

FINANCIAL POLICY PANEL

Tuesday 31 January 2023 at 6.00 pm

Place: Council Chamber - Epsom Town Hall

The members listed below are summoned to attend the Financial Policy Panel meeting, on the day and at the time and place stated, to consider the business set out in this agenda.

Councillor Neil Dallen (Chair)
Councillor John Beckett
Councillor Kate Chinn
Councillor Alex Coley

Councillor Nigel Collin
Councillor Hannah Dalton
Councillor Colin Keane
Councillor Jan Mason

Yours sincerely



Interim Chief Executive

For further information, please contact Democratic Services, tel: 01372 732000 or Democraticservices@epsom-ewell.gov.uk

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AGENDA

1. DECLARATIONS OF INTEREST

Members are asked to declare the existence and nature of any Disclosable Pecuniary Interests in respect of any item of business to be considered at the meeting

2. MINUTES OF THE PREVIOUS MEETING (Pages 5 - 6)

The Panel is asked to confirm as a true record the Minutes of the Meeting of the Panel held on 1 February 2023 (attached) and to authorise the Chair to sign them.

3. BUDGET AND COUNCIL TAX REPORT 2023/24 (Pages 7 - 26)

This report provides an update on the preparation of the budget for 2023/24. The report seeks any final guidance from the Panel prior to the preparation of the Budget and Council Tax report for the Council on 14 February 2023.

4. TREASURY MANAGEMENT STRATEGY 2023/24 (Pages 27 - 70)

This report outlines the treasury management strategy for 2023/24, which includes prudential indicators for 2023/24 to 2025/26, the minimum revenue provision (MRP) policy, and the investment and borrowing strategy. It is a legislative requirement that these items be approved by Full Council.

5. REVIEW OF RESERVES (Pages 71 - 86)

This report presents a review of reserves and recommends minimum reserve balances to ensure sound management of the Council's finances.

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Minutes of the Meeting of the FINANCIAL POLICY PANEL held on 1 February 2022

PRESENT -

Councillor Colin Keane (Chair); Councillors John Beckett, Kate Chinn, Alex Coley, Nigel Collin, Neil Dallen, Jan Mason and Clive Woodbridge

In Attendance:

Absent:

Officers present: Lee Duffy (Chief Finance Officer), Brendan Bradley (Head of Finance) and Sue Emmons (Chief Accountant)

9 DECLARATIONS OF INTEREST

No declarations of interest were made by councillors regarding items on the agenda for the meeting.

10 MINUTES

The minutes of the Financial Policy Panel meeting held on 07 September 2021 were agreed as a true record to be signed by the Chair.

11 2022/23 BUDGET AND COUNCIL TAX REPORT

The Panel received the report on the 2022/23 Budget and Council Tax proposals.

The following matters were debated by Councillors:

- The Council's New Homes Bonus allocation and how this funding source is expected to further diminish in future years.
- The calculation of the Council's share of retained business rates. It was noted that the Chief Finance Officer would circulate an explanatory email to Members of the Panel.
- The deliverability of savings proposals contained in the Efficiency Plan at Appendix 3. It was noted that Officers would circulate the January 2021 Strategy and Resources Committee Budget Report to Members of the Panel.

- That without mitigating action, the General Fund reserve would be depleted by 2025/26, as shown in the Financial Forecast at Appendix 2.
- The potential impact of central government's Fair Funding Review on the Council's budget and projected reserve levels.
- The extent to which income from Council services, particularly car parks and commercial property tenants, has been impacted by Covid-19.
- Inflationary pressures and that the Council's 2022/23 budget does contain a contingency for inflation in excess of 2%.

Following consideration of the above matters and the report's contents, the Panel moved to consider the report recommendations. The Panel agreed items (1)-(4) and item (6) below unanimously. The Panel agreed item (5) below by majority vote.

- (1) Provide the Chief Finance Officer with any further guidance needed to finalise the 2022/23 Budget and Council Tax report;**
- (2) Note the provisional Government financial settlement for 2022/23;**
- (3) Support that the budget gap for 2022/23 should be funded from the Corporate Projects Reserve and Property Income Equalisation Reserve, as set-out in Section 8;**
- (4) Support that the deficit on 2021/22 business rates income and the shortfall in projected business rates income for 2022/23 will be funded from the Business Rates Equalisation Reserve, as set-out in Section 10;**
- (5) Support a recommendation to Council of a council tax increase of £4.95;**
- (6) Note the updated four-year Financial Plan and Efficiency Plan.**

The meeting began at 6.00 pm and ended at 6.47 pm

COUNCILLOR COLIN KEANE (CHAIR)

2023/24 BUDGET AND COUNCIL TAX REPORT

Head of Service:	Lee Duffy, Chief Finance Officer
Wards affected:	(All Wards);
Urgent Decision?	No
Appendices (attached):	Appendix 1 - Summary of 2023/24 Estimates Appendix 2 - Updated Financial Plan 2020-24 Appendix 3 - Updated Efficiency Plan 2020-24

Summary

This report provides an update on the preparation of the budget for 2023/24. The report seeks any final guidance from the Panel prior to the preparation of the Budget and Council Tax report for the Council on 14 February 2023.

Recommendation(s)

The Panel is asked to:

- (1) Provide the Chief Finance Officer with any further guidance needed to finalise the 2023/24 Budget and Council Tax report;**
- (2) Note the provisional Government financial settlement for 2023/24;**
- (3) Support that the budget gap for 2023/24 should be funded from the Corporate Projects Reserve, as set-out in Section 9;**
- (4) Support that the deficit on 2022/23 business rates income and that any change in projected business rates income for 2023/24 will be offset by a transfer to or from the Collection Fund Equalisation Reserve, as set-out in Section 11;**
- (5) Support a recommendation to Council of a council tax increase of 3 percent (£6.39 for a Band D equivalent property);**
- (6) Note the updated four-year Financial Plan and Efficiency Plan.**

1 Reason for Recommendation

- 1.1 The recommendations will assist the Council to meet its statutory duty to set a balanced budget for 2023/24.

2 Background

- 2.1 Service estimate reports for 2023/24 have been prepared for each of the four policy committees and circulated to all Councillors, via email, in the draft Budget Book 2023/24.
- 2.2 The estimates have been prepared on the basis of the budget guidelines and targets agreed by Strategy & Resources Committee on 26 July 2022, which were as follows:-
 - 2.2.1 That estimates be prepared including the delivery of savings already identified in the Financial Plan for 2023/24 totalling £215,000.
 - 2.2.2 That at least £396,000 additional revenue, equivalent to a 6 percent increase, is generated from an increase in discretionary fees and charges;
 - 2.2.3 That a service-specific savings target of £243,000 should be set for homelessness.
 - 2.2.4 Phasing of savings over the next 3 years to achieve a balanced budget with no reliance on revenue reserves to fund the delivery of services by 2025/26. Thus supporting the use of £1,170,000 of strategic reserves during this period to manage the impact on services.
 - 2.2.5 That Directors and Heads of Service should work to produce specific income generation and savings options to meet the remaining budget deficit of £1.7m.
 - 2.2.6 That any new growth items (i.e. cost pressures) supported by policy committees will need to be fully funded from existing budgets.
- 2.3 The estimates prepared for 2023/24 reflect the impact on services post Covid.
- 2.4 The funding of the capital programme was considered and supported by Capital Member Group in November, subject to schemes being supported by policy committees in the January committee cycle.
- 2.5 The general fund summary position as contained in the 2023/24 Budget Book reflects the draft services estimates. There are, however, external financing income levels that still need to be finalised:-
 - 2.5.1 The 2023/24 final local government finance settlement;
 - 2.5.2 The level of business rates income that will be retained;

2.5.3 Revenue from council tax depending on the level of any increase for next year.

2.6 For pay inflation, the budgeted provision is £446,000 to reflect an annual uplift in pay of 3.0%. This is in accordance with the Council's agreed four year pay policy linking increases to CPI. Although CPI indicated an increase of 10.1 percent, the annual award is capped at 3 percent as agreed within the pay policy to ensure that any increase remains affordable.

2.7 This report provides details of the provisional local government finance settlement and seeks guidance from the Panel on the presentation of the budget and council tax report for 2023/24.

3 Covid-19

3.1 Within the approved budget for 2022/23 agreed in February 2022, the Council had set a-side a £600,000 contingency to offset the long-term impact of Covid-19 on Council services and its finances.

3.2 As the UK recovered in early 2022/23 with the lifting of pandemic-related restrictions, the Council undertook a re-basing exercise to reset individual service budgets to reflect post pandemic demand.

3.3 The re-basing exercise reported to Strategy & Resources Committee in July 2022 identified that the long-term impact of Covid-19 on Council services was worse than predicted, with a net loss of income of £1.119m.

3.4 Included within the same report, Strategy & Resources Committee also agreed funding of the £519k shortfall from a number of sources to offset the increased cost of pandemic.

3.5 The 2023/24 policy committee budgets have been prepared on the basis of the latest information available and reflect demand for services post-pandemic.

4 Cost of Living Crisis

4.1 Following on from the pandemic the UK is now experiencing rising levels in inflation not experienced since the 1980's. This has resulted in significant increases in the cost for energy and other supplies and services purchased by the Council.

4.2 The government has provided some limited financial support for energy payments during 2022/23 but this support is expected to reduce substantially in 2023/24. If no further support were made available, then the Council may expect its energy costs to treble compared to what it was paying prior to the crisis.

- 4.3 The 2023/24 revenue budget includes an increase of c.£600,000 in its contingency to £892,000 to finance inflationary increases within the Council's cost base.

5 2023/24 Provisional Government Settlement

- 5.1 Details of the provisional local government finance settlement were sent to all councillors via email on 21 December 2022.
- 5.2 The settlement appears to represent a 'holding position' until the next Parliament. Government has also ruled out a business rates reset and a 'Fair Funding Review' until at least 2025/26. The Fair Funding Review is a review of the distribution of government and business rates funding between Councils, and when complete, it is expected to favour unitary and upper tier councils, ahead of districts such as EEBC.
- 5.3 The following table shows government's provisional settlement funding assessment for EEBC for 2023/24:-

Provisional Settlement Funding Assessment 2023/24	2022/23	2023/24
	£'000	£'000
Revenue Support Grant (RSG)	0	53
Negative RSG	0	0
Retained Business Rates – Baseline	1,420	1,473
Settlement Funding Assessment	1,420	1,526

- 5.4 The impact of delaying the business rates reset means the Council can retain its surplus business rates income above its baseline for a couple more years, which provides a favourable benefit of c.£186,000.
- 5.5 In 2016, government introduced Negative RSG as part of the Council's four-year settlement. The settlement identified that in 2019/20 the Council would have to make an on-going payment back to central government of £624,000, known as Negative RSG. However, after significant lobbying from affected councils including EEBC, the Government decided to remove Negative RSG from annual settlements since 2019/20.
- 5.6 The delay of the Fair Funding Review means that Negative RSG continues to be excluded from 2023/24's settlement, however, the risk still remains that Negative RSG will feature as part of the future Fair Funding Review calculation when this is eventually introduced.

- 5.7 The Government has provided assurance only for 2023/24 that Negative RSG will not be applied. For Epsom and Ewell Borough Council, if applied, Negative RSG would equate to a potential loss of funding of c£700,000 (taking account of inflation since 2019/20) in future years. However, it is still unclear whether Negative RSG will be re-introduced in 2024/25, or once Government completes its Fair Funding Review.
- 5.8 The projections at Appendix 1 now assume that Negative RSG will NOT be re-introduced until 2025/26 and that when introduced, a transitional period will be applied.
- 5.9 If government makes any changes in the finalised local government finance settlement, these will be communicated to the Panel, or reported to all councillors if not available for the meeting.

6 New Homes Bonus Grant

- 6.1 The Council benefits from New Homes Bonus, which is awarded by Government based on the number of new residential properties built in the borough in the preceding year, with a supplement for affordable housing.
- 6.2 The amount of funding available from New Homes Bonus has diminished substantially since Government changed the methodology for awarding the grant from 2018/19 onwards.
- 6.3 Originally the Council received a rolling 6 years of individual allocations, but from 2018/19 this was reduced down to 4 years, alongside further reductions by only awarding funding for growth in homes above a 0.4% per annum baseline.
- 6.4 In 2020/21, further changes were announced to remove new homes bonus grant and legacy payments from the annual award by 2023/24.
- 6.5 For context, back in 2016/17 the Council received in excess of £2 million, but now expects to receive £135,000 in 2023/24, with further reductions expected in subsequent years.

