,205</b>	<b>2,450</b>	<b>2,497</b>	<b>2,845</b>
<i>(Council Tax income level constant from 24/25 onwards)</i>					
50% loss of NNDR growth income		700	700	700	700
Increasing NHB threshold by 0.1%		100	150	200	250
Additional £1m per year borrowing	25	125	225	325	425
<b>Revised Shortfall</b>	<b>25</b>	<b>3,130</b>	<b>3,525</b>	<b>3,722</b>	<b>4,220</b>

8.19 As stated earlier, it is important to note that the figures detailed in the above table are purely illustrative as no decisions have yet been made regarding changes to these funding streams or new capital schemes and the potential impact on this Council.

## 9 PARISH PRECEPTS

9.1 The levels of parish precepts set throughout Fenland are provided for information at Appendix F. These will be reported to Council as part of the Council Tax setting process

## 10 FEES AND CHARGES

10.1 The Overview and Scrutiny Panel reviewed fees and charges for 2023/24 at its meeting on 15 January 2024 and these were subsequently considered by Cabinet on 22 January 2024. All of the recommendations from these meetings have been included in the financial forecasts.

## 11 SPECIAL AND GENERAL EXPENSES

- 11.1 For the purposes of Section 35 of the Local Government Finance Act 1992, the Council needs to pass appropriate resolutions for each financial year to determine how expenses which could legally be regarded as special should be treated.
- 11.2 If expenses are treated as special expenses, then they must be charged against the parts of the Council's area to which they relate.
- 11.3 Parish precepts are special expenses and cannot be treated as general expenses.
- 11.4 Drainage Board and Port Health levies which affect only part of the Council's area are treated as general expenses unless the Council resolves otherwise. These are currently treated as general expenses and it is recommended that this position continues for 2024/25.
- 11.5 Expenses incurred by the Council in performing, in part of its area, a function performed elsewhere by a parish council are special expenses unless the Council determines otherwise. Currently, these are treated as general expenses. To maintain this position, it is recommended that the Council determines that such expenses should not be treated as special expenses for the financial year 2024/25.

## 12 PORT HEALTH

- 12.1 The Port Health levy for 2024/25, based on expected expenditure, is recommended as shown in Table 4 below for Council to approve.

**Table 4: Port Health Levy 2024/25**

Description	£
a) Port Health anticipated expenditure	18,708
b) Port Levy	
Fenland District Council	16,556
South Holland District Council	1,310
King's Lynn and West Norfolk Borough Council	842
Total	18,708

## 13 COUNCIL TAX 2024/25

- 13.1 The government has set the referendum limit for 2024/25 at 3% or £5, whichever is higher for District Councils (the same as 2023/24). A 3% increase on the Band D Council Tax equates to £7.65 per annum.
- 13.2 Social care authorities, such as Cambridgeshire County Council can also increase their element of council tax by a further 2% (5% in total).
- 13.3 Council at its meeting on 17 July 2023, agreed to re-position the MTFs by keeping the cash level of Council Tax raised at the current level rather than the previously adopted 0% increase, while recognising that the Council continues to face significant financial challenges and uncertainties that may not allow this ambition to be met.
- 13.4 Members of the Council need to act responsibly each year when setting the precept to balance the ambition of keeping Council Tax income at its' current level with the legal need to balance the budget. It was agreed that raising Council Tax in any of the next four years will be a last resort in order to minimise the financial effects of Council Tax on all of Fenland's households.
- 13.5 The proposals in this report will increase the amount of Council Tax raised compared with the current year but will still result in a slight decrease in the headline Band D level.
- 13.6 For information, an additional 1% increase in Council Tax in 2024/25 would generate in the region of £81,000 of revenue per annum to the Council. Even with this additional revenue included, the estimates for future years show a significant shortfall (see Table 5 below).

### Council Taxbase

- 13.7 The amount of Council Tax income recognised in the estimates is determined by the Council Taxbase (Band D equivalents) and the level of Band D Council Tax. For 2024/25, the Council Taxbase has been calculated using the number of dwellings (as notified by the Valuation Office Agency), the impact of exemptions and discounts (eg. Single Person discount) and the amount of Council Tax Support awarded.
- 13.8 In addition, an allowance for growth and for non-collection is included to produce the estimated taxbase. For 2024/25, the taxbase has been calculated as 31,571 (Band D equivalents), an increase of 512 (1.65%) on 2023/24.
- 13.9 After the estimates of expenditure and income have been prepared, and the Final Settlement has been received, the next step is to set the council tax for 2024/25 for Fenland District Council.
- 13.10 Council Tax income for 2024/25 has been set at a level to recover the shortfall which would result if the Council Tax income had remained at its' current level for 2024/25 and over the period of the MTFs.

- 13.11 Even at this level of Council Tax, there will be a significant deficit to fund over the period of the MTFS. Consequently, the Council will need to continually consider its strategy to meet the estimated shortfalls shown at Table 2 and in Appendix B, particularly if there are additional impacts from the funding reforms from 2025/26 onwards together with the impact of new capital schemes.
- 13.12 The implications of not increasing Council Tax over the remainder of the MTFS is that the Council will be reducing its financial base permanently as it would not be able to recover potential revenue foregone due to the cumulative year on year impact. The consequences of continually setting zero Council Tax levels and not achieving the necessary savings/additional income have been clearly demonstrated by the events at other Councils. The ability to achieve significant year on year savings (without increasing existing and/or introducing new revenue streams together with transformational change) to balance the budget becomes progressively difficult without eventually impacting on front-line services and delivery.
- 13.13 Council can of course agree to a higher increase (up to the referendum limit of 3%) and a 1% increase in Council Tax raises around £81,000 revenue per annum. Table 5 shows the implications of increasing the Council Tax in 2024/25 by 3% per annum and thereafter compared to keeping the Council Tax income constant and compared to freezing the Council Tax in 2024/25 and throughout the MTFS period.

**Table 5: MTFS Net Position at Differing Council Tax increases in 2024/25 onwards**

Deficits based on different levels of Council Tax	2024/25	2025/26	2026/27	2027/28	2028/29
	£'000	£'000	£'000	£'000	£'000
<b>Deficits at CT at current level (as shown in Table 2/Appendix B)</b>	<b>0</b>	<b>+2,088</b>	<b>+2,333</b>	<b>+2,380</b>	<b>+2,728</b>
Additional CT with 0% increase p.a. from 2024/25	-14	-147	-282	-420	-559
<b>Net Position at 0% increase</b>	<b>-14</b>	<b>+1,941</b>	<b>+2,051</b>	<b>+1,960</b>	<b>+2,169</b>
Additional CT with 3% increase p.a. from 2024/25	-253	-641	-1,048	-1,473	-1,918
<b>Net Position at 3% increase</b>	<b>-253</b>	<b>+1,447</b>	<b>+1,285</b>	<b>+907</b>	<b>+810</b>

- 13.14 Last year's budget report included an expectation that options around introducing a scheme to accept voluntary council tax contributions from residents whereby they can pay an additional amount over and above the 'normal' amount of Council Tax would be brought forward for consideration in the 2024/25 budget. However, Officers are still working through some of the technical challenges involved in implementing this. In addition, as this will come under the remit of the newly created Culture, Arts and Heritage Executive Advisory Committee to review and propose which option to implement, the expectation is that a scheme will be introduced in the budget for 2025/26.

13.15 Table 6 shows the Band D Council Tax for spending at the level proposed, together with Council Tax levels from the major preceptors and Parishes.

**Table 6: Band D Council Tax Levels 2024/25**

COUNCIL TAX BASE	2024/25 31,571		2023/24 31,059	
	£	Band D £	£	Band D £
Fenland District Council Precept (Appendix A)	<u>8,043,971</u>		<u>7,927,495</u>	
<b>Fenland District Band D Council Tax</b>	<b>-0.18%</b>	<b>254.79</b>	<b>-2.00%</b>	<b>255.24</b>
MAJOR PRECEPTORS				
County Council	(4.99%)	1,619.82	(4.99%)	1,542.87
Police & Crime Commissioner	(4.76%)	285.48	(5.80%)	272.52
Fire Authority	(2.93%)	82.26	(6.60%)	79.92
Combined Authority	(200.00%)	36.00		12.00
Sub Total BAND D TAX		2,278.35		2,162.55
Parish Councils-average Band D (Appendix F)	(3.09%)	52.75	(5.55%)	51.17
<b>Total average Band D Tax</b>		<b>2,331.10</b>		<b>2,213.72</b>
<b>Total average Band D increase over 2023/24</b>		<b>£117.38 (5.30%)</b>		

13.16 The County Council increase for 2024/25 includes 2% for the Adult Social Care precept (£30.86) and 2.99% on the general council tax (£46.09), giving a total increase of 4.99% (£76.95). For 2024/25, the Police and Crime Commissioner is allowed to increase council tax by up to £13.00 on a Band D property. The actual increase is £12.96 (4.76%). Cambridgeshire and Peterborough Combined Authority has agreed a Band D council tax of £36.00 for 2024/25 increasing from £12.00 in 2023/24.

#### 14 COUNCIL TAX SUPPORT SCHEME 2024/25

14.1 Each year, the Council is required to review and approve its Council Tax Support Scheme (CTSS). The only changes relate to the prescribed pensioner scheme for 2024/25 which are determined by the usual annual regulations and which the Council has no discretion over.

14.2 The Council can only determine the working age CTSS and there are no proposals to change the current scheme for 2024/25. The current scheme is set out in the following link: [Fenland District Council - Council Tax Reduction Scheme 2023 24 \(angliarevenues.gov.uk\)](https://angliarevenues.gov.uk)

14.3 Consequently, it is proposed that the current working age CTSS scheme be continued with effect from 1 April 2024 with the prescribed pensioner scheme being updated by the relevant regulations.

#### 15 COUNCIL TAX LONG TERM EMPTY PREMIUMS AND SECOND HOME PREMIUMS

15.1 The Levelling Up and Regeneration Act became law on 26 October 2023. The Act allows, amongst other proposals, two important changes to council tax, as follows:

- A change in the application of a council tax premium on 'long term empty' dwellings. Currently, if a property has been unoccupied and unfurnished for 2 years but less



than 5 years, then a 100% council tax premium can be applied to the property. The shortens that 2 year period to 1 year. 'Long term empty' premiums are applied to encourage owners to bring properties back into use so they are not left empty for extended periods.

- The implementation of a council tax premium on 'second homes'. 'Second homes' are properties which are unoccupied but furnished. The Act allows local authorities to apply a 100% council tax premium on second homes. This would mean an owner of a second home in the district would pay double the normal council tax charge.

15.2 The change to long-term empty premium is effective from 1 April 2024.

15.3 The change to the 'Second homes' premium charge comes into effect 12 months after the Council determines to implement the charge. Therefore, the earliest this could be implemented is 1 April 2025.

15.4 No allowance for the financial implications of the proposed changes has been made in the Medium Term Forecasts from 2024/25 onwards.

15.5 It is therefore proposed :

- to agree to shorten the period a 100% premium on long term empty dwellings is payable from the current 2 years (empty) to 1 year from 1 April 2024.
- to agree to implement the 100% premium on all second homes from 1 April 2025.

15.6 There is no legal requirement to consult on the recommended changes but there is a legal requirement for implementation of the second homes premium to have a 12 month lead period from the decision to the implementation.

15.7 There is a legal requirement to publish any changes to the Council Tax regime in at least one newspaper circulating in the Billing Authority's area. This must be done within 21 days of the resolution being agreed by the Council.

15.8 Any amendments made to Council Tax premiums or to apply a second home premium are not based on individual circumstances or family characteristics. The recommendations will therefore apply equally to everyone.

### **Scheme Discretion – Long Term Empty Property Premiums**

15.9 The current long term empty property premiums policy is causing some unintended financial consequences for certain classes of properties and although in these circumstances, the Council can and does suspend the premium, it is considered more appropriate to have a clear policy relating to these classes of properties as detailed in the proposal below:

15.10 It is recommended that the following classes of properties do not attract the long term empty property premium:

- A property which is purchased through land registry at market value and where the new owners are unable to reside in the property due to its condition, where evidence of this situation by the new owners is produced – the premium will be waived for a maximum of 12 months from the date of purchase before reverting back to the appropriate level of premium prior to the waiver period.
- Where a property is actively being marketed for sale at market value, the premium will be waived for a maximum of 24 months.
- Where a property has been inherited and the new owners are unable to reside in the property due to its condition, where evidence of this situation by the new owners is produced – the premium will be waived for a maximum of 12 months from the date of ownership before reverting back to the appropriate level of premium prior to the waiver period.

15.11 It should be stressed that existing exemptions will remain in place that relate to properties that are empty because of specific circumstances such as the owner being in care, prison or being the executor of an estate where probate has been granted (time limited).

## **16 TREASURY MANAGEMENT STATEMENT, ANNUAL TREASURY INVESTMENT STRATEGY AND CAPITAL STRATEGY 2024/25**

16.1 Full details of the proposed Treasury Management, Annual Investment Strategy and Capital Strategy for 2024/25 are contained in Appendix E. The proposed Treasury Management and Annual Investment strategies were presented to and endorsed by Audit and Risk Management Committee on 12 February 2024.

16.2 The key issues relating to the strategies and their impact on the MTFs are as follows:

- The prudential and treasury indicators detailed in paragraphs 2-13 of Appendix E, show that the Council's capital investment plans are affordable, prudent and sustainable
- The Capital Strategy, detailed at Annex A of Appendix E, sets out the context in which capital expenditure and investment decisions are made and establishes that the Council has arrangements in place to ensure it gives due consideration to risk, reward, and impact on the achievement of priority outcomes.
- The MRP policy sets out how the Council will make prudent provision for the repayment of borrowing needs over the medium-term forecast.
- The Treasury Management Strategy has been organised so that the Council will have sufficient cash resources to meet capital expenditure plans and operational cash flows.
- Total external interest payments which include finance lease interest payments; revised estimate for 2023/24 is £534,450 and the estimate for 2024/25 is £906,325. Based on the estimated funding of the current capital programme detailed at Appendix D, these interest payments would rise to around £1.36m annually by the end of 2027/28.
- Link Group forecast that Bank Rate has now peaked at 5.25%.
- The current Medium Term Financial Strategy assumes that some external borrowing will be required over the four-year period to 31 March 2027.
- The aim of the Council's annual investment strategy is to provide security of investments whilst managing risk appropriately; investment returns are commensurate with the Council's historic low risk appetite although we are in the process of transition as a Council from a low risk policy to an appropriate managed risk policy. The Council achieves these objectives through differentiating between "specified" and "non-specified" investments and through the application of a creditworthiness policy.
- The council holds £4m in Property Funds which are long term investments. Although the returns from these investments can be higher than short term investments there is an increased risk that capital values will rise and fall.
- Total investment income from temporary investments is estimated at £1,125,000 for 2023/24 and £645,000 for 2024/2025. Income from pooled property funds is estimated at £130,000 in 2023/24 and £150,000 in 2024/25.