New Homes Bonus	2022/23	2023/24
	£'000	£'000
2019/20	21	
2020/21		
2021/22		
2022/23	153	
2023/24		135
Total	174	135

- 6.6 Since 2019/20, the Council's budget has removed any reliance on New Homes Bonus Grant as a source of funding to support on-going services. All New Homes Bonus funding is transferred to the Corporate Project Reserve to fund one off projects.
- 6.7 Government is continuing to review the future of New Homes Bonus, it is therefore unclear whether this grant will continue in future years.

7 Other Grants

- 7.1 In addition to the Finance Settlement and New Homes Bonus, Government announced the removal of the Lower Tier Services Grant totalling £64,000, and a reduction of the Services Grant from £98,000 down to £55,000. The reduction in the Services Grant was principally due to the cancellation of an increase in employer's national insurance contributions.
- 7.2 The Settlement introduced a new Funding Guarantee Grant, an award of £255,000 in 2023/24 for Epsom & Ewell Borough Council. This grant has been introduced to provide a funding floor for all local authorities, so that no local authority would see an increase in Core Spending Power that is lower than 3%. However, this grant has been part funded by the removal of the Lower tier Services Grant.
- 7.3 The methodology for distributing this funding is expected to change as part of government's Fair Funding Review, meaning neither source of funding can be relied on beyond 2024/25.

8 Core Spending Power

- 8.1 In its spending announcements the Department for Levelling Up, Housing and Communities (DLUHC) also refers to changes in 'core spending power'. This is a term used to measure the impact of all government grant changes on local authority budgets. Core spending power is different from government funding as this includes income received from New Homes Bonus and council tax.
- 8.2 In its assessment of core spending power, shown in the following table, government assumes that councils should increase council tax by the maximum permissible amount.

Core Spending Power	2022/23	2023/24
	£'000	£'000
Retained Business Rates	1,420	1,473
Compensation for Government under-indexing the business rates multiplier	145	251
New Homes Bonus	174	135
Council Tax *	7,090	7,335

Lower Tier Services Grant	65	0
2022/23 Services Grant	98	55
Council Tax Support Grant	53	0
Revenue Support Grant	0	53
Funding Guarantee Grant	0	225
Core Spending Power	9,045	9,527

* From Government's provisional financial settlement

- 8.3 Nationally there is an increase in spending power for 2023/24 of 9.2%, but for Epsom and Ewell Borough Council, core spending power will increase by £482,000 or 5.3%.

9 Budget Overview

- 9.1 The service estimates are contained in the draft Budget Book 2023/24.
- 9.2 The draft Budget Book currently shows a balanced budget position for next year, however this has been achieved through contributions from the Corporate Projects Reserve of £166k within S&R Committee:

General Fund Budget Summary	2023/24 Draft Budget
	£'000
Net Cost of Services (as per the Budget Book)	8,296
Add back contribution from Corporate Projects Reserve	166
Updated Net Cost of Services	8,462
Funded by:	
Council Tax (based on 2.99% annual increase)	7,361
Retained Business Rates*	1,659
Revenue support Grant	53
Guaranteed Funding grant	225
Services grant	55
Surplus on prior year council tax	27
Deficit on prior year business rates*	(1,085)
Sub-Total Funding	8,296
Underlying budget deficit in 2023/24	166

*See section 11 – Retained Business Rates

- 9.3 Using the Corporate Projects Reserve as a temporary funding source to meet the budget deficit enables the Council to produce a balanced budget for 2023/24, while it continues to progress a number of strategic reviews, with the aim of delivering a sustainable budget and removing reliance on the use of reserves by 2025/26.

- 9.4 The Budget Book includes a £500,000 contribution from revenue to assist in funding the annual capital programme and a provision of c£900,000 to mitigate the impact of inflation and the cost-of-living crisis on services next year, especially the anticipated increase in energy prices.
- 9.5 The Strategy and Resources Committee budget currently includes a £50,000 general contingency to mitigate any unforeseen costs in implementing changes to services identified as part of the 2023/24 budget process, or due to unforeseen additional expenditure on agreed policies and priorities. These provisions reduce the need for services to hold their own individual contingencies.
- 9.6 The funding position included within the Budget Book reflects a provisional prior year deficit on business rates, which is still being finalised as part of statutory collection fund returns to be completed by 31 January. Any changes in business rates funding will be met by an appropriation from the Collection Fund Equalisation Reserve.

10 Funding from Investment / Commercial Property (including EEPIC)

- 10.1 Epsom & Ewell Property Investment Company Ltd (EEPIC), the Council's wholly-owned subsidiary, holds two commercial properties outside the Borough. The properties were acquired in 2017 to generate additional income for the Council, before the introduction of new MHCLG statutory guidance in 2018, which restricted the ability to acquire further properties outside the Borough using borrowing.
- 10.2 For 2023/24, dividend income from EEPIC is currently expected to increase to £1.3m (from £0.6m in 2022/23), as a temporary reduction in rental income from one tenant comes to an end on 31 March 2023 (as agreed at S&R Committee in December 2020). Should income from EEPIC fall below budget for any reason, the Council holds the Property Income Equalisation Reserve which can be used to neutralise the impact on the revenue budget in the short term.
- 10.3 The Council itself owns four other properties in the Borough which were acquired through the use of external borrowing – 64-74 East Street, Emerald House on East Street, 2 Roy Richmond Way and Parkside House. The Council budgets to receive net rental income (excluding borrowing costs) from these four properties of £1.6m, although with two of the properties currently vacant or partially vacant, it is expected that an appropriation of £1.1m from the Property Income Equalisation reserve will be required to achieve this budgeted income in 2023/24. Depending on how long properties remain vacant, the Council may need to develop plans in the longer term to replenish the Property Income Equalisation reserve.

11 Retained Business Rates

- 11.1 Government sets a level of business rates that should be collectable by a local authority each year and then, using a national formula, determines how much can be retained by the Council (the funding baseline).
- 11.2 Should the local collection of business rates exceed the government-set baseline, the Council retains a 50% share of the surplus above the baseline. However, should local collection of business rates fall short of the baseline, the Council is liable for a 50% share of the deficit.
- 11.3 The business rates collected for 2022/23 is currently predicted at £2.7m below the original budget forecast. There was modest surplus brought forward from 2021/22 of £39,000. This results in a net provisional deficit on the fund of £2.7m with the Council's share being £1,085,000.
- 11.4 The deficit on the collection fund is principally due to continued additional mandatory business rates reliefs awarded to eligible businesses during 2022/23, as instructed by central government. The Council should be compensated for the reliefs with additional grant funding to offset the reduction in collectable business rates income.
- 11.5 The Council holds the Collection Fund Equalisation Reserve to mitigate the impact of changes to planned funding from business rates income. Any compensatory grants from government are set-aside in the Collection Fund Equalisation Reserve and used to fund the provisional £1,085,000 deficit in 2023/24 and future years, in accordance with collection fund regulations.
- 11.6 The Budget Book currently shows retained business rates income for 2023/24 of £1,659,000 based on provisional figures.
- 11.7 The funding position on retained business rates income for 2023/24 remains provisional, pending submission of statutory collection fund returns to DLUHC at the end of January. Any changes in the overall level of funding will be included in the Final Budget Book and offset by a contribution to or from the Collection Fund Equalisation Reserve.
- 11.8 The Council has been included within the Surrey Business Rate Pool for 2023/24. This is an invitation for 2023/24 only but is expected to benefit this Council by £150,000 in retained business rates income for the year, which has been budgeted for within S&R Committee.

12 Council Tax Options

- 12.1 It was announced as part of government's provisional settlement for 2023/24 that District Councils will be allowed to increase their council tax by either £5 per annum (per Band D equivalent property) or up to 3% (whichever is highest) before needing to hold a referendum.

- 12.2 For financial planning purposes, the Medium Term Financial Strategy and Budget Book now assumes an annual council tax increase of 2.99%, which equates to an additional £6.39 per annum or 12¼ pence per week for a Band D equivalent property.
- 12.3 To the average band 'D' council tax payer (those not receiving discounts or support), the annual charge for borough services would increase from £213.21 to £219.60 per property.
- 12.4 With CPI inflation at 10.1% (as at September 2022), this still represents a below inflationary increase for residents, and a significant real terms funding cut for the Council.
- 12.5 For the Council's finances, revenue from council tax provides critical income to pay for services, assisting to replace funding lost from government revenue support grant and new homes bonus.
- 12.6 The Panel may feel it appropriate for options of 0% and 2.99% to be included in the budget report to full Council, as set out in the following table:

Council Tax Change	0% Freeze	2.99% Increase
Council Tax (Band D)	£213.21	£219.60
Increase per annum	£0	£6.39
Increase per week	0p	12¼p
Additional Income Generated 2023/24	£0	£214,200
Adjustment needed to Draft Budget Book	£214,200 Adverse	£0
On-going Income received in Future Years	£0	£214,200

- 12.7 **Appendix 1** comprises an overview of the draft budget for 2023/24 showing the impact of levels of council tax options, with proposals shown for a freeze and an increase of 2.99%.
- 12.8 Surrey County Council has provisionally proposed a 1.99% council tax increase to help their future funding position. However, this may increase when the Surrey County Council and Surrey Police Authority charges (precepts) are confirmed early in February.

13 Capital Programme and Level of Capital Reserves

- 13.1 The Draft Capital Programme for 2023/24 recommended by Capital Member Group on 30 November totalled £1,464,000 with £348,000 funded from useable capital receipts, £785,000 from Disabled Facilities Grants, £250,000 funded from budgeted planned revenue contributions and £81,000 from Section 106 receipts.
- 13.2 The Council recognises the need to invest in IT systems, and an ICT investment strategy has been developed. £250k of budgeted revenue contributions has been provisionally set aside for the ICT programme of works for 2023/24 until the ICT Strategy is formally adopted.
- 13.3 Funding the programme in this way will maintain the level of uncommitted capital receipts reserves at £3.475 million by the end of 2023/24.
- 13.4 The Council agreed within its current Medium Term Financial Strategy to maintain a minimum level of capital reserves of £1 million.
- 13.5 The current Financial Plan includes an additional £100,000 of funding each year from revenue to provide resources for a sustainable capital programme. The 2023/24 revenue budget includes annual funding for the capital programme of £500,000.

14 Financial Plan 2020-24 and Forecast to 2025/26

- 14.1 The Financial Plan 2020-2024, approved by Full Council in February 2020, has been updated with the latest projections (including a medium-term forecast) and is presented at Appendix 2.
- 14.2 The forecast anticipates a reduction in retained business rates income from 2025/26 due to the outcome of the 'Fair funding review' and business rates baseline reset. The forecast aims to provide funding for a sustainable capital programme from revenue by 2026/27.
- 14.3 To be able to reduce reliance on these external sources of funding, the Council is projected to need to deliver additional annual savings or income of around £1.6 million by the end of 2025/26.

15 Risk Assessment

Legal or other duties

15.1 Equality Impact Assessment

15.1.1 Not applicable

15.2 Crime & Disorder

15.2.1 None arising from the contents of this report.

15.3 Safeguarding

15.3.1 None arising from the contents of this report.

15.4 Dependencies

15.4.1 None arising from the contents of this report.

15.5 Other

15.5.1 The main financial risks will be presented to Full Council in a corporate budget risk assessment in February.

15.5.2 The highest service financial risks are the impact of the increased cost of living on the Council's costs and income streams, and the potential for increased demands for housing and homelessness prevention next year.

15.5.3 The Council holds both revenue and capital reserves, and has set aside a £900k provision in next year's budget, which all act as contingencies against financial risk in regards of the 'Cost-of-Living Crisis'. Despite these contingencies, the level of overall revenue budget risk in 2023/24 is deemed to be high, due to continuing high levels of economic uncertainty within the UK.

15.5.4 Higher risk also remains for the financial outlook beyond 2023/24, due to the uncertainty on the outcome on the Government's 'Fair Funding' Review and the possibility of cuts in core funding for Epsom and Ewell Borough Council in the 2025/26 settlement.

15.5.5 It is anticipated that the 'Fair Funding Review' – the mechanism used to determine individual authority settlements – will generally be used by Government to reduce funding for District Councils.

16 Financial Implications

16.1 The forecast budget position for 2023/24 is summarised in this report.

16.2 The Council is expected to benefit from additional income of £150,000 from retained business rates as a result of being part of the Surrey Business Rates Pool in 2023/24.

16.3 Council tax is an important and secure source of funding and provides income to support core services delivered by the Council. The referendum limits set by Central Government limits the annual increase that can be made to council tax without requiring a referendum to 3 percent.

16.4 An increase of £6.39 for a band d property, the maximum permitted without triggering a referendum generates additional income of £214,200.

- 16.5 The 2023/24 budget includes planned net transfers from strategic reserves of £2,362,480. The significant transfers are as follows:-
- 16.5.1 The Corporate Projects Reserve is expected to make a net transfer of £31,123 to fund general fund services, £166,456 funding for services offset by £135,333 from New Homes Bonus grant.
- 16.5.2 A transfer of £1,126,840 from the Property Income Equalisation Reserve to offset reduced rental income for the period from our investment properties.
- 16.5.3 A provisional transfer of £1,085,000 from the Collection Fund Equalisation Reserve to fund the prior year deficit on business rates collection.
- 16.6 The reserve transfers are provisional and any further budget changes may need to be offset by an appropriation to/from reserves. For example, any change in business rates funding that may arise from the statutory government return (due by 31 January) would be met by adjusting the appropriation from the Collection Fund Equalisation Reserve.
- 16.7 There is no use of New Homes Bonus Grant to fund services, with the full grant allocation to be transferred to the Corporate Projects Reserve to fund one-off initiatives.
- 16.8 The draft Budget Book 2023/24 is highly detailed therefore please can any queries be sent to relevant officers in advance of this Committee meeting wherever possible.
- 16.9 **Section 151 Officer's comments:** The forecast budget position for 2023/24 is summarised in this report.

17 Legal Implications

- 17.1 The Council will fulfil its statutory obligations to produce a balanced budget and to comply with its policy on equalities.
- 17.2 Although there are no direct legal implications arising from this report, decisions taken about the budget will impact the services which can be delivered. In the event of any impact, there will need to be an equalities impact assessment in relevant cases.

18 Policies, Plans & Partnerships

- 18.1 **Council's Key Priorities:** The following Key Priorities are engaged: Effective Council.
- 18.2 **Service Plans:** The matter is included within the current Service Delivery Plan.

18.3 **Climate & Environmental Impact of recommendations:** None arising from the contents of this report.

18.4 **Sustainability Policy & Community Safety Implications:** None arising from the contents of this report.

18.5 **Partnerships:** None arising from the contents of this report.

19 Background papers

19.1 The documents referred to in compiling this report are as follows:

Previous reports:

- 2023/24 Strategic Financial Planning, Strategy & Resources Committee - 26 July 2022
- Review of Reserves, Financial Policy Panel – 30 November 2021

Other papers:

- Policy Committee 2023/24 Budget Reports (January 2023 Committee Cycle)
- Draft Budget Book 2023/24
- Medium Term Financial Strategy 2020-2024

BUDGET OVERVIEW FOR 2023/24

figures may be subject to minor rounding variances

BASED ON SERVICE ESTIMATES RECOMMENDED TO POLICY COMMITTEES

(policy committee estimates rounded to £000)

	<u>2022/23</u>	<u>2023/24</u>	<u>2023/24</u>
Illustrated Council Tax Increase:		£4.95	3.00%
	£000	£000	£000
Strategy & Resources Committee	2,792	2,714	2,714
Environment & Safe Communities Committee	3,723	4,187	4,187
Community and Wellbeing Committee	4,617	4,608	4,608
Licensing & Planning Policy Committee	636	706	706
Less: Capital Charges	-2,669	-2,669	-2,669
Policy Committee Net Expenditure	9,099	9,546	9,546
Contribution from Business Rates Equalisation Reserve (provisional)	-472	-1,085	-1,085
Contribution from Corporate Projects Reserve Reserve	0	-166	-166
Use of Working Balance	0	-48	0
Net Expenditure	8,627	8,247	8,296
Business Rates Income (provisional)	1,606	1,659	1,659
Revenue Support Grant	0	53	53
Lower Tier Services Grant and Covid-19 Support Grant	64	0	0
Services Grant	0	55	55
CSP Minimum Guarantee Funding	0	225	225
Council Tax Surplus/(Deficit)	47	27	27
Business Rates Deficit (provisional)	-180	-1,085	-1,085
Sub-Total	1,537	934	934
Council Tax Income	7,090	7,313	7,361
External Funding Income	8,627	8,247	8,296
Council Tax Base (Band D Equiv. Properties) (reduced due to Localisation of Council Tax Support)	33,251.43	33,521.16	33,521.16
Basic Amount of Council Tax	£213.21	£218.16	£219.60
<u>1/9ths</u>	<u>Valuation Band</u>		
6	A	£142.14	£145.44
7	B	£165.83	£169.68
8	C	£189.52	£193.92
9	D	£213.21	£218.16
11	E	£260.59	£266.64
13	F	£307.97	£315.12
15	G	£355.35	£363.60
18	H	£426.42	£436.32
EPSOM & EWELL BOROUGH COUNCIL - CHANGES			
2022/23 Council Tax at Band D = £213.21			
Increase in Council Tax (per annum)	£0.00	£4.95	£6.39
Increase in Council Tax (%)	0.00%	2.32%	2.99%
Increase in Council Tax (per month)	£0.00	£0.41	£0.53
Increase in Council Tax (per week)	£0.00	£0.10	£0.12
Income Generated from Council Tax Increase	£0	£166,000	£214,200
Use of Working Balance	£0	-£48,000	£0
Equivalent Council Tax support from use of working balance (per Council Tax payer)	£0.00	-£1.43	£0.00
<i>Note: Budget Requirement</i>	8,627	8,247	8,296
<i>Change</i>		-380	-331
<i>% Change in Budget Requirement</i>		-4.4%	-3.8%
<i>Note: Council Tax Requirement</i>	7,090	7,313	7,361
<i>Change (includes tax increase and property number increase)</i>		223	272
<i>% Change in Council Tax Requirement</i>		3.2%	3.8%

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REVENUE BUDGET FOUR YEAR FORECAST

Status: Financial Planning Updated for 2023/24 Budget							
	MTFS				FORECAST		
FOUR YEAR BUDGET PROFILES	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Actual	Budget	Forecast	Forecast	Forecast	Forecast
	£000	£000	£000	£000	£000	£000	£000
NET SPEND B/F FROM PREVIOUS YEAR	6,387	9,743	8,612	8,627	8,296	10,246	10,716
add back: Interest on Balances as credited to the revenue account in previous year	96	130	105	240	720	830	880
add back: Use of Reserves/Provisions in Previous Year	1,845	-1,264	730	1,476	2,378	266	150
Net Expenditure on Services before changes (Base Budget excluding use of interest on Balances and use of working balance)	8,328	8,609	9,447	10,517	11,394	11,342	11,746
Allowance for Pay and Price Inflation							
General Inflation - price base	+190	+50	+290	+454	+199	+203	+207
General Inflation - pay base	+400	+240	+516	+446	+458	+467	+476
Other							
Prices Increases net of Increased Fees & Charges	+590	+290	+806	+900	+657	+670	+683
Increases in costs / Reductions in income							
Pension Fund Valuations 2019 & 2022	+150		+129	-53	+0	+0	
Impact of Covid		+950	+169	-90	+20	+21	
Revised cost of building control service			+161				
Increased cost of maintaining ditches and reservoir			+16				
Change in national insurance contributions			+150	-150			
Net reduction in income from commercial property			+655	+210			
Increase in debt repayments			+41	+26	+26	+27	+27
Increase in provision for property maintenance	+50	+50	+50	+50			
Property and Regeneration Manager	+50						
Local elections	-70			+80	-80		
Verge maintenance							
Reduction in savings on Ebbisham Centre							
Community Safety							
Funding of projects within the capital programme	+100	+100	+100	+100	+100	+100	+50
Health and Wellbeing							
Verge maintenance							
Provision for increased cost of living	+0				+200		
Loss of 70 East Street tenant				+600	-600		
Contingency for loss of on-street parking income				+250			
Increased cost of external audit fees nationally				+115			
Contingency for elevated utilities and contract inflation				+360			
Other	-83	-71	+56	+59			
Reduced contributions to the Property Equalisation Reserve			-500				
Savings to be identified to finance rebasing exercise			-85	+85			
Increased cost of homelessness	+391						
Increases in costs / Reductions in income	+649	+1,029	+942	+1,642	-334	+148	+77

	MTFS				FORECAST		
FOUR YEAR BUDGET PROFILES	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Actual	Budget	Forecast	Forecast	Forecast	Forecast
	£000	£000	£000	£000	£000	£000	£000
Changes to External Funding							
Bourne Hall (SCC)	+80						
2023/24 Surrey Business Rates Pool				-150	+150		
Contingency for loss of homelessness reduction act grant income						+119	
Loss of Housing Benefit Admin Grant							
Grant funding from MHCLG for Local Council Tax Admin Subsidy							
Remove funding from Property Company towards funding capital programme							
Removal of Local Council Tax Support Admin Grant				+50			
2022/23 Government Services Grant			-98	+98			
Higher Needs							
Changes to External Funding	+80	+0	-98	-2	+150	+119	+0
New Home Bonus							
Estimated New Homes Bonus	-385	-240	-174	-135	-21	-21	-21
Transfer to Corporate Project Reserve	+385	+240		+135	+21	+21	+21
NHB Funding used to support General Fund services	+0	+0	-174	+0	+0	+0	+0
Cost Reduction Plan							
2020 Star Chambers	-585	-144	-249	-215			
2021 Service reviews		-173	-93				
2022 Star Chambers				-688	-57	-38	
Homelessness savings target				-243			
EEPIC Dividend	-100			-100	-26	-27	-27
Cost Reduction Plan	-685	-317	-342	-1,246	-83	-65	-27

	MTFS				FORECAST		
FOUR YEAR BUDGET PROFILES	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Contributions from Reserves/Provisions							
Funding from business rates equalisation reserve	+1,380	-308	-459	-1,085		-150	-100
Contribution from Property Income Equalisation Reserve			-755	-1,127			
Funding of increased homelessness from Flexible Housing Support Grant	-116	-116					
Funding from Corporate Projects Reserve		-306	-262	-166	-266		
	+1,264	-730	-1,476	-2,378	-266	-150	-100
Fees and Charges							
Increased yield on discretionary Fees and Charges	-290	-164	-238	-417	-442	-469	-238
	-290	-164	-238	-417	-442	-469	-238
Interest on Balances (excludes interest credited to strategic reserves)							
Average level of investments							
Investments (average)	13,000	14,000	16,000	18,000	20,750	22,000	20,750
Interest rate used (supplemented by interest equalisation reserve)	1.00%	0.75%	1.50%	4.00%	4.00%	4.00%	4.00%
Total Interest Forecast	-130	-105	-240	-720	-830	-880	-830
Add: Use of interest equalisation reserve	0	0	0	0	0	0	0
Interest credited to General Fund to Finance Services	-130	-105	-240	-720	-830	-880	-830
SUMMARY OF FORECASTS							
Net Expenditure on Services before changes (Base Budget excluding use of interest on Balances and use of working balance)	8,328	8,609	9,447	10,517	11,394	11,342	11,746
Price Increases (inflation)	+590	+290	+806	+900	+657	+670	+683
Increases in costs / Reductions in income	+649	+1,029	+942	+1,642	-334	+148	+77
Changes to External Funding	+80	+0	-98	-2	+150	+119	+0
NHB Funding used to support General Fund services	+0	+0	-174	+0	+0	+0	+0
Cost Reduction Plan	-685	-317	-342	-1,246	-83	-65	-27
Contributions from Reserves/Provisions	+1,264	-730	-1,476	-2,378	-266	-150	-100
Fees and Charges	-353	-164	-238	-417	-442	-469	-238
Interest credited to General Fund to Finance Services	-130	-105	-240	-720	-830	-880	-830
Forecast Net Cost of Services	9,743	8,612	8,627	8,296	10,246	10,716	11,312
SETTLEMENT ASSESSMENT FUNDING FORECAST							
RSG	+0	+0	+0	+53	+53	+0	+0
Lower Tier Services Grant	+0	+60	+64	+0	+0	+0	+0
Covid-19 Support Grant	0	+304	+0	+0	+0	+0	+0
Retained Business Rates	1,617	1,652	1,606	1,659	1,692	1,243	1,268