## **17 REVIEW OF GENERAL FUND BALANCE AND EARMARKED RESERVES**

- 17.1 An important part of any budget strategy is the review and consideration of reserves. Earmarked Reserves are typically held and used in a planned way to deal with issues where it is foreseen that resources need to be set aside to meet a specific need but the exact amount and timing is not known. General Reserves are held to cushion the impact of an event or events that cannot be foreseen whilst maintaining these resources at a consistent and reasonable level over the medium term.
- 17.2 Sufficient levels of reserves are necessary to provide for various contingent and unplanned items that could include:-
- significant increased costs of providing statutory services
  - significant increased contractual costs
  - an unexpected and/or significant event or disaster, e.g. civil emergency
  - an unexpected major liability in law
  - the need to make significant payments in relation to prior year adjustments under the direction of the external auditor
- 17.3 The Council's current uncommitted General Fund Balance is £2m. It is good practice to keep the balance on this reserve under review alongside ensuring that the purposes for which other earmarked reserves were allocated remain consistent with and relevant to the Council's Medium Term Financial Strategy.
- 17.4 Consequently, a review of the level of the General Fund Balance and the number and purpose of the earmarked reserves (Appendix G) will be undertaken and any amendments will be presented to a future meeting of Cabinet and Council. It is envisaged that the level of the General Fund Balance could be reduced and a Transformation Reserve be created from merging several existing earmarked reserves.
- 17.5 The Budget Equalisation Reserve was established in 2019/20 to provide a smoothing mechanism between financial years which could provide resources to help achieve balanced budgets in future years whilst not increasing Council tax each year. The current balance on this reserve is £1.866m and is available to meet potential budget shortfalls for 2023/24 and 2024/25.
- 17.6 In previous reports, the Leader has stated that one of the main purposes of the Budget Equalisation Reserve was to facilitate a form of feedback loop to counter what he described as the Council's systemic outturn surpluses. Table 7 below, demonstrates the point that the Leader was making. It is, ultimately, a matter of political interpretation whether the pattern of repeated outturn surpluses is evidence of taxing residents more than we need to each year, or if it bears a different interpretation. That is entirely a political matter for Cabinet and Full Council to consider.
- 17.7 At a time of much personal financial pressure for households across Fenland, the Leader proposed, and Full Council approved at their budget meeting in February 2023, a one-off 2% reduction in Council tax in 2023/24. Subsequently, Council at its meeting on 17 July 2023, agreed to re-position the MTFs by keeping the cash level of Council Tax raised at the current level rather than the previously adopted 0% increase, while recognising that the Council continues to face significant financial challenges and uncertainties that may not allow this ambition to be met. The decisions by Council in February and July 2023 was considered a more effective and appropriate way to eliminate the Council's pattern of outturn surpluses, and that the fact that the Budget Equalisation Reserve now stands at £1.866m (before any potential use to fund any shortfall in 2023/24) provides the facility to smooth any short term revenue account budget pressures in any year(s) over the term of the MTFs. In that way the Leader proposed that the Council will be able to rebalance its Council Tax take from residents against its spending requirements. That though is a

political judgment, and it is quite appropriate for Cabinet and Full Council either to accept that judgment or to reach a different political conclusion.

**Table 7: Net Deficit/Surplus(-) transferred from/(to) Reserves/Budget Equalisation Reserve**

	Budget £000	Outturn £000		Outturn Transferred to Reserves			Reserve Balance
				Capital Reserve	Management of Change	Budget Equalisation	
2024/25	-3	(estimate)				3	1,321
2023/24	-4	548 (projected)				-548	1,318
2022/23	203	-800				800	1,866
2021/22	842	-584				584	1,066
2020/21	0	-167				167	482
2019/20	151	-115				115	315
2018/19	73	-200				200	
2017/18	0	-935		600	335		

- 17.8 The analysis of reserves at Appendix G details the projected General Fund and earmarked reserves position at 31 March 2024 and 31 March 2025 taking into account the proposals detailed in this report. The proposal to maintain the current level of Council Tax income for 2024/25 has no effect on the projected value of the General Fund Balance in 2024/25.

## 18 CAPITAL PROGRAMME

- 18.1 Capital Expenditure and Income plans have been prepared through the Council's service and financial planning cycle. The Council's capital resources are dependent on government funding, external grants or through the ongoing disposal of assets.
- 18.2 Since February 2023, Members have continued to receive regular updates on several high-profile schemes including Wisbech High Street and the Future High Street Fund, March.
- 18.3 An updated Capital Programme for 2023-27 is presented at Appendix D(i) for approval. The programme has been updated to ensure it adequately reflects the cost and anticipated timing of schemes previously approved. At this stage, no further capital schemes over and above those already approved have been included in the updated programme and the financing costs included in the MTFS.
- 18.4 No allowance has yet been made for any potential new schemes detailed in Appendix D(ii). These schemes will be subject to further review by officers and members prior to any decision to include them in the approved capital programme.
- 18.5 In addition, no allowance has yet been made for the following developments which will significantly impact the Council's capital programme.

### Accommodation Strategy

- 18.6 Currently members and officers are working closely with the Council's professional advisors to produce an Accommodation Strategy. The decisions taken will inform the level of work required at Fenland Hall and The Base over the life of the capital programme. When decisions are taken regarding members' preferred option/s the capital programme will be adjusted accordingly. On this basis no commitments relating to Fenland Hall and the Base have been included in the current programme.

## Structural Works – Wisbech Port

- 18.7 Major structural concrete repair works have been completed in the current financial year to address the deteriorating condition of the suspended quay at Wisbech Port. Extensive further work will be required over the next few years to ensure the quay at the port of Wisbech remains safe and operational. Full details of this work was presented to Cabinet at their meeting on 16 March 2023. A detailed option appraisal regarding the future of Wisbech Port will be required before any further investment in the quay is considered. Ultimately, the long-term replacement of the suspended quay could cost in the region of £50m. Further reports will be brought to Cabinet for consideration of the future of Wisbech Port.
- 18.8 A comprehensive review of the current capital programme, Appendix D(i) and incorporating the projects above and others detailed at Appendix D(ii) will need to be undertaken together with its ongoing revenue cost impact to ensure the programme is sustainable within the context of the Council's Medium Term Financial Strategy.
- 18.9 It is proposed that a comprehensive review of the programme be undertaken and reported to Cabinet in July 2024.
- 18.10 Should resources from external funding and/or capital receipts not generate the level of receipts forecast, or there is a delay in disposal of assets, then the capital programme will need re-visiting to ensure funding is sufficient to meet proposed expenditure including through borrowing. Reviews of the programme and resources available are carried out regularly during the year.
- 18.11 The Council's Borrowing Strategy which is incorporated into the Council's Treasury Management Strategy Statement, recognises that some prudential borrowing will be required over the life of the capital programme. The projected additional annual revenue costs for the programme detailed at Appendix D(i) are reflected in the medium term forecasts at Appendix B.

## **19 RISK ASSESSMENT**

- 19.1 There is an element of risk inherent in any process that looks into the future to make forecasts, particularly in the current economic climate and other national and international events now or in the future that may impact on the Council either directly or indirectly. The Council has a strong track record in good financial management as recognised in the recent Annual Audit Letter. This risk is further minimised by adopting the following methodology when preparing the estimates:-
- Service managers and the Accountancy Team working together to define likely service income/expenditure patterns matched with service delivery plans;
  - Maintaining "earmarked" reserves for expenditure that it is known will occur but the exact amount and timing of the expenditure is not known;
  - Maintaining an adequate level of general reserves to meet sudden and or unforeseen expenditure;
  - Adopting clear guidelines and control systems (robust revenue and capital budget management and monitoring procedures, Financial Regulations and Contract Procedure Rules etc.) to alert service managers, and members before variances reach tolerance levels;
  - Using professional and expert advice and economic forecasts where these are available, e.g. treasury management, interest rates;
  - Maintaining a rolling review of forecast estimates beyond the current year.
- 19.2 These assumptions are made with all available information but are necessarily calculated based on broad assumptions. In the current economic climate, some of these

assumptions are particularly volatile. The MTFs will be prepared annually on a rolling basis so that as information becomes more certain the figures will be updated and early consideration can be given to any action or changes in direction that may be required.

## **20 REPORT OF THE CHIEF FINANCE (SECTION 151) OFFICER UNDER SECTION 25 OF THE LOCAL GOVERNMENT FINANCE ACT 2003.**

20.1 Under Section 25 of the Local Government Act 2003 and CIPFA Code of Practice, the Council's Chief Finance Officer (Section 151 Officer) is required to report on the robustness of the estimates made for the purpose of the budget calculations and the adequacy of the proposed reserves.

**Cabinet and Council are required under the 2003 Act to consider and give due regard to the Chief Finance Officer's report as part of the budget approval and council tax setting process.**

20.2 The proposed budget is set against the context of significant economic uncertainty in a post-Covid-19 world, the current cost of living crisis, together with considerable uncertainty regarding government funding over the MTFs. The Government intends to make fundamental changes to the funding system for Local Government through the introduction of a new needs based fairer funding formula and the introduction of business rates reforms and a new system of distributing the New Homes Bonus. The cumulative impact of these changes and lack of visibility on any transition or damping arrangements means that financial planning for 2025/26 and the medium term is very uncertain.

### **20.3 The Corporate Director and Chief Finance Officer (Section 151 Officer) makes the following statement:**

The robustness of the Budget estimates and the adequacy of the reserves are largely dependent on the levels of risk and uncertainty. There is an element of judgement as budget estimates of spending and income are made at a point in time and may change as circumstances change, particularly given the economic uncertainty in a post-Covid-19 world.

This statement on the robustness of estimates cannot give a 100% guarantee about the budget but should give the Council reasonable assurance that the budget has been based on the best information and assumptions available at the time.

The estimates that support this budget have used all the data and supporting information that the Council has at its disposal at this point in time. The principal financial assumptions made in the Budget are noted in this report and attached at Appendix C. Budget monitoring throughout the year will be an important tool in identifying, at an early stage, potential issues so appropriate action can be taken.

Although there are still many uncertainties around the estimates for 2024/25 and over the medium term to 2028/29 detailed in this report, there are undoubtedly significant challenges facing the Council over the next few years. The report also highlights several major areas of risk which could also adversely affect the estimates over the MTFs. Of particular concern is the additional revenue impact of any new capital schemes.

As detailed in the report, Council Tax over each year of the MTFs has been included at the proposed level for 2024/25, which has been set to fund the shortfall which would occur if the decision by Council at its' meeting on 17 July 2023 was implemented. At this level, there is a balanced budget in 2024/25, with subsequent shortfalls rising to £2.845m in 2028/29.

It is therefore, imperative that the Council has a robust savings strategy in place to meet these challenges. As detailed in the report, significant savings are expected from the Transformation Agenda 2 (TA2) programme and the outcome of the Accommodation Review.

The delivery of the planned savings and major business projects **is critical** to the successful delivery of the Council's budget strategy. Without these savings being delivered, the current Council Tax strategy of keeping the level at the same cash amount as this year (or even a 0% increase per annum), will be unsustainable and future increases in Council Tax inevitable to deliver a balanced budget.

Current activity provides adequate assurance as to the deliverability of the 2024/25 budget with future year projections representing realistic planning assumptions which will be subject to review as part of the annual budget setting process. The MTFS is currently forecasting a small financial surplus for the financial year 2024/25 which will be transferred to the Budget Equalisation Reserve.

The Budget has been prepared reflecting known service pressures and following thorough review by Service Managers of planned savings.

There are however significant funding risks over the period of the MTFS. Potential changes to the Business Rates Retention system are particularly concerning and will have a significant impact on this funding. As detailed in Section 5 of this report, this could result in less funding in the future. It is however uncertain as to when and what actual changes will take place and the budget and MTFS is presented on the basis of the current arrangements continuing.

Current proposals of keeping Council Tax income at its' current level in 2024/25 and over the remainder of the MTFS (effectively a Council Tax reduction in each year over the medium term) should be viewed in the light of the forecast shortfalls detailed within this report and the financial impact of increasing Council Tax up to the referendum limit. This is exemplified in Table 5 in paragraph 13.12 of this report. In addition, as detailed in paragraph 3.7, the government's assessment of Council's Core Spending Power assumes Council Tax is increased by the maximum permitted without a referendum.

Although no use of the General Fund Balance is planned in 2024/25, it is good practice to re-assess the appropriate level of this balance over the period of the MTFS. It is proposed that this is carried out during 2024/25 taking into account actual use of this balance and updated MTFS forecasts.

Given the uncertainties detailed in this report, it is imperative that the Council maintains sufficient resources to cover any in-year unforeseen expenditure. A risk based approach to the consideration of the level of reserves is a component of the Council's overall risk management framework. Operational risks should be managed within Services' bottom line budgets and thus will not normally result in any further call on the Council's General Balances, as detailed in Section 17 above.

My assessment of the process that has been undertaken is that the calculations used in the preparation of the estimates for the Budget for 2024/25 are fair and robust and that reserves are adequate to reflect known circumstances and to be able to manage the stated uncertainties and risks that could realistically be anticipated at this point. All earmarked reserves are held for the purpose for which they are set up and are considered to be adequate to meet the requirements of those purposes when called upon based on the best information available as at the time of writing.

## FENLAND DISTRICT COUNCIL

## Summary of Revenue Estimates

	<b>Council 20.02.23</b>	<b>Cabinet 18.12.23</b>		
	<b>Original Estimate 2023/24</b>	<b>Current Approved Estimate 2023/24</b>	<b>Projected Outturn 2023/24</b>	<b>Estimate 2024/25</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Service Summary</b>				
Growth & Infrastructure	1,149,154	1,447,945	1,441,865	1,454,340
Communities, Environment, Leisure & Planning	5,044,350	4,379,122	4,701,947	5,402,610
Resources & Customer Services	9,707,920	9,888,740	10,143,820	10,304,470
Pay Award 2023/24	0	691,000	0	0
Vacancy Factor (1.5%)	-199,000	0	0	-230,000
Transformation Programme - TA2 savings	0	0	0	-225,000
<b>NET COST OF GENERAL FUND SERVICES</b>	<b>15,702,424</b>	<b>16,406,807</b>	<b>16,287,632</b>	<b>16,706,420</b>
<b>Corporate Items</b>				
Internal Drainage Board Levies	1,877,510	1,903,750	1,903,750	2,098,570
Internal Drainage Board Levies Grant	0	-177,280	-177,280	-177,280
Contributions to/ (from) Earmarked Reserves	-740,187	-134,286	64,734	-652,874
Contributions to/(from) Business Rates Reserve	-211,048	-211,048	-211,048	0
RTB Sharing Income	-20,000	-20,000	-20,000	-20,000
Financing Charges - <i>Interest on External Borrowings</i>	618,990	618,990	534,450	906,325
Financing Charges - <i>MRP current Capital Programme</i>	396,900	396,900	383,989	587,700
Investment Income and Property Funds Income	-775,000	-1,220,000	-1,255,000	-795,000
New Homes Bonus	-369,245	-369,245	-369,245	-442,392
Services Grant	-149,720	-149,720	-149,720	-25,846
Core Spending Power 3% Guarantee Grant	-600,957	-600,957	-600,957	-788,558
<b>Corporate Items</b>	<b>27,243</b>	<b>37,104</b>	<b>103,673</b>	<b>690,645</b>
<b>Net Expenditure</b>	<b>15,729,667</b>	<b>16,443,911</b>	<b>16,391,305</b>	<b>17,397,065</b>
Contribution to/from(-) Budget Equalisation Reserve	3,695	0	-548,352	2,515
<b>NET EXPENDITURE after use of balances</b>	<b>15,733,362</b>	<b>16,443,911</b>	<b>15,842,953</b>	<b>17,399,580</b>
<b>Core Funding</b>				
Revenue Support Grant	-173,414	-173,414	-173,414	-184,901
<b>Business Rates - Income due in Year</b>				
Business Rates Funding	-10,557,996	-10,557,996	-10,557,996	-11,177,561
Tariff Payment to Government	7,367,123	7,367,123	7,243,731	7,554,448
Renewable Energy Rates Retained	-1,904,210	-2,076,700	-2,076,700	-1,476,267
Business Rates Pool - FDC Share of Benefit	-350,000	-450,000	-450,000	-300,000
Business Rates S31 Grants due in year	-2,911,969	-2,897,620	-3,028,030	-3,166,574
Business Rates Levy due in year	600,615	854,970	1,034,013	744,929
Business Rates Levy Account Surplus allocation	0	0	-31,046	0
	<b>-7,756,437</b>	<b>-7,760,223</b>	<b>-7,866,028</b>	<b>-7,821,025</b>
<b>Business Rates Collection Fund Deficit(+)/Surplus(-)</b>	<b>211,048</b>	<b>211,048</b>	<b>211,048</b>	<b>-1,291,784</b>
<b>Council Tax Collection Fund Deficit(+)/Surplus(-)</b>	<b>-87,064</b>	<b>-87,064</b>	<b>-87,064</b>	<b>-57,899</b>
<b>Council Tax</b>	<b>-7,927,495</b>	<b>-7,927,495</b>	<b>-7,927,495</b>	<b>-8,043,971</b>
<b>Business Rates and Council Tax Funding</b>	<b>-15,733,362</b>	<b>-15,737,148</b>	<b>-15,842,953</b>	<b>-17,399,580</b>
<b>Surplus(-)/Shortfall(+)</b>	<b>0</b>	<b>706,763</b>	<b>0</b>	<b>0</b>