	MTFS				FORECAST		
FOUR YEAR BUDGET PROFILES	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Actual	Budget	Forecast	Forecast	Forecast	Forecast
	£000	£000	£000	£000	£000	£000	£000
Small Business Rate Relief Grant	0	0	0	0	0	0	0
Services Grant	0	0	0	55	55		
CSP Minimum Guaranteed Funding	0	0	0	225	225	0	
Formula Grant / Business Rate Retention	1,617	2,016	1,670	1,992	2,025	1,243	1,268
Base Income from Council Tax	6,525	6,713	6,904	7,090	7,361	7,620	7,811
Increase in council tax base	+25	+27	+21	+57	+37	+38	+39
	6,550	6,740	6,925	7,147	7,398	7,658	7,850
Forecast for increase in Council Tax income (£5 per Band D Property)	+163	+164	+165	+214	+222	+153	+157
Council Tax Income Forecast	6,713	6,904	7,090	7,361	7,620	7,811	8,007
Surplus / (Deficit) on Retained Business Rates	1,402	-302	-180	-1,085	0	0	0
Council Tax Surplus / (Deficit)	11	-6	47	27	0	0	0
Assumed Collection Fund Income (Formula Grant + Council Tax)	9,743	8,612	8,627	8,296	9,645	9,054	9,275
Actual/Forecast Budget Shortfall (required use of working balance)	43	530	0	0	601	1,662	2,037
GENERAL FUND WORKING BALANCE PROJECTION: AFTER SERVICE COST REDUCTION							
Estimated Working Balance b/f	3,426	3,383	2,853	2,853	2,853	2,252	591
Resulting Working Balance c/f	3,383	2,853	2,853	2,853	2,252	591	-1,446

TREASURY MANAGEMENT STRATEGY 2023/24

Head of Service:	Brendan Bradley, Head of Finance
Wards affected:	(All Wards);
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
Appendices (attached):	<ol style="list-style-type: none">1. Treasury Management Strategy 2023/242. Summary of changes to the strategy from 2022/23

Summary

This report outlines the treasury management strategy for 2023/24, which includes prudential indicators for 2023/24 to 2025/26, the minimum revenue provision (MRP) policy, and the investment and borrowing strategy. It is a legislative requirement that these items be approved by Full Council.

Recommendation (s)

The Panel is asked to:

- (1) **Recommend to Full Council that the treasury management strategy, which includes the following, be approved:**
 - 1.1.1 **The treasury management strategy and the treasury prudential indicators contained therein;**
 - 1.1.2 **The capital prudential indicators and limits;**
 - 1.1.3 **The borrowing strategy contained within the treasury management statement;**
 - 1.1.4 **The annual investment strategy;**
 - 1.1.5 **The minimum revenue provision policy statement;**
 - 1.1.6 **The treasury management practices.**
- (2) **Advise whether any countries should be removed from the list of approved investable countries at section 7 of the treasury management strategy.**

1 Reason for Recommendation

- 1.1 The treasury management strategy and accompanying items have in previous years been presented directly to Full Council for approval. Following the LGA peer review, it was agreed that the strategy should be presented to Financial Policy Panel for review, prior to Full Council approval. It is a legal requirement that the items be approved at Full Council.

2 Background

- 2.1 The Council's treasury management strategy supports the achievement of the Council's medium term financial strategy.
- 2.2 The Council typically holds average cash balances of around £30m, but this fluctuates depending upon the level of reserves and changes in working capital balances. For 2023/24, the Council expects to generate £720,000 of investment income interest to finance Council services to the public.
- 2.3 The Council uses a recommended treasury management strategy template provided by Link Asset Services – Treasury Solutions, considered to be appropriate for local authorities.
- 2.4 An interim report on the performance of treasury investments for 2022/23 was presented to Audit & Scrutiny Committee on 17 November 2022, with treasury management training offered to all members on the same date.
- 2.5 The Council expects to continue to utilise a range of fixed term deposits, money market funds and interest bearing accounts, all with highly credit-rated institutions to ensure security of public funds. Money market funds are essential for liquidity, as cash can be withdrawn within hours to fund daily cash requirements (i.e. payments to suppliers etc).
- 2.6 The Council does not currently anticipate any new borrowing needs for the forthcoming year.
- 2.7 The Council follows treasury management practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Minimum Revenue Provision (MRP) Policy

- 2.8 MRP is an annual charge made against the revenue budget to set-aside funds (in the capital adjustment account reserve) to eventually repay the principal element of borrowing incurred when previously acquiring commercial properties. MRP is largely defined by regulation and aims to ensure that councils do not have fully utilised/depreciated assets that have associated debt outstanding.

- 2.9 The MRP policy determines the method used by councils to set-aside these statutory sums from the revenue budget. There are two main methods available;
 - 2.9.1 Straight line method– the same fixed MRP charge is made each year over the estimated asset life (typically 50 years).
 - 2.9.2 Asset life annuity method - MRP is calculated in a similar way as the capital element of a fixed rate repayment mortgage, i.e. the repayment is lower in early years, but steadily increases over the asset life (also typically 50 years).
- 2.10 At EEBC, the Council has adopted the annuity method to align asset financing costs with the expected benefits generated by the assets. That is to say, rental income from properties should on average gradually increase by inflation over 50 years, and be sufficient to fund an increasing MRP charge over the same period.

3 Proposals

- 3.1 The Panel is asked to recommend for approval each of the key elements of this report:
 - 3.1.1 The capital prudential indicators and limits contained within the treasury management strategy;
 - 3.1.2 The treasury management strategy and the treasury prudential indicators contained therein;
 - 3.1.3 The borrowing strategy contained within the treasury management statement;
 - 3.1.4 The annual investment strategy;
 - 3.1.5 The minimum revenue provision (MRP) policy statement;
 - 3.1.6 The treasury management practices.

4 Risk Assessment

Legal or other duties

- 4.1 Equality Impact Assessment
 - 4.1.1 None arising from the contents of this report.
- 4.2 Crime & Disorder
 - 4.2.1 None arising from the contents of this report.
- 4.3 Safeguarding

4.3.1 None arising from the contents of this report.

4.4 Dependencies

4.4.1 None arising from the contents of this report.

4.5 Other

4.5.1 There is always an element of risk in investment, which is limited by applying stringent criteria to counterparty selection.

5 Financial Implications

5.1 **Section 151 Officer's comments:** Income earned by investing cash balances makes a significant contribution towards funding services. In 2023/24, the Council has budgeted to generate £720,000 investment income to fund services; the treasury management strategy supports the achievement of this income target, while managing investment risks to ensure security of the Council's funds.

6 Legal Implications

6.1 It is a requirement that the items in this report be approved by Full Council.

6.2 **Legal Officer's comments:** None arising from the contents of this report.

7 Policies, Plans & Partnerships

7.1 **Council's Key Priorities:** The following key priorities are engaged: Effective Council.

7.2 **Service Plans:** The matter is included within the current Service Delivery Plan.

7.3 **Climate & Environmental Impact of recommendations:** No direct implications arising from the contents of this report.

7.4 **Sustainability Policy & Community Safety Implications:** No direct implications arising from the contents of this report.

7.5 **Partnerships:** No direct implications arising from the contents of this report.

8 Background papers

8.1 The documents referred to in compiling this report are as follows:

Previous reports:

- Financial Regulations Review – Full Council, 15 February 2022

- Budget Report 2022/23 – Full Council, 15 February 2022

Other papers:

- Treasury Management Interim Report 2022/23 – Audit & Scrutiny, 17 November 2022

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Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and
Annual Investment Strategy

2023/24

1.INTRODUCTION

1.1 Background

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 low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is 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.

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 the pursuit of optimum performance consistent with those risks."

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.

1.2 Reporting requirements

1.2.1 Capital Strategy

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

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

The aim of the capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

The capital strategy is reported separately from this Treasury Management Strategy Statement.

1.2.2 Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

- a. **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 (MRP) policy, (how residual capital expenditure is charged to revenue over time);
 - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
 - an annual investment strategy, (the parameters on how investments are to be managed).
- b. **A mid-year treasury management report** (presented to Audit & Scrutiny Committee) – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- c. **An annual treasury report** (presented to Audit and Scrutiny Committee) – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

It is the responsibility of Full Council to approve the Treasury Management Strategy, following consideration of the strategy by Financial Policy Panel.

The Council has delegated responsibility for monitoring treasury management performance (the mid-year and annual performance reports above) and policies to Audit & Scrutiny Committee.

1.3 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (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
- the 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 DLUHC Investment Guidance.

1.4 Training

The CIPFA 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. In order to meet this requirement, during the last year, all members including Audit & Scrutiny have had the opportunity to receive a training presentation from the Council's external treasury management advisors, Link Group Treasury Solutions and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The Council uses Link Group, Treasury solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services 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.

2 THE CAPITAL PRUDENTIAL INDICATORS 2023/24 – 2025/26

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.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure	2021/22	2022/23	2023/24	2024/25	2025/26
£000	Actual	Estimate	Estimate	Estimate	Estimate
Strategy & Resources	333	721	250	250	290
Environment & Safe Communities	873	1,173	451	135	175
Community & Wellbeing	529	2,002	1,013	785	885
Licensing & Planning Policy	0	0	0	0	0
Total services	1,735	3,896	1,714	1,170	1,350
Residential property fund	228	0	1,017	0	0
Commercial property fund*	0	0	49,569	0	0
Total	1,963	3,896	52,300	1,170	1,350

* The Council retains the in-Borough commercial property investment fund – for regeneration purposes – which has a remaining balance available for investment of £49.6m, from the original fund balance of £80m. The fund was established by the Council across 2016/17 and 2017/18 and can be financed from prudential borrowing.

For the purposes of forecasting, the full £49.6m balance is projected to be spent in 2023/24, however, actual expenditure will depend on the timing of when suitable acquisitions are identified. It is possible that should a suitable property be identified in the current financial year, expenditure will be incurred in 2022/23. This possibility is reflected in the prudential indicators for the operational boundary and authorised debt limit.

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

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

Capital expenditure	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Core capital programme	1,735	3,896	1,714	1,170	1,350
Residential property fund	228	0	1,017	0	0
Commercial property fund	0	0	49,569	0	0
Total Expenditure	1,963	3,896	52,300	1,170	1,350
Financed by:					
Capital receipts	229	973	348	0	0
Capital grants (inc DFG)	455	1,579	785	785	785
S106 and CIL	881	910	80	0	0
Revenue	398	434	1,518	385	565
Total Financing	1,963	3,896	2,731	1,170	1,350
Net financing need for the year	0	0	49,569	0	0

2.2 The Council's borrowing need (the Capital Financing Requirement)

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 and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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

The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £2.287m of such assets within the CFR. The Council is asked to approve the CFR projections below:

Capital Financing Requirement	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Opening CFR	90,277	88,895	87,456	135,561	133,533
Unfinanced capex - commercial properties	0	0	49,569	0	0
Finance Leases	34	0	0	0	0
Less MRP	(1,416)	(1,439)	(1,464)	(2,028)	(2,101)
Closing CFR	88,895	87,456	135,561	133,533	131,432
Movement in CFR	(1,382)	(1,439)	48,105	(2,028)	(2,101)

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall

financial position. The capital expenditure figures shown in 2.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

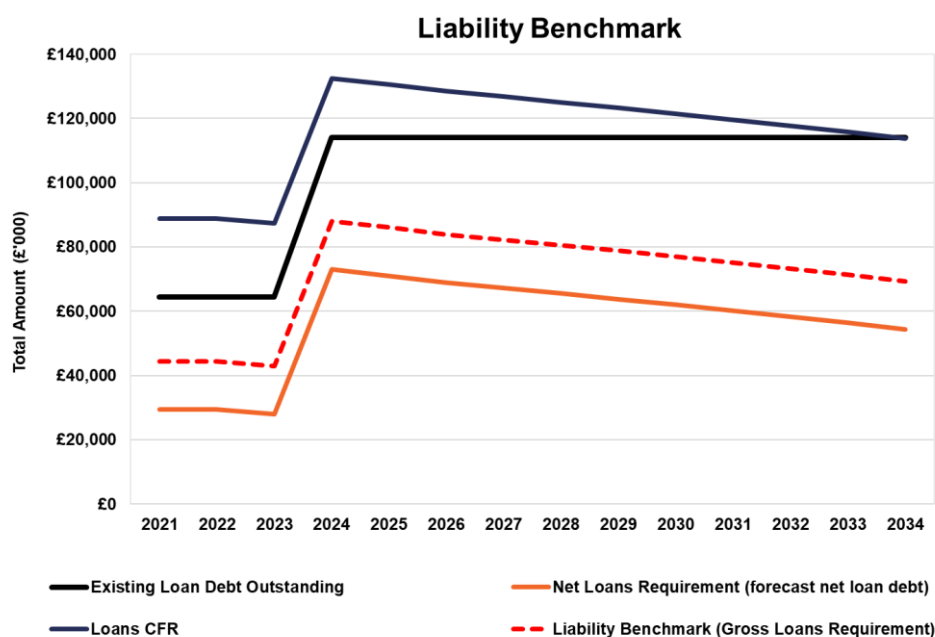
2.3 Liability Benchmark

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

There are four components to the LB: -

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

This Council's forecast liability benchmark is shown for the next ten years in the following chart:



2.4 Core funds and expected investment balances

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

Year End Resources	2021/22	2022/23	2023/24	2024/25	2025/26
£'000	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Fund balances / reserves	2,853	3,096	3,096	3,096	3,096
Capital receipts	3,821	3,480	3,132	3,132	3,132
Earmarked revenue reserves	23,255	12,652	12,652	12,652	12,652
CIL	9,320	8,075	9,375	10,675	11,975
S106 funds	2,311	1,594	1,594	1,594	1,594
Total core funds	41,560	28,897	29,849	31,149	32,449
Working capital*	7,000	7,000	7,000	7,000	7,000
(Under)/over borrowing	(22,181)	(22,180)	(22,180)	(22,181)	(22,181)
Expected investments	26,379	13,717	14,669	15,968	17,268

*Working capital balances shown are estimated year-end; these may vary.

2.5 Minimum revenue provision (MRP) policy statement

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

DLUCH regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For all unsupported borrowing (including finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations.

This method provides for a reduction in the borrowing need over approximately the asset's life.

Repayments included in annual finance leases are applied as MRP.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. 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 this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2022 and the position as at 30 November 2022 are shown below for both borrowing and investments.

Treasury Portfolio	Actual at 31 March 2022		At 30 November 2022	
	£000	%	£000	%
Treasury Investments				
Banks & Building Societies	10,000	29%	30,000	81%
Money Market Funds	25,000	71%	7,200	19%
Total Managed In House	35,000	100%	37,200	100%
Aberdeen Asset Management Fund	0	0%	0	0%
Total Managed Externally	0	0%	0	0%
Total Treasury Investments	35,000	100%	37,200	100%
Treasury External Borrowing				
PWLB	64,427	100%	64,427	100%
Total External Borrowing	64,427	100%	64,427	100%
Net treasury investments / (borrowing)	-29,427	-	-27,227	-

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

£'000	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
External Debt					
	£'000	£'000	£'000	£'000	£'000
Debt at 1 April	90,277	88,895	87,456	135,561	133,533
Expected change in debt	0	0	49,569	0	0
Other long-term liabilities	0	0	0	0	0
Less MRP	(1,416)	(1,439)	(1,464)	(2,028)	(2,101)
Less use of internal funds	(22,181)	(22,181)	(22,181)	(22,181)	(22,181)
Actual gross debt at 31 March including finance leases	66,714	65,275	113,380	111,352	109,251
The Capital Financing Requirement	88,895	87,456	135,561	133,533	131,432
(Under)/over borrowing**	(22,181)	(22,180)	(22,180)	(22,181)	(22,181)

Within the above figures the level of debt relating to commercial activities / non-financial investment is:

	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
External Debt for commercial property fund (i.e. excluding finance lease debt)					
Actual debt at 31 March £m	64,427	64,427	112,532	110,504	108,403
Percentage of total external debt %	97	99	99	99	99

Within the range of 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 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £'000	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
Debt relating to commercial property fund	90,277	88,895	137,025	135,561	133,533
Other long term liabilities	2,287	1,877	1,467	1,028	556
Total	92,564	90,772	138,493	136,589	134,089

The operational boundary and authorised debt limits provide for the possibility that the remaining £49.6m balance within the Council's Commercial Property Acquisition Fund could be spent in 2023/24 if suitable properties are identified.

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

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit £'000	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
Debt relating to commercial property fund	90,277	145,000	145,000	145,000	145,000
Other long term liabilities	2,287	3,000	3,000	3,000	3,000
Total	92,564	148,000	148,000	148,000	148,000

3.3 Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 08 November 2022. These are forecasts for certainty rates, gilt yields plus 80bps:

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. In addition, counterparty risk is an issue that needs to be considered.

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

- * *if it was felt that there was a significant risk of a sharp FALL in borrowing rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing would be postponed.*
- * *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

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

3.5 Policy on borrowing in advance of need

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

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

3.6 Debt rescheduling

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

If rescheduling was done, it would be reported to the appropriate Committee at the earliest meeting

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

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, (Appendix 10).

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”)
- CIPFA Treasury Management Guidance Notes 2021

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

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

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the 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.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of ‘specified’ and ‘non-specified’ investments.
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.
 - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of 50%
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
7. **Transaction limits** are set for each type of investment in 4.2.
8. This authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
10. This authority has engaged **external specialists** to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.

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

4.2 Creditworthiness policy

This Authority applies the creditworthiness service provided by the 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: -

1. "watches" and "outlooks" from credit rating agencies;
2. CDS spreads that may give early warning of changes in credit ratings;
3. sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority 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 Bond 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

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

Typically, the minimum credit ratings criteria the Authority uses will be a short-term rating (Fitch or equivalents) 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.

All credit ratings will be monitored. The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Authority will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long-term rating where applicable)	Money limit	Transaction limit	Time limit
Banks	Yellow	£5m	£5m	5 yrs
Banks	Purple	£5m	£5m	2 yrs
Banks	Orange	£5m	£5m	1 yr
Banks – part nationalised	Blue	£5m	£5m	1 yr
Banks	Red	£5m	£5m	6 mths
Banks	Green	£5m	£5m	100 days
Banks	No Colour	Not to be used	Not to be used	
Limit 3 category – Authority's banker (where "No Colour")	Natwest	£5m	£5m	1 day
Other institutions limit – Building Societies	-	£5m	£5m	1 yr
DMAF	UK sovereign rating	unlimited	£5m	6 mths
Local authorities	n/a	£5m	£5m	1 yr
Housing associations	Colour bands	£5m	£5m	As per colour band

	Fund rating	Money Limit		Time Limit
Money Market Funds CNAV	AAA	£5m	£5m	liquid
Money Market Funds LVNAV	AAA	£5m	£5m	liquid
Money Market Funds VNAV	AAA	£5m	£5m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark Pink / AAA	£5m	£5m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.50	Light Pink / AAA	£5m	£5m	liquid

The proposed criteria for specified and non-specified investments are shown in section 6.

Creditworthiness.

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

CDS prices

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

4.3 Other limits

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

- a) **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 50% of the total treasury management investment portfolio.
- b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-** from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in section 7. This list may be added to, or deducted from, by officers should ratings change in accordance with this policy.
- c) **Other limits.** In addition:
 - no more than 50% will be placed with any non-UK country at any time;
 - limits in place above will apply to a group of companies;
 - sector limits will be monitored regularly for appropriateness.

4.4 Investment strategy

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

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

Investment returns expectations.

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to reach 4.5% in Q2 2023.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year, (based on a first increase in Bank Rate in quarter 2 of 2022), are as follows.:

Average earnings in each year	
2022/23 (remainder)	3.95%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

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

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, in order to benefit from the compounding of interest

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.

The Council is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	2023/24	2024/25	2025/26
Principal sums invested for longer than 365 days	£10m	£10m	£10m
Current investments as at 31/12/22 in excess of 1 year maturing in each year	£0m	£0m	£0m

4.5 Investment performance

Following the cessation in 2021 of LIBOR and the associated 7 day LIBID, which was previously used to benchmark the Council's treasury investment performance, the new benchmark is recommended to be 7 day SONIA (Sterling Overnight Index Average) rate. This is the risk-free rate for sterling markets administered by the Bank of England.

SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. The now-defunct LIBOR had been based on estimated rates.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Management Performance report to Audit & Scrutiny Committee, in line with the Constitution.

4.7 External fund managers

Currently (31/12/22) the Council has no funds deposited with its external fund manager, Aberdeen Asset Management. However, when the external fund manager is utilised, they will comply with the Annual Investment Strategy. The agreement between the Council and the fund manager additionally stipulates guidelines on duration and other limits to contain and control risk.

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.

5.1.1 Capital expenditure

Capital expenditure	2021/22	2022/23	2023/24	2024/25	2025/26
£000	Actual	Estimate	Estimate	Estimate	Estimate
Strategy & Resources	333	721	250	250	290
Environment & Safe Communities	873	1,173	451	135	175
Community & Wellbeing	529	2,002	1,013	785	885
Licensing & Planning Policy	0	0	0	0	0
Total services	1,735	3,896	1,714	1,170	1,350
Residential property fund	228	0	1,017	0	0
Commercial property fund	0	0	49,569	0	0
Total	1,963	3,896	52,300	1,170	1,350

5.1.2 Affordability prudential indicators

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

Ratio of financing costs to net revenue stream

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

%	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
Ratio	12%	10%	18%	32%	30%

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

5.1.3 Maturity structure of borrowing

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.

The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2023/24

	Lower	Upper
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	20%
5 years to 10 years	0%	20%
10 years to 20 years	0%	20%
20 years to 30 years	0%	20%
30 years to 40 years	0%	20%
40 years to 50 years	0%	100%
Maturity structure of variable interest rate borrowing 2023/24		
	Lower	Upper
Under 12 months	0%	0%
12 months to 2 years	0%	0%
2 years to 5 years	0%	0%
5 years to 10 years	0%	0%
10 years to 20 years	0%	0%
20 years to 30 years	0%	0%
30 years to 40 years	0%	0%
40 years to 50 years	0%	0%

5.1.4. Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2 INTEREST RATE FORECASTS 2022-2025

Please see paragraph 3.3.

5.3 ECONOMIC BACKGROUND

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

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

	UK	Eurozone	US
Bank Rate	3.0%	1.5%	3.75%-4.00%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	11.1%y/y (Oct)	10.0%y/y (Nov)	7.7%y/y (Oct)
Unemployment Rate	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

6 TREASURY MANAGEMENT PRACTICES (TMPs)

6.1 TMP1 – CREDIT AND COUNTERPARTY RISK MANAGEMENT

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

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 13/04/2012 and will apply its principles to all investment activity. In accordance with the Code, the Chief Finance Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

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

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months once the remaining period to maturity falls to under 12 months. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, housing association, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, that have been awarded a high credit rating by Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum Short Term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies, as disclosed in the investment strategy in section 4.

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

	Non-Specified Investment Category	Limit (£ or %)
a.	<p>Supranational bonds greater than 1 year to maturity</p> <p>(a) Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.).</p> <p>(b) A financial institution that is guaranteed by the United Kingdom Government (e.g. National Rail)</p> <p>The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	<p>AAA long term ratings, 50% of money invested through external fund manager. Restriction of 5yrs maximum maturity</p>
b.	<p>Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	<p>50% of money invested through external fund manager. Restriction of 10yrs maximum maturity</p> <p>50% of money invested through external fund manager. Restriction of 10yrs maximum maturity</p>
c.	<p>The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.</p>	<p>In this instance balances will be minimised as far as is possible.</p>
d.	<p>Building societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although</p>	<p>£5m per institution.</p>

	in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which have a minimum asset size of £1bn but will restrict these type of investments to 12 months.	
e.	Any bank or building society that has a minimum long term credit rating of A-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	Maximum of 50% on investments over 1yr
f.	Any non-rated subsidiary of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to the parent bank providing an appropriate guarantee and meeting the ratings outlined above.	£5m per institution.
g.	Share and loan capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. See note 1 below.	Maximum £5m per institution, subject to minimum rating of AA- (long term). The exception is Epsom & Ewell Property Investment Company Limited (EEPIC) - Council has separately authorised share capital and loans to EEPIC.