APPENDIX A(ii)

<b>GROWTH AND INFRASTRUCTURE</b>			
<b>Service</b>	<b>2023/24 Current Approved Estimate £</b>	<b>2023/24 Projected Outturn £</b>	<b>2024/25 Original Estimate £</b>
<b>Direct Services</b>			
Transport Development	156,100	146,140	246,450
Miscellaneous (Clocks, Monuments)	5,800	5,800	5,800
Drainage (District)	3,500	3,500	3,500
Highways (District)	190,240	197,240	216,940
Car Parks	208,300	208,300	229,700
Marine Services	585,645	580,245	429,050
Economic Estates	-163,850	-173,100	-279,250
Sewage Treatment Works	39,930	48,010	48,090
Parish Council Concurrent Functions	55,840	55,840	55,840
Economic Development	78,190	83,860	117,730
Regeneration	-35,440	-30,760	-18,400
HLF- High St Wisbech	21,390	21,390	21,390
<b>Total Direct Services</b>	<b>1,145,645</b>	<b>1,146,465</b>	<b>1,076,840</b>
<b>Support Services</b>			
Asset & Project Services	358,300	351,400	457,500
<b>Net Cost of Services</b>	<b>1,503,945</b>	<b>1,497,865</b>	<b>1,534,340</b>
<b>Less Support Services Recharges to Capital Schemes</b>	<b>-56,000</b>	<b>-56,000</b>	<b>-80,000</b>
<b>TOTAL GROWTH AND INFRASTRUCTURE</b>	<b>1,447,945</b>	<b>1,441,865</b>	<b>1,454,340</b>

General Notes for Appendix A(ii):

1. Within all the Service Estimates detailed in Appendix A(ii), Support Services costs have not been reallocated with the exception of recharges to Capital Schemes.
2. Similarly, Capital Charges have not been reallocated as these 'costs' are reversed out within the Corporate Items section of the estimates, thereby having no impact on the Budget Requirement and Council Tax.
3. Estimates for 2024/25 include the assumptions on pay, expenditure and income detailed at Appendix C. In addition, staff cost allocations to services have been reviewed for 2023/24 and have resulted in costs being re-allocated to better reflect time spent on providing those services.

<b>COMMUNITIES, ENVIRONMENT, LEISURE &amp; PLANNING</b>			
<b>Service</b>	<b>2023/24 Current Approved Estimate £</b>	<b>2023/24 Projected Outturn £</b>	<b>2024/25 Original Estimate £</b>
<b>Direct Services</b>			
Housing Strategy	131,065	130,780	142,950
Private Sector Renewals	87,780	95,370	99,490
Housing Standards	98,520	102,940	104,280
Care & Repair	31,120	31,660	33,320
CCTV	67,990	68,690	78,020
Safer Fenland	80,200	93,670	117,970
Licensing	-34,250	-32,570	-32,260
Housing Options	133,330	174,240	260,980
Housing Needs and Advice	-601,430	-810,070	119,240
LAHF Properties	-39,450	-22,880	-201,000
Community Development	128,940	130,970	138,450
Travellers Services	-53,590	-45,590	-85,020
Pollution Reduction	121,060	128,580	141,050
Public Health	398,520	407,330	277,730
Food Safety	136,790	149,420	154,310
Health and Safety	65,950	70,120	82,290
Refuse Collection - Domestic	1,539,010	1,660,880	1,983,640
Garden Waste	-154,170	-106,570	-187,330
Refuse Collection - Trade Waste	-223,990	-234,150	-220,980
Street Cleansing	983,720	1,058,790	1,112,990
Streetscene	192,880	206,150	252,650
Public Conveniences	28,460	23,510	23,350
Arts Development & Culture	20,730	27,440	41,720
Planning Policy	154,380	157,980	228,190
Development Management	66,530	135,260	-253,940
Building Control	54,510	54,270	54,110
Conservation	37,460	41,730	43,840
Planning Compliance	175,670	174,590	102,870
Technical Support	223,860	268,400	289,550
Leisure Centres	-417,520	-414,700	-440,620
Sports Development	167,097	165,657	149,490
Parks and Open Spaces	641,480	653,120	645,630
Cemeteries	28,900	40,330	-430
Markets and Fairs	-14,580	-13,800	-9,830
Community Events	78,650	86,580	110,960
Vehicle Workshop	43,500	43,820	44,950
<b>TOTAL COMMUNITIES, ENVIRONMENT, LEISURE &amp; PLANNING</b>	<b>4,379,122</b>	<b>4,701,947</b>	<b>5,402,610</b>

<b>RESOURCES AND CUSTOMER SERVICES</b>			
<b>Service</b>	<b>2023/24 Current Approved Estimate £</b>	<b>2023/24 Projected Outturn £</b>	<b>2024/25 Original Estimate £</b>
<b>Direct Services</b>			
Miscellaneous Central Services	138,720	138,220	138,540
Unfunded Pension Costs/Apprenticeship Levy	1,025,440	1,027,350	990,950
Corporate Management	1,006,220	1,029,600	965,870
Council Tax Cost of Collection	487,020	534,750	615,940
Business Rates Cost of Collection	-18,530	-19,940	-19,110
Housing Benefits	1,269,190	1,306,570	1,007,310
ICT Direct Service Costs	866,630	891,850	889,050
Policy & Comms	295,710	304,010	340,800
Land Charges	-7,850	-9,600	-11,300
Elections & Electoral Registration	359,040	361,840	251,920
Democratic Services	649,630	622,260	664,840
Emergency Planning	55,520	57,050	59,610
<b>Total Direct Services</b>	<b>6,126,740</b>	<b>6,243,960</b>	<b>5,894,420</b>
<b>Support Services</b>			
Accountancy	667,650	699,290	714,350
Information & Communication Technology	565,060	582,450	696,800
Customer Services/My Fenland	863,700	919,600	1,115,000
Transformation	218,800	231,600	278,200
Post & Reprographics	124,820	123,030	131,700
Internal Audit	159,220	153,300	128,920
Legal Services	203,510	193,470	301,860
Corporate Health & Safety	18,140	19,320	17,680
Human Resources	369,200	385,600	376,690
Fenland Hall	401,100	416,900	466,900
The Base	170,800	175,300	181,950
<b>Total Support Services</b>	<b>3,762,000</b>	<b>3,899,860</b>	<b>4,410,050</b>
<b>TOTAL RESOURCES AND CUSTOMER SERVICES</b>	<b>9,888,740</b>	<b>10,143,820</b>	<b>10,304,470</b>

**APPENDIX B**  
(Council Tax income level constant  
2024/25 onwards)

<b>Medium Term Financial Strategy</b>	Projected 2023/24 £000	Estimate 2024/25 £000	Forecast 2025/26 £000	Forecast 2026/27 £000	Forecast 2027/28 £000	Forecast 2028/29 £000
<b><u>Expenditure</u></b>						
<b>Service Expenditure/Income</b>						
Gross Service Expenditure	29,669	29,404	29,141	29,421	29,964	30,355
Gross Service Income	-13,383	-12,243	-11,869	-12,067	-12,375	-12,692
Vacancy Factor (1.5%)	0	-230	-235	-238	-244	-250
Transformation Programme - additional savings	0	-225	-306	-339	-372	-372
<b>Total Net Service Expenditure</b>	<b>16,286</b>	<b>16,706</b>	<b>16,731</b>	<b>16,777</b>	<b>16,973</b>	<b>17,041</b>
<b>Corporate Items</b>						
<b>Corporate Expenditure/Savings</b>						
Internal Drainage Board Levies	1,904	2,099	2,162	2,226	2,293	2,362
Internal Drainage Board Levies Grant	-177	-177	0	0	0	0
Financing Charges - Interest on External Borrowing	534	906	1,025	1,185	1,360	1,360
Financing Charges - MRP Current Capital Programme	384	588	674	676	750	800
	<b>2,645</b>	<b>3,416</b>	<b>3,861</b>	<b>4,087</b>	<b>4,403</b>	<b>4,522</b>
<b>Corporate Income Items</b>						
Contribution to(+)/from(-) Earmarked Reserves	65	-653	-90	118	39	125
Contribution to(+)/from(-) Business Rates Reserve	-211	0	0	0	0	0
RTB/VAT Sharing Income	-20	-20	-20	-20	-20	-20
Investment and Property Fund Income	-1,255	-795	-945	-1,145	-1,345	-1,145
New Homes Bonus	-369	-442	-442	-442	-442	-442
CSP Guarantee Grant	-601	-789	-654	-654	-654	-654
Services Grant	-150	-26	-24	-24	-24	-24
Contribution to/from(-) Budget Equalisation Reserve	-548	3	0	0	0	0
	<b>-3,089</b>	<b>-2,722</b>	<b>-2,175</b>	<b>-2,167</b>	<b>-2,446</b>	<b>-2,160</b>
<b>Total Corporate Items</b>	<b>-444</b>	<b>694</b>	<b>1,686</b>	<b>1,920</b>	<b>1,957</b>	<b>2,362</b>
<b>Gross Service/Corporate Expenditure</b>	<b>32,314</b>	<b>32,365</b>	<b>32,461</b>	<b>32,931</b>	<b>33,751</b>	<b>34,255</b>
<b>Gross Service/Corporate Income</b>	<b>-16,472</b>	<b>-14,965</b>	<b>-14,044</b>	<b>-14,234</b>	<b>-14,821</b>	<b>-14,852</b>
<b>Net Budget Requirement</b>	<b>15,842</b>	<b>17,400</b>	<b>18,417</b>	<b>18,697</b>	<b>18,930</b>	<b>19,403</b>
<b><u>Funding - RSG, Business Rates &amp; Council Tax</u></b>						
<b>Revenue Support Grant</b>	<b>-173</b>	<b>-185</b>	<b>-185</b>	<b>-185</b>	<b>-185</b>	<b>-185</b>
<b>Business Rates</b>						
Business Rates Baseline Funding	-10,558	-11,177	-12,047	-12,105	-12,467	-12,693
Tariff Payment to Government	7,244	7,554	7,683	7,813	7,946	8,081
Renewable Energy Rates Retained	-2,077	-1,476	-1,595	-1,598	-1,601	-1,610
Business Rates Pool - FDC Share of Benefit	-450	-300	-300	-300	-300	-300
Business Rates S31 Grants due in year	-3,028	-3,167	-2,555	-2,598	-2,642	-2,687
Business Rates Levy due in year	1,034	745	764	703	793	813
Business Rates Levy Account Surplus Allocation	-31	0	0	0	0	0
Business Rates Collection Fund Deficit/Surplus(-)	211	-1,292	0	0	0	0
<b>Total Business Rates Funding</b>	<b>-7,655</b>	<b>-9,113</b>	<b>-8,050</b>	<b>-8,085</b>	<b>-8,271</b>	<b>-8,396</b>
<b>Council Tax</b>						
Council Tax Collection Fund Surplus(-)/Deficit	-87	-58	-50	-50	-50	-50
Council Tax (Constant level 2024/25 onwards)	-7,927	-8,044	-8,044	-8,044	-8,044	-8,044
<b>Total Council Tax Funding</b>	<b>-8,014</b>	<b>-8,102</b>	<b>-8,094</b>	<b>-8,094</b>	<b>-8,094</b>	<b>-8,094</b>
<b>Total Funding - RSG/Business Rates/Council Tax</b>	<b>-15,842</b>	<b>-17,400</b>	<b>-16,329</b>	<b>-16,364</b>	<b>-16,550</b>	<b>-16,675</b>
<b>Surplus(-)/Shortfall(+)</b>	<b>0</b>	<b>0</b>	<b>+2,088</b>	<b>+2,333</b>	<b>+2,380</b>	<b>+2,728</b>

## Assumptions built into Budget and Medium Term Financial Strategy (MTFS)

Within the forecasts are a number of assumptions which are necessary to produce the overall budget strategy. However, there is an element of risk associated with this process although the aim is to mitigate these risks as detailed in section 19 of the main report.

The main assumptions are as follows:

- Council Tax income increases from current levels for 2024/25 and remains at this level over the period of the MTFS (£7.927m in 2023/24 increasing to £8.044m in 2024/25 and thereafter). With the estimated increases in the Council Tax base, this equates to a reduction in Band D Council Tax levels of £0.45 or 0.18% for 2024/25 with further reductions in the following years. The cumulative reduction in Council Tax by 2028/29 would be around £16.14 or 6.33%. (For comparison, a 0% increase would generate £14k of resources and a 3% increase around £253k of resources in 2024/25).
- 1.65% increase in Council Tax base in 2024/2025 (Tax-base 31,571) and thereafter (increase of 520 Band D equivalent properties in 2025/26 rising to 547 in 2028/29).
- Inflation increases in Retained Business Rates income from 2025/26 onwards. Future net benefits from Business Rates will be dependent upon the impact of any potential system re-set and other changes from April 2025 onwards.
- Inclusion of this Council's share (£300k) of the potential benefit arising from the continuation of the Cambridgeshire Business Rates Pool in 2024/25 onwards. Although Fenland will not formally be part of the Pool for 2024/25, the Pool members have agreed for Fenland to be no worse off as a result of the new Pool arrangements. Potential benefit from the Pool in future years will be dependent on any changes to the Business Rates Retention System from April 2025.
- Continuation of the Services Grant (£26k allocated in 2024/25) and the Core Spending Guarantee Grant (£789k allocated in 2024/25) in 2025/26 and over the medium term. Although the national totals of these grants will remain in the Local Government sector in future years, they may be allocated differently as a result of changes to the Local Government funding system from April 2025, which could negatively affect our funding from these sources.
- The New Homes Bonus (£442k allocated in 2024/25) has been included at £442k per annum from 2025/26 onwards as detailed in Section 4 of the report. Future allocations will be dependent upon the scheme design and national totals of any replacement Housing Growth initiative.
- 4% pay award in 2024/25 (£608k cost) and 2% thereafter together with an allowance for pay increments of around 0.5% p.a. (£76k cost).
- Employer's Pension Contributions – following the triennial valuation as at 31.03.2022, the contribution rate for 2023/24 – 2025/26 increased slightly to 17.6% of salary (17.4% in 2022/23) with an additional past deficit lump sum payment of £922k for 2023/24, £884k for 2024/25 and £845k for 2025/26 representing an overall increase of 1% p.a. in total contributions.
- Inclusion of a vacancy factor for 2024/25 onwards, equivalent to a reduction in staff costs of 1.5% (£230k in 2024/25).