NOTE 1. This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

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

Use of external fund managers – It is the Council's policy to use external fund managers for part of its investment portfolio when required. The fund managers will use both specified and non-specified investment categories and are contractually committed to keep to the Council's annual investment strategy.

The Council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Council is provided with a suite of regular reporting from its manager.

6.2 TMP2 Performance measurement

The Council has a number of approaches to evaluating treasury management decisions: -

- a. Monthly reviews carried out by the treasury management team.
- b. Reviews with our treasury management consultants & external fund manager.
- c. Annual review after the end of the year as reported formerly to Audit & Scrutiny Committee.
- d. Half yearly monitoring reported to Audit & Scrutiny Committee.
- e. Quarterly budget monitoring reports to Audit & Scrutiny Committee.

The treasury management team holds reviews with our consultants every 6 months to review the performance of the investment and debt portfolios.

An Annual Treasury Report is submitted to Audit & Scrutiny each year after the close of the financial year, which reviews the performance of the investment portfolio. This report contains the following: -

- a. average investments held during the financial year and average interest rates
- b. investment strategy for the year compared to actual strategy
- c. explanations for variance between original strategies and actual
- d. comparison of return on investments to the investment benchmark
- e. compliance with Prudential and Treasury Indicators

The performance of investment earnings will be measured against the following benchmarks: -

- a. In house investments
7 day SONIA
- b. External fund manager
7 day SONIA

Epsom & Ewell Borough Council's policy is to appoint external investment fund managers to manage a proportion of its cash and will comply with the Local Authorities (Contracting Out of Investment Functions) Order 1996 [SI 1996 No 1883].

The delegation of investment management to external managers will entail the following:

- Formal contractual documentation;
- Agreement on terms for early termination of the contract;
- Setting of investment instruments, constraints/parameters/conditions
- Setting of investment counterparty limits;
- Setting a performance measurement benchmark and a performance target;
- Frequency of performance reporting;

- Frequency of meetings with investment managers;

The Code of Practice places an obligation on the Council to monitor the performance of the fund managers. This Council has appointed Link Asset Services to assist in this respect.

6.3 TMP3 Decision – making and analysis

Epsom & Ewell Borough Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the scheduled to this document.”

The Treasury team will ensure that the following records will be retained: -

- Daily cash balance forecasts
- Money market rates obtained by telephone from brokers
- Dealing slips for all money market transactions
- Brokers’ confirmations for investment transactions
- Confirmations from borrowing institutions where deals are done directly
- Contract notes received from fund manager
- Fund manager valuation statements

Processes to be pursued:

- Cash flow analysis
- Investment maturity analysis
- Ledger reconciliation
- Performance management information

6.4 TMP4 Approved instruments, methods and techniques

Epsom & Ewell Borough Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Strategy and within the limits and parameters defined.

6.5 TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements

Allocation of responsibilities

(i) Full Council

- approval of annual treasury management strategy.

(ii) Financial Policy Panel

- reviewing and advising on the treasury management strategy prior to approval at Full Council

(iii) Audit & Scrutiny Committee

- receiving and reviewing reports on treasury management policies, performance and activities
- approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- receiving and reviewing annual monitoring reports and acting on recommendations
- receiving and reviewing half yearly and annual performance monitoring report and acting on recommendations

(iv) Chief Finance Officer

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

Principles and Practices Concerning Segregation of Duties

The following duties must be undertaken by separate officers: -

Dealing	Negotiation and approval of deal. (Dealer 1) Production of transfer note. (Dealer 1)
Bank	Entry of transaction onto bank (Finance Officer)
Authorisation/Payment of Deal	Approval and payment. (Dealer 2)
Accounting Entry	Processing of accounting entry (Exchequer Team) Reconciliation of cash control account. (Exchequer Team)
Bank	Bank reconciliation (Exchequer Team)

Statement of the treasury management duties/responsibilities of each treasury post

The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Chief Finance Officer. This person will carry out the following duties: -

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports

- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.
- The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
- The responsible officer may delegate his power to borrow and invest to members of his staff. The finance must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave/sickness.
- The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
- Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations
- It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

The Chief Accountant

The responsibilities of this post will be: -

- a) execution of transactions
- b) adherence to agreed policies and practices on a day-to-day basis
- c) maintaining relationships with counterparties and external service providers
- d) supervising treasury management staff
- e) monitoring performance on a day-to-day basis
- f) submitting management information reports to the responsible officer
- g) identifying and recommending opportunities for improved practices

The Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

- a) Ensuring that the system is specified and implemented
- b) Ensuring that the responsible officer reports regularly on treasury policy, activity and performance.

The Monitoring Officer

The responsibilities of this post will be: -

- a) Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law.
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- c) Giving advice to the responsible officer when advice is sought.

Internal Audit

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and treasury management practices.
- b) Reviewing division of duties and operational practice.
- c) Assessing value for money from treasury activities.
- d) Undertaking probity audit of treasury function.

Absence Cover Arrangements

Four officers within the Finance Team have the authority to place deals, with a further three officers able to input trades onto the system ready for authorisation.

Dealing

The following posts are authorised to deal and/or input trades: -

- Head of Finance
- Chief Accountant
- 2 Senior Accountants
- 3 Accountants

6.6 TMP6 Reporting requirements and management information arrangements

Epsom & Ewell Borough Council will ensure that regular reports are prepared and considered on the implementation of its treasury managements policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implementations of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, members will receive:

- an annual report on the strategy and plan to be pursued in the coming year, to Full Council

- a mid-year review on the current performance of the treasury management function, to Audit & Scrutiny Committee
- an annual report on the performance of the treasury management function, to Audit & Scrutiny Committee, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

6.7 TMP7 Budgeting, accounting and audit arrangements

The Chief Finance Officer will prepare, and Epsom & Ewell Borough Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management functions, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Best value and performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangement*.

Epsom & Ewell Borough Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

Epsom & Ewell Borough Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

6.8 TMP8 Cash and cash flow management

Cash flow projections are prepared annually and updated daily. The annual cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the Chief Finance Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring.

6.9 TMP9 Money Laundering

Epsom & Ewell Borough Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.

6.10 TMP10 Staff training and qualifications

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

- a) Treasury management staff employed by the Council
- b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time.

Additionally, training may also be provided on the job and it will be the responsibility of the Chief Finance Officer to ensure that all staff under his authority receive the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

Details of Approved Training Courses

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, money brokers etc.

Statement of Professional Practice (SOPP)

1. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.
2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

6.11 TMP11 Use of external service providers

Epsom & Ewell Borough Council recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also 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. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies.

6.12 TMP12 Corporate governance

Epsom & Ewell Borough Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

The following documents are available for public inspection: -

- Treasury Management Strategy

- Annual Investment Strategy

- Minimum Revenue provision policy statement

- Annual Treasury Review Report

- Treasury Management monitoring reports (e.g. half yearly)

- Annual accounts and financial instruments disclosure notes

- Annual budget

- Capital Strategy

- Minutes of Council / committee meetings

7 Approved Countries for Investments

This list is based on those countries which have sovereign ratings of AA- or higher at 02/12/2022, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar
- U.K.

8 The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer is responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

9 Summary of Changes to Treasury Management Strategy for 2023/24

A large proportion of the Treasury Management Strategy remains the same as last year but this section highlights any significant changes made on the previous year's Strategy.

The Prudential Indicators in Section 2 of the Strategy have been updated to reflect the latest figures approved by Council, including the addition of a new Liability Benchmark indicator required by CIPFA from 2023/24.

The Annual Investment Strategy has been updated to reference the Link creditworthiness service, which employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poor's – to be used by officers when assessing potential investments.

Section 4 has been updated to reflect the cessation of LIBOR and the associated 7 day LIBID, which had previously been used to benchmark the Council's treasury investment performance. The new recommended benchmark is the 7 day SONIA rate, which is the risk-free rate for sterling markets administered by the Bank of England.

SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. The now-defunct LIBOR had been based on estimated rates.

Section 5 provides a brief economic update from our independent financial advisors, Link Group.

Section 7 provides a list of approved countries for investment. Based on the recommendation of our treasury management advisers, Hong Kong and Luxembourg have been removed from the list for 2023/24.

Appendix 2 – Summary of Changes to Treasury Management Strategy for 2023/24

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REVIEW OF RESERVES

Head of Service:	Lee Duffy, Chief Finance Officer
Wards affected:	(All Wards);
Urgent Decision?	No
If yes, reason urgent decision required:	N/A
Appendices (attached):	1 – Reserve policies and recommended minimum balances

Summary

This report presents a review of reserves and recommends minimum reserve balances to ensure sound management of the Council's finances.

Recommendation (s)

The Panel is asked to:

- (1) Consider and review whether the overall level of reserves and contingencies are appropriate for the sound management of the Council's finances;**
- (2) Review the individual reserve and contingency balances and consider whether to support the recommended minimum balances in the report.**

1 Reason for Recommendations

- 1.1 The recommendations will ensure that the Council maintains an appropriate level of reserves for the sound management of the Council's finances.

2 Background

- 2.1 The Medium Term Financial Plan 2020-24 (MTFP), including the Medium Term Financial Strategy (MTFS), was approved by Full Council in February 2020 following a review of the Council's financial standing.
- 2.2 The MTFS includes the following objectives for budgets, revenue reserves and investment:
 - 2.2.1 Produce a balanced revenue budget each year;
 - 2.2.2 Maintain a prudent level of strategic reserves and a minimum balance of £1m in the corporate projects reserve;

- 2.2.3 Utilise reserves proactively to manage major risks to the Council's finances;
- 2.2.4 Maintain a minimum working balance of £2.5m at 31 March 2024.
- 2.2.5 Maintain a minimum uncommitted level of capital reserves of £1m at 31 March 2024.
- 2.3 The MTFP presented a trend analysis of the Council's revenue and capital reserves from 2012 to 2019 and an overview of reserves held at March 2019.
- 2.4 Since the MTFP was approved in February 2020, the Council's finances have been subjected to an unprecedented level of uncertainty initially due to Covid-19 and subsequently due to other external economic factors including the elevated inflation/interest rate environment. These pressures have increased the level of financial risk faced by the Council. It is therefore important to understand the level of reserves held, as reserves are increasingly likely to be required in the coming years.
- 2.5 The purpose of this report is to review the current level of reserves; to understand the known risks facing the Council; and to recommend a minimum level of reserves to be held.

3 Reserves

- 3.1 In local government, reserves play a crucial role in sound financial management. They typically exist to enable councils to invest in service transformation for the future, or to respond to unexpected events or emerging needs.
- 3.2 Reserves have been built up by EEBC over a number of years, mainly either through accumulated surplus of income over expenditure or one-off grants.
- 3.3 Reserves held by EEBC are distinguished between general fund and capital; there is clear guidance and statutory rules for how these two different types of reserves can be applied.
 - 1. General Fund Revenue Reserves
- 3.4 The Council's general fund accounts for the day-to-day running of Council services. General fund reserves can be applied to fund revenue expenditure and can also be used to fund capital expenditure.
- 3.5 However, these reserves should not be utilised as a source of long-term funding for day-to-day revenue expenditure on an ongoing basis; this would be unsustainable as the reserves would eventually deplete.
- 3.6 General fund reserves can be split into three sub-categories:

3.6.1 Reserves available for use;

3.6.2 Contingencies unavailable for general use;

3.6.3 Ringfenced funds/grants for specific purposes.

1A. Reserves Available for Use

- 3.7 This category includes the working balance, which accounts for the day to day running of Council services and is maintained to safeguard against potential financial risks beyond those for which specific contingencies have been created.
- 3.8 The corporate projects reserve is also available to fund one-off corporate priority projects.
- 3.9 These reserves can be used to fund most types of expenditure and are presently relied upon to support the Council in managing its way to delivering a sustainable annual revenue budget that requires no underlying use of reserves to balance.

1B. Contingencies Unavailable for General Use

- 3.10 Contingencies unavailable for general use are amounts set aside to manage key material risks faced by the Council. For each contingency, the purpose and usage is clearly defined.
- 3.11 Contingencies are necessary to manage elevated risks around the present funding sources for services, compared to pre-2010. In particular, compared to 2010 the Council is now far more reliant on higher risk income from investment properties and fees and charges to fund services. These higher risk income streams replaced previously 'guaranteed/lower risk' grant funding from central government, which was cut significantly across the 2010's.
- 3.12 The pandemic and current economic environment have also created a significant demand on reserves to fund permanently reduced income from some services and assets (such as car parks), as identified in the budget re-basing exercise reported to S&R in July 2022. For 2023/24 the Council expects to transfer c£0.5m from reserves to cover the revenue budget deficit. Furthermore, across 2022/23 and 2023/24, the Council will be required to fund the c£7m collection fund deficit that arose during 2020/21.

1C. Ringfenced Funds/Grants for Specific Use

- 3.13 Ringfenced funds are reserves that the Council has previously agreed to set aside for a specific policy purpose, for example the Residential Property Acquisition Fund. Where it is a local decision to ringfence funds, Council can decide to un-ringfence funds if the specific policy purpose is no longer a priority or has been achieved.

3.14 This category also includes specific external grants, which were received with conditions attached requiring them to be used for a specific purpose/service.

3.15 The following table shows a breakdown of all general fund revenue reserves which hold a forecast balance of £15.7m after taking existing commitments into account.

General Fund Revenue Reserves	Balance at 31 March 2021	Balance at 31 March 2022	Commitment & Forecast Transfers	Forecast Balance
	£'000	£'000	£'000	£'000
General Fund Working Balance	3,383	2,853	243	3,096
Corporate Projects Reserve	5,073	4,130	(1,972)	2,158
Sub-Total - Reserves available for general use	8,456	6,983	(1,729)	5,254
Repairs and Renewals	390	456	(59)	397
Insurance	443	434	(20)	414
Property Maintenance	548	689	(186)	503
VAT Reserve	199	206	0	206
Collection Fund Equalisation Reserve	9,306	5,158	(4,356)	802
Commutated Sums	1,447	1,439	0	1,439
Property Income Equalisation Reserve	5,495	8,459	(3,541)	4,918
Sub-Total - Contingencies unavailable for general use	17,828	16,841	(8,162)	8,679
Residential Property Acquisition Fund	1,066	1,017	0	1,017
Community Safety	108	104	0	104
Sports & Leisure Development Projects Fund	87	76	0	76
Place Development Grants	88	225	(225)	0
Personalisation, Prevention & Partnership	73	73	0	73
Housing/Homelessness Support Grants	404	332	(104)	228
HIA Hardship Fund	124	124	0	124
Basic Payments Scheme	142	142	0	142
Covid Grants Reserve	121	163	(140)	23
Other smaller grants	38	28	0	28
Sub-Total - Ringfenced funds/grants for specific use	2,251	2,284	(469)	1,815
Total Revenue Reserves	28,535	26,108	(10,360)	15,748

3.16 Of the revenue reserves, the Council has forecast commitments to use £10.4m, commitments over £40k are summarised in the following table:

Description	Date agreed/reported	Commitment £'000	Funded from
Forecast Underspend on General Fund 2022/23	Quarter 2 Budget Monitoring - Audit & Scrutiny, November 2022	-243	General Fund Working Balance
Funding the revenue budget 2022/23 to 2024/25	2022/23 - Full Council, February 2022 2023/24 to 2024/25 - S&R, January 2023	694	Corporate Projects Reserve
Building Control service changes	S&R, September 2021 and July 2022	45	Corporate Projects Reserve
Interim Chief Executive support	S&R, July 2022	50	Corporate Projects Reserve
Additional planning resources and appeals budget	S&R, July 2021 and January 2022	213	Corporate Projects Reserve
Income Generation Opportunity	S&R, November 2022	40	Corporate Projects Reserve
Resources for Local Plan	S&R, March 2021 (and earlier committees)	764	Corporate Projects Reserve
Feasibility Studies for property and investment opportunities	S&R, March 2021 & October 2020	128	Corporate Projects Reserve
Other smaller committed sums - corporate projects reserve	S&R, Financial Outturn report July 2022	38	Corporate Projects Reserve
Deficit on business rates 2021/22 and 2022/23; forecast budget contributions to 2025/26	Full Council, February 2022 Full Council, February 2023	4,356	Collection Fund Equalisation Reserve
Dilapidations receipt for commercial property	S&R, May 2022	1,700	Property Income Equalisation Reserve
Contributions to offset reduced property rental income	Full Council, February 2022 Full Council, February 2023	1,841	Property Income Equalisation Reserve
Place Development Grants	LPPC, May 2022	225	Place Development Grants
Household Support Fund and £150 Energy Rebate Administration	Government grants to deliver support schemes in 2022/23	140	Covid Grants Reserve
Support increased numbers of homelessness	Full Council, February 2022	104	Homeless Reduction Grants
2022/23 Property Maintenance Programme	S&R, January 2022	186	Property Maintenance Reserve
Other smaller committed sums		79	Repairs & Renewals and Insurance Reserves
Total – Committed Use of Revenue Reserves		10,360	Revenue Reserves

2. Capital Reserves

- 3.17 Capital receipts reserves are only available to finance future capital expenditure.
- 3.18 Capital reserves are used to invest in services/assets and are monitored closely along with other funding sources, such as community infrastructure levy (CIL) and section 106 planning funds, in quarterly reports to Audit & Scrutiny Committee.

4 Review of Revenue Reserves

- 4.1 The Council underwent a Local Government Association (LGA) Finance Peer Review 2021. The peers' report in May 2021 made specific reference to the Council's reserves position, as follows:
- 4.2 *"The Council's track record for financial management and a healthy overall level of revenue reserves, the Council also demonstrates a positive overview from the CIPFA resilience index for 2019/20.*
- 4.3 *Arriving into this COVID period in a healthy financial position has helped the Council significantly. Thanks to the way in which the Council has managed its finances over a number of years, this reserves position has also afforded the Council an opportunity to take a considered, strategic approach to recovery/renewal. The time afforded to the Council from this reserves position is limited as it is made possible only through the use of reserves to support revenue expenditure, which the Council recognises can be used only once."*
- 4.4 This feedback from the LGA Peers provides a positive context for the present review of reserves.
- 4.5 An assessment of each reserve is made in Appendix 1 showing:-
 - 4.5.1 The policy & objective for each reserve;
 - 4.5.2 The recommended minimum balance where applicable.
- 4.6 Each reserve has a clearly specified and defined use either as a contingency, as part of the council's financial risk management, or to meet specific funding commitments in future years.
- 4.7 As previously stated, revenue reserves are split between three categories. The following section reviews each category in turn and considers the scope for releasing funds or the need to strengthen individual reserves with a balance of over £200,000.

I. Reserves Available for General Use

- 4.8 These reserves can be used to fund most types of expenditure and are presently relied upon to support the Council in managing its way to delivering a sustainable annual revenue budget that requires no underlying use of reserves to balance.
- 4.9 Available reserve balances total £4.9m but taking into account combined recommended minimum balances of £3.5m (set out in the following paragraphs), **the Council holds just £1.4m of revenue reserves available for investment.**
- 4.10 The following reserves are included within this category.

General Fund Working Balance

- 4.11 The working balance accounts for the day-to-day running of Council services and is maintained to safeguard against potential financial risks beyond those for which specific contingencies have been created.
- 4.12 The 'normal' level of un-earmarked reserves should reflect the Council's long-term needs and be based on ongoing operational requirements. This will include a number of factors, the main ones being the gross annual expenditure and the extent to which long-term service contracts reduce the Council's flexibility to respond to financial shocks. Previously the Audit Commission had suggested that a yardstick for normal unearmarked reserves is somewhere between 5% and 100% of net operating expenditure.
- 4.13 The working balance currently stands at £2.85m, however latest projections at Quarter 2 show this is forecast to increase to £3.1m by the end of 2022/23, which is just above the minimum balance of £2.5m targeted by the MTFS.
- 4.14 At between £2.5m-£3.1m, the balance would represent between 29% to 36% of the Council's net operating expenditure budget of £8.63m for 2022/23.
- 4.15 **Given that the working balance is within the Audit Commission's previous recommended range, and is around the average for district councils of a comparable size, the current recommended minimum working balance of £2.5m is considered appropriate for this Council.**

Corporate Projects Reserve

- 4.16 This reserve was established to provide revenue funding for projects that fall outside of the day-to-day delivery of services, such as:
- 4.16.1 Spend to save one-off costs - some of the Council's spend to save initiatives involve one-off pump priming costs which cannot be contained within the base budget;
- 4.16.2 Funding for one-off corporate priority projects;

4.16.3 Partnership funding - grants of contributions for schemes that cover a number of years can be held in this fund until expenditure is incurred (for example, government new burdens grants).

4.17 The balance on the corporate projects reserve at 31 March 2022 was £4.1m. The Council is expected to drawdown £2.3m from this reserve in the next couple of years, which reduces the uncommitted balance to around £1.8m.

4.18 The opportunities to replenish this reserve have significantly reduced in recent years, due to reductions in funding from new homes bonus grant, which had been the main source of funding for this reserve in the past.

4.19 It is recommended that future spend-to-save projects, funded from this reserve, should plan to make a contribution back to the reserve to ensure funds remain available to progress future investment opportunities.

4.20 The Council's MTFS recommends a minimum balance of £1m is held in this reserve to enable the Council to continue to invest in projects as set out above.

II. Contingencies Unavailable for General Use

4.21 A second category of revenue reserves are contingencies, which are funds set-aside to allow the Council to respond to particular risks and circumstances. If these resources were not set-aside to mitigate potential losses/costs, then the Council would be required to find alternative funding potentially from cuts to services within the general fund.

These reserves make up the largest proportion of forecast revenue reserves (£9.6m) and are reviewed individually as follows.

Property Income Equalisation Reserve

4.22 Around half of the £9.6m uncommitted balances is held within the Property Income Equalisation Reserve. The reserve aims to hold sufficient funds to mitigate the risks associated with future rental income streams from investment properties purchased in previous years with the support of external borrowing. The reserve's target is to hold sufficient funds to cover the potential loss of 1 year's rental income for each property acquired in this way, which currently totals £5.6m.

4.23 Following receipt of one-off sums including the dilapidations settlement at Parkside House, compensation for the early lease surrender at 70 East Street, and one-off back rent at industrial estates, the reserve's target balance has been attained and temporarily exceeded.