- Specific allowance for inflation where required eg: employee costs (as detailed above), business rates, external contracts, energy and water, fuel costs etc. Otherwise, no allowance for inflation has been included.
- Estimated 10% increase in Internal Drainage Board Levies in 2024/25 based on correspondence received from 4 of the largest Drainage Boards regarding their likely increases. The actual levies are not set by the Drainage Boards until after we have set our budget and Council Tax levels. To help off-set these increases, the government is once again allocating £3m nationally to the worst affected authorities. In 2023/24 we were allocated £177k of IDB grant and the same amount has been included for 2024/25. Allocations for 2024/25 will be announced in the coming months (and after we have set our budget) so the actual amount of grant received may be different to this.
- Investment interest rates are forecast to remain at current levels until Q2, 2024 before subsequently decreasing back to 3% in Q4, 2025 (£445k estimated income from temporary investments in 2024/25).
- Investment income includes the £4m investment in property funds in March 2022 (£150k p.a. income net of costs in 2024/25).
- Forecast income levels from fees and charges in 2024/25 include the agreed fee increases (Cabinet 22 January 2024) together with a review of activity levels.
- For 2024/25 onwards, a full years' worth of Management Fee being received from the Leisure Management contractor has been assumed. This follows two years of significant additional Council support for the Leisure Management contract in 2020/21 and 2021/22 as a result of Covid-19, through deferral of the management fee and also cash support. Further support was agreed in 2022/23 and 2023/24 to mitigate the significant impact of rising energy costs. No allowance has been made at this stage for any potential additional support for 2024/25.
- For 2024/25 onwards, provision has been included for a reduction in costs/increase housing benefit subsidy of £370k relating to bed and breakfast and temporary accommodation for the homelessness and rough sleeper's service. This is a result of various initiatives currently progressing, in conjunction with current providers and from the impact of the additional houses purchased with support from the Local Authority Housing Fund.
- Recharges to Fenland Future Limited to reflect the use of FDC officer time on the company's behalf has been included (£125k in 2022/23 and future years). This amount could vary depending on the amount of time and types of activities being carried out for the company.
- Potential net benefits from Fenland Future Ltd of loan interest and dividends from future developments have been included. These amounts could vary depending on the timing and profitability of developments being carried out by the company.
- No allowance has been made in the medium term forecasts for the potential impact of the government's waste strategy particularly relating to Food Waste.
- No potential additional income (or costs) from the Extended Producer Responsibility scheme for managing packaging waste (effective from 2025/26) has been included as there are currently no indications of the level of this income.
- £225k of in-year savings have been included in 2024/25 for potential savings from the Transformation Agenda 2 programme, rising each year to £372k savings included in 2028/29.

- Estimated financing costs (Interest and MRP) of the current capital programme as detailed in Appendix D(i) are included in the MTFS. No allowance has been made for any additional new capital schemes.

**CAPITAL PROGRAMME AND FUNDING 2023 - 2027**

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£4628</b>
Capital expenditure – Capital Programme	14,634	6,695	3,097	1,829
Capital expenditure – Commercial and Investment Strategy	7,389	2,730	6,000	7,972
<b>CURRENT FORECAST EXPENDITURE</b>	<b>22,023</b>	<b>9,425</b>	<b>9,097</b>	<b>9,801</b>

**FORECAST RESOURCES AVAILABLE**

Capital Grants	12,541	2,754	1,194	1,194
Usable Capital Receipts - In Year	155	250	250	250
Reserves used in year to fund Capital	2,674	730	0	0
Section 106s and Other Contributions	1,025	45	38	35
Borrowing (Internal and Prudential) - Capital Programme	4,628	3,646	1,615	350
Borrowing (Prudential) - CIS	1,000	2,000	6,000	7,972
<b>TOTAL FORECAST RESOURCES</b>	<b>22,023</b>	<b>9,425</b>	<b>9,097</b>	<b>9,801</b>



CAPITAL PROGRAMME SUMMARY 2023/24 - 2026/27										APPENDIX D(i)
		2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total Cost £000	FDC Funding £000	External Funding £000	External Funders and FDC Reserves/S106	
<b>Leisure Centres</b>										
1	Condition Survey Improvements	208	1,055	1,055		2,318	2,265	53	£53k DLUHC 'Changing Places' Grant	
2	Energy Efficiency Works - Solar PV; Manor CHP; Manor Pool AHU	635				635	275	360	£110k CPCA Growing Fenland; £250k Sport England	
3	Manor Basketball/Tennis/Netball Improvements including site investment appraisal	80				80	0	80	£55k CPCA Growing Fenland; £25k FCC Communities Grant	
4	Leisure Centres - Facility Strategy	100	25	25	0	150	150	0		
<b>Regeneration Programmes</b>										
5	Heritage Lottery Fund - Non-FDC Properties	98				98	0	98	HLF Grant.	
6	Heritage Lottery Fund - 24 High Street, Wisbech	1,000	1,989			2,989	2,531	458	£220k CPCA Grant; £238k HLF	
7	Railway Station Master-Planning - Manea Station Car Park	10				10	10	0		
8	Future High Street Fund, March	5,716	1,000			6,716	197	6,519	£2,000k CPCA, £4,519k DLUHC Future High Streets,	
9	Growing Fenland - Capital Grants	33				33	0	33	£33k CPCA Grant	
10	Whittlesey Market Place Improvements	20				20	0	20	£20k CPCA Growing Fenland Grant	
11	Whittlesey Southern Relief Road - SOBC	265				265	0	265	£265k CPCA Growing Fenland Grant	
<b>Parks and Open Spaces</b>										
12	Wisbech Park Pavillion	950				950	449	501	£240K Cambs CC Capital Communities Fund Grant, £299K CPCA Grant, £60K DLUHC Changing Places Grant	
13	Wisbech Park - Play Area Refurbishment	135				135	88	47	£47k DLUHC Levelling Up Parks Fund, £25k S106	
14	National Trust Peckover House	40	0	0	0	40	40	0	£40K DLUHC Changing Places Grant	
15	Play Park Re-furb Programme	0	45	38	35	118	118	0		
<b>Cemeteries</b>										
16	Cemetery Chapels Condition Survey Works	237				237	237	0		
17	Remedial Works in Closed Cemeteries	50	150	150		350	350	0		
<b>Highways</b>										
18	Category 2 Street Lights - FDC Lights	54	110			164	164	0		
19	Street Light Improvements - Parishes (Contribution to Cat 2 Replacements)	2				2	2	0	£2k Capital Contribution Reserve	
20	Growing Fenland - Civil Parking Enforcement	5	322			327	0	327	£327k CPCA Grant	
21	Huntingdon Road Improvements, Chatteris	120				120	120	0		
<b>Environment</b>										
22	Replacement and Additional Litter Bins	27				27	27	0		
23	Sound Monitoring Equipment	30				30	30	0	£30k Capital Contribution Reserve	
<b>Port</b>										
24	Wisbech Suspended Quay - Structural Concrete Repairs	1,200				1,200	1,200	0		
<b>Sub Total</b>		<b>11,015</b>	<b>4,696</b>	<b>1,268</b>	<b>35</b>	<b>17,014</b>	<b>8,253</b>	<b>8,761</b>		

		2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total Cost £000	FDC Funding £000	External Funding £000	External Funders and FDC Reserves/S106	
<b>Brought Forward</b>		11,015	4,696	1,268	35	17,014	8,253	8,761		
<b>Vehicles and Plant</b>										
25 Vehicles		233	200	200	200	833	833	0		
26 CCTV Cameras		26				26	0	26	£26k Safer Fenland Funding	
<b>ICT System Replacement Programme &amp; Upgrades</b>										
27 Replacement & Upgrade Programme		200	100	100	100	500	500	0	£149k Management of Change Reserve	
28 Transformation Projects		265				265	265	0		
<b>Improvement of Assets</b>										
29 Sewage Treatment Works Refurbishment		500	300	300	300	1,400	1,400	0		
30 March Moorings Renewals		20	25	25		70	70	0		
31 Lattersey Nature Reserve - Capping Layer			40	10		50	50	0		
32 Nene Waterfront Infrastructure Improvements		180				180	0	180	£180k Brownfield Land Release Fund	
<b>Car Parks</b>										
32 Eastwood, Chatteris		10	140			150	150	0		
<b>Economic Estates</b>										
33 Longhill Industrial Estate - Roof - Urgent Works		205				205	205	0	£205k Repairs & Maintenance Reserve	
<b>Libraries</b>										
34 Heritage Library Display - Whittlesey		10				10	0	10	£10k CPCA Growing Fenland Grant	
<b>Private Sector Housing Support</b>										
35 Private Sector Renewal Grants		60	40	40	40	180	0	180	£180k Govt Grant	
36 Disabled Facilities Grants/Loans		1,760	1,154	1,154	1,154	5,222	0	5,222	£5,222k Govt Grant	
<b>UK Shared Prosperity Fund</b>										
37 Investment in Business Grants		150				150	0	150	£150 CPCA Grant	
38 Rural UK Shared Prosperity Fund Grant										
<b>Commercial and Investment Strategy Schemes</b>										
39 Local Authority Housing Fund (LAHF) 1		2,087				2,087	0	2,087	£874k LAHF 1	
40 Local Authority Housing Fund (LAHF) 2		4,302	730			5,032	4,005	1,027	£2,240k LAHF 2	
41 Loans to Fenland Future Ltd/Other Investment Opportunities		1,000	2,000	6,000	7,972	16,972	16,972	0		
<b>Total - Approved Programme</b>		22,023	9,425	9,097	9,801	50,346	32,703	17,643		
Capital Grants		12,541	2,754	1,194	1,194	17,683				
Usable Capital Receipts - In Year		155	250	250	250	905				
Reserves used in year to fund Capital		2,674	730	0	0	3,404				
Section 106s and Other Contributions		1,025	45	38	35	1,143				
Borrowing (Internal and Prudential)		5,628	5,646	7,615	8,322	27,211				
		22,023	9,425	9,097	9,801	50,346				

POTENTIAL NEW CAPITAL SCHEMES 2024/25 - 2026/27								APPENDIX D(ii)
	2024/25 £000	2025/26 £000	2026/27 £000	Total Cost £000	FDC Funding £000	External Funding £000	External Funders and FDC Reserves/S106	
<b>Leisure Centres</b>								
1 Manor Leisure Centre	500	2,000	0	2,500	2,500	0		
2 Hudson Leisure Centre	250	450	0	700	700	0		
3 George Campbell Leisure Centre	250	350	0	600	600	0		
4 Cardio Gym Kit Replacement	0	100	0	100	100	0		
5 Resistance Gym Kit Replacement	0	0	500	500	500	0		
<b>Parks and Open Spaces</b>								
6 Park Infrastructure (paths / gates etc)	200	150	0	350	350	0		
7 Play Park Re-furb Programme	205	200	0	405	405	0		
8 Tree Works	50	50	0	100	100	0		
<b>Cemeteries</b>								
9 Remedial Works in Open Cemeteries	140	100	0	240	240	0		
10 Flood Management Programme - Eastwood Cem, March	100	0	0	100	100	0		
<b>Highways</b>								
11 Algores Way, Wisbech - Road Resurfacing Works	300	0	0	300	300	0		
12 Europa Way, Wisbech - Road Resurfacing Works	275	0	0	275	275	0		
13 Brewin Chase, March - Road Resurfacing Works	250	0	0	250	250	0		
<b>Port</b>								
14 Small Twin Screw Tug, Wisbech Port	500	0	0	500	500	0		
<b>Sub Total</b>	<b>3,020</b>	<b>3,400</b>	<b>500</b>	<b>6,920</b>	<b>6,920</b>	<b>0</b>		
<b>Brought Forward</b>								
	3,020	3,400	500	6,920	6,920	0		
<b>Vehicles and Plant</b>								
15 Vehicles (additional to current programme)	639	532	665	1,836	1,836	0		
16 Bring Banks							Budget and Funding to be decided	
<b>Improvement of Assets</b>								
17 West End Park Moorings, March	155	0	0	155	155	0		
18 Boat House							Budget and Funding to be decided	
19 Creek Hostel - Roof							Budget and Funding to be decided	
20 Accomodation Review							Budget and Funding to be decided	
<b>Car Parks</b>								
21 Chapel Road Car Park, Wisbech	750	0	0	750	750	0		
<b>Grant Match Funding</b>								
22 Potential Wisbech Levelling up Fund Bid; match funding required	350	1,650	0	2,000	2,000	0		
<b>Total - Potential New Schemes</b>	<b>4,914</b>	<b>5,582</b>	<b>1,165</b>	<b>11,661</b>	<b>11,661</b>	<b>0</b>		
Capital Grants	0	0	0	0				
Usable Capital Receipts - In Year	0	0	0	0				
Reserves used in year to fund Capital	0	0	0	0				
Section 106s and Other Contributions	0	0	0	0				
Borrowing (Internal and Prudential)	4,914	5,582	1,165	11,661				
	4,914	5,582	1,165	11,661				

## Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2024/25

### 1 Introduction

#### CIPFA Treasury Management Code and Prudential Code (Revised 2021)

- 1.1 CIPFA published the revised codes on 20 December 2021 and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.
- 1.2 The revised codes will have the following implications:
- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
  - clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
  - address Environmental, Social and Governance (ESG) issues within the Capital Strategy;
  - require implementation of a policy to review commercial property, with a view to divest where appropriate;
  - create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
  - ensure that any long term treasury investment is supported by a business model;
  - a requirement to effectively manage liquidity and longer term cash flow requirements;
  - amendment to Treasury Management Practice 1 to address ESG policy within the treasury management risk framework;
  - amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
  - a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

- 1.3 In addition, all investments and investment income must be attributed to one of the following three purposes: -

#### **Treasury management**

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity

which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments. The Council's investment in property funds falls into this category.

### **Service delivery**

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

### **Commercial return**

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return. This does not preclude the Council from taking forward investments as part of its Commercial and Investment Strategy so long as financial return is not the primary reason for taking forward the scheme. This particularly applies in the case of projects relating to housing where service delivery objectives can be achieved as well as a financial return.

- 1.4 As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report
- 1.5 These changes are now fully adopted within the 2024/25 TMSS report.

## **2 Background**

- 2.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's assessment of its risk appetite, providing adequate liquidity initially before considering investment return.
- 2.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 2.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

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

- 2.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

### **3 The Capital Strategy Reporting Requirements**

- 3.1 The CIPFA revised 2021 Prudential and Treasury Management Codes require all local authorities to prepare an additional document, a Capital Strategy which will provide the following:
- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
  - an overview of how the associated risk is managed; and
  - the implications for future financial sustainability.
- 3.2 The aim of the Capital Strategy is to ensure that all elected members on full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

### **4 Treasury Strategy Reporting Requirements**

- 4.1 The Council is required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by the Audit and Risk Management Committee and Cabinet before being recommended to the Council.
- 4.2 **Prudential and Treasury Indicators and Treasury Strategy** (this report), the first and most important report is forward looking and covers:
- the capital plans (including prudential indicators);
  - a Minimum Revenue Provision policy (how residual capital expenditure is charged to revenue over time);
  - the Treasury Management Strategy (how investments and borrowings are to be organised) including treasury indicators; and
  - an Investment Strategy (the parameters on how investments are to be managed).

**A Mid-Year Treasury Management Report** - This will update Members with the progress of the capital position, amending prudential indicators as necessary and whether any policies require revision.

**An Annual Treasury Report** - This is a backward looking review document and provides details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

- 4.3 The Strategy covers two main areas:

#### **Capital issues**

- the capital expenditure plans and associated prudential indicators;
- the MRP policy.

#### **Treasury management issues**

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;

- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

**4.4 IFRS16 - Leases** The CIPFA Local Authority Accounting Code Board has deferred implementation of IFRS16 until 1 April 2024, the 2024/25 financial year. IFRS 16 defines a lease as a contract or part of a contract, which conveys the right to use an asset (the underlying asset) for a period of time in exchange for a consideration. Under the new standard the distinction between finance leases and operating leases under the previous leasing standard is removed and all leases are treated in the way the finance leases currently are. A 'right of use' asset is shown on the balance sheet with a corresponding liability of the discounted value of the future lease payments. There are exceptions for short, dated leases (under a year, or with less than a year remaining at transition) and low value leases (low value to be determined by the council using its approach to determining de minimus items). This means that all leases that do not meet the exceptions will be treated as capital expenditure from 2024/25 and form part of the Capital Financing Requirement. Although legally the Council doesn't own the asset during the lease duration, International Accounting Standards require that the Council capitalise the asset and liability on its balance sheet, much like a loan. Whilst this increases the CFR, the nature of the finance lease agreement doesn't require the Council to separately borrow to fund the asset.

**4.5 Training** - The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

The training needs of treasury management officers and members are periodically reviewed.

## **5 Capital Prudential Indicators 2024/25 to 2026/27**

**5.1** The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans are prudent, affordable and sustainable.

**5.2** The capital expenditure prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of this budget cycle. Commercial activities/non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.

**5.3** The table below summarises the capital expenditure plans and how these are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

<b>Capital Programme</b>	<b>2023/24 Revised</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
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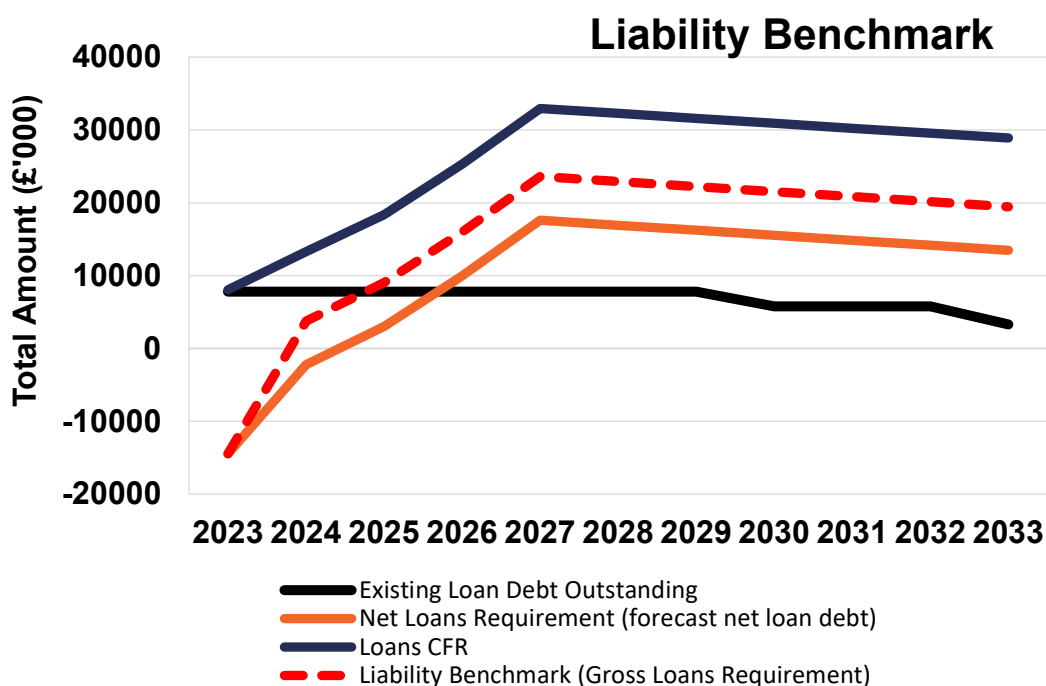
	<b>Estimate £000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Forecast Capital Expenditure</b>	<b>14,634</b>	<b>6,695</b>	<b>3,097</b>	<b>1,829</b>
<b>Commercial and Investment Strategy Schemes</b>	<b>7,389</b>	<b>2,730</b>	<b>6,000</b>	<b>7,972</b>
<b>TOTAL</b>	<b>22,023</b>	<b>9,425</b>	<b>9,097</b>	<b>9,801</b>
Financed by:				
Capital Grants	12,541	2,754	1,194	1,194
Capital Receipts	155	250	250	250
Reserves used in year to fund Capital	2,674	730	0	0
Section 106 and Other Contributions	1,025	45	38	35
<b>Total Financing</b>	<b>16,395</b>	<b>3,779</b>	<b>1,482</b>	<b>1,479</b>
<b>Net Financing Need for The Year (Borrowing)</b>	<b>5,628</b>	<b>5,646</b>	<b>7,615</b>	<b>8,322</b>

- 5.4 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness, its underlying borrowing need. Any capital expenditure shown above, which has not immediately been paid for will increase the CFR.
- 5.5 The CFR does not increase indefinitely, as each year the Council is required to pay off an element of the capital spend (including finance leases) through a statutory revenue charge (MRP). In the case of schemes taken forward as part of the Council's capital programme this has the effect of reducing the Council's (CFR) broadly over the asset's life.
- 5.6 In the case of capital expenditure incurred in accordance with the Council's Commercial and Investment Strategy the MRP charge cannot be determined until such time that the Investment Board approves a scheme. Where the projected Capital Financing Requirement is disclosed in this report the figures used reflect the impact of borrowing to fund the full allocation of the remaining £16.972m over the next 4 years but no assumptions have been made regarding how MRP might reduce the CFR attributable to these schemes. This approach is considered reasonable until such time that any new schemes are formally approved by the Investment Board. In accordance with the current Minimum Revenue Policy, a provision for MRP in relation to the investment and residential property acquired in previous financial years is incorporated into the information in this report and the Council's Medium Term Financial Strategy.
- 5.7 In this context, it is also important to note that, as well as the statutory MRP charge, the Council is permitted to make additional voluntary payments to reduce the CFR. These voluntary payments will typically reduce the statutory charge that would have been due in future years. Voluntary payments can be funded from capital resources. This is particularly significant in the context of the Council's Commercial and Investment Strategy. As a result of investments undertaken, the Council may receive significant capital receipts and/or repayments of amounts due under the terms of loan agreements with third parties, including the Local Authority Trading Company. These amounts may be received before the maturity date of the external borrowing used to undertake the initial investment. Any assumptions regarding the anticipated use of capital resources to reduce the CFR will be reported as part of future treasury management reporting.
- 5.8 The CFR includes any other long term liabilities (finance leases).



Capital Financing Requirement (CFR)	2023/24 Revised Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
CFR – as at 31 March				
Opening CFR	8,052	13,296	18,354	25,295
Movement in CFR	5,244	5,058	6,941	7,646
Closing CFR	13,296	18,354	25,295	32,941
<b>Movement in CFR represented by</b>				
Net financing need for the year	5,628	5,646	7,615	8,322
Less MRP and other Financing Movements	(384)	(588)	(674)	(676)
<b>Movement in CFR</b>	<b>5,244</b>	<b>5,058</b>	<b>6,941</b>	<b>7,646</b>

- 5.9 The third prudential indicator is the Liability Benchmark (LB). The liability benchmark is a measure of how well the existing loans portfolio matches the authority's planned borrowing needs.
- 5.10 The purpose of this prudential indicator is to compare the authority's existing loans outstanding (the black line) against its future need for loan debt, or liability benchmark (the red line).
- 5.11 The liability benchmark below indicates a future borrowing requirement over the life of this strategy.
- 5.12 The timing of actual borrowing arranged may differ from the liability benchmark depending on actual cash balances, the rate at which the capital programme is delivered and actual use of reserves and working capital.



## 6 Minimum Revenue Provision (MRP) Policy Statement

- 6.1 The Council is required to pay off an element of the accumulated general fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision),

although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision).

6.2 DLUHC regulations have been issued which require the Council to approve an MRP statement in advance each year. A variety of options are provided to Councils within the guidance. Councils are permitted under the guidance to establish their own approach to setting MRP, and different approaches can be applied for different types of assets. The Council's principal responsibility is to ensure that it can demonstrate that whatever approach they adopt across their asset base it is prudent. Given the Council's decision to adopt a Commercial and Investment Strategy it was necessary to revise the MRP policy in 2020/21 to take account of investments which might feasibly be taken forward in accordance with the Commercial and Investment Strategy. The policy applicable for the current financial year onwards is as follows:

- (1) For unsupported borrowing (including finance leases) undertaken to fund the Council's capital programme, excluding any capital expenditure approved by the Council's Investment Board for Investment Properties, MRP will be based on the estimated useful life of the assets to be purchased or acquired. Repayments made under the terms of finance leases shall be applied as MRP.
- (2) For Investment Properties purchased or constructed (following a decision taken by the Council's Investment Board) the MRP charge shall be based on the difference between the value of the asset and the value of any outstanding unsupported borrowing secured to fund the original purchase of the asset. A calculation shall be undertaken at the end of each financial year to identify the difference between the value of the asset and the amount borrowed. Where a difference exists MRP shall be charged over a period commensurate with the period the Council expects to hold the asset as set out in reports presented to the Investment Board.
- (3) For any loans made to third parties, including those made to the Local Authority Trading Company, no MRP shall be charged where the loan requirement requires the third party to make repayments on at least an annual basis over the life of the loan. In the unlikely event of the Council providing a maturity loan to a third party, MRP shall be charged in equal amounts over the life of the loan.
- (4) Should the Council acquire an equity stake in any third party, the MRP charge will be for the lower of twenty years or the scheduled completion date of any projects funded by the third party using the proceeds from selling an equity stake to the Council.
- (5) For investment in Property Funds which the Council, following consultation with its Treasury Advisors, assesses as meeting the definition of capital expenditure MRP shall be charged over the period the Council expects to hold the investment. The period over which MRP can be charged for this type of investment shall not be permitted to exceed 20 years. The property funds referred to elsewhere in this document do not meet the definition of capital expenditure.

6.3 It is important to note that DLUHC are currently consulting on potential changes to the guidance relating to setting the Minimum Revenue Provision. One potential outcome of the consultation is that government could bring forward changes to the regulations.

## **7 The Use of Council's Resources and the Investment Position**

7.1 The application of resources (capital receipts, reserves etc) and temporary use of 'surplus cash balances' to both finance capital expenditure and other budget decisions to support the revenue budget reduces cash investment balances held (see below). Unless resources are supplemented with new sources (asset sales, capital grants, etc) then new

borrowing will be required to fulfil the objectives as set in the Council's Business Plan. Detailed below are estimates of the year end balances for each resource.

<b>Year End Resources</b>	<b>2023/24 Revised Estimate £000</b>	<b>2024/25 Estimate £000</b>	<b>2025/26 Estimate £000</b>	<b>2026/27 Estimate £000</b>
<b>Fund balances / reserves</b>	<b>13,000</b>	<b>12,600</b>	<b>11,600</b>	<b>11,500</b>
<b>Expected investments</b>	<b>14,600</b>	<b>14,800</b>	<b>14,500</b>	<b>15,000</b>

## **8 Affordability Prudential Indicators**

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

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

<b>Financing Costs to Net Revenue Stream</b>	<b>2023/24 Revised Estimate %</b>	<b>2024/25 Estimate %</b>	<b>2025/26 Estimate %</b>	<b>2026/7 Estimate %</b>
<b>General Fund</b>	<b>5.94</b>	<b>8.25</b>	<b>9.75</b>	<b>10.65</b>
<b>Net Revenue Stream</b>	<b>£16.857m</b>	<b>£18.097m</b>	<b>£17.405m</b>	<b>£17.466m</b>

8.3 Net Income from Commercial and Service Investments as % of net revenue stream. This indicator identifies the authority's reliance on income from Commercial and Service Investments such as rents from the Council's long-standing portfolio of non-operational assets managed to secure rental income and income from fees and charges earned from providing facilities for conferences and meetings (economic estates) and one commercial investment property.

<b>Ratio of Income from Commercial and Service Investments to net revenue stream</b>	<b>2023/24 Revised Estimate %</b>	<b>2024/25 Estimate %</b>	<b>2025/26 Estimate %</b>	<b>2026/27 Estimate %</b>
<b>General Fund</b>	<b>6.8</b>	<b>6.7</b>	<b>7.0</b>	<b>7.0</b>
<b>Net Revenue Stream</b>	<b>£16.857m</b>	<b>£18.097m</b>	<b>£17.405m</b>	<b>£17.466m</b>

## **9 Treasury Management Strategy**

9.2 The capital expenditure plans set out in section 5 provide a summary of future level of spend. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity and the Council's capital strategy. This will involve both the organisation of cash flow and where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

- 9.3 The Council's treasury portfolio as at 31 March 2023 for borrowing and investments was £7.823m and £22.550m respectively. As of 31 December 2023, investments are £21.720m (see Appendix A attached) and borrowing £7.823m.
- 9.4 The Council's forward projections for borrowings are summarised below. The next table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement - CFR).

	<b>2023/24 Revised Estimate £000</b>	<b>2024/25 Estimate £000</b>	<b>2025/26 Estimate £000</b>	<b>2026/27 Estimate £000</b>
<b>Debt at 1 April</b>	<b>7,800</b>	<b>13,430</b>	<b>19,080</b>	<b>26,700</b>
<b>Expected change in debt to fund capital programme (excluding Commercial and Investment Strategy schemes)</b>	<b>4,630</b>	<b>3,650</b>	<b>1,620</b>	<b>350</b>
<b>Borrowing to fund Commercial and Investment Strategy Schemes</b>	<b>1,000</b>	<b>2,000</b>	<b>6,000</b>	<b>7,970</b>
<b>Other long term liabilities (OLTL)</b>	<b>23</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Expected change in OLTL</b>	<b>(23)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Actual gross debt at 31 March</b>	<b>13,430</b>	<b>19,080</b>	<b>26,700</b>	<b>35,020</b>
<b>Capital financing requirement (CFR) at 31 March</b>	<b>13,296</b>	<b>18,354</b>	<b>25,295</b>	<b>32,941</b>
<b>Borrowing less CFR – 31 March</b>	<b>134</b>	<b>726</b>	<b>1,405</b>	<b>2,079</b>

- 9.5 At 1 April 2023 the Council's Debt position comprised other long-term liabilities relating to finance leases of £23k and external borrowing of £7.8m. These loans were taken out at prevailing market rates between 1994 and 2004. The term of these loans is between 25 and 50 years. Following the transfer of the Council's Housing Stock in 2007, which generated a significant capital receipt for the Council, the Council has retained investment balances which exceed the amounts borrowed. However, changes in prevailing interest rates since the loans were taken out mean that a high premium would be payable by the Council if it were to seek to repay the PWLB loans (£4.5m) early. The premiums to be applied are considered to be prohibitively high for early redemption to be regarded as a reasonable treasury management decision. Repaying the Barclays market rate loan of £3.3m may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment. The Council continues to keep this situation under review with the support of its appointed treasury management advisors. However, for the purposes of this strategy, it has been assumed that external borrowing of £7.8m brought forward, as at 1 April 2023, will continue to be carried forward.
- 9.6 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that long term borrowing is not undertaken for revenue or speculative purposes (in the sense of anticipating future upward movements in interest

rates), other than where the borrowing fits in with the Council's approved Investment Strategy.