- 4.24 However, it is anticipated the Council is likely to experience pressure on this reserve in forthcoming periods. The reserve will enable the Council to temporarily endure the loss of two key tenants, by replacing the c.£1.3m net lost annual rental income at Parkside House and 70 East Street, without having to make short-term cuts to services while new tenants are sought and/or transformation plans are progressed. The reserve may also be used to fund necessary works to the properties to secure new tenants and/or progress transformation plans.
- 4.25 As such, it is recommended that the Council continues to maintain a minimum target balance on this reserve equating to one year's rental income from properties financed with the use of external borrowing.**
- 4.26 It is also recommended that the current balance be retained but should be reviewed again once the two vacant investment properties become re-let or alternative transformation plans are agreed.**

Collection Fund Equalisation Reserve

- 4.27 This reserve was established back in 2013 to mitigate new risks associated with the introduction of the current redistribution mechanism of retained business rates. It was created to manage variations to estimates of retained business rate income.
- 4.28 The forecast reserve balance is £1.8 million, as due to the statutory mechanism for redistributing collection fund deficits, this reserve will be required to fund the c£3m collection fund deficit that arose during 2021/22.
- 4.29 The current financial plan anticipates a further £1.2m use from this reserve over the next three financial years, to offset the collection fund deficit for 2022/23 of £1.1m and to partially mitigate expected business rate reductions in funding over this period that may arise from the Fair Funding and Business Rate Retention Reviews.
- 4.30 In the context of potential future cuts to the Council's business rates funding, it is considered prudent to maintain a minimum balance on this reserve to compensate for at least two years' of business rates retained income falling below the funding baseline. On this basis, it is recommended that a minimum balance of £0.5m is set for this reserve.**

Recreation Commuted Sums

- 4.31 This reserve holds down payments of £1.4m which the Council received upon the historic transfer of land. The funds must be used to fund future maintenance of specific open spaces. As such, the funds are held within the Council's treasury investment portfolio and the interest earned is credited to the Community and Wellbeing Committee's open spaces budget to fund on-going grounds maintenance costs. **As the funds are contractually restricted in this way, no changes are recommended to balances currently held.**

Repairs and Renewals Fund

- 4.32 This reserve holds funds set-aside in previous years for the replacement or repair of plant, equipment and vehicles owned by the council.
- 4.33 The level of reserve reflects past contributions to the fund from service budgets, less spending authorised. It is not based on a detailed assessment or forward plan of items that will need replacement or repair. This provides greater flexibility for managers to review their assets outside of the normal budget process. It also enables them to make a case to fund one-off items for which there is a service requirement that cannot otherwise be met within the constraints of revenue budgets or funded from capital. Since most vehicles are covered by a separate maintenance contract, recently funded items have mainly been plant and equipment.
- 4.34 The forecast balance on the reserve is £0.4m.
- 4.35 As the reserve is funded by budgeted contributions from service budgets, **no minimum balance is recommended for this reserve.**

Insurance Reserve

- 4.36 The Council maintains this reserve as a provision for any uninsured losses (e.g. sums below the council's insurance excess limits) on all unsettled claims, which can go back several years. The reserve is reviewed annually based on broker assessments of potential liabilities and the current forecast balance of £0.4m is sufficient to meet the forecast of outstanding liabilities based on the most recent March 2022 assessment.
- 4.37 The Council's base budget requires an ongoing contribution from this reserve at £25,000 per annum to fund the increase costs of insurance, therefore to ensure at least the next four years are covered, in addition to the potential liabilities detailed at Appendix 1, **a £300,000 minimum balance is recommended for this reserve.**

Property Maintenance Reserve

- 4.38 This reserve was established to provide additional resources to deal with backlog repairs to council property.

- 4.39 The Council now has a base budget of £205,000 per annum for prioritised repairs to buildings and other assets such as hard surfaces. This budget is additional to the programmed and reactive maintenance works that are covered under the facilities management contract. Work is prioritised by the Council's Senior Surveyor in consultation with the Head of Property and Regeneration, and the programme is reported annually to Strategy and Resources Committee. Part of the budget is left uncommitted at the start of the year, to finance any unforeseen urgent unplanned works.
- 4.40 Any unspent maintenance budget is transferred at year end to the Property Maintenance Reserve, so the funds are set-aside to finance completion of the maintenance programme in the following year(s).
- 4.41 The uncommitted balance on this reserve is £0.5m. **It is recommended that the Council maintains a minimum balance on this reserve of £250,000, to provide sufficient cover for unforeseen works.** The recommended minimum balance equates to just over one year of the annual maintenance budget.

III. Strategic Reserves - Ringfenced funds/grants for specific use

- 4.42 The Council holds a number of funds to deal with specific policy areas, risks or liabilities, which typically have conditions attached to the funding. The ability to redeploy these funds for alternative use is restricted due to the conditions attached; the funds are therefore only available for specific uses, and not for general use. The total of these types of reserves at 31 March 2022 is £1.8m, with the largest balance held within the Residential Property Acquisition Fund.

Residential Property Acquisition Fund

- 4.43 This fund was created in 2016/17, mainly from new homes bonus. The fund has been used to purchase residential properties to support the Council's housing activities. The remaining fund balance at 31 March 2022 was £1.07m.
- 4.44 **It is expected that further opportunities to utilise the fund may arise in coming years, particularly with official forecasts predicting residential property value depreciation from 2023.**
- 4.45 As these reserves/balances can only be used for specific activities and are limited in their application, it is recommended that no transfers are made from these to other reserves, nor would it be appropriate to set individual minimum balances.

5 Proposals

- 5.1 It is proposed that the Panel:

- 5.1.1 Consider and review whether the overall level of reserves and contingencies are appropriate for the sound management of the Council's finances;
- 5.1.2 Review the individual reserve and contingency balances and consider whether to support the recommended minimum balances in the report;

6 Risk Assessment

Legal or other duties

6.1 Impact Assessment

- 6.1.1 The Council holds reserves both as a contingency against unforeseen expenditure and as provisions for known, future expenditure. The Council's reserves are actively managed as part of the MTFS. Any significant reduction in the level of reserves would naturally carry the risk of reducing the Council's financial resilience and the ability to deal with unforeseen circumstances.
- 6.1.2 The level of reserves has enabled the Council to manage the financial impact of Covid-19, and the loss of commercial property tenants, in a planned and structured way. The prospect of further funding cuts through central government's Fair Funding and Retained Business Rates Reviews means that the retention and ability to use strategic reserves to smooth out any funding reductions changes has become even more critical as reductions to the net budget become harder to deliver.
- 6.1.3 This report does not cover the Council's long-term liabilities. The Council has long term debt of £90.3m (£64.4m of which is externalised with the Public Works Loan Board), acquired when purchasing commercial properties. This debt must be repaid within the next 50 years alongside interest which is payable annually. The Council has made provision within the revenue budget to fund the necessary interest and debt repayments, which total circa £2.6m per annum.
- 6.1.4 The Council also has a pension fund liability (£36m at 31 March 2022 on an IAS19 basis) which is managed through the payment of additional monetary contributions each year. The pension scheme is managed by Surrey County Council as part of the Surrey Pension Fund. The next triennial valuation of the pension fund will be at 31 March 2022 - this valuation will determine the additional monetary contributions payable from 2023/24 onwards.

6.2 Crime & Disorder

- 6.2.1 None arising directly from the contents of this report.

6.3 Safeguarding

6.3.1 None arising directly from the contents of this report.

6.4 Dependencies

6.4.1 None arising directly from the contents of this report.

6.5 Other

6.5.1 None arising directly from the contents of this report.

7 Financial Implications

7.1 Financial implications are set-out in the body of the report.

7.2 **Section 151 Officer's comments:** The Council maintains a reasonable level of reserves and balances to help manage the risks faced. However, over the next couple of years these reserves are expected to come under further pressure to help fund services as the Council tries to transition to a sustainable revenue budget that requires no use of reserves to balance.

7.3 Factors such as uncertainty caused by elevated inflation and the cost of living crisis, the outcome of the Fair Funding Review, and the Council's reliance on higher risk income streams (such as from commercial property), all pose greater risk to the Council's finances. However, by agreeing to maintain a minimum level of reserves for specific funds this provides the Council with greater resilience to mitigate any further unplanned costs/losses.

7.4 This report should be read in conjunction with the budget report also included on the agenda for this meeting.

7.5 Interest generated from reserves and balances held by the Council provide a significant level of funding for its services, with £720,000 planned income for 2023/24 and there is no requirement for the Council to apply interest to individual balances held such as CIL and S106.

8 Legal Implications

8.1 None arising from the contents of this report.

8.2 **Legal Officer's comments:** None arising from the contents of this report.

9 Policies, Plans & Partnerships

9.1 **Council's Key Priorities:** The following Key Priorities are engaged: Effective Council.

9.2 **Service Plans:** The matter is included within the current Service Delivery Plan.

9.3 **Climate & Environmental Impact of recommendations:** None arising from the contents of this report.

9.4 **Sustainability Policy & Community Safety Implications:** None arising from the contents of this report.

9.5 **Partnerships:** None arising from the contents of this report.

10 Background papers

10.1 The documents referred to in compiling this report are as follows:

Previous reports:

- 2022/23 Budget Report to Full Council, February 2022
- Review of Reserves Report to Financial Policy Panel, November 2021.

Other papers:

- None.

<u>REVENUE RESERVES / CONTINGENCIES</u>	<u>Minimum Balance</u>	<u>Description</u>	<u>Policy/Objective</u>
	<u>£000</u>		
RESERVES AVAILABLE FOR GENERAL USE			
General Fund Working Balance	2,500	The Council's working balance	(1) Provision for unforeseen expenditure (2) Used to support the Revenue Budget in the Medium Term Financial Strategy / Four Year Financial Plan (3) Interest on balance used to finance the General Fund revenue account.
Corporate Project Reserve	1,000	General corporate contingency (revenue funds) against additional scheme costs and spend to save initiatives.	(1) To provide contingency funding or high risk projects and developments (2) To fund or meet one-off costs on spend-to-save schemes (revenue funding) (3) To hold revenue funding for corporate projects where funded from partnerships or grants, including New Homes Bonus
CONTINGENCIES UNAVAILABLE FOR GENERAL USE			
Repairs and Renewals Fund	None	Provides funding for replacement of certain vehicles, plant and equipment	(1) Provides for the replacement of plant and equipment which cannot be funded within revenue budget. (2) Manages the risk of unplanned expenditure at Council properties, including health and safety requirements, where there is no separate budget.
Insurance	300	Provides funding for self-insured losses	(1) Reserve on outstanding insurance claims (2) £100,000 held for risks on LB Sutton Partnership (3) Smooths impact of variations in insurance costs on general fund (4) Provision of £85,000 for MMI mutual run down
Property Maintenance Reserve	250	Funding held for prioritised backlog property repairs	(1) To fund approved programme where works not completed by the year-end and budget available (2) Used to finance urgent unplanned works where approved programme cannot be rescheduled
VAT Reserve	200	Provides funding for unplanned VAT liabilities	(1) To manage the risk that the Council exceeds the 5% threshold for VAT on commercial trading activity (2) To meet other potential VAT liabilities (3) The balance on this reserve should be at a level that can provide funding for 2 years of the potential annual VAT liability.
Collection Fund Equalisation Reserve	500	Provides funding to offset future taxation deficits chargeable to the General Fund	Reserve used to protect funding from the Council's share of council tax and localised business rates, used to smooth the impact of changes such as increase in appeals. The reserve should be maintained at a minimum balance of £0.5 million to compensate for when council tax and/or business rates income may fall below budgeted baseline levels.
Recreation Commuted Sums	1,439	Sums held following the transfer of land to the Council and used to finance additional maintenance costs	Principal sum invested with 2% interest earned applied to fund on-going recreation grounds maintenance liabilities.
Property Income Equalisation Reserve	5,588	The reserve aims to hold sufficient funds to mitigate the risks associated with future rental income streams from properties acquired through borrowing	The reserve is to be maintained at a level to cover the potential loss of one year's rental income from each property acquired through the use of external borrowing.

<u>REVENUE RESERVES / CONTINGENCIES</u>	<u>Minimum Balance</u>	<u>Description</u>	<u>Policy/Objective</u>
	<u>£000</u>		
RINGFENCED GRANTS OR FUNDS FOR SPECIFIC USE			
Residential Property Acquisition Fund	N/A	A limited fund of £3 million for the purchase of properties to use as temporary accommodation.	A specific fund created at S&R on 27 January 2016, for the purchase of suitable properties for use as temporary accommodation, to generate an income stream, reduce emergency temporary accommodation costs incurred and provide a long term asset value growth.
Community Safety Partnership	N/A	To fund Community Safety activities agreed with Surrey County Council and Surrey Police	To deliver objectives set by the Community Safety Partnership. To provide funding for domestic homicide reviews.
Sports & Leisure Development Projects Fund	N/A	External funding set aside to support sports & leisure development projects	Funding for Sports & Leisure Development Projects; BMX/skateboard maintenance, youth diversion, Let Get Active 50+ and community football coaching
Place Development Grants	N/A	Provides funding for planning development expertise	(1) Grants received to provide resources for the local plan and other place development related workstreams.
Prevention, Personalisation and Partnership Fund	N/A	Surrey County Council funding for District initiatives supporting adult social care from March 2013 to March 2017	Funding from ring fenced grant for local authorities to undertake new public health functions
Housing/Homelessness Support Grants	N/A	Grant funding used to support homelessness prevention measures	The funding is to be used on preventing homelessness and to offset reduced rental income on temporary accommodation arising from benefit changes
Other	N/A		