- 9.7 The Council notes that the Prudential Code published by CIPFA prohibits local authorities from borrowing in advance of need. This prohibition has been recently re-affirmed by DLUHC in its Statutory Guidance on Local Authority Investments which states that this prohibition extends to undertaking borrowing to fund the purchase of financial and non-financial investments, including investment properties. This is on the basis that in such circumstances local authorities would be borrowing 'purely in order to profit from investment of the extra sums borrowed'. Section 4 of the Council's Capital Strategy explains how the Council has had regard for this guidance and notes the Council's approach to determining whether the motivation behind any proposed investment is purely to profit from investment of any sums borrowed.
- 9.8 Interest repayments associated with the external debt (including finance leases) above are shown below.

<b>YEARS</b>	<b>INTEREST DUE £000</b>
2023/24	534,450
2024/25	906,325
2025/26	1,023,700
2026/27	1,183,000

- 9.9 The operational boundary is the limit beyond which external debt is not normally expected to exceed. In most cases this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt.

<b>Operational Boundary</b>	<b>2023/24 Revised Estimate £000</b>	<b>2024/25 Estimate £000</b>	<b>2025/26 Estimate £000</b>	<b>2026/27 Estimate £000</b>
<b>Debt</b>	<b>12,430</b>	<b>16,080</b>	<b>17,700</b>	<b>18,050</b>
<b>Other long term liabilities</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
<b>Commercial Activities / Non Financial Investments</b>	<b>1,000</b>	<b>3,000</b>	<b>9,000</b>	<b>16,970</b>
<b>Total</b>	<b>14,430</b>	<b>20,080</b>	<b>27,700</b>	<b>36,020</b>

- 9.10 The authorised limit is a key prudential indicator, which represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term but is not sustainable in the longer term.
- 9.11 This is a statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all council's plans, or those of a specific council, although this power has not yet been exercised. The Council is asked to approve the following authorised limit.

Authorised Limit	2023/24 Revised Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Debt	17,430	21,080	22,700	23,050
Other long term liabilities	1,000	1,000	1,000	1,000
Commercial Activities / Non Financial Investments	1,000	3,000	9,000	16,970
<b>Total</b>	<b>19,430</b>	<b>25,080</b>	<b>32,700</b>	<b>41,020</b>

## 10 Prospects for Interest Rates

- 10.1 The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link Assets Service's central view.

	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

- 10.2 Links central forecast for interest rates was updated on 7 November and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25 until at least summer 2024. They then expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).
- 10.3 Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- 10.4 In the upcoming months, forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.
- 10.5 Gilt Yields and PWLB Rates - The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation continues to fall through 2024.
- 10.6 Links target borrowing rates are set two years forward (as they expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 08.01.24 p.m.	Target borrowing rate now (end of Q4 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	4.53%	3.70%	3.80%
10 years	4.67%	3.90%	3.80%
25 years	5.19%	4.20%	4.20%
50 years	4.97%	4.00%	4.00%

10.7 Borrowing advice: Links long-term (beyond 10 years) forecast for Bank Rate remains at 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to factor in Bank Rate reductions for 2024 and later.

10.8 The current forecast shown in paragraph 10.1, includes a forecast for Bank Rate to have peaked at 5.25%. The Council continues to benefit from what is a higher interest rate environment than has been the case in recent years. The Medium Term Financial Strategy (MTFS) reflects expected investment rate income in future years. This is expected to reduce from that observed in 2023/24 as existing cash balances are used to fund capital expenditure and the base rate begins to reduce.

10.9 As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

## 11 Borrowing Strategy

11.1 As noted above in paragraph 9.5 the Council recognises that statutory guidance indicates that whilst the Council has the necessary powers to borrow in advance of need the government and CIPFA state it should refrain from doing so where such borrowing takes place purely in order to profit from investment of the extra sums borrowed. None of the Council's current borrowing was undertaken in advance of need.

11.2 The Council has previously maintained an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow have been used as an alternative funding measure. This strategy is considered prudent whilst investment returns are lower than the cost of borrowing and counterparty risk remains an issue to be considered.

11.3 The current MTFS assumes that external borrowing will be required over the four-year period to 31 March 2027. Assumptions about the level of external interest payable are reflected as part of the prudential indicators included in this document. Responsibility for deciding when to borrow externally, together with details of the amount to borrow and the term and type of any loan, rests with the Chief Finance Officer. The Chief Finance Officer's decision will be informed by advice from the Council's treasury management advisors and information regarding the progress of schemes set out in the capital programme. Any borrowing decisions will be reported to Cabinet through either the mid-year or annual treasury management reports.

- 11.4 When the Council borrows externally it will ordinarily do so using funds borrowed from the Public Works Loan Board, though this does not preclude the Council considering other sources of lending.
- 11.5 Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing and are required for upper and lower limits.
- 11.6

<b>Maturity structure of fixed interest rate borrowing 2024/25</b>	<b>Lower %</b>	<b>Upper %</b>
<b>Under 12 months</b>	<b>0</b>	<b>100</b>
<b>12 months to 2 years</b>	<b>0</b>	<b>100</b>
<b>2 years to 5 years</b>	<b>0</b>	<b>100</b>
<b>5 years to 10 years</b>	<b>0</b>	<b>100</b>
<b>10 years and above</b>	<b>0</b>	<b>100</b>

<b>Maturity structure of variable interest rate borrowing 2024/25</b>	<b>Lower %</b>	<b>Upper %</b>
<b>Under 12 months</b>	<b>0</b>	<b>100</b>
<b>12 months to 2 years</b>	<b>0</b>	<b>100</b>
<b>2 years to 5 years</b>	<b>0</b>	<b>100</b>
<b>5 years to 10 years</b>	<b>0</b>	<b>100</b>
<b>10 years and above</b>	<b>0</b>	<b>100</b>

## **12 Debt Rescheduling / Repayment**

- 12.1 Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.
- 12.2 If rescheduling was done, it will be reported to the Cabinet at the earliest meeting following its action.

## **13 Annual Investment Strategy - management of risk**

- 13.1 The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).
- 13.2 The Council's investment policy has regard to the following: -
- DLUHC's Guidance on Local Government Investments ("the Guidance");
  - CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code"); and
  - CIPFA Treasury Management Guidance Notes 2021.
- 13.3 The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite
- 13.4 The above guidance from the DLUHC and CIPFA, place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means.



- 13.5 Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- 13.6 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
- 13.7 Investment instruments identified for use in the financial year are listed below under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits will be as set through the Council’s treasury management practices – schedules.
- 13.8 **Specified Investments** - These investments are sterling investments (meeting the minimum ‘high’ quality criteria where applicable) of not more than one year maturity, or those which could be for a longer period but where the Council has the right to repay within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. Investment instruments identified for use in the financial year are as follows:
- term deposits with part nationalised banks and local authorities;
  - term deposits with high credit criteria deposit takers (banks and building societies);
  - callable deposits with part nationalised banks and local authorities;
  - callable deposits with high credit criteria deposit takers (banks and building societies);
  - money market funds (CNAV) / (LVNAV) / (VNAV);
  - Debt Management Agency Deposit Facility (DMADF); and
  - UK Government gilts, custodial arrangement required prior to purchase.
- 13.9 **Non-Specified Investments** - These are any other type of investment (i.e. not defined as specified above). Investment instruments identified in both “specified” and “non-specified” categories are differentiated by maturity date and classed as non-specified when the investment period and right to be repaid exceeds one year. Non-specified investments are more complex instruments which require greater consideration by members and officers before being authorised for use. Investment instruments identified for use in the financial year are as follows:
- term deposits with high credit criteria deposit takers (banks and building societies);
  - term deposits with part nationalised banks and local authorities;
  - callable deposits with part nationalised banks and local authorities;
  - callable deposits with high credit criteria deposit takers (banks and building societies);
  - Debt Management Agency Deposit Facility (DMADF);
  - UK Government gilts, custodial arrangement required prior to purchase; and
  - Property funds.
- 13.10 As a result of the change in accounting standards for 2023/24 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a

consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. More recently, a further extension to the over-ride to 31.3.25 has been agreed by Government.

- 13.11 At present, fluctuations in the value of the external property funds do not impact on the council's revenue account, because they are held in an unusable reserve via the statutory override arrangements set out in IFRS9. The override was extended in early 2023 to 31 March 2025. It is unclear if the override will be extended beyond that date.
- 13.12 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. Short term cash flow requirements (up to 12 months) include payments such as, precepts, business rate retention, housing benefits, salaries, suppliers, interest payments on debt etc.
- 13.13 The current forecast shown in paragraph 10.1, includes a forecast for Bank Rate to have peaked at 5.25%.
- 13.14 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	
2023/24 (residual)	5.30%
2024/25	4.55%
2025/26	3.10%
2026/27	3.00%

- 13.15 Estimated investment income is £1,090,000 2023/24 and £750,000 in 2024/25. These estimates assume that none of the existing cash balances held by the Authority will be utilised to fund schemes approved by the Investment Board.
- 13.16 £4m of the Council's investments are held in externally managed pooled property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.
- 13.17 As the Council's externally managed 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 medium to long-term investment objectives are regularly reviewed. Although the returns from these investments can be higher than short term investments there is an increased risk that capital values will rise and fall. The 2023/24 projected outturn for property fund income is £130,000 and the estimate for 2024/25 is £150,000.
- 13.18 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year end.

	2024/25 £000	2025/26 £000	2026/27 £000
<b>Maximum principal sums invested &gt; 365 days</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>

- 13.19 For its cash flow generated balances, the Council will seek to utilise its call accounts and short dated deposits (overnight to 180 days) in order to benefit from the compounding interest.
- 13.20 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

## **14 Creditworthiness Policy**

14.1 The Council applies the creditworthiness service provided by Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;
- Credit Default Swaps spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

14.2 This modelling approach combines credit ratings, Watches and Outlooks in a weighted scoring system, which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- yellow 5 years;
- dark pink 5 years for ultra-short dated bond funds with a credit score of 1.25;
- light pink 5 years for ultra-short dated bonds funds with a credit score of 1.5;
- purple 2 years;
- blue 1 year (only applies to nationalised or semi nationalised UK banks);
- orange 1 year;
- red 6 months;
- green 100 days
- no colour not to be used.

14.3 The Link creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system does not give undue preponderance to just one agency's ratings.

14.4 Typically, the minimum credit ratings criteria the Council will use will be short term rating (Fitch or equivalent) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use

14.5 The Council's own bank currently meets the creditworthiness policy. However, should they fall below Link Group creditworthiness policy the Council will retain the bank on its counterparty list for transactional purposes, though would restrict cash balances to a minimum.

14.6 All credit ratings are monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Group creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
  - In addition to the use of credit ratings the Council will be advised of information in movements in credit default swaps against the iTraxx European Senior Financials benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
- 14.7 Sole reliance will not be placed on the use of Link Group Creditworthiness policy. In addition, this Council will also use market data and market information, information on any external support for banks to justify its decision making process.
- 14.8 To further mitigate risk the Council has decided that where counterparties form part of a larger group, group limits should be used in addition to single institutional limits. Group limits will be as set through the Council's Treasury Management Practices – schedules.
- 14.9 In relation to financial institutions, the Council currently only invests in UK banks and building societies, which provides sufficient high credit quality counterparties to meet investment objectives. It should be noted that in some cases these banks are subsidiaries of foreign banks, but these are of the highest credit quality.

## **15 External Service Providers**

- 15.1 The Council uses Link Group as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the authority at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to available information, including, but not solely, our treasury advisors.
- 15.2 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.
- 15.3 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The Council will engage specialist advisers for commercial-type investments.

**FENLAND DISTRICT COUNCIL**

**CAPITAL STRATEGY 2024/25-2026/27**

**1. OVERVIEW AND CONTEXT**

- 1.1 The Council has established statutory and regulatory responsibilities for the management of its financial affairs. These responsibilities encompass revenue and capital expenditure. The specific responsibilities of full Council, the Cabinet, the Investment Board, Corporate Management Team (CMT) and the Council's appointed Section 151 Officer are defined within the Council's constitution.
- 1.2 The Council regularly updates its Medium Term Financial Strategy (MTFS). The MTFS provides a framework for setting the Council's annual revenue budget and updating the Council's three-year capital programme. The MTFS sets out the primary assumptions underpinning the assessment of the resources available to the Council and anticipated service budgets over the coming five financial years.
- 1.3 Whilst local authorities are required to set a balanced revenue budget, legislation permits local authorities to obtain credit and therefore fund their capital programmes from borrowing. Individual authorities are required to have regard for the Prudential Code published by the Chartered Institute of Public Finance and Accountancy. The Prudential Code requires authorities to ensure:
- all capital expenditure and investment plans are affordable;
  - all external borrowing and long-term liabilities are within prudent and sustainable levels;
  - treasury management and other investment decisions are taken in accordance with professional good practice; and
  - authorities can demonstrate themselves to be accountable by providing a clear and transparent framework.
- 1.4 Historically, this Council has discharged its responsibilities under the Prudential Code by ensuring that the Treasury Management Strategy, which is approved annually by full Council, is prepared with reference to the latest capital programme. The Capital Programme is itself developed with explicit consideration of the extent to which proposed capital investment is affordable, prudent and sustainable given the resources available to the Council as set out in the MTFS.
- 1.5 Following an update to the Prudential Code in December 2021, local authorities are now required to have a Capital Strategy. The introduction of this requirement acknowledges that individual authorities will each have their

own approach to assessing priorities for capital investment, the amount the Authority can afford to borrow and the Authority's appetite to risk.

- 1.6 This strategy sets out in a single document the long term context in which capital expenditure and investment decisions are made and establishes that the Council has arrangements in place to ensure it gives due consideration to risk, reward, and impact on the achievement of priority outcomes. The Strategy is updated annually and subject to approval by Full Council alongside the annual budget.

## **2. CAPITAL EXPENDITURE**

- 2.1 Capital expenditure incorporates a range of different types of financial transaction which the Council might enter into. What these transactions have in common is that they relate to investments decisions which impact on the Council and its stakeholders over a period which extends beyond the financial year in which the transaction is entered into. The Council's appointed S151 Officer ultimately has responsibility for determining whether expenditure is capital in nature in accordance with relevant regulation and statute.

### **Role and Purpose of the Asset Management Plan**

- 2.2 The Council has developed an Asset Management Plan in accordance with acknowledged best practice. This document provides a strategic framework for managing the Council's current portfolio of land and buildings ensuring that officers and elected members can have confidence, in the long-term, that the Council has the land and property needed to fulfil the pledges set out in the Council's Business Plan.
- 2.3 The Asset Management Plan incorporates oversight of operational and non-operational property owned by the Council. Operational assets are those assets held by the Council to enable the Council, or its partners, to deliver those services which are either statutory in nature or provided on a discretionary basis to the extent that providing those services is consistent with the strategic objectives of the Council. Non-operational assets are those assets which are not directly used for the purposes of service delivery but are held to either provide the Council with a return on investment, either through rental income, appreciation in the value of the asset or the potential contribution that holding the asset makes to the Council's wider corporate objectives, e.g. taking forward opportunities to regenerate and develop the local economy.
- 2.4 Responsibility for the Asset Management Plan rests with the Council's Assets and Projects team which reports to the Council's Corporate Director and Chief Finance Officer. The Assets and Projects team regularly appraise

the condition of the Council's property portfolio to determine the revenue and capital resources required to ensure the portfolio continues to meet the needs of Service Managers. When the needs of services managers change the Assets and Projects team will assist in determining the impact on the property portfolio, including the resources required to meet those needs. The Assets and Projects team recognise that the Council's property needs are unlikely to remain static and the past cost of maintaining a Council asset is not necessarily a reliable indicator of future costs. Forward projections regarding the resources to be allocated to asset management recognise the interaction between revenue and capital expenditure in determining the Council's cost base.

- 2.5 The capital resources required to meet investment needs identified as part of the Asset Management Plan are routinely assessed and anticipated capital expenditure is profiled over the financial years when it is expected to be incurred. On at least an annual basis capital schemes identified as part of the Asset Management Plan are presented to a meeting of the Council's Corporate Asset Team to determine when and if they should be incorporated into the Council's Capital Programme.

#### **Investment in Vehicles, Plant, Equipment and IT**

- 2.6 The Council has nominated service managers who are responsible for the vehicles, plant and information technology assets in use within the Council. These assets all have an expected useful economic life informed by an assessment by the nominated manager. The need to allocate capital resources to fund the replacement of these assets at the end of their useful life is assessed annually by the Council's Corporate Asset Team. There is also an annual appraisal of business cases relating to proposals to invest in additional equipment not reflected in the programme of rolling replacements.

#### **Role and Function of the Corporate Asset Team**

- 2.7 The Corporate Asset Team is an officer-led group which meets bi-monthly under the Chairmanship of the relevant Corporate Director. On behalf of the Council's Corporate Management Team, the Corporate Asset Team assumes responsibility for providing a strategic oversight in respect of all matters pertaining to asset management.
- 2.8 All proposed changes to the Council's three-year capital programme are subject to review by the Corporate Asset Team prior to being considered by Corporate Management Team, the Cabinet and Full Council. Any scheme which is not already incorporated into the Council's Asset Management Plan will only be considered for inclusion in the Capital Programme if the Officer proposing the scheme can demonstrate, with appropriate evidence, one or more of the following:
- there is a statutory obligation for the Council to incur the capital expenditure proposed;

- the proposed capital expenditure relates to works deemed necessary on the grounds of health and safety;
- capital expenditure is proposed to protect a Council asset and reduce the risk of excessive revenue expenditure being incurred in upcoming financial years;
- the proposed capital expenditure will generate income, either of a revenue or capital nature, in excess of the capital expenditure which is expected to be incurred including any financing costs but does not meet the definition of asset acquired 'primarily for yield' as defined in guidance issued by HM Treasury; and/or
- the proposed capital expenditure will (after including financing costs) reduce revenue expenditure incurred by one or more of services in future financial years.

2.9 The capital financing regulations permit the Council to treat as capital expenditure certain types of transaction which do not result in the acquisition of a physical asset by the Council. These transactions can be high-volume, small value transactions such as the awarding of Disabled Facilities Grants which are currently funded from monies received as part of Cambridgeshire County Council's Better Care Fund allocation. Such transactions do not require specific approval providing the nature and purpose of the expenditure has been approved as part of the Capital Programme.

2.10 Any proposals to incur capital expenditure which do not lead to the recognition of a physical asset where the expenditure proposed exceeds £10,000 but does not fall within the scope of the Council's Commercial and Investment Strategy will be considered at a meeting of CMT. If approved by Cabinet, approval will be sought at a meeting of Cabinet before being considered at full Council if necessary. Possible examples include, but are not restricted to:

- granting loans to third parties (for reasons not linked to the objectives of the Commercial and Investment Strategy);
- providing grant-funding to a third party which enables that third party to undertake expenditure which would have been capital in nature had it been undertaken by the Council.

### **Role and Function of the Investment Board**

2.11 During the 2019-20 financial year the Council initiated the development of a Commercial and Investment Strategy for the Council. The current version of the Strategy was approved by full Council on 9 January 2020.

2.12 The Commercial and Investment Strategy was developed in recognition of the investment opportunities available to the Council acknowledging that utilising the Council's powers to invest could bring substantial benefits not



only to the Council but also to the wider District and its residents. The Capital Strategy has been updated to take account of the changes in the Council's arrangements for determining its capital priorities which arise from the implementation of the Commercial and Investment Strategy. This is explained in more detail in section four of this document.

- 2.13 Following the approval of the Commercial and Investment Strategy Cabinet approved the establishment of a sub-committee known as the Investment Board. The Investment Board has initially been allocated a maximum budget of £25M to take forward capital schemes which facilitate the achievement of the objectives set out in the Strategy. To date £4.028M of this allocation has been utilised to take forward specific schemes and the balance has been profiled over the upcoming three financial years.
- 2.14 The Investment Board undertakes its own appraisals of proposed capital schemes. The appraisal of such schemes will be separate from and in addition to the proposals for new capital schemes considered at meetings of Corporate Asset Team which follow the process outlined in paragraph 2.10 of this strategy. The Investment Board has delegated powers to approve schemes providing the maximum budget is not exceeded.
- 2.15 Capital schemes which fall within the remit of the Investment Board include the acquisition of share capital or the granting of loan funding to companies and/or partnerships in which the Council has an interest. The decision about whether to establish a company or enter into a partnership rests with Cabinet. The Investment Board is responsible for the approval of the business plans of any entities created as a result of a decision taken by Cabinet. Approval of the relevant business plan will precede the allocation of capital funds.
- 2.16 On 9 June 2020 Cabinet approved a business case for the establishment of a Local Authority Trading Company. Following that meeting the Council formally registered Fenland Future with Companies House (Company No. 12659496). Directors have been appointed to the Board of Fenland Future and the Board and during the 2023/24 financial year work on appraising potential investments and developing relevant business cases has continued.
- 2.17 The Council recognises that since the Commercial and Investment Strategy was approved in January 2020 guidance has been introduced restricting local authorities' access to Public Works Loan Board financing where that funding is to be used to acquire investment assets primarily for yield. Additionally, the Council recognises that where internal borrowing is utilised to acquire investment assets this has the potential to increase the Council's overall level of debt by bringing forward the point in time when the Council needs to borrow externally. Notwithstanding these considerations, the

Council believes there is still a substantial opportunity for the Council to deliver against its objectives linked to regeneration and improving the supply of housing in the District by investing responsibly under the aegis of the Commercial and Investment Strategy.

### **3. DEBT AND BORROWING AND TREASURY MANAGEMENT**

3.1 Day-to-day responsibility for the Treasury Management function rests with the Chief Finance Officer. This section of the strategy reproduces key information taken from the Treasury Management Strategy Statement. The profile of borrowing linked to the Commercial and Investment Strategy shown below is indicative. The operational boundary and authorised limits shown in Tables 3 and 4 have been determined with reference to the budget allocated to the Investment Board referred to in paragraph 2.15 above. This recognises that the Investment Board could invest the remaining allocation in one financial year if this were deemed to be appropriate.

#### **Key Considerations relating to Treasury Management**

3.2 The tables below set out the Council's Investment and Debt positions with forward projections.

*Table 1: Year End Investment Balances projected over the period 1 April 2023 – 31 March 2027*

<b>Year End Investments</b>	<b>2023/24 Revised Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Fund balances / reserves</b>	<b>13,000</b>	<b>12,600</b>	<b>11,600</b>	<b>11,500</b>
<b>Expected investments</b>	<b>14,600</b>	<b>14,800</b>	<b>14,500</b>	<b>15,000</b>

*Table 2: Year End Debt and Net Investment projected over the period 1 April 2023– 31 March 2027*

<b>Year End Debt</b>	<b>2023/24 Revised Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Debt at 1 April</b>	<b>7,800</b>	<b>13,430</b>	<b>19,080</b>	<b>26,700</b>
<b>Expected change in debt to fund capital programme (excluding Commercial and Investment Strategy schemes)</b>	<b>4,630</b>	<b>3,650</b>	<b>1,620</b>	<b>350</b>
<b>Borrowing to fund Commercial and Investment Strategy schemes</b>	<b>1,000</b>	<b>2,000</b>	<b>6,000</b>	<b>7,970</b>
<b>Other long term liabilities (OLTL)</b>	<b>23</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Expected change in OLT</b>	<b>(23)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Actual debt at 31 March</b>	<b>13,430</b>	<b>19,080</b>	<b>26,700</b>	<b>35,020</b>

3.3 At 1 April 2023 the Council's Debt position comprised other long-term liabilities relating to finance leases of £23k and external borrowing of £7.8m. These loans were taken out at prevailing market rates between 1994 and 2004. The term of these loans is between 25 and 50 years. Following the transfer of the Council's Housing Stock in 2007, which generated a significant capital receipt for the Council, the Council has retained investment balances which exceed the amounts borrowed. However, changes in prevailing interest rates since the loans were taken out mean that a high premium would be payable by the Council if it were to seek to repay any of the loans early. The premiums to be applied are considered to be prohibitively high for early redemption to be regarded as a reasonable treasury management decision. The Council continues to keep this situation under review with the support of its appointed treasury management advisors. However, for the purposes of this strategy, it has been assumed that external borrowing of £7.8m brought forward, as at 1 April 2023, will continue to be carried forward due to the current historically low interest rates.

3.4 Regulation requires the Council to determine, as part of the Treasury Management Strategy, the maximum external debt position for the upcoming three financial years. This is known as the Council's authorised limit. Additionally, the Council is required to set an operational boundary. The purpose of the operational boundary is to set a threshold for external borrowing which the Council would not expect to exceed in the ordinary management of its affairs. Sustained breaches of the operational boundary would be indicative that the Council could be at risk of exceeding its authorised limit.

3.5 The current authorised limits and operational boundaries for the period covered by this strategy are set out in the table below

*Table 3: Operational Boundary over the period 1 April 2023 – 31 March 2027*

<b>Operational Boundary</b>	<b>2023/24 Revised Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Debt</b>	<b>12,430</b>	<b>16,080</b>	<b>17,700</b>	<b>18,050</b>
<b>Other long term liabilities</b>	<b>1,000</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Commercial Activities/ Non-Financial Investments</b>	<b>1,000</b>	<b>3,000</b>	<b>9,000</b>	<b>16,970</b>
<b>Total</b>	<b>14,430</b>	<b>19,080</b>	<b>26,700</b>	<b>35,020</b>

*Table 4: Authorised Limit over the period 1 April 2023 – 31 March 2027*

<b>Authorised Limit</b>	<b>2023/24 Revised Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Debt</b>	<b>17,430</b>	<b>21,080</b>	<b>22,700</b>	<b>23,050</b>
<b>Other long term liabilities</b>	<b>1,000</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Commercial Activities / Non- Financial Investments</b>	<b>1,000</b>	<b>3,000</b>	<b>9,000</b>	<b>16,970</b>
<b>Total</b>	<b>19,430</b>	<b>24,080</b>	<b>31,700</b>	<b>40,020</b>

3.6 Table 2 above indicates that the Council's Actual Debt position is expected to increase over the period covered by this strategy. This reflects an anticipated decision to undertake external borrowing to fund the expenditure commitment set out in the capital programme. In accordance with the Council's constitution, any decision about when, how much and from where to borrow will be made by the appointed S151 Officer.

3.7 Regulations prevent the Council from borrowing in advance of needs purely in order to profit from the investment of the extra sums borrowed. There is no requirement for the Council to draw on investment balances to fund its capital commitments prior to undertaking external borrowing but guidance being developed by CIPFA encourages authorities to considering exiting long-term investments to reduce the need to take on additional debt. To manage interest rate risk effectively, the Council will continue to consider medium and long-term forecasts of interest rates provided by its Treasury Management advisors to project likely returns from the investment of surplus funds and the financing costs associated with external borrowing. This approach recognises that postponing long-term borrowing to future years could be more expensive over the life of the loan if interest rates were to increase.

3.8 The Council is required by statute to make arrangements to ensure that there is provision to repay as part of the Council's revenue budget any borrowing undertaken to finance the capital programme. This is known as the Minimum Revenue Provision (MRP) and the Council is required to approve its MRP policy on an annual basis:

*Table 5: Projected Minimum Revenue Provision over the period 1 April 2023– 31 March 2027*

	<b>Projected Minimum Revenue Provision (£000)</b>
<b>2023/24</b>	384
<b>2024/25</b>	588
<b>2025/26</b>	674
<b>2026/27</b>	676

3.9 Regulation requires the Council to ensure that its MRP policy results in prudent levels of MRP. The Council's MRP policies are explained in full as part of the Treasury Management Strategy Statement which is approved by Full Council annually. Specific provisions are in place to explain the approach taken to determine MRP for schemes taken forward as part of the Commercial and Investment Strategy.

3.10 At the present time no assumptions have been made regarding the MRP which would be due on schemes taken forward as part of the implementation of the Commercial and Investment Strategy. These assumptions will be updated as schemes are taken forward.

3.11 In recognition of the inherent volatility of commercial investment the Council has established an Investment Strategy reserve. One of the purposes of that reserve is that it should hold surpluses in respect of those years where actual income generated from commercial investments exceeds budget estimates. This can help reduce the impact on the General Fund of any unanticipated shortfall which might arise in future years.

#### **4. FRS16 - Leases**

4.1 The CIPFA LAASAC Local Authority Accounting Code Board (LASAAC is the Local Authority (Scotland) Accounts Advisory Committee) has deferred implementation of IFRS16 until 1 April 2024, the 2024/25 financial year. IFRS 16 defines a lease as a contract or part of a contract, which conveys the right to use an asset (the underlying asset) for a period of time in exchange for a consideration. Under the standard the distinction between finance leases and operating leases under the previous leasing standard is removed and all leases are treated in the way the finance leases currently are. A 'right of use' asset is shown on the balance sheet with a corresponding liability of the discounted value of the future lease payments. There are exceptions for short, dated leases (under a year, or with less than a year remaining at transition) and low value leases (low value to be determined by the council using its approach to determining de minimus items). This means that all leases that do not meet the exceptions will be treated as capital expenditure from 2024/25 and form part of the Capital Financing Requirement. Although legally the Council doesn't own the asset during the lease duration,

International Accounting Standards require that the Council capitalise the asset and liability on its balance sheet, much like a loan. Whilst this increases the CFR, the nature of the finance lease agreement doesn't require the Council to separately borrow to fund the asset.

## **5. Environmental, Social and Governance Risk Management**

5.1 This Council is supportive of the Principles for Responsible Investment ([www.unpri.org](http://www.unpri.org)) and will seek to bring ESG (environmental, social and governance) factors into the decision-making process for investments. Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Council uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in credit risk and ratings statement, which is as follows: *"We, the undersigned, recognise that environmental, social and governance (ESG) factors can affect borrowers' cash flows and the likelihood that they will default on their debt obligations. ESG factors are therefore important elements in assessing the creditworthiness of borrowers. For corporates, concerns such as stranded assets linked to climate change, labour relations challenges or lack of transparency around accounting practices can cause unexpected losses, expenditure, inefficiencies, litigation, regulatory pressure and reputational impacts.*

*At a sovereign level, risks related to, inter alia, natural resource management, public health standards and corruption can all affect tax revenues, trade balance and foreign investment. The same is true for local governments and special purpose vehicles issuing project bonds. Such events can result in bond price volatility and increase the risk of defaults.*

*In order to more fully address major market and idiosyncratic risk in debt capital markets, underwriters, credit rating agencies and investors should consider the potential financial materiality of ESG factors in a strategic and systematic way. Transparency on which ESG factors are considered, how these are integrated, and the extent to which they are deemed material in credit assessments will enable better alignment of key stakeholders.*

*In doing this the stakeholders should recognise that credit ratings reflect exclusively an assessment of an issuer's creditworthiness. Credit rating agencies must be allowed to maintain full independence in determining which criteria may be material to their ratings. While issuer ESG analysis may be considered an important part of a credit rating, the two assessments should not be confused or seen as interchangeable.*

*With this in mind, we share a common vision to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness."*

- 5.2 For short term investments with counterparties, this Council utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which do include analysis of ESG factors when assigning ratings.

## **6. COMMERCIAL ACTIVITY**

- 6.1 The Council has a long-standing portfolio of non-operational assets which it manages to secure a rental income and income from fees and charges earned from providing facilities for conferences and meetings. The main non-operational assets held by the Council are:

- Boathouse Business Centre, Wisbech – Office Units, Conference and Meeting Space
- South Fens Business Centre, Chatteris - Office Units, Conference and Meeting Space
- South Fens Enterprise Park, Chatteris – Light Industrial Units for Small Business Use

- 6.2 Rents generated from the lease to third parties of areas of land, buildings and/or infrastructure held by the Council principally for the purposes of service delivery, i.e. premises at Fenland Hall, the Base and Wisbech Port have been assessed by officers to fall outside the scope of commercial activity in the context of this section of the Council Strategy. This reflects the fact that the motive for holding these assets is not principally commercial in nature.

- 6.3 Responsibility for assessing the need for capital investment in the current portfolio of non-operational assets, reflecting those non-operational assets held as at 31 March 2023 currently rests with the Corporate Asset Team in accordance with the arrangements set out in paragraph 2.10 above.

- 6.4 During the 2020-21 financial year the Council approved a Commercial and Investment Strategy. The Council has established an Investment Board to take forward capital schemes which deliver against objectives set out in part two (commercial property investment) and part three of the Strategy (commercial investment and regeneration).

- 6.5 The Commercial and Investment Strategy sets out the assessment criteria to be used for investments undertaken in accordance with part two of the strategy. This requires the Council to determine the net yield associated with each proposed acquisition, after taking account of financing costs, including MRP, and to assess the particular circumstances relating to each acquisition to understand the risks the Council is subject to and possible sources of mitigation. The Council is cognisant of the recent changes to the regulations which govern the basis on which authorities can take out loans from the Public Works Loan Board and specifically preclude authorities who plan to acquire investment assets primarily for yield from accessing PWLB loans. Reference to the current regulations has been incorporated into the Investment Board's decision-making processes.

- 6.6 Following approval of a proposal in March 2021 to date, the Council has acquired one commercial investment property which is let to a commercial tenant on a 25-year repairing and insuring lease.
- 6.7 The Investment Board is a sub-committee of the Cabinet. The Council's constitution requires that the committee's membership includes the Leader (who Chairs the Investment Board), the Portfolio Holder for Finance, as well as one other member of Cabinet appointed by the Leader or two members of Cabinet if the Leader also has the Finance Portfolio. The constitution requires the Chair of the Investment Board to ensure the Investment Board meets a minimum of three times each year. The Chair of the Overview and Scrutiny Panel will attend the Investment Board's meetings in an observational capacity.
- 6.8 The Investment Board is a decision-making body and its functions include the determination of investment appraisals and business cases submitted for its consideration. A report on the discharge of these functions is provided to the Cabinet twice a year.
- 6.9 The Investment Board also has responsibility for monitoring the performance and financial delivery of those appraisals and business cases it agrees to fund. The Section 151 Officer ensures that reports on the activities of the Investment Board prepared for consideration by Cabinet include details about the impact of the Board's activities on the overall financial position of the Council.
- 6.10 Statutory guidance published by DLUHC (Department of Levelling Up, Housing Communities) requires the Council to:
- assess and disclose publicly the extent to which it is dependent on profit-generating investments to deliver a balanced revenue budget over the life of the medium-term financial strategy; and
  - to set limits for gross debt and commercial income as a proportion of the Council's budgeted net service expenditure over the life of the medium-term financial strategy.

#### Commercial Income as a proportion of net service expenditure

- 6.11 The current limit for budgeted commercial income as a proportion of net service expenditure has been set at 20% (equivalent to commercial income of £2.968M per year based on 2022/23 budgeted net service expenditure).
- 6.12 The Investment Board was established in January 2020. To date it has approved the acquisition of one tenanted industrial property and twenty nine houses under the Local Authority Housing Fund for Afghan and Ukraine families and general temporary accommodation for the homeless. The indicator recommended by CIPFA is reported in the table below:



*Table 6: Commercial Income as a proportion of Net Service Expenditure*

<b>Budgeted Income 2023/24 non-operational assets (Economic Estates)</b>	£1.151m
<b>Net Service Expenditure</b>	£17.445M
<b>Commercial Income as a % of Net Service Expenditure</b>	6.60%
<b>Approved Limit</b>	20%

Gross Debt as a proportion of net service expenditure

- 6.13 The current limit for gross debt as a proportion of net service expenditure has been set at 375% (equivalent to gross debt of £65.42M per year based on 2024/25 budgeted net service expenditure).
- 6.14 As explained in paragraph 3.3 above whilst the Council has not undertaken external borrowing in recent years it does have £7.8M of external debt which was taken out at prevailing market rates between 1994 and 2004. This impacts on the calculation of gross debt as a proportion of net service expenditure as follows:

*Table 7: Gross Debt as a proportion of Net Service Expenditure*

<b>Gross Debt expected as at 31 March 2024</b>	£7.8M
<b>Net Service Expenditure (2022/23)</b>	£17.445M
<b>Gross Debt as a proportion of Net Service Expenditure</b>	45.7%
<b>Approved Limit</b>	375%

Commercial Property Investment – Loan to Value Assessment

- 6.15 An important consideration when appraising the impact of the Council's commercial and investment strategy on the Council is to consider the extent to which borrowing undertaken by the Council to fund investment in property is matched by the underlying value of the assets purchased.
- 6.16 When assets are first purchased it is common for the directly attributable costs associated with acquiring the asset, including applicable stamp duty, to exceed the realisable value of the asset. Consequently, if a property purchase is funded from borrowing this may mean in the early years of the Council's ownership the fair value of property owned by the Council may be less than the borrowing undertaken by the Council to fund the acquisition. Over time, if property prices appreciate this will have a positive impact on the Council's loan to value ratio.
- 6.17 4.16 The Council will obtain valuations of all its commercial investment properties annually and disclose the Loan to Value ratio as part of each year's capital strategy.
- 6.18 The Council has one commercial investment property which had been funded from borrowing. A valuation of that asset obtained as part of work

completed to produce the 2022/23 statutory accounts indicated that, as at 31 March 2023, its value had increased to £4.92m which is an increase of £1.48m against the consideration the Council had paid to the vendor in March 2021 exclusive of stamp duty and legal fees.

#### Borrowing in Advance of Need

- 6.19 Statutory guidance on Local Authority Investments and the Prudential Code published by CIPFA requires that authorities must not borrow in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Government has clarified that this requirement extends to the use of external borrowing to fund the purchase of non-financial investments, including investment properties.
- 6.20 As noted in paragraph 2.15 above the Council's Investment Board has been allocated a budget of £25M to take forward the Council's Commercial and Investment Strategy. The Council's Commercial and Investment Strategy provides for two types of investments to be taken forward: part two of the strategy sets out the process to be followed for commercial property investment and part three is concerned with investments for regeneration and place-shaping.
- 6.21 The Council will need to undertake external borrowing if it is to utilise the full budget of £25M which has been allocated by Full Council.
- 6.22 The statutory guidance recognises that the Council can disregard the provisions of the Prudential Code and the statutory guidance providing it explains its reasons for doing so and its policies for investing the extra amounts borrowed and the arrangements in place to manage the associated risks. However, the decision taken by government in November 2020 to preclude Councils from accessing loans from the Public Works Loans Board if they plan to acquire investment assets primarily from yield limits Councils' opportunities to take forward proposals which would previously have been possible.
- 6.23 The delivery of objectives linked to the Council's Commercial and Investment Strategy represents a key element of the Council's Business Plan. Whilst the regulatory context in which Councils are permitted to invest has altered and is expected to alter again following implementation of the revised Prudential Code from 2024/25s, this Council nevertheless believes there are opportunities for prudent investment in the District. Such investments can contribute to enhancing the District's economic vitality and act as leverage which enhances the viability of investment in our District funded by the private sector.
- 6.24 The Commercial and Investment Strategy sets out in detail the appraisal and decision-making approach the Investment Board is required to follow before any investment in commercial property is undertaken. This ensures that appropriate governance arrangements are in place and the Council has due regard to the risks associated with investments both individually and in the context of the overall level of risk presented by the Council's current portfolio.

- 6.25 Active monitoring of the portfolio will take place throughout the year with reference to the indicators included in this strategy together with appropriate commentary relevant to the particular investments held by this Council.

## **7. KNOWLEDGE AND SKILLS**

- 7.1 The Council has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.
- 7.2 Appropriate external advice will be engaged from suitably qualified professionals as and when required. This will apply particularly in those circumstances when the Council needs to undertake independent due diligence prior to making a decision regarding a proposed investment. Additionally, the Council will continue to enlist the year-round support of external Treasury Management advisors. This support is currently provided by Link Asset Services.
- 7.3 Internal and external training is offered to members to ensure they have up to date knowledge and expertise to understand and challenge capital proposals brought forward for approval and interpret the treasury management policies developed by officers in conjunction with relevant professional advisors.

PARISH PRECEPTS 2024/25

<b>TAX BASE (Equated Band D Properties)</b>	<b>PRECEPT 2023/24</b>	<b>COUNCIL TAX PER BAND D PROPERTY</b>	<b>PARISH</b>	<b>TAX BASE (Equated Band D Properties)</b>	<b>PRECEPT 2024/25</b>	<b>COUNCIL TAX PER BAND D PROPERTY</b>	<b>INCREASE FROM 2023/24</b>
	<b>£</b>	<b>£</b>			<b>£</b>	<b>£</b>	<b>%</b>
362	12,852	<b>35.50</b>	<b>BENWICK</b>	363	13,419	<b>36.97</b>	4.1
3,398	170,000	<b>50.03</b>	<b>CHATTERIS</b>	3,451	173,500	<b>50.28</b>	0.5
290	18,500	<b>63.79</b>	<b>CHRISTCHURCH</b>	297	18,500	<b>62.29</b>	-2.4
873	60,000	<b>68.73</b>	<b>DODDINGTON</b>	882	65,000	<b>73.70</b>	7.2
1,257	60,000	<b>47.73</b>	<b>ELM</b>	1,288	78,420	<b>60.89</b>	27.6
403	20,000	<b>49.63</b>	<b>GOREFIELD</b>	405	22,500	<b>55.56</b>	11.9
1,166	58,750	<b>50.39</b>	<b>LEVERINGTON</b>	1,189	59,925	<b>50.40</b>	0.0
922	72,000	<b>78.09</b>	<b>MANEA</b>	926	84,759	<b>91.53</b>	17.2
6,763	360,000	<b>53.23</b>	<b>MARCH</b>	6,841	360,000	<b>52.62</b>	-1.1
246	10,000	<b>40.65</b>	<b>NEWTON IN THE ISLE</b>	251	13,000	<b>51.79</b>	27.4
459	20,011	<b>43.60</b>	<b>PARSON DROVE</b>	461	20,010	<b>43.41</b>	-0.4
404	15,000	<b>37.13</b>	<b>TYDD ST GILES</b>	416	18,000	<b>43.27</b>	16.5
5,860	174,000	<b>29.69</b>	<b>WHITTLESEY</b>	6,047	174,000	<b>28.77</b>	-3.1
880	67,168	<b>76.33</b>	<b>WIMBLINGTON</b>	883	67,168	<b>76.07</b>	-0.3
6,555	392,670	<b>59.90</b>	<b>WISBECH</b>	6,602	407,110	<b>61.66</b>	2.9
1,221	78,230	<b>64.07</b>	<b>WISBECH ST MARY</b>	1,269	89,965	<b>70.89</b>	10.7
<b>31,059</b>	<b>1,589,181</b>	<b>51.17</b>	<b>GRAND TOTAL</b>	<b>31,571</b>	<b>1,665,276</b>	<b>52.75</b>	<b>3.09</b>

**EARMARKED AND GENERAL RESERVES - Revised 2023/24 and Estimated 2024/25**

**APPENDIX G**

Reserve Name	Balance 01.04.23 £	Capital Funding £	Revenue Contributions to(+)/from(-) 2023/24 £	Revised Balance 31.03.24 £	Capital Funding £	Revenue Contributions to(+)/from(-) 2024/25 £	Estimated Balance 31.03.25 £
Travellers Sites	447,968		17,850	465,818		62,670	528,488
CCTV - Plant & Equipment	41,128		10,000	51,128		10,000	61,128
Station Road, Whittlesey - Maintenance	10,400		2,800	13,200		2,800	16,000
Management of Change	447,782	-149,000	-79,830	218,952		-206,690	12,262
Business Rates Equalisation Reserve	1,050,993		-211,048	839,945			839,945
Capital Contribution Reserve	131,117	-15,000		116,117			116,117
Port - Buoy Maintenance	146,999		-1,200	145,799			145,799
Repairs and Maintenance	704,706	-235,000		469,706			469,706
Heritage Lottery Fund (HLF) - Wisbech	51,682		-21,390	30,292		-21,390	8,902
Highways Street Lighting	65,910		19,230	85,140		19,230	104,370
Solid Wall Remediation	100,000			100,000			100,000
Investment Strategy Reserve	1,340,168			1,340,168			1,340,168
Budget Equalisation Reserve	1,866,568		-548,352	1,318,216		2,515	1,320,731
Planning Reserve	325,418		-100,000	225,418		-166,680	58,738
Elections Reserve	194,742		-114,724	80,018		-750	79,268
Port - Pilots Staff Development Training	24,000		-13,930	10,070			10,070
Cambridgeshire Horizons	2,515,244		-181,170	2,334,074		-122,230	2,211,844
Specific Government Grants (received in previous years)	1,659,859	-300,000	527,098	1,886,957		-229,834	1,657,123
<b>TOTAL EARMARKED RESERVES</b>	<b>11,124,681</b>	<b>-699,000</b>	<b>-694,666</b>	<b>9,731,015</b>	<b>0</b>	<b>-650,359</b>	<b>9,080,656</b>
General Fund Balance	2,000,000			2,000,000			2,000,000
<b>TOTAL RESERVES</b>	<b>13,124,681</b>	<b>-699,000</b>	<b>-694,666</b>	<b>11,731,015</b>	<b>0</b>	<b>-650,359</b>	<b>11,080,656</b>

*Comments / Conditions of Use*

Can only be used for specific future maintenance liabilities.

Available for future CCTV maintenance & replacement liabilities.

Required for future road maintenance.

Available for the effective management of any organisational changes required to meet the Council's future priorities.

Available to assist the Council in smoothing out volatility in the business rates retention system.

Available to fund specific spending commitments in future years.

Available for future buoy maintenance to service windfarms.

Available to provide funding for one-off schemes, not covered by the normal Repairs and Maintenance revenue budgets.

To manage the Heritage Lottery Funded scheme in Wisbech.

Available to fund future repairs and maintenance relating to street lighting.

Available to fund potential costs linked to solid wall installations in the District.

Established to provide future funding for Commercial and Investment Strategy projects.

Year-end surpluses are transferred to this reserve. If a deficit is forecast this reserve can be used to offset the expected shortfall.

Available to fund additional planning costs not reflected in the annual budget, including the development of the Local Plan.

Available to fund four-yearly District-wide elections. Transfers are made to this reserve each year to fund the cost of the next District-wide election.

Available to fund the training of maritime pilots to fulfill the authority's statutory functions.

Available for the Council's future use in accordance with the conditions attached to the receipt.

Available to fund specific spending commitments in future years.

Unallocated general reserve required for various and unplanned for contingencies, to mitigate risks associated with future financial planning as well as for general day to day cash flow needs.

NB: In accordance with the Council's Financial Rules and Scheme of Financial Delegation ( Part 4, Rule 6 of the Constitution), paragraphs B57 - B60 delegates authority to the Chief Finance Officer to approve expenditure from these reserves in accordance with their approved use as detailed above.